Global Lessons from Inclusive Business

Accelerating Local Value Creation through the Private Sector

W. Robert de Jongh, CEO and Chief Inclusion Architect

March 20, 2012
Overview

• The Context of Private Sector Development
• Introduction to Inclusive Business
• A Few Examples
• The Inclusive Business Ecosystem
• Lessons Learned from Practice
• Food for Thought – What Next?

Objectives

• Create Mutual Understanding about Inclusive Business: What it is, what it is not, lessons learned, food for thought
• Create a Common Agenda: How to drive inclusive business to scale
• Knowledge Exchange: Discuss and learn from current experiences in rural value chains and providing insights into context
• Ideation: Brainstorm on what could be and/or are unique inclusive business opportunities in target regions
The Current Context - Risk

RISK - BACKLASH

Backlash against globalisation and fiscal austerity, the financial crisis, evolution of demand, consumer expectations and scarcity in supply. Its time to adapt (or die) to a new paradigm.

OPPORTUNITY – NEW MARKETS

Development of new and innovative business models that create shared value, increase competitiveness, and promote inclusive growth (pace and pattern of growth).

1. Our context (“the market”) is demanding more, its time to evolve.
The Current Context - Opportunity

RISK - BACKLASH

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OPPORTUNITY – NEW MARKETS

Development of new and innovative business models that create shared value, increase competitiveness, and promote inclusive growth (pace and pattern of growth).

2. Our shareholders and stockholders are demanding more.
From thinking about global poverty...
To thinking about poverty close to home
## Business Challenges

1. Flattening or reduction in rates of growth or even decline
2. Limited access to Private Equity and liquidity
3. Image and Reputational Risks – Occupy Wall Street
4. Inefficiencies in distribution systems and their supply chain
5. Costs of Production (labour and other inputs)
6. Increased accountability and transparency requirements

## Market Challenges

6. Fragmentation and Polarization across sectors – govt under stress
7. Country Risk and Political Instability – markets fragile
8. Inadequate or threatened Infrastructure
9. Uncompetitive public policy frameworks
10. Imbalance between supply of labour and demand for labour
11. Speculation and fluctuation in commodity prices
Five Emerging Scenarios

Five transformative trends will shape the environment for business over the next decade:

- **The Great Rebalancing**
  - Emerging markets gaining larger share of global GDP
  - Growth of a multipolar global economy

- **The Productivity Imperative**
  - Economic growth in developed economies increasingly dependent on productivity gains
  - Insufficient supply of highly trained talent for rising global demand

- **The Global Grid**
  - Increasing interconnection of markets, trade, and technology

- **Pricing the Planet**
  - Significant increase in resource demand as emerging markets surge
  - Growing environmental pressures on business and society

- **The Market State**
  - Growing need of states to compete for economic growth and innovation
  - Competition to attract business activity

Source: Committee Encouraging Corporate Philanthropy, 2010.
An inclusive business is a core business activity within a company’s business strategy that integrates the low-income segment within its value chain as suppliers, consumers, distributors and/or employees in such a way that it creates shared value (win-win).
## Why Inclusive Business?

<table>
<thead>
<tr>
<th>Company Benefits</th>
<th>Low-Income Segment Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth, Profitability and Market Leadership</td>
<td>Jobs, Income and Improved Livelihoods</td>
</tr>
<tr>
<td>• Improved <em>business strategy</em> and understanding of their market, positioning, <em>innovation</em> and role in development</td>
<td>• Increased <em>access to markets</em> for their goods and services</td>
</tr>
<tr>
<td>• Increased <em>growth</em> rate through identification of new, high-potential opportunities</td>
<td>• Improved <em>compensation</em> for their products and services</td>
</tr>
<tr>
<td>• Improved <em>profitability</em> from better opportunity selection and management execution</td>
<td>• Improved <em>training</em> and access to better <em>technology</em> and materials</td>
</tr>
<tr>
<td>• Improved <em>management</em> capacity (including capabilities and connections)/<em>labour pool</em></td>
<td>• <em>Enhanced livelihoods</em> based on availability of new products / services from the companies</td>
</tr>
<tr>
<td>• Reputational-License to Operate risk <em>mitigation</em> in “hostile” emerging market/shareholder environments</td>
<td>• “Bankable” <em>assets</em> for the poor that can generate sustainable growth and opportunities</td>
</tr>
<tr>
<td>• Development of a new cadre of <em>business leadership/brand recognition</em>,</td>
<td>• Increased <em>access to financial</em> and related services</td>
</tr>
</tbody>
</table>
Typical Business Questions with a Twist

