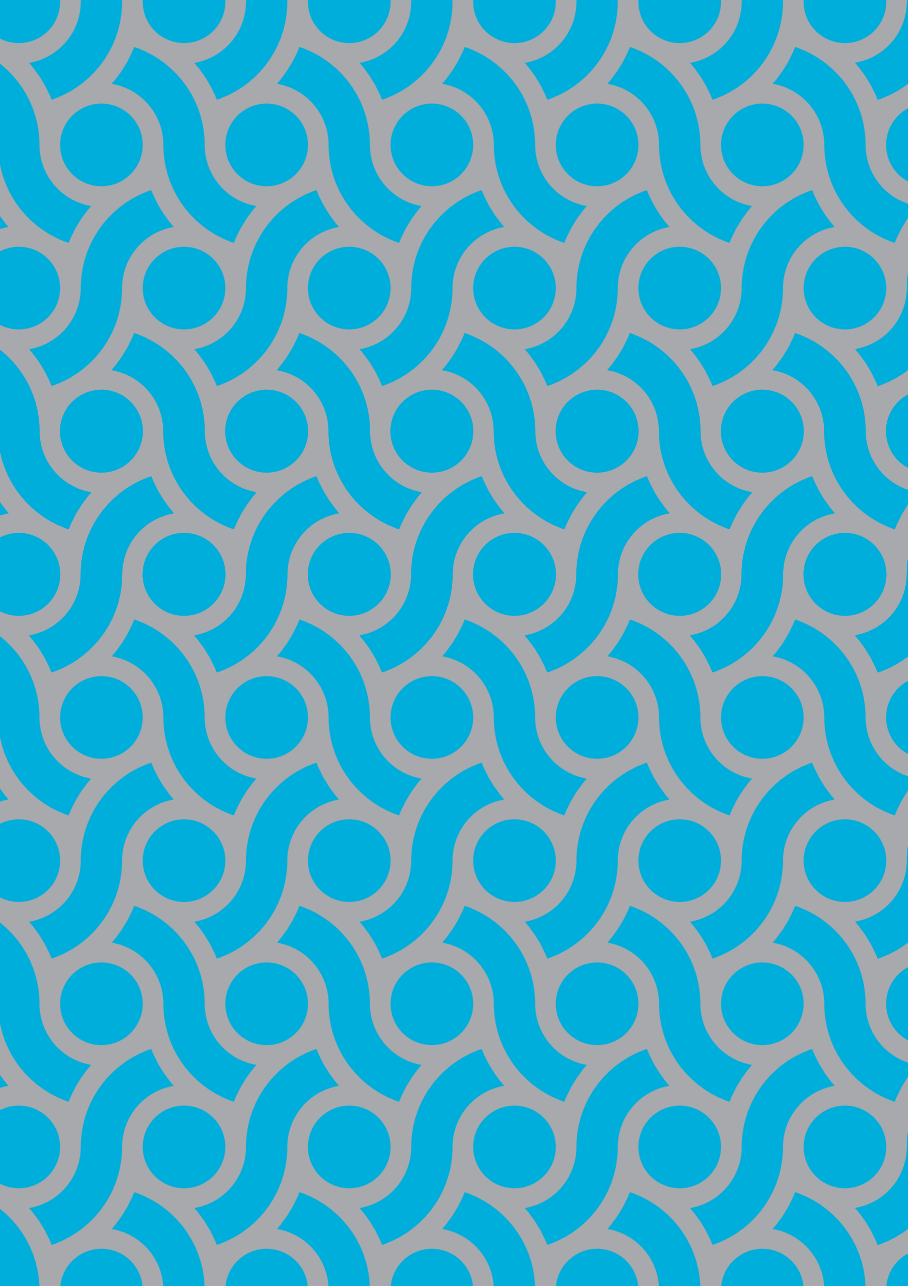




03

Insights Series 03

Partnerships for Inclusive Business Development



Insights Series 03

Partnerships for Inclusive Business Development

Introduction

2

Tackling poverty and improving food and water security are **complex or wicked challenges** (Partnership Resource Centre) that require multiple parties across nations and sectors to work together in order to reach solutions. The development community increasingly recognises the private sector as an essential partner in helping to address such challenges. Companies can improve the quality of life of billions of low-income people around the world by developing appropriate new products and services, while capturing value from what they create at the same time. By involving low-income groups in their business processes, companies are seeking new ways of addressing business priorities while also hoping to offer greater value to such low-income groups. This form of cooperation is commonly referred to as **inclusive business** (IB).

Building up a company based on a more inclusive business model is, however, not easy. Market failures, inadequate infrastructure, limited understanding of low-income groups as clients or partners, or insufficient access to capital are factors that often limit the growth of such companies. Business is understandably wary of taking on such extra risks if there is not a clear business need or advantage.

