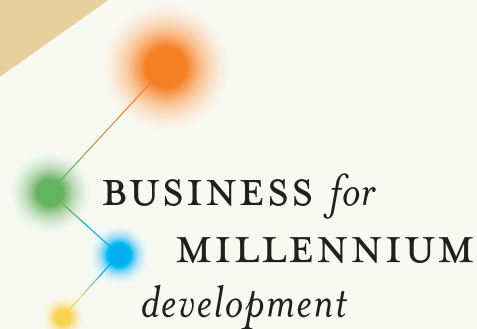


Submission

*TO THE SENATE STANDING
COMMITTEE ON FOREIGN
AFFAIRS, DEFENCE AND TRADE*



THE DELIVERY AND EFFECTIVENESS OF AUSTRALIA'S BILATERAL AID PROGRAM IN PAPUA NEW GUINEA

SUBMISSION TO THE INQUIRY INTO THE DELIVERY AND EFFECTIVENESS OF AUSTRALIA'S BILATERAL AID PROGRAM IN PAPUA NEW GUINEA

Business for Millennium Development (B4MD)

B4MD is an Australian based NGO that connects poor communities to global markets in order to deliver sustainable and measurable improvements in incomes and livelihoods through private sector partnerships. B4MD was established in 2007 as an alliance between World Vision Australia and a group of leading Australian companies and became an independent Australian registered charity in 2008. We:

- Advocate for the development of Inclusive Businesses; profitable businesses which generate avenues from poverty;
- Build inclusive businesses with our client companies in Laos, Kenya, Myanmar and Papua New Guinea. Our members and clients include the likes of PepsiCo, Syngenta and some of Australia's leading businesses including Oil Search, Cotton On and Nufarm.

B4MD has strong experience catalysing inclusive business opportunities in PNG in partnership with the private sector including companies such as: Oil Search Ltd, Newcrest Mining (Morobe Mining Joint Ventures), Ok Tedi Development Foundation, Esso Highlands Ltd, Mondelez (Cadbury), Olam International, GE, Amalpack and Goodman Fielder.

Inclusive Business

B4MD recommend that the inquiry consider the role that *inclusive business* can play within Australia's aid program in PNG:

- To increase private sector involvement in sustainable economic growth and reducing poverty
- To expand private sector partnerships in leveraging private sector investment and domestic finance

The World Business Council for Sustainable Development (WBCSD) defines inclusive business as:

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers¹

Fundamental to this idea is the belief that commercial drivers, including expanding markets for products and services and maximising profit, can be aligned with development outcomes, including creating opportunities for the poor and disadvantaged. Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a

¹ <http://www.inclusivebusiness.org>, WBCSD, 2014.

desire to minimise impacts and enhance reputation, inclusive business addresses development challenges through core business activities.

Inclusive business initiatives are different to full commercial business activities due to its greater focus on poverty alleviation and achieving development outcomes.

The Asian Development Bank (ADB), for example, describes IB's as "private sector investments specifically targeting a low income market (less than US\$3 per day) with the double purpose of making reasonable profit (i.e. an internal rate of return of 8-20%) and creating tangible development impact". Rather than seeing the poor as

bystanders or even victims of the market, inclusive business models aim to include poor people in value chains as producers, employees, consumers, distributors and innovators.

Hundreds of inclusive business from Papua New Guinea to India and Ghana operate worldwide, and have already created an avenue from poverty for millions of families. The UN's Business Call to Action keeps a public record of many of these businesses².

Why Inclusive Business?

Australia's aid program utilises a range of approaches to deliver on its objectives to promote economic growth and reduce poverty. These approaches include training public servants, health awareness campaigns and scholarships. It is our contention that the aid program should add catalysing inclusive business to this range of approaches. We offer six arguments in support of this contention:

1. Families exit poverty when a family member gets a job

Poverty has a range of facets from health to education and nutrition. However, at its core poverty is linked inexplicably to inadequate incomes. It is our contention that only the private sector can provide the jobs and supply contracts (at scale) to lift incomes to a sustainable level.

The rise of India and China in just one decade provides clear evidence of what's possible when the private sector engages with low income families at scale and delivers poverty alleviation outcomes.

Together we can help galvanise the private sector and encourage a broader set of actors to engage in inclusive business activities...There's no better way to reduce poverty than inclusive business growth that creates jobs"

Alistair Fernie, Head of Private Sector Department, DFID

"That economic growth is the primary driver of poverty reduction is well evidenced. On average, four fifths of poverty reduction in recent decades can be attributed to growth in average incomes."

"By catalysing more private investment and deepening private sector links into communities we can multiply the reach of the private sector and increase the opportunities for poor people."

The private sector and prosperity for poor people (DFID 2011)

² See <http://www.businesscalltoaction.org/>

2. The poor, when asked, want jobs

In its comprehensive study 'Voices of the Poor', which included interviews with some 60,000 of the World's poor, the World Bank concluded that jobs were a key priority for poor people themselves³.

3. Inclusive Business is being adopted by leading agencies

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

Inclusive business models have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society – to contribute directly to achieving development outcomes.

The US, UK, Swedish and German aid programs together with the IFC and ADB have adopted inclusive businesses strategies, providing evidence based models and learning for the Australian aid program. DFID and USAID have both established dedicated private sector divisions focused on facilitating the creation of inclusive business.

The below table provides snapshot of financial contributions and numbers of inclusive businesses supported by key donor agencies that have specific inclusive business programs. The programs outlined below give an indication as to some of the lead investments being made in inclusive business around the world.

³<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20622514~menuPK:336998~pagePK:148956~piPK:216618~theSitePK:336992,00.html>, Voices of the Poor, 2011

Organisation	Program	Period	Financial contribution (US\$)	Number of IBs supported
IFC ⁴	IFC Inclusive Business Models Group	Since 2005	> \$7 billion	> supported 300 clients in 80 countries through investment
ADB ⁵	Promoting Inclusive Growth through Business Development at the Base of the Pyramid	2010 - 2013	\$700,000	n/a focused on market studies, investment forums, country policy notes and development of IB Funds
ADB, Government of Sweden, Credit Suisse	Inclusive Business Support	2014 – 2017	\$3.6 million	- Increase by 50% of inclusive business projects in selected countries, of which at least 15 are from ADB - Tailored advice and technical support provided to at least 20 companies - Inclusive business impact assessments conducted for at least eight companies - 50 companies benefiting from IB training - Sector Workshops
UNDP ⁶	Facilitating & Brokering Private Sector Partnerships	Since 2004-2010	n/a	creation of 23 business linkages, brokered 75 IB partnerships
SIDA ⁷	Innovations Against Poverty	Since 2011	€5,420,265	66 organisations received grant funding
DFID ⁸	Business Innovation Facility	2010 – 2013	n/a	> 300 IB's supported across five countries through technical assistance

4. Business is increasingly ready to partner

The calls of respected business leaders such as Prahalad and Porter are being heard by business. Executives from a range of companies are seeing the role that trading with the world's poor can play in helping them realise their growth aspirations. Three prominent examples are:

- **Nestlé's creating shared value program** under which the company sold 167 billion fortified products in 2013 and trained 300,000 farmers⁹.
- **Digicel's mobile money programs**, which are offering basic financial services to previously unbanked families across the Pacific including PNG, Vanuatu and Fiji.
- **Syngenta's Good Growth Plan**, which will see the company train some 20M farmers globally¹⁰.

"Employing one person changes the lives of 15 to 20 others."

Terry Davis, Group Managing Director, Coca-Cola Amatil

These leading companies have already moved beyond the limits of CSR and have built profitable inclusive businesses that provide poverty alleviation at sale. They, together with hundreds of

⁴ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013.

⁵ <http://www.adb.org/projects/41258-012/main>, ADB, 2013

⁶ <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>, UNDP, 2013.

⁷ <http://www.sida.se/English/Partners/Private-sector/Frequently-asked-questions/>, SIDA, 2013.

⁸ <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>, BIF, 2013.

⁹ <http://www.nestle.com/csv>

¹⁰ <http://www.syngenta.com/country/au/en/news/releases/Pages/Syngenta-launches-The-Good-Growth-Plan.aspx>, 2014

others companies worldwide are positioned to partner with DFAT to establish inclusive businesses.

In 2012 our research showed that ninety-three percent Australian executive believed business can play an important role in alleviating poverty¹¹.

5. Inclusive Business provides leverage and scale

The challenge of poverty is extensive. 40% of PNG's population live on \$1 a day or less¹² or 2.8M people. Lifting their incomes directly to \$1000 a year would require the generation of \$1.8 billion in additional wealth or over three times the value of the current Australian aid program in PNG. To see this challenge met requires the Australian aid program to act as a catalyst for others to co-invest. B4MD believe the missing actor is business, and that inclusive business is the framework under which businesses can work with the aid program to see this challenge met.

How can DFAT catalyse inclusive business?

It is important to note that as a government agency it is not DFAT's role to *start* inclusive businesses. Rather, the department can act as an influencer; inspiring, resourcing and motivating business to act in PNG. This approach is already modelled through Austrade, which acts as a catalyst for Australian businesses¹³. We propose that DFAT extend similar approaches to catalyse Inclusive Business in PNG including:

Industries of Focus

To ensure that private sector engagement programs are of relevance to potential private sector partners, it is critical that DFAT are responsive to those sectors that are of greatest interest to business. Recognising the strong agricultural capacity of PNG, B4MD recommends that DFAT focus its efforts on the Food and Agribusiness sector. In particular, given the prevalence of in demand tropical commodities grown across PNG, DFAT would be well served to prioritise the following crops:

- Coffee
- Cocoa
- Rice
- Palm Oil

With food companies actively looking for opportunities to future proof their supply chains through direct engagement with smallholder farmers¹⁴, DFAT have the opportunity to implement a series of interventions within this sector that would attract foreign investment and deliver development outcomes.

¹¹Business in Development Study, B4MD & Accenture Development Partnerships, 2014

¹² http://www.pg.undp.org/content/papua_new_guinea/en/home/countryinfo/ United Nations Development Programme, 2014

¹³ See Austrade Export Assistance: <http://www.austrade.gov.au/Assistance>

¹⁴ Southeast Asia and Pacific Inclusive Business Alliance Strategic Plan, 2015

Market connections for the poor

DFAT can work together with the private sector to identify key barriers that prevent poor and disadvantaged communities from engaging with the value chain of large companies as employees, producers and consumers in a way that alleviates poverty. Such an assessment could be sector specific with a preference towards the mining and food and agribusiness

"Engaging the private sector is not about how we feel about business; it's about how high our aspirations are for poor people. If we rely only upon foreign aid, then our aspirations are far too low"

World Bank President - Jim Kim

sectors – key sectors within the PNG economy. On the basis of this assessment DFAT could then work with these companies to mitigate these barriers by providing development opportunities for poor communities in order to make them market ready. Market barrier mitigation programs for communities could include:

- i. Training & Education
- ii. Access to finance
- iii. Access to tools
- iv. Market Access and Market Linkages

Exploratory and validation missions to inspire companies to act

Exploratory missions, similar to trade missions conducted by Austrade, provide companies with a first-hand snapshot of the opportunities and challenges of launching an inclusive business, and help to build empathy for the poor amongst target companies. Missions allow companies to see business conditions and development challenges first-hand, and have proven critical in building awareness of the challenges and opportunities in working in developing economies.

Creating an enabling environment for the private sector

Many companies considering entry into countries like PNG are cautious to do so due the perception of country risk including concerns such as financial risk, market size, corruption, security, government policy and regulation, licence to operate, property rights, unclear taxation and legal requirements and protection of intellectual property¹⁵. Often the perception of country risk is a result of misinformation and lack of understanding as to how to enter a developing market.

Through the creation of an inclusive business enabling environment, DFAT could assist these companies mitigate perceived country risk and catalyse investment by providing a range of market entry services that ensure pro poor outcomes.

Market entry services that DFAT could provide include:

¹⁵ Business in Development Study, B4MD & Accenture Development Partnerships, 2012

1. Understanding the PNG market
2. Government Relations
3. Taxation/Legal/Regulatory Environment
4. Hosting in country missions exposing companies to the business opportunities that exist in PNG
5. Security and Risk
6. Understanding the Development Imperative
7. Designing an Inclusive Business
8. Brokering Partnerships between Government, Business and NGO's

It is envisaged that such a program could be modelled on Austrade's existing Export Market Trade Services Program.

What Policies should guide this engagement?

As the Committee considers the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region, B4MD recommends four key policies to guide DFAT's future engagement in this area. These policies reflect learnings from our 2012 Business in Development Study, which included interviews and surveys of over 90 Australian corporate leaders, including CEOs of ASX listed companies. The report concluded that in engaging with business the Australian Government through DFAT should:

Be strategic - Different industries and indeed companies have a varying propensity to undertake business activities that alleviate poverty. The department should "Push on open doors" and target those sectors, activities and geographies that align with DFAT's priorities".

Be action oriented: Establish activities with organisations as quickly as possible by starting small and then advertise success to build momentum.

Target established businesses: Focus on robust businesses that have an established track record of delivery.

Make priorities transparent: Ensure businesses understand DFAT activities and priorities in their countries of operation.

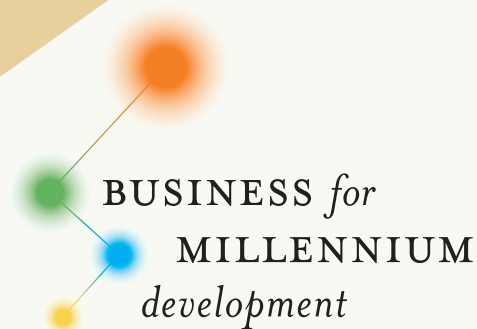
In 2014 B4MD submitted our Inclusive Business Landscape Report to DFAT. The report identifies six strategies that DFAT could use to play a role in catalysing inclusive businesses. The report also details the strategies used by other leading aid agencies globally, and considers the drivers and decision making processes companies' use when creating an inclusive business. B4MD commends this report to the committee as a means to better understanding the vital role inclusive business will play in poverty alleviation and economic growth within the broader Indo-Pacific region:

- 2014 Inclusive Business Landscape Study, B4MD (attached)

- END -

Please direct any enquiries to:

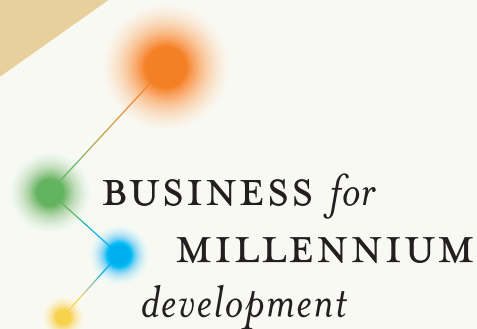
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Landscape Study

Building Inclusive Business



INCLUSIVE BUSINESS

Prepared for:



Australian Government

Department of Foreign Affairs and Trade

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EXECUTIVE SUMMARY

INTRODUCTION

The emerging research and practitioner agenda for Inclusive Business (IB) initiatives holds great promise for market-based solutions to poverty and sustainable development.

Yet the process through which IBs are initially conceived and formed is not well documented. Understanding these processes is critical if DFAT and other donors are to play a meaningful role in supporting and fostering IB opportunities, as a means to achieving development outcomes.

To address this gap in the existing research and practice, Business for Millennium Development (B4MD) proposed to undertake a landscape study of IB. The report aims to provide an evidence base to assist DFAT as to whether and how to invest in supporting the development of IB. The report describing the key steps undertaken in the creation of an IB and in so doing identifies specific roles that donors can fulfil in line with these key steps.

Drawing on B4MD's practical experience as an IB broker, together with best practice cases studies, this report maps the crucial decision making points for companies considering the creation of IB initiatives and identifies the areas where donors can engage to positively contribute to this decision making process, and thus catalyse the creation of new IB's. In this regard the report places an emphasis on both why and how donors can assist in the formation of IB's and related activities.

The report also aims to provide a foundation to assist donors in developing guidelines for working with business to promote and initiate IB. In this regard, the report concludes with a series of specific recommendations to be considered by DFAT.

REPORT STRUCTURE

The report is divided into seven chapters.

Chapter 1 provides an overview of IB, including key definitions and related concepts, and the role of different actors and how they have influenced the evolution of IB. **Chapter 2** considers the potential of IB as an effective approach to achieving development outcomes, including how the effectiveness of IB projects is typically measured, and the motivations for companies considering launching an IB.

Chapters 3-6 discuss the IB decision roadmap, including key activities, lessons learned and challenges to acceleration at each phase. **Chapter 7** provides an overview of funding mechanisms for IB and considers how donor funding can be used to catalyse IB. Finally, **Chapter 8** outlines B4MD's recommendations to DFAT to support the development of IB in Australia.

SCOPE

The report scope is limited to inclusive business initiatives; it does not comment on other types of private sector engagement including philanthropy or private sector-led aid delivery. Our analysis does not primarily seek to justify inclusive business as an aid methodology or comment on the effective design of inclusive business; rather it aims to provide an assessment of the processes used in its initial conception and creation.

As such, it is worth noting that the report does not seek to undertake a comparative analysis of different types of IB models but rather draws on the common experience and findings of a range of key IB stakeholders including practitioners, donors, companies and others.

Inclusive Business initiatives can be established by any company, be that a small to medium sized enterprise (SME) through to a large multinational national corporation (MNC). The sole focus of this work is on IB in relation to MNC's. Furthermore, B4MD acknowledges that there is greater opportunity to achieve development impact at scale through the core business operations of an MNC given the size and breadth of

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these operations. Finally, impactful partnerships are resource intensive to develop and deliver – as such, both government and MNC's have the depth of resources to ensure that these partnerships are sufficiently supported in order to be mutually beneficially for companies and government alike.

The report is informed by B4MD's experience as an IB broker, as well as a series of interviews with B4MD clients, international case studies, leading international publications and the work of international organisations promoting the potential of IB.

INCLUSIVE BUSINESS OVERVIEW

Definitions

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers¹.

Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, IB addresses development challenges through core business activities.

The development of IB as a concept and practice has been influenced by a number of closely related ideas including bottom of the pyramid (BOP), shared value (CSV), and making markets work for the poor (M4P). These terms are often used interchangeably to describe enterprise-based solutions to address development challenges.

The development of IB – key actors

Private actors, multilateral agencies and bilateral agencies have all played an important role in shaping the development of IB over the past decade.

Academic institutions, business leadership forums, companies, foundations, IB brokers and international NGOs have played a role in catalysing investment and partnerships for IB and disseminating knowledge about IB best practice.

