How to create an enabling environment for *inclusive* business?

Learning from experience and debates in private sector development

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The BEWG serves as a platform to share information and knowledge on donor-supported business environment reform in developing countries and to identify and support good practices and new approaches in this field. For more publications by the BEWG, visit http://www.enterprise-development.org/implementing-psd/business-environment-reform/

About the DCED and current research on private sector engagement

The DCED is the long-standing forum for donors, foundations and UN agencies working in private sector development, who share their practical experience and identify innovations and formulate guidance on effective practice.

Donors are now engaging directly with the private sector, as partners in development. This represents a major shift in mode of operation, relative to the more traditional, bilateral model. DCED members are looking to the DCED to support them in making that shift, not least by convening a group of donors around the topic of private sector engagement. In addition to the this scoping paper, current research is also covering what we can learn from results measurement work in the Impact Investing Community, how organisations are adapting to private sector engagement, a mapping of partnership platforms that connect the public and private sector, and how business structure and governance influences social impact."

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Table of Contents

Executive Summary

Inclusive business support is a growing priority for many donor and development agencies but views on the most effective support options vary. This scoping paper focuses on business environment reform: How can agencies help create an enabling environment for inclusive business in partner countries? And how, if at all, does this differ from regulatory and policy reform to facilitate private investment in general? In order to help answer these questions, this paper summarises a very large body of emerging evidence, structuring it into key debates for further exploration.

While many reform options appear in the inclusive business literature, the aim is to incorporate and structure lessons from other communities of practice in private sector development (PSD) as well. Even though these communities may not always use the 'inclusive business' terminology, they typically share the objective of enhancing businesses that are pro-poor and have accumulated long-standing experience in a variety of strategies to achieve this. Taking such a global perspective on policy options for inclusive business not only serves to identify trades-off, mixed evidence and opposing views on 'best practice' that practitioners may face and should be aware of; it also serves to identify practical lessons learnt and synergies between different approaches. The ultimate objective is twofold: informing and enhancing programming decisions and stimulating nuanced and evidence-based high-level policy discussions, such as within the G20 Platform on Inclusive Business. As an umbrella organisation for private sector development approaches, the Donor Committee for Enterprise Development (DCED) is uniquely placed to achieve these objectives: it acts as a neutral knowledge broker, and does not promote any agenda or approach in particular.

Clarifying key concepts: Business environment reform and inclusive business

As a basis for reviewing reform options, it is necessary to unpack the key concepts underlying this paper, starting with inclusive business. There is still some disagreement as to how inclusive business models can be clearly distinguished from others. While inclusive business is generally seen to benefit the poor as clients, suppliers, distributors, employees or producers, various other defining criteria are still debated. These include

- what types of organisations (e.g. for-profit or non-profit organisations) can be considered as inclusive business or using inclusive business models;
- how central the 'inclusive' activity has to be to core business;
- whether there are any quantitative or qualitative threshold criteria for inclusiveness (e.g. targeting a minimum number of poor people, benefitting a certain share of poor people as part of the total target group, or achieving minimum improvements in incomes or access to service of the poor);
- whether inclusiveness has to be a conscious business intention and priority; and
- if inclusive businesses need to achieve more than direct benefits for the poor, e.g. environmental sustainability.

For the purpose of this paper, the following definition of inclusive business is chosen: Private sector companies with business models or activities that pursue commercial viability and that have (or are likely to have) significant economic and/or social benefits for poor people in their value chains. Similarly, where the term 'inclusive growth' is used, this refers to sustainable economic development which provides increasing opportunities for the poor to benefit from improved access to products and services, and/or productive income and employment.

Broadly speaking, the business environment is defined by a range of context-specific factors that affect business activities - and that are set or shaped in many ways by governments. However, rather than looking at government policies as a straightforward suite of options, it is useful to differentiate areas of activity which require different sets of expertise and are underpinned by distinct 'philosophies' about good practice.

The Business Environment Working Group of the Donor Committee for Enterprise Development (DCED) has defined *ten functional areas of business environment reform*: These are measures to reduce the cost and risk for all businesses and to increase competitive pressures through new entry (e.g. making it easier to register, obtain licences, pay taxes or access finance).

The inclusive business literature frequently refers to additional measures, which can be described as *wider government policies and strategies*. These include overarching policy and institutional frameworks (e.g. competition policy) – which resonate with the principles of functional business environment reform; and different types of 'interventionist' measures, which instead favour certain businesses, activities or sectors over others (e.g. targeted subsidies).

Seven key issues and debates – and an in-depth review of practical examples

These concepts provide the basis for framing discussions and practical experiences on how to create an enabling environment for inclusive business. Scoping the literature suggests that there are *seven key questions and debates* regarding policy-level barriers and solutions for inclusive business. While the wide range of potential inclusive business sectors and activities mean that evidence cannot be exhaustively reviewed, academic and practitioner publications reveal a *substantial amount of practical examples, evidence, lessons learnt and concrete programming advice* which are systematically integrated into the discussion of each question.

A. Functional areas of business environment reform

The first three questions and debates relate to functional areas of business environment reform and wider policies with similar objectives.

1. First, are key constraints and solutions in the functional areas of business environment different for inclusive business compared to any other business? An analysis of practical experiences in each area reveals that most elements reforms as currently implemented can be expected to make it easier to 'do business' in general, and therefore also benefit inclusive business. Examples include regulatory changes to improve access to credit, land titling and leasehold reform, streamlining tax requirements or making it easier to advocate for reform through public-private dialogue.

There are two important qualifications:

- Some reform areas seem to be *particularly relevant* for inclusive business and thus warrant special policy attention. For example, inappropriate or missing quality standards can represent a binding constraint to introducing or scaling inclusive technologies or services. Public-private dialogue to advocate for reform can be highly beneficial, especially if inclusive business depends on substantial reform of government-controlled sectors or there is a need to raise government awareness of specific inclusive business constraints.
- Secondly, typical reform packages are *not always sufficient* to create enabling conditions for inclusive business. Even where licensing regimes are streamlined and improved, they may not cater to highly

innovative operational models, in particular in sectors that may allow only limited private sector participation in the first place (e.g. energy or health). Work at sector-level or with individual businesses will often be required to identify such constraints. Another example is the need for specific legislation that allows inclusive business to access new forms of finance (e.g. impact investment) or to act as providers of finance to the poor (e.g. mobile and agent banking regulations).

2. Common policy prescriptions include sector-wide de-regulation and removal of inhibitory laws, as well as new rules and regulations. How may these be prioritised or sequenced for inclusive business development? Experience suggests that such priorities are highly specific to context, the structure of target sectors and the nature or stage of the inclusive business model. At the *macro level*, an initial step is to improve overarching institutional frameworks for private investment and innovation with elements of both liberalisation and new regulation (e.g. opening sectors to foreign investment and issuing supporting legislation; developing competition policy frameworks). Allowing pioneer businesses to enter specific sectors with inclusive growth potential (e.g. agriculture, health, electricity) very frequently requires prioritising de-regulation of government-controlled systems or removal of other overly stringent regulations stifling market entry. The growth and sustainability of inclusive market entrants then often requires new regulatory initiatives – to protect consumers or to ensure fair prices, for instance. While enabling inclusive business in least developed countries is likely to require work at all levels at the same time, programmes in other developing economies may be able to focus more on sector- and business-specific reforms for inclusive business development and growth.

Overall regulation is multi-dimensional and complex and will need to change over time. As such, there are few regulatory choices that always work. For example, governments may need to restrict competition temporarily and where necessary to help innovative businesses re-coup their upfront investment. Similarly, trademark protection can stifle or encourage inclusive business, depending on the context and level of development.

3. In the context of new regulatory frameworks, several inclusive business advocates argue in favour of creating special legal forms in corporate law for business or voluntary 'accreditation' systems. Are these measures an effective way to promote inclusive business? Evidence is still lacking on the effectiveness of this policy tool and views vary on whether special statutory forms can make it any easier to defend inclusive business activities internally or to shareholders; or whether they make it easier to attract government, donor or investor support, compared to alternative policy options. A separate DCED briefing note on corporate structures and governance and how they affect social impact explores this question in more detail.

B. Wider government policies and strategies

While regulatory reform appears to have a central role for inclusive business development, various examples demonstrate the need of complementary measures. More generally, many communities of practice in PSD would argue that regulatory reform is necessary but not sufficient to achieve inclusive growth. The inclusive business literature is rich in references to industry- or firm-specific government measures such as subsidies, tax waivers or preferential public procurement.

4. The question of the appropriate level and type of selective government interventions is however one of the most hotly debated ones in PSD. In particular, there is potential for tensions between interventionist approaches and typical business

environment reforms, which are competitively neutral. Many consider targeted support to sectors and business as essential to development, but for others it is prone to government failure and mismanagement. In practice, experience shows that badly targeted or managed government subsidies can act as a barrier to long-term inclusive growth, while some well-designed and -monitored incentives to productive sectors or business can be highly effective policy tools.

A key implication is that inclusive business programmes can learn from research on the risks and opportunities of industrial strategy, but so far interaction between these communities has been limited. In particular, in line with DCED guidance on this issue, strategic or 'horizontal' industrial strategy and business environment reform can be compatible and mutually reinforcing. Lessons from strategic industrial policy include the importance of a clear economic rationale for any subsidies, soliciting policy feedback through public-private dialogue, making support time-bound and dependent on results, and favouring sub-sectoral activities over individual firms. A detailed list of suitable types of support is included in the main text.

5. **Among interventionist strategies, traditional approaches to industrial strategy have focused on allocating and managing incentives based on the economic performance of firms (e.g. productivity or export growth).** In many emerging and industrialised economies, these approaches have been an effective means to lift people out of poverty, in particular by creating direct employment opportunities for the poor. Some in the inclusive business community now suggest a different approach to industrial strategy whereby government incentives would be awarded and managed primarily based on social impact. One example of an initiative to achieve this is the inclusive business accreditation system in the Philippines.

Based on experience, should inclusive growth programmes focus on the economic performance or social impact of businesses as the main criterion for support? While it is unclear whether strategies prioritising social impact would replace or simply complement other industrial strategies, it is a legitimate question how governments can deploy resources in the most strategic way for poverty reduction. Some researchers suggest that using social impact as the main criterion for targeted incentives could actually reduce aggregate productivity and thus undermine inclusive growth prospects. There are however programming options that could avoid such trades-off and meet both social and economic objectives in a scalable way. These include:

- Supporting governments in nurturing sectors with high productive growth potential which are also labour-intensive, and managing support based on economic performance;
- Promoting decent working conditions and labour standards in these sectors;
- supporting sectoral regulatory reform to make it easier for businesses to invest in labour-intensive manufacturing and productivity enhancing practices in agriculture; and
- complementing existing industrial strategies with sectoral support programmes to increase backward linkages between the beneficiaries of state incentives and local suppliers or intermediaries that involve the poor in their work.

6. **Specific interventionist strategies which receive a fair amount of attention in the inclusive business literature are mandatory rules and preferential contracting criteria on inclusiveness. Can these be considered as an effective means to promote pro-poor growth?** Evidence suggests that mandatory inclusion rules, for example local sourcing requirements for supermarkets, should be avoided as they tend to work against private incentives, raise the cost of doing business and don't yield the desired effects. Alternative approaches, including market-based solutions

(e.g. access to information about small suppliers), are likely to be yield better results. While the role of preferential public procurement for inclusive business is unclear, there is some evidence on a positive impact of government contracts on firm growth (including outside government) and new hires from the informal sector.

C. Cross-cutting issues

7. Based on the options for business environment reform identified, what role can different types of PSD programmes play in promoting favourable conditions for inclusive business? It seems that different programmes have different comparative advantages in creating an enabling environment for inclusive business.

Donor-funded advisory and advocacy programmes engaging directly with government are particularly suitable to address cross-sectoral or other fundamental constraints to private investment, including inclusive business. Within such programmes, it is often possible to follow established good practices and experiences elsewhere to help design new regulatory and policy frameworks for partner governments. In addition, successful examples industry-led advocacy alliances suggest that these are a useful option to address widely known inclusive growth constraints at sectoral level.

Approaches starting at the level of markets and sectors, such as market systems development programmes, are particularly suited to address policy and regulatory constraints for inclusive business models that are not usually covered in national reform packages, or that are outside their scope due to the innovative approach of the business. There are two important reasons for this. First, the bottom-up approach of market development programmes, which starts with a thorough analysis of sectoral constraints to inclusive growth, allows such programmes to spot sector- and innovation-specific business environment barriers. Second, these programmes typically pursue a variety of interventions at the same time (e.g. supporting regulatory reform to enable direct sales from fertiliser companies to farmers, but also supporting companies to train farmers in how to the use of fertiliser); many examples illustrate that this multi-level approach is critical for inclusive business development.

While business environment reform is not typically within their mandate, some partnership funds and facilities have grasped opportunities to help individual partner businesses engage at the policy level in order to address binding constraints to their business model. Partnership funds and facilities are more likely to play such a role if they have a strong focus on innovation and if they have in-country staff to facilitate such efforts. In these cases such programmes could play a more prominent role in flagging issues and facilitating reforms which ware not on the radar of other donor-funded initiatives. Where staff capacity is too limited, partnership facilities could become more strategic about collaborations with other PSD programmes to address business environment reform needs.

Regardless of the approach chosen, one useful transferable lesson from business environment programmes is the importance of analysing and navigating political economy factors that influence reform; programmes that ignore such factors have often failed. Yet, political economy issues have not received much attention in the inclusive business community so far. In practice, there can be strong disincentives among both government and inclusive business to engage in certain reform efforts – for instance if they imply a withdrawal from subsidies from incumbent enterprises (state-owned or private) or encourage market entry of competitors. Incorporating existing advice on political economy analysis and reform management, by the DCED and others, into inclusive business programmes could therefore be instrumental in anticipating such constraints, generating reform buy-in or informing a change of partners in the reform process.

Overall, this paper shows that the enabling environment for *inclusive* business is a complex topic that cannot easily be addressed based on generic guidance and checklists.

- While many regulatory reforms and government policies to stimulate private investment are likely to benefit inclusive business as well, the market entry and scaling up of innovative inclusive business models will often require tailor-made government responses, based on an assessment of the target sector and the needs of individual businesses.
- Improved exchange of lessons learnt between the inclusive business community and other groups such as business environment reform, market systems or industrial policy practitioners, could inform the choice of the most effective government responses.

The reform and policy options identified in this paper, as well as suggestions of further research are included in a summary table in Annex 1.

Next steps

As part of its mandate to learn about the most effective ways of promoting economic opportunities for the poor, the DCED is keen to further advance practical knowledge exchange on the key questions identified in this paper. As a possible way forward, the DCED will explore member interest in organising a debate event in 2017 with donors, researchers and practitioners.

Introduction

The potential role of inclusive business as a 'driving force for inclusion and sustainability and to contribute to the effective implementation of the Sustainable Development Goals'[1] is now a major focus of attention of donor and development agencies. As pointed out by the G20 Development Working Group on Inclusive Business, donor governments can play a critical catalysing role by "enabling inclusive business through [appropriate] policies, approaches and good practices"[2] – and there is a strong drive to find out what these practices should and should not consist of. Within the Donor Committee for Enterprise Development (DCED),[3] the Business Environment Working Group is particularly interested in learning how a country's business environment can be improved in order to allow inclusive businesses to start up and grow.

What is already known – based on feedback from inclusive businesses themselves – is that the enabling environment can critically influence their engagement with low-income markets. In 2012, Accenture surveyed 56 Australian companies working to alleviate poverty overseas through commercial approaches; 43% named effective regulation as a crucial factor in their success.[4] Citi Foundation (2014) surveyed 40 large companies active in 8 regions across the world and found that "a complicated regulatory or policy environment" is one of the most frequently cited barriers to adopting inclusive business models.[5]

[1] G20 Inclusive Business Framework (2015), p.20.
[2] Ibid.
[3] The DCED is the forum for 22 bilateral donors, UN agencies and one private foundation for learning from experience about what works and what doesn't in creating sustainable economic opportunities at scale for the poor through the private sector. Its website at www.Enterprise-Development.org is also a leading source of knowledge on private sector development and engagement.
[4] Accenture (2012): Busines in Development Study.
[5] Citi Foundation et al. (2014): Growth for Good or Good for Growth? How Sustainable and Inclusive Activities are Changing Business and Why Companies Aren't Changing Enough.

More specifically, Koh et al. (2014), who surveyed 37 businesses serving the poor in Asia, Africa and Latin America, found that at least half of them felt constrained by the following three business environment issues:

- Inhibitory laws, regulations and procedures (65%);
- absent/ ineffective standards (63%);
- inhibitory taxes and subsidies (49 %).[6]

What is less known is: In what way, if at all, do these constraints differ from those faced by other businesses in developing countries? Answering this question is a core interest of many agencies working in private sector development (PSD): While a growing amount of research is coming out on this issue[7], there are still conceptual and practical challenges in choosing policy instruments that specifically help to create an enabling environment for *inclusive* business. Why is this so?

For a start, there seem to be a variety of views within the inclusive business literature on what counts as an inclusive business or what exactly the business environment consists of. This makes it difficult to extract consistent and systematic lessons on effective approaches.

Another limitation is that practical examples of business environment reform for inclusive business are quite dispersed and often anecdotal. Part of the reason for is that many flagship programmes on inclusive business typically don't have an explicit or strong focus on business environment reform. Instead, well known inclusive business initiatives focus on

- 'soft' incentives for individual inclusive businesses such as peer learning, networking

[6] Koh et al. (2014): Beyond the Pioneer. Getting Inclusive Industries to Scale.
[7] Notably by BMZ/ GIZ, UNDP, the G20 Development Working Group, IFC, Endeva, and The Practitioner Hub for Inclusive Business, among other organisations.

and high-visibility recognition (e.g. G20 Challenge on Inclusive Business Innovation, Business Call to Action);

- technical advice to inclusive business models, either as directly as part of application-based facilities or value chain development programmes, or through a service offering linkages with advisory service providers (e.g. Business Innovation Facility pilot and the Business Innovation Facility; UNDP Inclusive Market Development initiatives; Inclusive Business Accelerator);
- access to finance for inclusive business, either through direct support or by linking up businesses with suitable investors (e.g. IFC Inclusive Business Bonds, Inclusive Business Accelerator); and/or
- global or national-level advocacy, dialogue or knowledge sharing about the value of inclusive business in general (e.g. UNDP Growing Inclusive Markets Initiative and African Facility for Inclusive Markets).

As a result, it has been difficult so far to draw systematic evidence-based lessons from these programmes on how to promote business environment reform for inclusive business.

A compounding factor is that much of the inclusive business literature has so far been somewhat disconnected from the language, approaches and debates influencing other communities of practice in PSD. This includes business environment reform – a community which, like others, has a long-standing record in defining this field of work and learning from experience about 'what works'. Exploring lessons learnt by other PSD practitioner groups could therefore provide a constructive avenue for identifying relevant policy options and synergies between different approaches.

This scoping paper has been initiated by members of the DCED Business Environment Working Group to address these issues. Specifically, the paper aims to add value to existing literature by:

1. *Framing the topic for PSD practitioners:* Based on a review of existing definitions, the first section will propose concepts of inclusive business and the business environment that are practical and relevant for programmes promoting economic opportunities for the poor through the private sector.
2. ***Providing an accessible synthesis of experiences, debates and practical implications for programming:*** In an effort to link different strands of the inclusive business literature with different communities of practice in PSD, the main part of the paper will then explore areas of consensus and debates on what an appropriate business environment for inclusive business is and how it can be achieved in practice. In doing so, the section will summarise and signpost academic evidence and actual experiences of inclusive businesses and programmes that support them (including those that are not explicitly labelled as 'Inclusive Business' initiatives).

1. Defining inclusive business and the business enabling environment for private sector development practitioners

1.1 Inclusive Business

Creating economic opportunities for the poor in developing countries through the private sector has been a priority for many donor and development agencies for decades. While views on the exact reasons for the growing focus on 'inclusive business' support in particular vary, three key factors can be pointed out:

(1) Seminal research papers highlighting business opportunities at the bottom of the pyramid have gained traction with the development and business community alike.[8]

(2) International companies have discovered the importance of low-income markets for their long-term business strategy – to diversify their supply chains, establish themselves among the first-movers in emerging economies, and to appeal to responsible consumers in the developed world.

(3) Thirdly, as a result of their search for sustainable and scalable solutions to poverty as well as shrinking aid budgets, donor agencies have increasingly turned to the private sector as a partner (and not just recipient) in development cooperation. The 2030 Agenda for Sustainable Development confirms this by stating that "private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation" and calling on all businesses to help solve sustainable development challenges.[9]

Working with and through business in development cooperation requires donor agencies to define what the right kinds of partners in the private sector are: they have to be worthy of public support by delivering sustainable results for the poor and not posing any major developmental and reputational risks. While donors have generally been rather specific in defining exclusion criteria to avoid partnering with unethical business, it seems that agreeing on a positive concept – that of 'inclusive business' – has been more challenging so far. As noted by Bauer (2016),

> *"there is still a lot of confusion about what [inclusive business] is, how it addresses the poor, and how it works."*[10]

It is widely agreed that a defining feature of all inclusive businesses is their impact on the poor:

> *"'(They) tangibly expand opportunities for people at the base of the economic pyramid (BoP) [by engaging them] (…) as producers, suppliers, workers, distributors, or consumers."*[11]

There are however many nuances in existing definitions, and these can have important implications on how donor support is designed and targeted.

The institutional nature and mission of inclusive business

One important nuance concerns the types of entities considered as inclusive business. According to the predominant view, inclusive business refers to a "profitable core business activity"[12] of a private company, with the commercial motivation being fundamental "to ensure that business involvement in enabling sustainable livelihoods is both scalable and replicable"[13]. Others, however, also consider "not-for-profit organizations that use business approaches"[14], or social enterprises re-investing their profits, as forms of inclusive business. Some even stress that the institutional background "is

[8] E.g. Prahalad and Hart's book "The fortune at the bottom of the pyramid" (2002).
[9] Transforming our world: the 2030 Agenda for Sustainable Development

[10] Armin Bauer (2016): Clarity matters in Inclusive Business. Blog post on The Practitioner Hub for Inclusive Business
[11] Practitioner Hub for Inclusive Business: What is Inclusive Business?
[12] E.g. The Practitioner Hub for Inclusive Business.
[13] WBCSD website.
[14] E.g. Growing Inclusive Markets (n.d.): MDG Report.

insignificant for the approach per se", which can develop at the initiative of for-profit, non-profit or even public actors.[15]

Without discounting the developmental value of such approaches, it is important to recognise that different types of institutions face different types of opportunities and constraints.[16] Given that this scoping paper takes a particular interest in ways to generate commercially sustainable economic opportunities for the poor, it will focus on business environment constraints to profitable core business operations of privately owned entities. Indeed, the term 'inclusive business' is already quite clear in its focus on *business*, rather than other organisations or activities.

Centrality of inclusive business line(s) to the company

In addition to distinguishing social enterprises and for-profit inclusive businesses, the G20 Inclusive Business Framework adds another important qualification: how central inclusive business is to the company overall. In total, it proposes three inclusive business categories:

- *Inclusive business models*, which integrate the poor across their core business operations and seek to achieve commercial viability, typically expecting market rates of return.
- *Inclusive business activities,* which also include poor people into a company's value chains, but are not central to the commercial viability of the company nor do poor customers, producers or employees represent a major part of their business; companies sometimes expect such activities to achieve market rate of returns, but often accept below-market returns; and
- *Social enterprise initiatives*, which primarily pursue improvements in the economic and social well-being of the poor and reinvest most profits into the enterprise; some social enterprises receive external support and would not be financially viable without it.[17]

How CSR and shared value initiative fit in the picture

Bauer (2016) suggests two further (sub-) sets of initiatives[18] – which he does *not* consider as inclusive business:

- *Corporate Social Responsibility (CSR) initiatives*, i.e. projects that are separated from the core business of a company and not expected to yield commercial returns or large-scale benefits for the poor; in some cases, they however be used to test and develop new core business model that will be central to the company's commercial strategy in the long run; and
- *Shared value initiatives,* which, according to Bauer, extend business lines to low-income populations through small adaptations but without "building innovations from an understanding of the poor's problems" or providing "a systemic solution".[19]

Others however see 'shared value' as synonymous or integral to inclusive business: According to RIB Asia (2015), for example, shared value initiatives "address social needs in a way that is commercially viable" and successful inclusive business strategies create shared value.[20]

In line with a focus on sustainable economic development, this paper will focus on measures to support companies in the first two categories of the G20 framework– the ones that pursue inclusive business models or inclusive business activities, especially those that can be expected to generate market returns in the medium to

[15] UNDP (2010): Brokering Inclusive Business Models, p.9. Similarly, GIZ (2014) notes that "many NGOs are also increasingly using IB models to secure social improvements for their target groups in a financially sustainable manner" and that IB models are potential tools for both the private sector and NGOs."
[16] See also UNDP (2010).
[17] G20 (2015): Inclusive Business Framework.
[18] Armin Bauer (2016).
[19] *Ibid.*
[20] RIB Asia (2015): Creating Shared Value through Inclusive Business Strategies.

long term. This can include initiatives labelled as 'shared value', if they are similarly defined.