To overcome these barriers, **Public-Private Partnerships** (PPPs) are often now created to bring together the strengths of public and private parties and capture the opportunities that both parties prioritise but that no single party can achieve alone. Such partnerships aim to address economic and social development, alongside environmental priorities, in an efficient and business-like manner.

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This publication provides the **key definitions and concepts** needed to understand low-income groups (referred to as the Base of the Pyramid) and partnerships with inclusive business. The publication is part of the Insights Series on PPPs produced by the PPPLab (www.ppplab.org). The PPPLab aims to create clarity, knowledge, and learning around PPPs, thereby improving the relevance, effectiveness, and quality of these PPPs.

For more detailed information on PPPLab's knowledge agenda please visit our website: www.ppplab.org

Enjoy reading, thinking along and ... asking questions! Your input, feedback, and suggestions are highly valued. Please don't hesitate to contact us at: info@ppplab.org

Colophon

PPPLab Food & Water is a four-year action research and joint learning initiative (2014 - 2018) to explore the relevance, effectiveness and quality of Dutch-supported Public-Private Partnerships (PPPs). PPPLab is commissioned by the Dutch Ministry of Foreign Affairs and is driven and implemented by a consortium of the Partnerships Resource Centre (PRC), Aqua for All (A4A), the Centre for Development Innovation at Wageningen UR (CDI), and the Netherlands Development Organisation (SNV). Comments and updates about this report are welcome. Please send them to: info@ppplab.org. For more information, please visit our website: www.ppplab.org

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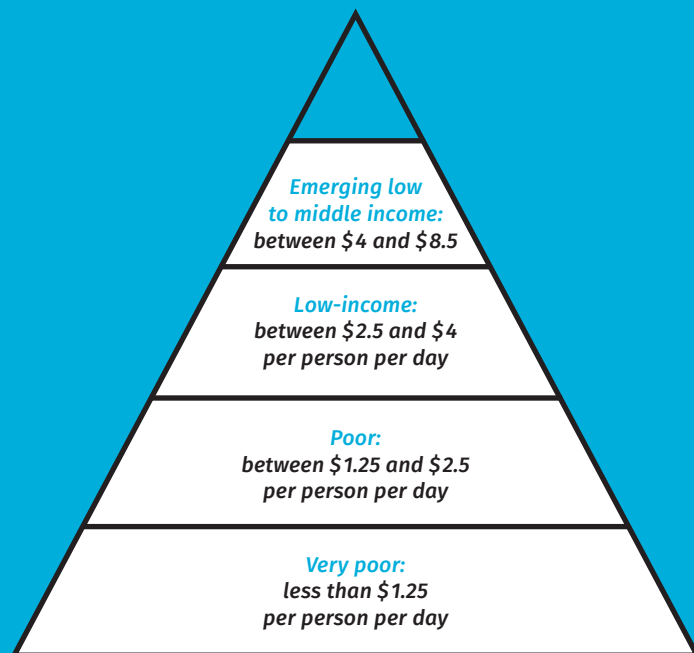


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BoP sub-segments by income (in \$ Purchasing Power Parity 2005)

Source: DFID



Many sub-divisions and various definitions exist regarding the BoP*. Distinguishing sub-segments by income is a common method of categorising.

* Department for International Development (DFID); Kolik et al. 2014

1. Doing business at the Base of the Pyramid

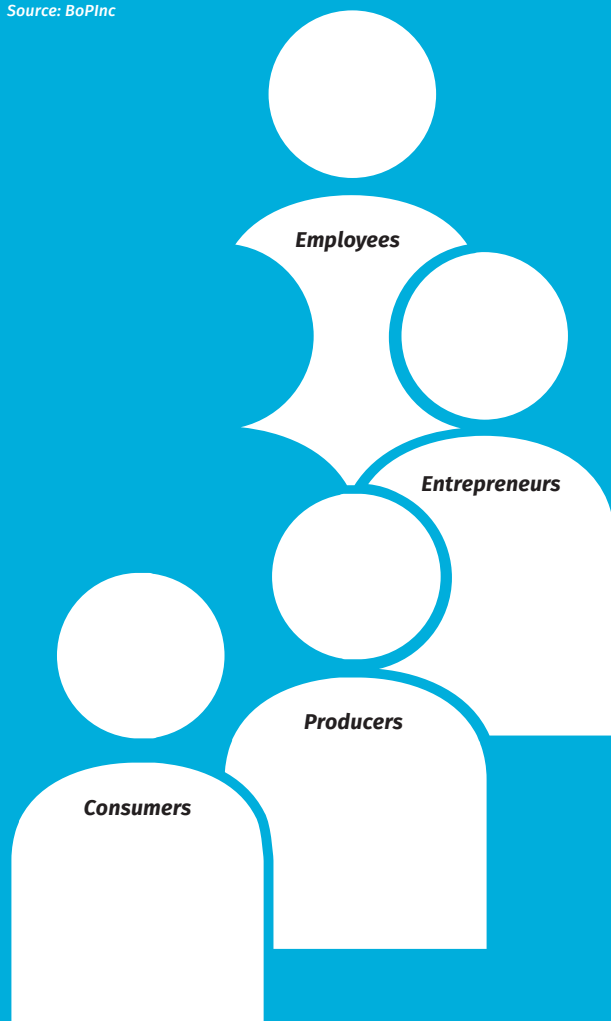
What is the BoP?

