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Inclusive business models

Options for support through PSD programmes

Ulrike Rösler in cooperation with Diana Hollmann, Jonas Naguib,
Alexandra Oppermann and Christina Rosendahl

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Content

Abbreviations

BCtA	Business Call to Action
BDS	business development services
BoP	base of the pyramid
BMZ	German Federal Ministry for Economic Cooperation and Development
CII	Confederation of Indian Industry
CEO	chief executive officer
CSR	corporate social responsibility
DANIDA	Danish International Development Assistance
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFID	Department for International Development
EFMD	European Foundation of Management Development
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IB	inclusive business
ICT	information and communication technology
IFC	International Finance Corporation
KfW	Kreditanstalt für Wiederaufbau
LRED	local and regional economic development
MENA	Middle East and North Africa
MNC	multinational corporation
MDG	Millennium Development Goal
NGO	non-governmental organisation
SME	small and medium-sized enterprise
SNV	Netherlands Development Organisation
TA	technical assistance
UNDP	United Nations Development Programme
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

Introduction

Inclusive business (IB) and related approaches such as social entrepreneurship are high on the agenda of many public and private organisations working on issues of development and poverty reduction. BMZ itself has issued several publications concerning business options at the base of the economic pyramid (BoP) and is implementing different activities for promoting inclusive business models. However, it would seem that the community of people who work on inclusive business models remains largely separated from the broader, private-sector development community, with little communication or interaction occurring between the two, let alone integration.

This paper examines the question of how instruments for promoting inclusive business models can be integrated into private sector development (PSD) programmes in German technical cooperation. Its underlying assumption is that such integration would bring various potential benefits. On the one hand, inclusive business models can be promoted more effectively if the support instruments are integrated into programmes that are steered, managed and implemented in the partner countries and that operate in a systemic way, that is, at the micro, meso and macro levels. On the other hand, private sector development programmes may gain by identifying innovative approaches to stimulating local, private-sector initiatives and employment. As there is currently little practical experience and even less theoretical work on this question, the paper can be seen as a first attempt to bring the two communities together, stimulating debate and offering some practical approaches for the integration of inclusive business model promotion into private sector development programmes. Only after further discussion and experimentation have taken place on the ground will it be possible to define the merits and possibly also the limits of this approach more closely, or to identify the most appropriate strategies and instruments.

The paper draws extensively from the literature on inclusive business which has been published in recent years by various institutions. It also uses online research into relevant programmes and initiatives. Basic documents and studies pertaining to private sector development were reviewed and taken into consideration. In addition, interviews were conducted with PSD practitioners from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in Central America, Ethiopia, India, Namibia and Tunisia. At GIZ Head Office, the authors interviewed staff from the sector departments Economic Development and Employment and Rural Development and Agriculture. Interviews were also conducted with representatives of KfW Entwicklungsbank and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), as well as with Mr Tilman Altenburg of the German Development Institute (DIE) and Ms Aline Kraemer of endeva.

Executive summary

The objective of this paper is to explore options in the context of private sector development (PSD) programmes for promoting companies that apply inclusive business (IB) models. A review of the current donor approaches to supporting IB models reveals that most existing instruments focus on larger companies from industrialised countries rather than local companies, and that they are not systematically integrated into broader private sector development (PSD) programmes. The paper will therefore look for ways of promoting IB models in the context of PSD programmes, with the aim of strengthening the local private sector and contributing to increased incomes, employment and public revenues.

Chapter one outlines how IB models help to overcome the limited access of the poor to goods and services, as well as the so-called poverty penalty – the fact that the poor often pay higher prices for goods and services than do the rich. As their core business and using innovative methods, IB models integrate the poor, either on the demand-side as clients or on the supply side as distributors, suppliers or employees. They aim at commercial viability while also making a social impact. Thus the borders between inclusive and conventional businesses are not always clear-cut. In developing and emerging countries IB models contribute, on the one hand, to developmental goals, such as an improved supply of basic services to fill gaps in supply that both the public sector and conventional market actors have failed to provide in the past (the latter due to market failure). On the other hand, they might also generate new income opportunities and open up new ways of strengthening the private sector by stimulating market development and innovation, providing market access, increasing the productivity of the poor and creating employment.

Chapter two describes the main barriers to doing inclusive business and looks at how companies strive to overcome these obstacles. Some problems, such as the lack of infrastructure, the need to create a market, or the complexity of a regulatory environment hostile to private initiatives in areas sometimes regarded as 'public goods' affect all companies, regardless of their size or origin. Other obstacles are more specific to certain types of company, be they local SMEs, northern hemisphere multinationals or large companies from the southern hemisphere. The chapter presents strategies to overcome the barriers, as well as ways to scale up the approaches.

Chapter three contains a review of existing instruments to promote IB models. Promoting inclusive business is a relatively new, but rapidly growing field of development cooperation; the examples of support initiatives presented here are by no means an exhaustive list. Current approaches consist of awareness creation, the promulgation of best practices and lessons learnt, and the facilitation of partnerships. Donors support IB models directly by providing financial and technical support, and indirectly by increasing the capacity of intermediaries to provide financial and non-financial services. It appears that most existing instruments

1. focus on larger companies from industrialised countries rather than local companies
2. are not systematically integrated into broader private sector development (PSD) programmes.

The second part of the chapter therefore address the as yet little explored question of how PSD programmes can incorporate the promotion of IB models in order to strengthen the local private sector, and also contribute to increased incomes, employment and public revenues.

Efforts to promote IB in the context of PSD programmes can focus on stimulating local business start-ups that apply IB models ('start'), encouraging existing companies to adopt IB models ('adopt') or supporting the scaling up of existing IB models to achieve greater outreach and development impacts ('scale'). For each approach we present possible interventions based on existing PSD products and instruments that can be adapted to foster inclusive business. We recommend that this support be

provided through local intermediaries; it is also advisable to enforce an appropriate 'ecosystem' for IB models.

Research has only just started to assess the need for specific policy-level support when promoting IB models. As yet, only a few preliminary results are available. With respect to the regulatory environment, PSD programmes can support a generally conducive environment, promote easier registration processes for companies, and address sector-specific hurdles, consumer protection issues, innovation policy and competition policy. Subsidies can be used to stimulate the demand for, or the supply of products and services in IB models. A list of proposed criteria is being developed, which companies would need to fulfil in order to receive public support. These include development relevance, financial soundness, the potential for replication or scaling up, environmental sustainability, and the obligation to monitor results and share experiences with other companies.

To close, **Chapter four** outlines some questions which remain open and suggests areas for further research. Little data is yet available regarding the development impacts of inclusive business, and it is not clear yet whether inclusive business faces regulatory hurdles that will require specific action to be taken at policy level. Further research is necessary regarding the barriers (both external and internal) to achieving scale, which companies applying IB models face – and how to overcome those barriers. Experience at the PSD level will show whether the instruments proposed here are feasible, if further adaptation is necessary, or if there is a need for new instruments altogether. Finally, the study highlights the capacity of PSD programmes to collaborate with development programmes in other sectors, in order jointly to promote the potentials of inclusive business.

1. Inclusive business models and their relevance for development

1.1 Definitions

The poor who live at the base of the global income pyramid (the so-called 'base of the pyramid' or BoP) lack access to markets providing essential goods and services. This is due to their low and unstable incomes, and to the fact that they often live in places with inadequate or non-existent infrastructure. There is often a lack of market information, for instance about consumer choices and prices. As a result of monopolistic or oligopolistic structures and the lack of infrastructure and consumer protection, the poor often pay a 'poverty penalty' which manifests itself, for example, in higher prices for products and services of a lower quality. Prices might be so high that the goods or services are unaffordable. The poor are then either priced out of the market (non-access), or they choose not to use the services (non-usage, opting out). The purchase of some goods and services can even cause a ruinous spending burden. This is the case when a good or service (e.g. healthcare) is absolutely necessary and the household has to cut down on purchases of other essential products, or has to take out a loan.[1] Many poor people are also excluded from services such as healthcare, education or water, when the supply of these is supposed to be guaranteed by public authorities who, for a number of reasons, fail to do meet their obligations.

At the same time, due to their limited access to services and input markets, their lack of information about the demand situation, and the deficient infrastructure, people living in poverty are often unable to sell their produce at the right time, in the right quality and quantity, or to the right people. They therefore have to cope with high transaction costs and low prices when selling their products and services.

While it is difficult to supply the BoP with affordable goods and services, or to do business with them as providers of goods and services, it is not impossible. Inclusive business models (IB models) are intended to circumvent existing market failures and inefficiencies to successfully **integrate the poor**, either on the **demand side as clients**[2] or on the **supply side as distributors, suppliers of goods and services, or employees.**[3]

Integrating the BoP on the demand side means, for instance, providing consumer products, healthcare, water and sanitation, education, energy, or financial services to the poor. Their integration on the supply side as suppliers or employees occurs, for example, in the agricultural and agro-processing sector, when local crops are sourced from small-scale farmers, or in sectors such as textiles and tourism. In other IB models, the poor are integrated as distributors and sales agents, for instance for consumer products, or for healthcare and microfinance services.

IB models integrate the poor in situations where markets or public authorities have failed.

- They introduce innovation to business models, processes, products and services, such that they become more affordable and/or better tailored to the needs of the poor.
- They undertake targeted measures to integrate the BoP, e.g. providing training, extending credit to customers, suppliers and sales agents, etc.

These steps are a departure from the 'business-as-usual' approach, and they require the development of different kinds of business model. Companies that engage in IB models do so because they have understood that the BoP represents a large and underexplored market, where there is often little competition, but with a high potential for innovation and an opportunity to secure a foothold in future markets. Some also pursue IB models simply out of a drive to achieve a beneficial social impact.