Multilateral agencies, including the UNDP, the IFC, and ADB have been important in providing finance and technical assistance to support the development of IBs, along with convening stakeholder to share best practice. A number of bilateral donor agencies, including the UK's DFID and Sweden's SIDA, are also experimenting with IB initiatives as part of a broader strategy to find enterprise-based solutions to poverty.

An understanding of the role of these different actors is an important starting point when considering the range of ways in which donors can support the development of effective IB models.

INCLUSIVE BUSINESS AN EFFECTIVE APPROACH TO DELIVERING DEVELOPMENT OUTCOMES

Why is IB seen a valid tool for achieving development outcomes?

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

¹ <http://www.inclusivebusiness.org>, WBCSD, 2014.

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IB models have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society – to contribute directly to achieving development outcomes.

Firstly, IBs can replicate and scale-up successful approaches more quickly as businesses create their own revenue, are driven by market incentives, and are not dependent on donor funding and can do so in a sustainable manner. Secondly, IBs can offer resources, operational capacities and management know-how - from strategy, to marketing, to supply chain management – that can lead to new innovations in the fight against global poverty. Thirdly, due to the nature of the market system, businesses contain in-built, efficient feedback mechanisms that are often lacking from non-business approaches to development.

Measuring the effectiveness of IB

The measurement of IB effectiveness, however, is at an early stage of maturity and there is currently no widely accepted standard for reporting and measuring impact. Donors, NGOs and companies themselves are trialing a range of approaches to measurement, drawing, where applicable, on methodologies and tools developed in related fields such as monitoring and evaluation (M&E) and social impact assessment (SIA).

Characteristics of effective IBs – barriers to scale and enabling factors

Given that the IB concept is at an early phase in its evolution, the defining characteristics of effective IBs is not yet fully understood. There is, however, an emerging literature that seeks to improve understanding of both the barriers and enabling factors required to bring IB initiative to scale, achieve systemic change and create sustainable commercial returns.

Barriers to scale are both external and internal to a company. External barriers include limited knowledge and skills among the bottom of the pyramid (BOP) producers and consumers, lack of market information, ineffective regulation, inadequate information, and limited access to finance among the BOP. Internal barriers include factors such as the opportunity cost of investment for IB initiatives, strategic and operational misalignment, and capability gaps.

Enabling factors that have assisted companies to overcome these barriers include embedding a social purpose, networks and technology, adequate financing and capacity building initiatives, and collaboration with a range of market and development actors.

Sectoral focus of IB initiatives

Although systematic analysis of the characteristics of effective IBs remain elusive, based on the experience of B4MD and an assessment of recent donor studies, it is possible to draw some preliminary conclusion in regards to the sectoral focus of IB initiatives.

A review of donor-supported programs suggests that businesses from the food and agribusiness sector make up the highest proportion of companies launching IB initiatives. Other industries that have seen significant numbers of IBs emerge include financial services, energy and infrastructure, technology and telecommunications. Companies in these industries appear to have achieved the strongest alignment between commercial and development objectives; whether long-term, sustainable outcomes are achieved remains to be seen for many initiatives.

Motivations for companies engaged in IB

Research suggests a wide range of motivating factors (or drivers) for companies launching IB initiatives. Motivating factors include the potential to achieve commercial benefit, the opportunity to contribute to social outcomes, and the desire to align company actions with individual and company values.

Commercial motivations for companies include generating profits, developing new markets, driving innovation, expanding the labour pool, strengthening value chains, enhancing brand and reputation, increasing productivity, and building and enhancing social license to operate.

IB DECISION ROADMAP OVERVIEW

In deciding whether to launch an IB venture, companies typically progress through three phases of decision making. An understanding of these phases, and the key barriers and enabling factors that help companies progress, is an important starting point for considering how donors can support the development of IB. The three phases can be identified as:

1. Creating Awareness of IB
2. Early Development of an IB Concept
3. Starting an IB

The close assessment of these phases will form the second half of this report and provide the basis for recommendations to be made to DFAT in line with the findings of Chapter 1 and Chapter 2.

KEY RECOMMENDATIONS

B4MD propose seven key recommendations to DFAT to support the development of IB in Australia. These recommendations are supported by 12 specific actions, divided into two phases as part of a proposed five year IB roadmap. Specific actions are outlined in the body of this report.

1. Demonstrate clear and consistent political support for IB

The Australian government and DFAT can be a catalyst for the growth of IB in Australia by providing clear and consistent political endorsement of the role of the private sector in achieving development objectives. This political support and public advocacy is critical in setting the expectations for the Australian business community that IB is a government priority and that efforts by the corporate sector to support development objectives will be valued. Strong political support for IB has been a hallmark of leading donor countries, such as the UK, as evidenced by a recent public address by the UK Development Secretary, Justine Greening².

Political support should include regular speeches by the Minister for Foreign Affairs and Trade and senior DFAT personnel at IB events and conferences, public recognition and awards for Australian companies that are demonstrating innovative IB approaches, and an action plan to demonstrate how the government and DFAT will support the growth of IB initiatives in Australia over time.

2. Support the growth of IBs through advocacy, technical assistance and funding

The experience of donor agencies internationally, and B4MD's practical experience as a broker, suggests that IB projects require a combination of advocacy, technical assistance and funding support in order to accelerate to launch phase. Without advocacy for IB initiatives many companies would never become aware of the potential of IB; without technical assistance, many IB initiatives fail to overcome internal and external barriers and achieve commercial sustainability; and without financial support, some companies fail to access the funding necessary to validate an IB concept.

B4MD recommends that DFAT draw on all three policy instruments to support the development of IB in Australia.

3. Focus on Awareness and Early Development phases to maximise impact.

Although there is a role for donor support across the IB decision roadmap, B4MD recommends that DFAT focus its support on the Awareness and Early Development phases where donor support can benefit the greatest number of companies, and where attrition rates are highest. This may include sponsorship of IB events, grants for exploratory mission, or subsidies for IB market intelligence services.

² Business Fights Poverty blog (2014), Justine Greening, UK Development Secretary: Smart aid - Why it's all about jobs, <http://community.businessfightspoverty.org/profiles/blogs/smart-aid-why-it-s-all-about-jobs>, 27th January.

4. Establish an IB fund to accelerate development of IBs from awareness to start-up

Although B4MD believes that companies should have primary responsibility for financing IB initiatives to demonstrate commitment, there is a role for donor agencies to provide financial support for Awareness and Early Development phase activities.

B4MD recommends that DFAT establish a dedicated IB fund to support advocacy and technical assistance activities outlined in the following sections. The fund may provide small grants to cover the cost of a feasibility study, subsidise training from an experienced IB broker, or support an IB initiative indirectly by helping to finance capacity building initiatives for bottom of the pyramid producers and consumers.

5. Take a whole-of-department approach to support the development of IB initiatives

In order to be successful in launching an IB, companies require wide-ranging support, from market intelligence, to trade policy, aid policy and diplomatic relations. B4MD recommends that DFAT develop a whole-of-department approach to IB, drawing on the strengths and complementary capabilities of different DFAT sections, including aid, trade, and overseas missions.

As part of the development of this approach, DFAT could engage the Australian business community to understand priorities and to develop a communication plan outlining the ways in businesses can engage DFAT personnel.

6. Target high potential industries and countries in the Asia-Pacific

The experience of donor agency initiatives, such as the Business Call to Action (BCtA) and Business Innovation Facility (BIF), suggest that IB initiatives are more prevalent in some industries than others. Companies in the agribusiness and food manufacturing sector, in particular, appear to offer the best prospects for achieving commercial and development outcomes due the fact that company value chains often extend into developing country markets.

In line with this assessment, B4MD recommends that DFAT focus on industries where there is strong strategic alignment between Australian business interests and potential for development impact, including agribusiness and mining. With Australian company value chains increasingly expanding into countries in the Asia-Pacific, this represents a logical regional focus for DFAT's IB support activities.

7. Develop a five-year roadmap for IB in Australia, divided into two key phases

B4MD recommends that DFAT develop a five-year roadmap to support the development of IB in Australia. The roadmap should take a two-phased approach, with the first phase covering year one to two, and second phase covering year three to five.

The goal of the phase one would be to fast-track the development of flagship or pilot IB projects to demonstrate how the poor can be integrated into the value chain of leading Australian companies. Key activities in phase one would include public endorsement of IB events and conferences; support for IB brokers to fast-track the most promising Australian initiatives; and sponsorship and facilitation of in-country missions to validate early development of concepts.

The goal of phase two is to develop the next generation of IBs in Australia. Key activities in this phase would include building the capacity of DFAT to catalyse IB opportunities; sponsorship of an annual IB awards event to recognise Australian IB leaders; and the establishment of an IB centre of excellence to provide foundation training for aspiring IB leaders.

1. INTRODUCTION

WHAT IS INCLUSIVE BUSINESS (IB)

Definitions

The World Business Council for Sustainable Development (WBCSD) is widely credited for coining the term inclusive business (IB) in 2005. As such the term can be defined IB as:

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers³

Fundamental to the WBCSD conception of IB is the belief that commercial drivers, including expanding markets for products and services and maximising profit, can be aligned with development outcomes, including creating opportunities for the poor and disadvantaged. Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, IB addresses development challenges through core business activities.

IB initiatives are different to full commercial business activities due to its greater focus on poverty alleviation and achieving development outcomes. The Asian Development Bank (ADB), for example, describes IB's as "private sector investments specifically targeting a low income market (less than US\$3 per day) with the double purpose of making reasonable profit (i.e. an internal rate of return of 8-20%) and creating tangible development impact"⁴. Rather than seeing the poor as bystanders or even victims of the market, IB business models aim to include poor people in value chains as producers, employees, consumers, distributors and innovators⁵.

IB initiatives, therefore, aim to accrue benefits for both businesses and the poor. In its publication "Creating Value for All"⁶, the United Nations Development Programme (UNDP) identifies a range of opportunities for business and the poor within the scope of IB initiatives. For business, these opportunities include generating enhanced profits, developing new markets for products, driving innovation in products and processes, expanding the labour pool, and strengthening the business value chain. For the poor, opportunities include better meeting basic needs, enabling the poor to become more productive, increasing incomes, and empowerment. It is worth noting that a significant proportion of leading IB case studies directly benefit the poor through increased sustainable livelihood opportunities. The motivations and opportunities of IB are further explored in Section 2.

IB and related concepts

The development of IB as a concept and practice has been influenced by a number of closely related ideas that seek to use enterprise-based solutions to address development challenges. These ideas often hold a close correlation with the perspective of those generating the idea and or for whom the ideas are intended. These concepts are briefly introduced in **Table 1** and are further explored in later sections. An awareness of these related concepts is important to ensure effective communication and engagement with different actors on IB initiatives, and to maximise sharing of best practice knowledge across the complementary domains.

³ <http://www.inclusivebusiness.org>, WBCSD, 2014.

⁴ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁵ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008; "Spotlight on Inclusive Business", Business Innovation Facility, 2012.

⁶ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008.

Bottom of the Pyramid (BOP) – BOP refers to the world's poorest socio-economic group; the 4 billion people who live on less than US\$2.50 per day. BOP has emerged as focus of business strategy researchers and practitioners⁷, who believe that tremendous benefits exist for companies that choose to serve BOP markets and are responsive to their development needs. The terms BOP and IB are often used interchangeably by researchers, donors, businesses and civil society.

Corporate Social Responsibility (CSR) – CSR has been comprehensively defined by ISO26000 as “the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships.”⁸ The term CSR was first popularised in the 1960's and today is often used interchangeably with terms such as sustainability, responsible business and corporate citizenship. Formal CSR/sustainability programs are now common amongst the world's leading companies, with varying degrees of integration with core business. For some companies, IB initiatives have been implemented as a core element within their broader CSR approach.

Creating Shared Value (CSV) – CSV is a management strategy focused on companies creating measurable business value by identifying and addressing social needs and challenges that intersect with their business⁹. CSV proponents believe that companies can achieve competitive advantage in the market by simultaneously creating business and social value through their strategy and operations¹⁰. To date, research on CSV has tended to focus on the role of multinational companies (MNC's). The concept has gained wide appeal in the private sector in the past three years and is being applied in both the developed and developing world. For a number of leading companies, such as Nestle, CSV has superseded CSR as an overarching approach.

Making markets work for the poor (M4P) - The term M4P refers to an approach in aid and development that utilises systems analysis as a means of diagnosing and addressing the market constraints that face poor and disadvantages households and communities in accessing goods and services. M4P advocates see the strengthening of market systems, including direct engagement with companies, as a way to secure higher incomes for the poor and reduce poverty¹¹. The M4P approach has become increasingly popular with donor agencies in an effort to find market-based solutions to poverty; however, the terminology is not well-known in the private sector relative to IB, BOP, CSR and CSV.

Table 1: Inclusive business – related concepts

⁷ Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

⁸ <http://www.iso.org/iso/home/standards/iso26000.htm>, ISO26000, 2010.

⁹ <http://sharedvalue.org/about-shared-value>, Shared Value Initiative, 2013.

¹⁰ Creating Shared Value, Michael Porter and Mark Kramer, 2011.

¹¹ <http://www.m4phub.org/what-is-m4p/introduction.aspx>, M4P Hub, 2013.

HOW HAS IB DEVELOPED? KEY ACTORS AND EVENTS

A broad range of factors has driven greater interest in IB over the past decade.

This section provides an overview of some of the key actors and events that have shaped the IB landscape. An understanding of the role of these different actors is an important starting point when considering the range of ways in which DFAT could support the development of effective IB models.

This section is divided into three broad categories: private actors, multilateral agencies and bilateral agencies.

Private Actors

Academia and Research Institutes

A number of academics, academic institutions and thought leaders have been influential in defining the concepts of IB and testing and validating the effectiveness of IB initiatives.

The late C.K. Prahalad of the University of Michigan, and Stuart L. Hart of Cornell University, are widely credited with the development of the Bottom of the Pyramid (BOP) concept, which is a key underlying theory and forerunner to the concept of IB. In their ground breaking work, first published as a working paper in 1999¹², Prahalad and Hart argued that multinational enterprises (MNEs) could grow their profits and help lift billions of people out of poverty by doing business with the poor. Prahalad and Hart have since published widely on the opportunities and challenges of BOP markets for business and development, including Prahalad's 'The Fortune at the Bottom of the Pyramid', published in 2004¹³, and Hart's 'Capitalism at the Crossroads', published in 2005¹⁴.

The original BOP concept has been challenged and extended over the past decade by a range of other researchers, notably Ted London and Anil Karnani of the University of Michigan, and Erik Simanis of Cornell University, to consider the role of the poor as both producers and consumers, business partners and collaborators¹⁵.

The work of Prahalad, Hart and other BOP theorists has been inspired in part by the success of the Grameen Bank, the microfinance organisation founded in Bangladesh in 1976 by Professor Mohammed Yunus¹⁶. Yunus and the Bank won the Nobel Peace Prize in 2006 for their efforts in creating economic and social opportunities for the poor and lifting millions of people out of poverty. In 2008, Yunus published "Creating a World Without Poverty"¹⁷ in which he outlines his experiences at Grameen and the role of 'social businesses' in development – enterprises with a social purpose that reinvest their profits to maximise development impact.

Michael Porter and Mark Kramer of Harvard University and the Foundation Strategy Group (FSG) have more recently helped to build momentum for BOP and IB through the closely aligned idea creating shared value (CSV). In their seminal paper "Creating Shared Value", published in Harvard Business Review in 2011¹⁸, Porter and Kramer argue that businesses can unleash a new wave of growth by purposefully reorientating to strategies that create both economic and social value, in both developed and developing markets. Although not without its critics, the CSV concept has gained significant traction with both the corporate and NGO sectors as a way to achieve both business and development outcomes.

Harvard University's CSR Initiative and Economic Opportunity Program¹⁹, led by Director Jane Nelson, and the Overseas Development Institute's Private Sector and Markets Programme²⁰, have also made a significant contribution to the development of the IB concept and practice.

¹² Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

¹³ The Fortune at the Bottom of the Pyramid, C.K. Prahalad, 2004.

¹⁴ Capitalism at the Crossroads, Stuart E. Hart, 2005.

¹⁵ <http://www.bopglobalnetwork.org/bop-labs>, BOP Learning Lab, 2013.

¹⁶ <http://www.grameen-info.org/>, Grameen Bank, 2013.

¹⁷ Creating a World without Poverty: Social Business and the Future of Capitalism, Muhammad Yunus, 2008.

¹⁸ Creating Shared Value, Michael Porter and Mark Kramer, 2011.

¹⁹ <http://www.hks.harvard.edu/m-rcbg/CSRI/index.html>, Harvard University, 2013.

²⁰ <http://www.odi.org.uk/programmes/private-sector-markets>, ODI, 2013.

Business Leadership Forums

Business leadership forums have also played a critical role in both convening conversations with global companies and addressing IB challenges and best practice.

World Business Council for Sustainable Development (WBCSD)

Founded in 1992 and with regional affiliates in over 60 countries, the WBCSD plays a leading advocacy role on a range of sustainable development issues and provides a forum for its 200 member companies to share best practices²¹.

The WBCSD is at the forefront of catalysing investment and partnerships for IB and disseminating knowledge about IB best practice. WBCSD has strong links to a range of other IB actors and initiatives, including the UNDP 'Growing Inclusive Markets', Business Call to Action (BcTA) and DFID's Business Innovation Facility (BIF).

International Business Leaders Forum (IBLF)

The IBLF is an independent member's organisation that works with global companies on corporate social responsibility (CSR), leadership and sustainability²².

The IBLF promotes responsible leadership and IB through its Leadership Council, comprising some of the world's most prominent CEO's, as well as through a range of global leadership forums and thought leadership. IBLF supports companies on shaping their IB initiatives by running capacity building workshops and publishing reports on the theme. IBLF was a founding partner of the Business Call to Action (BcTA).

The IBLF also contributes to IB through The Partnering Initiative (TPI), a program dedicated to driving widespread and effective collaboration between civil society, government and companies²³.

Companies

Companies lie at the heart of the IB system, from local SME's in developing country markets, to large national companies and MNC's.

Although a vast range of companies of all sizes and national contexts have influenced the development of IB, a number of global companies have been particularly influential as benchmark models due to their high-profile in the market. Two of the most notable examples is Nestlé and Vodafone.

Case Study: Creating Shared Value

Nestlé has adopted Creating Shared Value (CSV) as its overarching strategic approach, believing it can deliver long-term shareholder value and benefit society²⁴. For Nestlé, CSV begins with the understanding that for the business to prosper over the long term, the communities it serves must also prosper. The company's strategy is to create shared value in three areas: nutrition, water and rural development

As part of its commitment to rural development, Nestlé claims to have provided capacity building programs to 273,808 farmers world-wide in 2012²⁵. For example, through the Nestlé Cocoa Plan, the company is helping to finance farmers' field schools to improve cocoa farming practices and yields.