The Base of the Pyramid (BoP) describes a socio-economic segment composed of low-income and disempowered people. People living at the BoP lack proper access to one or more of their immediate basic needs: food, water, shelter, clothing, sanitation, education, and/or health care. The BoP is found in all countries of the world, and ranges from low-income elderly people living alone in inner-city areas in Europe, to rural poor in North America, or smallholder farmers in Southeast Asia. In this paper we refer in particular to low-income people in emerging economies as the primary target group of inclusive business initiatives.

It is crucial for any given inclusive business initiative to be consistent with its intended target group, rather than aim for a very broad category.

Proxy indicators of the BoP segment allow the further refinement of these categories (DFID):

- Low access to affordable, quality basic goods and services such as education, health, energy, water and food.
- Insecure income and vulnerability to income shocks, whether due to the economic climate or the insecurity of informal markets.
- Low income due to a reliance on unskilled employment, agriculture, or other low-productivity, part-time or informal market opportunities.
- Habitation in areas with inadequate infrastructure, such as dense slums without sanitation, or in remote areas with insufficient transport.
- Limited access to markets that results in poor returns for produce or enterprise as well as difficulty in obtaining costly but essential goods and services.



What is an inclusive business?

An inclusive business is a business initiative that actively incorporates into the company's core processes low-income and disempowered groups, creating value for both the business and (the) low-income groups*.

This definition includes the core elements of all-inclusive business definitions:

- There is an explicit effort to incorporate low-income population segments in the business initiative in various possible roles along the value chain.
- The initiative is integrated into core business strategy and processes, rather than being relegated to a niche domain of corporate social responsibility.
- There is a business proposition that generates explicit value both for the company and the low-income segment involved.

The intention of an inclusive business (IB) is to explicitly include lower-income groups in a way that involves **resources** such as cash and land being used and invested, **risks** identified, and **rewards** such as profit being generated for all.

However, this mutual benefit does not come automatically. Without proper attention, it is possible that socio-economic groups are either accidentally or deliberately **excluded** as a result of the IB model. For example, there has been much discussion about certification schemes that aim to profit new or fairer market linkages. It may be necessary for interested parties to be organised in groups or to have a detailed understanding of standards in order to be included in the scheme; hence those farmers who are not organised or cannot read the standards

* after World Business Council for Sustainable Development (WBCSD) and others

are excluded and potentially displaced by those who are and can. Another inadvertent problem can be that the costs involved in dealing with multiple standards can negate the bonus received due to certification. Farmers can also get 'locked in' to inclusive networks which prevent them from easily switching to better opportunities that present themselves. In addition, deliberate exclusion can occur when companies do want to work with smallholder suppliers, but are only interested in those smallholders who have a business-like approach to farming.

Low-income population segments typically fill one or more of the following important roles in a business model:

- **Consumers:** business targets the BoP for its customers for goods and services, attracting these customers by specifically designing products to appeal to them.
- **Producers:** business targets the BoP as its source of supply or innovation. This practice is particularly frequent in the agriculture/food sector, where smallholder farmers fill this role.
- **Employees:** the BoP segment is employed in the inclusive business under fair employment conditions. Workers in the fair trade textile sector are one example.
- **Entrepreneurs:** the BoP is engaged in inclusive business by distributing goods and services. Sales forces are created via micro-franchise to ensure the optimal availability of goods and services for BoP consumers.

IB schemes create:

- **Public value** (offering services for which the government is responsible but may not be able to deliver).
- **Business value** (offering access to new markets and supply bases).
- **Social value** (offering services, inputs, etc. not normally accessible to low-income or disempowered individuals).

However, these schemes often carry greater risk than businesses are able to assess or cover: the schemes need a mix of skills, networks and resources that no single party can offer; and often take longer to develop into a real business proposition than other parties that are more typically acceptable to investors.

The shared desire to nonetheless set up these schemes often leads to the unconventional partnerships between for-profit companies, public authorities and NGOs, known as a public-private partnership (PPP).