In addition to private companies, many mission-driven non-governmental organisations (NGOs) are also increasingly using IB models to secure social improvements for their target groups, in a financially sustainable manner. Therefore, while they are always conducted in a profit-oriented manner, IB models are potential tools for both the private sector and NGOs.[4]

The term 'inclusive business' was coined by WBCSD in 2005. However, the phenomenon of IB models is not new as such. There are many examples of companies that had consciously included the poor in their business models many years before the term was invented (consider, for instance, microfinance institutions and fair trade initiatives, or the electricity providers that differentiate their tariffs to enable access for the poor). Even today, many companies apply what we would call IB models, without actually defining themselves as inclusive businesses. Nevertheless, interest in inclusive business is becoming increasingly widespread as the market potential at the BoP is described more extensively – for instance in publications such as C. K. Prahalad's book, The Fortune at the Bottom of the Pyramid, and The Next 4 Billion, a report written by Hammond et al. (2007). The growing enthusiasm for the IB models used by philanthropic organisations, by the newly emerging impact investment industry, and by donors and other organisations, is helping to

Compliance – corporate social responsibility – inclusive business [5]

Compliance describes the adherence of companies to laws and regulations and to voluntary codes of conduct. This refers for instance to international labour standards, environmental laws and standards or to establishing anti-corruption measures, with the objective of reducing the negative social or environmental impacts of the company's core business.

Corporate social responsibility (CSR) stands for socially and ecologically responsible business practices and is aligned with the concept of sustainable economic development. Companies commit to respecting social and environmental principles as well as human rights in their daily operations and their relationships with employees, shareholders, consumers, investors and civil society. Accordingly, CSR can be described as 'responsible activity on the part of businesses with the aim of using their available leeway to foster sustainable development'.[6] Enhancing the 'inclusiveness' of one's own, and one's suppliers' business activities can be part of a holistic CSR strategy.

Inclusive business expands the opportunities of people living in poverty by tailoring the core business, or part of the core business, to their needs. Inclusive business thus addresses the question what a company is doing. It can incorporate compliance as well as elements of CSR, although this is not necessarily the case. BoP markets are often new markets where regulation does not yet exist to the necessary extent to protect consumers. Other IB models, such as single-serve solutions, can introduce environmental threats. Support for IB models can help prompt the introduction of elements of CSR, or the adherence to social and environmental standards on the part of the company applying an IB model.

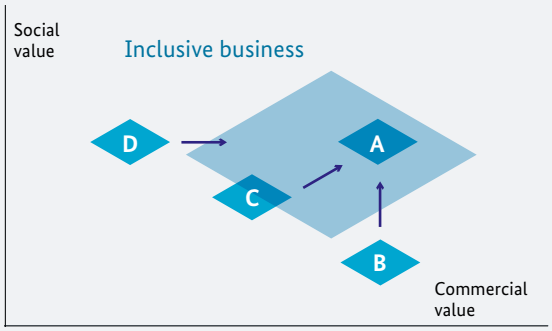
enhance their visibility and also prompting the creation of new models. Prominent examples of large companies now using innovative business models to integrate and target the BoP include Hindustan Unilever, whose 'Shakti' programme provides entrepreneurship training for women in order to build distribution channels into previously untapped markets, and Safaricom and Vodacom with their mobile phone-based financial service, M-Pesa.

Despite the rise in awareness and documentation of best practices, as yet no comprehensive empirical data exist about the development and implementation of IB models in developing countries. This might partly be because the boundaries of what is and what is not an IB model are not clearly defined. For example, there are no commonly defined criteria for the degree of poverty experienced by 'the poor' integrated in IB models[7], nor for the proportion of poor clients served in relation to those who are better off . These issues cannot be defined in a general manner, but must be established for each IB model, taking into account the country and sector context.

Ashley (2009) illustrates this difficulty by developing a matrix of businesses involving varying degrees of 'social value' and 'commercial value' as shown in the figure aside.

However, this concept introduces another difficulty, namely the idea of 'social value creation' as a distinguishing feature of IB models. According to Ashley and some other authors, 'simply selling to the poor does not qualify: beauty products containing bleach [do not count as] model A. Danone yoghurt that contains added nutrition and is priced for poor households does'.[8]

Commercial and social value of IB



Example of A: Mobile Phones and banking services appropriate for poor people

Example of B: Oil/gas/mining company supporting SME development via the supply chain

Example of C: Domestic leisure film priortising labour-intensive entertainment and local staff training

Example of D: Provision of essential drugs and basic health services via a microfranchising distribution model set up by non-profit organisation.

Plotting inclusive business against commercial and social value, from Ashley (2009), p. 3

Such a definition might, however, be too strict. Increased spending on consumer goods sold in single packages, such as soft drinks and shampoo, might reduce spending on essential goods and services, such as healthy foodstuffs, healthcare or housing. However, providing goods and services to people who otherwise have no access to them is a good in itself, because, just like everyone else, people living in poverty should have freedom of choice regarding their consumption patterns. The question might be more relevant to donors and governments when it comes to the question of public support for individual IB models.

1.2 Relevance of IB models for (private sector) development

Inclusive business models have the potential to create win-win solutions for profit-driven as well as social interests. Often, governments do not have the resources, the capacity or the will to provide necessary goods and services in poor or remote areas. In contrast, IB models can offer the capacity for innovation which is needed in order to serve areas that are remote and are traditionally deemed inaccessible. They have potential to provide access to products or services, and to increase the purchasing power of the poor by offering relevant goods and services at lower prices, or with the use of payment schemes that improve affordability. They can also create employment and income by integrating the poor in the value chain as distributors, suppliers or employees. Moreover, the underlying profit-orientation helps to ensure the long-term financial sustainability of initiatives beyond the duration of donor-funded projects. It is for this reason that development agencies working in energy, water or health – to name just a few sectors – are promoting the increased use of partnerships with the private sector or with appropriate NGOs, supporting them in establishing IB models.

At the same time, especially when they focus on IB models in local companies and the integration of local producers and micro-enterprises, IB promotion measures can provide additional benefits in terms of pro-poor private sector development (PSD). The objective of PSD is to strengthen the private sector – mainly micro, small and medium-sized enterprises (MSMEs) – in partner countries, in order to create employment, increase incomes and raise government revenues through tax payments, all of which will contribute to poverty reduction and welfare creation. Promoting IB models in partner countries can contribute to these objectives in the following ways.

- **Increased employment and income opportunities through start-ups:** A key constraint for MSMEs in developing countries lies in the strong competition in markets for simple consumer products and services. Local companies offering new products and services intended to meet the needs of poor people can **tap new markets** and thereby **generate higher revenues, while increasing incomes and employment** for themselves.
- **MSME upgrading through better services and inputs:** IB models can **increase the productivity of the poor** by providing infrastructure (e.g. electricity, health services), knowledge and market access (e.g. to finance, agricultural inputs etc.), and by reducing transaction costs.
- **MSME upgrading through integration in (regional or international) value chains:** IB models can **improve market access for small producers and micro-enterprises** by integrating them in national and international value chains (supply-side IB models). This enables them to attain **increased and more regular income.** Delivering information, training and other services, such as financial services, to small-scale suppliers offers them an opportunity to upgrade.[9]
- More start-ups and business growth by improving the business environment: IB models that can prove the market viability of supplying basic services to poor people could, if accompanied by dialogue with the public sector, stimulate sector-specific reforms. This in turn would promote a generally more open and competitive business environment in which the private sector is able to provide basic services.

Notes

1. This and the following paragraph are based on Mendoza (2008), as quoted in Flanagan (2011).
2. The consumer-oriented approach was first developed by Prahalad (2006) and is commonly known as 'BoP' – base of the pyramid.
3. See UNDP (2008), p. 2. For the differences and similarities between different terms, such as social entrepreneur, BoP and inclusive business, see GIZ (2011a and 2011f) and Gradl/Knobloch (2009).
4. For the terminology, see Ashley (2009), GIZ (2011a) and Gradl/Knobloch (2009).
5. Based on Ashley (2009).
6. BMZ (2009a), p. 3.
7. Hammond et al. (2007), p 1, stated for example in their WRI/IFC report, The Next 4 Billion: 'the BOP population segment is defined as those with annual incomes up to and including $3,000 per capita per year (2002 PPP)'. Another option is to define poverty more broadly and include elements other than income, e.g. opportunities to participate in social life. These might also be constrained due to reasons such as disability or ethnicity – which often leads in turn to income poverty.
8. Ashley (2009), p.3.

2. How IB models overcome barriers to doing business with the poor

2.1 General barriers and IB strategies to overcome them

There are extensive barriers when it comes to doing business with people at the base of the pyramid. This is because of the market inefficiencies and high transaction costs that can render businesses unprofitable, particularly in the short run. For instance, customers in remote rural areas are hard to reach as the necessary infrastructure is not available.

General barriers to IB models include:

- shortages of adequate **infrastructure** such as roads, energy, water etc., particularly in rural areas and urban slums
- the need to **create a market (i.e. encourage demand):** many goods and services are known as 'push' products (e.g. waste management and preventive healthcare). It is necessary to raise awareness about them in order to stimulate demand; new distribution channels must also be created.
- the lack of **knowledge and skills** among the poor, to act either as clients or as suppliers and employees
- **complex or hostile regulatory or legal environments,** affected by weak institutions and insufficient enforcement of rules and contracts.

IB models overcome these barriers through innovation and by employing additional, targeted measures. Indeed, the strategies they use to overcome barriers to doing business with the BoP are one of the main defining features of IB models. These measures can be categorised as follows.[10]

- **Adaptation of products and processes:** For example, health and banking services are provided via the mobile phone, and sector-specific technical solutions have been developed to provide off-grid energy production, water purification or sanitation services.
- Reinventing business processes helps to circumvent barriers to IB, for example by adjusting to low-level cash flows by offering small-unit pricing or pay-per-use schemes, by providing shared access, or by selling through informal retailers. Through contract farming and 'deep procurement' that bypasses intermediaries small-scale farmers are integrated into value chains.
- The benefits to the potential BoP business partners must be clearly communicated, including indications, for instance, of what unmet needs will be addressed or how their quality of life will improve. Thus they can see that it is worth their while diverting the limited capital they have available. Effective communications strategies take the local context into consideration, with its specific challenges such as illiteracy.
- Investment to remove market constraints: IB models include investments in market research, education for the workforce, training of suppliers, building private infrastructure (grids, pipelines), provided those additional investments promise to bring benefits that are tangible and can be internalised for a period time at least. For instance, investing in small-scale suppliers by providing them with equipment or training will enable them to deliver reliably, and in the required quality and quantity. To achieve this, IB models may also include the leverage of additional funds from non-private sector stakeholders, such as the government, NGOs or donor agencies.
- **Integration of the poor in product development and delivery:** Integrating local communities in the work of awareness creation, education and service delivery helps to reduce costs in the long run and improves outreach to the target group as it increases trust and inclusion in local networks. Integrating the target group in the design and development ('co-creation') of the products and services also helps adapt them more directly to people's needs, thereby increasing demand levels and the willingness to pay.
- **Engagement with the government in policy dialogue:** As IB models are often applied in highly regulated markets (health, education), or are used to develop new markets (micro-finance), they are likely to face regulatory constraints.[11] For instance, if an inclusive business model aims to introduce a new innovative product or service to a highly regulated market such as finance or insurance it can face substantial regulatory challenges. In order to improve the regulatory environment in their very specific sectors, companies frequently engage in a policy dialogue with the government. This can be done individually, provided a company has sufficient visibility and market power, or through collective action with other stakeholders.
- **Expansion of the target group:** Instead of focusing only on the poor, adjoining income groups can be included in order to reduce the risk and increase fi-

nancial sustainability. Cross-subsidisation is another mechanism for delivering services to the poor, as takes place, for example, in the delivery of healthcare services.