Dividing lines between 'inclusive' and 'non-inclusive'

A final important question is how exactly to draw the line between 'inclusive' and other business operations in developing countries[21]. In fact, "virtually any business ... can help a country develop, whether through taxes, employment, market expansion or technology transfer." Yet, inclusive business is generally considered to "go further"[22] and beyond "business as usual"[23]. What this means in practice is not always clear. Some stress that "not even all companies engaging the poor are inclusive [as they] not create systemic impact on their living conditions"[24]. There is also no consensus about the need for any quantitative or qualitative threshold criteria for inclusiveness. Do businesses have to reach a minimum number of poor people or a specific percentage of poor people among total beneficiaries? Could an oil company count as inclusive? The poor often rely on petrol, diesel and/or paraffin for their livelihoods.

An attempt to quantify the difference between 'inclusive' and 'non-inclusive' is made by Rogerson et al (2013)[25]: they consider a business as 'social' if they have a target group of more than 1,000 people that include at least the same share of poor people as the surrounding region and improve product access or incomes for the poor by at least one-third as compared with alternative products or income sources.[26] Any such threshold would however make the concept of inclusive business quite static, and imply that many small or medium sized enterprises could not qualify as inclusive. Grytz and Bauer (2016), meanwhile, claim that inclusive business models need to be consciously designed to "generate decent income opportunities with higher returns for the poor than the market rate, or provide relevant and affordable services and products that address their social needs."[27]

Business drivers as a defining feature? Targeting of the poor versus commercial opportunities

The requirement of 'conscious design' as a defining feature of inclusive business is however questionable, as many business models with significant benefits for the poor in their value chain have been designed first and foremost with a commercial objective in mind.

- There are numerous examples of this from partnership or market development programmes, where partner companies have spotted a business opportunity, and receive donor support because this opportunity also involves significant benefits for the poor. Yet, poverty reduction was not a primary motivation for the business. For example, a hardware company in Fiji supported by a donor programme considered that importing higher quality and more varieties of seeds than available locally would be a commercially promising new business line. In effect though, selling such seeds at affordable prices to small farmers will have positive impacts on their yields and income, implying that the business model is inclusive.[28]
- Other business models have only evolved into a pro-poor solution over time. For example, when mobile networks where initially set up in Africa, they primarily served the middle and upper classes; however, when prices of mobile phone telephony went

[21] See for example Elise Wach (2012): Measuring the 'Inclusivity' of Inclusive Business, IDS.
[22] Business Innovation Facility: Briefing Note. What is Inclusive Business?
[23] Armin Bauer (2016).
[24] Ibid.
[25] Andrew Rogerson et al. (2013): Mixing business and social. What is a social enterprise and how can we recognise one?, ODI.
[26] See also DCED (2014a): Private Sector Development Synthesis Note: Current Debates on Inclusive Business.
[27] Mareike Grytz (2016): What role does government play in inclusive business in Asia. Blog post on the Practitioner Hub for Inclusive Business.
[28] See the example of KK Hardware, supported by the Market Development Facility here and here.

down a few years later, it became widely accessible to poor populations – with significant benefits to their ability to access markets and achieve better prices, and laying the basis for further pro-poor innovations, such as mobile banking.[29]

Hence, it is at least debatable whether or not a conscious prioritisation of pro-poor impacts is always appropriate to define an inclusive business. In addition, many companies may even consciously include the poor in their business without actually considering themselves as inclusive businesses.[30] Other defining are also being discussed. FAO, for instance lists flexible trading arrangements (e.g. cash on delivery), skills development, and support to producers' collective bargaining, among others, as defining criteria of inclusive business. For some authors, inclusive business also need to have positive environmental impact, while others note the tensions between helping poor consumers and environmental impact, such as increased waste from products in small packages.[31]

Connecting the dots: Definition of inclusive business used in this paper

It is however beyond the scope of this paper – and the current capacity of many PSD programmes – to develop such a detailed picture of a companies' actual or potential 'inclusiveness'. Based on the discussion above, this paper will define inclusive business as follows:

Inclusive Business Definition	Privately owned companies with business models or activities that pursue commercial viability and that have (or are likely to have) significant economic and/or social benefits for poor people in their value chains.

[29] FAO (2015): Inclusive Business Models. Guidelines for improving linkages between producer groups and buyers of agricultural produce.
[30] GIZ (2013): Inclusive business models Options for support through PSD programmes.
[31] Ibid.

1.2 Functional Areas of Business Environment Reform and Wider Government Strategies

In its broadest sense, the business environment is a range of context-specific factors that have an impact on business activity – and that are set or shaped in many ways by domestic governments. Yet, most inclusive business publications do not explicitly define what exactly the business environment is or isn't; instead, many authors list different sets of policies and conditions that can act as barriers or enablers of inclusive business.

Views on the business environment from flagship inclusive business publications

Endeva (2013) set out four types of government tools to support inclusive business, which have also been adopted as part of the G20 Inclusive Business Framework. Each of these tools can be implemented with facilitative or '*enabling*' measures, more interventionist or '*encouraging*' instruments, or by '*empowering*' poor people to engage with companies. They include:

- Providing information;
- Setting rules;
- Giving access to financial resources; and
- Building infrastructure and capacity.[32]

UNDP (2013)[33] proposes similar categories that make up the 'ecosystem' for inclusive business, including information, incentives, financial investment and implementation support.

GIZ (2014) names infrastructure, knowledge and skills among the poor, as well as regulatory and legal environments among some of the key factors influencing inclusive business operations.[34] The report also specifies a range of measures at policy level that can create the

[32] Endeva (2013a): Inclusive Business Policies. How Governments can engage companies in meeting development goals, BMZ.
[33] UNDP (2013): Realizing Africa's Wealth: Building Inclusive Businesses for Shared Prosperity.

[34] GIZ (2013).

conditions for inclusive business to thrive, including:

- Building innovation systems that facilitate exchanges between academia, the private sector and responsible government actors for inclusive business development;
- Devising adequate protection policies for poor consumers, in particular in sectors that have been deregulated in order to allow greater participation of inclusive business (water, health, education, energy)
- Implementing a smart competition policy to enable market entry of innovative business;
- Implementing fiscal and other redistributive measures, e.g. through preferential public procurement or subsidies; and
- Developing a conducive regulatory environment, in particular at sector level.

This brief review of selected inclusive business reports gives just a taste of the wide range of government approaches proposed for creating an enabling environment for inclusive business. Interestingly though, policy prescriptions don't typically consider important trades-off and opposing views on 'best practice' that often underlie these different approaches. There is also a need to structure approaches in order to review evidence on results and to narrow down effective policy options for practitioners. It is therefore useful to look at how PSD practitioners active in business environment reform, define this field of work. As a result of extensive consultations, the DCED's Business Environment Working Group has developed Practical Guidance on Supporting Business Environment Reforms[35], which are defined as

> *"a complex of policy, legal, institutional and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy as well as the institutional arrangements that influence the way key actors operate (e.g. government agencies, regulatory authorities, business associations etc)."*[36]

According to the DCED's multi-donor guidance, business environment reform aims to improve the functioning of *all* business by reducing business costs and risks caused by poor or changing government policies, laws and regulations, and by increasing competition by stimulating new market entrants.[37] In the words of Endeva (2013a), these measures tend to 'enable' or 'facilitate' all business, rather than 'encouraging' or 'empowering' specific market actors or activities.

Specifically, the DCED's Practical Guidance names nine sets of measures which represent 'functional areas of business environment reform'.[38] In addition, the Business Environment Working Group recognises that the "design and reform of quality infrastructure systems has become increasingly recognised as a critical element of an enabling business environment" and published complementary guidance on this.[39] Quality infrastructure refers to the "policy and institutional framework that governments establish to provide evidence that products and services meet the requirements set by regulatory authorities and the market place." For the purpose of this paper, the development of appropriate quality standards as a 'regulatory' element of the quality infrastructure will be considered as the tenth functional area of business environment reform:

[35] DCED (2008): Supporting Business Environment Reforms. Practical Guidance for Development Agencies. Many complementary guidance documents have also been subsequently developed, e.g. on business formalisation, quality infrastructure development or support to industrial sectors. All relevant publications are available on the DCED Website.

[36] DCED (2008), p.3.

[37] DCED (2008), p.4.

[38] DCED (2008), p.14.

[39] Annex to the DCED Practical Guidance on Quality Infrastructure (2014); the Annex is based on an in-depth DCED working paper on the topic.

1. Functional areas of business environment reform	
	1. simplifying business registration and licensing procedures; 2. improving tax policies and administration in ways that minimise unnecessary costs to business and optimise public benefits (e.g. simplifying processes for paying taxes, avoiding excessive taxation, enhancing tax compliance) 3. enabling better access to finance; 4. improving labour laws and administration; 5. improving the overall quality of regulatory governance and frameworks; 6. improving land titles, registers and administration; 7. simplifying and speeding up access to commercial courts and alternative dispute-resolution; 8. broadening public-private dialogue processes with a particular focus on including informal operators; 9. improving access to market information; 10. developing appropriate quality standards

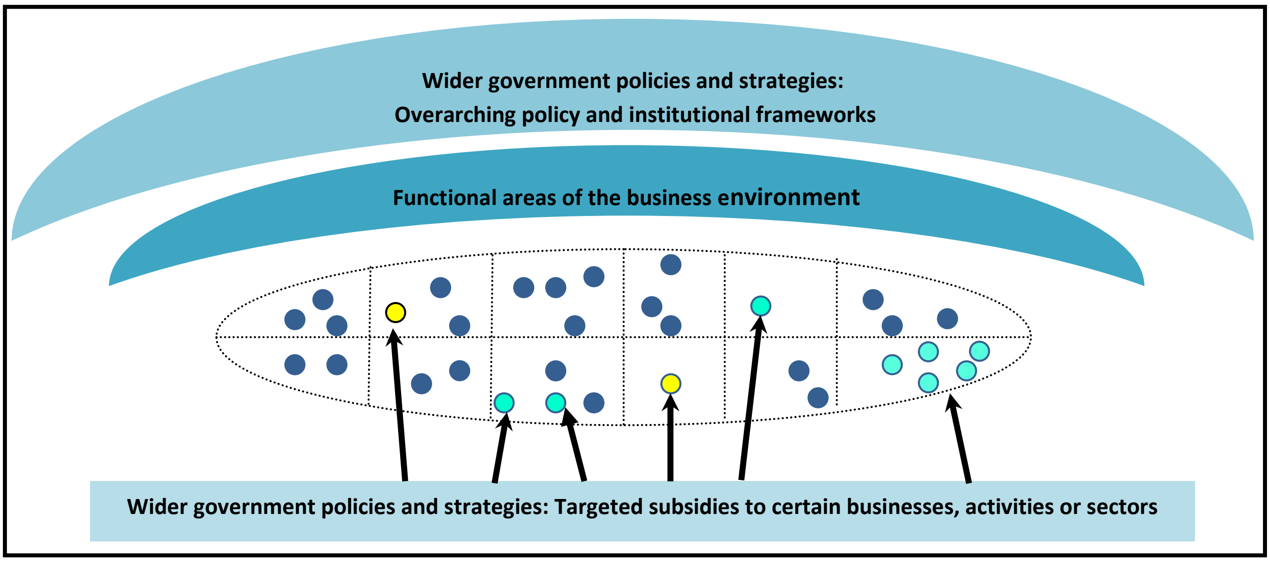
In addition to these functional areas of reform, there are also many other types of government initiatives that are of possible relevance for inclusive business; it is likely though that in practice, they require different sets of expertise and/or will often be part of different types of programmes than the above-mentioned measures. They may also sometimes be at odds with the principles and objectives of functional areas of business environment reform. In this paper, they will therefore be explored separately, as 'wider government policies and strategies'.

Wider policies and strategies can be seen to comprise two different types of activities:

2. Wider government policies and strategies	
	2.1 Improving overarching policy and institutional frameworks with a significant impact on business activity, for example related to competition and innovation policy, and wider quality infrastructure development. These initiatives are compatible with the 'competitively neutral' approach of the functional reform areas.; and 2.2 Implementing 'interventionist' measures that favour certain businesses, activities or sectors over others including • Subsidising particular businesses, sectors or industries; or • Introducing mandatory criteria in public or private sector operations that lead to benefits for the poor.

These three dimensions of the business environment – functional areas of reform according to the DCED, improvements of overarching policy and institutional frameworks, and targeted government interventions – are illustrated in Figure 1 below.

Figure 1: A differentiated view on the business environment

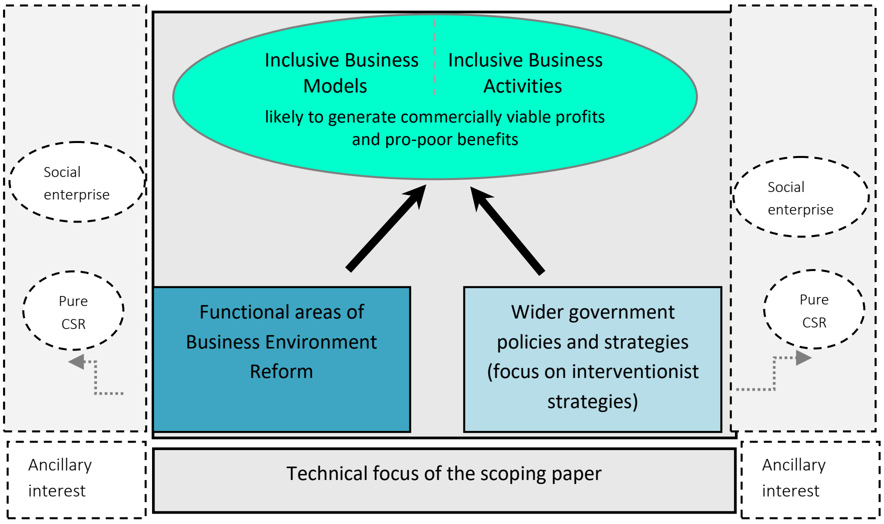


1.3 A practical framework of the enabling environment for inclusive business

Technical focus of this paper

Based on the definitional discussion above, the technical focus of this scoping paper will be as follows: *Functional areas of business environment reform* and, separately, *wider government policies,* in particular interventionist strategies, that can increase the adoption and performance of *commercially viable inclusive business models and activities by privately-owned companies*. Given the wide scope of overarching policy and institutional frameworks, they will not be reviewed in detail. Any government measures that are targeted at other types of entities such as social enterprises or corporate social responsibility activities will only be touched on where significant case studies or lessons learnt exist in the literature. These typically represent only ancillary areas of interest for PSD practitioners, and will therefore be treated as such. This is depicted in Figure 2 below.

Figure 2: Framing the Business Environment for Inclusive Business for PSD practitioners



Issues not within the scope of this framework

A number of issues that affect the enabling environment for inclusive business are outside the scope of this technical framework. These include:

- Government enforcement capacity, although inclusive businesses in rural areas may be particularly affected by a lack of enforcement of laws and regulations (positively or negatively).
- Government measures which can increase poor people's opportunities and capacity to connect to markets – and therefore make it easier for inclusive business to integrate the poor in their value chain. Examples include rural road and infrastructure development; targeted interventions to provide access to finance for the poor; facilitating poor producers' access to knowledge, inputs or technologies; generating demand for inclusive business services through demonstration and awareness raising; or strengthening vocational training in line with private sector needs.

Indeed, most private sector development practitioners would argue that any efforts changes to the regulatory and policy regime need to be complemented by other interventions to promote inclusive business development. The particular objective of this paper is however to develop a better understanding of business environment reform needs for inclusive business – based on the substantial experiences that exist in this specific field of practice.

2. What does it take to create an enabling environment for inclusive business? Lessons from experience and debates on effective practice

This chapter provides a global perspective on areas of consensus and debate among PSD practitioners on what it takes to create an enabling environment for inclusive business. It aims to structure key reform areas and link insights from different communities of practice in order to promote a nuanced discussion on what effective practice might look like:

- In total, seven key questions and debates regarding policy-level barriers and solutions for inclusive business will be explored, in three parts. Each part moves from more general to more specific debates on what it takes to create an enabling environment for inclusive business.
  - The first set of questions focuses on reforms in the functional areas of the business environment, as defined by the DCED.
  - The second set of questions brings in perspectives from wider government policies and strategies.
  - The third part cuts across these two areas and discusses the suitability of different types of donor programmes to identify and promote appropriate reforms.
- Examples of concrete experiences will be referenced in 'evidence snapshots' at the beginning of each section
- This is followed by a discussion, and summary of lessons learnt at the end of each chapter.

Figure 3 below summarises the questions and debates to be explored in this Chapter. By *clicking on the hyperlinks in the figure*, you can jump straight to the relevant sub-section or access brief summaries of for key questions and sub-questions.

Research methodology and limitations

Practical examples, different viewpoints and lessons on effective practice have been identified based on a review of key publications from a variety of research areas, including:

- inclusive business;
- business environment reform;
- market systems development;
- partnerships with business;
- industrial policy;
- and empirical research on inclusive development pathways of emerging and developing economies.
- In addition, targeted keyword search of different reform types and relevant inclusive business sectors has been performed.

An important caveat is that the sheer range of possible inclusive business models, sectors and policy options make it impossible to review existing evidence in an exhaustive way within the scope of this paper. In addition, evidence on the results of reforms could not be readily identified in all reform areas; therefore, experiences of specific policy barriers as well as practical examples of policy interventions (without information on their impact) have also been included in the 'evidence snapshots'.

On the other hand, some government strategies influencing the operational environment of inclusive business are associated with vast bodies of research as well as sizeable practitioner networks (e.g. competition policy); the scoping paper therefore touches only briefly on some of such strategies and signposts to additional material for more detailed discussions on effective practice.

Figure 3: Seven key questions and debates on the business environment for inclusive business

Functional areas of Business Environment Reform

1. [Are key constraints in the functional areas of business environment different for inclusive business compared to any other business?]

Key business environment constraints in developing countries apply to the economy as a whole and are typically not exclusive to businesses engaging with the poor.	Inclusive business models face particular constraints that need to be addressed in addition to general barriers in the business environment.

[Summary 1]

2. [What is the role of new regulation and de-regulation in creating an enabling environment for inclusive business?]

The key priority for inclusive business is to address the issue of gaps in regulation.	The key priority for inclusive business is to address the issue of over-regulation of government-dominated sectors.

3. [Are legislation on special corporate forms or voluntary accreditation an effective way of promoting inclusive business?]

Legislation on special corporate formats facilitates inclusive business operations and serves as a critical basis for targeted public support.	There is no consistent evidence that legal forms influence the formation or growth of inclusive business models.

[Summary 2]

Interventionist strategies

4. [What is the appropriate level and type of selective government intervention vis-a-vis inclusive business? Overview discussion]

Governments should only consider measures that reduce costs and regulatory insecurities for *all* business and that will level the playing field between incumbent market actors and 'inclusive' new entrants (e.g. regulatory reform; innovation and competition policy).	Governments need to consider targeted measures that give incentives to particular industries, companies or poor consumers as their target group.

[Summary 3]

5. [Should targeted support strategies prioritise criteria of social impact or productive growth?]

Pro-poor economic growth requires targeted government strategies for 'inclusive businesses'.	Pro-poor economic growth can only be achieved through a policy focus on high-growth, labour-intensive industries.

6. [Are mandatory rules and criteria on inclusiveness a good solution for pro-poor growth?]

Rules and regulations mandating the inclusion of low-income populations in the business model are an effective way of promoting inclusive business.	'Push' approaches to regulation are likely to be ineffective and distort the market so should be avoided

[Summary 4]

Cross-cutting

7. [What types of programmes are best suited to identify and support suitable business environment reforms for inclusive business?]

Promoting proven policies at government level	Analysing constraints for inclusive growth at the sector level	Identifying growth constraints for individual businesses

[Summary 5]

A. Debates and lessons on functional areas of business environment reform

In this section

1. Are constraints in the functional areas of the business environment different for inclusive business – compared to any other business?[40]	Overview of general debates Business registration, licensing and other essential regulations for business activity Evidence – Findings and discussion Improving tax policies and administration Evidence – Findings and discussion Enabling better access to finance Evidence – Findings and discussion Improving land titles, registers and administration Evidence – Findings and discussion Broadening public-private dialogue processes Evidence – Findings and discussion Developing quality standards and testing infrastructure Evidence – Findings and discussion	Summary of findings
2. Should practitioners focus on introducing special regulation for inclusive business or promoting de-regulation? Evidence – Findings and discussion		Summary of findings
3. Are legislation on special corporate forms or voluntary accreditation an effective way of promoting inclusive business? Evidence – Findings and discussion		

[40] Note that no particular evidence was found on the role of court access or labour regulations. Similarly, the role of access to market information is not reviewed separately, although it is referred to in others ections. Improving access to market information can comprise a variety of activities, for example providing technical assistance to government institutions providing sectoral information to prospective investors (e.g. investment agencies), strengthening internal capacity of business associations to conduct market research, providing access to information and communication technologies, or strengthening linkages and information exchange between value chain actors

2.1 Are constraints in the functional areas of the business environment different for inclusive business – compared to any other business?

2.1.1 An overview of general discussions

A fundamental debate on the enabling environment for inclusive business is whether or not it differs in any significant way from the conditions generally regarded as conducive to private sector activity: Is there really a need for any specific or additional measures in order to enable the creation and growth of *inclusive* business? Before studying the evidence for functional areas of business environment reform, this section briefly reviews key arguments from different strands of literature.

From the traditional, 'purist' viewpoint of supporters of business environment reforms – such as those behind the World Bank's 'Doing Business' indicators – the answer typically used to be *no*: Regulatory reform to reduce the cost and risk of doing business in general is seen to benefit the poor by encouraging entrepreneurs to "enter the market, innovate, invest in physical and human capitals, create productive employment, formalize their businesses, and pay taxes".[41] Policy, legal and institutional arrangements that underpin the functioning of markets and the costs and risks of doing business can allow firms "to grow, create jobs, and reduce poverty".[42] Based on this reasoning, general business environment reform could be seen create direct benefits for the poor (e.g. as employees of inclusive business or entrepreneurs) or to reduce poverty indirectly (through the knock-on effects of economic growth and increasing state revenues more generally).

Even the inclusive business literature is ambiguous about the need for specific regulatory reforms for inclusive business: For example, the recommendation to address regulatory uncertainty in order to reduce the risk of serving poor consumers[43] is not qualitatively different from general wisdom on business environment reform. In fact, as noted by GIZ (2013), most advice on improving the environment for inclusive business is general in nature and includes facilitating businesses registration, improving the enforcement of contracts or access to finance. As such, there is

> *"no consensus yet as to whether Inclusive Business models require a specific regulatory environment at a general, cross-sectoral level".*[44]

There is, however, a lot of research questioning the existence of any causal links between traditional business environment reform and improved market participation of the poor. Sceptics highlight the lack of evidence that standard reform packages "are pro-poor and appropriate to lift the workforce in the informal economy out of poverty".[45] DFID (2015) does not find any direct links between regulatory reform and reduced poverty, although there are some signs of indirect links.[46] Several recent publications suggest that there is a need for more tailor-made reform packages for businesses that include the poor directly in their value chains. The reasons given for this are summarised in the box below.

[41] GTZ (2007): Driving Business Environment Reforms through Private Sector Development Strategies – The Cases of Ghana And Namibia.
[42] DFID (2015): Business Environment Reform and Poverty. Rapid evidence assessment.
[43] GSDRC (2010): Literature review on Inclusive Growth.
[44] GIZ (2013), p.28.
[45] UNIDO & GTZ (2008): Creating an enabling environment for private sector development in Sub-Saharan Africa.
[46] DFID (2015).