*Inclusive business follows typical business acumen applied within an inclusive paradigm*

<table>
<thead>
<tr>
<th>INVESTMENT/LABOUR</th>
<th>CONSUMER MARKETS</th>
<th>SUPPLY CHAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where are the most attractive investment opportunities?</td>
<td>Are low income segments an attractive market for us?</td>
<td>How do I increase my output?</td>
</tr>
<tr>
<td>How do I help my portfolio companies grow inclusively?</td>
<td>What preferences and demands do low-income segments have?</td>
<td>How can I lower raw material / supply costs?</td>
</tr>
<tr>
<td>How do I improve employee retention and stabilize labour supply?</td>
<td>How valuable is the market opportunity with low-income segments?</td>
<td>How do I diversify my supplier portfolio?</td>
</tr>
<tr>
<td>Is my portfolio company having social impact, and how much?</td>
<td>How can I compete effectively in the low-income segment?</td>
<td>How can I ensure a high quality product?</td>
</tr>
<tr>
<td>How should I structure the investment in this market?</td>
<td>How can I grow revenue with existing low-income segment customers?</td>
<td>How can I improve my distribution system?</td>
</tr>
<tr>
<td>How do I find a reliable source of skilled labour?</td>
<td>Does your company have any hidden assets it is not exploiting?</td>
<td>How can I lower my inventory costs?</td>
</tr>
</tbody>
</table>
But will it work here?

- Our market reality is different
- Companies are not interested in social issues, they only care about profits
- If my local environment is not competitive, they simply move their operations to somewhere that is (including overseas)
- It's simply cheaper to import that to source locally
- We already do CSR and engage in corporate philanthropy – isn't this the same thing
- We do not have the resources and engaging with the low income segment is a risky and expensive proposition
How does “Inclusiveness” Rank?

Source: Committee Encouraging Corporate Philanthropy, 2010.

Phases of Inclusive Business Development

3 phases × 4 steps to inclusive business

1. Identify opportunities
2. Develop the product
3. Find solutions
4. Secure funding
5. Test the model
6. Understand the impact
7. Leverage local capabilities
8. Engage partners
9. Expand locally
10. Adapt the model
11. Transfer to other countries

Source: Ennovent, 2011.
## A Typical Example - Perhusa

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Strategy</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 76% small coffee farmers not organised, dependent on intermediaries, low prices</td>
<td>• Outsourcing strategy for anchor company with small producers</td>
<td>• 9,000 farmers integrated</td>
</tr>
<tr>
<td>• Growth in international specialty coffee markets</td>
<td>• Training/Quality/Traceability for organic production</td>
<td>• 100% certification</td>
</tr>
<tr>
<td>• Company supplier limitations and land scarcity</td>
<td>• B2C with third party technical assistance/credit schemes</td>
<td>• 50%+ credit access</td>
</tr>
</tbody>
</table>