- **Creation of partnerships and alliances:** Pursuing all these activities individually can be expensive and time-consuming; often it is impossible to shoulder them alone. Creating alliances is therefore an important part of creating and scaling up sustainable IB models. In fact, partnerships and alliances are perceived as one of the major factors for the sustainability of IB models. Innovative forms of partnership between international companies and social entrepreneurs or NGOs exist, in which each partner contributes its specific capabilities while maximising their respective objectives[12]. Gradl/Jenkins (2011) have identified two approaches to the building of partnerships and alliances in the IB context, contrasting them with private initiatives:

Achieving adequate scale is an important element in the profitability of a business that operates with a low profit margin. Kubzansky et al (2011) present different strategies for achieving scale:[13]

- **The 'traditional' path of innovating, achieving growth and reinvesting,** as pursued by individual companies: This seems to be the most common approach, one which is firmly based on product or process innovation. Achieving scale can take a long time as it might be difficult to obtain external invest-

	Private Initiative	*Project-based alliance*	*Platforms*
Undertaken by	The company alone	Two or more players under a formal agreement to accomplish an objective in a given time-frame	Formal network structure with large numbers of stakeholders and an independent secretariat
Mode of operation	Company tackles all obstacles on an individual basis	Work sharing or pooling of resources	Collective action
When to choose	Company has sufficient budget, staff, skills, contacts Core business interest Problems can be solved through standard business strategies	Company lacks assets such as funding, contacts/ relationship, local knowledge Requires trust among project partners	Broad, ambitious objectives Provision of public goods such as infrastructure Interdependencies, e.g. in agricultural value chains
How to overcome incentive problems	payment is embedded in product /service (e.g. pre-payment) third-party certification of product technical assistance and training project-based alliances	formal agreements (contracts, MoU) Monitoring and evaluation mechanisms Establishing platforms	Membership systems Intermediation to facilitate information flows Catalytic financing to provide resources or reduce risk

Structures for overcoming the obstacles to IB, based on Gradl/Jenkins (2011)

ments. This is particularly the case in the development phase, due to the high risk that is inherent to pioneering approaches.

- **Replication and imitation of IB models that have proven successful:** Companies can extend a successful IB model for use in other countries or markets.[14] Another option is imitation, whereby newcomers to a market replicate successful IB models, provided that the pioneers are willing to share their experiences and grant 'licence to copy'. Late market entrants can avoid the innovator's learning curve by replicating and adapting proven concepts. This approach might also be useful in sectors or environments that lack innovative capacities. Finally, non-company entities – often development agencies – can transplant successful models to other countries in the hope that they gain a foothold there and ultimately develop enough market potential for private companies to carry the model forward. This approach involves the use of awareness campaigns, capacity building and seed financing for companies.
- **Leverage and improve through upgrading** IB ventures that are already at or near scale in the informal economy: This can be achieved by facilitating the formalisation of informal businesses, while at the same time providing platforms for the aggregation of small operators, and offering measures to improve quality, such as certification.

2.2 Organisation-specific strengths and weaknesses

In addition to the general barriers to doing business with the poor, organisation-specific strengths and challenges need to be considered. Various types of organisation apply IB models, including companies and NGOs.[15] As this paper is about private sector development, we will only look at the strengths and weaknesses of different types of company. These can be categorised as 'local' or 'foreign', 'small' or 'large'. All types of company have their different strengths and weaknesses with regard to applying IB models.

Due to their strengths and weaknesses, companies – local or foreign, small or big – all differ in their ability to apply the various strategies to overcome the barriers described above:

- **Local SMEs** have an advantage when it comes to understanding the needs of low-income clients, and they also benefit from being well anchored in the local community. Their core business often involves selling to, and sourcing from low-income populations. This means they are adept at developing low-cost products and services as well as adequate distribution strategies.
- On the other hand, SMEs often have little access to adequate human, information and financial resources, and lack strategic planning capacities. Individuals and SMEs with innovative ideas rarely possess the right skills to develop a sophisticated business plan, and it may be hard to attract financing in the early stages due to the high risk of new, unproven IB ventures. Related problems occur when the amount of capital needed falls below the investor's threshold, or when there company lacks collateral. At present, therefore, from the point of view of investors there seems to be a shortage of feasible, replicable IB opportunities. This is corroborated by the fact that in some countries there is an abundance of capital ready to finance IB ventures, although there is a dearth of applications based on proven, sufficiently large and financially sound business models.
- Moreover, having little access to technologies and information beyond the local context can hinder a company's capacity for innovation. Operating with a low profit margin can slow down growth processes and make it difficult to scale up operations.
- **Large national companies or emerging market multinationals** seem quite well positioned to invest in IB models. They combine a good general understanding of clients' needs, established local supplier networks, widely known brands, and adequate human and financial resources. They are used to conducting business in a difficult environment, and national companies in particular are well-connected locally.[16]
- However, such companies might still support in increasing the social value and the 'inclusiveness' of their products and services, in finding civil society partners, in further adapting their products and services to customers' needs, and in unlocking additional financing or engaging in the policy dialogue. As the potential partners and suppliers for doing business with the BoP tend to vary from country to country, large national companies or emerging market multinationals will need support to establish strong networks when entering new markets.

Stengths of different types of companies

Local

Rooted in local community and networks

Good understanding of local culture, clients' needs and business environment

Adept at developing low-cost goods and services

Foreign

Broad knowledge base

Good access to international support networks

Small

High degree of flexibility and potential for radical innovation

Local networks built on trust

Large

Strong financial and human resource base

Policy-level influence

Strong brand

- **Multinational companies from industrialised countries** are at the other end of the spectrum. They tend to be well equipped with human and financial resources, as well as R&D capacities. This means they are able to make more substantial investments to overcome barriers, adapt products and services, and engage in policy dialogue.
- However, they are often unfamiliar with the ideas and approaches of IB models, and they might question the effectiveness of such models for them, particularly when they are pursuing short-term objectives to maximise shareholder value. The concept of inclusive business often runs counter to established internal processes and standards, such as minimum profit margins or maximum investment horizons.

  Other challenges include the lack of market information, and poor understanding of the peculiarities of the low-income target market (such as consumption patterns, informal competition, weak supply structures). These larger multinationals also encounter practical challenges in implementation, such as language barriers or cultural differences.

Private sector development (PSD) programmes wishing to focus on the wider use of IB models in order to achieve (private sector) development objectives can work with any of these types of company. They all have the potential to improve living conditions for the poor and to increase productive capacities, incomes and employment in developing countries.

As PSD programmes usually aim to encourage the growth of the local private sector, the rest of this paper will focus on options for supporting local companies, both large and small, in their efforts to implement IB models.

Chapter 3.2 presents various instruments for fostering inclusive business models. Some of those instruments are better suited to supporting local SMEs, while others address larger companies. Depending on the type of companies a PSD programme wants to support, it is important for it to select the right set of instruments.

Notes

9. The integration of poor people into inclusive value chains is explored in depth in GIZ 2012a and will therefore not be discussed in detail in this document.
10. based on BMZ (2009b), UNDP (2008, 2010), Kubzansky et al (2011) .
11. See IFC (2012) and Chapter 3.2.7.
12. See examples in Seelos/Mair (2007).
13. Kubzansky et al (2011).
14. Franchising is one approach to achieving scale. See also Lehr (2008).
15. UNDP (2008, 2010), IFC (2012).
16. see also GIZ (2011b).

3. How development cooperation can promote inclusive business models

3.1 Review of existing instruments to promote IB models

Prompted by the emergence of the BoP concept, donors, governments, private sector and civil society actors are involved in a growing discussion of how to support, replicate and scale up IB models – not only in specific sectors, but across the board. Their objective is to help raise awareness of the benefits of IB models, while reducing the risks associated with doing IB, lowering transaction costs, and contributing to sustainability and scale. The instruments that are used to promote IB models in a general, non-sector-specific sense can be categorised broadly into the following approaches – although they are often used in combination.

Awareness creation and promulgation of best practice

- **High-level conferences and forums** bring together decision makers from private industry, the public sector and the donor community. Examples include the CEO forums hosted by SNV Netherlands Development Organisation[17], and the WBCSD (World Business Council for Sustainable Development)[18], which aim to promote IB models by prompting interest and commitments on the part of the participants.
- **Awards:** A number of competitions are used to identify and promote innovative IB models which have potential for scaling up and replication. They stimulate initiatives, generate and present best practice cases for replication, create awareness and select examples with high potential for further support. One example was the G20's 'Challenge on Inclusive Business Innovation'[19], launched during the G20 Summit in 2011. Entrants had to prove the innovation of their business models, show the development results and the potential for growth and replication, and also demonstrate the social, environmental and financial sustainability. Case writing competitions such as those organised annually by EFMD (European Foundation for Management Development)[20] and sponsored by the UNDP's GIM Initiative (Growing Inclusive Markets)[21] serve to identify and share successful business models.
- Case studies are used to present examples of successful IB models. Examples include the reports from UNDP and IFC, and the case studies of the World Business Council for Sustainable Development (WBCSD), which even provides a case study template.[22]
- **Sector-specific practitioner guides** create awareness and provide guidance to companies on developing and implementing IB models. They also include examples and lessons learnt. They include titles such as 'Growing Business with Smallholders' (GIZ 2012), 'Bringing Medicines to Low-income Markets' (GIZ), 'Energize the BoP' (endeva/MicroEnergy/GTZ), 'Business solutions to enable energy access' (WBCSD Access to Energy initiative), and the WBCSD series of resource guides for specific sectors.
- **Websites and blogs:** Blogs are a good source of information, opinions, case studies and publications. They include www.inclusivebusiness.org, which is maintained by SNV Netherlands Development Organisation, and the blog of WBCSD. Other examples are Dalberg's blog (http://dalberg.com/blog/?tag=inclusive-business), www.business4good.org and www.nextbillion.net, which is managed by the William Davidson Institute of Michigan University with support from a number of IB intermediaries and investors such as Citi Foundation, Acumen Fund and Avina.