Arguments made in favour of a customised approach to business environment reform for inclusive business

1. **Common regulatory frameworks pose particular entry or operational barriers to inclusive business:**
   - According to Monitor Inclusive Markets, "*the most obvious barrier [to inclusive business] comes from laws, regulations and procedures that inhibit the firm from operating its model easily, often because they are designed to regulate mainstream models rather than innovative ones*."[47]
     - This may be because regulations are unnecessarily numerous, making it too costly for inclusive business to comply with[48]. Given that inclusive businesses often already face higher upfront investment costs (e.g. because they operate in remote areas) and take longer to break even, the costs of regulatory compliance may be a bigger financial concern than for other businesses.
     - Regulations can also be unnecessarily restrictive, meaning that even a single regulation could prevent inclusive business operations[49] – e.g. if the business model is entirely new to the economy.
2. **The most binding business environment constraints are often specific to the sectors in which inclusive businesses operate:**
   - The World Bank's 2016 report 'Enabling the Business of Agriculture' notes that although regulations of commercial activity in agriculture are not specific to inclusive business, "*at least some of such sectoral enablers will have a particular role to play for inclusive business*".[50]
   - An IFC survey of 167 inclusive businesses finds that about half of them encountered significant regulatory obstacles to including the poor in their value chains: *"Among the 78 businesses that said regulatory obstacles affect their ability to include the [poor] ..., half operate in agriculture and half in the other sectors surveyed, including retail, housing, health and education"*
   - Similarly, GIZ (2014) points out that much more often than through general business environment constraints, "*inclusive business models are stifled by the sectoral regulatory environment".*[51]
3. **There are some cross-sectoral concerns that may disproportionally affect inclusive business:**
   - Grytz and Bauer (2016) argue that the logic of inclusive business is to create solutions for the poor's problems which are often "cross-sectoral" rather than sector-specific.[52]
     - One example of this is informality, as inclusive businesses across sectors are more likely to engage with unregistered/ informal clients, producers, or suppliers.
   - The above-mentioned IFC survey finds that about across most businesses in the retail, housing, health and education sectors that did face regulatory obstacles, *"access to finance had the biggest effect on their ability to break even, achieve scale and reach more [poor] individuals*" [53]
   - Acumen, Bain and Company (2014) argue that "*predictable taxation and transparent regulation*" had a bigger influence on innovative and risky inclusive business models than on other businesses.[54]

The following two sections will review evidence on national and sector-level barriers and reform for inclusive business in seven of the functional areas of the business environment. The reform areas discussed include:
business registration and licensing; access to finance; taxation; land titling; public-private dialogue; and quality standards. A second sub-section will consider the role of overarching regulatory frameworks for inclusive business.

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[47] Koh et al.(2014).
[48] Stephen Heyneman and Jonathan Stern (2014): Low cost private schools for the poor: What public policy is appropriate? International Journal of Educational Development.
[49] Ibid.
[50] The World Bank (2016): Enabling the Business of Agriculture. Comparing Regulatory Good Practices. The report reviews legal barriers to 10 production inputs and market enablers in 40 countries: seed, fertilizer, machinery, finance, markets, transport, information and communication technology (ICT), land, water and livestock.
[51] GIZ (2013), p.28.
[52] Mareike Grytz (2016).
[53] IFC (2012): Policy Note on the Business Environment for Inclusive Business Models.
[54] Acumen, Bain and Company (2014): Growing Prosperity: Developing Repeatable Models to Scale the Adoption of Agricultural Innovations.

2.1.2 *Interventions related to business registration, licensing and other essential regulations for business activity (Functional area 1)*

Evidence snapshot: Examples of inclusive business experience with registration and licensing barriers and reform

National/ cross-sectoral level

- *Barriers:* In Tanzania, demanding business registration and certification requirements of the Business Registrations and Licensing Agency meant that most SME food processors were unable to adopt food fortification (only registered SMEs were allowed to fortify), which put limits on the availability of fortified food to low-income populations. (IDS, 2015)
- *Reform*: According to literature reviews (Bruhn and McKenzie (2013) and DCED (2014) on registration reform and support on small, informal business, **one-stop shops** increased firm registrations by 5-6% in Colombia and Mexico; **electronic business registration platforms** led to a 20% increase in formalisation in 3 countries; and **monetary incentives** in Sri Lanka helped increase registration rates. Many other types of reform or support had no effect, and evidence is mixed on whether formalised firms change their behaviour or increase their revenues.
- *Reform*: In Tanzania, evictions of informal street vendors increased from 36% to 70% in the first four years after the adoption of new legislation aimed at increasing business registration (Lyons, Brown and Moska, 2013).

Agriculture

- *Reform:* With only one licensed seed importer, Fiji's horticultural sector suffers from lack of sufficient stocks and different varieties of seeds for farmers. Complex licensing requirements of Fiji's Biosecurity are one of the reasons other businesses have not entered this market. The Market Development supported a partner company in obtaining an import licence by facilitating access to information and supporting the company in meeting compliance requirements. (a more detailed case description is available in section C) *(MDF, 2015)*

Health and Nutrition

- *Barriers:* Multiple and complicated approvals required for hospitals in India has been identified as a key regulatory barrier for inclusive business models in health care (IFC, 2014).
- In Senegal, only individuals with a medical licence can register private hospitals with the Ministry of Health; however, medical schools don't teach business administration whereas business school students could not be registered as hospital owners. (Dalberg, 2012)

Financial services *(note: more examples of licensing laws in the financial sector are covered in the 'Access to Finance' section)*

- *Reform*: In Kenya, the government has started to formalise Savings and Credit Cooperatives (SACCOs) with support by the DFID-funded Financial Sector Deepening Programme (FSD). A cross-governmental task force designed the SACCO Societies Act, which included provisions to improve SACCO banking services and protect the shares and deposits of the (largely poor) customer base. (Endeva, 2013a)
- *Reform:* The Mexican government allowed banks to open small bank accounts for people without formal ID cards (Endeva, 2013a)

Education

- *Barriers:* In Tanzania, regulations for private school registration and operation are unnecessarily numerous; where the number and variety of regulations followed, no private school could possibly be set up (Heyneman, 2014).
- *Barriers:* In Kenya, a requirement for private school to own land represents a key barrier for low-cost private providers to register as schools with the Ministry of Education. (Heyneman, 2014)

Energy, water and environmental services

- *Reform:* In Albania, changes in the legislative framework allowed a waste recycling company to pay its small suppliers in cash, which was previously illegal. (Endeva, 2013a)
- *Reform:* In Malawi, the energy sector has been highly regulated and operating license covering the generation, transmission and distribution of energy by private providers did not exist. MEGA, the country's first off-grid hydropower provider which targets remote communities worked closely with the government to agree a new licensing model. This was expected to influence the new Energy Policy so that other businesses could replicate a similar model. (Business Innovation Facility, 2013)
- *Barrier:* A company specialising in the electrification of rural, off-grid villages by combining wind and solar energy with a diesel generator encountered significant delays scaling up of projects in new villages due to cumbersome procedures of the Senegalese government in the granting of licenses and approving a new tariff model. (Dalberg, 2012)

As pointed out by Ngoasong et al. (2015), inclusive businesses can be expected to "face similar legislative challenges as those facing all other businesses in a country" – including "limited support for registering businesses".[55] Indeed, there is anecdotal evidence that business registration and licensing procedures have had an impact on inclusive business operations – both at the national and sectoral level. How could simplified or improved registration and licensing regimes affect inclusive business in particular?

The empirical evidence on *general or national-level registration or licensing reform* on inclusive business is broadly inconclusive. The examples reviewed suggest that there is a stronger case for *assessing reform opportunities from the bottom-up* – based on individual business constraints or sectoral bottlenecks to inclusive business registration and licensing. The table below summarises the empirical findings for three different pathways in which registration and licensing regimes can affect inclusive business.

Scenario 1		**Scenario 2**	**Scenario 3**
As a result of operating in the formal sector, previously informal businesses may grow or change their business model – and create incomes, employment or better services for the poor in their supply chain. This view considers the formalising business itself as a potential inclusive business		Formalisation, or relaxed requirements for informal operators, could make it easier for them to interact with formal market players, e.g. as suppliers. In this case, the company integrating the entrepreneur in its supply chain represents the inclusive business.	A change in licensing regimes may be necessary to enable market entry or growth of innovative, inclusive business.
Cross-sectoral reform: Complex registration requirements can hamper the adoption of inclusive business models (e.g. food fortification by SMEs in Tanzania). Some national-level reforms have had a small positive impact on formalisation, but there is no systematic evidence showing that incomes have increased as a result. Too rigid enforcement of reforms aimed at increasing levels of business registration may have adverse effects on micro-entrepreneurs.	Business-specific reform: In the case of the Informal Savings and Credits Cooperatives in Kenya, formal structures were designed around an informal activity used by the poor to improve their livelihoods and reduce economic risk. As a result of formalisation of the SACCOs, clients now also have access to formal financial services.	Business-specific & sectoral reform: In some cases, *relaxing* regulatory requirements for business operations has been critical to enhance the interaction between inclusive business and the informal sector. Examples include Albania's step to allow recycling companies to pay small suppliers in cash, or Mexico's initiative to enable access to bank accounts for people without an ID card.	Sectoral reform: Licensing reform needs for inclusive business are often sector-specific. Examples include the licensing difficulties of Indian private healthcare providers or off-grid electricity providers in Senegal. While more substantive reform will be needed for some business models (e.g. to allow entry into state-controlled sectors), others would already benefit from the removal of a single licensing rule – such as Kenya's requirement for private schools to own land.

[55] Ngoasong, Michael: Paton, Rob and Korda, Alex (2015). Impact Investing and Inclusive Business Development in Africa: A research agenda. The Open University, Milton Keynes.

2.1.2 Improving tax policies and administration to reduce unnecessary costs to business (Functional area 2)

Evidence snapshot: Examples of inclusive business experiences with tax policy barriers and reform

Agriculture

- *Barriers*: For Fijian exporters in sectors with pro-poor growth potential, the fact that Fiji only has a small industrial sector means that a lot of inputs have to be imported from overseas. Import duties and taxes increase raise their running costs, meaning that they operate below their maximum potential. (MDF, 2015)

Energy, water and environmental services

- *Barriers*: Solar products in a number of African countries are subject to a range of taxes and duties, reducing their affordability and attractiveness in relation to kerosene, which is exempt from these levies and in some cases even benefits from government subsidies. This makes it more difficult for solar lighting providers to scale. (Monitor Inclusive Markets, 2014)

- *Barriers:* Across the 15 countries in the Economic Community of West African States alone, $4 billion is also spent each year subsidising kerosene for lighting, which represent a key barrier for the adoption and scaling of the off-grid lighting market in rural areas (UNEP, 2014).

- *Barriers:* SPEC was the first solar panel manufacturer in West Africa. Tax incentives for imported solar panel were identified as one of the main constraints for SPEC's growth. (Dalberg, 2012) In other African countries, high taxes and duties on solar products make it difficult for solar lighting providers to scale (Koh et al., 2014).

Education: *Note that the barrier described below may be particularly relevant for schools run as social enterprises.*

- *Barriers:* The tax structure in some countries may pose a threat to the financial sustainability of private, low-cost schools. In Tanzania, for instance, all school fees are taxed as if they are profits. In Jamaica, private schools were supposed to receive a waiver from the General Consumption Tax (like a value added tax), but none of them have been made aware of this, hence all paid a GCT as if they were private businesses. (Heyneman, 2014)

Like other companies, inclusive businesses are likely to benefit from simplified tax administration, although this does not receive any specific attention in the literature. There are however two ways in which inclusive business seem to particularly benefit from tax-related reform:

Reducing excessive taxes and duties on inclusive technologies

In certain sectors, there is evidence that excessive taxes and duties on imported technologies or parts can represent a significant cost barrier for inclusive business. A frequently mentioned example are solar lighting products, which are widely considered as having great potential in extending off-grid lighting to poor, rural consumers. In practice, however, actual experiences in reducing excessive tax for inclusive business technologies to acceptable levels, however, don't seem to be widely documented. Instead, subsidies in the form of tax or duty exemptions, or targeted financial support for relevant technologies seem to be more common; as these are outside the scope of the functional areas of business environment reform, they will be discussed in section 2.5.

Removing tax and other financial incentives from incumbent industries that inclusive businesses have to compete with

In the case of solar lighting products, the common government practice of subsidising kerosene can represent an additional barrier for solar lighting providers to offer competitively priced products. In effect, it "hold(s) back the transition to cheaper and cleaner sources of energy" for the poor.[56] When advocating for the removal of tax exemptions (or subsidies) from incumbent industries, careful sequencing of policies is critical. For example, discussions on the removal of kerosene subsidies in Nigeria in early 2016 highlight that sudden price hikes of kerosene could "result in the increased use of even less-clean cooking fuels like coal and firewood by low-income earners"[57]. Hence, a gradual reduction in existing subsidies, coupled with the promotion of cleaner and affordable alternatives will be a more suitable approach in certain contexts.

[56] Solar Aid (2015): Kerosene subsidies – A hidden cost.
[57] VenturesAfrica.com (2016): This is what the removal of kerosene subsidy means.

2.1.3 Enabling better access to finance (Functional area 3)

Evidence snapshot: Examples of regulatory barriers and solutions for inclusive business to receive or provide finance

- *Barriers and Reform:* According to the World Bank, financial systems are more inclusive in countries with branchless banking laws, which cover agent banking (whereby a bank relies on agents that provide services to rural customers through retail points) and mobile banking. Both mobile banking and agent banking offer farmers more economical ways to access financial services so that they do not need to travel far to a bank branch.
  - Of the low-income and lower-middle-in-come countries covered in the report, only 11 regulate agent banking. The report also specifies various good practices in agent banking regulations, and how many countries comply with them, including minimum standards to qualify as an agent; allowing agents to enter both exclusive and non-exclusive contracts with financial institutions and to offer a wide range of services.
  - Of the 28 countries that have regulations on e-money, 16 allow businesses to issue e-money without having to hold a banking license, one of the good practices outlined in the report. While these businesses still need adequate supervision, obtaining a banking license can be costly and is likely to deter innovative actors from entering the market. (World Bank, 2016)

- *Reform:* In Kenya, a loose regulatory structure and a special license from the Central Bank facilitated the success of the mobile banking service M-PESA. A new regulatory regime was developed from scratch to meet the requirements for scaling and supervising this innovative solution. (e.g. WTO (2013))

- *Barrier*: A survey of banking in 4 East African countries identified three priorities for improved SME lending: Reducing high documentation, minimum deposit and/or high collateral requirements. (AfDB, 2012)
- *Barrier:* Commercial banks in the Philippines have been restricted by regulation and their collateral based lending practises and minimum deposit requirements in their ability to reach the BoP. (ASEI, 2013)
- *Reform:* Uganda's Warehouse Receipt System Act of 2006 and Warehouse Receipt Regulations of 2007 have created an enabling environment allowing small farmers to use warehouse receipts as collateral for loans. (World Bank, 2016)

- *Barrier:* Some countries in Africa place significant restrictions on the investment policies of local institutional investors (e.g. retail banks, insurance companies and pension funds) – including restrictions on investing in private equity funds, or outside the country, a preference for large transactions (US$30 mio and above and a avoidance of deals with high perceived risks. These restrictions limit the growth of the impact investing industry (UNDP, 2014)
- *Barrier:* A literature review and field study in Sierra Leone, Cameroon and Kenya highlights that many government authorities are either unaware of the impact investing phenomenon or unsure about the role of government policies in impact investing (Ngoasong et al., 2015)
- *Reform:* In 2015, the US government changed regulations that discouraged pension funds from seeking out impact investments. Previously, impact investments were subject to extra scrutiny, often eliminating them from consideration by pension fund managers. The new rule states that 'fiduciaries may consider (social and environmental) goals as tie-breakers when choosing between investment alternatives that are otherwise equal with respect to return and risk over the appropriate time horizon. (Stanford Social Innovation Review, 2015)

- *Reform:* Until 1991 the financial institutions and banks of Tanzania had been nationalized and there were only three commercial banks. Financial reforms have enhanced the investment climate, enabling 26 licensed banks (both foreign and domestic), to be fully operational in the country. *Note: While such overarching reforms are not inclusive-business specific, they can improve access to finance for all business, and lay the basis for new financial services that are of particular relevance to inclusive business*. For example, non-bank financial institutions (e.g. telephone money transfer services, etc.) are licensed to conduct business in the country. (FAO, 2012 and Finance Maps)
- *Reform:* Research on the inclusive growth of Asian economies such as South Korea and China however suggest de-regulation should not follow too soon. Central bank policies (e.g. rediscounted loans) and government regulations to help the finance industry align with the country's industrial development growth have been essential. (Studwell, 2013)

The regulatory environment in the financial sector can affect inclusive business in two ways: It can make it easy or difficult

1. for inclusive business (and their beneficiaries) to access finance; or
2. for inclusive business to act as providers of financial services themselves.

Enabling access to finance for inclusive business

Financial access is a concern for many developing country businesses, inclusive or not. SMEs in particular often don't qualify for microfinance but are not serviced by banks which prefer bigger and lower risk investments. Wide-ranging reforms of the financial system, including opening up nationalised financial sectors to commercial banks while keeping the state involved in setting appropriate policies and regulatory frameworks can often be a pre-condition for improving access to finance, including for strategic growth sectors. Similarly, specific regulatory changes to facilitate SME lending could also make it easier for inclusive business in that category to access bank loans.

More often than other companies, inclusive businesses do however rely on alternative or additional forms and sources of finance. These include, among others, impact investment funds, crowd-funding or angle investors – all of which allow inclusive business to share risks, take a longer term view on business growth, and to attract larger amounts of financial capital. Regulatory frameworks for such forms of finance do however often lag behind in developing countries. Several studies listed above highlight restrictive or inappropriate regulatory environments for impact investing[58] as a particular constraint to inclusive business.

Few experiences of specific business environment reform for lending to, or investing in, inclusive business could however be identified as part of this review. Examples of general reform recommendations, which may vary in feasibility and effectiveness, include:

- **Awareness raising among governments and banks:**
  - Raising awareness among governments about impact investment and the role of policies and regulations[59]
  - Raising awareness among banks about options for establishing targeted lending programs for inclusive business within existing regulatory frameworks.[60]
- **Facilitating access to market information**:
  - Creating one-stop shops providing access to the most relevant information about investment opportunities and procedures.[61]
  - Increasing market transparency on investment opportunities through social reporting requirements linked to specific legal forms or inclusive business accreditation schemes.
- **Increasing capital supply and investability:**
  - Reducing high documentation, minimum deposit and/or high collateral requirements for SME lending;[62] such initiatives could also help increase inclusive business' readiness for equity investment.[63]

[58] Defined by the GIIN network as "investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return".

[59] Based on Ngoasong et al., 2015.

[60] G20 Inclusive Business Framework.

[61] Ngoasong et al. (2015); In Senegal, for example the Investment Promotion Agency provides information about investment and business opportunities in priority sectors such as agribusiness, fishing, tourism and healthcare (see Dalberg, 2012: Assessment of Impact Investing Policy in Senegal.)

[62] AfDB (2012): Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia.

[63] Lack of investment-readiness is common among inclusive business, e.g. in the Philippines where ADB found that among 100 inclusive business models, only 15 were investment-ready (ADB (2016): Accreditation of Inclusive Business: Pioneering IB Policy in the Philippines. log post on the Inclusive Business Hub). Similarly, in Senegal, the lack of finance and capacity-building services for SMEs in Senegal mean that there are few investment-ready enterprises of interest to impact investors (Dalberg, 2012).

- o Introducing legislation allowing farmers to use warehouse receipts as collateral for loans.[64]
- o Changing regulations that stipulate a high minimum investment size for pension funds or other institutional investors, or that discourage them from seeking out investments with high perceived risk and social and environmental goals.[65]

- **Improving other elements of the business environment that have a direct influence on financial access**, such as
  - o making it easier to register a business (see above), as impact investors or banks cannot easily support informal SMEs; and
  - o deregulating government-dominated sectors that are of high relevance to inclusive business but highly restrictive *vis-a-vis private investors (e.g. health, water, energy or education – see also section 2.3).*

Note that other measures mentioned in the literature focus on interventionist government approaches (see section 2.5) to increase capital supply and demand, such as

- providing credit guarantees to banks, first-loss capital to investors, or investing directly in inclusive business; or
- improving business development services to build financial and managerial skills of businesses.[66] A market development programme In Fiji, for example has collaborated with ANZ to develop a new business model for its SME lending, incorporates advisory services to businesses.[67]

In deciding on reform options, it is also useful to consider possible trades-off arising from a focus on finance catering specifically to businesses with social objectives. For example, a study by Ngoasong et al. (2015) of impact investing in Sierra Leone, Cameroon and Kenya identifies two key tension areas:

- Many indicators of social impact used by impact investment funds risk discouraging entrepreneurs from emphasising commercial objectives; and
- Impact funds primarily support businesses outside the manufacturing sector, even though labour-intensive manufacturing may offer significant and scalable opportunities for inclusive business.[68]

Enabling inclusive business to act as providers of finance to the poor

Branchless banking laws and regulations are often considered as key elements of an enabling environment for business who wish to act as providers of finance to the poor. Two sub-sets of branchless banking include

- agent banking, whereby a bank relies on agents that provide services to rural customers; and
- mobile financial services, in particular through non-bank institutions.

The World Bank (2016) summarises some of the good regulatory practices in both areas in order to enable inclusive financial market development, as summarised in the box below.

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[64] The World Bank (2016): Enabling the Business of Agriculture. Comparing Regulatory Good Practices.
[65] Based on UNDP (2014): Impact Investment in Africa. Trends, Opportunities and Constraints, and Stanford Social Innovation Review, 2015
[66] Dalberg (2012).
[67] Under the initiative, should SME loan applications not fully meet the banks serviceability criteria but look promising, the business will have access to business advisory support to strengthen their business plan and cash flow projections as part of more comprehensive applications. Once the loan gets approved, the advisor would work with the SME throughout the loan period thereby reduce the chance of bank default. The fees of the advisor will be inbuilt into the loan scheme, making this arrangement a market-led process. (see marketdevelopmentfacility.org for more information)
[68] Ngoasong et al. (2015). Note that the role of manufacturing for inclusive growth will also be discussed in more detail in section 2.5.2.

Elements of good practice in branchless banking regulations[69]

Agent banking regulations

• should identify minimum standards to qualify and operate as an agent, such as real-time connectivity to the commercial bank.

• should allow agents to enter both exclusive and non-exclusive contracts with financial institutions.

• should allow agents to offer a wide range of services such as cash-in, cash-out, bill payment, account opening and processing of loan documents.

• should hold commercial banks liable for the actions of their agents.

E-money regulations

• should allow both banks and non-bank businesses to issue e-money.

• should specify minimum licensing standards for non-bank e-money issuers, such as:

  - internal control mechanisms that comply with anti-money laundering laws.
  - consumer protection measures and recourse mechanisms.

• should require e-money issuers to safeguard and ring-fence customer funds by holding funds in a separate account at a regulated financial institution.

[69] Based on The World Bank (2016), p.38, 39.

While it is beyond the scope of this paper to unpack the complex regulatory conditions for mobile banking in particular, a key lesson is that the challenges and solutions for scaling mobile banking solutions are highly context-specific. In Kenya, a loose regulatory structure and a special license from the Central Bank facilitated the success of M-PESA; however, as a new regulatory regime had to be developed from scratch and mobile money cuts across the jurisdiction of different regulatory bodies, uncertainty about who would be in charge was a major challenge. Programmes like Financial Sector Deepening Kenya worked closely with government to develop appropriate regulations.[70] In Nigeria, in contrast, the Central Bank has been reluctant to issue banking licenses to mobile network operators; strict bank regulations around 'know your customer' processes might also limit innovative and pro-poor financial products. More generally, strong banking lobbies can represent a critical barrier to developing and scaling mobile money services.[71]

In addition to the regulatory environment, other factors are likely to be critical, such as the competitive position of the mobile banking service provider and their incentive to invest in building an agent network; the existing rural financial infrastructure, population density and financial literacy. [72]

[70] WTO (2013): M-PESA. Regulatory Framework. https://www.wto.org/english/tratop_e/serv_e/wkshop_june13_e/wanjau_e.pdf

[71] WTO (2013) and Kanika Saigal (2014): Nigeria's regulatory environment hostile to mobile money – Safaricom CEO, Article on Euromoney.com.