Assessing inclusiveness

How then is it possible to determine whether a business model is an inclusive one? The following principles, in one form or another, are often used to assess the inclusiveness of business models. They are also useful as design principles for new initiatives or to make an existing business partnership (more) inclusive*.

Mission: specific low-income target group

The business relationship is explicit about which low-income population segment is being drawn in, and what role it occupies in the value chain. It is also explicit about the positive impact of creating a win-win situation for all parties involved.

Business case: chain-wide collaboration

Low-income groups are actively drawn in, along with other chain actors, in resolving problems and agreeing on commercial and social performance. The collaboration sets shared goals, working from an understanding of the interdependence of all actors. To come to a common understanding and implement agreements often requires champions along the chain to drive the process.

Involvement: fair and transparent governance

Clear and consistent quality standards are set and guaranteed. There are also clear commitments to buy or sell, as well as agreements on how risk is shared with the low-income groups in the IB model. Good governance implies an explicit process both for reflecting on and measuring the progress made.

** after Tulder and da Rosa and M. Lundy*

Impact: equitable access to services and win-win

Successful inclusive approaches offer low-income segments access to products, credit, knowledge and technology. Although all these factors are essential for improving livelihoods, they are often difficult to access.



2. Reasons for increasing inclusiveness in business

Companies can have various reasons for making their business models more inclusive. Lead firms, such as large national or international companies, are mainly driven by the need to secure supply, maintain their reputation and develop new markets. Small and medium-size enterprises (SMEs) are likewise competing for secure supplies. Since SMEs have direct relationships with small-scale producers and BoP customers, they are also motivated to invest in these relationships.

Often two or more incentives will drive the move to more inclusive approaches. The primary motive may be, for example, the need to secure supply, while a reputation risk may be a reinforcing secondary motive.

Securing supply

Securing the long-term supply of primary products from smallholder farmers is often the first reason given for making business more inclusive, especially in the food sector. Such producers are a major part of the supply base of many agricultural products. For many companies, a **stable supply** of quality produce is critical for their business model, so it makes sense to invest in their supply base. Many lead firms obtain their products through local SMEs, which makes the arrangement a priority for both parties.

More specifically, motives can include:

- Building a higher quality, loyal supply base that is more productive
- Complying with legal requirements (local or international)
- Developing new sources to meet future demand and with lower costs

In order to secure supply, companies often need to develop more direct relationships with farmers. This need creates a whole new ball game where companies work directly with large numbers of farmers, opening discussions about risk sharing and investing in farmer extension. As such cooperation is often beyond the understanding or capacity of many firms. Partnerships with government (e.g. for extension) or a civil society organisation (to organise large numbers of farmers) can be necessary.

New markets

A growing motivation for more inclusive business is the realisation that BoP markets can be attractive due to the **sheer size** of the socio-economic group. Companies can aim for:

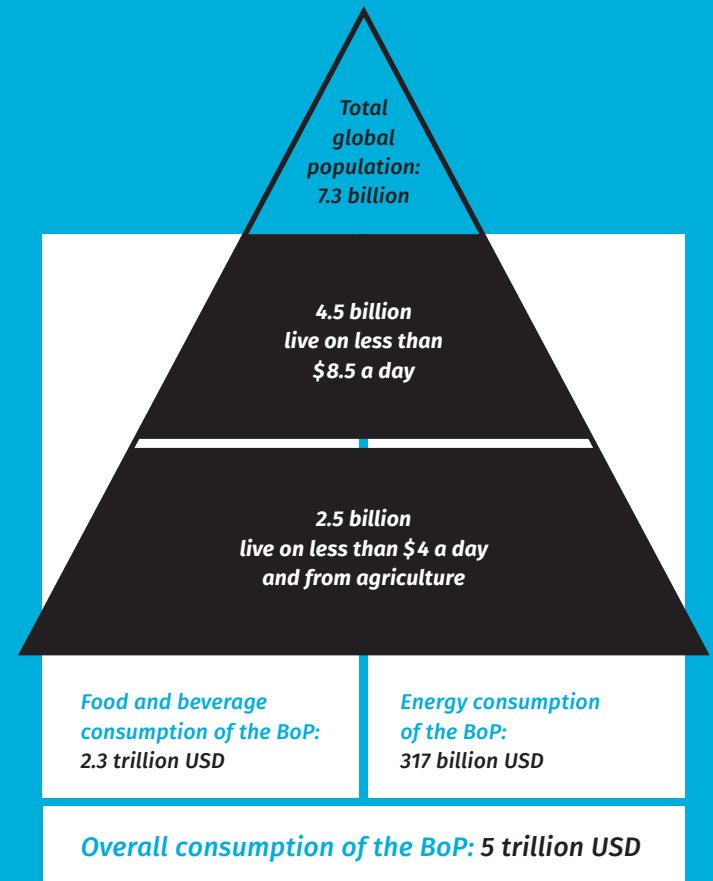
- First mover advantage in new markets
- Market differentiation for existing products

SMEs are more likely to buy from and sell products to the BoP. It is therefore in the company's direct interest for these socio-economic groups to have a growing disposable income, as this leads to a growing market for the SMEs.

