Policy Note on Inclusive Business Policies

Recommendations for Governments and Donors

Development Working Group of the G20

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Executive Summary

This paper introduces the concept of inclusive business policies, providing a framework to order and identify such policies. It builds on the experiences of the 15 winner companies of the 2012 G20 Challenge on Inclusive Business Innovation.

Inclusive business policies are those government decisions that directly enable and encourage private sector companies to make people at the base of the pyramid part of their value chain as suppliers, distributors, retailers, or customers as well as policies that empower low-income people to participate in companies' value chains.

Policy-related constraints to inclusive business

While opportunities to do business in low-income communities in developing countries are plentiful, companies often have trouble in establishing a sustainable business model in such environments. Market constraints drive up transaction costs and erode margins.

Some of these constraints are important policy issues, either because policies have created market hurdles or because they can alleviate them. Four broad areas of policy-related constraints to doing business with low-income communities are mentioned most often by companies:

- **Information:** Information about the target market is frequently unavailable or difficult to access. Companies may be unaware who the target group is, how big the market is, or who potential business partners are.
- **Rules:** Rules and Regulation can be missing or burdensome and markets are mostly informal, making it difficult to establish formal business relationships.
- **Financial resources:** Impact investing to fund innovative inclusive business approaches, which often require more experimentation and longer return periods, is difficult to access. Low-income people do not have the buying power and access to capital required to become active market participants.

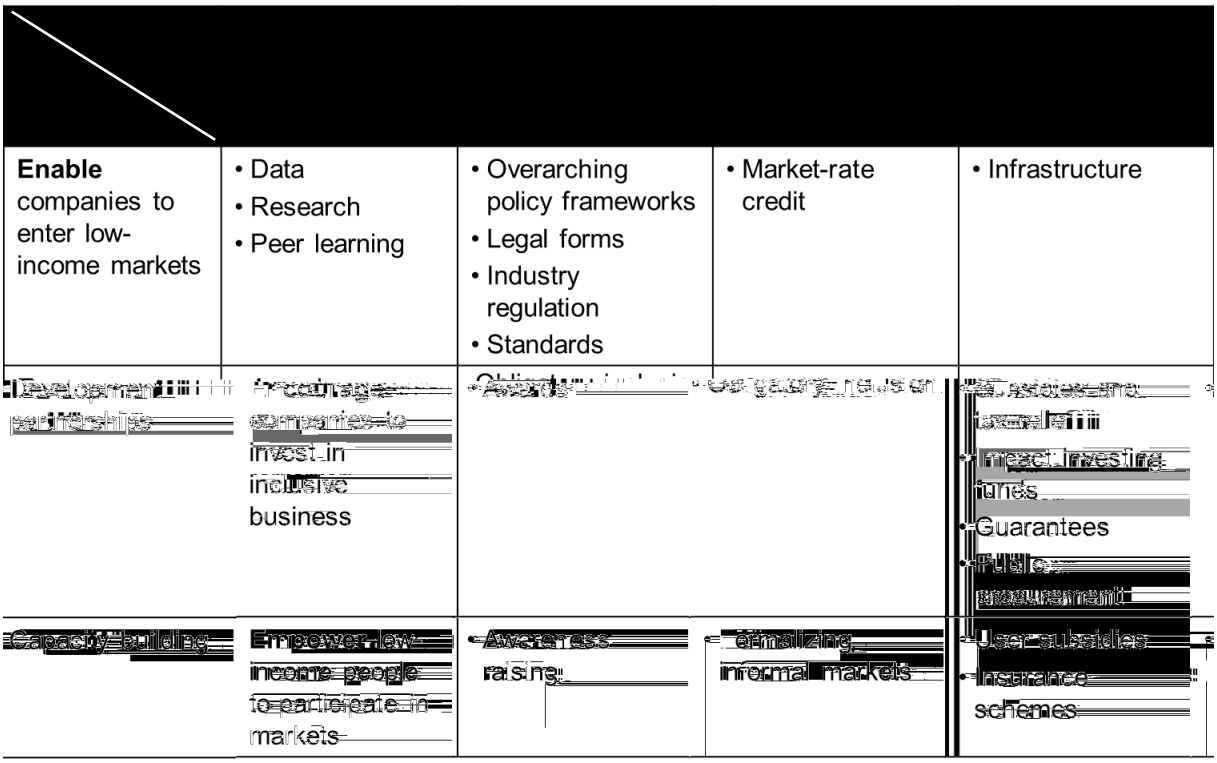


Figure 1: Policy-related constraints to inclusive business and policy solutions

- **Structure and Capacity:** Infrastructure such as roads, energy or water networks may be missing or in poor condition. Public services such as education and training, health care, extension services, or credit bureaus may be absent or of poor-quality.

Policy support for inclusive business

Governments can enable inclusive business by eliminating or alleviating constraints. Policies provide support in three broad areas, as shown in Figure 1:

- **Enable:** Policies can enable companies to enter the low-income market by, for example, providing market research and data, facilitating peer-to-peer learning, putting in place the regulation or standards required to operate, providing credit at market rates, and/or building infrastructure, including those involving technological innovations.
- **Encourage:** Policies can provide incentives for companies to invest in inclusive business by offering awards, making inclusion obligatory (for example as part of concessions), providing

Recommendations

Inclusive business policies are a new concept and provide a fresh perspective on policies for inclusive growth. Both national governments and development partners can do more to understand and realize the potential of this innovative approach along the whole policy cycle:

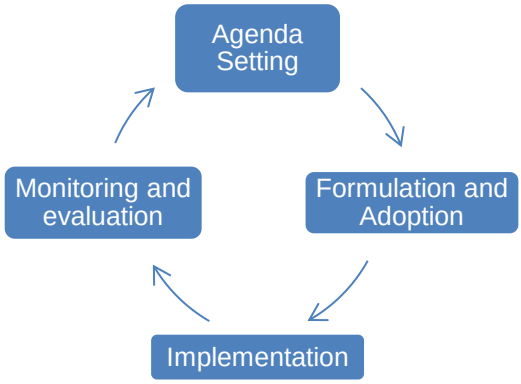


Figure 2: Policy Cycle

- **Agenda setting:** Promote inclusive business through forums and awards; events; research and information.
- **Formulation and adoption:** Systematically link private sector development with social objectives and make the role of the private sector explicit in the formulation of development policies.
- **Implementation:** Review existing policies for interfaces between low-income people and companies and strengthen these interfaces; provide financial and technical support for the implementation of inclusive business policies.
- **Monitoring and evaluation:** Measure results and adjust to avoid unintended effects - on both the target groups and the private sector involved.