[72] Koh et al. (2014).

2.1.4 Improving land titles, registers and administration (Functional area 6)

Evidence snapshot: Examples of the role of land titling interventions for inclusive business

- *National/ cross-sectoral level*
  - *Reform:* A systematic review of 20 studies of land property right interventions on farming households in Latin America, Africa and Asia (Lawry et al. 2014) finds that freehold titling has positive impacts on farm productivity and income, most likely due to increased investment as a result of perceived tenure security. The effects are particularly strong in Asia and Latin America, where title is the dominant means for securing land rights.
  - *Reform:* More recently, land certification in Ethiopia was found to have a positive effect on productivity across households, in particular for female- headed households (Journal of Development Studies, 2015). A study of land titling in rural Vietnam (Newham, Tarp and van den Broeck, 2015) found that obtaining a land title lead to higher yields.
  - Reform: A series of land reform programmes undertaken in China, Japan, Korea and Taiwan divided agricultural land on an equal basis among the farming population. This, backed by government support for rural credit, training and other support services, created a new market in which owners of small household farms were incentivised to invest their labour and the surplus they generated towards maximising production. The result was hugely increased yields in all four countries, which primed the demand for goods and services, and represents the first stage of inclusive industrial development in these countries (Studwell, 2013)
  - *Reform:* Reforms that improve the security of land tenure through land titling and administration reform do increase firm-level investment. These reforms increase the likelihood that investments made today can be realised tomorrow, facilitate a more dynamic land market and increase the attractiveness of further investments necessary for broad-based economic growth. (DFID, 2015)
  - *Reform:* In Colombia, a law conceding collective property rights over ancestrally inhabited land to indigenous communities "enabled them to organise a fair and sustainable gold value chain." (Endeva, 2013a)
  - *Reform:* Revisions of land law rules in Tanzania to enable long-term leasehold property rights for up to 99 years encouraged investment by both domestic and foreign investors (FAO, 2012).
  - *Barrier:* Agricola International, a hybrid for profit and not-for profit organization in Senegal, develops barren land into profitable drip-irrigated plots through an innovative system of "franchising". However, Agricola is constrained by land laws that do not allow the division of land in smaller plots and lease agreements. (Dalberg, 2012)
  - *Barriers:* Secondary and original qualitative research by Oxfam (Willoughby, 2014) points to the importance of legislation and policies to protect the land rights of local communities prior to the initiation of large-scale agricultural PPPs as, leasing customary and leasehold land to investors seems to have increased the risks around land use rights and access for local communities. Similarly Dalberg (2012) describes how the leasing of land to foreign companies for biofuel production caused conflicts with villagers who had used the land for food crops.
  - *Barriers:* In Indonesia, Myanmar and Cambodia, special regulations govern land ownership and land use rights for national and international investors, but poor implementation and a lack of transparency in land rights distribution meant that gains and benefits favoured large agribusiness and exacerbated inequity among small scale farmers. (Teng, 2015).

Land legislation can play a critical role for inclusive business by

- affecting the ability of the poor to access land and interact with inclusive business;
- influencing the feasibility of specific inclusive business models that heavily depend on the land-related legal environment; and
- influencing investment decisions of inclusive businesses in general.

Enabling access to land for inclusive business and their beneficiaries

There are numerous studies, including a significant body of academic research, showing that land titling reform at the national level has a positive impact on the productivity and incomes of rural households. To the extent that this increases rural households' ability to supply to, or buy from, inclusive business, land titling reform can therefore be considered as an important aspect of an enabling environment for inclusive business.

There is also evidence that land titling reform increases firm investment. Similarly, appropriate frameworks for leasing land (e.g. long-term leasehold regulations) play a critical role in attracting investment – including in agriculture and other sectors relevant for inclusive business.

Removing binding constraints for core business activities involving land

Beyond such general improvements of the investment climate, there may also be specific inclusive business models whose success depends significantly on land legislation. One example is the case for Agricola International and their idea of leasing small drip-irrigated plots to farmers in Senegal. Implementing this business model has however been held back by land laws prohibiting such arrangements. Identifying and addressing such specific constraints will require close interaction with individual inclusive businesses.

Risks to land access for the poor in working with agribusiness

Practitioners may also need to consider specific risks to the poor arising from land ownership and land use rights for business. A recent study on the enabling environment for inclusive agribusiness in Southeast Asia points out that regulations governing businesses' land rights have often been poorly implemented and monitored, leading increased marginalisation of the poor.[73] While many large-scale agricultural PPPs in Africa have been developed with the intention to integrate the poor in international value chains, Willoughby (2014) claims that leasing customary and leasehold land to investors has at times jeopardised local communities' rights to use or access land. While a more rigorous evidence base would be needed to better understand such risks, donor programmes could support the inclusion of relevant safeguards in land or investment law, and conduct case-by-case risk assessments of business partnerships to anticipate and mitigate such risks.

It is also widely known that land titling legislations can be one of the politically most contested business environment reforms and requires country-specific solutions. A large body of literature is available on how land titling reform may be achieved in practice.[74]

[73] Teng (2015): The Enabling Environment for Inclusive Agribusiness in Southeast Asia.
[74] See for example Narh et al. (2016): Land Sector Reforms in Ghana, Kenya and Vietnam: A Comparative Analysis of Their Effectiveness; FAO (2006): Better Land Access for the Rural Poor. Lessons from Experience and Challenges ahead; IIED (2004): Land Tenure and Administration in Africa. Lessons from Experience and Emerging Issues.

2.1.5 Broadening public-private dialogue processes (Functional area 8)

Evidence snapshot: Examples of the role of broad-based public-private dialogue for inclusive business

- ***National/ cross-sectoral level*** *(Note that many case studies of reform following public-private dialogue have been developed and signposted by initiatives such as publicprivatedialogue.org. Selected examples are given below.)*
  - *Reform:* The Ethiopia Public-Private Consultative Forum has resulted in overhauling the customs procedures, an improvement in business licensing and registration process, a simplification of company formation procedures, in the betterment of property rights regime, and in ensuring a fair participation of the private sector in the public procurement systems, among others. The simplification of company formation and administration procedures has significantly reduced the time and money wasted by the prolonged document authentication process. The elimination of a capital confirmation requirement for license renewal has allowed many small traders the invest capital rather than saving it for renewal purposes. More than 55000 undocumented land holding were formally recognised.(Mihretu and Tolina, 2015)

- Agriculture
  - *Reform:* With the help of the ENABLE programme, the Fertiliser Producers and Suppliers Association of Nigeria (FEPSAN) contributed to a change in policy by the National Council on Agriculture (NCA) around fertiliser distribution, from direct provision towards a free market model supported by a voucher system for poorer farmers. Under the previous arrangements very few farmers received fertiliser on time or at all, leading to chronically low yields. (Davies, 2014)

- Health and Nutrition
  - *Reform:* As one of the results of a joint advocacy initiative of donors, NGOs and business on food fortification legislation, the Tanzanian government waived import taxes on fortification equipment and nutrient premixes to increase incentives for private sector adoption and reduce consumer prices (Preedy et al, 2013; Method et al., 2015).

Institutionalised mechanisms for public-private dialogue with broad private sector participation are considered as a critical enabler of private sector development and inclusive economic growth in both the business environment and inclusive business literature. Researchers such as Qureshi and te Velde (2013) find that effective state-business relationships, facilitated by an organized private sector, improve firm performance in seven sub-Saharan African countries.[75] A synthesis of case studies by the World Bank Group (2011) points to the role of public-private dialogue fora in removing binding constraints to competitiveness (e.g. in access to technology and financing or tax and regulatory constraints) as well as in improving governance:

> *"coordination brings more **inclusiveness**; regulatory improvements result in more **fairness** and a level playing field between the economic actors of the area; streamlined transactions mean more **transparency** in who gets awarded what contract (…); and finally(…) public-private dialogue fora (…) [imply] stronger **accountability** from public officials."* [76]

In addition, GIZ and IFC both explicitly stress the importance of public-private dialogue for raising governments' awareness of obstacles facing inclusive and innovative business models.[77]

Engaging in public-private dialogue can be of particular value for inclusive business in the following cases:

- to discuss issues (e.g. relating to new technologies) for which little government knowledge or awareness exists
- to advocate for fundamental, structural reforms required to open up opportunities for inclusive business (e.g. privatisation and deregulation in government-controlled sectors, see 2.3);
- to provide inputs to sector strategy discussions[78];
- to discuss reforms which are largely untested (e.g. legal formats for inclusive business, see section 2.4); or
- to provide regular feedback on industrial policies (see section 2.4) or reforms that have not always proven to be effective due to lacking alignment with private sector incentives (e.g. mandatory inclusion of the poor, section 2.4).
- in addition, such platforms could potentially play a role in providing a single gateway for impact investors to learn about, and connect to inclusive businesses.

Options for supporting public-private dialogue for inclusive business

There is yet little agreement though on the best format for public-private dialogue for inclusive business, which are likely to depend on the country- or technology-specific context; options include:

- Using existing public-private dialogue fora: GIZ (2014) recommends trying to build on existing dialogue processes and avoid fragmentation where possible.[79] Many dialogue fora feature sub-groups to tackle sector-specific regulatory issues – including those relevant for inclusive business (e.g. agribusiness). Such groups could provide relevant entry points for policy dialogue.
- Forming new dialogue platforms for inclusive business only, especially where existing fora do not seem to be appropriate. Such platforms may have not been created so far because inclusive businesses operate in different sectors. Yet they may share concerns about the business environment. Some practitioners therefore argue in favour of new business associations that are specific

[75] Qureshi, M. and te Velde, D. W. (2013). State-Business Relations, Investment Climate Reform and Firm Productivity in Sub-Saharan Africa. Journal of International Development, 25: 912-*935.*
[76] The World Bank Group (2011): Public-Private Dialogue for Sector Competitiveness and Local Economic Development: Lessons form the Mediterranean Region.
[77] GIZ (2014) and IFC (2012).
[78] GIZ (2014).
[79] See for example GIZ (2014), p. 33.

to inclusive business and cut across sectors. Sectoral associations may instead have the advantage of more shared interests and more focused efforts.

- Global dialogue platforms can be of use for specific inclusive technologies whose adoption would be facilitated through an international approach. One example is standard-setting related to clean cookstoves (see Chapter C for more details).

Learning lessons from earlier public-private dialogue initiatives

Regardless of the specific format chosen, policy dialogue initiatives for inclusive business can learn from earlier successes and failures in this field; the box below compiles illustrative lessons.

Policy dialogue outside of participatory platforms

Critically, public-private dialogue platforms are not always the best solution for inclusive businesses to raise regulatory constraints with the government. Especially if a pioneer business aims to introduce an entirely new technology or way of operating, specific regulatory issues may arise that are not shared by any other business in the country. Direct exchange between such pioneer businesses and government counterparts is likely to be more suitable. Donor agencies and programmes can still play a critical role in providing contacts, facilitating dialogue, and providing credibility and leverage to the business.

Illustrative lessons on public-private dialogue for programmes promoting inclusive business[80]

- Donor support to public-private dialogue should be informed by in-depth analysis of the political, investment and sectoral business climate, as well as the key players, their incentives, and relationships.[81]
- A focus on specific sectoral issues, instead of a generalised dialogue (e.g. on reforms for inclusive business in general), helps private actors to aggregate their interest and maintain momentum and deliver change;[82]
- Capacity-building of business associations can be essential, as reform proposals are more likely to succeed when a business association has a certain degree of political and technical capacity.[83]
- A major factor in failed initiatives has been for programmes to use public-private dialogue fora to deliver certain reforms very quickly – e.g. by directly paying for staff of business associations or the cost of meetings, or producing relevant research themselves etc. Such approaches have often not been sustainable after the end of donor support. Some more recent approaches try to take a more facilitative role by focusing on the incentives and capacities of stakeholders to engage in dialogue.
    - For instance, the ENABLE programme in Nigeria would not produce any research to inform reforms, but catalyse the market for research: It helps business associations understand the importance of research, builds their capacity to commission research, and works with research institutions to offer market relevant research service to business associations; it also advices coordinating institutions to help provide linkages between buyers and sellers. [84]
- There can be trades-off between the 'inclusiveness' of public-private dialogue for and effectiveness. At times it can be more fruitful to "let go of a full participation model" and focus on working with influential business leaders and champions of reform in the government. [85]

[80] For more information on the 'how-to' of public-private dialogue, please refer to the World Bank's 'Public-Private Dialogue Handbook'.
[81] Pfeiffer, C. (2012): Reform Coalitions, Developmental Leadership Program, p.6; see also DCED (2011): The political economy of business environment reform. An introduction for practitioners; Adam Smith International and The Springfield Centre (2011): A market systems approach to public-private dialogue and business environment reform. A case study of ENABLE Nigeria.
[82] DCED (2008), p.28; Pfeiffer, C. (2012), p.4,
[83] Pfeiffer (2012), p.6.
[84] Adam Smith International and The Springfield Centre (2011).
[85] Pfeiffer (2012).

2.1.6 Developing quality standards and testing infrastructure (Functional area 10)

Evidence snapshot: Examples of the role of quality standards and testing for inclusive business development

- *Agriculture*
  - *Barriers:* The lack of quality standards and regulatory enforcement hurt a new provider of micro-drip irrigation in India as multiple unregulated and unregistered companies entered the market offering low-quality products at even lower prices. As a result, farmers lost confidence in drip irrigation as a whole. (Acumen and Bain, 2014)
  - *Reform:* Research on sustainability standards, such as organic or Fairtrade standards, finds often finds positive impacts on prices received by farmers – but not always on poverty reduction. (see studies referenced in the DCED Evidence Framework, in particular here, and here.)
  - *Reform:* Following the introduction of tighter EU sanitary standards for nut imports in 1999, Bolivia's government immediately demanded testing for *all* outgoing shipments as a condition for export licenses, which triggered Bolivian producers to cooperate in upgrading their processing and testing of nut quality through their business association. The association also provided a one-stop shop for export licenses, and training to members. Conversely, the Brazilian government did not demand comprehensive testing. The industry stayed fragmented, and was shut out of the EU market due to contaminated shipments. (Coslovsky, 2014)
  - *Reform:* In the absence of an appropriate national quality infrastructure, an association of small agri-food processes was trained to support their own member processors and farmers on issues such as post-harvest handling, food hygiene and safety standards, and to carry out quality checks. This allowed association members to sell to larger domestic firms that required adherence to national food standards (FAO, 2015)

- *Energy, water and environmental services*
  - *Reform:* The introduction of international standards for high-quality clean cookstoves facilitated by the Global Alliance for Clean Cookstoves and ISO gave manufacturers and advantage over low-quality suppliers. (Koh et al., 2014)
  - *Reform:* There are hundreds of "aguateros" in Paraguay, which are small private water suppliers operating their own wells and providing piped water to households in areas usually not served by the public operator. They are entirely privately financed and appear to be more efficient than public suppliers. Government agencies have begun to regularly test the water quality, and the aguatero can be shut down if its water fails the test. Aguateros compete with each other, which has helped keep the prices down. (Baker and Trémolet, 2000)
  - *Reform:* The market development for low-cost photovoltaic electricity supply in Kenya has been at risk due to the emergence of providers with lower technical standards which caused frequent equipment failures. In the absence of national regulation, industry associations created their own quality label and assurance process in an effort to secure and grow their consumer base. (Baker and Trémolet, 2000)
  - *Barriers*: The adoption of low-cost private irrigation technologies has had positive impacts on farmer income in many countries. However, their unregulated spread has also shown to pose risks to the environment and to make very poor farmers worse off, in particularly areas where water is scarce. (Fraiture and Giordano, 2014)
  - *Barriers*: Importation of substandard renewable energy systems in Malawi damages their reputation. There have been many cases particularly of battery-based solar systems which became non-operative within one year of usage. This is partly a result of the lack of a clear legal framework and independent quality checks on imported components due to the unavailability of testing centres for renewable energy. (Zalengera et al., 2015)

- *Education*
  - *Barriers:* Private low-cost school models in India use para-skilled classroom instructors rather than qualified teachers, and operate in temporary classrooms. While such models nay be able to operate locally with the approval of municipal or district officials, their lack of compliance with national legislation represents a key barrier to scaling up across the country. (Monitor Inclusive Markets, 2014)

- *Health and nutrition*
  - *Reform:* In Nigeria, an SMS service ('Sproxil') to verify the authenticity of drugs paid for by pharmaceutical companies, received a boost when government regulation required such verification for all antibiotics. Sproxil was the approved provider (there are now four others) and was influential in creating the case for regulatory change. (UNDP and Ashley Insight, 2014).

Quality standards are a complex field which has a particularly important but ambivalent relationship with inclusive business development. The examples above show that the right level of standard-setting, accompanied by capacity-building for testing and enforcement, can boost consumer- or supplier-focused inclusive business models; but too rigorous or lax quality standards can prevent inclusive business from scaling up.

How a lack of quality standards can affect inclusive business

Developing a market for new inclusive business services and technologies can depend critically on business licensing regimes incorporating appropriate quality standards. This is because

- low-quality suppliers of a similar product or service may already dominate the market, making it hard for the poor consumers to distinguish them from new, higher-quality options without any formal form of identification; or
- cheaper, low quality providers may try to copy an innovative inclusive business idea[86] and damage the reputation of the product or service. They may also have negative environmental impacts. For instance, the lack of quality standards greatly hurt a low-cost micro-drip irrigation business in India, as multiple informal companies entered the market offering even cheaper but low-quality products, which reduced farmers' confidence in drip irrigation as a whole.
- Conversely, international standards for clean cookstoves, for example, gave manufacturers to an advantage over low-quality suppliers.

How too stringent quality standards can affect inclusive business

While some quality control is needed, too stringent quality standards can also prevent pro-poor solutions from scaling up. Low-cost and informal providers that integrate the poor in their business model can be particularly affected. One example is the requirement of using certified teachers, which prevents private low-cost schools in India from operating at a national scale. Some authors suggest a gradual approach to standard-setting, to avoid permanently excluding informal providers from the market. This would include a gradual tightening in "minimum service standards for major private providers, with some incentives placed on alternative providers to enter the formal sector and up-grade their service in the long run". The latter might involve targeted support to help providers "up-scale their activities, on the condition that they would fulfil licensing or operating quality requirements."[87]

Which types of standards to focus on?

As the examples illustrate, relevant standards are highly sector and business-model specific; also, while in some cases a business model might depend on a single quality standard, other business models may be affected by a range of different standards and related services along the value chain (see also the graphical illustration of the Mango Value Chain at the end of this section).

Two specific types of standards frequently mentioned in the context of inclusive business are voluntary sustainability standards as well as food safety standards in countries importing from developing countries.

- **Voluntary standards such as organic or Fairtrade certification are often cited as means to improve the livelihoods of poor producers**.[88] There is a growing amount of research in the value chain development community which points however to mixed results. Some initiatives have indeed led to increased prices received by farmers, but not

[86] Koh et al. (2014), p.79, 80.

[87] Bill Baker and Sophie Trémolet (2000): Regulation of Quality of Infrastructure Services in Developing Countries.

[88] E.g. UNDP (2013), Endeva (2013a).

all of them had an impact on poverty reduction.[89]

- **The impact of standards set in donor countries is likely to be highly context-specific.** As shown in the example of tighter food standards in the EU, these have supported inclusive business development in one country, but effectively excluded producers from export markets in another – depending on the domestic government and industry-driven initiatives to establish an appropriate quality infrastructure.

Filling gaps in public supporting infrastructure and enforcement capacity

A lack government support services and enforcement capacity can disproportionally affect inclusive business.[90] This is because enforcement capacity can be critical in boosting consumer confidence in new products or services,[91] or represent a pre-condition for maintaining international market access.[92] In some cases, it has proven useful to work with the private sector to fill gaps in government quality services. For example, agri-food business associations and cooperatives can play an important role in providing training and quality control to local businesses and farmers to help them target larger formal buyers."[93] Self-regulation of low-cost solar energy producers in Kenya is another illustration of this. Where government capacity is very weak, supporting commercial testing laboratories (e.g. for aflatoxin testing) can be a viable alternative to public facilities.[94]

[89] Evidence on fair trade and other sustainability certification can be found in the DCED Evidence Framework.
[90] See for example FAO (2015): Inclusive Business Models. Guidelines for improving linkages between producer groups and buyers of agricultural produce.
[91] Acumen, Bain and Company (2014), p. 125.
[92] Coslovsky (2014): How Bolivian Producers Met Strict Food Safety Standards and Dominated the Global Brazil-Nut Market.
[93] Ibid.
[94] One example is donor support to a commercial aflatoxin testing lab in Timor-Leste (source: marketdevelopmentfacility.org and interview with programme staff).

Practical implications for practitioners

In summary, there are numerous examples showing that appropriate quality standards are a critical element of an enabling environment for inclusive business, but that suitable reforms will be highly context-specific.

Therefore, when faced with an inclusive business activity, a key priority for practitioners is to assess conditions for scaling early on, including

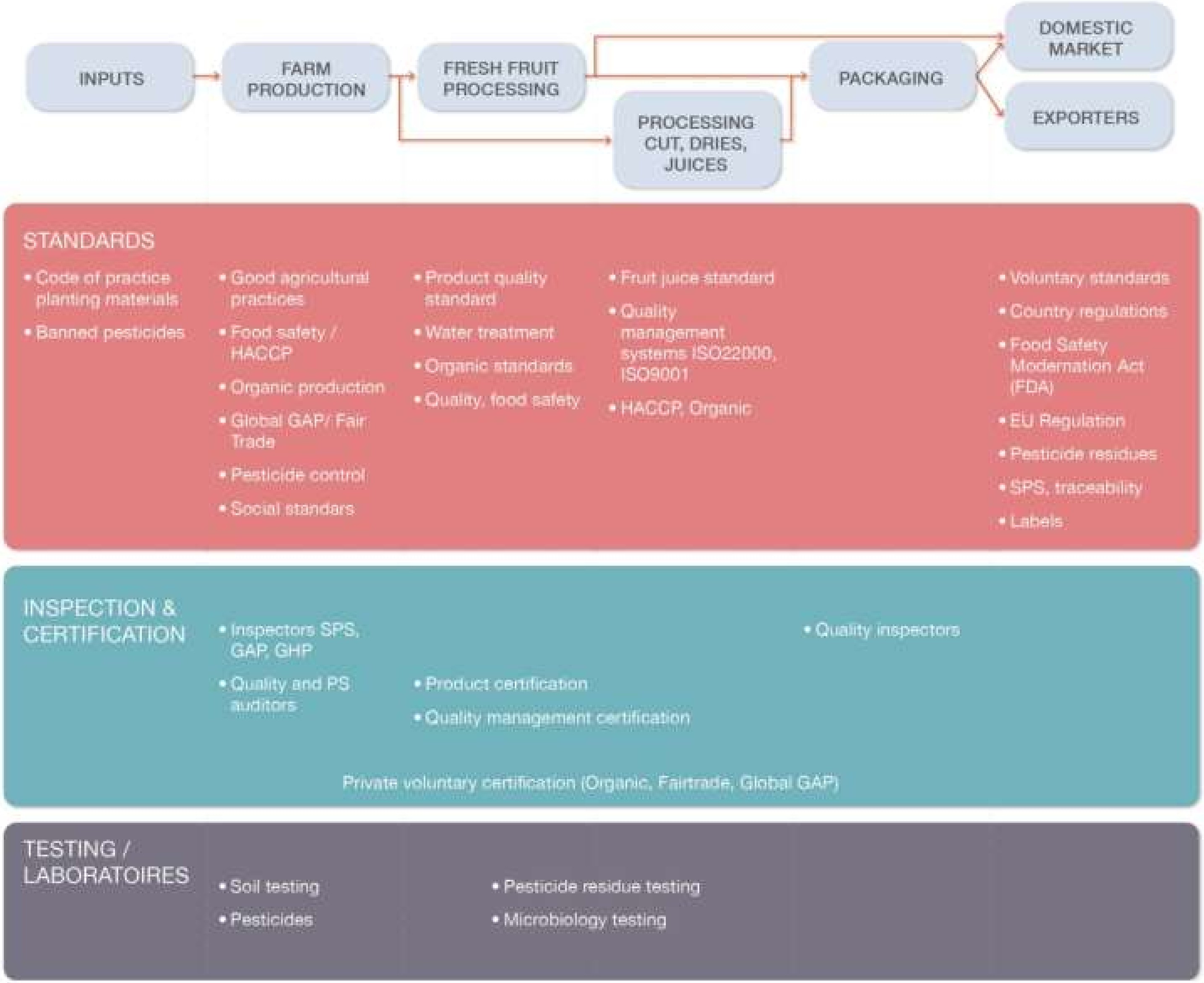
- whether new quality standards may need to be developed (e.g. to shield an innovative inclusive business start-up from the competition of low-quality providers); or
- existing standards need to be removed or relaxed (e.g. to allow market entry or formalisation of an informal inclusive business model).