²¹ <http://www.wbcsd.org/about.aspx>, WBCSD, 2013.

²² <http://www.iblf.org/>, IBLF, 2013.

²³ <http://thepartneringinitiative.org/>, The Partnering Initiative, 2013.

²⁴ <http://www.nestle.com/csv>, Nestlé, 2013

²⁵ <http://www.nestle.com/csv/rural-development/farmers>, Nestlé, 2013.

Case study: M-PESA

Kenya had fewer than 2 million bank accounts serving 32 million people. To bridge the gap, Safaricom Kenya, a mobile service providers in Kenya, developed a technological solution in partnership with Vodafone. The result was M-PESA, an electronic money transfer product to make financial transactions faster, cheaper and more secure. M-PESA allows individuals and businesses to transfer money through the mobile phone's short message service (SMS). Cash withdrawals and deposits are available at registered retail outlets to pay for goods and services. After the successful launch in 2005, Safaricom plans to further recruit more financial institutions and retail outlets into the system and to expand it to other developing countries.

Adapted from the UNDP²⁶

Foundations

A number of foundations, trust and funds have been active in financing and building partnerships for IB initiatives.

The Bill & Melinda Gates Foundation, for example, aims to alleviate poverty by expanding access to digitally-based financial tools and services through its Financial Services for the Poor program. The program is delivered through a number of partnerships, including the Better Than Cash Alliance (BTCA) and the Alliance for Financial Inclusion (AFI).

In 2010, the Gates Foundation gave a USD\$4.8 million grant to Vodacom Tanzania to expand M-PESA services within the country²⁷. By 2010, M-PESA had reached over 9 million customers²⁸.

Similarly, the Clinton Global Initiative (CGI) has been active in promoting financial inclusion for the world's poor as part of its Market-Based Approaches track, as well as partnering with the UNDP's Business Call to Action (BCtA) to encourage business commitment to IB. Rather than implement projects, CGI facilitates action by helping members connect, collaborate, and make effective and measurable Commitments to Action²⁹.

IB Broker Networks

A range of IB brokers and consultants, including B4MD, have emerged to provide technical assistance to companies aiming to launch IB initiatives. Two of the more successful brokers are Technoserve, based in Washington D.C., and Endeva, based in Berlin.

Since its inception, Technoserve has worked in more than 40 countries across Africa, Latin America and Asia, assisting thousands of businesses and improving the incomes of millions of people.

In order to achieve its mission, TechnoServe operates as a catalyst and partner to strengthen market systems. The organisation's current projects include support for a women's dairy business in Kenya, smallholder cocoa farmers in Peru, disabled entrepreneurs in India, and a coffee cooperative in in Ethiopia³⁰.

Endeva's mission is to inspire and support enterprise solutions to the world's most pressing problems. The organisation approach involves building, sharing and applying knowledge to develop, implement and grow inclusive business models.

Endeva work closely with partners from all sectors, including the German Federal Ministry of Economic Cooperation and Development (BMZ) and the Growing Inclusive Markets Initiative (GIM)³¹.

²⁶ http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/GIM/, UNDP, 2013.

²⁷ <http://www.gatesfoundation.org/Media-Center/Press-Releases/2010/11/Vodacom-gets-US-48-Million-to-Expand-MPesa-Services>, Gates Foundation, 2013.

²⁸ Mobile Payments go Viral: M-PESA in Kenya, Bill & Melinda Gates Foundation, 2013.

²⁹ <http://www.clintonglobalinitiative.org>, CGI, 2014

³⁰ <http://www.technoserve.org/>, TechnoServe, 2013.

³¹ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008.

International Development NGOs

NGOs play an important role in testing and developing new approaches to IB, leveraging their deep development experience and local, on-the-ground networks.

Oxfam International has been a leading figure in engaging with business and building understanding of the private sector's contribution to development.

In 2005, Oxfam Great Britain, in collaboration with the global food manufacturer Unilever, released the report 'Exploring the Links Between International Business and Poverty Reduction'³² that provided a comprehensive assessment of the poverty impacts of Unilever's operations in Indonesia. The study examined activities along Unilever Indonesia's entire value chain, from sourcing of raw materials to the impacts on consumers who purchase Unilever's products.

The Unilever study has subsequently provided a foundation for the development of Oxfam's Poverty Footprint³³ methodology, which has been applied in a number of other company and country contexts, including Coca-Cola/SAB Miller's operations in Zambia and El Salvador³⁴.

Multilateral Donors

United Nations Development Programme (UNDP)

UNDP has launched a range of IB initiatives as part of its broader private sector strategy and Inclusive Market Development (IMD) approach. Two of the most prominent initiatives are the Growing Inclusive Markets (GIM) and the Business Call to Action (BcTA).

Growing Inclusive Markets (GIM)

GIM is a global multi-stakeholder research and advocacy initiative that seeks to understand, enable and inspire the development of more inclusive business models and contribute to the achievement of the MDGs. The GIM initiative was conceived in 2006 after the success of "Unleashing Entrepreneurship: Making Business Work for the Poor"³⁵, released in 2004 by the UN Commission.

GIM has two broad pillars: the development and dissemination of knowledge and research tools for IB; and the provision of capacity building and localisation support through strategic partnerships to promote a South-South Knowledge Network around IB models.

GIM has been responsible for the development of two seminal reports in the IB field.

In 2008, GIM released the most comprehensive global study of IB to-date: "Creating Value for All"³⁶. The report analysed the constraints and strategies for IB initiatives, drawing on 50 case studies, predominantly from developing countries.

The report has been released in 50 countries since its release, and translated into six languages.

In 2010, GIM released a second flagship report, "The MDG's: Everyone's Business"³⁷, which aimed to show how diverse actors collaborate on IB initiatives and to indicate how different other actors, including policy makers and financial institution, can best support business in its contributions towards meeting the MDGs.

³² Exploring the Links Between International Business and Poverty Reduction: A case study of Unilever in Indonesia, Oxfam, 2005.

³³ <http://www.oxfam.org/en/policy/poverty-footprint>, Oxfam, 2009.

³⁴ Exploring the Links Between International Business and Poverty Reduction: The Coca-Cola/SABMiller value chain impacts in Zambia and El Salvador

³⁵ "Unleashing Entrepreneurship: Making Business Work for the Poor", UN Commission, 2004.

³⁶ Creating Value for All: Strategies for Doing Business with the Poor, UNDP, 2008.

³⁷ The MDG's: Everyone's Business: How Inclusive Business Models Contribute to Development and Who Supports Them", UNDP, 2010.

Business Call to Action (BcTA)

Launched in 2008 by UK Prime Minister, Gordon Brown, and the UNDP, the Business Call to Action (BcTA) aims to accelerate progress towards the MDG's by challenging companies to develop inclusive business models.

The BcTA global leadership platform is supported by DFAT and five other bilateral donors; along with UNDP, UNGC and the Clinton Global Initiative. Worldwide, 82 companies have responded to the BcTA by making commitments to IB³⁸.

The BcTA provides participating companies with the opportunity to be associated with high visibility leadership platform; share expertise and best practices for market-based approaches to development; gain initiative development advice and assistance; and build linkages with companies, donors, and other key stakeholders.

International Finance Corporation (IFC)

The IFC has been supporting IB initiatives since 2005.

Over the past eight years, IB initiatives have accounted for about 7 percent to 10 percent of IFC's annual commitments, totaling over \$7 billion during this period. The IFC has worked with over 300 inclusive business clients in more than 80 countries, reaching more than 250 million people³⁹.

The IFC has developed and released a range of studies aimed at improving the effectiveness of IB initiatives and scaling up impact. This included in 2007, the IFC released the report "The Next 4 Billion"⁴⁰, which provided for the first time a quantitative assessment and characterization of the base of the pyramid market opportunity.

Building on its early experiences with IB initiatives, in 2010 the IFC launched a dedicated Inclusive Business Models Group to create the tools, resources, and networks to support IFC clients to scale-up their inclusive business models to reach more people at the base of the pyramid⁴¹.

Asian Development Bank (ADB)

Inclusive growth is one of the three agenda items in ADB's "Strategy 2020"⁴².

The ADB launched its Inclusive Business Initiative in 2008 with the aim of stimulating IB in Asia and the Pacific through technical assistance and project financing.

The initiative is a joint effort of ADB's Private Sector Operations Department and the poverty and inclusive growth team in the Regional and Sustainable Development Department (RSDD). The initiative is being implemented in partnership with SNV and the WBCSD⁴³.

To-date the initiative has provided assistance for business ventures in 10 Asian countries. The initiative aims to perform inclusive business market studies in client countries, develop impact assessment tools for possible ADB investments, build an IB investment fund for the Mekong region, create a technical assistance facility with other donors, and promote further knowledge sharing with development partners, such as the Inter-American Development Bank's (IDB) Opportunities for the Majority Program⁴⁴. IB's are defined by the ADB as "profitable commercial enterprise where the business model balances profit making with scaled social impact", with typical turnover of \$0.5 – \$ 30 million (versus > \$10 million for mainstream business) and net profit per year of US\$0.1 – 10 million (versus \$1 – \$500 million for a mainstream business).

³⁸ Business Call to Action, <http://www.businesscalltoaction.org/>, 2013

³⁹ Being the Change: Inspiring the Next Generation of Inclusive Business Entrepreneurs Impacting the Base of the Pyramid, IFC, 2012.

⁴⁰ The Next 4 Billion: Market Size and Business Size at the Base of the Pyramid, IFC, 2007.

⁴¹ www.ifc.org, IFC, 2013.

⁴² <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁴³ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁴⁴ Working Together in Pursuit of Inclusive Business: Sharing the Latin American and Caribbean Experience with Asia and the Pacific, ADB and IDB, November 2013.

Bilateral Agencies

A number of bilateral donor agencies have shown interest in the potential for enterprise-based solutions to poverty and are experimenting with a range of IB initiatives.

The UK Department for International Development (DFID) has advanced faster than most agencies in supporting IB initiatives. In 2010, DFID launched the Business Innovation Facility (BIF) at the UN MDG Summit in New York City.

The BIF aims to provide practical, hands-on advice and technical expertise to support companies to develop or scale up inclusive business models. The BIF pilot programme ran from July 2010 to December 2013, funded by DFID and managed by PricewaterhouseCoopers LLP and its Alliance Partners. During the pilot period, the Facility supported businesses operating in Bangladesh, India, Malawi, Nigeria and Zambia.

In 2011, the Swedish International Development Cooperation Agency (SIDA) launched the Innovations Against Poverty (IAP) initiative to stimulate and support sustainable business ventures through large and small grants for organisations based or operating in the world's poorest countries.⁴⁵ The BIF and IAP initiatives have jointly set-up a practitioner hub to allow researchers and practitioners to connect, share experiences and gain new insights to help their inclusive business ventures grow.

In the Asia-Pacific context, DFAT (formerly AusAID) recently completed a six-year pilot grant fund - the Enterprise Challenge Fund – aimed at funding innovative solutions to address market failures and stimulate long-term inclusive pro-poor economic growth in the Asia-Pacific. Over six years of the pilot, the ECF provided \$11 million funding to 21 projects operating in 8 countries across the Asia Pacific. The ECF provided jobs, increased incomes and access to vital goods and services to over 78,000 people⁴⁶. Though the ECF was not an IB Fund in that it did not seek to initiate or catalyse IB's, it is worth acknowledging that ECF funding was used towards the development of some IB initiatives. The lead example in this regard can be seen in the \$1.5 million funding provided to WING Cambodia (see case study in chapter 6)

Acknowledgement of the role of the private sector and the potential of IB initiatives received a significant boost in September 2010 with the release of a bilateral donor statement at the MDG Summit in New York pledging support for private sector partnerships for development⁴⁷.

In the statement bilateral donor agencies from Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, United States of America, United Kingdom, Sweden, and Switzerland recognise the private sector as equal partners in development and commit to fostering a more robust private sector role, through sharing the risk of investment, establishing a supportive and enabling regulatory environment, facilitating stronger partnerships and dialogue, and building capacity of local private sector partners.

⁴⁵ <http://businessinnovationfacility.org/page/about-us-about-innovations-against-poverty>, IAP, 2013.

⁴⁶ <http://www.enterprisechallengefund.org/>, ECF, 2013.

⁴⁷ Bilateral Donor's Statement in Support of Private Sector Partnerships for Development, MDG Summit, September 2010.

CURRENT STATE OF IB GLOBALLY

Given the range of definitions for IB used, and a lack of aggregated data provided by donors and other development actors, it is difficult to estimate the total number of IB initiatives and financial contributions globally.

Table 3 provides a snapshot of financial contributions and numbers of IBs supported by key donor agencies that have specific IB programs and where data is available. For the programs outlined below, though there is no aggregated data available, the table does give an indication as to some of the lead investments being made in IB around the world.

Organisation	Program	Period	Financial contribution (US\$)	Number of IBs supported
IFC ⁴⁸	IFC Inclusive Business Models Group	Since 2005	> \$7 billion	> supported 300 clients in 80 countries through investment
ADB ⁴⁹	Promoting Inclusive Growth through Business Development at the Base of the Pyramid	2010 - 2013	\$700,000	n/a focused on market studies, investment forums, country policy notes and development of IB Funds
ADB, Government of Sweden, Credit Suisse	Inclusive Business Support	2014 – 2017	\$3.6 million	<ul style="list-style-type: none"> - Increase by 50% of inclusive business projects in selected countries, of which at least 15 are from ADB - Tailored advice and technical support provided to at least 20 companies - Inclusive business impact assessments conducted for at least eight companies - 50 companies benefiting from IB training - Sector Workshops
UNDP ⁵⁰	Facilitating & Brokering Private Sector Partnerships	Since 2004-2010	n/a	creation of 23 business linkages, brokered 75 IB partnerships
SIDA ⁵¹	Innovations Against Poverty	Since 2011	€5,420,265	66 organisations received grant funding
DFID ⁵²	Business Innovation Facility	2010 – 2013	n/a	> 300 IB's supported across five countries through technical assistance

Table 3: Financial contributions and numbers of IB initiatives supported for selected donors

⁴⁸ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013.

⁴⁹ <http://www.adb.org/projects/41258-012/main>, ADB, 2013

⁵⁰ <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>, UNDP, 2013.

⁵¹ <http://www.sida.se/English/Partners/Private-sector/Frequently-asked-questions/>, SIDA, 2013.

⁵² <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>, BIF, 2013.

2. INCLUSIVE BUSINESS AS AN EFFECTIVE APPROACH TO ACHIEVING DEVELOPMENT IMPACT

This section provides an overview of the main arguments for the role of IBs in development, how the effectiveness of IBs is currently measured, the features of effective IBs, and the motivations for company involvement in IB initiatives.

WHY IS IB VIEWED AS A VALID TOOL FOR DELIVERING DEVELOPMENT OUTCOMES?

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development, beyond the “trickle down” effects of economic growth⁵³.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

Caroline Ashley⁵⁴ of ODI notes that while governments, donor agencies and civil society play a vital role in creating the enabling economic, political and social institutions for business to contribute to development outcomes, such as investments in health and education, their efforts are often limited in scale and sustainability of impact due to resources constraints and the complexity of development challenges.

Conversely, while direct foreign investment in developing country markets has been a key driver of poverty alleviation, as evidenced by the success stories of China and India among others, growth does not always go hand-in-hand with poverty reduction, given this is not an explicit goal of mainstream business strategy, and may in some instances increase inequality⁵⁵.

In contrast, IB models, where poverty alleviation is central to the firm's purpose, have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society –to contribute directly to achieving development outcomes.

Firstly, IBs can replicate and scale-up successful approaches more quickly as businesses create their own revenue, are driven by market incentives, are not dependent on donor funding and can do so in a sustainable manner. Secondly, IBs can offer resources, operational capacities and management know-how - from strategy, to marketing, to supply chain management – that can lead to new innovations in the fight against global poverty. Thirdly, due to the nature of the market system, businesses contain in-built, efficient feedback mechanisms that are often lacking from non-business approaches to development. As an example, whenever members of a target group (producers, consumers, employees) are not satisfied with a business relationship, they can very easily make their voices heard through the immediate market - causing business to adapt accordingly⁵⁶.

Drawing on these core capabilities and responding to market incentives, IBs can potentially make an important contribution to development outcomes. In their report “Creating Value for All”, the UNDP outline four broad ways that IBs can contribute to human development and alleviate poverty:

1. *Meeting basic needs* by providing food, clean water, sanitation, electricity and health-related services.
2. *Enabling the poor to become more productive* by providing access to products and services such as electricity, mobile telephony, agricultural equipment, credit and insurance.
3. *Increasing incomes* by including poor people in value chains as customers, employees, producers and small-business owners.

⁵³ “Creating Value for All: Strategies for Doing Business with the Poor”, UNDP, 2008.

⁵⁴ Harnessing core business for development impact, Caroline Ashley, Overseas Development Institute, 2009.

⁵⁵ IBID.

⁵⁶ Meeting the MDG Challenge through Inclusive Business, A submission to the Independent Review of Aid Effectiveness by Business for Millennium Development, 2011

4. *Empowering the poor* by raising awareness, providing information and training, including marginalized groups, offering new opportunities, and conferring hope and pride⁵⁷.

Perhaps most importantly and from the perspective of a participatory development approach, a greater role for business in development is of critical importance to the poor. In the World Bank's millennium study of poverty from the perspectives of the poor, "Voices of the Poor"⁵⁸, jobs and economic opportunities are frequently cited as the most important concern for them. IB models present a potential pathway for achieving these aspirations of the poor.

HOW DO DONORS, NGOS AND OTHER DEVELOPMENT ACTORS TYPICALLY MEASURE IB'S EFFECTIVENESS?

The measurement of IB effectiveness is at an early stage of maturity and there is currently no widely accepted standard for reporting and measuring impact. Donors, NGOs and companies themselves are trialling a range of approaches to measurement, drawing, where applicable, on methodologies and tools developed in related fields such as monitoring and evaluation (M&E) and social impact assessment (SIA).