Introduction

Companies can be important partners for governments to achieve development objectives through inclusive business models. Inclusive business models are a private sector approach to providing goods, services and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the pyramid by making them part of the value chain of companies' core business as suppliers, distributors, retailers or customers.[1] Thus, inclusive business aligns the business and development agendas of private and public players.

Promoting inclusive business approaches are therefore a good potential option for governments aiming to achieve social and economic objectives at the same time. Moreover, governments can help catalyse and scale inclusive businesses through supportive policies.

Inclusive business policies

This report provides a definition (see Box 1) and conceptual framework for inclusive business policies. It illustrates the elements of the framework with concrete examples and offers recommendations for governments and development partners. The note thus aims to help governments, financial institutions and donors identify, adopt and replicate policies that encourage and support companies to integrate low-income people into their value chains.

Inclusive business policies thus focus on the intersection of social and economic policy. While there are many policies in both domains that facilitate inclusive business indirectly, this paper concentrates on policies that directly build bridges between the private sector and low-income communities.

Box 1: What are inclusive business policies?

Inclusive business policies are those government decisions and their implementation that directly enable and encourage private sector companies to include people at the base of the pyramid as part of their value chain as suppliers, distributors, retailers, or customers as well as policies that empower low-income people to participate in companies' value chains.

G20 Challenge on Inclusive Business Innovation

The note draws on the experiences of the 15 winners of the 2012 G20 Challenge on Inclusive Business Innovation[2], which were documented through interviews and the series of G20 Inclusive Business Workshops. Short extracts from these interviews are used to illustrate how companies are affected by, and can affect, the policy environment. The report also builds on findings from the "Policy Note on the Business Environment for Inclusive Business Models," which was published by the IFC in 2012 at the request of the G20 Development Working Group and on the basis of a survey among applicants to the G20 Challenge. In addition, desk research was conducted on existing inclusive business policies.

At the request of the Group of 20, the International Finance Corporation (IFC)

G20 Seoul Multi-Year Action Plan on Development.

The G20 Challenge on Inclusive Business Innovation was a global competition seeking to recognize businesses with innovative, scalable, replicable and commercially viable

[1] IFC (2012): *Policy Note on the Business Environment for Inclusive Business Models*, Washington D.C.

[2] http://www.g20challenge.com/

ways of reaching low-income people in developing and emerging countries. The competition was launched during the G20 Summit in Cannes, France, in November 2011.

Between November 2011 and February 2012, 167 applications were received from businesses in 72 countries. Judges chose 15 winners (see Box 2) who were announced during the G20 Summit in Los Cabos, Mexico, in June 2012. Winners were selected based on their financial sustainability, development results, innovation, potential for growth and social and environmental sustainability. In September 2012, winners came together for a workshop with stakeholders from the public and private sector in Berlin. Regional workshops in India (16 April 2013) and Colombia (5 June 2013) provided further opportunities for exchange. A third regional workshop will follow in Kenya (November 2013).

Box 2: The 15 winners of the G20 Challenge on Inclusive Business Innovation

- Agrofinanzas (Mexico)
- Apollo Hospitals Group (India)
- Bakhresa Grain Milling (Malawi)
- Brilla, a program launched by Promigas (Colombia)
- Corporación Universitaria Minuto de Dios (Colombia)
- Ecofiltro (Guatemala)
- Engro Foods Limited (Pakistan)
- Jain Irrigation Systems Ltd. (India)
- Manila Water Company (Philippines)
- Millicom (Luxembourg)
- Reybanpac Unidad de Lácteos (Ecuador)
- Sustainable Harvest Coffee Importers (United States)
- Tenda Atacado Ltda (Brazil)
- VINTE Viviendas Integrales (Mexico)
- Waterlife India Private Limited (India)

Source: http://www.g20challenge.com

Structure of the report

This policy note is organized as follows:

- The first chapter identifies **policy-related constraints** companies face when implementing inclusive businesses. These are constraints that are either created through policy or whose resolution falls into the domain of government action.
- Chapter two shows the different types of **policies to promote inclusive business** governments or donors can adopt, responding to the constraints.
- Chapter three describes how **interaction** is organized between companies and governments to develop inclusive business polices.
- Chapter four provides **recommendations** to governments and donors on how to organize the policy making process of policies that promote inclusive business.

It should be noted that this note provides a general overview of inclusive business policies. Of course, policies vary greatly by industry sector. For example, some sectors, such as health care and education, rely heavily on public funding while others, such as the food or textile sectors, are more self-funded. While these differences are extremely relevant, they go beyond the scope of this report.

Policy-related constraints to inclusive business

While opportunities to do business are plentiful in low-income communities and needs are large, companies often find it difficult to establish a sustainable business model that can go to scale. Constraints in the market environment drive up transaction costs and erode margins.

Inclusive business requires and deserves special policy support for a number of reasons. First, while doing business in developing and emerging economies can be challenging due to the general business environment, low-income communities are usually even more challenging. Poverty has a geographic dimension: most low-income people live in urban slums and rural villages. Here, infrastructure is poor, most market interactions are informal and done in cash, and many market participants have very little education and information. Second, establishing inclusive businesses often requires innovative approaches that take time and risk to develop, and companies may not be able to bear these costs alone. Third, the associated social benefits cannot always be priced into the product as they may benefit a wider circle than the end user or fulfil some broader policy goals.

Some of these constraints to inclusive business are policy-related insofar as they relate to the classic resources of government and can hence be created and resolved by government action. These policy-related constraints fall into four broad domains:

- **Information** about the low-income market and available support systems is scarce and hard to access.
- **Rules** and Regulation can be missing or burdensome and markets are mostly informal, making it difficult to establish formal business relationships.
- **Financial resources** are scarce and difficult to access both among companies and their low-income target group.
- Public **structure and capacity** such as transportation systems, energy grids, schools or health care services may be missing or in poor condition, making it hard for companies to reach their target group and for low-income communities to participate in markets.[3]

These policy-related constraints make it hard for companies to reach into low-income communities and offer products or services that include the poor as consumers, producers, distributers or employees. At the same time, these are all areas where governments have the mandate and ability to intervene through policy.

[3] This typology is based on the NATO-model proposed by Christopher Hood in his 1983 book "The Tools of Government" as well as on interviews with winners.

Information

A solid business case requires a lot of **market information**: who is the target group? What type of products do customers demand or produce? How much are they spending or producing? Who are competitors in the market and who can provide services and support? All this information is easily available to companies in developed markets. Consultancies, market research institutes, credit bureaus, intermediaries such as chambers or business associations, and public agencies provide it.

In low-income markets, however, these **intermediaries** and hence the relevant information are barely available. Household surveys, the main source of data on the target group, are often outdated and lack sufficient detail. Professional service providers are missing. Companies often rely on the support of local development agencies and NGOs that may have a very good understanding of the needs of the target group, but rarely an insight into demand and business development processes.