Indeed, one of the key programming recommendations by experts in quality infrastructure development to take a bottom-up approach and carefully analyse relevant constraints, market dynamics, as well as existing quality standards and services of a government.[95] This also allows practitioners to develop a holistic picture of quality infrastructure needs at all levels of the value chain, such as support for producer training, awareness-raising among consumers, certification of inspectors, investment in testing facilities and strengthening enforcement mechanisms.

Many other lessons have been documented in the field of quality infrastructure promotion which can serve as a useful reference for inclusive business programmes – for example on choosing the right partner institutions at government level; effective governance of quality infrastructure projects; or strategies for generating consumer and company demand for quality services.[96]

[95] DCED (2014b): Leveraging the Impact of Business Environment Reform. The Contribution of Quality Infrastructure. Lessons from Practice, by Martin Kellermann and Daniel Paul Keller.
[96] Ibid.

Figure 4: Quality standards and testing at the example of the mango value chain (source: DCED 2014b)



Source: Adapted from UNIDO

Summary of findings - Question 1:
Are constraints in key functional areas of the business environment different for inclusive business compared to any other business?

>> By laying the foundations for increased private sector activity in a country, most elements of 'standard' regulatory reform efforts can be expected to benefit inclusive businesses as well.

>This includes reducing the costs and risks of doing business by streamlining registration, licensing and taxation processes, improving the functioning of the financial sector, making it easier to voice constraints vis-à-vis the government or creating conditions for improved domestic or international market access through land titling or quality infrastructure development.

>> Some functional areas of business environment reform seem to be particularly relevant for a large number of inclusive businesses and warrant special policy attention

> The regulatory environment related to quality standards can represent a binding constraint to inclusive business. A key priority for practitioners is therefore to assess conditions for scaling early on, including whether new quality standards may need to be developed (e.g. to shield an innovative inclusive business start-up from the competition of low-quality providers); or whether existing standards need to be removed or relaxed (e.g. to allow market entry or formalisation of an informal inclusive business model).

> Using public-private dialogue platforms (including sector-specific sub-groups) as mechanisms for feedback and exchange can have particular benefits for inclusive business, for example when governments are not aware of the constraints of innovative business models; market entry of inclusive business requires quite substantial structural reforms in government-dominated sectors (see next section); or governments aim to implement largely untested or risky policies to promote inclusive business.

>> Standard national-level reforms are not always sufficient to create enabling conditions for inclusive business; additional reform efforts typically needed, often based on sector analysis and regular exchanges with individual inclusive businesses to identify and address specific constraints. Examples include

> creating conditions for formalising inclusive business models that started out in the informal sector; removing business licensing requirements that effectively include innovative inclusive business models from the market

> improving the regulatory environment for impact investing and other new forms of finance of particular relevance for inclusive business; creating regulatory frameworks along inclusive businesses to act as providers of finance to the poor, such as through agent and mobile banking

> removing binding constraints for core business activities involving land through changes in land legislation.

2.2 What is the role of new regulation and de-regulation in promoting an enabling environment for inclusive business?

Creating a business enabling environment typically requires combination or suite of measures including sector-wide de-regulation and removal of inhibitory laws as well as introduction of new laws, standards and regulations. Building and expanding on the findings of the previous section, this section is framed specifically around approaches to prioritising and sequencing these different broader types of reform for inclusive business. The objective is to gain a better understanding of o*verarching regulatory governance frameworks* relevant for inclusive business (i.e. functional area 5 of business environment reform).

Evidence snapshot: Examples of the role of overall regulatory governance and frameworks for inclusive business

- National level / Cross-sectoral reforms
  - According to FAO (2012), Tanzania's investment climate improved significantly following various measures to enable greater private sector participation in the economy and improve regulatory and legal frameworks. This included the full or partial privatisation of government-held enterprises, promotion of a competitive economic environment, and development of the Tanzania Investment Act 1007, which sets out clear criteria for all potential investors and encourages private sector financing. Foreign direct investment has increased significantly since the implementation of these reforms, including in sectors such as agriculture and fishing. These investments were also noted for their role in local job creation.
- *Agriculture*
  - *Reform:* Liberalisation of the seed industry in Uganda, which had been previously under a government monopoly, opened up the sector to private investors who could partner with public research institutes. This resulted in new seed varieties being developed and commercialised that were better suited to local conditions, more affordable and accessible to small farmers and created employment opportunities both in seed companies and for contract farming. (FAO, 2016)
  - *Reform:* The FIT-SEMA programme recognised the opportunity of a recently liberalised media environment to develop commercial radio which provides market information to farmers. The project assists radio stations in developing differentiated information products focusing on business and agriculture. The radios attract sponsors by demonstrating audience share. As a result, 7 million people became regular listeners (74% of adults in mid to low income group) to small business programmes. 96% of regular listeners perceived that they benefited from these. In addition, various business environment reforms have been implemented by the government as a result of the showcasing of issues on radio programmes.(The Springfield Centre, 2007)
- Energy, water and environmental services
  - *Reform:* Tanzania has carried out a power sector reform including debundling of state-owned power agency and encouragement of the private sector. Standardized purchase agreements on off-grid feed-in tariffs for small power producers have been introduced. Regulatory oversight of the tariff system is now ensured by a new regulatory authority. Another agency was created to coordinate grid and off-grid systems in rural areas. Donors were actively involved in the energy-sector reform process through financial, organizational, and legal assistance (Ahlborg and Hammar, 2014).
  - *Reform:* In the water sector in the Philippines or Paraguay inclusive private water suppliers were only able to step in following privatisation of state-owned water provision system (Endeva, 2013a).
  - *Reform*: Mali opened its energy sector to private investment, which enabled French energy company EDF to create rural energy-service providers. Many smaller companies also began offering energy services in rural areas. (Endeva 2013a)
- Education
  - *Reform:* In Senegal, policymakers recognised the potentially valuable role of the private-education sector in a 2004 amendment to the country's overarching education legislation. (Endeva 2013a)
- Telecommunications
  - *Reform:* In Uganda, it was decided to open up the government-owned telecommunications sector to private providers In order to introduce mobile telephony to the country. As building the infrastructure for mobile networks required heavy upfront investment, the government initially limited competition to a few telecoms companies. This allowed the government to discourage excessive prices, while companies were able to recoup the initial investment within a reasonable period of time. The sector was opened up to other providers a few years later, meaning that prices went down for customers and mobile telephony gradually became more accessible to the poor, too. (Interview with Jim Tanburn, DCED Coordinator)

In deciding about the most suitable regulatory and policy initiatives for inclusive business, key factors to consider include:

a) The nature of overarching frameworks for private sector activity in the country;
b) The structure of the specific economic sector of interest; and
c) the stage of the inclusive business model in question.

Three major options for changing regulatory framework conditions in light of these factors are outlined below:

Laying the foundations for private investment

Developing essential frameworks for private sector activity, if not already in place, can be seen as a precondition for inclusive (and other) business investment. In particular, these include laws that encourage and regulate competition, trade and investment. Copyright and trademark legislation may be critical to enable micro-franchising in particular[97], which allows entrepreneurs to replicate successful business models at a small scale and to create business opportunities for the poor.[98] The exact priorities for attracting increased private investment will however depend on the specific country context:

> *"Creating stronger incentives for private investment may require improving the security of property rights in one country, but enhancing the financial sector in another. Technological catch-up calls for stronger or weaker patent protection, depending on the level of development."*[99]

Similarly, even though an active competition policy is generally considered desirable for inclusive business development, individual cases may actually require limiting competition for a short period of time (as illustrated under point 3 below.)

[97] W. Gibson and W. Gibb Dyer (2007): Micro-franchising: Creating Wealth at the Bottom of the Pyramid, p.63, 64.
[98] See for example Lehr, David (2012): Micro-franchising at the Base of the Pyramid.
[99] DFID (nd): Growth. Building Jobs and Prosperity in Developing Countries.

Removing binding inclusive business constraints in sector-wide regulatory frameworks

Enabling the creation or formalisation of inclusive business in sectors which are heavily influenced or controlled by government typically requires dissolution of government monopolies and/or removing overly stringent regulations and licensing requirements that stifle competition. Government involvement is a particular problem in sectors with high potential for inclusive business, such as energy, water, education, health care or even agriculture. In the experience of Market Systems Development (or M4P) programmes, for example, governments often take on roles that could be performed by the private sector in a more efficient, pro-poor and sustainable way. As illustrated by several of the above-mentioned examples (e.g. the water sector in the Philippines or radio in Uganda), allowing pioneering businesses to enter previously government-dominated sectors has in practice enabled more functional and inclusive markets.

Promoting and regulating inclusive business growth

The introduction of new regulation – such as relating to price, quality or safety standards and licensing requirements will grow in importance after an innovation has been introduced. It serves to create the right conditions for scaling up an inclusive business model, to enable its replication by other businesses and to appropriately regulate the activity as it increases its market-wide influence. As noted by Acumen, Bain and Company (2014),

> *"as the [pioneer] firm begins to reach scale of any significance, its interactions with this system ([including] rules and regulations [...]) and other key players will become more central to its success"; by engaging with the system "they [also]*

lay the foundation for the market entry of all subsequent players".[100]

Section 2.1.5 has already discussed the role of quality standards for innovative products and services to protect poor consumers and shield inclusive businesses from low-quality competitors. GIZ (2014) summarises that

> *"it is vitally important to strike the right balance between deregulation in sectors that were once the exclusive responsibility of governments … and consumer protection."*[101]

Even where state-controlled sectors have not been formally opened to private sector participation, the gradual integration of informal suppliers into regulated systems can form an initial step towards more inclusive markets. Venkatachalam (2015) in his study of informal water markets in urban India, for example, argues that the government needs to regulate informal water suppliers selling to the poor so that they "play a fair supplementary role" to public services.

In addition to quality standards, inclusive business models can be supported through temporary government measures such as price regulation or restrictions on competition. Business models which require heavy upfront investment may be particularly discouraged by the prospect that returns may flow to competitors. Limiting market entry by other firms until costs have been largely recovered may be the only way to encourage a business to invest. A need for new regulations and oversight also arises often following privatisation of government-owned utility companies in order to ensure fair pricing for consumers.

Practical examples of sequencing and combining de-regulatory and regulatory changes

An interesting illustration of how step 2 and 3 can fit together in a sequenced approach is the introduction of of mobile phone networks in Uganda. While views may vary on whether this particular case represents an inclusive business model, the main point here is to illustrate how regulatory frameworks for inclusive business may need to be adapted and changed over time.

Sequencing de-regulation and different regulatory frameworks over time : Mobile phone networks in Uganda

In order to introduce mobile telephony to the country, the Ugandan government decided to open up the telecommunications sector to private providers.

As building the infrastructure for mobile networks required heavy upfront investment, the government initially limited competition to a few telecoms companies. This allowed the government to discourage excessive prices, while the companies were able to recoup the initial investment within a reasonable period of time.

The sector was opened up to other providers a few years later, meaning that prices went down for customers and mobile telephony gradually became more accessible to the poor, too.[102]

It is also important to keep in mind that regulation is multi-dimensional as different elements of a business model will require different regulatory responses. A World Bank Group report on small energy producers in Africa offers useful advice in this regard: Whenever policy makers face a new technology or business model, any regulatory changes should be based on a clear and nuanced economic rationale:

> *"Should this entity be regulated, deregulated or regulated in a different way? Why regulate?" …"It is important to remember that regulation is not an all-or-*

[100] Acumen, Bain and Company (2014), p.11.

[101] GIZ (2014).

[102] Interview with Jim Tanburn, DCED Coordinator.

nothing proposition; [it] ...is multidimensional."[103]

This is illustrated below at the example of micropower business delivering electricity to rural areas.

A multidimensional perspective on regulation needs: The OMC Micropower example[104]

The Omnigrid Micropower Company (OMC) OMC is one of several companies in India that propose to sell electricity to mobile-phone tower owners or operators using hybrid generation (for example, solar and diesel). A key element of the business model is that the enterprise will also provide energy services to surrounding villages by renting rechargeable battery boxes, lanterns, and appliances to households and businesses. Several companies are considering introducing a similar business model in rural Africa. If this happens, African electricity regulators will need to decide whether or not to regulate these companies. And if there is regulation, what should be regulated? In sum, they need to decide whether the following elements of regulation are necessary:

- *Tariff regulation*, which entails approving (a) the prices that the enterprise proposes to charge for the sale of electricity to tower owners or operators, and (b) the leasing charges for daily, weekly, or monthly rental of precharged battery boxes, lanterns, and other appliances;
- *Licensing*, which entails requiring the enterprise to obtain a license or permit to operate; and
- *Safety regulation*, including safety rules for some or all business operations.

The recommendations made for this type of enterprise are: No tariff regulation; Registration of the business for information purposes but no requirement for regulatory approval of a license or permit; Certification of the safety of the battery boxes by an international safety-testing laboratory as well as application of safety regulations that would apply to similar electricity suppliers.

Implications for practitioners

Requirements for regulation and de-regulation are context-specific, multi-dimensional and will change over time. As a result, sectoral analysis and direct interaction with relevant business, sometimes involving technical experts, is likely to be necessary in order to identify the most suitable reform approaches.

There are also likely to be differences between least developed and more advanced developing economies: Facilitating inclusive business in very low income countries will often require working on all fronts at the same time – with more efforts going into the development of basic conditions for private sector investment, alongside sector- or business-specific initiatives. There is also likely to be a need for more targeted support to 'market-building' activities, such as capacity building and financing (see section 2.3-2.6 for more discussion of targeted measures).[105] In more advanced developing economies, a focus on reforms for specific inclusive business models and sectors will be more realistic. Indeed, given the market-wide challenges in least-developed countries, most inclusive business examples are currently found in lower middle income countries, according to a survey conducted by UNDP.[106]

[103] The World Bank Group (2014): From the bottom up: how small power producers and mini-grids can deliver electrification and renewable energy in Africa.
[104] Adapted from The World Bank Group (2014), p. 72-75.

[105] Internal background not on inclusive business in low-income developing countries, UNDP.
[106] Interview with Sahba Sobhani, Global Programme Advisor – Private Sector, UNDP.

2.3 Are legislation on special corporate forms or voluntary accreditation systems instrumental in promoting inclusive business?

Evidence snapshot: Examples of legislation on special corporate forms and its impact on inclusive business

- ***National/ cross-sectoral level*** *(Note that definitions of new legal enterprise forms vary by context; some legal concepts require all profits to be invested into social activities, which is not a core area of interest of PSD practitioners.)*

- *Reform*: The Philippines are currently developing an accreditation system for Inclusive Business (Practitioner Hub for Inclusive Business, 2016). Earlier, the Philippine government also issued the 'Magna Carta for social enterprise', which introduces the legal form of social enterprises as "organisations .... (that) generate profit with due regard to social and environmental costs and make a pro-active contribution to resolving social and environmental problems" (Congress of the Philippines, 2012). No evidence is available yet on the impact of these initiatives.

- *Reform:* 30 US states have passed legislation to introduce the new legal business form of benefit corporations, which 1) have an expanded purpose beyond maximizing share value to explicitly include general and specific public benefit; 2) are required to consider/balance the impact of their decisions not only on shareholders but also on their stakeholders; and 3) are required to publish an annual benefit report. (Benefitcorp.net). Total numbers of benefit corporations seem to remain relatively small (Social Impact Hub, 2014). Many other countries have similar legislation for social enterprises (e.g. community benefit companies in the UK).

- *Note that only limited evidence seems to be available on the social impact of different statutory forms, and the findings are mixed. This will be explored in more detail in a forthcoming DCED paper focusing on the role of business structure for social impact.*

Creating special statutory forms or voluntary accreditation systems for business with social objectives is an emerging activity for many governments and a common policy recommendation in the inclusive business literature. So far, such legislative changes have been primarily pursued in high-income countries: Examples include legislation on 'benefit corporations' which pursue both profit-maximising and social objectives (e.g. in the US), or social enterprises (e.g. in the UK, Italy or Belgium). Experiences in developing countries are more limited, and legislation focusing on Inclusive Business in particular is only a nascent area of activity. As such, the Philippines are currently developing a voluntary accreditation system on Inclusive Business.

Arguments made in favour of special legal forms

Evidence on the impact of more established statutory forms such as benefit corporations and social enterprise seems to be limited; as such it is unclear whether companies adopting such legal forms perform significantly and consistently better in terms of social impact compared to other business. Yet, a number of arguments are made in favour of special legal forms:

- Legal structure may influence how companies make investment decisions and balance financial and social objectives. Benefit corporations, for example, are seen to provide legal backing for boards that wish to consider societal impact in addition to shareholder interest.[107]
- Accreditation or legal forms may also offer a basis for increased government support and investor exposure in the future.
    - The Philippines' accreditation system aims to facilitate targeted financial support and other public incentives at inclusive business (see section 2.5.2 for further discussion).
    - The UK has established the first social stock exchange for businesses aiming for positive social or environmental impacts, and provides a mechanism for linking up likeminded investors with businesses.
- BCorps and other legal forms for business with a social mission also have special reporting requirements, which include the preparation of an annual report about the social impact achieved. While this represents an extra cost for businesses,[108] it may be an additional asset for donors or impact investors interesting in working with them.

Critical perspectives on the need for special legal forms

Skeptics argue that the legal form or accreditation of a company does not actually influence its mission or ability to achieve social impact. One argument is that "as a general rule, existing benefit corporations already tend to be concerned with sustainability and often already have a social mission"[109] before they decide to change their legal status. In the same vein, it is argued that special legal formats might create a "false dichotomy between 'good' and 'bad' companies ... when there is no legal reason that all companies can't consider a wide range of interests [in their investment decisions] – and could be encouraged to do so".[110]

> *"[C}orporate decision-making is largely a function of corporate choice rather than corporate law."*[111]

It is also unclear if special legal forms or accreditation systems can indeed offer an effective and easy way for governments and donors to target financial incentives more effectively at inclusive business. This would require agreement on a general and measurable definition of what an inclusive business is and isn't, rather than a sectoral or case-by-case approach to allocating support. Indeed, governments have been able to facilitate and

[107] http://benefitcorp.net/faq

[108] Doug Bend and Alex King (2014): Why consider a benefit corporation? Article on forbes.com.

[109] Article in The Guardian, 21 November 2013.

[110] Noam Noked, Harvard Law School Forum Blog, 2012; see also The Economist, 2012 and Alexander, 2014.

[111] Noam Noked, Harvard Law School Forum Blog, 2012.

support private investments to sectors of high relevance to the poor without introducing a legal concept of 'inclusive businesses'. For example, the Senegalese government prepares reports outlining key policies and business opportunities in priority sectors including agriculture and agri-business, tourism, fishing, health care and others.[112] The Senegalese Investment Code (2004) also provides for tax and other incentives to investments in these sectors, as well as special benefits to investments that generate at least 200 jobs or that take place in locations outside the capital city.[113] Similarly incentive schemes are in place in other countries.[114] While specific evidence on the results of such schemes could not be identified for this paper, they represent a 'tried and tested' approach to directing financial resources to inclusive growth opportunities.

Practical ways forward

In summary, it is clearly debatable whether or not special legal forms or accreditation systems for inclusive businesses should be part of donor-supported regulatory reform for inclusive business. While monitoring the results of new initiatives such as in the Philippines will be crucial to understand their role for inclusive growth, there are also other practical ways forward:

- **Research on already existing forms of business and how these affect their social impact or 'inclusiveness'**.Generally speaking, businesses can be distinguished not only by their statutory form (including the standard company form, benefit corporations, social enterprises or cooperatives), but also their corporate governance and ownership models (such as employee-ownership). All of these elements of business structure may play a role in how inclusively companies are governed, how innovative they are, and how they balance social and financial objectives. The DCED is currently engaged in more in-depth research on this topic, and will publish the findings separately. If certain business structures are indeed found to influence social impact, governments and impact investors could explore using these as a criterion for support in the future.[115]
- **Supporting governments in sharing market information about sectors with inclusive growth potential, and making provisions for incentive schemes in national investment law:** This may include building the capacity of investment agencies in conducting research and producing sectoral reports targeting potential investors in priority sectors, and advising government on including appropriate sectoral tax or other incentives in the national investment code.

[112] Senegal Investment Climate Statement 2015.
[113] Dalberg (2012); Senegal Investment Climate Statement 2015.
[114] See for example FAO (2012)

[115] See also Erinch Sahan (2015): Impact Investment: Hype v Substance, the importance of ownership and the role of aid. Blog post on Oxfam: From Poverty to Power.

Summary of findings - Question 2: What is the role new regulation or de-regulation for inclusive business?

>> As in the case of other businesses, both de-regulation and new regulatory initiatives can be required to enable inclusive business. For inclusive business, the following sequence and combination of different reform types of seems to be of particular relevance:

> Identifying priorities for reform in the overarching laws regulating private investment, land access, trade and competition etc.

> Reviewing the structure of specific economic sectors relevant for inclusive business and their openness to private investment and competition. State-owned monopolies and government involvement represent particularly common binding constraints for inclusive business in sectors such as agriculture, health, energy. As noted under Question 1, there may also be specific registration, licensing or other binding constraints for individual inclusive business models, even if a sector offers opportunities for private investment.

> Working with individual inclusive business to identify regulatory requirements for scaling up. The growth and sustainability of inclusive market entrants often requires new regulatory frameworks – such as in the area of quality and consumer protection standards or tariff regulation.

>> Programmes need to be clear that regulation is not a one-off intervention; it is multidimensional and will need to be changed over time to respond to business risks and opportunities at different stages of business and sectoral development.

Summary of findings – Question 3: Are legislation on special corporate forms or voluntary accreditation systems instrumental in promoting inclusive business?

>> Evidence on the effectiveness of special statutory forms in corporate law or voluntary accreditation systems for inclusive business is limited.

> At a conceptual level, the rationale for such measures is still debated. It is unclear, for example whether such measures make it easier for business to defend social objectives internally or to shareholders; or whether they make it easier to attract government, donor and investor support.

> Separate ongoing research by the DCED seeks to further explore the role of business structure, including its statutory form, for social impact.

B. Debates and lessons on interventionist strategies

While efforts in the functional areas of business environment reform are critical elements of inclusive business development, additional support measures are often required. The following sections therefore also integrate experiences with interventionist government strategies.

Specifically, the objective is

- to *compare competitively neutral policy options with targeted support* to businesses or sectors, and explore existing lessons on effective practice (2.4); and
- to discuss diverging viewpoints, experiences and lessons related to *different types of interventionist approaches* (sections 2.5 and 2.6).