Approaches to IB measurement

DFID's BIF initiative has outlined four broad approaches that businesses use to track their impact on development:

1. *Local Livelihood Assessment* – assesses the local level impacts of a project or plant on local communities. For example, Anglo American has developed a Socio Economic Assessment Toolbox (SEAT) to assess impacts and stakeholder priorities at each of its mine sites.
2. *Poverty Footprint/ Value Chain Mapping* – identifies where a business or sector impinges on poverty and development by quantifying impacts and value generated. For example, Oxfam's developed its Poverty Footprint Methodology to systematically assess the impacts of Unilever's operations in Indonesia⁵⁹.
3. *Economic Contribution* – assesses a company's total economic impact including multipliers. For example, a number of MNCs have commissioned studies to understand their percentage contribution to national GDP.
4. *Tracking Indicators* – involves repeated monitoring of key indicators of socio-economic impact. For example, businesses supported by the BIF report progress against both social metrics and commercial key performance indicators (KPIs)⁶⁰.

To-date, assessment of IB model effectiveness has tended to focus on results at an individual firm level; rather than taking an IB systems perspective. This notion is supported by Baumüller et al who highlight that there is no broadly accepted method for measuring social value creation, necessary for comparative assessments of IB impacts on poverty reduction because it is difficult to reduce social value into a quantifiable measure⁶¹. Nevertheless the G20 Challenge on Inclusive Business demonstrates an attempt to undertake a comparison of IB initiatives based on innovation, development results, potential for growth, financial sustainability, and environmental and social sustainability.

A number of donor agencies and business leadership forums have focused on achieving greater rigour and consistency in the use of performance indicators. The BCtA, for example, has developed a standardised Results Reporting Framework Tool⁶² to guide its member companies and to facilitate learning and aggregation of results across IB initiatives. Member companies are required to report development and commercial results of their IB initiative annually across seven broad impact areas: investment, job creation, enterprise development, human capital development, income generation, goods and services provision, and infrastructure and

⁵⁷ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008, p.17.

⁵⁸ Voices of the Poor, World Bank, 2000.

⁵⁹ IBID.

⁶⁰ Approaches companies use to track their social impact: A comparison of four options, BIF, 2012, p.1.

⁶¹ <http://www.enterprise-development.org/page/inclusive-business>, The Donor Committee for Enterprise Development, 2014

⁶² Measuring Value of Business Call to Action Initiatives: A Results Reporting Framework, BCtA, 2013.

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sustainability⁶³. Likewise Sida have created a commercial viability and development indices matrix to measure the success of IB initiatives.

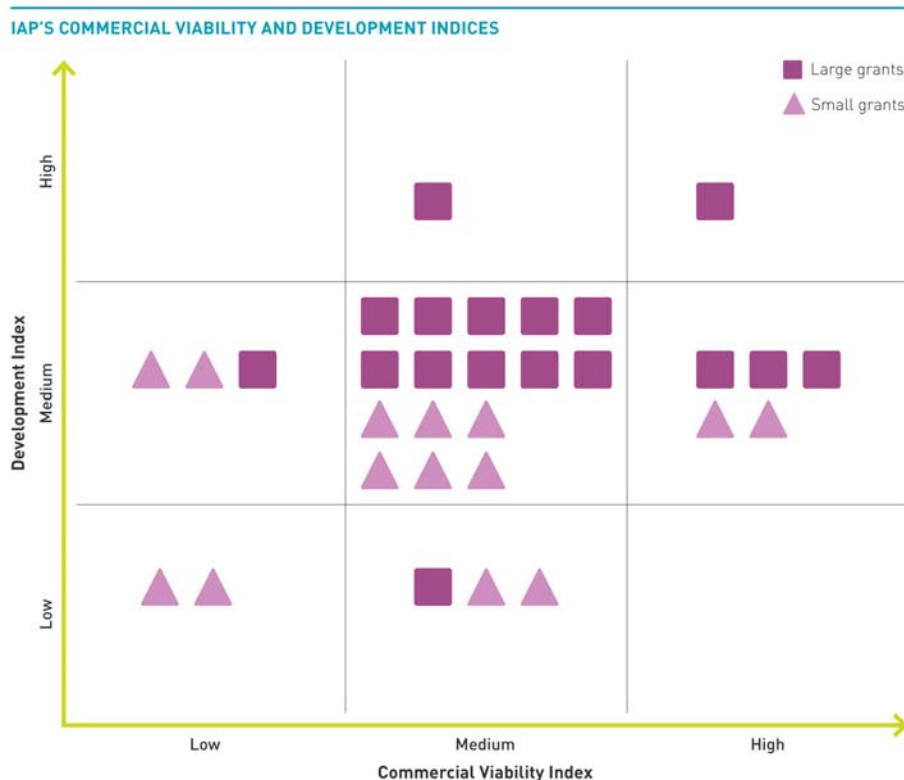


Figure 1: Sida’s Innovations Against Poverty Commercial Viability and Development Indices

In a broader sense, the WBCSD has developed a series of tools for companies to measure their socio-economic impact. Of specific relevance to IB measurement is the WBCSD’s MDG Scan – which estimates the number of people that a company is affecting in relation to the MDG’s - and Input-Output Modelling – which enables a company to calculate the total number of jobs supported and economic value added by a company and its supply chain in nominated country⁶⁴. In addition to the WBCSD’s measurement tools, the organisation highlights another five independent IB measurement and evaluation tools.

Research by USAID, however, suggests that partnerships and IBs that systematically measure development and commercial outcomes, as opposed to simply inputs and outputs, remain limited.

In a study of 70 public-private sector alliances involving USAID⁶⁵, the researchers found that the metrics used to capture alliance effectiveness typically focused on compliance requirements, and inputs and outputs relating to project execution, such as labour costs and number of training course completed; rather than development outcomes and impacts, such as quantifiable improvements in human development indicators.

The research found that fewer than half (39%) of alliances presented outcomes-based measures in their documentation. Furthermore, only about a quarter (26%) of alliances applied any form of metric to capture the value of their private sector partners, such as improved market penetration for goods and services⁶⁶.

For ‘Market Model’ alliances, which the study defined as those partnerships that support core business activities (representing 30% of alliances studied), the researchers found three standard outcome metrics in use:

⁶³ IBID, p.5

⁶⁴ Measuring socio-economic impact, a guide for business, WBCSD, 2014

⁶⁵ Models and Metrics for Effective Private Sector Engagement: Reflections on 70 Global Development Alliances, USAID, 2011.

⁶⁶ IBID, p.10.

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1. *Income*: Percent change in program beneficiary income
2. *Access*: Number of beneficiaries with increased access to products and services through commercial channels
3. *Investment*: Value of sustaining private sector investment in local economies or public goods⁶⁷.

Lessons from CSV and M4P

Lessons on measurement of IB model effectiveness can also be drawn from the emerging fields of CSV and M4P.

In their paper ‘Measuring Shared Value’ (CSV), consultancy firm FSG⁶⁸ examined emerging measurement practices of 12 leading multinational companies that are pursuing CSV strategies. Similar, to the reporting frameworks developed by the BCtA and a number of donor agencies, FSG suggest that effective measurement of CSV initiatives requires consideration and integration of business outcomes and social outcomes. The table below illustrates how shared value results could be measured for different shared value models.

Shared value models	Business results	Social results
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profits	<ul style="list-style-type: none"> • Increased revenue • Increased market share • Increased market growth • Improved profitability 	<ul style="list-style-type: none"> • Improved patient care • Reduced carbon footprint • Improved nutrition • Improved education
Redefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	<ul style="list-style-type: none"> • Improved productivity • Reduced logistical and operating costs • Secured supply • Improved quality • Improved profitability 	<ul style="list-style-type: none"> • Reduced energy use • Reduced water use • Reduced raw materials • Improved job skills • Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	<ul style="list-style-type: none"> • Reduced costs • Secured supply • Improved distribution infrastructure • Improved workforce access • Improved profitability 	<ul style="list-style-type: none"> • Improved education • Increased job creation • Improved health • Improved incomes

Table 3: Shared value – illustrative metrics (adapted from FSG⁶⁹)

FSG argue that effective shared value measurement requires companies to go beyond the assessment of individual business results and social results, and consider how the linkages between these outcomes can be leveraged to create new opportunities for value creation. Their study suggests that few companies have reached this level of measurement and strategy creation to-date.

While beyond the scope of this report, effective monitoring and evaluation has also been a focus of donor-driven private sector development initiatives, including the M4P approach. For example, the development consultancy ITAD together with DFID⁷⁰ have recently released a comprehensive study of evaluation methods and approaches used by M4P practitioners; while DFAT's recently completed Enterprise Challenge Fund applied the Donor Committee for Enterprise Development (DCED) Standard for Results Measurement to its 21 pilot projects⁷¹.

⁶⁷ IBID, p.19.

⁶⁸ Measuring Shared Value: How to Unlock Value by Linking Social and Business Results, Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins, FSG, 2012.

⁶⁹ IBID, p.3.

⁷⁰ Review of M4P Evaluation Methods and Approaches, ITAD and UK Aid, 2013.

⁷¹ Enterprise Challenge Fund for the Pacific and South-East Asia: Project Completion Report, Coffey International Development and AusAID, 2013.

WHAT ARE THE FEATURES OF THE MOST EFFECTIVE IBs?

Given that the IB concept is at an early phase in its evolution, the defining characteristics of effective IBs is not yet fully understood. There is, however, an emerging literature that seeks to improve understanding of both the barriers and enabling factors required to bring IB initiative to scale, achieve systemic change and create sustainable commercial returns.

Barriers to scale

While IB initiatives have proliferated over the past decade and a range of success stories exist, relatively few have achieved the full potential of going to scale. For businesses, achieving scale is important to compensate for low margins in developing markets and for reaching commercial viability; for development actors, achieving scale is critical in meeting the MDGs in a sustainable way.

As such, it can be recognised that the barriers of going to scale are both internal and external to a company's operations.

Within this context, a range of studies have identified external barriers to IB effectiveness⁷². Common themes identified include lack of access to finance and technical support, insufficient market knowledge of IB, inadequate infrastructure and skills, and ineffective regulation.

Drawing on its experience supporting IB initiatives globally, the IFC has identified five overarching external challenges that companies must address in order to be effective and reach scale of impact: expanding reach; facilitating access to finance; changing mindsets and behaviors; designing appropriate products and services; pricing and payment⁷³. The IFC identifies a range of tactics that can be employed by companies to meet these challenges, depending on their particular organisational and environmental context.

In a study published in 2013, "Scaling Up Inclusive Business"⁷⁴, the WBCSD sought to understand the internal barriers to IB success. Drawing on the experiences of 12 companies and insights from independent experts, the study identifies three common internal barriers to achieving scale, along with potential solutions, listed in Figure 2.

- **Barrier 1: Opportunity cost of investment** - IB investment often have lower expected rates of return, or longer time horizons, making it difficult for corporate decision-makers to justify investment.
- **Barrier 2: Strategic and operational misalignment** - IB models are often different from a company's existing business model and, as a result, existing operating structures and processes cannot easily be leveraged.
- **Barrier 3: Capability gaps** - The extent to which capabilities need to be adapted or built from scratch is a critical factor in companies' ability to scale their IB models. When IB models differ greatly from existing business models, capability gaps are likely to emerge.

⁷² See for example: Enterprise Challenge Fund for the Pacific and South-East Asia - Project Completion Report, Coffey International Development and AusAID, 2013; From Paper to Practice: Learning from the Journeys of Inclusive Business Start-ups, SIDA, 2013.

⁷³ Inclusive Business Solutions: Expanding Access at the Base of the Pyramid, IFC, 2013.

⁷⁴ Scaling up Inclusive Business – How to Overcome Internal Barriers, WBCSD, 2013.

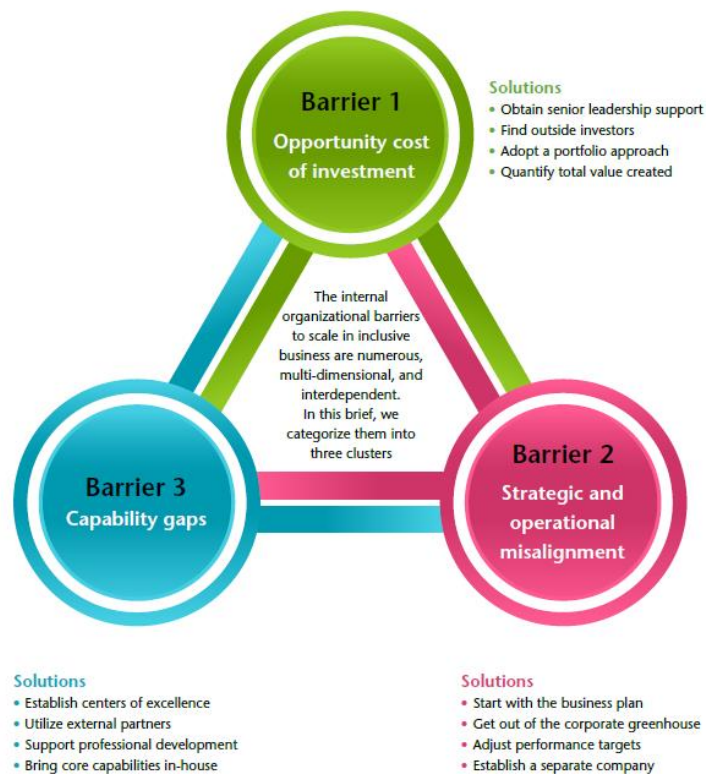


Figure 2: Barriers and solutions to scale IB initiatives (WBCSD⁷⁵)

As a result of these internal and external barriers, these studies suggest that IB initiatives can take a number of years to get off the ground and achieve development impact.

Enabling factors for IB

Alongside identifying barriers to scale, a number of studies have focused on the enabling factors for IB.

Drawing on the experiences of 30 leading companies, Marc Pfitzer, Valerrie Bockstette and Mike Stamp of FSG⁷⁶ suggest that there are five mutually reinforcing elements that are evident in successful CSV initiatives.

1. *Embedding social purpose* – leading companies see CSV as part of their mission.
2. *Defining the social need* – leading companies invest time and resources to understand underlying social conditions and how best to change them.
3. *Measuring shared value* – leading companies monitor and evaluate the social and business value created, using this data as an evidence base for further investment.
4. *Creating the optimal innovation structure* – leading firms consider the optimal structures for investing in CSV initiatives given their business context, such as integrating with legacy business, creating semiautonomous units, obtaining philanthropic or government support, and financing external entrepreneurs.
5. *Co-creating with external stakeholders* – leading companies deeply involve stakeholders in identifying the dimensions of the problem and designing and implementing solutions.

The authors cite a range of companies that have successfully applied these principles to their CSV initiatives, including Nestle, Unilever, Danone, Coca-Cola and IBM.

⁷⁵ IBID.

⁷⁶ Innovating for Shared Value, Marc Pfitzer, Valerrie Bockstette and Mike Stamp, Harvard Business Review, 2013.

In an independent study of 14 IFC IB clients by the Harvard Kennedy School, Beth Jenkins and Eriko Ishikawa⁷⁷ suggest a number of enabling factors for scaling-up IBs, including networks and technology to reach vast number of low-income customers in an economical way; adequate financing and capacity building initiatives for consumers, distributors and suppliers that are linked to IBs; and collaboration with a range of market and development actors. The authors argue that most of the commercially viable, scalable examples of IB supported by the IFC take a 'whole pyramid' approach, in which higher-paying customers enable the company to cross-subsidise or to recoup the cost of up-front investments and expand service to low-paying customers at a low marginal cost⁷⁸.

Building on the theme of commercial viability, in his paper "Reality Check at the Base of the Pyramid", Erick Simanis⁷⁹ argues that the traditional BOP model of selling high quantities at low cost to achieve profitability has proven unrealistic for most companies in developing country markets due to the high market penetration rates required to achieve long-term commercial sustainability. He instead argues for a 'margin boosting' model, based on pushing down variable costs and boosting the price consumers are willing to pay for a unit of product. He cites S.C. Johnson as a success story, which has launched an insecticide product in rural Ghana as part of an effort to reduce malaria infection.

A number of donor studies and IB pilot programs, including those supported by DFID and SIDA⁸⁰, have emphasised the important role that agencies, and private foundations, can play in providing finance and technical assistance in the early stages IB development, where models are unproven and market data is unreliable.

In their paper "Tackling Barriers to Scale"⁸¹, Christina Gradl and Beth Jenkins at the Harvard Kennedy School argue that to achieve scale of impact and overcome institutional barriers, businesses need to broaden their focus from developing IB models to strengthening IB ecosystems. This can be achieved, they suggest, by strategically engaging other IB actors – such as companies, governments, intermediaries, NGOs, public and private donors – that determine the overall institutional context for IB success.

Focusing on the role of donor agencies, Harvard Kennedy School's Jane Nelson has identified five primary forms of support that can help companies address the organisational, market, and governance barriers they face doing IB⁸².

1. Building the capacity of BOP producers and consumers, e.g. via public awareness, training, business development services, and access to financing.
2. Offering financing, risk-sharing, and technical assistance to companies targeting the BOP, e.g. via challenge funds, loan guarantees, grant and in-kind support for research and development, feasibility studies, and impact assessment.
3. Convening and supporting intermediaries and platforms, including institutions that offer aggregation and capacity- building support as well as associations, forums, and events for networking, matchmaking, and knowledge-sharing.
4. Improving the policy and regulatory environment for inclusive business, e.g. by encouraging governments to improve the overall investment climate, create incentives for inclusive business, and foster legal empowerment of the poor.
5. Endorsing market-based solutions to development challenges, making the case that profit-making and poverty alleviation can go hand-in-hand—overcoming skepticism and increasing public support for inclusive business.

⁷⁷ Scaling up Inclusive Business: Advancing the Knowledge and Action Agenda, Beth Jenkins and Eriko Ishikawa, Harvard Kennedy School, 2010.

⁷⁸ IBID, p.11.

⁷⁹ Reality Check at the Bottom of the Pyramid, Erik Simanis, Harvard Business Review, 2012.

⁸⁰ IBID.

⁸¹ Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems, Christina Gradl and Beth Jenkins, Harvard Kennedy School, 2011.

⁸² Cited in Inclusive Business Solutions: Expanding Access at the Base of the Pyramid, IFC, 2010.

Sector focus

Although systematic analysis of the characteristics of effective IBs remain elusive, based on the experience of B4MD and a assessment of recent donor studies, it is possible to draw some preliminary conclusion in regards to the sectoral focus of IB initiatives.

A review of programs by BCTA⁸³, SIDA and DFAT⁸⁴, suggest that businesses from the food and agribusiness sector make up the highest proportion of companies launching IB initiatives, whether supported by donor agencies or not. Other industries that have seen significant numbers of IBs emerge include financial services, energy and infrastructure, technology and telecommunications. Companies in these industries appear to have achieved the strongest alignment between commercial and development objectives; whether long-term, sustainable outcomes are achieved remains to be seen for many initiatives.