Case Study courtesy of SNV

A Typical Example - Promigas

Case Study courtesy of SNV and IFC

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<td>• 87% of customer base belongs to low-income segment</td>
<td>• Value company’s hidden assets</td>
<td>• 500K borrowers benefited, 93% LBoP, 31% home improv</td>
</tr>
<tr>
<td>• 90% of customers connected for the 1st time, high set-up fee</td>
<td>• Develop new business line providing credit schemes to low-income households</td>
<td>• $140m in loans outstanding, 1% more than 60 days past due</td>
</tr>
<tr>
<td>• 30 years of credit history bankable hidden asset</td>
<td>• Use payment history of existing client base to manage risk</td>
<td>• Net revenues of $30m in 2010, net profits $7.8m, 1,000 new jobs</td>
</tr>
<tr>
<td>• Saturated revenue stream</td>
<td>• Use gas billing to lower transaction costs</td>
<td>• Gas business serves 12 million people, 25% of pop, 87% BoP</td>
</tr>
</tbody>
</table>
Some Lessons from Practice

• **IMPORTANCE OF TRUST:** Trust is a fundamental condition for success – without trust, the inclusive business is more likely to fail.

• **BLENDDED FINANCE:** Like in any business venture, access to different types of capital is critical for business development and growth. Different stages of inclusive business will require different types and/or mixes of capital;

• **COMPANY LEADERSHIP:** Inclusive business requires commitment from the senior management team beyond traditional CSR departments – it is core business not marginal business and as such requires engagement of line management.

• **CORE BUSINESS ACTIVITY:** The inclusive business must enhance and/or improve an existing core business activity or build on a company’s hidden assets (through ideation)

• **NEED FOR AN “ETHICAL AGENT”:** Bridging perception divides and/or providing technical assistance or financial services outside a company’s expertise or remit often requires an “honest broker”

• **EXPLORE HORIZONTAL AND VERTICAL INTEGRATION:** Opportunities for economies of scale and reduced costs exist if and when companies explore joint ventures with competitors and/or strategic partners in their value chain (“co-opetive” bundling)

• **FOCUS ON THE BUSINESS PROBLEM/OPPORTUNITY:** Good intentions are insufficient. Like any business opportunity, the business opportunity should be sound, sustainable, viable, mitigating of risks, and profitable with measurable results
Assessing Relevance

### Issue ripeness, a tool for picking where to get involved

**Society’s expectations**
- Perception of the severity of the issue to current or future generations
- Perception of company’s capacity to affect the issue
- Perception of company’s responsibility for the issue
- Potential to push for regulatory change
- Potential for consumer/employee backlash
- Willingness of stakeholders to collaborate

**Relevance to business**
- Evidence of gravity or magnitude of issue on the company, now or in the near future
- Core competency of the business to address the issue
- Legitimacy of the company as a leader on addressing the issue
- Potential for new business opportunities
- Resonance of issue with company values and core competencies

**Issue ripeness**

- **Lead**: Take action
- **Take action**: Light touch
- **Light touch**: Irrelevant

<table>
<thead>
<tr>
<th>Society’s expectations</th>
<th>Issue ripeness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low, Medium</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium, High</td>
</tr>
<tr>
<td>High</td>
<td>Medium, High</td>
</tr>
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</table>

- E.g., water scarcity
- E.g., talent shortage

**SOURCE:** McKinsey analysis, expert interviews
Country Market Map: Nicaragua

Potential for Revenue vs. Potential for Inclusion within Key Economic Sectors

Potential for Revenue (Std. Dev.)

High

Low

Potential for Inclusion (Std. Dev.)

Low

High

Ability to Win:

- High
- Med
- Low
- Unknown

Key:

- Size of Circle Indicates # Employed by Sector
- = 20,000 persons

Source: Banco Central de Nicaragua; Instituto Nacional de Estadísticas y Censos de Nicaragua SNV Data; Monitor Analysis

Some Important Risks – Not for Everyone?

• Lack of market knowledge
• Lack of right mix of capital
• Underestimation of risk
• Lack of capacity/interest in anchor company
• Low tolerance for failure
• Unrealistic expectations regarding time to create shared value and ROI/SROI
• Lack of local adaptive management strategies
• Lack of strategic partnerships
• Internal company conflict re: value
• Lack of metrics/accountability
Remembering where we are…

Uncoordinated Innovation → Marketplace Building → Capturing the value of the marketplace → Maturity

Marketplace Building

- Analysis and Categorization of Inclusive Business Models
- Nascent Benchmarking inclusive of social and financial returns
- Development of a new asset class to increase liquidity (impact investment)
- Debate on the concept shared value
- Defining the preconditions – the inclusive business ecosystem (policies, subsidies, incentives, capacities, capital)
- Increased and shared understanding of risks and needs
- Attempts at standardizing metrics and reporting standards for investments and investees

The Inclusive Business “Ecosystem”

From Compliance...