Partnerships can help identify new markets, introduce prototype products, and create favourable incentives to enter such markets. Market development is intended to provide benefits both for companies and the BoP population alike. In some cases though, only market substitution occurs (a product is made available in a small quantity that was originally available in large quantities). In such a case, the added value to the BoP is not automatic (for instance, buying in smaller quantities could have an higher "price per unit" and hence consume more of the purchasing power of the BoP for a smaller impact).

The BoP market

Source IFC and Bain & Company
and Acumen, 2015



Enhancing reputation

Another motive for companies to embrace IB is to enhance their personal and/or brand reputation. Internet and social media exposure, as well as global legislation and standards, all lead to increasing transparency about business reality. There is also a growing **consumer expectation** about the responsibility that companies have in the supply chain. Companies need to:

- present a responsible image
- avoid risk from activist campaigns
- have better government relations and a licence to produce

SMEs are often more closely connected to the communities in which they operate than larger companies; the SME owner will often come from a particular community and have family there. Such owners therefore have social as well as business or financial reasons for wanting to ensure a greater community impact. New forms of partnership are emerging in this space, such as NGOs that help firms identify social priorities and unintended negative spin-offs. Such partnerships often prove more effective in working out new ways of doing business.

IB innovation

For some companies, creating an inclusive business is an innovation move. They may still be in the **early phases** of research into products and markets, and an IB development can bring a diversity of knowledge and networks relevant to such research. In such instances, the IB development will not directly aim to establish a particular business case, but to identify potential models that could be developed. A good partnership can be highly effective in working on the different aspects of a business model (creating, delivering and capturing return on investment), and in viewing it from different perspectives.

Employer attractiveness

A secondary motivation next to core business drivers can lie in staff motivation. Employees working for firms that lead in targeting social and environmental objectives are often just as motivated by the wider value of their work as by the business bottom line. Many companies signal that after drawing up an explicit sustainability program, they draw in stronger candidates for new positions. In other words, companies that manage to align internal business incentives with incentives to deliver on social objectives can count on more motivated and effective employees. This is currently more noticeable in global lead firms.



3. Inclusive Business and Public Private Partnerships

Where inclusive business needs others

The private sector, SME and larger corporations alike, is increasingly attracted by the BoP market segment. As a result, much work is done to develop products and services that meet the four needs of this market segment: **Affordability, Accessibility, Availability and Acceptability***. For example, limited but cheaper airtime top ups suddenly become affordable to a large number of customers who cannot afford a monthly mobile phone package.

Being a new way of creating value in emerging economies, inclusive business models face unique challenges. To begin with, the BoP remains a largely **unknown and unskilled target group** for many companies. The market information regarding the BoP that companies are able to secure is often superficial, focusing on the simplistic perceived needs of the BoP rather than on an understanding of the BoP's real market aspiration. Drawing producers or entrepreneurs from the BoP usually requires improving the skill set of the low-income groups involved before they can engage in business activities.

* BoP Innovation Center, 2013; Bain & Company and Acumen, 2015

Acquiring the necessary large numbers of suppliers and customers in a value chain presents similar challenges both up and downstream. In the BoP markets, one of the main difficulties is the absence of **large distribution networks** due to geographical factors, where customers are widely dispersed and there is poor infrastructure. New forms of cooperation are needed in such cases in order to reach low-income groups.

The same issue also works the other way: how to affordably and effectively buy produce from tens and even hundreds of thousands of producers? Traditionally, traders and middlemen have played a critical role in **aggregating produce** until enough bulk is achieved to make continuous processing possible and affordable. At the same time, there is always a strong inclination to bypass middlemen because of their reputation for adding costs and being unfair.

At the ecosystem level, there is a lack of **inclusive public policies** addressing bottlenecks in the business environment in order to encourage the rise of inclusive business. Furthermore, in terms of **financial access**, the impact investing sector is emerging but is still conservative in its choice of investment and is reluctant to value informality or the innovative inclusive business model.

These challenges often cannot be addressed by a single company, but by joining forces with an NGO, a knowledge institute, another private party, or a public authority. Currently, most partnerships around IB initiatives are private-NGO combinations, but public authorities are increasingly getting involved.

Case: Mueller Lichtenvoorde, a PnPP partnership

Mueller Lichtenvoorde B.V. has more than 40 years experience in manufacturing high quality stainless steel products for the dairy, food, beverage, and process industries.