WHAT HAS MOTIVATED THE COMPANIES BEHIND THE MORE EFFECTIVE IB’S?

Research suggests a wide range of motivating factors (or drivers) for companies launching IB initiatives. Motivating factors include the potential to achieve commercial benefit, the opportunity to contribute to social outcomes, and the desire to align company actions with individual and company values.

In its flagship publication, “Creating Value for All”⁸⁵, UNDP identifies five potential commercial drivers for IBs, summarised in Table 4.

Commercial driver	Description
1. Generating profits	<ul style="list-style-type: none"> Business with the poor can sometimes yield higher rates of return than ventures in developed markets due to the large quantities sold. For example, Smart Communications, a company providing prepaid phone services to mainly low-income consumers in the Philippines, became the most profitable of the country’s 5,000 largest corporations.
2. Developing new markets	<ul style="list-style-type: none"> The 4 billion people at the BOP represents a potentially huge market of undeserved customers with combined income of approximately \$5 trillion. Business models that offer better value for money - or entirely new products and services to improve the lives of the poor – are viewed as new market opportunities.
3. Driving innovation	<ul style="list-style-type: none"> The challenge of developing IB models can lead to innovations that contribute to a company’s competitiveness. For example, to meet the preferences and needs of the poor, firms must offer new combinations of price and performance. The experiences gained in BOP markets can then be leveraged in other markets contexts. As an example GE’s Emerging Health Unit have developed a suite of maternal and child health technologies suited to village and remote clinic application in the developing world.
4. Expanding the labour pool	<ul style="list-style-type: none"> The poor are a large source of labour. The advantages of hiring them as employees go beyond cost savings. With adequate training and well-targeted marketing, the poor can deliver high-quality products and services. Through their local knowledge and connections, the poor also understand the needs of other poor consumers in their communities. The Coca Cola company utilises

⁸³ BCTA Annual Review 2012, BCTA.

⁸⁴ IBID.

⁸⁵ “Creating Value for All: Strategies for Doing Business with the Poor”, UNDP, 2008.

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	low cost micro distribution outlets which draw on local knowledge and networks to sell their product ⁸⁶ .
5. Strengthening value chains.	<ul style="list-style-type: none"> For firms that procure locally, incorporating the poor in business value chains—as producers, suppliers, distributors, retailers and franchisees—can expand supply and lower risk, thereby reducing costs and increasing flexibility. SAB Miller India procures barley from poor farmers to be used in beer products produced in country⁸⁷.

Table 4: Commercial drivers for IBs⁸⁸

Along with the five core commercial drivers listed above, researchers have identified a number of other stated drivers or benefits of IB.

- *Enhancing brand and reputation* – Companies see IB initiatives as a means to achieve greater brand awareness in the market. Through its high-profile commitment to CSV, Nestle has managed to enhance brand perceptions in the market and among a range of stakeholders.
- *Increasing productivity* – In “Creating Shared Value”⁸⁹, Michael Porter and Mark Kramer have outlined how CSV initiatives can lead to a range of productivity improvements, such as company health and wellness programs that both improve employee and community health and lower costs due to absenteeism and ill-health.
- *Values* – For some companies, a key driver for IB initiative has been to reconnect with their firm’s underlying vision or to actively demonstrate their CSR or corporate citizenship credentials. This also has an associated benefit of increasing the ‘employer of choice’ perception of companies in engaging and retaining staff.
- *Building and maintaining social license to operate* – the term social license to operate (SLO) has been described as stakeholder perceptions regarding the legitimacy of a project, a company or an industry (separate to a regulatory license)⁹⁰. SLO is a measure of socio-political risk and the terminology is increasingly used in the resources sector. IB initiatives can assist companies to improve their SLO amongst a community through the creation of jobs and economic opportunities.

WHO USES IB MODELS?

Ultimately, companies use and implement IB models however, it must be recognised that the implementation of these models is supported by a diverse eco-system of actors including government, NGO’s, academia, brokers and thought leaders who encourage and facilitate their occurrence creating an environment within which they take place.

The businesses that create and use IB models range widely. Caroline Ashley at the Overseas Development Institute (ODI) has identified at least four different situations in which IB is applied in practice:

1. Commercial businesses selling mobile phones, banking services, health services or other products that are needed by the poor and have high development impact.
2. Large companies, both national and multinational that have a considerable footprint on poverty in the normal course of their business, and take deliberate action to expand development impacts through supply and distribution chains, or research and development.
3. Small and medium domestic enterprises that are fully commercial businesses but have local economic development as an explicit driver, because they are embedded in the local economy.

⁸⁶ Enabling Jobs and Opportunities at the Base of the Pyramid, Business Call to Action, 2010

⁸⁷ Improving Barley Supply Chains, Business Call to Action, 2008

⁸⁸ IBID, p.16.

⁸⁹ IBID, p.8

⁹⁰ <http://www.globalskm.com/Insights/Achieve-Magazine/Issue4-2011/article1.aspx>, KPMG, 2013.

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4. Social enterprises, or social businesses, whose core product is of high social value, and have chosen to replace the traditional non-profit model of delivery with market mechanisms and a commercial model of delivery⁹¹.

Similarly, the Business Innovation Facility (BIF), founded by the UK Department for International Development (DFID), has identified three broad IB models being applied across businesses of all sizes and types⁹². Table 5 summarises these approaches and provides some examples of IB in practice.

IB model	IB in practice
<p>1. Bottom of the pyramid (BOP) participation in inclusive value chains. Approach: Companies develop or adapt existing supply and distribution chains in ways that increase the participation of low-income producers, suppliers, workers, traders, distributors, or vendors.</p>	<p>Amul Dairy is a market leader in the Indian milk industry. To further enhance its value chain and secure its supply of milk, the company organised 2.8 million poor farmers into farmer groupings at the village level in Northern India with improved collection points, quality testing and payment processors. Together, these small holder farmer groupings now produce and sell more than 10 million litres of milk per day which is essential to their income⁹³.</p>
<p>2. Product Innovation for hard-to-reach consumers. Approach: Companies develop new, or adapt existing products and services to meet the wants and needs of low-income consumers; enabling greater access to these products and services in underserved markets in urban and rural areas.</p>	<p>Up to a quarter of Filipino's work and live abroad sending remittance payments to poor and disadvantaged family members to support their incomes. Smart Communications a leader of internet and mobile phone services based in the Philippines responded to the opportunity that existed by creating a mobile phone platform for fast, safe and reliable money transfers that were significantly cheaper than existing money transfer services and more inclusive of the poor⁹⁴.</p>
<p>3. Environmental sustainability. Approach: Create low carbon, climate-resilient businesses that help business and communities adapt to a changing environment.</p>	<p>India's largest manufacturer of paper, Ballarpur Industries Ltd has sought to increase the supply of a sustainable pulpwood into its processing centres. To do so, the company has committed to working with 5,000 small holder farmer families who will be provided with support services to farm the pulpwood through the provision of finance and training. It is expected that these families will be able to increase their income through the sale of the pulpwood back to Ballarpur⁹⁵.</p>

Table 5: IB models (adapted from BIF, 2012)

⁹¹ Harnessing core business for development impact, Caroline Ashley, Overseas Development Institute, 2009.

⁹² Spotlight on Inclusive Business: What Is Inclusive Business, BIF, 2012.

⁹³ The MDG's: Everyone's Business: How Inclusive Business Models Contribute to Development and Who Supports Them", UNDP, 2010.

⁹⁴ Smart Communications: Low-cost Money Transfers for Overseas Filipino Workers, Growing Inclusive Markets, UNDP, 2008

⁹⁵ Fighting Poverty through Sustainable Tree Farming, Business Call to Action, 2010

3. IB DECISION ROADMAP

IB DECISION ROADMAP OVERVIEW

In deciding whether to launch an IB venture, companies typically progress through three phases of decision making. An understanding of these phases, and the key barriers and enabling factors that help companies progress, is an important starting point for considering how donors can support the development of IB. The three phases can be identified as:

4. Creating Awareness of IB
5. Early Development of an IB Concept
6. Starting an IB

Figure 3 provides an overview of the IB decision roadmap, drawing on B4MD's experience as an IB broker, the experiences of a selection of B4MD clients, as well as international best practice case studies and research. The roadmap includes key broker activities, lessons learned, and challenges to acceleration at each phase.

Similar to studies conducted by IB researchers globally, B4MD's experience suggests a range of factors/drivers influence the decision to engage in an IB initiative. These include the personal values of the company executive, the opportunity for revenue growth presented by fast-growing developing country markets, and the opportunity to access a low-cost, secure supply of raw materials for production.

A range of internal and external barriers, however, impact on the ability of a company executive to move from the awareness phase to starting an IB. Internal barriers include business readiness in terms of executive understanding of IB, the opportunity cost of investing in an IB initiative versus competing business priorities, and the ability to accurately quantify the opportunity and risk. Key external barriers include perceptions regarding the risk profile of developing country markets, including concerns regarding political stability and poor infrastructure, and access to markets for IB products.

B4MD have found a number of enabling factors important to address these barriers. Key factors include company success stories to inspire action; in-country missions to improve understanding of business conditions and build empathy for the poor; the ability of the IB broker to sell the value proposition of IB and to guide and educate the company from early development to starting and IB; the level of alignment between commercial objectives and the IB initiative; and government and donor agency political endorsement and support throughout the process.

Both these internal and external barriers are reflected in the IB Decision Roadmap which forms the basis of the second half of this report. A detailed description of each phase is provided in Chapters 3, 4 and 5.

Table 6 outlines B4MD's experience as a broker across the IB Decision Roadmap.

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Figure 3: Overview of the IB decision roadmap

OVERVIEW OF B4MD'S ROLE ACROSS THE IB DECISION ROADMAP

Step 1: Creating Awareness		
B4MD Strategic Pillar	Example activity	Outcomes
<p>Leadership & Innovation</p> <p>B4MD raises awareness and provides market insights (both geographic and industry) on inclusive business opportunities in developing countries for industry leaders through events, workshops, sharing best practice, and evidence based research.</p>	<ul style="list-style-type: none"> In October 2013, B4MD led a session and workshop on 'Procurement with Purpose' at the 9th annual Chartered Institute of Procurement and Supply (CIPSA) Conference in Melbourne. The session aimed to demonstrate how supply chain expertise and innovation can connect BOP markets to Australian businesses. In November 2013, B4MD in partnership with UNDP hosted a Business Leaders Roundtable in Singapore to build awareness of inclusive business opportunities in Myanmar over the medium to long term. 	<ul style="list-style-type: none"> 400 senior management from the Australian Procurement and Supply Industry were made aware of IB and related opportunities in developing markets through participation in a IB keynote session. 80 people participated in an IB Design Workshop 30 senior executives from the food and agribusiness sector participated in the event. A leading global healthcare company has undertaken early development of an IB concept through participation in a B4MD led validation mission. A leading agribusiness chemical company is also exploring early phase concept development
Step 2: Early Development of an Inclusive Business Concept		
B4MD Strategic Pillar	Example activity	Outcomes
<p>New Connections & Intelligence</p> <p>B4MD generates new connections and ideas for innovative commercial opportunities to reduce poverty through our network of contacts in business, government and NGO sector. B4MD also conduct business missions to the developing world.</p>	<ul style="list-style-type: none"> In June 2013, B4MD led a business mission to Lembang (West Java) to investigate opportunities to increase incomes of poor dairy farmers through increasing farmer yields by improving feed quality and cow health. 	<ul style="list-style-type: none"> B4MD is currently in discussions with a multinational food products company regarding funding to be provided to these dairy farmers to increase yields as well as create direct linkages with the company's value chain. A well-known Australian cheese brand has in principal committed \$1M of assets to the project.
Step 3: Starting an Inclusive Business		
B4MD Strategic Pillar	Example activity	Outcomes
<p>New Project Opportunities</p> <p>B4MD works with companies on the development of new inclusive businesses, building project consortia, coordinating feasibility studies, and</p>	<ul style="list-style-type: none"> B4MD worked in partnership with Mondelez International to identify how cocoa producers in Papua New Guinea can be connected into an ethical, locally beneficial supply solution that enhances yields and increases farmer incomes. 	<ul style="list-style-type: none"> B4MD brokered a partnership between Mondelez International and Morobe Mining Joint Ventures. The project was designed to impact 1,000 farmer families. Over \$60,000 of farming tools have been provided to the

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<p>facilitating business planning.</p>	<ul style="list-style-type: none"> • B4MD is working in partnership with a leading resoruces company in PNG to develop an inclusive business operation focused on the establishment of a sustainable, community owned pork industry in the Southern Highlands of Papua New Guinea aimed at creating employment and economic activity. 	<p>farming communities</p> <ul style="list-style-type: none"> • A successful pilot has been completed with local staff employed and trained to administer farm operations. The next phase of the project is to scale up operations and to procure feedstock from poor women vegetable growers in the Highlands.
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Table 6: Overview of B4MD’s role across the IB Decision Roadmap

4. PHASE ONE: CREATING AWARENESS OF INCLUSIVE BUSINESS

IB DOESN'T HAPPEN UNLESS THE RIGHT PEOPLE ARE AWARE OF THE OPPORTUNITY

Phase one in the IB decision roadmap involves the creation of awareness among the corporate sector. In the context of this report, awareness of IB means that a company executive recognises that there is a genuine opportunity to do business with the poor, and that IB initiatives can achieve both commercial and development outcomes.

HOW DO COMPANIES BECOME AWARE OF IB – KEY ACTIVITIES

Awareness of IB is achieved through a number of communication channels, including websites, events and summits, thought leadership, workshops, and in-country missions. The sequence by which organisations become aware of IB varies from company to company, and typically involves more than one channel.

Websites

Websites play an important role in disseminating thought leadership and best practice case studies, which companies can draw on to build support for IB internally.

For B4MD, the website provide a cost-effective tool for advocating IB to a broad audience and also acts as a channel for inviting closer engagement with companies, either through attendance at an IB event, or through one-on-one dialogue.

As an awareness-raising tool, websites also have limitations. Developing the material to broadcast requires significant time and resources, including engagement with a range of business groups and other stakeholders. As a small NGO, B4MD has limited resources to maintain the website, particularly in comparison to some larger, dedicated IB information sites, such as Business Fights Poverty (an online initiative funded by DFID), which has over 12,000 members.

Summits and Events

Summits and events play a major role in building the profile of IB and allow participants to hear insights from leading companies.

B4MD organises a number of IB summits and events each year. Attendance at an event has often been a catalyst for companies moving to the next stage in the IB decision roadmap. For example, in 2010 B4MD hosted Nobel Laureate Professor Mohammed Yunus at IB summits in Melbourne, Sydney and Canberra. One of the attendees at the summit, George Westin Foods (now AB Mauri – see case study below), attributed their decision to become a B4MD member and participate an in-country mission after being inspired by Yunus' speech.

Events have a number of limitations for the awareness-building process. Firstly, the level of engagement possible with individual companies is limited due to the focus on presentations. Follow-up one-on-one engagement with companies is therefore critical to understand individual needs and business context. Secondly, while B4MD works hard to build networks and attract prominent speakers to events, there is a limit to what one NGO can achieve compared to the resources and convening power of larger organisations.

Case study: WorleyParsons

Hearing firsthand the experiences of leading multinational companies has been critical in shaping WorleyParsons understanding of Inclusive Business (IB).

WorleyParsons is a leading provider of professional services to the resources and energy sectors, and complex process industries. It has a global footprint that includes a presence in developing regions such as Africa, Latin America and Asia. Mindful of its global presence, WorleyParsons has a growing commitment to an active Corporate Responsibility program in the communities within which it operates and recognises the potential to engage its supply chain partners in the development of IB initiatives.

Marni Oaten, WorleyParsons' General Manager for Corporate Responsibility, first became aware of the concept of IB after reading related articles in leading business journals such as Harvard Business Review and McKinsey Quarterly. Marni's understanding of IB was further strengthened after attending a Creating Shared Value Summit hosted by B4MD in Melbourne in 2011, where high level business leaders such as former BHP Billiton CEO, Marius Kloppers, and PepsiCo Philippines Country Manager, Sunil D'Souza, talked about practical ways in which they had undertaken IB initiatives.

WorleyParsons has a long history of giving to the communities where it operates. The company's Corporate Responsibility focus in recent years has been on improved reporting of the hundreds of community facing projects each year, while establishing core programs in areas such as education, road safety and skilled volunteering, helped along by the recent addition of the WorleyParsons Foundation. Attendance at IB events has been helpful in learning best practice examples and stimulating thinking around what IB opportunities may exist for longer term, sustainable business partnerships that culturally fit with a professional service firm such as Worley Parsons.

The company is working to advance beyond an awareness of IB to early stage concept development and develop a deeper understanding of IB, including how IB initiatives can co-exist with other business priorities, in collaboration with customers. The concept of IB remains unfamiliar to many executives and is challenged by short term pressures within the consulting business model, and it can therefore be a difficult concept to communicate, says Marni.

Marni believes that DFAT and other donor agencies can be a proactive partner with businesses such as WorleyParsons by making introductions to host country governments and helping to facilitate potential IB opportunities.

Case study: Business Call to Action (BCtA)

The BCtA's Annual Summit and regional events provide a central focal point for the IB community.

Since 2008, BCtA's Annual Event, held in New York City, has played a critical role in bringing business, government and NGO leaders together to foster understanding of the opportunities and challenges of IB and to demonstrate firsthand the commitments of leading companies.

Held in advance of the 68th Session of the United Nations General Assembly, the 2013 Annual Event was presented to a diverse group of delegates from over 150 organisations. Reflecting the growth of IB activities globally and the significant opportunities for knowledge sharing that this presents, the 2013 event focused on how leading companies had overcome significant challenges in the implementation of their IB's. Speakers at the half day event included Greg Priest, Head of Sustainability Policy, IKEA Group, Mark Devadason, Group Head for Sustainability and Regions, Standard Chartered and Carlos Nomoto, Sustainability Director, Santander Brazil.

Commenting on the event, Sigrid Kaag, Assistant Secretary-General, Bureau of External Relations and Advocacy of UNDP, noted the important role that the BCtA plays in building awareness of IB. "Inclusive business is gaining momentum. When emerging market corporations from Brazil, India and Turkey stand alongside corporations from Sweden, Japan and the United States to be united in their pursuit of corporate and social impact, we know that BCtA and UNDP are at the forefront of leading change"⁹⁶.