2.4 What is the appropriate level and type of selective government interventions vis-á-vis inclusive business?

Evidence snapshot: Examples of the impact of targeted financial support and incentives on inclusive growth

- *National/ cross-sectoral level*
  - *Reform:* Many developing countries have had some success in attracting Foreign Direct Investment into key economic sectors including agriculture after introducing general incentives including tax exemption, tariff reduction on equipment and machinery imports, subsidy, etc. (FAO, 2012)
  - *Reform*: A major review of donor-funded public-private partnerships in developing countries shows that the evidence base for public subsidies to business is scarce and rarely relies on sound or robust empirical counterfactual evidence. (Netherlands Ministry of Foreign Affairs, 2013). Several other studies show that few partnerships (such as through challenge funds) have demonstrated results for the poor at impact level (incomes/ jobs) (DCED, 2013; Evaluations of donor-funded partnership facilities)
- *Agriculture*
  - *Reform:* In Mozambique, SABMiller sources most of its Cassava from local subsistence farmers. The government offered tax incentives to 'compensate' for regulatory gaps and insecurities. (Parmigiani and Rivera-Santos, 2015)
  - *Barrier:* The Indian government subsidy-based agricultural policy is seen as a key barrier to long-term economic sustainability and agricultural productivity growth. In some states, it provides free electricity to farmers alongside subsidised water, seeds, chemical inputs and transport, and guarantees purchase by the government of most of the wheat and rice produced. While this has resulted in increased agricultural production, the growth in yields has not matched with an increased demand; farmers have no incentive to improve productivity and have thus become dependent on the subsidies to sustain their production and incomes. (Singh, 2015)
  - *Barrier and reform*: In Nigeria, ill-aligned incentives among actors in the fertiliser market to serve poor farmers were created by the public subsidies, procurement and distribution. As a result poor farmers were never targeted by fertiliser companies' sales efforts. Even those who had access to fertiliser struggled to pay for the high price or did not know how to use it properly. (Propcom 2011)
- *Education*
  - *Reform*: Sales of low-cost data tablets by the company Data Wind in India has been boosted by the government's subsidisation of mobile tablets in an effort to improve the quality of and access to education. For supply to students, the government not only waives duties and taxes, but also subsidises the cost by 50% for the first edition of DataWind's educational tablet. The government also directly procures from Data Wind to build the consumer market, and makes up 20% of Data Wind's sales. (The Guardian, 2014).
- *Energy, water and environmental services*
  - *Barrier*: Mercy Corps' Energy For All (E4A) program in Timor-Leste aimed to facilitate market actors to build a sustainable market for solar energy products for low-income populations. One of the key bottlenecks initially encountered in developing the market was the government's free distribution of solar home systems to several thousands of households. Uncertainty over who would receive free systems created reluctance among households to pay for the low-cost solution.
  - *Reform and barriers:* In Malawi, duty and surtax waiver on the importation of renewable energy technology equipment helped to reduce capital cost and could in principle enhance the affordability of renewable energy systems, such as solar home systems. However, surveys carried out in some parts of Malawi found that retailers did not reflect the tax waiver in retail prices, meaning that renewable energy systems remain at prohibitive prices. Legal instruments are required to address such abuse of tax waivers.
  - *Reform:* The Kenyan government removed the tax on imported raw materials to encourage the local manufacturing of solar panels, which was expected to reduce the costs for consumers (Lighting Africa, 2011). Later, the government also scrapped VAT on solar products, leading to a significant cost reduction of solar lights and phone chargers. (businessgreen.com, 2014)
  - *Reform:* A study of eight public-private partnerships in renewable energy provision shows that these collaborations have expanded access to energy services to the poor. (Sovacool, 2013).
  - *Reform*: In some East African countries, import duties on solar products are relaxed on a case-by-case basis and necessitate an application and representation to the local ministry of renewable energy. (IFC, 2015)

Alongside regulatory reform, the literature on inclusive business is rich in references to industry- or firm-specific policy measures such as subsidies at company or target group level, tax waivers or preferential public procurement.[116] They are typically referred to as effective policy options for promoting inclusive business. Evidence on such interventionist measures is however very mixed, and they are subject to significant debate in economic development circles. In particular, there is a potential for conflict between interventionist approaches and functional areas of business environment reform. They also tend to require different sets of expertise. This section explains the differences as well as possible synergies between these communities of practice with the view to inform the design of inclusive business programmes.

The fundamental debate

'Purist' advocates of business environment reform argue that levelling the playing field for all market actors and sectors is the best way to promote competitive, growing and ultimately more inclusive markets.[117] Hence, their recommendations typically include improving the regulatory environment for all firms and removing subsidies. In addition, acting as a 'neutral' facilitator that can help bridge information gaps or create links between companies and low-income communities[118] is seen as a desirable government function. Wider government strategies including active competition policy and innovation policy resonate well with traditional principles of business environment reform. Various studies have also referred to these as critical frameworks for promoting inclusive business and pro-poor growth.[119]

Conversely, selective incentives to particular groups of enterprises or industries are considered as inherently risky and market distorting[120]**.** They potentially provide perverse incentives to badly performing business, disadvantage others, and risk undermining economic competitiveness in the long run. Subsidies may also primarily benefit well-capitalised businesses, rather than the poor.[121] In particular, where governments lack the capacity to design and monitor such selective policies, or where patrimonial systems increase the risk of capture by special interest groups, the choice of beneficiaries may be flawed and ineffective support may not be withdrawn.[122] Another common argument against targeted incentives is that they are unsustainable: For instance, government incentives may be effective in enabling companies to integrate smallholder farms into their supply chains through contracts, but increase the vulnerability of companies and farmers alike if the incentive policy is removed prematurely.[123]

Still, other practitioners, such as advocates of industrial policies, argue that in all fast-growing countries that have managed to reduce poverty at scale "the state has played a much more active role than merely the creator of 'level playing field"[124] – for example by providing subsidies and performance rewards to businesses and

[116] See for example Endeva (2013a); GIZ (2013); UNDP (2014); UNDP and Ashley Insight (2014): Breaking Through: Inclusive Business and the Business Call to Action today - Mapping challenges, progress and the way ahead.
[117] GTZ (2007): Driving Business Environment Reforms through Private Sector Development Strategies – The Cases of Ghana And Namibia; ADB (2010): Regulatory Reforms for Improving the Business Environment in Selected Asian Economies- How Monitoring and Comparative Benchmarking
Can Provide Incentive for Reform.
[118] See for example IADB (2016): Transforming business relationship. Inclusive Business in Latin America.
[119] See for example UNCTAD, 2015: The role of competition policy in promoting sustainable and inclusive growth; and GIZ (2014)
[120] UNIDO and GTZ (2008), p.ix; ADB (2010), p.38.
[121] See the example of Indian agricultural subsidies in Singh (2015).
[122] See also DCED (2015): Private Sector Development Synthesis Note. Current Debates on Industrial Policy.
[123] FAO (2013): Contract Farming for Inclusive Market Access.
[124] SECO (2011): The Role and Effectiveness of SECO Cooperation in Business Environment Reform. Independent Evaluation.

industries with significant growth potential.[125] It has also been well documented that inclusive business may require targeted support as they can face high start-up costs, long payback times or unviable rates of returns in the short run.[126]

What the evidence says

In practice, there is evidence both in favour and against the use of interventionist instruments for inclusive business: Badly designed government interventions frequently act as an effective barrier for inclusive market development and productive growth, as illustrated by the agricultural sector in India, fertiliser market in Nigeria or solar lighting market in Timor-Leste. At the same time, well defined and managed incentives can be instrumental in supporting the development of innovative and inclusive business solutions. A review of member companies of the Business Call to Action (BcTA) concluded that

> *"many examples of BCtA initiatives ... [benefit] from positive government support ... [including] ... tendering and procurement, subsidised provision of goods and services, waivers of taxes"*[127]

Some examples in the evidence snapshot also indicate that tax incentives on production inputs for inclusive technologies (such as in renewable energy) might be able to stimulate the market. In some countries, such incentives seem to be granted on a case-by-case basis, making it more likely that they are deployed in response to a specific need. There are also a number of case studies demonstrating how matched funding from governments (donors or partner countries) and other types of partnerships have been instrumental in enabling the integration of low-income groups into companies' supply chains.

Lessons on designing effective interventions

Fundamental debates about the appropriate role of government are likely to continue and beliefs will influence the way existing policy experiences are interpreted. For example, as Khan (2014) points out the rise of Bangladesh's garment industry is used to show both that industrial policy works and that 'levelling the playing field' works.[128] Given this context, what could be practical lessons for creating an enabling environment for inclusive business?

One way to reconcile traditional business environment reform approaches with industrial policy would be to focus on some common denominators between the two. A DCED working paper on this topic notes that traditional regulatory reform can be considered compatible with "strategic industrial policy". This approach, focuses on horizontal (non-selective) and market-supporting interventions that shift the allocation of resources in an economy towards new, dynamic activities in any sector, and encourages public-private dialogue to identify areas to be supported:[129]

> *"Horizontal industrial policy interventions have the same goal as regulatory and legal reforms .... They offer incentives or public goods equally to all firms [in order to improve] the functioning of markets."*

Based on DCED (2014), key principles for creating synergies between business environment reform and industrial strategy supporting innovative inclusive businesses could include:[130]

- *Public-private dialogue*: Both business environment reform practitioners and supporters of strategic industrial policy place a great emphasis on broad-based dialogue between the government and the private sector. This serves to get regular feedback

[125] For further discussion of debates on industrial policy, please refer to the DCED Synthesis Note on the topic.
[126] See for example IIED (2014)
[127] http://www.theguardian.com/sustainable-business/2014/oct/15/business-call-inclusive-scaling-up; Full report: BcTA (2015): Breaking through: Inclusive business and the Business Call to Action today - Mapping challenges, progress and the way ahead. Note that potential negative/ distortionary effects on relevant sectors have not been assessed as part of the report.

[128] Mushtaq Khan (2014): The Industrial Policy Governance Challenge. Workshop Presentation.
[129] DCED (2014c): Business Environment Reform and Industrial Policy. Are they compatible?
[130] DCED (2014c).

from business on opportunities and constraints for inclusive growth.

- *Clear economic rationale for intervening*: In addition to social objectives, any intervention should be linked to a clear economic rationale in terms of what problem is to be overcome and why the intervention is the best option to do so. Public funds are best invested in innovative high-risk, but potentially high return activities.
- *Broad-based (horizontal) support*: Subsectors, activities or technologies should be favoured over individual firms. Any funds accessible to the private sector should aim to treat all firms equally, such as based on an open competition.
- *Time-bound support*: In particular where direct business subsidies seem to be justified, Singh (2015) stresses that they should be given as a one-off help or for a short period of time.
  Subsidies on continuing basis should be avoided.
- *Transparency*: There should be transparency in the regulatory environment as well as any pro-active incentives offered to companies. In the case of financial incentives, cost-sharing with the private sector should be used to ensure a 'buy-in'.
- *Results-based management of support:* Financial incentives should be linked to performance or implementation of agreed measures (e.g. training of workers or infrastructure investments) and be terminated if the desired results are not achieved.

Similar lessons have emerged from the market systems development or M4P community. While programmes in this field often support individual pioneer business, there is a clear economic rationale underlying support; support is time-bound and, in many programmes, combined with regular results monitoring; and there is a longer-term plan for encouraging wider sectoral development beyond the individual partner business.

The box below summarises some specific interventions that would be compatible with these principles – and that PSD practitioners could use to support innovative inclusive businesses.

Examples of donor-supported strategic interventions for inclusive business compatible with business environment reform *(adapted from DCED (2014): Business Environment Reform and Industrial Policy.)*

- ❖ Encouraging the formation of, and/or providing technical assistance to, sectoral business associations and an overarching apex association with thematic subcommittees
- ❖ Encouraging regular mechanisms for dialogue between the apex association and the government
- ❖ Gathering and sharing information about the regulatory and policy regime
- ❖ Conducting regular firm-level surveys to solicit feedback on inclusive growth constraints
- ❖ Combining any support to sectoral associations with measures to strengthen the competition agency – which would also have a central role in assessing funding bids from business associations or companies (see below)
- ❖ Advising governments on financial support to new investments by inclusive business (e.g. for feasibility studies, infrastructure, training or research) or options for the provision of risk capital, such as through a public venture capital fund or a development bank. Where the capacity to set up such a scheme is lacking, governments can create guarantee fund which provides loan guarantees to commercial banks lending to specific types of investors.
- ❖ Advising governments on tax incentives. A lower rate of profit tax could be applied to any product or service genuinely new to an economy.
- ❖ Training public officials in techniques and data gathering necessary to assess investment priorities and reform at the sector level.

Summary of findings – Question 3: What is the appropriate type and level of selective government interventions vis-à-vis inclusive business? (General discussion)

>> **While subsidies and other interventionist approaches are often mentioned side by side with competitively neutral approaches to inclusive business development, they are underpinned by contrasting perspectives on how countries can achieve pro-poor economic development.** Targeted support to sectors and businesses is viewed as essential to development by one group, and as prone to government failure and mismanagement by the other.

>> **In practice, the evidence shows that badly targeted or managed government subsidies often act as an effective barrier for long-term inclusive growth, while well-designed and -monitored incentives to specific sectors or business can effectively stimulate their growth**.

>> **PSD programmes promoting inclusive business can learn a lot from the big body of research on industrial, including effective policy options and risks** – but so far interaction has been the two communities has been limited.

>> **In particular, there are many common denominators between strategic or 'horizontal' industrial policy support and business environment reform which practitioners can harness to enable and encourage inclusive business.**

- > This involves developing a clear economic rationale for any subsidies, soliciting policy feedback through public-private dialogue, making support time-bound and dependent on results, and favouring sub-sectors or activities over individual firms.
- > Appropriate support options include, among others, research support and capacity building of sectoral business associations; strengthening competition agencies and training of public agencies involved in targeted incentives; and advice on activity-specific grants, risk capital, credit guarantees and tax incentives granted by the government.

2.5 Should targeted support strategies prioritise criteria of social impact or productive growth?

Targeted support to businesses, sectors or industries requires quantitative or qualitative eligibility criteria. The inclusive business and industrial policy literature do however differ in their suggested strategic focus and support criteria. This section unpacks this apparent tension between the two communities of practice, and draws conclusions for practitioners.

Evidence snapshot: Examples of ways in which countries have achieved pro-poor growth

Note that there is an extensive body of literature in this field, partly with contradictory evidence. A few selected experiences and seminal research are highlighted below, emphasizing the importance of productivity-led growth for poverty reduction.

- *National-level/ cross-sectoral reform*
  - Gutierrez *et al*. (2007) find strong evidence that the sectoral pattern of growth and its employment and productivity-intensities matter for poverty reduction. While employment-intensive growth in the secondary sector (manufacturing, construction, mining and utilities) is correlated with poverty reduction, employment-intensive growth in agriculture is correlated with increases in the poverty headcount. On the other hand, productivity-intensive growth in agriculture is significantly correlated with poverty reduction, whether through increases in sectoral productivity or through the movement of workers into other sectors. In other words, across the countries studied, the secondary sector seems to represent a repository of "more productive" jobs while agriculture is associated with lower productivity on average.
  - A study by ILO (2004) suggest that labour productivity growth in agriculture has a critical role in poverty reduction. Similarly, an overview of several country and cross-country studies illustrates the consistent finding that agricultural productivity is important for poverty reduction. (Schneider, 2011)
  - China alone has lifted over 450 million people out of poverty since 1979. Evidence shows that rapid economic growth between 1985 and 2001 was crucial to this enormous reduction in poverty. (Lin, 2003) India has seen significant falls in poverty since the 1980s, rates that accelerated into the 1990s. This has been strongly related to India's impressive growth record over this period (Bhanumurthy, 2004).

As noted in the previous section, some communities of practice assert that real economic growth and poverty reduction cannot be achieved without industrial policies, that is

> *"efforts to alter industrial structure to promote productivity-based growth"*[131] *or "any selective intervention or government policy that attempts to alter the structure of production towards sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention."*[132]

Proponents argue that today's rich countries and East Asian economies such as China or South Korea, have achieved economic growth and large-scale poverty reduction precisely because of such targeted government initiatives. According to ODI (2013) industrial policy (especially if targeting agro-industry and light manufacturing) still remains the most viable option for countries to achieve structural change, move up in the global value chain, and create employment and incomes for the poor. [133]

Success factors of traditional industry strategy

While there is extensive research on the various governance factors that influence the success of industrial strategy, there is widespread agreement on key criteria for allocating and managing support. These include

a) targeting support at sectors with high productive growth potential;
b) making subsidies to companies conditional on export (or other economic) performance; and
c) ensuring timely withdrawal of support from non-performing companies.[134]

Industrial strategy proposals for inclusive business

Meanwhile, some organisations in the inclusive business community now explicitly call for new forms of industrial policies targeted at inclusive business. According to APEC (2015),

> *"governments need to encourage more business to come up with inclusive ... solutions", such as by "prioritising inclusive business models in industry support programmes and policies".* [135]

Several countries including India, Indonesia and the Philippines are already exploring ways to target their industrial policies better at inclusive businesses in practice.[136] Also, some African states have used "subsidies to reward social benefits associated with business activities."[137] While there is no general agreement on threshold criteria for inclusiveness (see section 1.1), one of the policy measures presented as one of the "most pioneering steps"[138] at the ADB's 2016 Inclusive Business in Asia Forum[139] is a business accreditation system, which is being set up by the Philippine government: It serves to identify the level of social impact, commercial viability and innovation ex-ante based on sector-specific criteria[140] and "to then align existing industry policies to prioritize accredited inclusive business firms".[141] This is further outlined in the box below.

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[131] The World Bank (2007): The East Asian Miracle.
[132] Howard Pack and Kamal Saggi (2006): The case for industrial policy: A critical survey.
[133] ODI (2013): Growth, Employment and Poverty in Africa. Tales of Lions and Cheetahs.
[134] See for example Sanjaya Lall (2000): Selective Industrial and Trade Policies in Developing Countries: Theoretical and Empirical Issues; Mushtaq Khan (2014): The Industrial Policy Governance Challenge; Dani Rodrik (2010): The return of industrial policy.
[135] APEC 2015 : About Inclusive Business
[136] Mareike Grytz (2016).
[137] UNDP (2013), p. 41.
[138] ADB (2016).
[139] Website of the 2nd Inclusive Business Forum for Asia, February 2016.
[140] Mareike Grytz (2016).
[141] Armin Bauer (2016): Unlock solutions for the poor through inclusive business innovations.

Summary of assessment criteria proposed for the Philippines' Inclusive Business Accreditation System[142]

The evaluation tool scores companies based on the following sets of criteria:

- **Financial viability** examines the business case for the project
- **Social impact** covers the engagement of the BoP within the project, measured in terms of reach, depth, and systemic solution. *Reach* is measured by number of beneficiaries. *Depth* pertains to the size of the benefit. *Systemic solution* focuses on the relevance of the business model in addressing income or human development gaps in a specific area, as well as the commitment towards disseminating the model to other key players.
- **Innovation** refers to Business innovation (Measures to increase profitability for company and promotion of good governance); Social innovation (Measures to increase positive social impact) and Environmental innovation
- In the case of agribusiness[143], the weight of Social Impact is 55%, while that of Innovation is 15% and that of financial viability 30%.

Such initiatives represent a clear shift in the language, rationale and strategic principles underlying successful examples of past industrial strategies: In general, social impact seems to be a key criterion for targeting support. In the specific example of the Philippines Inclusive Business Accreditation System, Social impact is consistently given a higher weight in ex-ante assessments (55%) than innovation (15%) or financial viability. In addition, the criteria used to assess innovation and financial viability largely relate to company profits and governance, as well as social and environment impact. Overall, criteria that would be prioritised in traditional industrial policies, such as strategic importance of the target sector for productive growth and businesses' commercial or export performance, therefore seem to be lower in the priority list of such inclusive business policies. While it unclear whether strategies prioritising social impact would replace or simply complement other industrial strategies, it is a critical question how governments can deploy resources in the most strategic way for poverty reduction.

Risks associated with strategies prioritising social impact

Although there is not enough experience with industrial policies prioritising social impact in order to judge their effectiveness, a critical review suggests that they actually risk having negative impacts on pro-poor growth. One reason lies in how social impact is defined in practice. The Philippine's Inclusive Business Accreditation System is likely to assess systemic social impact partly based on the company's commitment to share their business model with others. Especially if required in the short-term, this might however put the financial viability of the business model at risk. Another reason is that a social impact focus risks diverting support from productive economic sectors which have strong poverty reduction potential in the medium term. Altenburg (2011) points out that

> *"not every industrial policy that targets needy producers is actually good" ... as these may actually "reduce aggregate productivity by distorting the allocation of resources, especially if they support firms with weak business models. Trades-off between growth and distribution need to be balanced carefully."* [144]

In the words of DFID, "poorly targeted subsidies [can] hamper growth by redirecting capital away from where it is most productive."[145] A parallel can be drawn to the funding criteria of impact

[142] Adapted from: Roehlano M. Briones (2016): Growing Inclusive Businesses in the Philippines: The Role of Government Policies and Programs

[143] *No information could be found on the weighting proposed for other sectors.*

[144] DIE (2011): Industrial Policy in Developing Countries. Lessons from seven country cases.

[145] DFID (nd): Growth. Building Jobs and Prosperity in Developing Countries.

investment funds. According to an empirical review covering several African countries, investment funds typically limit their choices to businesses operating outside the manufacturing sector, which is however often considered as the key to achieving long-term economic development. Most of the 'inclusive' businesses supported by these funds served solely as distributors of imported finished and semi-finished products, partly due to the high cost of manufacturing locally.[146]

Not necessarily an 'either... or'

There are options for avoiding trades off between social impact and productive growth. In relation to the specific example above, impact investor choices could be usefully broadened to include businesses in the manufacturing sector, complemented by regulatory reform (e.g. to reduce the high cost of importing component parts or to lower taxes).[147] More generally, Altenburg (2011) argues that governments can identify ways to "promote structural change in a way as to enhance competitiveness and productivity growth, while increasing the incomes of the poor more than proportionally."[148]

Such 'inclusive industrial policies' go beyond stimulating productive growth, and may involve

- a focus on labour-intensive industries[149], and productivity-enhancing practices of agribusiness[150] involving the rural poor, while maintaining a focus on economic performance criteria for managing incentives (as in proven industrial strategies);
- safeguards for vulnerable groups[151], e.g. by promoting labour standards and improved working conditions for women and men; or
- the strengthening of backward linkages[152] between larger firms benefiting from state incentives and local intermediaries or suppliers involving the poor.

In a similar way, extensive studies of growth experiences in Africa and Asia by Fox (2014) and Studwell (2014) suggest that government in developing countries should pursue two complementary strategies:

- Creating conditions for increasing agricultural productivity and improving incomes of rural households; and
- nurturing export-oriented, high-growth and labour-intensive manufacturing.[153]

An increased focus on such strategies does not imply that donor and government support should not be directed at pro-poor business models in other sectors, too – in particular if they are highly innovative and show clear potential for commercial viability. However, a broad strategic focus on social impact criteria in industrial support programmes risks failing to produce the desired long-term effects on inclusive growth.

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146 Ngoasong (2015).
147 Ibid.
148 DIE (2011).
149 DIE (2011).
150 Gutierrez *et al.* (2007.)

151 http://www.die-gdi.de/uploads/media/DP_4.2011.pdf
152 Ibid.
153 Louise Fox (2015): What is the private sector challenge in low-income countries: An African perspective. Presentation given at the 2015 DCED Annual Meeting; Joe Studwell (2014): How Asia works.

2.6 Are mandatory rules and preferential criteria on inclusiveness effective means to promote pro-poor growth?

One specific set of strategies under the overall umbrella of interventionist approaches which merits separate discussion is the use of mandatory criteria, rules and regulations that on the inclusion of low-income populations in business models. These are frequently proposed as an effective way for governments to promote inclusive growth.[154]

Evidence snapshot: Examples of experiences with mandatory criteria and rules on inclusiveness

- **National-level/ cross-sectoral reform**:
  - *Reform*: Analysis of comprehensive data from Brazil shows that "winning at least one [government] contract in a given quarter increases firm growth by 2.2 percentage points over that quarter, with 93% of the new hires coming from either unemployment or the informal sector. These effects also persist well beyond the length of the contracts. Part of this persistence comes from firms participating and winning more future auctions, as well as penetrating other markets. (Ferraz, Finan, and Szerman, 2016)
- *Health and Nutrition*
  - *Reform and barriers :* In Tanzania, national legislation was passed on mandatory staple food fortification in 2011, following advocacy efforts of national level alliances under the umbrella of the GAIN initiative (Kubzanzky et al, 2013). Even though the government waived import taxes on fortification equipment and nutrient premixes to increase incentives for private sector adoption (Preedy et al, 2013; Method et al., 2015), demanding business registration and certification requirements of the Business Registrations and Licensing Agency meant that most SME food processors were unable to adopt food fortification (only registered SMEs were allowed to fortify). (IDS, 2015) Case studies of Bangladesh, Indonesia, Côte d'Ivoire, Burkina Faso, Madagascar, India and South Africa (Hystra, 2014) and Malawi, Burkina Faso and Tanzania (Mildon et al., 2015) also point the need for other complementary measures, as food fortification requires very substantial investments in promoting products and increasing user awareness.
- *Financial services*
  - *Reform:* In India, the government required all insurance companies to sell a percentage of their policies in rural areas. This policy was, however, unsuccessful. (Endeva, 2013a)
- *Agriculture*
  - *Reform:* As part of revisions to Investment Law, a number of governments (e.g. Liberia, Vietnam, Ethiopia, Lao, Burkina Faso) are planning contract farming a mandatory requirement for approval of large-scale land investments (Information provided by FAO based on ongoing research by ISSD). In both Indonesia and Colombia laws regulating the establishment or expansion of plantation areas have mandatory requirements for sourcing from smallholders. (Information provided by FAO)
  - *Reform*: In the Philippines, a presidential memorandum was used to mandate the use of coconut fibre in all government infrastructure projects, benefitting about 2,000 poor supplying households and a growing supporting industry. (Endeva 2013a)
  - *Reform:* A requirement in India for foreign retails to source at least 30% of their produce from local MSMEs has caused "a stalemate in retail development"(Altenburg et al. 2016).
- *Energy, water and environmental services*
  - *Reform:* The Government of Manila granted Manila Water Company a concession for water and wastewater services under the condition of meeting service targets to cover previously excluded slum populations. (G20 Inclusive Business Framework); As a result, the company implemented targeted programmes to provide water services to poor areas. (Franceys and Gerlach, 2012)
- *Education*
  - *Reform:* In 2009, India adopted The Right To Education Law, which requires that 25 percent of the first grade places in non-government schools be offered to children from low-income families. (Heyneman, 2014)

[154] E.g. Joyeeta Gupta et al. (2015): Towards an Elaborated Theory of Inclusive Development, European Journal of Development Research (2015) 27, 541–559.