The Inclusive Business “Ecosystem”

....To Engagement

Pathways to Scale for Inclusive Growth
Results and Impacts

- 500,000 low-income families affected directly and/or indirectly through inclusive business, jobs, production, income or access to capital
- Wide-spread media coverage and academic interest in the region and beyond (well over 100 articles in daily newspapers, journals, leading business magazines, cable news, documentaries) and Harvard, Cornell, Columbia, Aalborg, ESADE, NCAE, SEKN, Michigan, INSEAD, McGill, and leading national universities (presentations in 50 countries, 20 high-profile international events), Blog and platform (regional)
- Leveraged Finance, Knowledge, and Multi-lateral Development Bank interest through the IDB, ADB, IFAD, Ford Foundation, World Bank, CAF, OECD, National Governments – over $300 million leveraged
- National policy success in integrating inclusive business and development into the Constitution of Ecuador and developing national policies in 4 countries to enable inclusive business development
- Over 160 active inclusive business in 10 Latin American, Asian, African countries – large domestic and multi-national clients in agri-business, financial services, ICT, low-cost housing, forestry, extractive industries, biofuels, tourism, and consumer products.
Food for Thought

Do the concepts of growth and value require redefinition?

How inclusive does a company need to be to be considered “inclusive?”

What are the standard metrics required to assess the returns of an inclusive business? How much is “shared” value?

What are the preconditions for scale of inclusive business? What should be in the IB ecosystem?

How can we qualify and quantify the technical assistance needs required to mitigate risks?

What should be the target market for IB?
Q&A

• Create Mutual Understanding about Inclusive Business: What it is, what it is not, lessons learned, food for thought
• Create a Common Agenda: How to drive inclusive business to scale
• Knowledge Exchange: Discuss and learn from current experiences in rural value chains and providing insights into context
• Ideation: Brainstorm on what could be and/or are unique inclusive business opportunities in target regions
Why is Context Important

• What are some unique aspects of your context that should be taken into consideration?
• What are some current opportunities worth noting in your region?
• What are some important risks and how might they be overcome?
• How have current or previous private sector engagement efforts been successful (or not) and why?
Ideation – Inclusive Business Models

• Identify Current or Potential Inclusive Businesses in your Region
• Rank Identified Inclusive Businesses by:
  – Potential for Scalable and Sustainable Impact
  – Potential for Company Growth and Creating Value
  – Degree of Risk
  – Financial Requirements
  – Innovation Effect
  – Market Leadership
• Present the top three and your rationale for selecting them to the wider group
About Red Mantra

The Red Mantra Group is a boutique strategy consulting, market research, and technology solutions company focused on inclusive growth, sustainability and accountability in “emerging markets” worldwide. It aims to catalyze growth within its clients and facilitates value creation in ways that are important to them and to society at large.

**Core Practice:** inclusive business feasibility analysis, ideation, strategy development, implementation and impact assessment, impact investment pipeline generation and due diligence.

**Next Practice:** scenario development, inclusive business ecosystem analysis, inclusive public policy development

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**Inclusive Growth**

**Core Practice:** environmental impact analysis, conservation strategy development, socio-economic and environmental modeling, community and stakeholder engagement

**Next Practice:** Research and development, integrated sustainability reporting, long term financial sustainability mechanism design and development

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**Sustainability**

**Core Practice:** Program and project evaluation, monitoring and evaluation systems development, market scoping and analysis, program and project reporting

**Next Practice:** Sustainability and inclusion indexes, ex-ante impact assessment tools, impact investing due diligence tools (screening)

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**Accountability**