This event has proved to be a central focal point for the IB community around the world given the close association with the United Nations Development Programme and the hosting of the event as part of the United Nations Global Compact Summit. Along with its Annual Event, the BCtA sponsors a range of activities and event throughout the calendar year to share expertise, knowledge and best practice for market based approaches to development. Since its inception, BCtA has held events in Japan, Indonesia, Singapore, India, Holland, Australia and Spain, as well as hosting a series of online educational webinars on specific IB topics.

Thought Leadership

The publication of thought leadership provides a further opportunity to build the profile on IB and disseminate best practice.

B4MD has been commissioned to undertake research on IB and related topics. For example, in 2012 B4MD in partnership with Accenture Development Partners, was commissioned by DFAT (then AusAID) to conduct a survey of Australian businesses sector to understand perceptions on the role of business in development and potential engagement between the business sector and AusAID. The publication of studies such as this helps to further build awareness of IB and provide an evidence base to inform government policy and business strategy.

⁹⁶ Business Call to Action, <http://www.businesscalltoaction.org/news-events/annual-event-2013/>, 2014

Workshops

Workshops help to build a deeper understanding of IB concepts and how it could be applied to specific business contexts.

B4MD conducts half-day design workshops with companies, government agencies and NGOs. The workshops provide participants with an opportunity to design a basic IB initiative for their own organisation. Participants come away from the workshops with the confidence and tools needed to begin the process of developing an IB.

Design workshops are sometimes attached as a stream at a major conference, or offered as a stand-alone event. For example, in November 2013, B4MD, with support from the BCtA, delivered a half-day workshop in Singapore for members of the Singapore Compact, a network of progressive businesses looking to further the CSR and IB agenda in Asia. B4MD also develops targeted full day or two-day events for individual companies.

While the workshop provides a valuable means to build understanding IB, gaining sufficient attendance at events can be a challenge due to the limited profile and resources of B4MD, and the fact that IB remains a new concept for many companies.

The ability to leverage the convening power and influence of partner organisations is critical to the success of workshops.

Exploratory Missions

Exploratory missions, similar to trade missions conducted by Austrade, provide companies with a first-hand snapshot of the opportunities and challenges of launching an IB, and help to build empathy for the poor.

B4MD leads exploratory missions to developing country markets with a genuine potential for launching IB initiatives. Missions are typically three days in length.

In 2012, for example, B4MD conducted a mission to East Java, one of Indonesia's fastest growing regions, to assess the potential for IB in the agribusiness sector. The mission was supported by the WA Department of State Development, DFAT, the Australia Indonesia Business Council and Nestle, and was hosted by the Governor of East Java Province. Approximately 20 Australian and Indonesian-owned companies participated in the mission. Australian-owned companies were engaged based on their level of interest and strategic fit, and included companies with existing trade relationships in Indonesia.

The first day of the mission involved an introduction from the Governor of East Java, who outlined the economic opportunities for companies operating in the region, helped companies to understand some of challenges, and provided his personal support for business investment.

Day two started with B4MD providing participants with an overview of the theory and practice of IB, including the presentation of case studies of successful IB initiatives. This first session set the tone for the mission and provided companies with a sense of what they would see in the field. The remainder of the day was spent meeting with farmers, producers and business cooperatives to understand the challenges they face in attempting to scale their businesses and how this impacts their ability to move out of poverty.

The final day of the mission involved a debrief to consider the specific initiatives companies could undertake, key barriers to moving forward, and proposed next steps. B4MD developed a mission report to assess whether specific objectives had been met and conducted follow-up meetings with individual companies to determine next steps.

Missions provide critical exposure for companies considering an IB initiative and feedback has generally been very positive. Although only a small proportion of companies have to-date moved to the next phase of IB decision roadmap – on average, one company per mission, B4MD's experience is that building commitment to IB takes time and that missions are a critical part of the awareness-building process.

Missions also have a number of limitations as an awareness-raising tool. Firstly, relates to the cost of organising the missions, which can be significant. Secondly, given the short time frames and broad range of participants, there is limited capacity to focus on the needs of individual companies. Thirdly, as missions are often hosted and designed by regional governments, there is a reluctance to show the worst cases of poverty due to the perception that this will reflect poorly on the hosts. While it is important for missions to be respectful of the host government, there may be a need for a greater level of independence in future missions, or to engage a local NGO to co-design the program, to ensure companies gain a full appreciation of conditions on the ground.

Case study: AB Mauri

AB Mauri invests time in understanding IB

Michael White, Australian New Zealand Director of Procurement at AB Mauri, has always had some awareness of the concept of IB. This understanding can in part be attributed to his role in a global company that procures and manufactures yeast and bakery ingredients around the world.

Michael's understanding of IB has been strengthened overtime through participation in a series of events both in Australia and internationally, where he heard the experiences of leading companies. For Michael, one of the principal learnings from these events has been that successful IB ventures require CEO-level support in order for the initiative to be adopted by the company. "IB can't be led from the bottom, it has to be led from the top. Ultimately it doesn't matter what your sales manager wants, if the CEO doesn't buy it, it doesn't work" explains Michael. Michael acknowledges that a strong motivation for companies to undertake IB is reputational – the need to meet public expectations by demonstrating the social outcomes of their projects.

With the support of AB Mauri's divisional CEO, in 2011 Michael participated in an IB mission to Papua New Guinea (PNG) to explore cocoa procurement opportunities. Meeting with government, mining companies and small holder famers, mission delegates imagined together what it would look to create a supply chain that benefits farmers and companies alike. For Michael, the biggest learning from his time in PNG was that business can make a tangible difference in the lives of poor farming communities.

Although participation in IB events and missions have enabled Michael and his colleagues to build a stronger level of awareness of IB and its potential, the company has struggled to transition to the next phase and engage in early stage project development of concept. A specific challenge for AB Mauri has been competing business and social program priorities at

the company's parent company Associated British Foods. In addition, for the specific IB opportunities explored in PNG, the business case was not strong enough for the company to progress further, in part due a lack of interest from Australian supermarkets in promoting the social impact.

LESSONS LEARNED

Key factors/drivers behind the decision

From B4MDs experience, there is a range of motivators for companies and individuals that engage in activities at the awareness phase. This includes an interest in developing countries due to existing or potential market opportunities, a personal interest in international development, the opportunity to hear from global thought leaders at an IB event, or simply wanting to get a sense of where to start.

Reputation is also a key driver at the awareness phase. Companies are strongly motivated by competitive rivalry and there is desire to be to be associated with the initiatives if peer companies are already involved. A number of B4MD clients that have moved to the next phase of the IB decision roadmap have done so after hearing success stories from respected (or rival) firms; company executives do not like to feel that they are lagging their competitors.

The personal values, or social DNA, of the individual is also a critical factor in determining whether an initiative moves forward to the next phase. IB requires individuals with not only a strong understanding of the business case, but also an interest in social issues, whether this is drawn from a strong underlying personal moral code, experience in developing countries, or a desire to make change happen. The activities and engagement in the awareness phase provides an early opportunity for B4MD to identify leaders with both the personal values and seniority to drive a project forward.

The role of outside influencers/stakeholders on the decision making process

As identified in Chapter 1, a range of stakeholders determines the overall institutional context for IB and influence decision of companies whether to move to the next phase of the IB decision roadmap.

Peer companies play an important role in the awareness phase. Leading global companies that have thrown their support behind the IB/shared value concept and spoken at events, such as Nestle, have inspired other companies to reexamine their own mission and the opportunities of IB. In the Australian context, however, there remain very few examples of companies taking the lead in developing IB initiatives, which makes it difficult to build the profile of IB in Australia.

Government and donor agencies can play a key role in supporting the growth in awareness of IB by speaking out and endorsing the role of business in development; by providing financial and marketing support for IB summits and events, and facilitating the participation of Ministerial and senior departmental speakers; by convening and supporting multilateral initiatives such as the BCtA that galvanise business attention; by providing funding for research and thought leadership to disseminate best practice; and by sponsoring exploratory mission and facilitating meetings with host government representatives, similar the role played by Austrade.

Internationally, the UK government and DFID have played a leading role in fostering business interest in IB and development through consistent political leadership and funding support for initiatives. In Australia, DFAT have provided funding support for IB research and some business missions, however, there has not been the level of political support from government seen in some other donor countries.

In the NGO sector, B4MD has been the primary voice for IB in Australia. Globally, NGOs such as Oxfam have played an important role in shining the light on company value chains and their development impacts, such as the 2012 Behind the Brands campaign, which has been influential in the food industry. In Australia, World Vision and Save the Children have appointed managers responsible for building deeper relationships with the corporate sector, however, engagement initiatives are at a very early stage.

Academic institutions have a key role in educating the next generation of business leaders in IB. Some institutions, such as the Centre for Social Impact, have begun to incorporate IB/shared value concepts into their business curriculum, while others such as the University of New South Wales, have hosted forums on IB.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

While peer companies, donor agencies and NGOs all play an important role in building company awareness of IB, specific challenges need to be addressed in order for a company to take the next step in its IB journey.

Studies by IB researchers suggest that both internal barriers, such as capability gaps and the opportunity cost of investment, and external barriers, such as perceptions regarding political stability in developing country markets, need to be addressed for an IB decision to move forward. Conversely key enabling factors have been identified, such as alignment with social purpose and partnerships with external stakeholders, which have proven to be decisive in the most successful IB initiatives.

Internal barriers

For companies at the awareness phase, a key internal barrier is whether the IB initiatives aligns with business priorities. Unless there is a pressing, urgent need for an IB initiative that is linked to core business activity, it will get pushed down the priority list and is unlikely to move to the early stage development phase. If the IB initiative addresses a critical business need, such as securing a low-cost, reliable supply of raw materials, the project is likely to move to the next phase quickly.

A related internal challenge for the Australian operations of multinational companies, such as AB Mauri, is that they often don't have the authority to make the decision to launch an IB initiative in a developing country market. These decisions are ultimately made in global headquarters, which can seriously slow the decision-making process of the company, as well as curtail the influence of an IB broker in Australia. Advocacy of IB initiatives, therefore, needs to consider the global context in which a business operates.

For a broker such as B4MD with limited resources for business development activities, it is important to quickly assess the maturity of companies in term of their understanding of IB, alignment with business priorities and the capabilities and commitment of key managers, and to identify and focus energies on companies ready to move forward to the next phase.

External barriers

A key external barrier for Australian companies relate to perceived risk of investing in developing country markets. Australian companies, in general, have been slow to respond to the market opportunities presented by IB compared to European companies in particular, which have a long history and operational footprint in developing country markets.

From B4MD's experience, there tends to be a perception from Australian companies that there is too greater risk in developing country markets, whether that risk relates to political stability, protection of property rights, or the capacity of rural producers to deliver reliable supply of materials. A key role for brokers such as B4MD and donor agencies is therefore to educate companies on the realities of working on the ground and risk mitigation strategies. B4MD's business missions have played an important educational role by allowing companies hear from local voices and businesses with experience on the ground.

Enabling factors

A key enabling factor for IB at the awareness phase, as well as later phases, is whether the company representative involved has both an emotional connection with the issue, and a compelling business case for action. As a broker of IB initiatives, it is vital that B4MD has the capability to connect with a company on both a commercial and emotional level in order to move a project forward. This is key difference from mainstream business initiatives. An opportunity exists for donor agencies to facilitate the development of the next generation of business leaders with a social DNA to drive growth of IB in the Asia-Pacific. These individuals will have the experience and confidence to sell the value of IB to different audience, including business, government and civil society. In Australia there is currently a lack of IB leaders who can set the agenda.

Political support and leadership from government and donor agencies is another enabling factor at the awareness phases. As outlined in the previous section, this support can take a number of forms, however, the most important element is that there is consistent, authentic statements of support for IB so that it becomes a norm and an expectation of companies. These statements of support then need to be backed up with a clear plan of action.

The most powerful advocates for IB, nonetheless, will remain business to business. Globally renowned speakers, such as Professor Mohammed Yunus, have proven a great success in motivating companies to move to the next phase, however, it is difficult to bring speakers of this calibre to Australia every year. There is a potential role for DFAT to leverage its global networks and relationships with other donor agencies, such as DFID and USAID, to bring high quality speakers to Australia.

5. PHASE TWO: EARLY DEVELOPMENT OF AN IB CONCEPT

At the early development phase, companies have moved beyond basic awareness of IB and its potential to achieve commercial and development outcomes, and a specific idea has formed in the minds of the executive. For the project to move forward there must be a specific need in the business linked to core business activities.

HOW DOES B4MD AS A BROKER DEVELOP A BUSINESS CONCEPT WITH A COMPANY – KEY ACTIVITIES

Globally brokers have been shown to play an important role in the early stage development of an IB concept.

B4MD aims in the first instance to build a relationship at the right level in the company. We leverage our network and try to gain access to a c-level executive. From experience, if we start with the CSR manager or the procurement team, it can be very hard to move forward as they do not necessarily have influence with the CEO or the capability to build the business case. The key is finding the right internal champion – the person who has the credibility and passion to drive the IB initiative. If we don't have that person, or they are not at the right level of seniority, then things will not move forward quickly.

The early development phase involves the creation of concept notes; meetings and workshops to test and refine the idea; and validation missions to explore the realities of the proposed IB venture in the field.

Concept Notes

A concept note outlines the basic idea for an IB, including its commercial feasibility and potential development impact. The concept note provides the discussion point between the company and broker.

The initial concept for an IB can originate from a specific need identified by the company, or from B4MD as a broker drawing on our research and experience. For example, the concept may be to launch a low cost ultrasound scanner to improve maternal health outcomes in a specific developing country.

At this stage the IB concept is high level, and the idea tends to get sold more on hope and vision, rather than a clearly defined business case, which comes later. From B4MDs experience, the connection at this early stage is values based - it is very much about connecting to people's personal drivers. The relational skills of the broker at this point - the ability to paint a powerful picture of change - is very important.

Meetings and Workshops

B4MD meets with multiple people in the company to test and refine the concept, including representatives from CSR, procurement, strategy, and marketing departments.

Workshops provide an opportunity to bring a range of stakeholders together to build buy-in and co-design the concept. The workshop is where the executives really starts to own the initiative, rather than it being seen as the idea of outsiders.

Case study: Business Innovation Facility (BIF)

How the BIF is supporting the early stage development of IB ventures

The Business Innovation Facility (BIF) supports the growth of IB ventures by providing IB practitioners with an online space to connect and gain new practical knowledge. With funding provided by the UK Department for International Development (DFID), the BIF provides insights around the implementation of IB ventures through technical expertise, advisory services, knowledge exchange and project facilitation⁹⁷. The BIF ran as a three year pilot from 2010–2013 and was managed by PricewaterhouseCoopers (PwC). BIF is currently entering a second phase, with new projects in Myanmar and Malawi, and additional countries being added in 2014.

Central to the functioning of the BIF has been the dissemination of “insight” publications that deal with specific issues or areas of interest in the formation of IB enterprises. This knowledge exchange is primarily delivered through the Practitioners Hub, an online resource specifically designed for IB practitioners and includes resources such as tool kits, discussion forums and articles. Though much of the online resources can be applied across all IB contexts, the Facility also provides specific project support for companies developing IB opportunities in five target countries: Bangladesh, India, Malawi, Nigeria and Zambia.

In line with these advisory support and facilitation services, the BIF has worked with companies around their early stage IB concept development (known as “Short” projects – up to 20 days per project) in areas such as understanding market constraints and opportunities, mapping target markets and industries and facilitating workshops. Being a donor funded body, the BIF has been able to provide these services to client companies at no or minimal cost. As a result, the BIF has provided these support services to 68 companies at an estimated value of \$759,817⁹⁸. Sectors to benefit from these short project services include financial services, agribusiness, tourism, dairy and telecommunications. Interestingly, the majority of Short projects have been producer focused with 32 of these projects being from the agriculture and food sector. As a result of BIF’s efforts, 69% of all BIF workshop participants and 94% of all one-to-one supported individual provided a tangible example of something they had done differently through engagement with the BIF.

⁹⁷ <https://www.gov.uk/business-innovation-facility-bif>, GOV.UK, 2014

⁹⁸ Review of the Business Innovation Facility Portfolio, Business Innovation Facility, 2013

Validation Missions

Validation missions are where an IB initiative comes alive for companies - where initial concepts are validated and potential partners are identified. What seemed like a nice idea on a concept note can suddenly become a must do.

The missions are vital to understand the culture and challenges for a specific IB initiative (see case studies below). Until this stage, the IB concept has largely been discussed in theory and it is not until the in-country missions begin that practical realities can really be understood. The missions also provide an important opportunity for B4MD as the broker to solidify its relationship with the company.

Missions typically last for one week and cost over \$10 thousand to finance. Companies need to fund the missions, so developing a business case internally is a key hurdle at this stage.

The missions include meetings with a range of potential partners, including government representatives, businesses and NGOs, as well as project beneficiaries. Due to the challenges of working in a developing country market, it is difficult for companies to launch an IB initiative without strong partnerships.

Gaining the endorsement and support of host governments as part of the missions is very important for most companies to assuage concerns regarding sovereign risk. Companies also often look to government for co-financing in the form of grants to reduce start-up costs.

Connections built with other businesses operating in-country are also vital. The business-to-business connections are often the easiest to make as they speak the same language (the language of business) and have on-the-ground knowledge of business conditions. The importance of forming these business partnerships has been a key learning for B4MD. In many cases partnerships have been formed with mining companies given their established presence within many countries in the Asia-Pacific.

Missions typically end on a high, with company representatives feeling inspired to move forward and with some firm ideas on paper.

At the end of the mission, B4MD develops a mission report assessing whether objectives have been met. Over the following weeks, B4MD and the company sit down to discuss next steps. For some companies, there is very strong alignment with current business priorities and they are keen to move forward. For other companies, although they may see the potential for the IB initiative, the conditions or timing is just not right given other priorities in the business.

The seniority of the company representatives involved in the mission is critical. If they need to convince more senior people in the company, then B4MD will work out a plan to support them.

At this point, the company may wish to proceed alone, if they feel they have sufficient internal capability.

Case study: Fast Moving Consumer Goods (FMCG) Company

Large FMCG Company explores the development of an IB supply chain in East Java, Indonesia.

For this FMCG company, meeting growing customer demand was the driving force behind early stage concept development of an IB venture that would procure a specific tropical commodity from poor farmers in East Java, Indonesia. At the time of concept development, the company was already sourcing this commodity from within the Asia region however, the company saw the need to source supplementary supply that was counter seasonal. In doing so the company would be able to meet year- round demand for this product in the region, as well as position itself to supply product into growth markets.