Value proposition

The product is a simple, reliable compact milk cooler for use in remote areas in Ethiopia, where there is no electricity or water pressure available. Its advantages are:

- easy to use and maintain
- safeguard milk at farms gate
- no moving parts
- cool down milk from 36 to 4 degrees
- small cooling units

Customers

- Dairy processors
- Primary dairy cooperatives

Partners in PnPP

- LEI/Wageningen: LEI develops economic expertise in the fields of food, agriculture and the natural environment
- BoP Innovation Centre: provides business development services for local entrepreneurs
- Local Ethiopian Entrepreneurs

Use of Public support

- Support exploration of the local context (challenge: unknown target group)
- Support piloting of technology (phase: prototype development)

Challenges	Aim of partnership	Role of others	Type of partnership*
Unknown and unskilled target group	To unravel BoP insights and improve skills of population for inclusion in core business activities	NGOs or grassroots organisations valued for their strong local presence Knowledge institutes and academia for capacity building	PnPP: bilateral profit/non-profit partnership support of semi-public organisation (as official partner)
Lack of large distribution networks	To provide access to last mile of targeted population	NGOs with large footprint or B2B to create adequate basket of products	PnPP: bilateral profit/non-profit partnership
Insufficient aggregated produce	To provide economy of scale and stronger market linkage	B2Bs to create aggregation	PdP: intra-sector partnership for product development and dissemination
Non-conducive inclusive public policies	To develop welcoming business and innovation environment for inclusive business	Coalition of stakeholders including government	TPP: Tripartite multi-stakeholder coalition; when formalized this can be counted as a partnership
Inadequate financial access	To provide investment finance through the pioneer gap	Governments and financial institutions	PPP: Bilateral public-private partnership

***PnPP**: Private Profit/Non-Profit Partnerships particularly focus on addressing a lack of private goods/values (affordable goods for poor people, for instance) or a failure to build 'social capital' as a result of poorly organised civil societies. **PdP**: Product Development Partnerships are intra-sectoral and intended for scaling markets. **TPP**: Tripartite Partnerships aim to resolve problems that result from weak general governance structures, which create 'institutional voids'. **PPP**: Public-Private Partnerships (profit/non-profit) address the inadequate provision of or underinvestment in public goods.

See Tulder and Pfisterer (2013) for more information on the taxonomy of partnerships.

Public sector interest in IB

For many of the development problems we face, the public sector is increasingly interested in bringing business-based solutions to bear. This is not the usual kind of business, but explicitly aims to add greater social (and environmental) value by the way business is done. The main reasons for this focus on more inclusive business approaches are:

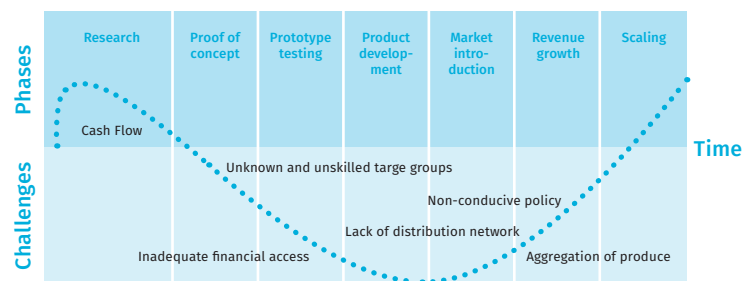
- **Seeking private co-investment** for public objectives. Tackling key food- and water-related issues for low-income segments requires large investments. Through IB-oriented PPPs, the public sector hopes to leverage extra private resources. In turn, the public sector contribution is expected to encourage the private sector to invest in new (BoP) markets, adopting the inclusive approaches they would otherwise consider too risky or obscure.
- **Ensuring continuity** of impacts. A key criticism of development initiatives in recent decades is that once public sector funding stops, so does the initiative. There is not always a built-in incentive or mechanism to continue beyond a publicly-supported phase. By contrast, the public sector expects that once an inclusive business model has been established, normal market mechanisms will ensure it continues to deliver its social outcomes and impacts until market conditions change and require re-modelling.
- **Increasing the potential scale** of impact. Public sector investments are often intended to have a system-changing impact that goes beyond the scope of the initial investment. There is an expectation that proven inclusive business models will scale through typical market mechanisms, and adapt to different contexts, pursuing hybridisation with other innovations, or creating a whole new market dynamic. For example, the 4S@scale partnership aims to make it viable to offer high-quality farmer extension services as part of normal coffee-trading relationships. If successful, this opportunity can be made available to hundreds of thousands of Kenyan farmers.