Facilitating and moderating partnerships between companies interested in inclusive business, and potential partners. Apart from the activities described above, which not only create awareness but also facilitate contacts, donors organise special events to link individual companies interested in IB with partners that can provide support. These include governments (to create an enabling environment), investment funds (provision of finance), NGOs (as local implementation partners) and international donors (support in the form of training, services, grants). One example is 'Business Call to Action', an alliance of bilateral donors, multilateral organisations and the private sector, which aims to create awareness and linkages. Initiatives also exist to help companies of the global North to identify IB opportunities and local partners in developing countries. This approach is supported, for instance, by the Danish development agency DANIDA.

Support for companies interested in, and already engaging in IB

Direct support for companies

- **Practitioner forums:** BMZ implements so-called Base of the Pyramid (BoP) Sector Dialogues. Building on

sector-specific practitioner guides, business representatives from both small and large as well as national and international companies are invited to participate in a two day practitioner workshop to learn with and from each other as well as to refine their IB ideas or models already in place.

- **Technical assistance/ technical assistance combined with finance:** BMZ promotes inclusive business through programmes such as its developpp.de and Africa facility, and through development partnerships integrated in on-going technical assistance projects. The support takes various forms, including co-financing, training and quality management infrastructure. DFID provides technical and financial support to companies developing IB models, particularly in Africa, but also in Asian countries (Africa Enterprise Challenge Fund, Food Retail Industry Challenge Fund). Through its Business Innovation Facility, which focuses on five pilot countries, DFID also gives technical support to local companies for the development of IB models.
- **Financial assistance:** Organisations such as the International Finance Corporation (IFC), the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB), and also a number of German institutions, provide financial support in the form of long-term financing. This includes equity capital, mezzanine finance, loans and guarantees. DEG (Deutsche Investitions- und Entwicklungsgesellschaft), for instance, only finances projects that meet certain social and environmental sustainability criteria. The beneficiaries of such investments create employment for low-income populations, in agribusiness (for instance in coffee production in India or through programs such as Cotton made in Africa), in manufacturing and in infrastructure schemes. Financial support is often accompanied by technical assistance and advisory services, both for the design and structuring of the project and in the form of ongoing business support.
- **Indirect support for companies** involves strengthening intermediary financing through equity funds or credit lines provided to local financial institutions at favourable rates. In particular, this includes impact investment funds which themselves support, invest in, and provide technical assistance to IB ventures. KfW Entwicklungsbank, for instance, is currently providing EUR 5 million of its own capital plus another EUR 5 million from BMZ to Indian fund manager, Aavishkaar. This supports companies pursuing IB models by combining venture capital investments with mentoring to create scalable small enterprises with a social impact in areas such as agriculture, handicrafts, renewable energy and education.[23] The field of impact investing (investments that intentionally aim for both a social/environmental impact as well as a financial return) is increasingly gaining momentum and interest also from development agencies. While investments in impact investment funds are being made, specific TA-related contributions through development agencies are still rare.
- Indirect support also includes support for the development of the IB ecosystem. USAID, for example, provides grants to, and engages with intermediary platforms such as the Aspen Network of Development Entrepreneurs (ANDE), which facilitates networking and infrastructure development for intermediaries and financiers supporting small and growing enterprises that often have a social character, and the Global Impact Investing Network (GIIN), which concentrates of impact investments.

In light of this overview it would appear that the main focus of most existing instruments, such as BMZ's BoP Sector Dialogues or Challenge Funds, is currently on large companies from industrialised countries. Only a few donors have started to promote local SMEs with IB models in developing and emerging countries. If they do promote local IB models, as is the case with DFID's Business Innovation Facility, they mainly do so with one-to-one support (often in combination with competitions), or through broad platforms and events.

So far, no programmes have systematically integrated instruments of IB promotion with private sector development approaches. This is a significant gap which provides opportunities for the further dissemination of IB models as a contribution to development goals in general. It also opens the way for us to consider new ways of achieving the specific goals of private sector development, namely strengthening the private sector so as to improve incomes, employment, service provision and tax revenues. Options for this will be explored in the following chapters.

3.2 Promotion of IB models in the context of PSD programmes

Incorporating a focus on IB models in current PSD programmes could bring additional benefits in terms of PSD objectives that might not otherwise be achieved. Moreover, due to the advantages of local companies over foreign companies with regard to understanding local customers' needs, supporting local IB models is a promising approach to tackle pressing development issues in developing countries.

3.2.1 Approaches for integrating the promotion of IB models into PSD programmes

PSD programmes can use various approaches to promoting local IB models. While there are many different options, this paper will use the following typology of approaches.

1. Start: Stimulating local business start-ups that pursue IB models, which enter into new local markets, thereby avoiding the trap of yet another 'me-too' enterprise with low revenues.
2. Adopt: Encouraging local companies to adopt IB models by integrating poor and small-scale producers, suppliers, distributors and workers into their value chain, thereby contributing to employment and income creation, or by designing new products and services for poor customers.
3. Scale: Scaling up existing IB models to achieve broader outreach and a greater development impact, and to foster the growth of these companies, thereby creating employment and affecting incomes.

The approach used by a PSD programme to promote IB models in the domestic market will largely depend on:

- the development priorities of the partner with regard to certain sectors (e.g. health, education, energy), regions (disadvantaged regions or rural areas) or groups (such as unemployed youth, disadvantaged or formerly disadvantaged groups, ex-combatants etc.)
- the level and direction of demand and market development for certain products and services
- the structure of the private sector and the environment for PSD in the respective country (e.g. existence of large local companies)
- the programme's overall goals and strategy
- the collaboration opportunities with other stakeholders and donors.

3.2.2 Start: Stimulating local business start-ups that apply IB models

Many PSD programmes promote business start-ups as a way of creating additional jobs and incomes, and promoting competition and structural change. However, these start-ups often lack innovative business ideas. Instead they enter sectors with a low entry threshold, but with high competition from other companies. Stimulating local start-ups that apply IB models could encourage players to enter new markets that are not yet saturated with competitors, while at the same time serving development goals. Possible target groups for this approach include university students, NGOs or experienced business people who create a spin-off company or leave their company to engage in a totally new business.

In a country or sector where IB models are still rare, the first questions that arise are why this is the case, and whether potential markets exist for the use of IB models. Questions to ask include:

- What products and services do poor people need, and which of these would they be willing to pay for, given the appropriate assistance? What are the quality and quantity (outreach) of public services being delivered to society? Where is there room for improvement, and for private sector initiatives?
- Is the government driven by a desire for social impacts? Which sectors, regions or groups do government policies focus on?
- How are the sectors regulated – especially water, energy, health, education, financial services or agriculture? Does the government allow private sector activity and competition in these markets; what is its general attitude towards the private sector?
- Are companies aware of the potential for integrating the BoP in their business models? What is the culture of entrepreneurship, and where do possible 'hubs' for entrepreneurship exist?
- Are there any active NGOs, civil society groups or other (profit-based) intermediaries that could act as partners?

- What are the social, environmental and economic trends in the country?

PSD programmes could take the first step in support of IB models by assessing the IB potential in the respective partner country, as well as the options for scaling up beyond that country's borders. If the potential is identified, IB could be placed on the agenda by initiating a public-private dialogue that raises awareness about the opportunities. Ideally, these steps should be undertaken together with local 'champions' who have been won for the cause, be they local companies, business associations or a government agencies.

In general, efforts to stimulate and support local start-ups that use IB models will address the main weaknesses of local SMEs in this context, as described in Chapter 2.2. They should use many of the well-known instruments for start-up promotion, including a special IB approach. Some of these are described below.

Building up a culture of inclusive business entrepreneurship

- **Competitions and award programmes** can help increase awareness of IB opportunities, stimulating enterprising people to engage in the design of IB models and identify innovative approaches. Such programmes can be conducted in a specific sector or more generally. They can be initiated and funded by donors together with local organisations (business organisations, universities, etc.) at a relatively modest cost. For example, the SEED Initiative of UNEP, UNDP and IUCN runs award competitions for innovative start-up ventures that address social and environmental challenges in Africa, Asia, Eastern Europe and Latin America. In an annual competition, locally based social and environmental entrepreneurs may apply. In addition to prize money, award winners benefit from business support services (e.g. business plan support), access to relevant networks and high-level profiling. The ZERO Award in Egypt, Ethiopia and Germany is a competition for viable business ideas in the areas of green architecture, interior design and urban planning. In each of the three countries, a committee of public and private partners selects new solutions that cater to local and environmental needs. These are necessarily small in scale, labour-intensive, energy-efficient and environmentally sound. The winners receive assistance in developing prototype products; they are put in touch with financial institutions and are supported in international activities that bring them together with their peers from the other two countries.[24]
- **University programmes supporting social entrepreneurship and start-ups:** Universities are an important source of future entrepreneurs. The skills universities impart and the research results they produce have great potential to form the basis for new ventures. Various steps can be taken to increase the likelihood that graduates will start their own businesses, while at the same time integrating elements of social and environmental sustainability. These include teaching entrepreneurship skills, holding competitions, running virtual start-up projects, or a combination of all these elements. One example is Mexico's Tecnológico de Monterrey, which has been named an Ashoka U Changemaker Campus, due to its efforts to promote social entrepreneurship in higher education. Alongside traditional business entrepreneurship studies, students can choose to pursue experiential learning opportunities in the field of social entrepreneurship. The university runs a tech incubator, a business accelerator and an innovation centre that provides advisory services to community businesses. It also aims to organise the key players for social innovation in Mexico, including the government, private sector actors and academics. Another example is the Algerian-German Programme DEVED which, among many other initiatives to stimulate youth entrepreneurship and start-ups, regularly conducts Summer Academies on sustainable entrepreneurship.[25]