Due to the company's established ethical sourcing policy, the company was well aware of the opportunity to enhance the livelihoods of the East Java farmers. A key consideration for the company was the design of a model that ensured that farmers were actually paid for their produce. In order to ascertain the viability of the IB opportunity, the company undertook a series of steps that began with an exploratory mission to East Java. According to a senior manager from the company, participation in the mission was critical in being able to gain a full appreciation of how the supply chain could work, including seeing first-hand how tropical commodities are transported from the farm to the market and talking to farmers and government officials. The manager acknowledges that it would have been difficult for the company to gain this knowledge and to enter the market without utilising the services of an external broker.

Having presented their findings to the company's executive team, the manager and his colleagues were requested to undertake further exploratory work to test the quality of this specific commodity from East Java in comparison to other countries, as well as undertaking further assessment of the potential supply chain operation. It was at this point of early stage concept development that it was decided not to progress past this phase, as it was identified that the time from harvesting to packing the commodity for integration with the company's Asia -based supply chain was very tight and represented an unacceptable risk to the business.

Though the concept did not proceed to the startup phase, it was acknowledged by the company that a potential role for DFAT for this and similar projects could be in relation to good governance; ensuring that farmers are being paid and assisting companies in this process. Support for navigating local in-country business challenges would also be of assistance in establishing an IB in Indonesia.

A large FMCG company was interviewed for this case study. Due to commercial sensitivities, the company has not been referred to by name in the case study.

Case study: Multinational Grain Business

How a multinational grain business moved from Early Stage Concept Development toward starting an IB.

With the need to develop a secure supply chain network across Asia Pacific to support its regional growth objectives, it was critical for this household name grain business to develop local supply of their key agricultural commodities for their supply chain. With no existing direct relationship with farmers, it was of equal importance to identify where and from whom the company could reliably source key agricultural commodities within the Asia-Pacific region in a way that supported the company's sustainability objectives.

Within this context, the company identified Myanmar as a high potential location from which to source a number of these key agricultural commodities, however, the company recognised that it had a limited understanding of the local market and operating environment. The company understood that working directly with small holder farmers in partnership with NGO's to increase yields and livelihoods is now a normal part of doing business in developing countries and is an essential element of an effective supply chain.

In order to assist the company in its understanding of the market and to create direct linkages with farmers, the company engaged the services of B4MD to coordinate an exploratory mission. Reflecting on the mission, the Director of Agronomy and Agribusiness in Asia Pacific and Africa for the company noted the important role that a broker can play "Groups like B4MD can help facilitate relationships between the company and local partners, and assist with developing baseline data and forming a profile of the country."

Following on from its participation in the mission, the company has decided to undertake a more detailed investigation into the agricultural industry in Myanmar in 2014. This may include small-scale activity at the farm or research level on a number of crops. However, the company acknowledges that a significant amount of work needs to be done to develop the supply chain in Myanmar, including countering risks such as inconsistent supply of electricity in rural areas, poor road infrastructure, outdated seeding technologies and crop protection issues.

Going forward the company sees a clear role for an external broker to provide assistance around government relations as well as the provision of extension services with farmer groups.

As an American owned business, the company has a long history of engagement with USAID. With a regional office in Australia, the Australian division would be very interested in engaging with DFAT if communication channels were opened. In particular, the company sees an opportunity for support around infrastructure and finance to set up a viable business, and would be interested in discussing opportunities across South East Asia.

A large multinational grain based food manufacturer was interviewed for this case study. Due to commercial sensitivities, the company has not been referred to by name in the case study

KEY LEARNING'S

Key factors/drivers behind the decision

For companies entering the early stage development, there has to be a specific need or business driver. As the case studies have demonstrated, this may include growing customer demand for a product and the opportunity this presents for revenue growth; the need to secure a reliable, low-cost source of raw materials that will strengthen business margins; or the opportunity to gain business experience in a growth market. Without a strong commercial imperative, the IB initiative is likely to stall.

As discussed in previous sections, the emotional and social connections to the project are also of vital importance. Companies at this stage are motivated as much by the potential development outcomes of the project as the commercials. This balance begins to shift in favour of commercial drivers in the next phase, as we will discuss in chapter 6.

The role of outside influencers/stakeholders on the decision making process

The IB broker plays an important role in guiding and educating the company through the early stage development process. The broker need to remain close to the senior people in the company at all times and be flexible in terms of the process and outcomes; it is during the phase that some ideas are dismissed and new ideas come to the fore. It is very unlikely that the broker will achieve 100% of the proposed goals outlined at project inception.

The broker must have credibility with the senior managers in the company. This means having the necessary seniority and delivery experience, and investing in relationship building over a long period of time. The IB concept is very new to most businesses and success is not well defined. The ability of the broker to sell the value proposition to companies is critical.

Meetings with NGOs and potential business partners located in the host country are vital in the early stage development phase in order for the company to get a realistic understanding of local culture and business context. Introductions made in this phase will ideally set the foundations for future partnerships.

As outlined in chapter 1, donor agencies and governments can play an important role in the early stage development process by providing financial and technical support for new concept development (such as the DFID funded Business Innovation Facility); by sponsoring business missions and design workshops; by providing market intelligence and facilitating introductions to host country governments and local businesses; by lobbying host government to improve business conditions, such as through investment in infrastructure, health and education; and by agreeing to share some of risk of business investment through the provision of grants. In the Philippines for instance, the ADB is working with the government to develop an accreditation system for IB that would require all multinational companies to invest in such initiatives. While DFAT has provided support in a number of areas, there is an opportunity to expand support at this phase of the IB decision roadmap.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

It generally takes 12-18 months for an IB concept to move from early stage development to the starting an IB phase. The process is slow and attrition rates are high, with only a small percentage moving forward to the next phase.

Internal barriers

A key internal barrier to moving beyond this phase relates to the opportunity cost of the IB initiative. In some cases the perceived benefits of investment just don't add-up versus other potential business opportunities, whether due to the greater perceived level of risk or the size of the market opportunity. These are normal business considerations for any company.

For some companies there is a perception that IB projects will not achieve the rate of return of pure commercial projects, or that the returns will accrue over a much greater length of time. There can also be a natural bias against IB initiatives, with a deeply ingrained belief that companies should give money to social causes, not make money from them. This is a heavy weight to carry for an internal champion trying to make the business case. IB initiatives also require a significant financial commitment, which can be a difficult thing to sell upfront.

IB brokers and internal champions need the experience and the confidence to sell both the social and business value of an initiative. For most people, this comes from many years of experience working in the corporate world, as well as exposure to development issues. The CEOs of leading global companies, such as Unilever, Nestle and SAB Miller, are passionate advocates for IB and the potential to achieve both business and development outcomes. Australia does not yet have a large pool of IB leaders or success stories to draw on for inspiration.

The overall health of the business, and the extent to which the IB initiative is aligned with current and future business priorities, plays a major part in determining whether an IB initiative moves forward to the next phase. B4MD have had instances where the CEO has been ready to move forward with an initiative, but has failed to gain support from the board due to the overall poor performance of the business. In other instances, a key executive that supported the IB initiatives has left in a restructure and B4MD has lost an internal champion.

External barriers

In some instances external barriers prove too great for an IB initiative to move forward. A proposed IB initiative with a major Australian agribusiness to launch a chicken industry in the highlands of Papua New Guinea failed to gain support due to its isolation from the market and logistical challenges of reaching farmers. As a result the initiative was adapted and moved to the coastal region near Port Moresby, where it was closer to the market and a major potential buyer (need to confirm this).

Concerns regarding sovereign risk are a major barrier for companies considering launching an IB. Companies generally have a low risk tolerance and short-term orientation. IB initiatives are typically launched in countries with a high-risk profile, including political instability, lack of basic infrastructure and limited workforce capabilities. In this climate, companies question why they should start at all, or would prefer other companies to take the lead. Companies are also reluctant to put their name to initiatives in the early stages due to the fear that it may come back to harm them if issues, such as community concerns regarding land acquisitions, spark public NGO campaigns.

Enabling factors

The key enabler at this phase is the extent to which there is alignment between commercial objectives, personal KPIs and the IB initiative. Ultimately profitability is number one for companies, and the ability of the internal champion to demonstrate the alignment with core business drivers is fundamental in progressing to the start-up phase. As an IB broker, B4MD plays an important enabling role by building the capabilities of internal champions to make the business case and build internal commitment.

The endorsement of host governments in the early stage development phase is an important enabling factor for most companies to address concerns regarding sovereign risk. The identification of NGO and businesses partners with deep knowledge of the local culture and business conditions is also a key factor for moving forward to the start-up phase.

As outlined in the previous section, donor governments and agencies can play an important enabling role during the early stage development phase through the provision of financial and technical support, by facilitating partnerships, and by using their influence to improve the business investment climate for IB in host countries.

6. PHASE THREE: STARTING AN INCLUSIVE BUSINESS

The final phase of the IB Decision Roadmap is the actual starting or launching of an IB initiative. During this stage, a company has agreed to move beyond early concept development and transition into the preparatory stages of an IB, reflected in either a pilot or full capital allocation and formal launch of the IB initiative. Commercialisation of the venture is the end goal for the company during this stage.

HOW DO COMPANIES START AN INCLUSIVE BUSINESS – KEY ACTIVITIES

There are a number of key steps in the start-up process, including the development of a formal business plan, the creation of the new entity and organisational governance, building partnerships and gaining external funding. The time from preparation to actual launch of an IB can be 12-24 months. This phase can be particularly slow to progress recognising that there are a range of internal and external barriers to overcome before concepts can proceed to implementation including risk assessments, legal approval and the commitment of funding for the venture. During this phase, approval from the Board of the relevant company is often required for the initiative to proceed and therefore a range of assurances need to be provided at Board level.

Business plan

The link between progressing from the IB concept phase to start-up is typically the authoring of a feasibility study and business plan. Ultimately, the purpose of the feasibility study and business plan is to outline the case for the capital allocation decision.

The business plan would typically include elements such as the projected costs, rate of return, project risks, production estimates, timelines and governance. The business plan may also include estimates of social outcomes, such as contributions to the MDGs. For larger projects, there may first be a feasibility study presented to senior management for approval, followed by a more detailed business plan with detailed budget and program governance.

The risks of an IB initiative, for the entity, corporation and beneficiaries, need to be carefully considered in the business plan. There is much greater risk than a normal business venture due to the potential impacts on the poor and the risk of being seen to exploit the poor if the project fails.

Final sign-off of the business plan, and capital allocation by the company, signals the beginning of the implementation phase for the project.

Establishing the IB entity and governance

A new IB initiative typically involves the establishment of a new legal entity to operate the business. The entity may be for-profit, or not-for-profit in structure, depending on local laws and the particular preference of the business.

Once the entity has been established, the executive management team and board are appointed. As a broker, B4MD encourage companies to appoint business representatives with a strong interest in development issues to ensure that the project remains true to its mission. We also encourage community and producer representation on the board to provide a voice for beneficiaries. In instances where the company wishes to maintain close control over the board, a separate multi-

stakeholder advisory committee is established to advise the board on development issues. B4MD encourage companies to report to the board on progress against both commercial and social objectives.

Case study: Oil and Gas Exploration and Development Company

Leading the way with the development of an IB enterprise in Papua New Guinea (PNG)

Having operated in PNG for a significant period of time, this company has a long history of community engagement and investment. This commitment is best reflected through the company's Foundation that contributes to the health and wellbeing of PNG.

In line with its commitment to community development in the areas in which it operates, the company has had an interest in IB since 2008, having attended a range of IB events and hosted IB validation missions. However, until recently the company has not been able to identify the right opportunity to start an IB.

According to a sustainability manager at the company, the idea of establishing a local piggery enterprise resonated strongly with the company's executives when the concept was presented by B4MD. "Pigs are a mainstay of this society. There is a huge depth of knowledge and traditional husbandry, so the project is building on a foundation of existing knowledge".

Now at the completion of a successful trial period, the manager recognises that the ability to attract investment in the company is now critical in order to scale up the IB venture. While funding for the pilot has been provided by the oil and gas exploration and development company, local land owner companies have been identified as the most likely source of venture capital moving forward.

Looking ahead, the company aims to ensure that an appropriate governance structure is established with local ownership and shareholding privileges to be held by the farming communities engaged with the piggery enterprise – the intended beneficiaries. It is also hoped that provincial government support for the project would be received through the provision of land.

In considering a potential role for donors, the sustainability manager suggests that the World Bank provides a good model. The Bank provides loan or equity funding for programs, which at a future point the Bank can sell down when the initiative becomes sustainable.

A large oil and gas exploration and development company as interviewed for this case study.

Partnerships

As discussed in previous chapters, building local partnerships is critical to the success of an IB initiative.

Throughout the start-up phase, the company needs to continue to develop these partnerships. This includes engaging with host government representatives, business partners, producer representatives and relevant NGOs. As the IB broker, B4MD can play a critical role in facilitating these relationships.

Funding

An IB initiative requires adequate finance to meet projected start-up costs.

While the company may choose to raise capital internally, in some instances the company may seek co-financing arrangements from the host government, donor agencies or private foundations. Co-financing enables a company to share some of the financial risk involved in starting an IB, a topic we return to in chapter 7.

B4MD works with the leadership in the company to acquire external funding if required. For example, B4MD has worked with a food manufacturing client to access grant funding through the Livelihoods and Food Security Trust Fund (LIFT), a multi-donor fund established in Myanmar in 2009 and managed by the United Nations Office for Project Services. The donors to LIFT include Australia, Denmark, the European Union, France, Ireland, Italy, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom and the United States of America.

Case Study – Barefoot Power

How Barefoot Power is helping the poor through a sales-based IB model

Barefoot Power is a provider of low-cost solar lighting and micro power generation, entirely focused on developing country markets. Unlike many IB ventures that are procurement orientated, the company has a unique model of selling solar lighting to poor communities at the bottom of the pyramid. Globally there are two billion people who do not have grid electricity. According to Barefoot Power CEO Rick Hooper, the company has penetrated approximately 0.8% of that total potential market.

Founded by two entrepreneurs, dedicated to building both profitable business and providing off-grid electricity solutions to impoverished communities, Barefoot found it impossible to attract institutional investors in Australia that would back their IB venture. “Our original investors were angel investors from Australia and the IFC. The rest of the investors were offshore,” says Hooper.

Financial constraints also impact Barefoot’s distribution model in-country. “The biggest challenge is that consumer credit is very difficult to come by and it is a big strain on disposable income for individuals to buy their first product,” says Hooper. The company works with a microfinance organisation to provide customer credit.

Measuring the social impact of the venture is of utmost importance to Barefoot given the social focus of the company. The company, however, takes a unique approach by measuring its impact through sales. “For every product we sell, we improve the living standards of five people, which is the average household,” says Hooper. Impact is also measured by looking at the number of people employed through supply and distribution channels, as well as flow-through employment created and income generated for micro entrepreneurs. Hooper believes that there is a potential role for DFAT to act as a coordinator by bringing together companies that are active in the IB to share insights and experiences.

Case study: WING Cambodia

WING Cambodia demonstrates how donor funding can expand reach and impact of financial services in rural communities

WING is a provider of mobile phone payment services that enables customers to transfer, store and cash-out their money using a mobile phone in Cambodia. The direct benefit of this business is the reduced remittance fees for customers and greater accessibility to funds, which is of great importance for poor users.

IB ventures offer the greatest potential for contributing to development outcomes when taken to scale. However, often companies find it difficult to expand their operations due to commercial constraints. This was the challenge facing WING Cambodia as it sought to expand its services into rural areas.

WING was able to overcome these constraints by receiving a A\$1,500,000 grant through DFAT's Enterprise Challenge Fund (ECF), which contributed to funding costs of the roll out to rural areas, training of rural agents and financial awareness campaigns. As a result of funding provided to WING that enabled this expansion, 82% of WING customers are now from rural areas outside of Phnom Penh. A far greater proportion of the Cambodian population now receive the cost saving benefit of using WING. Moreover, the funding has enabled WING to overcome gaps in payroll services for rural communities and has supported the company's effort to target and engage the unbanked.

Added to this, WING is able to meet a specific market demand in that many Cambodians live in rural areas and rely on money being transmitted home from family working in urban areas. In fact, roughly 80% of Cambodian's live in rural areas, with 35% living below the poverty line.

Without ECF funding it unlikely that WING would have focused on a rural engagement strategy in the early stages of the initiatives development.

KEY LEARNING'S

Key factors/drivers behind the decision

The factors/drivers behind the decision to move to the starting of an IB are similar to the previous phase and include perceived business benefits, such as the need to secure a supply of low cost raw materials to meet growing consumer demand, the opportunity to launch a new product into a developing country market and generate a new revenue stream, or a need to meet government requirements regarding local procurement of supplies.

While the social emphasis of the project remains important throughout the start-up phase, the focus on commercial factors tends to intensify as the company moves closer to a capital allocation decision.

The role of outside influencers/stakeholders on the decision making process

The role of the IB broker remains important throughout the start-up phase to facilitate partnership development and ensure that the initiative remains true to its social mission.

From B4MD's experience, the further an IB initiative progresses, the greater the pressure from the company to focus on the commercial, rather than development objectives. As broker we try to hold companies to their commitments and advocate for the interests of producers and the poor. We use the levers of transparency and reputational risk to hold businesses accountable. Without this pressure there is very real risk of mission drift.

B4MD have found that the role of a broker can be challenged during this phase. B4MD's business model is to engage and contract with companies early in the IB development process and work with them throughout the journey. As a result of this contractual relationship, there is a power imbalance inherent in B4MD's relationship with the company.

This imbalance could be addressed if donor funds were used to incubate ideas at an early stage until a concept is proven. The concept could then be taken to the market and a company chosen to drive the project forward; however, it would be on the donor's terms. The Gates Foundation, for example, working in partnership with the broker Technoserve, has used this model successfully on a range of projects.

While the potential roles for donor agencies are more limited in the starting an IB, where the details of the business case become the focus, an important role for donor agencies to consider is the co-financing of project start-up costs. Bilateral and multilateral finance facilities, such as the LIFT facility managed by UNOPS in Myanmar, allow companies to offset some of the risk of investment by, for example, providing grants to local NGOs to provide rural extension services to target producers. To-date, DFAT and the Australian government have provided limited support for these funding arrangements relative to other multilateral and bilateral donors.

Relationships developed with host government representatives, businesses and NGO partners in the early development phase should continue to evolve during the start-up phase and provide important inputs and endorsement of the business plan.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

Internal barriers

It is at the starting of an IB where the business fundamentals of an initiative are going to be tested. The key internal barrier at this stage is the availability of capital. Like mainstream business projects, the IB initiative will be judged on the strength of the business case and its alignment with business priorities.