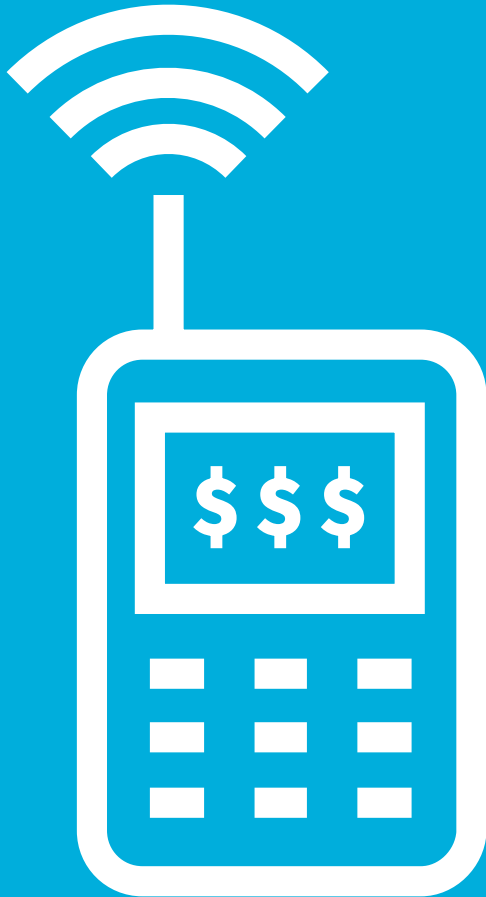
The organisations involved in PPPs ensure that the risks inherent in developing inclusive business are shared and mitigated. These can be risks related to the regulatory environment or the economic stability of the market in which the inclusive business will operate. On the other hand, there can also be risks related to the market itself (or its underdevelopment) and the pioneering nature of any inclusive business.

This sharing and allocation of risks in a way that allows the organisations to be effective is the core of any PPP, which also implies that adequate governance structure needs to be in place in order to achieve the intended impact.

Keep in mind that partnering in PPPs is not a panacea: not all challenges need the public sector to be part of a solution. Private parties should, for instance, take over the role of public authorities when exiting the pioneer gap to stimulate the scaling of proven products or services.

Pioneer gap and IB challenges





4. Examples of PPPs for inclusive business development

Linking up with rural communities

Most of the people in developing economies live in rural areas connected only by poor quality roads and other infrastructure. Being geographically isolated and with little access to important information, such people miss many business opportunities. Inclusive businesses therefore need to figure out how to affordably transport products that last mile to the doorstep of their customers, or how to collect products from the gates of isolated farms.

PPPs can support innovations in delivery models through BoP channels. A rapidly growing business area focusing on the use of mobile phone communications is a breakthrough in providing sophisticated services to large numbers of geographically isolated people.

Case: Kifiya digital service provider

Kifiya, an Ethiopian digital service provider, combines its own innovative mobile communications technology with extensive research into BoP markets in rural areas in order to link electronic branchless banking and mobile money services to rural markets. Kifiya services customers at both ends of the value chain: national banks that are seeking proven technological platforms, and BoP communities throughout Ethiopia that are willing to pay for banking products. Through a Sustainable Entrepreneurship and Food Security Facility (FDOV)-funded PPP, Kifiya and its partners are currently trying to make it possible for over one million rural, low-income customers to be able to save, borrow, invest and have access to financial services that would otherwise be completely out of their reach. For Kifiya, the business incentive

is to get their technological platform accepted as a norm for this service provision, which would generate massive growth for many years to come. The partnership funds accelerated innovation and market penetration to provide critical services quickly to large numbers of poor households.

Unknown and unskilled target group

If you buy from or sell to very large numbers of low-income people, it is not possible to know your suppliers or customers individually. Still, to become a preferred buyer or seller, any business must understand its clients well. Inclusive businesses must therefore invest significant resources into thoroughly understanding the general profiles of their target group. If sourcing from smallholders, they may have to deal with farmers who may not know about good soil fertility management or correct pruning; entrepreneurs may not be well-organised or financially literate. Therefore to make an IB successful often means investing in the skills of many people.

Investing in client profiling or supplier skills may cost more than a business can expect to recoup. Hence IB often seeks public funding to help cover these costs, and make it feasible to reach profitability. PPPs put significant effort into training farmer suppliers, and in understanding their potential clients. The public investment is matched by private party expertise in carrying out the necessary training and market research.

Case: Fanning the Spark

Fanning the Spark – a PPP in Burundi – aims to increase food production at village level by combining increased farmer investments in crop production with a family (income) insurance package. One of the pillars of the approach is to invest in effective farmer research groups in every village in order to validate the best agricultural practices and carry out farmer-to-farmer training at the same time. The second pillar is to create professional healthcare centres, and the third, modern insurance packages.

The partnership brings together community organisations, an insurance company, a farmer support organisation and a healthcare provider. Through the PPP, this combination can develop into a viable business and collaboration model where all components are mutually reinforcing. No one partner working alone can successfully introduce a single-focus solution to the problems in the region; these require dealing with multiple issues simultaneously. By the end of the PPP period, the intention is to have a meaningful insurance scheme connected to a vibrant community-based farmer development program that is, in turn, linked to a viable private community health service.