Companies also find it difficult to access information about existing support from governments and development partners and how to apply for it (see interview with Sustainable Harvest in Box 3).

Low-income communities often lack relevant information, too. They may not be aware of the benefits of certain goods and services, or of certain practices required to participate in larger value chains.

Box 3: Interview with David Griswold

President, Sustainable Harvest

Sustainable Harvest is an importer of high quality specialty-grade coffees from 15 countries around the world. The company buys coffee from smallholder farmers at fair prices, promotes investment in farmer training and development in coffee communities.

Buying coffee from 84 producer organizations in 15 countries requires a lot of information. What is the biggest challenge?

Before we enter new countries the very first step is to understand the business environment. Yet, in many countries information about the coffee sector, such as the number of coffee farmers and productivity rates, is scarce and reliable market data and research is lacking. Also,
know which ministry or public agency to approach for that kind of information as government responsibilities are not clear or the government works separately from the private sector. The latter is why we often thought things go easier without government involvement and only recently started to talk to ministries and mayors in selected countries about our inclusive business model. In general, what is missing in our target countries is a government official who is responsible for inclusive business, who can provide the right market related information and who knows relevant stakeholders.

Many donors offer support in accessing information and in conducting market research. Has Sustainable Harvest been supported by any donor agency in that area?

accessed the resources that may be available from donor agencies. Sometimes because we are a business and not involved in some of the groups or networks of the donor agencies, we find it more difficult to get timely information on the portfolio of donor organizations and donor programs, e.g. who they support and what problems they are targeting. We have the sense that for a medium sized social enterprise to apply for such donor support requires more time and effort and the benefits of cooperating are not as clear as they might be.

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Financial Resources

Financial resources are scarce at the base of the pyramid, and companies often lack the capital to fund their activities and go to scale.

The promise of inclusive business is that it can reach thousands or even millions of people on a financially sustainable basis. Yet, many initiatives struggle to go beyond the pilot phase for lack of funding. About 90% of the 167 applicants to the G20 Challenge said that access to finance was one of the main obstacles to their businesses.[8]

Innovative business approaches that include low-income people often take longer to identify a sustainable model and to break even than business in established markets. **Impact investing capital is required** to allow for experimentation, innovation and longer return periods. Although patient capital markets have been growing fast over recent years, the amount is still limited. A recent report counted US$9 billion in commitments.[9] Especially start-ups and small companies struggle to access impact investing capital because it often requires time and special skills to apply for funding and manage reporting requirements.

On the other side, low-income people often lack the financial resources to articulate their demand for certain goods and services that have important social welfare effects, such as health care, education, water, energy or food production. **Subsidies can play an important role** to correct market failures caused by, e.g. external effects or information asymmetries. However, subsidy schemes must be designed properly in order to set the right incentives for both the consumers and the private sector (see interview with Jain Irrigation Systems in Box 5).

Box 5: Interview with Dilip N. Kulkarni,

President, Agri-Food Division, Jain Irrigation Systems Limited

Jain Irrigation Systems Ltd., the leading provider of micro irrigation systems in India, works with smallholder farmers on both ends of the food supply chain. The company provides farmers with micro irrigation systems, seeds, and other farming inputs, then purchases the farmer´s fruits and vegetables and sells them to export and domestic markets.

The Indian Government offers subsidies to farmers to invest into drip irrigation systems. How does this policy support Jain Irrigation´s business model?

Overall, the subsidies support our business model and the spread of drip-irrigation systems in India. The Indian Government pays up to 50 percent of the purchase cost for farmers with less than five hectares. However, our company faced some difficulties with the subsidies in the past. Jain Irrigation facilitated providing equipment to farmers in advance and the farmer only paid part of the cost up front while the subsidy component was paid back when the farmer received the subsidy from the government. Hence, the company capital was blocked due to delay in payment of subsidy amount by the government.

What were the implications of this policy on Jain´s inclusive business model?

We stopped pre-financing the installation of our irrigation systems and now require farmers to pay the whole costs of the equipment up front and then claim the subsidy from the government on their own. However, farmers need access to finance for the purchase of agri-inputs. Hence, we have launched a non-banking financing company that offers loans to farmers. These changes have helped to clean up our balance sheet and decrease our receivables. Initially, these changes resulted in a drop in sales but now we are seeing signs of a pickup, as drip irrigation is increasingly becoming a necessity in India.

[8] IFC (2012): *Policy Note on the Business Environment for Inclusive Business Models*, Washington, DC. Note: Access may be limited because lenders lack sufficient information on borrower creditworthiness, lenders consider inclusive businesses riskier or because the business case of some borrowers with an inclusive business model is not strong enough to qualify for commercial financing. Only in the first two cases is public intervention necessary.

[9] Global Impact Investing Network (2013): *Perspectives on Progress - The Impact Investor Survey,* New York

Structure and Capacity

Structure and capacity refers to goods and services that are typically supplied by government, including transport infrastructure, but also public organizations offering extension services, health care, education and training, among others.

Infrastructure is a major challenge for businesses aiming to reach low-income communities, especially in rural areas. Some 900 million rural dwellers in developing countries lack access to an all-season road.[10] Train tracks and harbours, if they exist at all, are usually outdated. Almost 800 million people still lack access to an improved water source,[11] a further 1.3 billion do not have access to electricity.[12] For companies, the "last mile" is usually the most challenging part of their business with low-income people. The lack of infrastructure causes significant cost and risk (see interview with Bakhresa Grain Milling in Box 6).

Governments also supply **essential services,** including education, capacity building and training, health care, certification and local administration. In low-income markets, these services are often absent. As a result, companies that enter these markets often struggle with a lack of literacy and basic skills, and find it difficult to hire trained staff.

Box 6: Interview with Mahesh Josyabhatla

CEO Malawi and Mozambique, Bakhresa Grain Milling

Bakhresa Grain Milling Malawi (BGM) is a flour producer that sells packaged wheat flour to small bakeries, retailers, and supermarkets at affordable prices. BGM trains individuals on how to set up micro businesses and how to use, store and market flour products.

BGM's main customer group are smallholder bakeries in rural Malawi. What challenges do you face in reaching your clients and transporting your products?

As Malawi does not grow enough wheat, we have to depend largely on imports. In landlocked Malawi, road and rail networks to neighbouring ports are challenging and pose difficulties in importing goods. It is equally difficult to reach out to our customers in rural Malawi in a cost effective manner. We had to create nodal points that help us reach our clients efficiently.

What other public support is needed to strengthen your value chain?

