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Collaborating with the Private Sector for Pro-Poor and Inclusive Business Development

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Introduction

This paper will address the following questions:

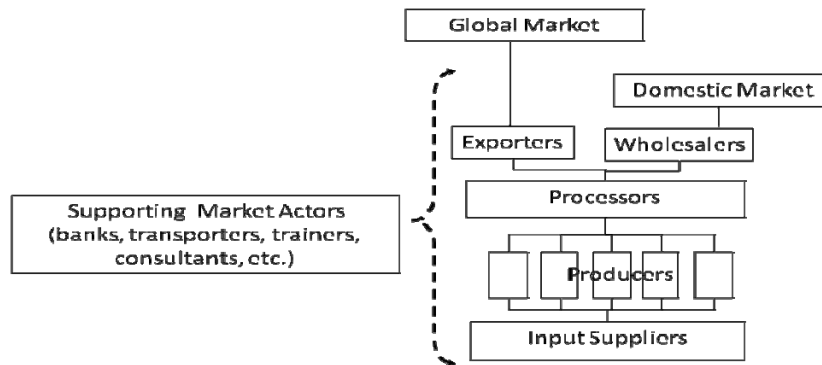
1. What are inclusive businesses?
2. What are characteristics of companies engaged in inclusive business?
3. How can companies better integrate low income producers into their business operations?
4. How can development programs and government promote inclusive business?
5. Why does it make sense for them to do this?
6. What are some best practices and guiding principles for development programs to “facilitate” inclusive business development?

What are Inclusive Businesses?

Inclusive businesses are those that profitably integrate low-income producers and consumers into their business operations and value chains. In so doing they make a positive contribution to the development of the company as well as the local population. **Low income producers** can provide agricultural raw materials for end products such food, textiles, and cosmetics. **Low income consumers** represent a large and growing market for products and services that inclusive businesses can adapt to their needs. It is estimated by the International Finance Corporation that 4 billion people in the world live on less than US\$ 3000 per annum and spend approximately US\$ 5 trillion a year, mostly on basic needs like food, housing, mobility, and health.

What Kind of Companies are Involved in Inclusive Business?

Almost any company that is operating in a value chain and that has transactions with the poor can be involved in inclusive business. Examples include input supply companies, traders, processors, retailers, exporters, banks, and service providers.



Companies engage in inclusive business for a variety of commercial reasons including gaining market entry, developing market share, securing supply chains for needed products, and innovating their product lines. All of these can help companies to build their market value.

What are the characteristics of Inclusive Businesses?

Inclusive businesses have:

- Commercial linkages with large number of low income producers/consumers
- Willingness to make investments to improve/expand relations with producers/consumers
- Financial strength to make investments to improve/expand relations with producers/consumers
- Ability to compete successfully in their markets and industries

- Potential to influence other companies and market actors in their industry
- Acceptable track record and reputation as a business

Examples of inclusive businesses include:

- Agribusiness companies training farmers as part of outgrowing operations
- Input supply companies using rural agents to market to low income farmers
- Tour operators working with villages to develop cultural tourism products
- Craft export companies sourcing woven products from rural women

How can existing or potential inclusive businesses better integrate low income producers and consumers into their business operations?

Inclusive businesses can carry out a variety of initiatives to improve their capacity to source from or provide products to low income people. These include:

- Developing or adapting products for low income consumers
- Carrying out procurement from low income producers
- Accessing finance for procurement and investments
- Conducting training and sharing technologies with producers
- Improving management and organization
- Resolving policy and regulatory issues
- Improving access to markets (that will increase their sourcing from producers)

How Can Development Programs and Government Promote Inclusive Business?

Donor and development programs can identify companies that have commercial incentives to provide important products, services, support and market access to low-income producers and consumers in their value chains. They can then support the initiatives of these companies to develop or expand the integration of producers and consumers into their business operations.

Why does it make sense for Donor Programs and Government to do this?

Donor programs that promote inclusive business can achieve:

- *Sustainability of Impact* – Inclusive businesses with commercial interests in low income producers and consumers have incentives to sustain relationships with them beyond the life of a development project.
- *Scale of Impact* - working with many inclusive businesses in an industry can multiply scale of impact
- *Greater Industry Competitiveness* – Inclusive businesses can serve as model for other firms and drive increased growth and competitiveness in their industries

How can Development Programs Support the Private Sector with their Initiatives?

Donor and development programs can support the initiatives of inclusive businesses to expand or develop the products, services, or support they provide to low income producers and consumers that they buy from or sell to. Donor programs can support companies to undertake initiatives that they might otherwise not undertake in the near term due to risk, cost, or lack of technical support. They can identify these initiatives by inviting companies to submit “applications” whereby the companies describe the initiatives they want to undertake. The program then reviews these applications together with the companies to discuss and negotiate strategy, timing, technical support and cost shares. This should not be seen as a competitive process – development program should try and support all companies that meet criteria for inclusiveness.

Sharing the Cost of Inclusive Business Initiatives

In addition to providing technical support, development programs can provide inclusive businesses with cost share support to reduce risks, and encourage them to invest in new initiatives that benefit the low income producers and consumers they transact with. These cost shares provide the companies with incentives and support to move forward with initiatives that they might otherwise not be willing or able to do.

Cost shares should support companies for capacity building, initial training and demonstration activities for producers, linking to new markets or suppliers, market research, feasibility studies, technical assistance for R&D and new product development. Development programs should avoid sharing costs for recurring operational or working capital costs, physical assets, company personnel, and the provision of finance or loans, as these can promote dependency and create problems when the cost share ends. They can also attract the “wrong” type of company (that is only interested in acquiring cost-shared assets), reduce company commitment, create an unfair playing field for other firms that the program is not working with, and create the risk of assets being diverted for other uses or sold.

Facilitating Inclusive Business Development

Donor and development programs should be skillful “facilitators” of inclusive business development so that impact and benefits continue once the program ends. Their role should be to build capacity, foster linkages, and encourage companies to address their challenges in a sustainable manner. They should not compete with market actors in any way. Their role should be to create incentives and “buy down the risk” for companies to invest in low income producers or consumers in their industries. Guiding principles for good facilitation by development programs include:

- Promote improved and expanded relationships between companies and low income producers in their industry
- Stay out of commercial, intermediary, or negotiation roles
- Allow companies and producers to determine the most appropriate structures for buying and selling without imposing preconceived organizational structures
- Manage collaboration with inclusive businesses in a businesslike fashion and deliver what is promised
- Demonstrate understanding of the private sector’s competitive and operating environment
- Recognize inclusive businesses as innovators and economic drivers
- Understand and appreciate the risks that companies face in undertaking inclusive business initiatives

Conclusion

Development programs can promote inclusive business development by providing technical and cost share support to companies to mitigate or “buy down” their risk of investing in bottom of the pyramid producers and consumers. This support can lead to greater competitiveness of the inclusive businesses, as well as sustainable impact and benefits for the low income producers and consumers that they transact with.

** For more information on facilitation of inclusive businesses (including training programs on this topic) feel free to contact Action for Enterprise at info@actionforenterprise.org or www.actionforenterprise.org.*