Broadly speaking, three major forms of mandatory inclusion rules or preferential government treatment of inclusive businesses are frequently mentioned in the literature:

- Industry-specific rules and regulations that oblige businesses to include the poor in their business model or to design their products or services to address the needs of low-income populations. Examples include mandatory food fortification, or quota requiring companies to sell a certain percentage of their products to poor customers (e.g. insurance policies or bank loans);
- Pro-poor targets in government contracts requiring companies contracted by the government to achieve a certain level of inclusion of poor producers or consumers in public-private partnership projects; or
- Preferential public procurement, which favours inclusive business in the selection of suppliers of goods or services to government[155].

Risks associated with mandatory inclusion rules

In general, little research seems to exist on the direct and wider economic and social impacts of mandatory inclusion policies; and many policy examples in the literature do not include any information on results (as is the case for some of the examples include in the 'evidence snapshot').

Mandatory inclusion is however criticised for raising the cost of doing business, distorting markets, and being ineffective or less effective than other policies: As noted by Endeva (2013),

> *"pure push strategies may not be effective if there is no real pull from the market side."*[156]

Indeed, private incentives for involving a fixed amount of poor suppliers or customers are typically lacking. For financial institutions, for instance, "mandatory allocation [of loans] to BoP sectors is unlikely to be acceptable" as it raises the cost of financial intermediation significantly. It also reduces the total supply of credit.[157] This is also applies to insurance: A mandatory inclusion law for Indian insurance companies did not achieve its desired effect and was only very rarely enforced by the regulatory authority.[158] Briones (2015) suggest that a more effective alternative to mandatory allocations of credit to the poor would be to provide 'smart subsidies' in the form of cash transfers to poor households.[159]

Local content rules and minimum sourcing requirements for international investors are another possible form of mandatory inclusion. These have been used by some countries (e.g. India and China) to 'force' supermarket chains to source from small domestic suppliers. This is however prohibited by WTO rules, and it can put companies off from investing at all. In India it has caused "a stalemate in retail development".[160]

Alternatives to mandatory inclusion and complementary strategies

According to the German Development Institute, facilitating links between local suppliers and interested investors is more promising than local sourcing requirements - e.g. by providing information about local suppliers; or linking inclusive supply chains to a greater likelihood of licenses for additional outlets. Only "under certain circumstances" should supplier development be made mandatory, e.g. through a company-specific or nationwide supplier development fund. Still, the success of such funds "will depend on the level to which retail corporations take ownership"[161] – so market demand remains a critical condition for mandatory measures. There are also less interventionist government strategies to enable

155 See for example the G20 Inclusive Business Framework.
156 Endeva (2013a), p.39.

157 Briones (2016).
158 Endeva (2013a), p.39.
159 Briones (2016).
160 Altenburg et al. (2016): Making Retail Modernisation in Developing Countries Inclusive
A Development Policy Perspective, German Development Institute, p.34.
161 Ibid., p.34, 35.

supply side development while avoiding negative distortions. This includes an enabling environment for standard development, testing and certification (see also section 1.2.3) or offering incentives to farmer associations which help farmers sell to larger buyers.[162]

Governments that do opt for mandatory rules affecting an entire industry will also need to consider complementary interventions and incentives to ensure market uptake. This is illustrated mandatory food fortification interventions in several countries, which required follow-up measures such as making it easier for food processors to register and obtain licenses; providing tax incentives for imported inputs; and/or facilitating, or sharing the cost of awareness-raising among consumers. Which costs businesses are willing and able to bear varies by country, and it is "best to engage the [them] in [public-private dialogue] on the most acceptable way to fund such expenses."[163]

Lessons on preferential public procurement

There is limited evidence on preferential public procurement for inclusive business or pro-poor targets in government contracts. One example of effective the effective use of pro-poor targets in government contracts is the water sector in Manila. In the area of preferential procurement, some lessons can be learned procurement schemes for SMEs. Ferraz, Finan, and Szerman's analysis of government procurement in Brazil illustrates its potential benefits for business growth: SMEs that won at least one government contract hired more employees (mostly from the informal sector or unemployment), and managed to enter new markets.[164]

As other targeted government measures, preferential procurement does not come without risks. ADB (2012) points out that

> *Preferential procurement schemes can be manipulated to facilitate 'market capture' or 'rent seeking' by vested interests, resulting in higher prices for goods and services... SME procurement schemes... can lead to longer-term inefficiencies and higher costs through increased SME dependency on government...".*[165]

In addition to political economy factors, the ability of preferential procurement policies will also depend on the overall level of development. Cash-strapped governments frequently delay their payments by up to a couple of years, which can have serious implications for business with limited access to formal financial services and rely on their clients for their cash flow.[166] As such, least developed countries may not be able to run such procurement schemes effectively. In other countries, it can be useful to introduce legislation which stipulates periods within which Government contracts must be paid out.[167]

Finally, the decision whether or not to introduce preferential procurement should be based on an assessment of the constraints faced by inclusive business in accessing government contracts. If access is primarily hampered by a lack of information or complicated procedures, facilitation mechanisms can offer a more effective and market-based solution. Facilitation bureaus could help business understand government contracting processes, or even create opportunities for sub-contracting by linking them up with prime contractors.[168] There may also be a need to raise awareness among government about the benefits of working with inclusive business and how assess the inclusiveness of applicants.

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[162] Ibid., p.39.
[163]USAID SPEED (2014): Fortification of Staple Foods in Mozambique.
[164] Claudio Ferraz, Frederico Finan and Dimitri Szerman (2016): Procuring Firm Growth: The Effects of Government Purchases on Firm Dynamics.
[165] ADB (2012): SME development. Government Procurement and Inclusive Growth.
[166] Simon Bell and Yolanda Taylor (2016): Government procurement – A Path to SME growth? Blog post on the World Bank PSD Blog.
[167] Ibid.
[168] Ibid.

Summary of findings – Question 4: Should targeted support strategies prioritise criteria of social impact or productive growth?

>> **There is a tangible difference in the language, rationale and strategic principles underlying successful examples of past industrial strategies and the ones proposed for inclusive business development.** Most notably, traditional industrial strategy emphasises productivity growth, competitiveness and management of incentives based on economic performance of firms. New industrial policy proposals in the inclusive prioritise criteria of social impact in awarding and managing incentives. While it unclear whether strategies prioritising social impact would replace or simply complement other industrial strategies, it is a critical question how governments can deploy resources in the most strategic way for poverty reduction.

>> **There is currently no evidence on the effectiveness of industrial policies prioritising social impact but there is a risk a broad strategic focus on social criteria could actually reduce aggregate productivity and long-term prospects for inclusive growth**.

>> **A practical way to balance economic and social objectives in industrial strategy would be to carefully calibrate, manage and complement proven industrial strategy frameworks that focus on productive growth** – for example by

> advising on regulatory reform and industrial policies that make it easier for businesses to invest in labour-intensive manufacturing and productivity-enhancing practices in agriculture;

> promoting decent working conditions for women and men in labour-intensive industries;

> working through sectoral programmes (e.g. value chain or cluster development) to create linkages between smaller businesses involving the poor and larger businesses that benefit from government incentives.

Summary of findings – Question 5: Among interventionist strategies, are mandatory rules and preferential criteria on inclusiveness effective means to promote pro-poor growth?

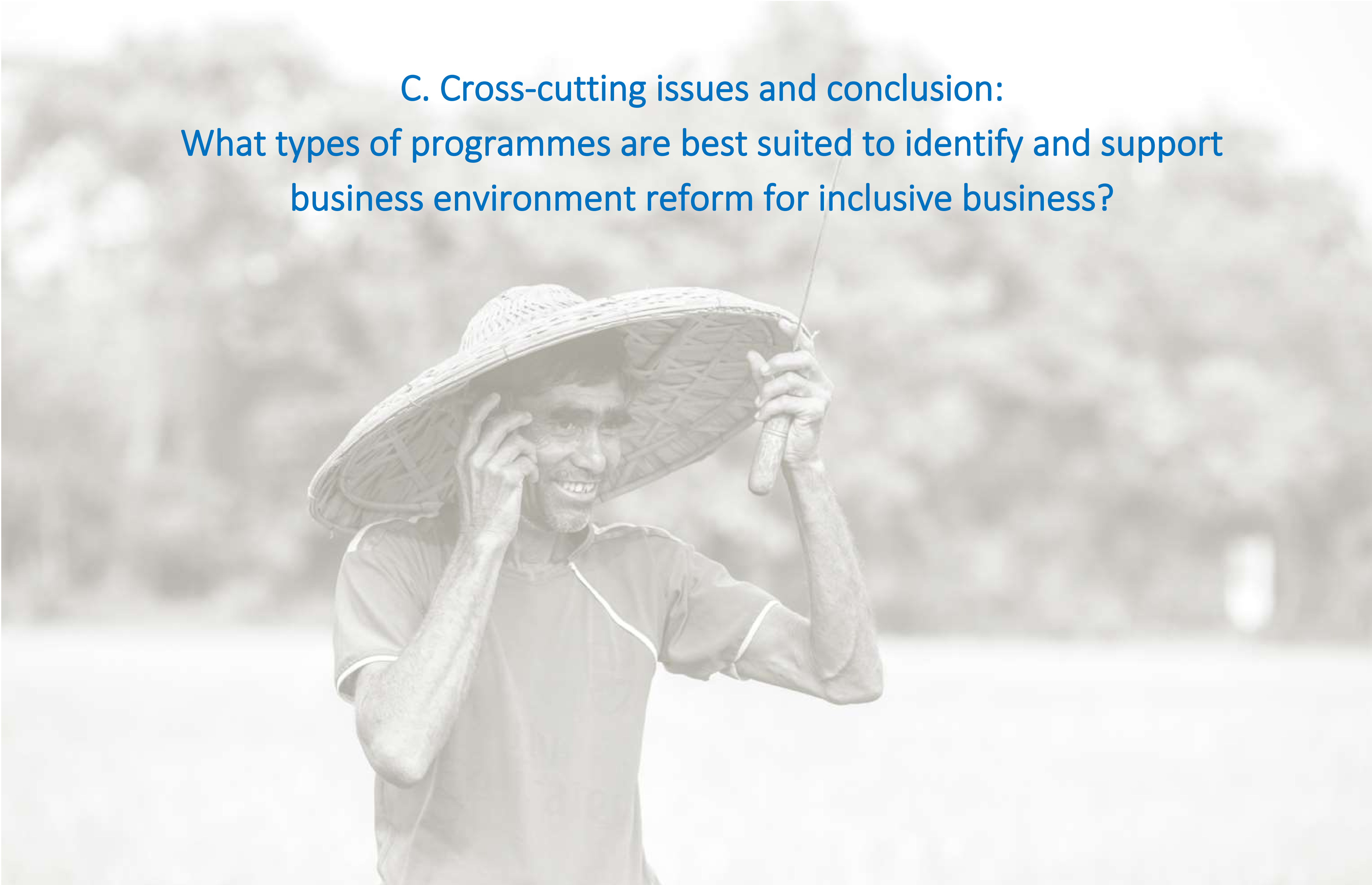
>> **Donor programmes should avoid promoting mandatory inclusion rules without careful assessment of their likely effectiveness and economic viability**. In most cases, they work against private incentives, raise the cost of doing business and don't achieve their set objectives. Alternatives to mandatory inclusion which are likely to be more effective include end-user subsidies to the poor or measures that respond to the interest and demand of businesses (e.g. access to information about integrating the poor producers in the business model or licensing incentives), complemented by supply side development. Where mandatory rules seem appropriate to enhance the well-being of the poor, they will likely need to be complemented by additional public support (e.g. tax incentives) to help business adopt new ways of operating.

>> **There is not much evidence on the benefits of preferential public procurement on inclusive business, although some benefits have been reported in similar schemes for SMEs.** Before introducing such schemes it is however vital to assess

> what prevents inclusive business access to government contracts in the first place and if it could be facilitated through other measures (e.g. streamlining procedures);

> and whether government has the capacity and resources to run such schemes effectively.

C. Cross-cutting issues and conclusion:
What types of programmes are best suited to identify and support business environment reform for inclusive business?



This concluding section draws implications from the previous sections for how different types of private sector development programmes can contribute to a better enabling environment for inclusive business. Three very common categories of private sector development programmes include traditional business environment reform and policy advisory or advocacy initiatives; programmes working at the level of sectors, including market systems and value chain development programmes; and partnership funds and facilities working with individual businesses. Are any of these more or less suited to address different elements of an enabling environment for inclusive business?

In this section

a) Following a plan: Business environment reform approaches focusing on the policy level

Programmes pre-occupied with improving the generally regulatory environment and overarching government policies vis-à-vis the private sector typically engage directly at the policy level. They do so by working with government partners and/or via business associations to promote reforms that are widely recognised as making private sector investment easier and less costly. As such, the basic parameters of reform are often already specified in programme planning and design – in line with international good practice or in response industry-specific concerns. In addition to donor-led initiatives, industry-level or multi-stakeholder alliances can be created to advocate for specific reforms.

How can such programmes contribute to an improved environment for inclusive business? Based on the previous discussions, programmes focusing on the policy level are well placed to help improve some of the essential framework conditions and cross-sectoral areas of the business environment that affect private sector investment and/or inclusive business in general – such as land titling reform, financial sector reform and regulatory improvements for impact investment, or competition policy frameworks. Advice on appropriate industrial strategies in pro-poor growth sectors are also within the remit of such for programmes. Their ability to identify and address business environment constraints that are specific to certain sectors or innovative business models may however be more limited as they tend not to engage in in-depth sectoral research or interact individual pioneer businesses to learn about their constraints. The box offers two examples of policy-level reform initiatives for inclusive business.

Examples of policy-level initiatives promoting an enabling environment for inclusive business

1. Donor-led initiative: The GEMS3 programme in Nigeria[169]

In Nigeria, gaps in access to finance, a lack of security of tenure, and the persistence of an excessively lengthy and complex process for acquiring licences are strong operational barriers to many small, medium and micro enterprises (MSMEs). The DFID-funded GEMS3 programme promotes reform through the following activities:

- Advising on tax harmonisation to reduce the number of taxes paid for by MSMEs;
- Undertaking a thorough review of land ownership in selected areas and devising policy reforms to make land registration simpler and more transparent, in order to increase levels of investment.
- Promoting business registration reform.

This business registration work stream, which was implemented in collaboration with the Nigerian government's Corporate Affairs Commission has reduced the cost of registering a business and removed the need for a lawyer to assist with this process. A complementary strategy has been the "Running a business in Nigeria" campaign to provide information of these legislative changes and the benefits of registration (e.g. setting up a corporate bank account, benefiting from international trading opportunities and gaining access to investment capital as well as government loans.) The programme claims the average of registrations from March 2013 to February 2014 have increased by over 900% to 22,707 new business formalisations. By April 2014 this work is reported to have resulted in an estimated increased income of £4,894,488 for 19,781 enterprises. It is also estimated that cheaper registration has so far saved Nigerian businesses roughly £25m annually in costs.

While GEMS3 does not report on any direct impact of these benefits on the poor, numerous reports point out the important role of SME as a vehicle for poverty reduction[170] – either as employers of the poor[171] or as

[169] Adapted from: Adam Smith International: Enabling business in Nigeria by reforming the tax system and promoting investment (webpage); GEMS Nigeria website; and Kristofer Gravning (nd): Nigeria. Unleashing the Giant's Potential. Ensuring Economic Growth in Nigeria through legislative reform and business registrations. Adam Smith International article on The Guardian.

[170] See for example Basil Onugu (2005): Small and medium enterprises in Nigeria: Problems and Prospects.

[171] DCED (2013): Current Debates on Small Enterprises and Development Agency Support. Synthesis Note.

providers of products and services to the poor.[172] Cost savings and higher income are likely to contribute to business growth, at least for a sub-set of SMEs, and thereby increase benefits for the poor in their supply chain.

2. Industry-specific multi-stakeholder alliance: The Global Alliance for Clean Cookstoves[173]

The Global Alliance for Clean Cookstoves is a public-private alliance created with the specific objective to promote the global use of clean and efficient household cooking solutions. To create enabling conditions for the adoption of save and affordable clean cooking solutions, the Alliance has influenced a process to create the first-ever global standards for cookstove safety, efficiency and cleanliness. The Alliance's leadership has also been influential in the process to create the first-ever global standards for cookstove safety, efficiency, and cleanliness. It also provides access to market information (e.g. country-specific market and consumer research, information about national standards). It also works on building the national quality infrastructure around clean cookstoves, e.g. by enhancing testing centres. The Alliance also works with governments in eight focus countries to develop and shape government strategies for further progress.

b) Making strategic choices: Multi-pronged reform approaches starting at the level of markets and sectors

This community of practice of PSD programmes seeks to develop entire markets or sectors in developing countries – often under banner of 'Making markets work for the poor' (M4P), 'Market Systems Development', or (systemic) Value Chain Development. While there may be differences between the exact approaches and objectives chosen, the key features of these programmes include:

- Starting by identifying strategic sectors in an economy that have significant economic growth potential and are relevant to the poor; programmes then conduct a thorough analysis of the sectoral constraints for inclusive growth that businesses and the poor face;
- Identifying the most suitable intervention strategies to facilitate solutions to the constraints encountered, by catalysing innovation and improving the functioning of markets. In case regulatory or other policy constraints are seen as a key obstacle, this could imply, for example building the capacity of partner businesses and associations to advocate for reform; and
- Working through a range of interventions aimed at developing the sector at the same time. This means that regulatory and policy reform support will be complemented, for instance, by interventions in companies' supply chains or to increase the functioning of supporting markets (e.g. finance, research, and training).

Such programmes seem to be particularly suitable for creating an enabling environment for inclusive business for two reasons:

- First of all, the analysis in the previous sections suggests that an important share of regulatory and policy constraints to inclusive business are either sectoral or relate to a specific business innovation.
- Secondly, many examples of business environment reform pointed to the need for additional supporting interventions for the growth of inclusive business models. In addition, research highlighted that market-based alternatives are likely to be more effective that mandatory inclusion policies by governments. Market development approaches lend themselves well to such a multi-level approach, as they are anyway typically designed to address different market players and functions, or activities in a value chain, at the same time. Examples of interventions that complement regulatory or policy reform include

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172 UNIDO (2006): [Productivity enhancement and equitable development : challenges for SME development.]

173 Adapted from: http://cleancookstoves.org

- facilitating training of small producers in companies' supply chains (e.g. to support the compliance with quality standards; or as a market-based alternative to mandatory inclusion policies vis-a-vis retailers of agricultural produce);
- awareness-raising of new products or end-user subsidies among poor consumers (e.g. to ensure uptake of pro-poor products or technologies whose production benefits from a recently de-regulated government sector or pro-active measures such as tax incentives);
- Facilitating the production of research for government or market intelligence for business (e.g. on suitable input suppliers; consumer preferences; regulatory requirements etc)
- supporting capacity-building of institutions involved in testing and certification (in the case of quality standards).

The examples below offer examples of how market development programmes have promoted change at the level of government regulations and policies.

Examples of market development programmes that promoted regulatory and policy reform

1. Increasing competition in Fiji's seed market: The Market Development Facility (MDF)[174]

MDF is a market development programme funded by Australian DFAT in Fiji and other countries. MDF's initial sector assessments in Fiji showed that the horticultural sector had particular potential for pro-poor growth. A key inclusive growth barrier in the sector was however the lack of sufficient stocks and different varieties of seeds, which prevent farmers from grow a variety of crops throughout the year. As Fiji had only one licensed seed supporter, MDF entered a strategic partnership with the company KK's hardware to catalyse pro-poor change in this market. KK's hardware wanted to diversify into seeds and other agro-inputs but complex regulatory requirements of Fiji's Biosecurity Authority had prevented it from entering this business.

The main purpose of the partnership was therefore to help KK's hardware understand requirements for obtaining a seed license; to identify suitable seed foreign suppliers; to strengthen KK's relations with the Biosecurity Authority; and to facilitate the process of getting the import. Through its work with KK, MDF was also able to flag to the difficulties that businesses attempting to move into this market faced more generally, in particular due to a lack of information by the government. Ultimately, it is expected that increased competition in the seed market will give farmers access to good quality seeds, sufficient seed varieties and stocks of seeds throughout the planting seasons, enable them to save production time, and increase yields and income.

2. Moving towards a systemic approach to promoting solar home systems: The Lighting Africa Initiative[175]

Following various other initiatives to promote solar home systems in Africa, the IFC launched the Lighting Africa Initiative in 2007. This started out as a partnerships facility, with a global call for project proposals aimed at developing new lighting products and delivery models for the large rural off-grid lighting market. But the Lighting Africa programme soon began widened the scope of its activities including: market research in several countries; product testing and the development of quality assurance methodologies; identification of financing needs throughout the value chain; knowledge-sharing and self-evaluation; and research to identify policy constraints in several countries.

For Kenya, for example, Lighting Africa added to existing market assessments by conducting in-depth research on products available in Kenya, product-testing, and a review of the policy environment and policy actors. Between 2009-2013, Lighting Africa became much more active in Kenya in terms of interventions and engage engaged in an awareness-raising campaign, quality-assurance labelling of products, setting-up of a product-quality testing facility, training of technicians, capacity-building for business development and for finance

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[174] Adapted from: MDF (2015): Innovating Private Sector Engagement in the Indo-Pacific Region. The Australian Government-funded Market Development Facility.

[175] Adapted from Byrne and Ockwell (2013): Building pathways of pro-poor energy access. PV-powered electricity services in Kenya.

institutions, lobbying of policy makers on regulations, and building of networks of actors to encourage the flow of information. Whilst it is difficult to determine the extent to which the rapidly expanding market for small off-grid lighting products in Kenya can be attributed directly to these efforts, the programme does make a series of claims (see Byrne and Ockwell (2013) p.13 for details). One clear lesson from the evolution of the Kenya solar power market is that its success is explained by a combination of interventions that have addressed several dimensions of a nascent innovation system. An interesting aspect of these interventions has been the effort to understand the detail of consumer preferences and constraints. This has enabled much better design of products to the context-specific nature of electricity services in rural areas.