Access to micro credit in Malawi needs to be made available to everyone, in order to hone financial skills which will also strengthen our value chain. Many of our clients, particularly women, who are very important in our value chain, experience difficulties in accessing the finance required to become micro entrepreneurs. Government-led and public institutions like the Malawi Development Bank do focus on financial literacy, which will help to increase living standards by enhancing their skills, access to financing, and purchasing power.

[10] World Bank (2007): *Atlas of Global Development*, Washington DC.
[11] UNDP (2012): *The Millennium Development Goals Report 2012,* New York
[12] International Energy Agency (2011): *World Energy Outlook 2011,* Paris

Enable companies to enter low-income markets

Policies can enable companies to enter the low-income market by removing exactly the constraints that have been identified in the previous chapter.

Information

Governments often have **data** that is valuable for companies in defining the business case and understanding the low-income market. For example, household surveys provide essential data on needs and demands of low-income people. The 2008 report "The Next 4 Billion" by the IFC and the World Resources Institute was the first, and to date the most comprehensive, sizing effort of the Base of the Pyramid (BoP) market. Using household survey data, the report estimated the market to be approximately $5 trillion US (measured in purchasing power parity).[15] FinScope surveys conducted in several countries provide information on the demand and supply of financial services.

Research by public institutions can create opportunities for business. In the Philippines, a public university conducted research into the usability of coconut fibre. Based on the results, CocoTech was set up as a company to produce and market coconut fibre textiles, including to the public sector.[16]

Agronomic research institutes develop new varieties and practices that smallholder and companies can adopt to increase competitiveness.

Public forums offer **peer learning** opportunities. The BASE Forum, for example, brings together social entrepreneurs, experts, and public sector institutions to share insights.

Rules

Overarching frameworks can set direction for a more inclusive economy and lead to concrete policy formulation to promote inclusive business. In Ecuador, the national development strategy "Buen Vivir" ("well living"), which is embedded in the countr 2008 constitution, describes a development path that sees social, cultural, environmental and economic issues working together and in balance. In Kenya, Vision 2030 aims to help transform the country into a "newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment."[17]

Special **legal forms** in corporate law can enable business with an explicit social mission. For example, in the US the "benefit corporation" explicitly expands the fiduciary duty of a director to consider non-financial interests of stakeholders as well as the financial interests of shareholders. Sustainable Harvest as a registered "b-corp" benefits from greater consumer trust.

Regulatory hurdles can make it impossible to bridge the formal-informal divide and access low-income markets. Tailored **industry regulation** can encourage private sector investment and make it easier to bridge the gap to the informal market. While privatization does not always lead to desirable results, it is a precondition for allowing companies to engage and, when designed well, can bring investment and innovation to a sector. The Malian government, with support from the World Bank, created new regulation and administrative capacities to enable private energy providers. Only 6 months after the law had been passed in 2006, 50 small providers applied for licenses.[18] Targeted industry regulation can

[15] IFC and WRI (2008): *The Next 4 Billion - Market Size and Business Strategy at the Base of the Pyramid* Washington D.C.

[16] Elvie G. Ganchero, Elvie and Perla Manapol (2008): *Coco Technologies: Providing Livelihood Opportunities for Poor Coconut Farmers through Value-Adding,* UNDP GIM Case Study, New York

[17] http://www.vision2030.go.ke/

[18] Mamadou Gaye (2008): *Rural Electrification in Mali: Improving Energy Accessibility for the Rural Poor*, UNDP GIM Case Study, New York.

also reduce barriers of entering the low-income market and reaching out to Base of the Pyramid (BoP) consumers, as the interview with Agrofinanzas in Box 7 shows.

The Colombian energy provider Promigas benefits from flexible regulation when oans to their low-income gas clients at market interest rates and with repayment periods of up to 60 months. The Colombian regulation allows Promigas to include the costs of the loans into the gas bills of the clients that are supported by Brilla.

Standards can facilitate doing business with low-income people. Lighting Africa, for example, has developed a standard for lighting products. Low-income consumers now find it easier to choose solar lamps and other products that provide value for money over the long term. Other standards codify good practice for including low-income producers, such as the Fair Labor or Rainforest Alliance standards for collaborations with smallholder farmers or Goodweave for working with weavers. While governments often do not set these standards themselves, they can adopt and endorse them. Standards are critical for export. The Ugandan government, for example, with support from UNEP and UNCTAD, developed a national standard for organic agriculture that was aligned with EU and US standards and required certification infrastructure. As a result, certified organic exports increased from $3.7 million to $22.8 million in 5 years. Farm-gate prices of organic pineapple, ginger and vanilla were respectively 300%, 185% and 150% higher than those of conventional products, thus creating significant benefits for smallholders.[19]

Box 7: Interview with Francisco Mere

CEO, Agrofinanzas

Agrofinanzas provides financing to smallholder farmers and food producers in Mexico. The company connects rural producers with larger companies in the agribusiness supply chain and uses these links as collateral for credit.

Mr Mere, only recently Agrofinanzas developed into a fully established commercial bank. What led to this change?

In 2011, the Mexican government made two important changes in the legal framework of the banking sector. First, it simplified the anti-money-laundering-regulation, reducing the amount of information banks have to collect from customers who want to open a bank account with limited deposit possibilities. Today, accounts can even be opened by clients on an anonymous basis. Second, the government allowed banks to use any commercial establishment such as drug stores as a bank branch. These two changes motivated Agrofinanzas to become a full bank which now allows us to take deposits.

How did these regulatory changes support your inclusive business model?

The first regulation change significantly improved the conditions of poor people to open up a savings account since limited information is required to open small deposit accounts. Also, it lowers the costs of the banks for setting up and maintaining savings accounts. As a result, Agrofinanzas is now able to profitably offer services to smallholder farmers and low-income communities that most often only deposit very small amounts.

The second regulation significantly lowers the costs of setting up a new branch from formerly 200,000-400,000 USD to 2,000 USD and allows Agrofinanzas to offer services through local merchants in rural villages. As a result, we can now bring our services closer to our target group and expand our business. Within the next 12 months we are planning to establish 3,000 new contracts with local merchants and in the next five years we aim to increase this number to 20,000 contracts.

[19] UNDP (2010): *The MDGs: Everyone's Business,* New York

Financial Resources

Development Finance Institutions on the national and regional levels are providing loans and **credits** to companies where no other reasonable options exist. Loans and credits may be provided at a going market rate of interest, enabling companies to make investments of a size and kind the local banking sector does not support.