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Resources

IBA: <http://iba.ventures/>

Practitioner hub: <http://www.inclusive-businesshub.org/>

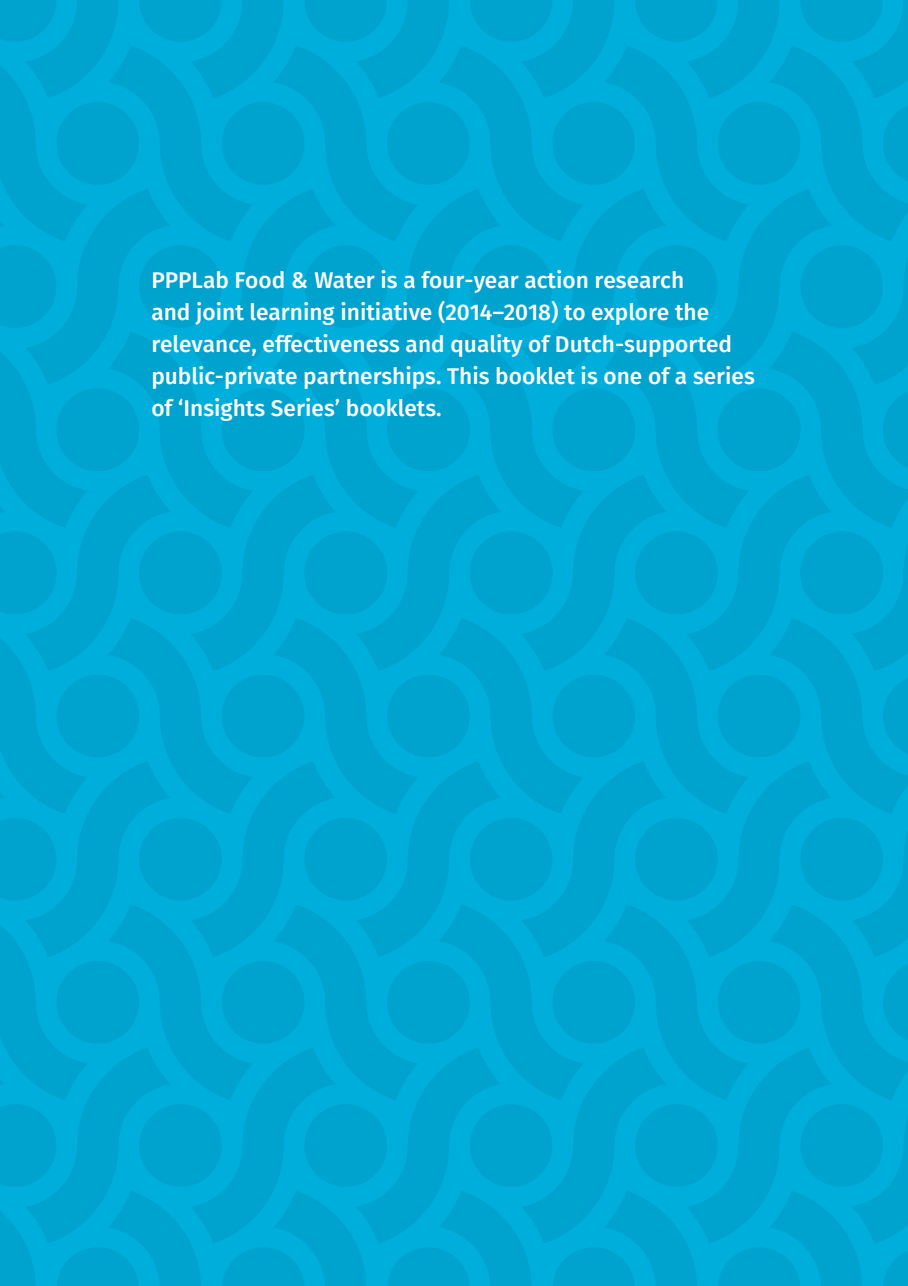
Sea of Changes: <http://seasofchange.net/>

PRC: <http://www.rsm.nl/the-partnerships-resource-centre/our-research/projects/inclusive-business-strategies-in-sub-saharan-africa/>

Business fights poverty: <http://inclusive-business.businessfightspoverty.org/>

BCTA: <http://www.businesscalltoaction.org/>

WBCSD: <http://www.inclusive-business.org/>



PPPLab Food & Water is a four-year action research and joint learning initiative (2014–2018) to explore the relevance, effectiveness and quality of Dutch-supported public-private partnerships. This booklet is one of a series of 'Insights Series' booklets.