Provision of training and services to start-ups

- Start-ups pursuing IB models require **start-up training** just like any other businesses. However, training alone might not suffice. Additional assistance will be needed for the development of the IB model, for example in conducting market research. Market research is important for obtaining more information about the needs, purchasing power and consumption patterns of potential clients, and for properly identifying the benefits to low-income customers of the BoP product or service. PSD programmes can build capacities, for instance, for the use of participatory approaches in household expenditure analyses and market assessments.[26] Some sources of market data might already exist at the sector level or more gener-

German development cooperation in Namibia

The ***Namibian Business Innovation Centre***, supported by the Namibian-German 'Partnership for Economic Growth Programme', offers services for business start-ups at all stages from inception to operation. The services include the stimulation of creativity (through workshops, competitions, social media involvement), pre-incubation support (boot camp, business plan competitions, product development and prototyping, linkage with financial institutions and exploration of alternative funding options such as crowd-funding), and assistance with the actual operation of the business (incubator offices and shared workspace, mentoring, etc.). The Centre also actively promotes networking among the participants, using different formats such as networking events or peer mentoring). In 2012, it piloted a pre-incubation programme specifically targeted at 'social entrepreneurs'. [29]

ally. For instance, the FinScope surveys[27] conducted in 15 African countries contain detailed data on the income sources and consumption patterns of local populations. Other relevant services include support for product development (for example, by establishing dialogue between consumers and producers, or initiating and facilitating co-creation processes) and in developing financially viable, scalable business models. Furthermore, it is essential to create linkages with institutions that provide funding for start-ups (governmental funds, impact investors).

- **Incubators** or accelerators for organisations that want to design IB models, either sector-specific or not, can accelerate growth by providing tailor-made training and services, while also enabling mutual learning processes and the creation of linkages. One example is iceaddis, a technology innovation hub in Addis Ababa. The objective of this incubator is to accelerate Ethiopia's economic growth by promoting market-driven, environmentally friendly innovations. It facilitates the interaction between technology experts, entrepreneurs, investors and creative employees. The incubator offers access to office infrastructure, business training and start-up coaching, as well as prototyping facilities that support product development. It has international links to similar institutions in Egypt and Germany, which gives its members access to an emerging global network. Other innovative programmes continue to emerge, which aim to accelerate enterprises pursuing IB models -, such as the Unreasonable Institute. This initiative invites groups of up to 30 socially minded entrepreneurs to live under one roof for about six weeks. During that time they harness intensive peer learning and networking opportunities, as well as mentoring and advice from executives, investors and experienced professionals. On completion of the six weeks, one venture is selected by its peers to receive an investment.
- Another way of providing targeted information, know-how and relevant networks are **mentoring programmes**. These involve inputs from successful IB companies or other companies and senior business people that have the knowledge and experience a start-up lacks.[29]
- The potential for inclusive business can be identified and further supported in the context of local economic development initiatives. Here, communities, SMEs and other stakeholders can develop ideas collectively for IB products and services relevant to their particular context. Local economic development interventions make the ideal starting point for this process of co-creation – i.e. involving low-income populations in participatory processes for the design of products and services, and in interactive learning and joint decision-making activities. The identification of IB potential could start with a general, creative brainstorming session to identify needs and potentials; in a second step, this could be narrowed down to specific sectors.[30]
- Associations, cooperatives and other self-help organisations should be assisted in offering relevant support to individuals and SMEs with IB models (services such as management training, providing linkages, advocacy at government level, developing financially sound IB business plans, etc.).

Support for start-up finance

- **Access to finance** for start-ups is always difficult due to the problem of asymmetric information. Start-ups lack the kind of financial history which banks use to

infer the pay back behaviour and the business capacities of the entrepreneur. Innovative start-ups face the additional problem that it is difficult to assess the viability of their business ideas or the prospects of the markets. In addition, banks and other potential investors often decline to get involved when the relatively small amount of capital requested by a new business is out of proportion with the efforts that the investors must make to screen and evaluate the start-up project.[31] These problems are even greater for companies engaging in IB models, as doing business with the poor is usually riskier – or perceived as more risky – due to BoP customers' low ability to pay and the greater vulnerability of value chains. Support for start-up finance is therefore essential. Local IB start-ups often lack funding at all stages of the start-up process: the idea stage, when business opportunities are identified, the seed stage, when the market is assessed and the business model developed, and the start-up stage, when the company is formally set up and all the necessary equipment is procured. Different kinds of financial support will be necessary at all stages.

- For the idea stage, setting up a **special fund providing start-up finance** for IB models could help motivated entrepreneurs and organisations to undertake the required activities.
- Options to address the later stages could include loans from public banks or the use of **guarantee schemes** to encourage private banks to make loans to IB start-ups. At the same time, support can be given for **matchmaking processes** through which entrepreneurs are able to network with local investors. Fostering local **angel investor networks** to promote investment in start-ups and to enable entrepreneurs to identify finance opportunities more easily can also help IB ventures access the financial support they need.

Business environment for start-ups

- Another field of intervention for PSD projects is cooperation with all stakeholders in order to improve the regulatory environment and infrastructure. Simply improving the **factors for 'doing business',** such as ease of company registration, contract enforcement, taxes, etc., will do much to create an enabling environment for business in general (see Chapter 4.3).

3.2.3 Adopt: Encouraging local companies to adopt IB models

Another approach is to encourage local companies with functioning business models – be they SMEs or emerging market multinationals – to adopt inclusive business models by expanding their target groups and adapting their products, services and processes to these new target groups, or by integrating small-scale producers into their value chains. This could be piloted first, starting in limited geographical areas, or with just one specific product or service rather than the full range offered by the company. There are a number of advantages to such a strategy. Unlike start-ups, these companies would be less troubled by problems of access to finance and limited management skills. They might even have small R&D departments, and their established customer base could enable cross-subsidisation of the IB model through the regular business of the company. If companies are well established they will find it easier to overcome the typical barriers to doing business with the poor by investing to remove market constraints (e.g. in infrastructure or customer education), by creating partnerships and by engaging in policy dialogue with the government. Nevertheless, these companies might need support in establishing an enabling company culture, convincing key decision makers and increasing their knowledge about inclusive business models and strategies. Possible activities by PSD programmes might include:

Creating awareness and knowledge about IB and IB models

- Programmes can promote awareness and knowledge about IB and IB models by **working with business membership organisations and the media,** and using role models, competitions and awards.
- When working with **business development services in the field of innovation management**, programmes can encourage the providers to include modules that foster an enabling culture for inclusive business.

Adapting products and services and stimulating their uptake in the market

- Established local companies might know the local market, but even so, they might still be unfamiliar with the habits and needs of low-income people, especially as they tend to differ between different regions of a country. Companies can benefit from collaboration with local civil society institutions to

create products and services that are appropriately adapted to the needs of poor and marginalised people, and to encourage those people to buy the products. Together with local institutions they can engage in marketing and consumer education initiatives, as happened in Ghana with the Financial Literacy Roadshows.[32] PSD programmes can act as the initial **facilitator between companies and NGOs by setting up dialogue platforms** for specific sectors or locations.

- Together with other local partners such as companies, foundations or public authorities, PSD programmes can also set up **schemes to support partnerships between companies and research institutions or NGOs that engage in joint research & development projects** and scale up prototypes developed by grassroots organisations. An example of this is DANIDAs Programme for Innovative Partnerships[33].

Unlocking additional finance

- At some stage, even companies with a sound financial basis will need access to additional funding, in order to expand their target groups, geographical reach or products. PSD programmes can support this by setting up **match-making forums where companies can meet financiers.** The latter range from financial institutions to high-net-worth individuals, and include foundations, philanthropists, and in particular, impact investment funds that are specialised in providing adequate investment schemes for enterprises using IB models. Such forums can complement formats like the BoP Sector Dialogue workshops, or they could be implemented in a similar way to the forums organised by New Ventures, which connect local environmental entrepreneurs with investors in Brazil, Colombia, India, Indonesia and Mexico. Moreover, PSD programmes can also encourage local business schools and service providers to offer training to inclusive businesses in how to access financing for their inclusive business models.

3.2.4 Scale: Scaling up existing IB models

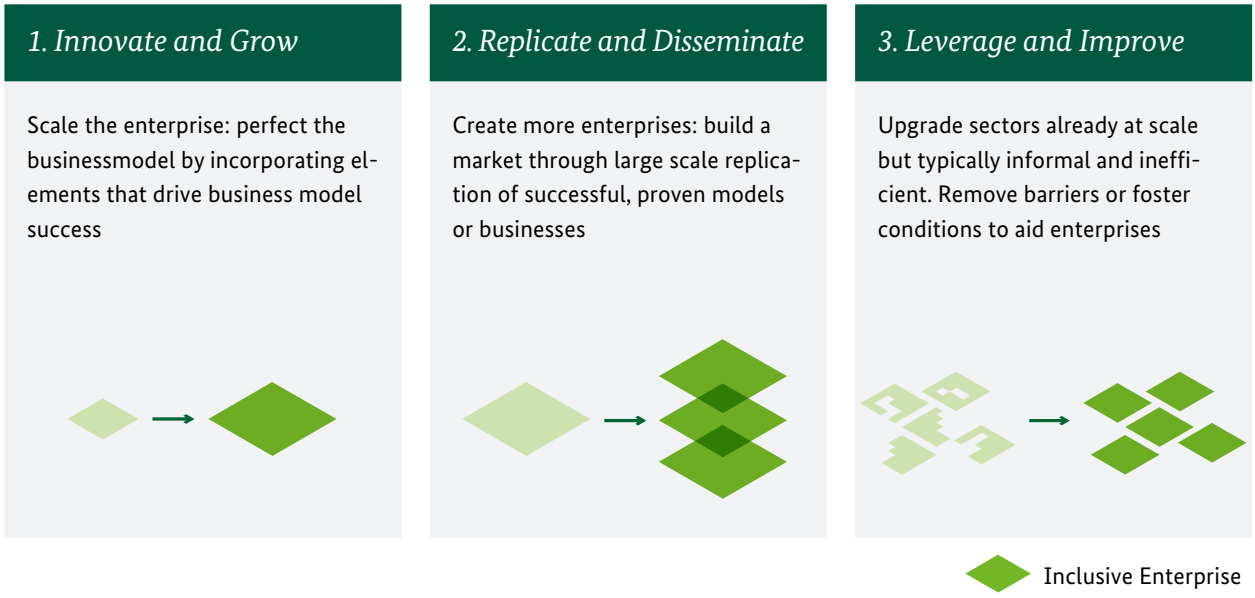
In countries where the idea of IB has already taken hold, such as in India or some Latin American countries, another strategic option for PSD programmes is to help local SMEs that are already applying IB models to scale up their activities. The growth of these businesses could trigger increases in both employment and incomes, and bring broader development results as more and more poor people become integrated into value chains or gain access to certain products and services. Of course, it is important to bear in mind that not all SMEs will want to grow, and that scaling up to the extent proposed in international development literature is simply not on their radar screens.[34]

In Chapter 2.3, we described a typology of approaches to scaling up companies: through growth within one company, through the replication of successful approaches by other companies, or through upgrading and aggregating IB ventures in the informal economy.