The Brazilian supermarket chain and wholesale distributor Tenda Atacado, for example, received a loan from the Inter-American Developm
Opportunities for the Majority (OMJ) initiative to offer financing and capacity building to low-income micro-entrepreneurs in the food-services sector.[20]

Structure and Capacity

Where governments invest in infrastructure, they open up access to low-income markets. Better roads, above all, reduce transport costs. New technologies can also play an important role to reach rural areas. The Indian government is currently working to provide smart ID cards to each one of its 1 billion citizens. A unique ID not only facilitates the targeting of public services, but also enables companies requiring identify verification, such as insurers, to enter into long term contracts with customers.

Encourage companies to invest in inclusive business

Companies are often hesitant to develop business in low-income markets. Not only are the conditions for doing business challenging. In addition, new business models have to be developed that operate on thin margins and typically require large scale to break even. Finally, these businesses may produce social benefits that are not rewarded through the market. For example, selling mosquito nets will reduce the Malaria prevalence overall, but may not necessarily result in profits for the provider. In order to encourage companies to invest and innovate, governments can create explicit incentives.

Information

Providing information and raising awareness on inclusive business among the private sector can inspire companies to follow good practice. **Awards** such as the G20 Challenge on Inclusive Business Innovation motivate companies to look for opportunities. So far, only a few governments have made use of this inexpensive tool.

Rules

The most direct way to encourage companies through regulation is to **make inclusion obligatory.** India has taken this approach in the insurance sector, where all insurance companies are required to sell a percentage of their policies in rural areas.[21] However, while 34 insurers flouted the norm between 2000 and 2010, the Insurance Regulatory and Development Authority (IRDA) acted only against nine of them.[22] The example shows that pure push strategies may not be effective if there is no real pull from the market side.

As part of concessions**,** the mandatory approach may be more promising, as companies can apply voluntarily and differentiate themselves; moreover, compliance is easier to track and enforce. The government of Manila, for example, provided the Manila Water Company with a concession to serve parts of Manila with water, with the proviso that the company greatly improves service provision in slums.[23]

[20] IDB Opportunities for the Majority (2012): *Tenda Atacado: Transforming Business Relations into Partnerships for Growth*, Washington D.C., p. 5

[21] This policy is called Obligations of Insurers to Rural Social Sectors (see Tapen Sinha (2005): The Indian Insurance Industry: Challenges and Prospects, Nottingham)

[22] Times of India (2012), IRDA soft on insurance companies flouting norms

[23] Jane Comault (2008): *Manila Water Company: Improving Water and Wastewater Services for the Urban Poor,* UNDP GIM Case Study, New York

Financial resources

Subsidies and tax reliefs are the most direct way to financially reward the social benefits created by business. The Colombian government provides subsidized loans to educational institutions such as Uniminuto for specific projects targeting students from low-income communities. When starting a new hospital in India, companies receive a tax relief for the first five years. In addition, hospitals such as Apollo receive land at subsidized prices under the condition to treat poor patients at discounted rates. However, courts in India have recently found that many hospitals have not fulfilled their part of the deal.[24] Subsidies require effective enforcement systems, such as reporting and tracking processes and payments need to be linked to performance.

Impact investing funds provide preferential financing to inclusive businesses. These financial vehicles can generate returns and combine different sources of funding, including from the private sector. The National Innovation Council of India is currently setting up the India Inclusive Innovation Fund. The fund, which starts out with about $1 million from the government, banks, institutions and multilateral agencies, will finance innovative enterprises focused on the base of the economic pyramid. In South Africa, the Jobs Fund is designed to support innovative proposals from companies that will facilitate job creation.

Guarantees leverage public funds to secure private investments. The Mexican government provides guarantees through trust funds set up by the central bank. The scheme allows banks such as Agrofinanzas to serve clients without any collateral or financial history. It typically covers 50% of the risk and banks have to pay a fee to use it. The government has designed the system to be completely automatic and eligibility is determined ex-post, which means that it is very fast and easy to access.

Box 8: Interview with Kumar Priya Ranjan

Director, Waterlife India

Waterlife builds and runs water purification plants in underserved areas of India. Plants are run by local operators and local distributors deliver door to door. Waterlife has 37,000 water purification units in 11 states and serves 30 million people.

The Indian Government funds the construction of your water plants. Is this the right policy incentive?

Providing safe water to people in rural villages requires a lot of financial resources, particularly for the construction and maintenance of water plants. Before the funding scheme, the government or a large company would build a water purification plant that soon became defunct due to lack of maintenance. Thanks to the funding scheme we can offer safe water to poor people and keep our plants running. The government pays for the construction of the plant itself, while customers pay a small monthly fee that generates enough revenue to cover the operational costs. In this way, we ensure that our operations are profitable and scalable while people in rural India have access to well-functioning water systems.

How exactly does the funding scheme work?

Funding comes from both the central and state governments and from large companies. First, the government identifies areas with highest demand of clean water depending on the level of contamination. In a second step, companies are asked to present their solution to the specific contamination in a public tender. The winning company builds the plant with government funds and contractually agrees to take care of the operation´s maintenance and awareness raising activities for a period of 5-10 years. During that time the company collects small user fees to cover the operational costs and guarantee the sustainability of the system. After that time the system will be handed over to the community where local operators have been trained to operate the system.

[24] International Business Times (2011): Supreme Court Instructs to Provide Free Medical Treatment for Poor http://www.ibtimes.co.in

Public procurement can be an enormous driver of sustainable business practices. 15-22% of a nation's gross domestic product is spent by the public sector on goods and services.[25] By procuring preferentially from companies with inclusive business models, governments can set strong incentives without spending extra money (apart from the cost difference between the winning bid and the cheapest proposal). Governments have started to use their purchasing power to support smallholders, as with the purchasing scheme Food Acquisition Programme Programa de Aquisiçao de Alimentos) in Brazil, or the Public Procurement from small scale producers in India. The government of India also funds the construction of water facilities through a public tender process thereby supporting companies that target low-income communities (see interview with Waterlife India in Box 8).

Structure and Capacity

Governments can also facilitate access to low-income markets by working in **development partnerships** with the private sector and employing its own structures for implementation. The African Comprehensive HIV/AIDS Partnerships (ACHAP) is a partnership between the Government of Botswana, the Bill & Melinda Gates Foundation, and MSD/Merck Company Foundation with the aim of enhancing

Through broad-based treatment, testing and counselling services, the partnership has helped to reduce the prevalence rates of HIV infection from 38.5% in 2001 to approximately 25% by 2008. 84% of people with the virus had access to antiretroviral drugs in 2009.[26]

The telecom operator Millicom International Cellular S.A has partnered with the United States Agency for International Development (USAID) and the Cherie Blair Foundation for Women to bring mobile financial services to women entrepreneurs throughout Tanzania, Rwanda and Ghana. Over a period of 18 months, this Global Development Alliance will provide over 4,000 women with business skills training and valuable opportunities to increase their income through mobile retail channels.[27]

In Pakistan, Engro Foods and USAID have partnered to install 60 milk chillers in remote villages to improve mild storage and increase incomes of small dairy farms. The partnership is part of the USAID-funded Entrepreneurs Project which promotes public-private partnership with Pakistani private sector players to ensure that U.S. support activities transform into sustainable businesses for local communities.[28]

Empower low-income people to participate in markets

Policies can empower low-income people to participate in markets as producers, consumers, distributors and retailers. These policies indirectly create a fertile ground for inclusive business. They can also directly involve the private sector in their implementation and thus seed inclusive businesses. This chapter focuses on this more direct link.