3. Advocacy and advice on sheep sector development: Alliances Lesser Caucacus Programme (ALCP) in Georgia[176]

ALCP is an SDC-funded market systems development programme in Georgia focusing on livestock sectors. Market analyses revealed that the traditional Animal Movement Route from winter to summer pastures represented a key constraint for sheep sector development, partly as bad management had become a lynchpin for national animal disease control. To address this issue, ALCP formed an Advisory Committee with private sector and civil society stakeholder to advocate for improvements. It also supported the development of a documentary film which further highlighted the importance of the route to policy-makers. Multi-stakeholder coordination and facilitation between local and regional government, relevant Ministries, businesses and the Shepherds Association led to the construction of a new bypass route, and a process to improve the wider route and its management with the support of an external expert supported by ALCP. This included: Development of a new infrastructural model, identification of strategic points for new facilities such as biosecurity points and vaccination, resolving uncertainty over pasture land tenure and access, and plans for re-routing the animal movement route from main roads. ALCP is now facilitating the building of five Bio-Security yards with water points on the Animal Movement Route financed from the State Budget.

c) Grasping opportunities: Reform approaches starting at the level of individual business partners

A third common donor approach to develop economic opportunities for the poor is to develop partnerships with individual businesses. One typical format includes funds and facilities that invite project proposals by businesses and award support to on a competitive basis. Support can be in the form of matched funding (e.g. in the case of the Africa Enterprise Challenge Fund) or technical assistance (e.g. in the case of the Business Innovation Facility pilot) to individual businesses that meet the criteria of the fund. The objectives are similar: helping innovative and inclusive business models start-up, improve or grow.

While business environment reforms are not typically on the radar of such partnerships from the outset, programme staff or donor embassies can grasp opportunities to engage at the policy level as well: If a binding constraint to the success of a business model is identified during the partnership, programmes can play a critical role in facilitating dialogue between the business and government and in providing credibility. In fact, responsiveness of the government to acute issues, brought to their attention by businesses, might even be better than in the case of "the government-to-government ... programmes that are typically pursued".[177] While not many cases of such reform have been documented, the box provides a few examples of where this has happened in practice.

[176]Adapted from: Alliances Lesser Caucasus Programme Annual Report 2014-2015.

[177] Chilver, Van Diermen and Jones (2006): Using Enterprise Challenge Funds to Promote a more Enabling Environment for Business: Challenges and Opportunities, p.6.

Examples of partnerships funds and facilities that support regulatory and policy reform for partner businesses[178]

- In Ethiopia, several companies that partnered with the German and Dutch governments have succeeded in having laws changed that severely hampered their business operation; some also participate regularly in meetings with government institutions, such as the customs facility, following the facilitation of the donor partner. An evaluation of a former Dutch matching grant programme (PSI) stresses that in some countries, Dutch embassies provided active support in bringing business climate issues to the table. This included the floriculture sector, in which the programme had supported several partner companies.
- Most PSI partner businesses in the floriculture sector in Ethiopia also opted for some type of voluntary certification of good agronomic practices (as described in the project proposal and monitored by the PSI programme). This has been catalytic in improving environmental practices in the entire sector, as the Ethiopian Horticultural Association later made these standards conditional for obtaining an export licence.
- In the context of a micro-insurance project in India, DFID's Financial Deepening Challenge Fund (FDCF) helped raise the profile of issues with existing regulations, and helped the micro-insurance businesses work together to lobby for changes.

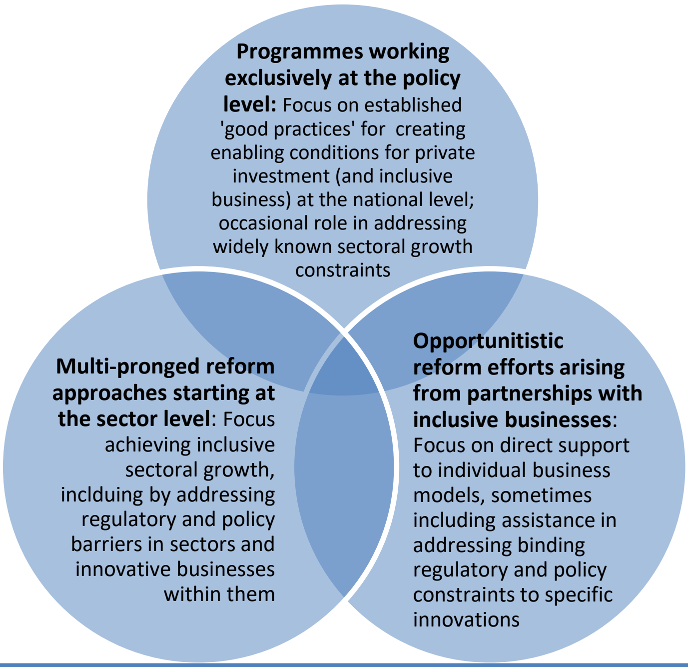
Whether and how effectively partnership funds and facilities can play a role in business environment reform will partly depend on their design and project selection criteria:

- The more emphasis is placed on selecting highly innovative projects, the more likely it is that partner businesses encounter regulatory and policy constraints that are very specific to their business model, and that warrant complementary reform efforts by the donor or implementing programme. In fact, growing interest among donor agencies in supporting 'innovation funds' – dedicated to the provision of finance for the piloting and scaling up of inclusive innovations from any country or sector – provide a useful entry point to identify business environment reform needs of a partner business and facilitate exchange between the business and government.
- Funds that support a number of similar partnerships in a priority sector in the same country may also be able to support partners in advocating for sectoral business environment reforms, including through public-private dialogue platforms.
- Funds and facilities that operate in-country, whether through embassies or implementing organisations, are more likely to have the capacity and networks to facilitate dialogue between a partner business and the government on specific regulatory or policy barriers.
- For centrally-managed funds in donor countries an increased focus on regulatory and policy constraints faced by partner business will require collaboration with embassies or relevant private sector development programmes in the field to support such processes.

Figure 5 below summarises the comparative roles of policy-level, sectoral and business partnerships programmes in promoting business environment reform.

[178] Adapted from various sources summarised in: DCED (2013): Donor partnerships with business for private sector development. What can we learn from experiences?

Figure 5: Stylised comparison of the role of different types of programmes in promoting business environment reform for inclusive business



d) Political economy considerations as a key issue for all programme types

Political economy factors can critically influence the success of any types of programme to reform the business enabling environment. As summarised by DCED (2011):

> *"A country's political system and institutions impact on the economic domain, and therefore also on business environment reform programmes and other PSD interventions.... Reforms are much more likely to succeed if they are designed based on knowledge of local political economy factors, and conversely reforms failing to take account of these may fail."*[179]

Similarly, Adam Smith International (2016) in their analysis of how inclusive market development programmes can get to scale not that

> *"[Strengthening or reforming rules and regulations] offers the promise of influencing a whole sector or industry. However, this cannot be achieved merely by the stroke of a pen: rules and regulations are often highly contested and political, and programmes need to be skilled in political economy to navigate these competing interests."*[180]

While all policy reforms require an assessment of the incentives of relevant stakeholders, the previous sections suggest that some business environment reforms for inclusive business may be particularly politically sensitive. A number of issues and reform approaches can require particularly careful analysis and change management:

- **Creating an enabling environment for inclusive business in previously state-dominated sectors:** This requires awareness raising to change culture and attitudes in key

[179] DCED (2011): The Political Economy of Business Environment Reform. An Introduction for Practitioners.

[180] Adam Smith International (2016): Getting to Scale. Lessons in reaching scale in private sector development programmes.

government institutions as much as technical knowledge of regulatory reform options[181];

- **Removing existing restraints on inclusive activities, firms or industries, or stopping subsidies to incumbent industries that inclusive businesses threaten to displace**: Both activities may be directly linked to vested interests of state officials[182], influential businesses or lobby groups. Examples mentioned earlier include the role of bank lobbies in blocking mobile banking regulations or shifts in government incentives from fuel to healthier and cheaper energy sources for the poor; o
- **Working with individual companies to advocate for reform:** Programmes need to be aware that partner companies may not easily buy into reforms that facilitate the entry of competitors in the market, and may instead prefer individual benefits and exemptions. Programmes can therefore face trades-off between creating enabling conditions for, and working in collaboration with, individual partner companies; and advocating for wider regulatory reform for an entire sector on the other. Careful sequencing of reforms or coordination with other programmes working on business environment issues may be required. IN the same context, risks and opportunities will be different for when working with small or large companies; for small firms, working through business associations might be more suitable, whereas large companies have enough political leverage to advocate for reform on their own or with support by donor programmes. However, this also involves risks, for example if a large international 'inclusive' business starts entering deals with the government that make it more difficult for small local business to enter the market.
- **Managing competing pressures to focus on certain sectors or types of reform:** Efforts to promote certain types of regulatory reform or targeted government support may be hampered or undermined to competing pressures from government Ministries or donor funded programmes to focus sectors or types of measures. Successful programme management will require navigating such conflicting demands and using effective communication strategies about the benefits of the approach promoted by the programme.

There are two important implications for programmes seeking to promote inclusive business.

1. Given that political economy analysis has so far not received a lot of attention in inclusive business programmes and research, there seems to be great potential for incorporating lessons from the business environment reform community on how to conduct political economy analysis, manage reform processes, generate stakeholder buy-in and choose partners which are strategically placed to champion reform efforts.
2. Among different types of private sector development programmes, funds and facilities for partnering with individual business have paid relatively less attention to political economy issues. This is partly because they don't tend to have the staff capacity and budgets for engaging in business environment reform and associated analytical work. Partnership facilities that are interested in supporting business partners in advocating for business environment reform could however consider options for accessing existing research by other PSD programmes or collaborating with them on research and reform promotion.

[181] e.g. Endeva (2013a), p.31.
[182] Koh et al. (2014).

Summary 6 and Conclusion: What types of programmes are best suited to identify and support business environment reform for inclusive business?

>> PSD programmes differ in how they identify and address policy and regulatory constraints for businesses. As such they vary in their ability to tackle different elements of an enabling environment for inclusive business.

>> Policy-level initiatives: In order to address cross-sectoral or other fundamental constraints to private investment that also affect inclusive business, donors can engage directly with government through advisory and advocacy programmes. Within such programmes, it is often possible to follow established good practices in designing new regulatory and policy frameworks for partner governments. In addition to government-to-government initiatives, donor support to industry-led advocacy alliances is useful option if there widely known inclusive growth constraints at sectoral level.

>> Approaches starting at the level of markets and sectors: Market systems development and other sectoral programmes, are particularly suited to address policy and regulatory constraints for inclusive business models that are not usually covered in national reform packages or that are outside their scope due to the innovative approach of the business. The bottom-up approach of market development programmes, based on a thorough analysis of sectoral constraints to inclusive growth, lends itself to the identification of sector- and innovation-specific business environment barriers. Another comparative advantage of these programmes is that they pursue a variety of interventions at the same time (e.g. also including supply chain development etc), which has been shown to be critical for inclusive business development.

>> Partnerships with individual business: While this is not typically within their mandate, some partnership funds and facilities that provide support to inclusive businesses have grasped opportunities to help partners engage with government on binding constraints to their operational model. As such, donors could use partnership programmes increasingly as mechanisms to flag issues and facilitate reform for partners with highly innovative proposals that are not on the radar of other reform initiatives. If programmes have insufficient resources to do this, increased collaboration with other PSD programmes in a country could be instrumental to address such reform needs.

>> Regardless of the approach chosen, programmes will benefit from considering political economy factors influencing business environment reform for inclusive business. There may be strong disincentives or a lack of knowledge among both government and inclusive business partners for engaging in certain reform efforts (e.g. those that imply a withdrawal from subsidies from incumbent business or market entry of competitors). Such factors don’t feature prominently in guidance on inclusive business support, but programmes could draw on advice on political economy analysis and reform management from the business environment reform community.

Concluding remarks

This paper shows that the enabling environment for inclusive business is a complex topic that cannot easily be addressed based on generic recommendations and checklists. While many 'standard' regulatory reforms to stimulate private investment are likely to benefit inclusive business as well, the market entry and scaling up of innovative inclusive business models will often require additional, tailor-made government responses, based on an assessment of the target sector and the needs of individual businesses. Many of the targeted government policies commonly suggested for promoting inclusive business seem to be either ineffective or still unproven. There are however lessons or effective alternatives for promoting inclusive business emerging from the wider field of targeted policies for PSD.

More generally, the paper has summarised a rich set of evidence and experiences that programme designers and practitioners can draw on. These emerge from different communities of practice in PSD which may not always use the same language, but typically share the objective of the inclusive business community of promoting more inclusive markets and economic growth. As such, increased exchange of lessons learnt with these practitioner groups could allow practitioners to make more informed policy choices. While these policy choices are often not just about evidence but also about which strategies donors and governments 'choose' to believe in[183], the lessons outlined in this paper already offer important guiding principles to help make chosen approaches – whether competitively neutral or interventionist – more effective in contributing to inclusive growth.

[183] The Economist (2016): All at sea. Ideological divisions in economics undermine its value to the public.

Annex 1. Summary tables: Reform and policy options identified that benefit inclusive business and implications for further research

1.Functional areas of Business Environment Reform	Proven tool(s)?	Amount of evidence or practical examples identified in this paper on how business environment barriers and reform affect inclusive business	Reform options as currently implemented that are likely to benefit inclusive business as well	Additional sector- or business-specific measures identified that may be needed for inclusive business development and growth Note that these measures will typically require sector analysis and/ or working with individual inclusive business to identify their constraints and devise tailor-made reforms to address them.	Examples of further reading or suggested research needs
Business registration and licensing rules and procedures	✔	- 11 examples of inclusive business experiences (barriers and reforms related to registration and licensing) - Academic evidence on general registration and licensing reform	- Streamlining overly complicated or demanding business registration and licensing procedures can facilitate formalisation and growth of inclusive (and other) business.	- Changing obstructive regulations to enable the formalisation of existing informal inclusive business models that have the potential to grow and achieve large-scale impact on the poor. - Removing or relaxing restrictive regulatory requirements which prevent business from engaging with informal suppliers or clients. - Changing sectoral licensing regimes or removing single licensing requirements preventing the market entry of innovative inclusive business models.	- Sector-specific cross-country research on licensing constraints and solutions for inclusive business could be useful to develop more systematic insights into good practice
Tax regulations and administration	–	- 5 examples of tax-related barriers to inclusive business - No examples of regulatory reform positively affecting inclusive business	- *Like other companies, inclusive businesses are likely to benefit from simplified tax administration, but now empirical insights into this were identified in this paper.*	*This paper only identified examples of tax-related barriers to inclusive business, but not of effective regulatory reform. Special tax incentives for inclusive business are more frequently referred to in the literature than efforts to level the playing field between inclusive and other business. While the following reform options respond to the barriers identified, they are therefore only exploratory in nature:* - *Reducing excessive taxes and duties for inclusive technologies to reduce cost for inclusive business and facilitate their growth.* - *Removing tax exemptions targeting incumbent businesses, products or technologies that inclusive business compete with.*	Further research could explore - the existence of successful cases of normalising excessive tax levels for inclusive technologies - the impact of removing tax exemptions from incumbent products on inclusive technologies, as well as lessons on sequencing (for instance in the energy sector)
Access to finance regulations	✔	- Many examples regulations affecting businesses' ability to provide finance to the poor - Several examples of restrictive impact investment regulations; 1 example of regulatory reform for impact investment - 3 examples of regulations affecting bank lending to SMEs and informal business	Enabling inclusive business to access finance: - Creating a conducive regulatory environment for SME lending. While there no empirical insights suggesting a direct impact to inclusive business growth were identified, there seem to be indirect links: Research suggests than SMEs often play a role in poverty reduction by providing employment opportunities to the poor and several of the inclusive businesses featured in this paper seem to be in the SME category.	Enabling inclusive business to access finance: - Creating a conducive regulatory environment for impact investment (and other newer forms of finance) that are of particular relevance to high-risk investments with pro-poor impact. - Facilitating access to information about inclusive businesses and relevant target sectors to a) raise awareness in government of their role as regulator and investment facilitator and b) to increase bank and impact investor interest in inclusive business. Enabling inclusive business to act as providers of finance: - Creating regulatory frameworks to enable agent banking in rural areas to reach poor customers. - Creating regulatory frameworks to enable mobile banking services by non-bank providers to reach rural and poor customers.	- World Bank (2016): Enabling the Business of Agriculture (with good regulatory practices in agent and mobile banking regulations) - Further research would be useful to compile and benchmark regulatory framework conditions for impact investment in developing countries.

Land titles, registers and administration	✔	• Academic evidence on the impact of land titling interventions on farmer yields and income • 3 examples of land law reform and their impact on investment or economic opportunities for farmers • 1 example of barriers facing a specific inclusive business model involving land	• Implementing land titling reform for the rural poor as a way to increase productivity and yields, thereby increasing their ability to supply to, or buy from, inclusive business • Facilitating (inclusive) business investment through long-term leasehold regulations	• Removing binding constraints for inclusive core business activities involving land (e.g. leasing small plots to farmers). • In order to attract agricultural investors, some governments may sideline land access implications for the poor. Introducing safeguards to land or investment law may help to mitigate such risks.	• In the context of public-private partnerships in agriculture, further evidence would be useful on possible regulatory safeguards as well as risk assessments that can help to mitigate risks related to land rights for the poor. • Studwell (2013) provides a detailed account of how land reform has provided the basis for inclusive growth in several Asian countries
Public-private dialogue	✔	• Many examples of business environment reform following public-private dialogue available, although not always specific to inclusive business	• Using existing public-private dialogue fora or relevant sectoral sub-groups to raise concerns facing inclusive business.	• *Forming new national dialogue fora for inclusive business only, especially where existing platforms don't seem appropriate, and a substantial number of inclusive business share concerns within or across sectors. No examples of such separate fora have been identified as part of this paper; as such they represent an exploratory policy tool.* • For highly innovative pioneer business, direct exchange with government facilitated by donor programmes may be more effective than the use of public-private dialogue fora. • Global dialogue and advocacy platforms can be of use for specific inclusive technologies whose adoption would be facilitated by international approaches or standards	• The World Bank's 'Public-Private Dialogue Handbook' • ASI and Springfield (2011): A market systems approach to public-private dialogue and business environment reform • GIZ (2014) Inclusive business models. Options for support through PSD programmes
Quality standards	✔	• 11 examples of inclusive business experiences (barriers and reforms related to quality standards)	• Supporting public quality infrastructure development or filling gaps in public infrastructure by working with private sector providers of training, inspections and testing services (e.g. associations, commercial laboratories).	Suitable reforms in the area of quality standards are highly depend on the business model, the market they are operating in, as well as supporting quality infrastructure. A key recommendation from practitioners of quality infrastructure development is therefore to take a bottom-up approach, and carefully analyse relevant business constraints, market dynamics, and existing quality standards and services of a government to inform reform efforts. Reform options identified include: • Removing or relaxing existing standards that prevent market entry or formalisation of an inclusive business model. • Developing new quality standards to help innovative and inclusive market entrants reach scale by shielding them from cheaper but low-quality competition.	• DCED (2014): Leveraging the Impact of Business Environment Reform. The Contribution of Quality Infrastructure • DCED (2014): Practical guidance on developing quality infrastructure • Evidence on fair trade and sustainability certification, in the DCED Evidence Framework here, and here.

Overarching regulatory governance and frameworks: Regulation and de-regulation	✓	8 reform examples in wide-ranging reforms in sector structure and governance *(complemented by insights from other sections)*	Laying the foundations for private sector investment through appropriate legislative frameworks (e.g. investment laws, competition policy frameworks).	Requirements for regulation and de-regulation are context-specific, multi-dimensional and will change over time. In addition to laying the to foundations for private sector investment in general, reform efforts for inclusive business are also likely to include - Removing binding constraints to the *market entry* of inclusive business through dissolution of government monopolies sector-wide de-regulation; and - Promoting and regulating *inclusive business growth* through new regulations, such as relating to price, quality and safety standards	
New statutory forms for inclusive business in corporate law/ voluntary accreditation	✗	- 1 example of a voluntary inclusive business accreditation scheme (but not evidence on results) - Numerous examples of other legal forms such as social enterprises and BCorp (but only limited evidence on results)	*As an alternative to accreditation, using more established tools to direct government support to business with the potential to contribute to inclusive growth, for example by revising national Investment Codes to include tax incentives for investments in sectors or activities of relevance to the poor. Note that while such mechanisms for targeting support are more common, no evidence on their effectiveness was identified within the scope of this paper.*	*Special legal forms or voluntary accreditation schemes for inclusive business represent only an exploratory tool. There are theoretical arguments for and against them.*	The DCED and Oxfam are currently undertaking additional research on existing legal forms and structures of business (rather than new legal forms for inclusive business) and how they may affect social impact; a briefing note will be published separately, including a more specific research agenda.

2.Wider government policies and Strategies	Proven tool(s)?	Amount of evidence or practical examples identified in this paper on how targeted government policies affect inclusive business	Findings on targeted policies and strategies as frequently proposed in the literature on inclusive business	Lessons on effective policy options for inclusive business emerging from the wider literature on private sector development	Examples of further reading or suggested research needs
Targeted government support to particular businesses, sectors or industries	✔	• Numerous examples of inclusive business barriers that can't be solved through regulatory reform only • Numerous examples of targeted government interventions in various sectors.	• There are examples of effective as well as failed targeted government interventions.	Targeted government interventions which are least prone to failure and that have proven successful in promoting inclusive growth many countries can be summarised as 'horizontal industrial policy interventions. These include • tax incentives, direct financial support, technical assistance targeted at sub-sectors, activities or technologies rather than at individual firms; and • Time-bound targeted support for individual pioneer business based on a clear economic rationale and followed by activities to encourage sectoral development beyond the individual business partner	• A substantial body of lessons learnt has been documented on industrial strategy which could be used to inform inclusive business programming. Key principles of good practice are summarised in DCED (2014): Business Environment Reform and Industrial Policy. Are they compatible? • DCED Industrial Policy Synthesis Note • Studwell (2013) provides a detailed account of successful industrial policies in Asia
Focusing on criteria of social impact in allocating and managing targeted support	✘	• Policy proposals but no examples or evidence of results	• *Industrial policies focusing on criteria of social impact only represent an exploratory policy tool; evidence on past successful industrial policy and economic theory do however highlight risks for inclusive growth arising from a diversion of capital from where it is most productive.*	Rather than focusing on social criteria in allocating and managing industrial support, effective 'inclusive industrial policies' are likely to involve • A focus on labour-intensive high-growth industries and productivity-enhancing practices in agriculture; • Promoting appropriate labour standards in these industries; and • Strengthening backward linkages of larger firms with intermediaries or suppliers involving the poor	• DIE (2011): Industrial Policy in Developing Countries. Lessons from seven country cases • Research into industrial policies focusing social impact could usefully explore how these policies are funded; if they replace (to some extent) or complement other industrial policies; what their impact on the poor have been; and whether benefitting firms have increased productivity and turnover. Such research may only be possible in several years as most policies are still at the planning stage.
Introducing mandatory criteria in public or private sector operations that lead to benefits for the poor	✘	• 6 examples of mandatory inclusion rules	• *Most of the examples as well as discussions in the literature show that mandatory inclusion rules have been ineffective.* • When opting for mandatory inclusion policies, governments should be confident that there is market demand and that complementary measures to support associated business investments are in place.	More effective approaches include: • Market-based solutions, such as facilitating access to information about local suppliers, providing rewards for inclusion, or improving supplier training and quality infrastructure are considered as more effective than mandatory inclusion	• DIE (2016): Making Retail Modernisation in Developing Countries Inclusive

Introducing preferential government procurement schemes for inclusive business or pro-poor targets in government contracts	–	- Some academic evidence on special procurement policies for SMEs, not for inclusive business - 1 reform example of pro-poor targets in government contracts	- *Preferential procurement rules for inclusive business and pro-poor targets in government contracts can only be considered as an exploratory policy tool. It is unclear whether procurement preferences respond to any particular barriers faced by inclusive business; the evidence base on the benefits of procurement-related measures is still limited.*	Lessons from preferential procurement policies for SMEs suggest - the need to assess any barriers that inclusive business may face in accessing government contracts and whether these could be addressed through other means (e.g. access to information); - the need to assess government capacity and incentives to run such schemes effectively and to avoid long-term economic inefficiencies.	- Further research would be needed to establish the effectiveness of preferential procurement schemes for inclusive business, as well as pro-poor targets in government contracts

3.Cross-cutting issues	Findings	Key implications for inclusive business programme design and management	Examples of further reading
Political economy analysis	Various examples illustrate that - business environment reform for inclusive business can be highly politically sensitive; and - there may be disincentives of inclusive business to engage in wider reforms of the enabling environment	- Inclusive business programmes could increasingly draw on good practice in political economy analysis and as a basis for effective reform design and management	- DCED (2011) Introduction to the Political Economy of Business Environment Reform - GSDRC (2014) Topic Guide to Political Economy Analysis (2014) - DFID (2009) Political Economy Analysis How to Note