

Debates on Inclusive Business

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Main takeaways:

►► **Definition of inclusive Business (IB):** There is broad agreement that IBs integrate the poor in their value chain, but many nuances exist in definitions - with possible implications for how support is designed and targeted.

►► **Commercial viability of IB:** While low-income populations offer sizable commercial opportunities, businesses often cannot rely exclusively on very poor clients or suppliers for profitability, or need to engage with people just above absolute poverty lines.

►► **Effectiveness of support to IB:** While technical and financial support to individual businesses has helped achieve direct impacts on poor people in their value chains, practitioners increasingly seek more systemic solutions, e.g. by promoting an enabling environment or helping to scale up and replicate successful models.

This synthesis note by the DCED Secretariat provides an introductory overview of the IB concept and associated debates, and points to further resources. Find out more on the [DCED's Inclusive Business Knowledge Page](#). Note that the [Inclusive Business Action Network](#) includes a wealth of resources on the topic. To provide feedback on this synthesis note, please email admin@enterprise-development.org.

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1. What is an Inclusive Business?

Since its conceptual development in the mid-2000s, IB has increasingly been proposed as central to addressing development needs (see for example [G20 Inclusive Business Framework, 2015](#)). As opposed to many direct development interventions, IB models are seen as delivering long-term benefits at scale ([Wach, 2012](#)) - by integrating the poor as suppliers, distributors, retailers or customers ([IBAN, 2021](#)); some definitions also include the poor as employees, although this makes the definition very broad. Other conceptual differences in IB definitions include:

- **The institutional nature and mission of IB:** According to the predominant view, IB refers to a profitable core business activity of a private company, with the commercial motivation being fundamental to ensure that business involvement in enabling sustainable livelihoods is both scalable and replicable. Others, however, note that the institutional background 'is insignificant for the approach per se' ([UNDP, 2010](#)), which can develop at the initiative of for-profit, non-profit or even public actors.
- **Centrality of IB line(s) to the company:** The [G20 Framework](#), for example, distinguishes between IB models, which integrate the poor across core operations and typically expect market rates of return; IB activities, which also include poor people into a company's value chains, but are not central to commercial viability; and social enterprises, which focus on improvements for the poor and reinvesting profits into the business.
- **Dividing lines between 'inclusive' and 'conventional' business:** While virtually any business can help a country develop, whether through taxes, employment, market expansion or

technology transfer, IB is generally considered to go further. However, differentiating between inclusive and regular business can be challenging in practice (Wach, 2012). Key debates include

- whether IBs have to benefit a certain total number of poor people or a specific proportion of poor people among those reached;
- whether IBs simply need to have a direct or also a systemic impact on poor people's living conditions in places where they operate;
- whether inclusion of the poor needs to be a conscious choice of the business, or only their actual impact matters; and
- whether IBs also need to have positive environmental impact, alongside socio-economic impacts. Some sources note possible tensions in this regard, such as increased waste from products sold in affordable small packages.

For a more detailed discussion of some of the other nuances around existing definitions, see DCED, 2016.



2. What is the business opportunity and can the poorest be reached?

Doing business with low-income populations offers a large market, a rapid growth potential, and opportunities for innovation:

- Prahalad, CK (2005) estimates the global consumer market of over 4 billion people with annual incomes below \$1,500 at \$13 trillion

annually, while Hammond et al (2007), with a \$3,000 income line, value it at \$5 trillion.

- The potential for entrepreneurial solutions that treat the poor as consumers has further increased in the last decades, as more than 1 billion people have moved out of extreme poverty since 1990, and emerging markets are among the fastest-growing economies in the world (Prahalad, Deepa 2019)
- In addition, increasing technology adoption and digitalisation enable companies to develop, deliver and scale many important new services to low-income populations (ibid.)

Questions however remain about whether and how it can be financially viable for businesses to include the poor in their value chains. Deloitte (2017) cautions that “as a field [the IB community does] not have a good idea as to how deeply IBs are reaching.” For agri-businesses including the poor as suppliers, it has been noted that it may not be possible to involve the poorest of the poor if businesses are to receive an adequate return on their investment. Instead, the bulk of beneficiaries are likely to be emergent small-scale commercial farmers (FAO 2016). Similarly, Baumüller et al (2014) note that IBs tend to target producers and consumers with daily incomes of \$3–4, who possess capital and assets but have limited market access. According to Deloitte (2017), IBs improve their chances for success if they serve customers across a broader range of incomes, including but not limited to lower-income customers, among other business model design tactics. However, the report notes that precise data on customer income is generally hard to gather and few IBs have sufficient resources to do so (see also section 4 on measurement).

A wider debate has focused on taxes. While taxes paid by IB can contribute to wider inclusive growth, tax benefits can encourage prospective IB investment (UNDP, 2013).

3. What types of support work best to promote inclusive business?

Different analyses emphasise different challenges for IB models. [WBCSD \(2013\)](#), for example, highlights high opportunity costs, as other business investments may have higher and more dependable rates of return; and that company capabilities and experience may be insufficient. A survey by [Koh et al. \(2014\)](#) identified three key business environment issues: Inhibitory laws, regulations and procedures (65%); absent/ineffective standards (63%); and inhibitory taxes and subsidies (49 %). In response to such challenges, the [G20 Inclusive Business Framework \(2015\)](#) points to four pillars of IB support:

- (1) Establishing conducive rules and regulations;
- (2) Enhancing access to financial resources and providing financial incentives;
- (3) Providing information and raising awareness; and
- (4) Strengthening the capacity of the BOP and of IBs.