Information

Subsidies, vouchers and other forms of direct support to low-income communities are typically linked to **awareness raising** campaigns to make them effective. Farmers need to know how to use fertilizer, pregnant women need to learn about the benefits of preventive care, and so on. In India, the government invests into awareness raising about the benefits of the national health insurance scheme RSBY to empower poor

[25] ADB (2011): The strategic importance of public procurement, Manila

[26] http://www.achap.org/

[27] http://www.usaid.gov/news-information/press-releases/usaid-partners-cherie-blair-foundation-women-and-millicom-support

[28] http://transition.usaid.gov/pk/newsroom/news/growth/120627_agriculture.html

people to make an informed decision about where to get free health care treatment. The company Ecofiltro in Guatemala works with local governments to educate communities about the dangers of unsafe water and ways to avoid them.

Rules

Regulatory innovations can help to **formalize informal markets.** Rules can make it easier for microenterprises to register formally**.** In Ecuador, the Tourism Micro-Enterprises, Micro-Credit and Poverty Reduction (MET) initiative supported the creation and implementation of an appropriate regulatory framework for tourism micro-enterprises. Formal companies find it easier to integrate microenterprises into their value chain.

Rules can also reduce the formal requirements for customers to participate in markets. In Mexico, the financing institution Agrofinanzas benefits from simplified anti-money-laundering-regulation, which requires banks to collect less information from a customer who wants to open a bank account with limited deposit potential. As a result, customers who do not have an official ID card can still open a bank account (see interview with Agrofinanzas in Box 7).

Financial resources

User subsidies and insurance schemes enable low-income people to articulate their demand despite very limited own financial resources. These transfers can help to build a market. However, they come at a high cost, especially when they target a broad group of people.

User subsidies enable access to essential goods and services. These subsidies can consist in general social transfers, such as cash transfer programs. Product-specific transfers build a more direct bridge between low-income consumers and providers, as the example of the private university Corporación Universitaria Minuto de Dios shows (see interview in Box 9).

The Mexican housing company VINTE benefits from the public mortgage scheme INFONAVIT/FOVISSSTE. The company has developed various kinds of mortgages with INFONAVIT, including a digital mortgage for technology and a green mortgage that protects the environment through water, electricity and gas savings.

Vouchers are one way to provide product-specific subsidies to users. Vouchers can be easier to administer and evaluate than subsidies in cash. They also simulate normal market transactions and thus contribute to market development. Vouchers have been used extensively to enable access to agricultural inputs to smallholders, in particular to fertilizer. But there is a broad range of other applications, such as in education and health care. In Kenya and Uganda, for example, the Reproductive Health Output-Based Aid Voucher Program aims to stimulate consumer interest in health care services. Consumers purchase vouchers at a low cost. Providers can then use the voucher to receive reimbursement for the cost of treatment.

I**nsurance schemes** leverage the scale of governments to provide risk-sharing mechanisms. Companies can be involved both in the provision of the insurance and in the service itself.

The national health insurance scheme RSBY in India enables free access to health care services of up to INR 30.000 (US$500) per year for those 330 million citizens living below the poverty line. Other state-level schemes cover even greater amounts. The Aarogyasri Community Health Insurance System in the state of Andrah Pradesh covers up to INR 200.000; enabling access to tertiary care such as cancer treatment provided by Apollo Hospitals. Insurance schemes are also important in agricultural markets to enable smallholders to take long-term investment decisions in light of climate-related risks.

Box 9: Interview with José Vicente Bernal

Financial advisor, Corporación Universitaria Minuto de Dios

Corporación Universitaria Minuto de Dios (Uniminuto) is a university with over 60,000 students on 42 sites throughout Colombia, as well as distance education programs for students in remote areas. Most of the sites are located in low-income neighbourhoods. The university works with business, government and non-governmental organizations to ensure that curricula meet potential !

Colombia´s biggest public student loan agency ICETEX provides loans at zero real interest rates to students from low-income communities. How does your university benefit from this support?

The government loan scheme has helped us to offer education to the poor in Colombia as ICETEX offers subsidized loans targeted at students from the lowest income levels. Thus, the ICETEX program complements our efforts to make education accessible and keep tuition fees affordable. Through Cooperativa Uniminuto our financing subsidiary we are able to manage the loans provided through ICETEX and offer additional short- and medium-term financing for those students that are not eligible for the government program. In 2012 Cooperativa Uniminuto managed the issuance of 63.000 loans valued at 15 million USD, thereby reaching over 43.000 students from the lowest two income segments.

Does your university receive additional government support to offer education to the poor?

Uniminuto also partners with the government in formal collaborations. For example, in 2012 Uniminuto and the Ministry of ICT with the support of the Korean government
first Information Access Center. The center offers training and state-of-the-art technology for 600 community leaders in the Cundinamarca region. The aim is that it serves as a pilot for the lowest income levels in the country to have access to informatics education.

Structure and Capacity

Public structure and capacity can empower low-income people to do business with companies by **building their capacity**. As part of the EthioPEA alliance, the Ethiopean extension service trains farmers in chickpea cultivation. PepsiCo then buys the chickpeas for the production of food products.[29] In Morocco, the E-Equality, ICT and Entrepreneurship Program trains youth in business and ICT skills. Half of the graduates found jobs in the ICT sector within 6 months of graduating from the program.[30] Hotel Mt Plaisir in Trinidad and Tobago benefited from public staff training programs as part of its tourism development program.[31]

[29] Tofik Firaj Site (2013): *PepsiCo: Partnering with international development organizations to scale up chickpea production and fight malnutrition in Ethiopia*, UNDP GIM Case Study, New York.
[30] AfDB (2011): *Tackling Youth Unemployment in the Maghreb,* Economic Brief, Tunis
[31] Melanie Richards (2008): *Mt. Plaisir Estate Hotel: A Catalyst for Development in Grand Riviere*, GIM Case Study, UNDP, New York

Modes of Public Private Interaction in the Inclusive Business Policy Making Process

For governments, finding the right approach to tackle policy-related constraints to inclusive business is not an easy task. Policymakers depend on good and reliable information both about the low-income market context, industry sectors and needs of low-income communities to make informed decisions to promote inclusive business models.