Scale can be achieved by a company with an inclusive business model if it reaches more customers, generates higher revenues by charging higher prices, or offers new products and services, possibly in the same value chain. None of these options is easy, as reaching more customers might involve entering a larger number of remote places, training even less well educated suppliers, or investing even more in infrastructure and technological solutions to overcome these problems. Access to capital and the ability to innovate is therefore crucial for any inclusive business that wishes to grow.[35]

Apart from development partnerships (developpp.de, Africa facility, integrated DWPs), which can support companies in making additional investments, for example, in training their suppliers or developing financial schemes for suppliers and customers, most instruments to support company growth must concentrate on building a supportive enabling environment. This might include the following activities.

- **Supporting platforms and mechanisms for collaboration** between businesses as well as between businesses and other stakeholders. Pooling resources, such as technical competencies, infrastructure and established relationships, is one of the most important ways of increasing the scale of inclusive business models. An important way of fostering such alliances is to establish **platforms** where companies, investors and other stakeholders such as universities can meet and build up trust. Equally interesting would be online platforms that encourage solutions to problems, technical or otherwise (**open innovation platforms,** technology databases), or which facilitate the search for funding for newly developed solutions (e.g. **crowd-funding sites**).



Achieving social impact at scale, from Kubzansky/Copper/Barbary (2011), p. 148

- Business associations can advise inclusive businesses on how to set up corporate volunteering or **internship programmes** for university students entering technical or managerial professions, either from the same country or from other countries. This option has been successfully applied by several of the winners of the G20 Challenge on Inclusive Business Innovation. It has helped them to develop new technological solutions as well as more efficient business models.
- **Facilitating mechanisms for advocacy and dialogue with relevant government agencies:** Many inclusive businesses, especially those engaged in the provision of basic services such as water, energy or health, encounter difficulties due to overly stringent government regulation, or a complete lack of regulations. The reasons for this are diverse, but are often related to ignorance, lack of experience, or the wish to protect poor customers. In any case, to remove these barriers it is essential to enter into open and informed dialogue with government representatives, whether at local, regional or national level.

Replication is when successful IB models are imitated, or transplanted to other sectors, regions or countries. This has the advantage of saving time and development costs, as the model has already been tested, and the period of trial-and-error can be shortened or avoided. Successful examples in which IB models have been replicated can be seen in the microfinance and cell phone services.[36]

PSD programmes can support replication by setting up platforms, for instance in the form of a South-South dialogue, in order to facilitate **the sharing of successful IB models and experiences.** They can also help local intermediaries to evaluate successful IB models for their suitability and adaptability for replication. This includes assessing whether the preconditions for scaling up, such as market potential, available resources, the political will to support IB and a generally supportive ecosystem, exist in the local context. The actual replication would then include steps similar to those described in Chapter 2.2.1.

One precondition for replication is that the companies that have developed successful IB models must agree to share information with the 'imitators' who follow. After all, companies doing IB invest considerable amounts of effort, money and time. As the concept is profit-based, sharing with others the unique features that give you a competitive advantage seems counterintuitive. Any initiative that promotes replication must therefore look at the issues of intellectual property and should try to devise incentives to sharing.

One way of promoting replication is to support **micro-franchising** schemes. Micro-franchising can scale up and spread an innovation relatively quickly. The advantages for the franchise holder include the reduced risk derived from adopting a proven business model and a well-known brand. They also have access to training and receive support in organising supplies and marketing. A precondition for franchising is that there should be expe-

riential evidence that the business model works. As one online source for BoP businesses warns, 'practitioners estimate that currently 80-90% of social micro-franchises are unprofitable.'[37] There are various obstacles to creating financially sustainable micro-franchising schemes. Developing the business model takes time, particularly in markets characterised by low purchasing power (often from five to ten years). Managing the operation can involve high overhead costs (marketing, supplies, branding, etc.). Identifying candidates to take up franchises can be a lengthy process, and their training needs might be high; the franchise holders may also find it difficult to meet the initial financial requirements. Supply chains are often difficult to organise, and quality control is essential to protect the brand. At the same time, adverse regulation and complicated legal and contractual matters may impede business development.[38] Many models depend on additional grant funding, so it can be very difficult for the companies involved to move towards profitability.[39]

PSD programmes can promote the regulatory framework for franchising (see Chapter 3.3), improve the available technical and legal advisory services, and provide their own training for the franchise holders or distribution agents, in order to promote the design of a feasible, financially sound business model.

Leveraging the informal sector is the third option for scaling up. Many poor people consume and produce goods and services almost exclusively in the informal economy. For instance, the retail trade in Kenya is 95% informal,[42] and formal distribution channels might not even reach the poor due to remote locations and inadequate infrastructure. Particularly when selling to the poor, businesses can achieve greater scale by building on informal distribution channels, as Kubzansky has demonstrated in several examples, such as the selling of water by street vendors, or mobile phone services provided through informal retail shops.

Another approach is to aggregate small companies that operate using the same or similar business models into groups or clusters. Here PSD projects can assist with the development of common business models and cooperation platforms. They can also help in other areas, such as improving the quality of a service or product, or developing collective standards and certification services.

3.3 Measures at policy level

There are various instruments governments can use at the policy level to support inclusive business models. One area that is often highlighted is statistics. Governments can improve the way they gather statistics in order to provide better market data, particularly with respect to incomes in the informal economy. Up till now, little research has been done on what makes a conducive business environment for inclusive businesses, nor on the active support measures for fostering inclusive business models. This chapter gives a short overview of selected policy areas and instruments that are relevant to inclusive business models. It describes a list of policy areas – by no means exhaustive – as examples of potential fields of action for governments. More research is still needed to identify policy instruments to support IB models, and BMZ is currently undertaking a study to explore this question further.

Franchising in IB markets

Tedcor Inc. in South Africa collects, recycles and disposes of solid waste through a network of local franchise holders who receive financial management, administrative and business support.[40] The company has more than 80 franchise holders serving more than 400,000 households. It provides employment for more than 1,000 people.

Another example of a successful micro-franchising model is SPOT (Self-employment Programme for Organised Transport) in Bangalore, India. The company arranges finance for the lease and purchase of taxis and provides fleet management services and a dispatch centre. The independent drivers benefit from a well-known brand and adhere to common service delivery standards. The franchise holders earn more than three times the average Indian income, while the franchisor achieves a profit margin of more than 20%.[41]

Better eyesight can dramatically increase people's well-being and productivity. Vision Spring offers spectacles to low-income clients in India, Bangladesh, South Africa and El Salvador. The product is delivered by franchise holders, who are given initial training and a sales kit that enable them to conduct simple screening of potential clients in their community.

3.3.1 Building inclusive innovation systems

Opening up BoP markets means finding innovative solutions to overcome barriers such as inadequate infrastructure, insufficient financial resources or clients' payment capacities. Inclusive business models are based on innovation, which makes innovation policy a relevant policy area for the support of IB models. Policymakers can support inclusive business development by establishing an innovation system that facilitates exchanges and cooperation between academia, the private sector and responsible government actors. National innovation policies can be designed specifically to benefit the poor, as was the case, for instance, in India (see box above). PSD programmes could assist governments in aligning their approaches to innovation with poverty reduction in this way.

3.3.2 Consumer protection

Inadequate quality of products and services can be harmful to poor customers, particularly in sectors such as consumer goods or medicine where the drugs they buy might be out-dated or counterfeit. However, it can be a challenge to provide consumer protection in poorer areas where, for instance, many illiterate consumers are unable to read the instructions on medical treatments.[43] Vulnerable consumers, such as those at the base of the pyramid, need better information, advice and support services, in order to avoid paying too much for the products and services they receive (poverty penalty). Consumer protection should therefore be supported by an alliance of public and private stakeholders. Civil society organisations can play an important role in tackling unfair practices and poor service delivery to the low-income population. Governments can also use appropriate regulation to ensure a conducive context for the fair provision of goods and services to poorer people. It is vitally important to strike the right balance between deregulation in sectors that were once the exclusive responsibility of governments (water, health, education, energy) and consumer protection. One sector in which such an effort has already been made to strike such a balance is microfinance.

3.3.3 Competition policy

Opening up these markets for private companies also creates the need for smart competition policy. In the G20 Policy Note on the Business Environment for Inclusive business Models, IFC highlights the need to balance regulation to ensure that well intended policies, such as excessively detailed technical standards and requirements, do not inadvertently stifle the innovation of inclusive business models. Thus, it is very important that governments are aware of the part inclusive businesses can play in solving social and environmental challenges and engage. They should also engage in a strategic public-private dialogue with these businesses, with the aim of developing BoP markets.

3.3.4 Regulatory business environment

Most recommendations on improving the regulatory environment for IB models are general in nature[44]. They include, for instance, the needs to reduce bureaucracy, protect intellectual property, enforce contracts, provide access to finance, and to facilitate the registration process for enterprises operating in the informal economy. It is assumed that by improving the overall business environment, the conditions for implementing IB models will also improve. There is no consensus yet as to whether IB models require a specific regulatory environment at a general, cross-sectoral level, since little research has so far been done. Evidence exists to suggest that regulatory hurdles do hinder the development of IB models, though this is mainly anecdotal. Worth mentioning are the problems of formalising a business. Many inclusive businesses start life as non-profit organisations, which later need to be transformed into commercial operations. One option might be to create a new legal company form, such as the 'benefit corporation' already established in new legislation in some states of the USA. Companies registered as benefit corporations consider their social and environmental impacts as well as their financial results when making strategic decisions. Besides giving them a positive public image, this status also means such companies enjoy legal protection when they integrate other (social and environmental) issues into their decision making than purely financial considerations.