The [DCED \(2016a\)](#) has explored emerging evidence on how donors can help create an enabling environment for IB. The findings suggest that traditional business environment reform (e.g. regarding business registration and licensing) is also relevant for IB. For example, they may benefit particularly from due attention to inappropriate or missing quality standards or licensing regimes, which can represent binding constraints to introducing or scaling inclusive technologies or services. Specific legislation may also be needed to enable IB to access relevant forms of finance (e.g. impact investment), or to act as providers of finance to the poor (e.g. mobile and agent banking regulation). Many lessons also exist from fields such as industrial policy on how to manage targeted support to IBs, for example by establishing a clear economic rationale for intervening, and making support time-bound and conditional on performance. A specific area of debate is whether donors should promote the introduction of special legal forms for IB. Evidence is still lacking on the effectiveness of this

policy tool as a basis for IB support and views vary on whether special statutory forms can make it any easier to defend IB activities internally or to shareholders (see also [DCED, 2016b](#)).

While actual experience in reforms of rules and regulations to enable IB is still limited, several countries in the ASEAN region have launched IB diagnostic studies, or piloted tax incentive systems for IB ([IBAN and UNESCAP, 2019](#)). Based on IBAN's IB Policy Development Programme, Cambodia has developed an IB Enabling Environment for Cambodia strategy ([IBAN, 2020](#)).



In practice, many donor programmes have focused on pillars two to four of the G20 framework – by providing finance and technical assistance to IBs through challenge funds, public-private partnerships and other formats (see also the [DCED's mapping of donor facilities for partnering with business](#) and the [Inclusive Business Action Network's database of organisations providing support to IB](#)); or by stimulating knowledge sharing on IB, e.g. through multi-stakeholder platforms ([DCED, 2017a](#)). Indeed, a review of 20 IB case studies by [Deloitte \(2017\)](#) showed that most IBs in the study benefitted from, or even required, some form of subsidised capital to mitigate start-up risks and help navigate the challenges inherent in BOP markets. This was particularly the case for businesses selling asset-heavy products that involve high up-front investments, a

physical presence, complex distribution channels or a skilled labour force (e.g. a manufactured product).

According to [USAID \(2017\)](#), there has also been a **particular increase in advisory services to inclusive business** - based on the recognition that IB are scaling slowly and need support to multiple challenges at each stage of business growth. In addition to donor programmes, IB-focused services are increasingly provided by incubators and accelerators, impact investors and consultancies.

A common criticism is that few IB models have gone beyond the pilot stage and reached scale or systemic change. For example, [Thorpe \(2014\)](#), based on a review of case studies, concluded that many partnerships between a company and a development agent lacked a systemic approach, with direct impacts limited to actors within the company's value chain. A growing amount of research and guidelines have therefore focused on how to scale up and replicate IB models (e.g. [Koh et al. \(2014\)](#)), and enable inclusive markets or ecosystems more broadly (e.g. [FSG, 2017](#)). IB advisory support providers also increasingly recognise the need for an exit strategy and seek create linkages between their clients and commercial investors and other sources of support that can spur further progress [USAID \(2017\)](#).

In addition to business environment and market-based challenges, [BCTA \(2019\)](#) highlights the importance of internal constraints that may limit the uptake and growth of IB models in large companies – and could therefore benefit from stronger attention by support providers. Specifically, the report finds a strong correlation between specific management practices (e.g. related to employee incentives and rewards, and evaluation criteria for new market opportunities) and the continuity and growth of IB initiatives.

4. How can the effects of inclusive business models on the poor be measured?

While most businesses gather some relevant data from general operations, they often lack incentives to measure their development impact. Measuring the results for suppliers in remote areas raises further challenges. The [DCED's \(2013\)](#) guidance for challenge funds highlights how agencies can support the collection of development impact data, while firms focus on indicators they would anyway collect. In the context of impact investment, [DCED \(2017b\)](#) analysed what types of data impact investee businesses collect and value for their business decisions. It finds that most investees rely on their own, rather than standardised metrics, and focus on output and outcome, rather than impact-level data.

A related body of work addresses how to measure the results of impact investing. The [GIIN's IRIS+](#) set of indicators is perhaps the most established. The [Impact Management Project](#) works to build consensus on how to measure, assess and report impacts. Other relevant initiatives include the [Global Reporting Initiative](#), IFC's [Environmental and Social Performance Standards](#), and UNDP's [SDG Impact Standards](#). All of these are in practice of most applicability to investors and investees, rather than donors.

There are also efforts to assess and compare the inclusivity of different businesses. One example is the [G20 Challenge on Inclusive Businesses](#), which involved the selection of 15 winning businesses based on five criteria: innovation, development results, potential for growth, financial sustainability, and environmental and social sustainability. The [Business Call to Action \(2017\)](#) has published a 'maturity diagnostic' to help businesses understand their current performance and next steps to achieving a sustainable, SDG-relevant inclusive business.