Businesses can support governments in the policy making process. Companies have considerable expertise in their own industries, and are familiar with the challenges in creating business models suitable for low-income markets. Hence, they can offer information and technical advice to the government on how to effectively design and implement policies.

Interviews with the G20 winners revealed that many inclusive businesses already engage in consultation with the government on a number of different issues and constraints. Consultation takes place in different modes of public private interaction and can either be initiated by the government or by the private sector itself.

While the public and private sectors always interact to develop useful policies, the need for dialogue may be more pronounced when it comes to inclusive business. First, inclusive business often happens in highly regulated sectors such as education, health care, water, energy or agriculture. Companies and government have to find ways to allow for innovation without compromising on consumer protection and public welfare. Second, inclusive business is often not possible without supportive policies. The government has to come on board for implementation and for creating an ecosystem that makes inclusive business flourish. Third, issues concerning inclusive business often don't fall squarely into one ministry but stretch across departments. Hence, dialogue with several public sector players is required.

Business involvement in the policy making process can be associated with rent-seeking and corruption particularly in less developed countries. To avoid abuse, formal and transparent engagement processes are needed that ensure accountability and openness towards other stakeholders.

Government-driven interaction

To make policies actionable and effective, more and more governments actively engage the private sector in the policy making process. Through Public Private Dialogues governments can engage companies on concrete issues within a limited time frame whereas consultative bodies allow companies to continuously offer consultation to the government on wider policy issues.

Public-Private Dialogue

Public-private dialogues (PPD) provide structured processes for governments and the private sector to review the policy environment for inclusive business and find joint solutions to tackle policy related constraints. PPD often takes place in partnership with local governments, business associations and international organizations.

In PPDs the private sector carries significant political weight, and is able to call attention to business challenges and provide technical expertise on issues that are fairly specific to the environment for inclusive business. [32]

Over the last years, PPDs have been used successfully in many low-income countries to improve the basic legal framework for doing business (i.e. business registration, licensing and tax regimes, trade barriers), as well as

[32] UNNDP, UNGC, Bertelsmann Foundation (2011): *Partners in Development How Donors can better engage the Private Sector for Development in LDCs, Gütersloh, Germany, p. 24*

promoting sector-specific solutions (see interview in Box 10). PPDs also help to create a sense of ownership of reforms among the business community and allow making policies more likely to succeed in practice

Box 10: Interview with Alfredo Nava Escárcega

Investor Relations Officer, VINTE Viviendas Integrales

VINTE is a homebuilder in Mexico that specializes in affordable, sustainable housing for low and middle income families. Many of VINTE´s clients come from N !D ! ! ! ! ! limited access to clean water, electricity or schools. The company is working with the government through a number of mortgage programs designed to enable lower-income customers to access housing finance.

In February 2013, the Mexican government approved a new housing policy. Which process led to the design and implementation of this policy?

In order to hear the voices of all stakeholders involved, the government set up a private policy dialogue to inform the new housing policy and to develop policy strategies to make housing available to all Mexicans. As VINTE has been recognized by the government as a leader in sustainable housing it asked us, among other actors from the Mexican housing sector, to take part in the dialogue and share our ideas. The dialogue was structured along several discussions and was held between December 2012 and February 2013. Together with other housing builders we drafted an action plan which was given to the president and which later informed the new policy.

What was the outcome of this dialogue?

The public private dialogue led to a new housing policy enacted in February 2013 which is aimed at promoting more decent and sustainable housing and urban planning in Mexico. The concrete programmes to implement the new policy are currently being defined. One action already taken secretary of human and housing development , intended to coordinate all policies regarding housing and urban planning. Also, the government plans to expand the housing funding and subsidy schemes, which will have an immediate effect on the clients of housing companies such as VINTE.

Consultative bodies

Through consultative bodies governments can engage the private sector on a continuous basis on policy development in inclusive business topics. Such bodies include committees, councils or networks on specific industry sectors or business topics.

Companies engage in consultative bodies to the government mainly through their business associations or through issue networks, in some cases also on an individual basis. They offer advice to the government on how to design and deliver effective policies to improve the business environment or to empower low-income communities to participate in markets - as the interview with Apollo Hospitals Group in Box 11 shows.

As public consultation is becoming a mandatory requirement of the legislative process in many developing countries consultative bodies play an increasing role in the policy making in those countries.

For example, the government of Ecuador is currently aiming towards scaling the use of whey up to a national level. To this end, it asked the company Reybanpac and other milk producers for technical advice in building a nationwide value chain for the production of whey. The final goal is the establishment of a National Milk Council that promotes the production and use of whey in Ecuador and works as consultative body to the government.

Business-driven interaction

Companies themselves can initiate a dialogue with the government and articulate their policy needs either on an individual or collective basis.

Individual engagement

Engaging individually with the government can be an effective strategy for an entrepreneur or company, allowing it to articulate its needs and ask the government to act on an occasional basis or in response to a specific concern. For example, companies may encourage the

Box 11: Interview Hari Prasad,

CEO Central Region, Apollo Hospitals Enterprise Limited

Apollo Hospitals Group is a healthcare organization that owns and manages a network of hospitals and medical facilities in India. Since 2008, the company ! ! ! ! S ! -! smaller satellite facilities located in underserved regions that offer limited services at discounted rates to people living below the poverty line.

In India the government enables access to health care services through a number of health insurance schemes. Was Apollo involved in the development of these schemes?

Yes, Apollo together with other companies has advised the Ministry of Health in developing the national health insurance scheme RSBY which aims to grant free access to health care services of up to US$ 550 per year for all 350 million citizens living below the poverty line. Right from the beginning we have been involved in consulting with the government on how to design and implement the scheme, and today we are continuously working with them in monitoring the outcomes and impact. Also, Apollo was involved in the development of state-led insurance schemes such as the Aarogyasri Community Health Insurance System in the state of Andrah Pradesh. Here the insurance scheme covers even greater amounts of health care costs and grant access to tertiary and advanced care.

How does Apollo benefit from working with the government on the schemes?

Without the public health insurance schemes it would have been much harder for us to offer health services to people below the poverty lines. Today, many states have similar insurance schemes like in Andrah Pradesh which supported the idea of our

how to set up insurance schemes in a way that it both benefits the poor and sets the right incentives for hospitals helped us to be seen as trustworthy partner to the government. As a result, the Ministry of Health granted us a consultative role in further improving health policies to reach low-income communities.

government to provide public goods or public services that the business needs to implement its inclusive business model in particular locations, such as by improving the roads to better access its target group.