Another question is whether the local legal and regulatory framework is conducive to micro-franchising. This raises the issue of intellectual property rights, for instance (copyright, protection of brand names, contract design and enforcement, the obligation to disclose all relevant information to franchise holders, registration procedures, etc.)

Much more often, however, inclusive business models are stifled by the sectoral regulatory environment. As inclusive business models open up new markets it is often necessary to develop the corresponding legal and regulatory frame-

German development cooperation's support for inclusive business in India

In India there are 700 million bottom-of-the-pyramid consumers at varying levels of income. The Indian Government has acknowledged the potential of inclusive business, and has dedicated its national innovation policy to finding solutions to social challenges in sectors such as health, education, water and sanitation, transport and agriculture. The prime minister has appointed a *National Innovation Council* to promote innovation that meets the needs of the poor in terms of affordability, accessibility, sustainability and quality.

As a priority of the Indian Government, this approach is supported by GIZ's 'Umbrella programme for the promotion of MSMEs'. The programme aims to strengthen the growth and responsible competitiveness of Indian MSMEs by improving the business and investment climate and promoting services beneficial to the target group.

The third component of the programme focuses on improving the ecosystem for sustainable and inclusive innovations. It takes a strategic approach, using meso-level interventions to strengthen the intermediary and multiplier institutions that are relevant for innovation, including business incubators, cluster organisations and business associations. Lessons learnt are fed back at the policy level, for instance to the *National Innovation Council* or the *Ministry of MSME* (macro level). The implementing partner is the *Centre of Excellence for Sustainable Development* of the *Confederation of Indian Industry CII-CESD*. The programme works in the following areas.

1. Micro level: ***Piloting innovative capacity building measures and networking opportunities*** to strengthen peer-to-peer learning among innovators. Successful pilot programmes have been conducted with businesses that provide energy and health solutions to people at the BoP, and with enterprises that use ICT for development. The businesses could discuss the challenges they face and had an opportunity to engage with mentors and business leaders who have overcome similar challenges. The innovators also had the chance to meet potential investors. This workshop format will be taken up by multiplier institutions, such as entrepreneurship institutes and incubators. The project is now transferring these capacity building measures to other areas of India which are not yet the main focus of service providers (e.g. the northeast and low-income states). In the future, it is planned to hold match-making sessions with larger corporations interested in finding smaller partners with more 'feet on the ground'.

2. Meso level: ***Building the capacities*** of corporations and MSMEs to develop and enhance innovative, inclusive business models. This is done by strengthening the capacities of service providers and other intermediaries to offer innovative support services, for instance for product, process and business model innovation, as well as mentoring support. Inclusive businesses often have difficulty accessing finance and developing financially sound business plans that convince banks or social impact investors. In response, the programme has developed a range of capacity development formats that help MSMEs to create financially viable business plans for inclusive business ideas. The project has entered into partnership with impact investors to establish a pipeline for investors and to strengthen the so-called accelerator programmes that help to prepare businesses to receive investment. Innovative models of business incubation are being strengthened and replicated, and a network of social enterprise incubators and other specialised service providers has been established. A collaborative online community is currently being developed to provide innovative virtual capacity building formats for IB to complement the traditional incubation activities and networking.

3. Macro level: ***Improving the ecosystem for innovation*** by sharing lessons learnt with organisations at the policy level, and drawing on global experiences of inclusive and sustainable innovation and successful business models. The programme attempts to identify ecosystem challenges that face innovators of inclusive business models, which need to be addressed by the different actors in the innovation system, such as financial institutions, service providers and the government, and at different levels (national, state, local). The programme has introduced quarterly roundtable meetings, bringing together actors from across the ecosystem (e.g. businesses, associations, banks, investors, government actors and service providers) to discuss challenges and set a common agenda. Working with the Confederation of Indian Industry, it is also currently developing an annual innovation survey that will benchmark businesses involved in sustainable and inclusive innovation. Through an integrated development partnership with Aavishkaar, the programme is now working to develop a rating tool for impact funds that will help unlock capital for IB models and channel funds to places where they will have the most impact, while ensuring transparency among investors. The rating tool will be scaled up globally, in cooperation with IFC. Finally, the programme is working with banks such as YES Bank and SIDBI to develop an innovative financing mechanism for IB models, which will go beyond equity to enhance access to finance for inclusive business.

4. ***Fostering networks*** with civil society, with existing regional and global networks, and with institutions. The programme aims to connect innovators around the country and across regions, to improve the state of learning and support exchanges about sustainable and inclusive business model innovation. GIZ has entered into partnership with DFID and Sankalp, one of India's largest forums, to bring together social enterprises, investors, support providers and government actors. Together they are organising the Capacity Building Programme for Social Enterprises in Bihar – the first project of its kind. Workshops on the development of IB models held in South Africa and Nepal in cooperation with the Confederation of Indian Industries have strengthened South-South networking.

work further in the specific sector. In some cases there might be no framework at all, while in others the existing framework might be too stringent. So far, therefore, measures at the policy level to address the regulatory environment and any hurdles to IB have been assessed mainly on a sector-specific basis. When integrating smallholder farmers into IB value chains, for instance, policies should address shortcomings in the agricultural business environment, in particular by improving access to finance, resolving land title issues and providing support for licensing and inspection processes. They should also provide or facilitate investment in agriculture-related R&D.[45] When IB models are being developed in sectors such as finance or energy, it is important to establish the appropriate legal frameworks for microfinance institutions or the private electricity supply respectively.

In India, another policy instrument that supports inclusive business models by providing access to finance is found in the financial and insurance sector. The Reserve Bank of India has introduced priority sector lending which defines targets in terms of credits to be earmarked by commercial banks for specific sectors, such as housing or education. The priority sector targets are used as a way of reaching larger numbers of economically vulnerable people, and also ensuring a greater flow of credit to sectors with high potential for employment generation.

3.3.5 Fiscal and other redistributive measures

Besides improving the enabling environment, both in general and in sector-specific terms, governments can also introduce incentives that increase the supply of, or demand for services and products provided using inclusive business models. Some of these instruments are explained briefly below.

Governments can create market opportunities for IB models by adapting public procurement rules and regulations and setting legal targets for inclusive business procurement. As the largest consumer in any economy, on average the public sector spends between 45% and 65% of its budget on public procurement, which in most cases represents a large proportion of the national GDP. If a greater effort is made to purchase environmentally

Criteria for supporting IB models

The social value and the benefits to low-income populations generated by the IB model should be clearly explained and significant in their extent (e.g. wages are x% higher than the industry average, previously unavailable services are available to y communities, the cost of electricity or water is reduced by z%).

Environmental sustainability must be ensured. Some proposed solutions, such as the 'single package' approach, lead to the accumulation of waste and are harmful to the environment. While environmental protection and the achievement of social benefits might be conflicting aims in the short term, in the long run social change will only be sustainable if environmental standards are observed.[48]

Consumer goods sold to the poor by multinational enterprises might crowd out local producers of similar products. On the one hand, this is the result of inevitable structural economic change. On the other, the net effects on employment and income should be assessed before support is given to an IB model which targets the poor as consumers; possible measures should be devised to soften the effects of the transition.

Those applying for support for an inclusive business proposal should prove that their venture is financially sound and that the chances of financial sustainability are high. Options for scaling up the IB model should be explained in the business plan.

Subsidiarity: donors should only support IB models that would otherwise not be realised or for which the scale would be significantly smaller without support.

Impact monitoring based on pre-defined indicators describing the intended social impact. This is a field in which donor agencies or NGOs can assist in developing appropriate approaches.

Free sharing of information about the business model (good practice) after a certain time to enable replication.

and socially preferable products and services, the substantial buying power of the public sector might eventually stimulate markets for sustainable products and services, thereby indirectly supporting opportunities for inclusive business models.

There are already many examples in both developed and developing countries of the public procurement process being used to pursue social goals. Switzerland, for instance, requires equal pay for men and women as a condition for public contracts. In India, procurement rules stipulate that certain goods must be purchased from small and micro-enterprises, even if the price is up to 15% higher than that charged by their larger competitors. In Brazil, a law introduced in January 2007 sets out criteria that are intended to increase the participation of smaller businesses in public procurement.[46]

The provision of subsidies is a policy instrument that can be tailored specifically to IB needs. Government subsidies are sometimes needed to encourage early entrants to develop BoP markets. They increase the attractiveness of investing in IB ventures by reducing costs and risks, and they can ensure a company's survival during the often critical pioneering phase. Subsidies often also highlight the specific sectors or technologies given political priority, and in this way encourage further investment.[47]

Demand-side subsidies can help to create a market for products and services that are otherwise unaffordable for people with low incomes. Subsidies can take the form of differentiated tariffs; they might involve cash transfers, either directly or through intermediaries; or they can come in the form of vouchers. Such instruments are already well known, and they are often applied in the provision of infrastructural services such as electricity or water, by private or public investors. One example is the Rastriya Swasthya Bima Yojna (RSBY) insurance scheme in India, in which low-income households receive a smart card covering health-related costs of up to 30,000 rupees (paid for by the Indian Government). They are then are free to make their own choice of service provider. Supply-side subsidies must be designed with care so as not to set perverse incentives and distort the market. They can be provided, for instance, in the form of capital subsidies, as reduced interest rates for loans, or as tax credits. This should be done on a broad basis for IB companies that meet predefined criteria. Donors can assist governments with capacity building measures that enable them to define the relevant criteria, based on their own social priorities, and to design subsidised support programmes that achieve the intended welfare effect, while remaining transparent and keeping markets disruption to a minimum. The same holds for mechanisms with which intermediaries support IB companies. Policymakers can also set appropriate incentives for inclusive businesses, for example by eliminating subsidies on products that are harmful to the users' health and the environment, thus making sustainable alternatives more attractive. One example is subsidised kerosene, which many poor people use in their cooking stoves, despite the fact that more sustainable alternatives exist, such as solar cookers that cause less harm to the environment and human health.