Sometimes individual public policy engagement by entrepreneurs and companies can have far-reaching implications, changing the business environment for other companies and in some cases opening entirely new markets.

Collective Engagement

Companies can also engage collectively to improve the environment for inclusive business for example though business associations, industry networks or issue platforms. Often, these platforms involve civil society organizations. Companies typically engage collectively where they lack a legal basis for their business or where they face regulatory constraints to further develop their business model (see interview with Reybanpac in Box 12).

G20 winners, for example, asked governments to reduce information requirements for offering saving accounts to the poor, eliminate subsidies for non-renewable energies, dismantle barriers that restrict them from exporting their product to developed countries, or simply pass laws to reduce the administrative burden of creating new businesses.

Companies also engage collectively with the government on policies that affect their target groups or that empower low-income communities to participate in markets. For example, the housing company VINTE advocated for the design and implementation of an Urban Development and Housing Policy that reduces the housing deficit by means of high-quality, competitive and sustainable housing solutions in Mexico.

Box 12: Interview with Rodrigo Dueñas

Dairy Commercial Division Manager, Reybanpac Unidad de Lácteos

Reybanpac in Ecuador collects raw milk from smallholder farmers and processes it into ultrapasteurized dairy products. Products are delivered to more than 45,000 microretailers who then sell the products to low-income consumers. Reybanpac fortifies many of its foods with vitamins and minerals to combat malnutrition.

Mr Dueñas, did Reybanpac engage with the government on a policy level?

We had to. When we identified the huge potential of whey for nutrition there was no legal basis that allowed us set up our business and add whey to dairy products or sell whey as a fit to eat product. Also, no norm for the quality of whey or its production existed at that time. Quite the opposite: whey was considered an undesirable waste product of the cheese production process, and it was dumped into rivers, inappropriately disposed of at a rate of 800,000 litres a day.

What have you done to convince the government of the potential of whey for nutrition?

Together with other producers we engaged in a 2-year collective dialogue process to convince the government of the beneficial effects of whey. We arranged monthly meetings where we presented empirical evidence to several ministries. We demonstrated to the Ministry of Environment that we would significantly reduce the pollution of rivers and fields by buying excess whey. This helped to convince the Ministry of Agriculture as it would reduce the contamination of pastures and increase demand for milk, which would benefit cattle ranchers and milk producers. We also assured the Ministry of Industry that we would create a value chain that would be beneficial to all stakeholders - producers, processors and consumers. Finally, we convinced the Ministry of Health that whey provides high-quality protein at low cost and helps to fight malnutrition. As a result of our efforts, the government established three new norms for whey, dairy beverages and fermented dairy beverages that allowed us to successfully start our business.

Recommendations

Inclusive business policies are a new concept and provide a fresh perspective on policies for inclusive growth. It is a useful lens to help focus on those policies that can leverage the potential of the private sector to contribute to poverty alleviation and sustainable development by doing what it is good at: business.

Both national governments and development partners can do more to understand and realize the potential of this innovative approach along the whole policy cycle. The last chapter has shown how governments and companies interact. This interaction is, in fact, critical throughout the cycle when it comes to inclusive business policies. As these policies target the interface between companies and low-income communities, both constituencies need to be part of a dialogue on how best to design, implement and evaluate them.

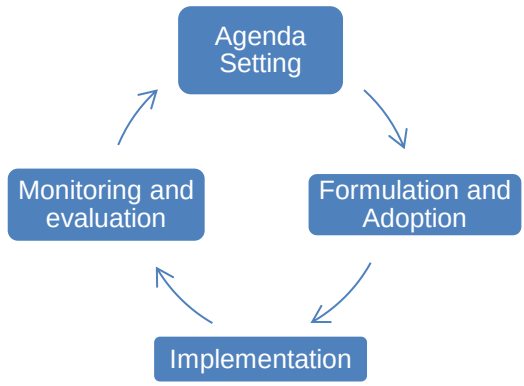


Figure 4: Policy cycle

Agenda setting

National governments can put inclusive business on the agenda by making it part of overall policy strategies, hosting forums or by raising awareness for best practice examples, e.g. through award schemes. Putting inclusive business on the political agenda can spark a discussion on the benefits and challenges of the approach.

Governments should also create spaces to listen to the needs of companies that aim to include low-income populations. Companies engage individually and collectively to improve the conditions for inclusive business. Governments must create transparent processes to hear these inputs and to avoid illegitimate rent seeking activities. For example, governments can nominate a public representative to act as a focal point for inclusive business. As issues concerning inclusive business are most often spread among different government entities (i.e. health, education) this representative could also ensure information flow and alignment among all government bodies involved.

Donors and international organizations can support national discussions by providing the required research and information. More research is required to identify and document existing policy examples, and to analyse existing experiences and extract insights. In particular, a better understanding is needed on the effectiveness of the different policy instruments and how to implement them. Donors should fund research in this domain and create forums to discuss the findings and experiences of practitioners.

Formulation and adoption

National governments should evaluate the role of companies in the implementation of development policies and the potential for linking private sector development with social objectives. A more systematic link between social and economic policy can provide concrete meaning to inclusive growth. For

example, business development services could provide special services for inclusive business and raise awareness on the approach. Likewise, vouchers schemes for the provision of basic goods and services could be open to private sector provision.

Again, governments must carefully evaluate the unintended effects of policies, in order to minimize the potential for rent seeking, corruption and other inefficiencies. Public-private dialogues can incorporate the voices of diverse stakeholders in the policy formulation process.

Donors and international organizations can consult national governments on the formulation of inclusive business policies, based on best practices from other countries.

Implementation

National governments can review existing policies for interfaces between low-income people and companies and strengthen these interfaces. For example, policies to promote better inputs for agriculture can make sure interventions build a private market for inputs rather than replace it. Governments can also enable public agencies to enter into partnerships with the private sector. Consultative bodies with representation from diverse stakeholders help to critically review the effectiveness of policies.

Donors and international organizations can provide financial and technical support for the implementation of inclusive business policies. For example, they can help to build public structures such as certification, credit rating, or research facilities. They can also help to build capacities within these and other institutions and by facilitating development partnerships.

Donors and international organizations should also make sure that information on their own inclusive business related activities are easily accessible. Unnecessary hurdles for companies to benefit from available support mechanisms should be reduced.

Monitoring and evaluation

National governments must monitor and evaluate the implementation of inclusive business policies. Besides being accountable towards the taxpayer, governments also need to understand whether policies actually have the intended effects, and adjust where needed.

Donors and international organizations can support this learning process by helping with the design and implementation of monitoring and evaluation systems and by providing benchmarks across countries.

Donors should support South-South learning through conferences, academies and communities of practice to accelerate the policy innovation process.

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