Notes

17. http://www.snvworld.org/en/inclusive-business/resources/news-events
18. http://www.inclusive-business.org/
19. http://www.g20challenge.com/
20. https://efmd.org/index.php/research/awards
21. http://www.growinginclusivemarkets.org/
22. http://www.wbcsd.org/publications-and-tools.aspx
23. http://www.aavishkaar.in/
24. http://www.icehubs.com/zeroaward/index.php/zero-award-2012
25. http://deved.info/fichiers/Programme.pdf
26. Many tools exist, such as participatory mapping, focus groups or participatory rural appraisal, which can be used in low-income environments to assess needs and consumer priorities. See also the 'Market Creation Toolbox' of the Danish BoP Learning Lab: http://www.boplearninglab.dk/bop-learning-lab/trends-markets-cases/market-creation-tool-box/get-the-toolbox.html.
27. http://www.finscope.co.za/new/pages/default.aspx
28. http://nbic.polytechnic.edu.na/bootcamp/ http://www.rlabs.org/2012/09/19/namibia-growing-social-entrepreneurs/.
29. For an example, see the Globalizer Programme by Ashoka, which incorporates a mentoring module: http://www.ashokaglobalizer.org/about.
30. For a similar approach see Simanis/Hart (2008).
31. GIZ/ZEW (2012), p. 7.
32. http://www.speedghana.org/index.php?opt=subcontent&Menid=4&Itemid=7
33. http://um.dk/en/danida-en/activities/business/partnerships/partnerships-for-development/ – N.B. This programme is designed for partnerships involving Danish companies.
34. See also Creech (2008).
35. Kubzansky/Copper/Barbary (2011),
36. BMZ is currently undertaking a study to explore options for promoting the replication of inclusive business models. This document therefore gives only a few hints in this regard, and will build on the results of the upcoming study at a later date.
37. http://www.boplearninglab.dk/bop-learning-lab/activities/news/the-future-of-micro-franchising.html
38. Lehr (2008).
39. Beck et al. (2010).
40. http://www.tedcor.co.za/
41. Beck et al. (2010).
42. Kubzansky et al. (2011), p. 133.
43. Haupt/Krämer (2012), p. 38.
44. See, for instance, IFC (2012).
45. These measures, described in IFC (2012), are relevant to all smallholder farmers and include no specific incentives for IB. We do not go into detail here, as it is not the task of PSD programmes to support agricultural producers. Instead, we refer the reader to the upcoming 'BoP Sector Dialogue Agriculture'.
46. UN (2008), p. 6.
47. Krämer/Herrndorf (2012), p. 18.
48. Krämer/Herrndorf (2012).

4. Open questions and further research

As described in Chapter 1.2 inclusive business models have the potential to create win-win solutions that are compatible with private sector, profit-driven interest as well as development interests. They can offer sustainable solutions to social and ecological challenges, independently of public resources. That makes IB models a highly significant concept for development cooperation in general, and private sector development in particular. Nevertheless, many questions remain open and there is a need for further research and discussion.

Further research is especially important in the field of impact monitoring to corroborate the role IB models play in poverty reduction. Only a few companies that apply IB models consistently monitor and evaluate the impact they have on the lives of people living at the BoP, for example using the Impact Reporting and Investment Standards (IRIS) or the reporting system GIIRS. It is important that the contribution made by inclusive business models to poverty reduction is kept measurable, as this will help disprove accusations that they are merely clever marketing strategies. This is especially important because at some point, many IB models need outside investments of capital from social venture funds or impact investors. These organisations, such as Aavishkar in India, pay a lot of attention, not only to the economic sustainability of businesses, but also to the impact they have on the lives of people living at the BoP. Being able to demonstrate the impact of IB models opens up new financing sources for the companies involved. A proven development impact of inclusive business models is also relevant to governments and donors that directly support these businesses. It would be beneficial for development agencies and companies with inclusive businesses models to exchange their experiences of measuring the impacts, and such exchanges should be encouraged. As co-chair of the M&E Working Group in the Busan Private Sector Building Block, BMZ is very interested in supporting such an exchange between public and private stakeholders.

Another question still to be answered is exactly what does a conducive business environment for starting and scaling up IB models looks like, and do IB models face specific regulatory hurdles? The Policy Note on the Business Environment for inclusive business Models elaborated by IFC on behalf of the G20 Development Working Group opens up this issue, identifying regulatory hurdles in different sectors, such as agriculture, housing and education. Since inclusive business models open up new markets there is often a need to develop the corresponding legal framework further in the specific sector (e.g. legal framework for private electricity supply). This policy note is seen as a starting point for further research on the business environment for inclusive business models, where there are many questions that remain unanswered.

There is a need to analyse new legal and regulatory approaches thoroughly, such as the 'benefit corporations' – the corporate legal entity already introduced in various states of the USA and now planned in several Latin American countries – and to assess their potential for fostering IB models.

Further research is also needed to improve our knowledge of the barriers to scaling up IB models or their replication in other markets. Even though numerous examples of successful business models exist, most remain small and relatively isolated. The G20 Challenge on Inclusive Business Innovation identified 15 IB models which have been developed to a significant scale and replicated in other markets, or which show the potential for it. One of the aims of a series of G20 workshops on inclusive business is to gain more knowledge about these companies' success factors.

IB models can play a role in other priority areas of German development cooperation, such as agriculture, infrastructure (water and energy) or health. To exploit the potential benefits of inclusive business models in these sectors, it is necessary to identify potential openings for cooperation with the private sector and to establish an appropriate regulatory framework for such cooperation. A systematic public-private dialogue is required, which gets the private sector involved in the design and implementation of sector strategies.[49] Because PSD programmes already have gained extensive experience of supporting partner countries in establishing strategic public-private dialogues and building partnerships with the private sector, there should be stronger collaboration between PSD programmes and development programmes in other priority areas. This would help to avoid fragmentation, while leveraging the potential of inclusive business models for development and increasing development effectiveness.[50] The possibility that PSD programmes could support the use of inclusive business models in other sectors is certainly an area in which further research is needed.

Notes

49. OECD (2011)
50. UN Global Compact/Bertelsmann Stiftung/UNDP 2011 (2011)

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Annex 2: Roles of stakeholders in promoting IB

Business	Government	Communities	NGOs	Donors & investors
Create capacities and space for innovation & research	Improve the regulatory environment	Identify opportunities for business	Enter partnerships with businesses to facilitate community engagement	Raise awareness for IB opportunities
Deepen community engagement	Invest in infrastructure	Identify competitive advantages of communities	Act as platform for collaboration and best-practice dialogue	Support governments in improving the market environment
Create awareness among clients and other stakeholders	Address sector-specific obstacles	Develop MSME networks	Facilitate the public-private dialogue	Create innovative, impact-oriented grant models
Build capacities, e.g. training of suppliers	Provide access to finance	Build transparent community organisations	Cultivate openness to cooperation with the private sector	Provide access to finance, early stage risk funding
Engage in policy dialogue	Improve statistics and provide market data		Disseminate best practices and lessons learnt	Strengthen capacities to develop financially sound business models
Organise end-to-end solutions	Strengthen human capital and entrepreneurial capacities		Evaluate impacts	Facilitate (cross-) sector dialogue and bring stakeholders together
Improve own management skills (as SME)	Strengthen own capacities to collaborate with the private sector			Strengthen capacities along value chains
Commit financing, time and patience to carry IB model to break-even	Establish platforms to engage business as a partner in development			Disseminate best practices and lessons learnt
	Improve consumer awareness			Evaluate impact
	Support aggregation of small-scale operators e.g. cooperatives			Support the business ecosystem, networks and cooperatives
	Give subsidies to low-income consumers			

Contributions of IB stakeholders, based on UNDP (2010 and 2008), p. 100f, IFC (2012), Kubzansky et al. (2011).

Annex 3: Strategy matrix, based on: UNDP (2008).

Dark blue indicates constraint-strategy combinations found in more than 25% of cases where the constraint appears. Medium blue indicates combinations found in fewer than 25%, but more than 10% of cases where the constraint appears. Light blue indicates combinations found in fewer than 10% of cases where the constraint appears.

Strategy matrix for supporting IB	Adapt products and processes	Invest in removing market constraints	
Market information	Avoid adverse incentives	Use grants and subsidies Finance with reduced cost	Do market research
Regulatory environment	Leverage ICT Simplify requirements Make operations more flexible Avoid adverse incentives [51]		
Physical infrastructure	Provide to groups Sector-specific technological solutions Leverage ICT		Build infrastructure (electricity grids, pipelines etc.)
Knowledge and skills	Leverage ICT Simplify requirements		Improve supplier & employee performance Raise consumer awareness
Access to financial services	Adjust to cash-flow of the poor Leverage ICT		Capture intangible benefits (brand, reputation, morale)

ANNEX 3: STRATEGY MATRIX, BASED ON: UNDP (2008).

Leverage the strengths of the poor	Combine resources & capacities with others	Engage in policy dialogue with government	
Involve the poor in market research Collaborate in innovation	Combine capacities to acquire market information Pool resources to gather market information	Engage individually or collectively, Engage through demonstration effect	
Leverage informal contract enforcement mechanisms	Self-regulate		
Build local logistics networks Establish local service providers Coordinate investment into common goods	Combine capacities to leverage existing logistics networks, to make sales and provide services Pool resources to fill gaps in market infrastructure		
Train poor people as trainers	Combine capacities and pool resources, to build capacities and skills and to raise awareness		
Expand risk sharing arrangements	Facilitate and increase access to financial services		

Notes

51. e.g. by creating group enforcement

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Sector Programme Innovative Approaches to Private Sector Development,
Sector Programme Cooperation with the Private Sector and CSR

Friedrich-Ebert-Allee 40
53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1-5
65726 Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15

info@giz.de
www.giz.de

Authors
Ulrike Rösler in cooperation with Diana Hollmann, Jonas Naguib,
Alexandra Oppermann and Christina Rosendahl

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Addresses of the BMZ offices
BMZ Bonn
Dahlmannstraße 4
53113 Bonn, Germany
T +49 228 99 535-0
F +49 228 99 535-3500

BMZ Berlin | im Europahaus
Stresemannstraße 94
10963 Berlin, Germany
T +49 30 18 535-0
F +49 30 18 535-2501

poststelle@bmz.bund.de
www.bmz.de