At this stage, IB projects need to stand on their own two feet, rather than require substantial

external capital investment to proceed. In general, companies do not want to proceed with projects that require substantial external support as it can send the wrong message internally that b-grade projects will get supported. B4MD believes it is better for companies and brokers to focus on supporting the strongest IB initiatives. B4MD aims to provide economic modelling at an early stage in the process to test assumptions with the company and ensure we are supporting the initiatives with the greatest potential.

The ability of Australian companies to accurately quantify IB risks and opportunities in developing country markets is a potential barrier to moving forward. Based on B4MDs experience, there is tendency for companies, if they don't have the experience, to assume much bigger risk margins than actually exist, which reduces the likelihood of a project proceeding. There is steep learning curve for many Australian companies if they have not had significant exposure to developing country markets. B4MD works with companies to develop the necessary skills; however, there is potential opportunity for donor agencies to support education initiatives in this area.

Another internal barrier that has been identified is that there is rarely one person driving an IB initiative with overall accountability to deliver on the project. Unlike the CSR function or procurement team, IB departments do not exist in most companies. As a result, IB initiatives tend to be messy and ad-hoc, with many people involved and rarely one person that sees the full picture.

External barriers

Similar to the early stage development phase, there are any number of external barriers that can impact on the feasibility of an IB project in this phase, including a changing regulatory climate in host countries, political instability, and high profile campaigns from NGOs on issues such as landholder rights, which could raise the risk profile for a project.

Enabling factors

As noted in the previous section, an IB broker can play a key enabling role in this phase by guiding companies through the business plan process, by balancing the needs of multiple stakeholders, by helping to build partnerships, and by ensuring that the project remains true to its mission. As such, brokers need very experienced and capable business people who can be advocates for IB and liaise between different stakeholder groups.

The support and endorsement of the business plan from host governments, as well as business and NGO partners, is critical for ensuring a project gains final board approval.

7. FUNDING INCLUSIVE BUSINESS

This section focuses on funding mechanisms for IB initiatives as related to the role of the donor. In particular, the chapter focuses in detail on how donor funding can be used to catalyse IB ventures as well as asking the question: “Why do for profit companies require donor funding?”

The Business Innovation Facility (BIF) identifies three primary types of funding for IB ventures: equity, debt and donor income. Whereas equity and debt funding typically engage traditional financial institutions including banks and private investors that are seeking a commercial return, donor income has an emphasis on achieving social outcomes. Nevertheless donor income can also include types of debt and equity funding models⁹⁹. The below table provides an overview of key considerations in relation to the primary funding options for IB’s as outlined by BIF¹⁰⁰.

Finance Type	Upside	Downside	Considerations
Equity	<ul style="list-style-type: none"> No financial cost until the business is profitable 	<ul style="list-style-type: none"> Reduces your ownership stake in the business 	<ul style="list-style-type: none"> The amount of equity you give up and at what cost will normally be up for negotiation Look for investors that come with an ‘added value’, such as expertise, industry contacts or other technical support
Debt	<ul style="list-style-type: none"> Does not dilute your ownership stake Payments are fixed, and will not rise with profits 	<ul style="list-style-type: none"> Repayments of interest and capital is required even when the business is not profitable 	<ul style="list-style-type: none"> Debt providers will likely require business or owner assets to collateralise the loan
Donor Income	<ul style="list-style-type: none"> Effectively free equity 	<ul style="list-style-type: none"> May come with other burdens, such as reporting on ethical impacts 	<ul style="list-style-type: none"> Understand what positive social/environmental impacts your proposed venture plans to deliver Be clear on what responsibilities come with donor support before investing time in applying for it

Table 7: Types of funding for IB

A range of stakeholders provide funding for IB initiatives including development finance institutions, private foundations, private wealth managers, large-scale financial institutions, companies, governments¹⁰¹, philanthropic funders, donors and aid agencies amongst others.

⁹⁹ “Spotlight on Inclusive Business, Inclusive business looking for finance, What is available and how to target your best solution”, Business Innovation Facility, 2012.

¹⁰⁰ *ibid*

¹⁰¹ “Inclusive Business Finance Field Guide 2012: A Handbook on Mobilizing Finance and Investments for MSME's in Africa, UNDP African Facility for Inclusive Markets”, 2012

HOW CAN DONOR FUNDING BE USED TO EFFECTIVELY TO CATALYSE IB?

Donor funding can play an important role in facilitating the growth of IB initiatives if it is used strategically and in parallel with other policy tools, including political leadership and advocacy.

Funding options available to donor agencies range from sponsorship of IB awareness-raising activities, such as events, thought leadership and exploratory missions; to financial support for early development of an IB concept, such as grants; to a broad range of potential co-financing arrangements at the starting an IB phase.

A key example of donor agencies taking a leading role in committing to funding that will benefit the growth of IB initiatives can be seen in the Bilateral Donor's Statement in Support of Private Sector Partnerships for Development. Authored in 2010 by the governments and or aid agencies of Austria, Denmark, Finland, Germany, Japan, Norway, the UK, Switzerland, USA and Sweden, the statement reflects the commitment of these donors to create an enabling environment that assists companies move to IB models. In relation to funding, these donors committed themselves to:

Share the risk of investment to spur and leverage the creative investments of private capital through the use of catalytic and innovative financing, including matching grants, loans, equity and guarantees, and develop new partnership mechanisms which improve collaboration between private sector and donor agencies.

In a study of IB policy options¹⁰², Endeava outline four broad forms of financial support available to governments and donor agencies.

1. *Subsidies or tax relief programmes* – can provide incentives for companies to invest in IB initiatives in a specific country, region or industry. For example, a government may offer tax relief for companies launching IB initiatives in regions with high levels of poverty and unemployment; or a donor agency may subsidise the cost of feasibility studies to encourage companies to consider launching an IB initiative.
In this regard, the Philippines Board of Investment is currently considering providing preferential grants and incentives to companies considering the establishment of IB initiatives in country¹⁰³.
2. *Grants* – can serve to attract investment to IB by providing critical start-up capital and support for operational expenses. For example, the Australian Enterprise Challenge Fund was used by ANZ to provide support for the expansion of its operations in Cambodia, while the UNOPS LIFT facility provides grants to support rural producers and food security objectives in Myanmar.
3. *Impact investing funds* – have been used as a vehicle to provide preferential loans for the purpose of developing an IB. Within the Asia Pacific region, the ADB has focused on directing impact investment through IB's within its member countries¹⁰⁴.
4. *Guarantees* – enable lenders to grant credit to customers without a financial history or collateral. For example, a host government-owned bank may offer to guarantee the lending of microfinance organisations to encourage investment in new IB initiatives; or a donor agency, may agree to guarantee the earnings of producers involved in IB initiatives for a set number of years to facilitate engagement with companies. In Ethiopia, for example, the IFC in partnership with NIB International Bank is providing up to \$10 million in working capital

¹⁰² Inclusive Business Policies: How Government can Engage Companies in Meeting Development Goals (2013), Christina Tewes-Gradl, Anna Peters, Karin Vohla, Lena Lutjens-Schilling, Endeava and BMZ.

¹⁰³ <http://www.philstar.com/business/2014/01/13/1278096/boi-wants-include-inclusive-business-model-ipp>, The Philippine Star, 2014

¹⁰⁴ <http://www.adb.org/themes/poverty/impact-investing>, ADB, 2014

for 62 cooperatives working with small holder impoverished farmers in an effort to double their incomes¹⁰⁵.

An additional option for donor agencies is to take an equity stake in an IB initiative. For example, the IFC has taken an equity stake in pilot IB initiatives – see IFC case study below.

Above and beyond the policy options presented by Endeava, the UNDP's Inclusive Business Finance Field Guide 2012¹⁰⁶ study highlights a range of financing options for IB initiatives. Of specific relevance to the role that donor funding can play in catalysing IB is Value Chain Finance and Innovative Finance. Value Chain Finance is described as finance provided to a series of actors within a specific value chain in order to get specific products or goods to market. The flow of finance within this value chain and directed to its related actors contributes to both the growth and competitiveness of the value chain. As a result, all actors across the value chain benefit including low income earners.

The UNDP identifies Innovative Finance as non-traditional structures utilised to fund both enterprises and low-income commercial actors. The model also includes the establishment of challenge funds to catalyse support in targeted communities¹⁰⁷. This model of finance is in line with Endeava's identification of grant financial support for IB. As an example of this type of funding, the Swedish International Development Cooperation Agency's (Sida) launched the Innovations Against Poverty (IAP) initiative in 2011 to fund IB initiatives in the absence of investor capital. Specifically established to catalyse projects, share risk and provide investment during the early IB development phase, the fund was targeted towards ventures that were developing new products, services and business models. During the first two years of the IAP program, 66 organisations received a total of €5,420,265 in grant funding. As part of Sida's commitment to the IAP initiative, the donor agency also supported the Business Innovation Facility's Practitioner Hub as featured in Chapter 5 of this report. Figure 4 demonstrates the IAP logic of supporting inclusive business.

In their Knowledge Exchange Report¹⁰⁸, Sida highlights that donors need to be prepared to accept long timeframes and an element of risk before there is significant reach of IB initiatives into the base of the economic pyramid. As such, it can be assumed that there may also be long timeframes before there is considerable impact against the MDG's. Sida also suggests that for donors, traditional monitoring and evaluation models cannot be used and therefore need to be adapted in order to be relevant to the uniqueness of IB initiatives and their longer timeframes.

¹⁰⁵ <http://www.technoserve.org/blog/technoserve-featured-in-ifc-case-study>, TechnoServe, 2014

¹⁰⁶ "Inclusive Business Finance Field Guide 2012: A Handbook on Mobilizing Finance and Investments for MSME's in Africa, UNDP African Facility for Inclusive Markets", 2012.

¹⁰⁷ *ibid*

¹⁰⁸ "Innovations Against Poverty 2013 Knowledge Exchange Report, From Paper to Practice: Learning from the journeys of inclusive business start-ups", Sida, 2013

THE LOGIC OF IAP SUPPORT TO INCLUSIVE BUSINESS

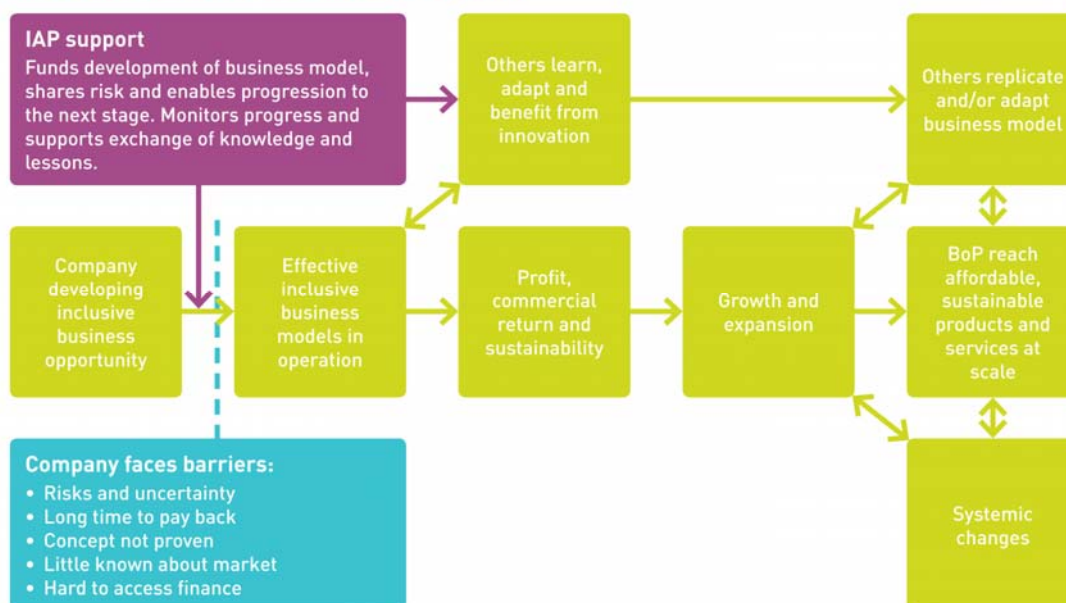


Figure 4: Logic of IAP support to IB

Case Study: ADB Technical Assistance

ADB takes a lead role in the development of IB in the Asia Pacific Region

As a donor, the Asian Development Bank has been an early adopter and contributor to the funding of IB initiatives. As early as 2008, ADB approved the establishment of its Inclusive Business Initiative and since this time has seen an increase in investments in IB companies. Of the Bank's 16 private sector projects approved in 2013, five were identified as IB's. This commitment to IB is reflected not only in the ADB's direct funding and investment mechanisms but is also apparent across a range of IB related activities, including the promotion of business development at the BoP, partnerships, knowledge sharing, and impact assessment¹⁰⁹.

At the forefront of this activity is ADB's IB Technical Assistance Project (TA), launched in 2010 to foster IB growth in the Asia-Pacific¹¹⁰. To date, \$700,000 has been spent on the project with the following outputs:

1. BoP development effectiveness study and ex-ante poverty and inclusive growth impact analysis methodology
2. 6 country studies and various feasibility studies
3. 6 national investment fora (1 each in each participating DMC).
4. At least 3-5 business agreements made per country.
5. One regional investors Forum Facilitation of business cooperation through participation of domestic and international financial institutions in the national investment fora.
6. Study on BoP Fund in ADB, and facilitating ADB non-sovereign investment in BoP BOP

¹⁰⁹ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid/concept-and-project-description>, ADB, 2014

¹¹⁰ <http://www.adb.org/projects/41258-012/details>, ADB, 2014

website in ADB Paper on the Role of BoP for Inclusive Growth (BoP InfoKit)

7. Country Policy Notes Recommendation Paper and Seminar for ADB to Promote BoP

Following on from the success of this first TA, in December 2013 ADB adopted a new TA that will promote the implementation of the findings of the preceding TA by facilitating financing in inclusive business projects supported by ADB, and promoting policy work with selected governments¹¹¹. The anticipated cost of this TA is \$3.6 million dollars which will be made up of a funding mix between ADB (\$400,000), the Government of Sweden (\$3.1 million) and Credit Suisse (\$100,000).

Case Study: IFC Inclusive Models Group

IFC – an early adopter and a lead financier of IB

When it comes to donors, the IFC has invested significantly in the development of IB on a global scale, impacting 250 million people and investing \$7 billion since 2005¹¹². Central to this commitment and investment framework is an IB program that demonstrates the success of IB initiatives, provides a platform for private sector actors to work together as well as analyzing IB models. This program known as the Inclusive Models Group works to create these resources in order to equip IFC investment and advisory staff develop new ways to support clients in scaling up their IB ventures¹¹³. In 2012 IB clients of IFC offered 284,000 jobs to low income earners.

One example of how the IFC is directly financing IB clients in India:

Accessing housing financing for low and low – middle income earners in India can be difficult due to a range of constraints including a lack of identity, lack of income statements, irregular cash flow and land title issues. In an attempt to overcome these constraints and extend the opportunity for home ownership to these communities, India's fourth largest housing finance corporation entered into a joint venture with the IFC in 2011 to form Aadhar Housing Finance Pvt. Ltd (AHFL) to serve the housing needs of the poor. Prioritising the needs of these lower income households earning between \$100 - \$400 a month, AHFL spent the first five years of operation focused on low income states in India including Orissa and Uttar Pradesh. The company's business model provides finance for either the purchase of a house, purchasing land and construction of a house and or extension of an existing house in a way that is affordable, accessible and relevant to the income challenges of poor Indian families.

As a donor, IFC has an equity investment of \$4.5 million dollars in AHFL. This equity investment will enable AHFL to gain access to broader sources of debt funding and reduced rates as well as help secure private sector equity in the venture. In addition to the direct financial benefit, IFC is providing the company with services in relation to the formation of education modules for first time home borrowers as well as corporate governance and responsible finance practices.

Not only has AHFL benefited through the investment of IFC but it has also benefited through the Indian Government and Reserve Bank of India providing interest rate subsidies and tax benefits for the provision of housing finance to low income earners.

¹¹¹ <http://www.adb.org/sites/default/files/projdocs/2013/46240-001-tar.pdf>, ADB, 2014

¹¹² http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013

¹¹³ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business/Overview/, IFC, 2014

In line with its commitment to provide affordable housing, in 2011, the company's first year of operation, AHFL approved 50% of its 1,613 loan applications for customers with monthly incomes less than \$400¹¹⁴. For its second year of operation in 2012, the company planned to disburse \$12 million in loans to poor families, an increase of over \$3 million from year one.

WHY DO FOR PROFIT COMPANIES REQUIRE DONOR FUNDING?

Companies may require funding support for IB for a number of reasons and at different phases of the IB decision roadmap.

At the awareness phase, a key challenge is building executive understanding of IB and its potential to achieve commercial and development objectives. As the value proposition for an IB venture may not yet be clear, a company executive may require donor funding, in the form of a sponsorship or subsidy, to attend an exploratory mission. Without this support the executive may be less likely to attend a mission, significantly reducing the likelihood of an IB initiative moving forward.

At the early development phase, a key barrier for a company executive may be the high-risk profile of a developing country market, such as concerns regarding political stability, transport infrastructure and local producer capacity. Donor funding at this point may include sponsorship of a validation mission to assuage perceived risks; the promise of grants to support capacity building initiatives with local producers; the funding of an IB broker to guide and educate companies on risk mitigation strategies; or the subsidising of IB market intelligence services by Austrade.

At the starting IB phase, a key barrier for a company executive may be accessing necessary funding for a feasibility study or pilot program, which may hit resistance internally due to perceived lower rates of return for IB initiatives. Donor funding at this point may take the form of a grant from a challenge fund to co-finance a pilot IB initiative with the aim of validating a concept. The results of the pilot would then provide a key input to the business plan and increase the likelihood of capital allocation from the company. This type of funding is critical for companies during the starting phase of an IB initiative. As described by Greenway, an Indian company prototyping thermoelectric generators that convert waste heat to electricity in the Sida IAP report,

commercial funding is not provided for undertaking market research and testing prototypes for such social ventures, as such projects carry huge commercial risk. So it is through foundations and other organisational funding and grants that the project can be executed and progress¹¹⁵

Although donor funding can play an important role in catalysing IB initiatives at each phase in the IB decision roadmap, ultimately companies need to take primary ownership for financing IB initiatives if they are to become commercially sustainable and achieve large-scale development impact. As discussed in Chapter 6, once an IB initiative moves into the start-up phase, the project needs to compete for investment capital based on the strength of the business case; rather than being supported by substantial levels of external funding.

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http://www.ifc.org/wps/wcm/connect/92e39f004e254fe9a528ad7a9dd66321/AHFL+CaseStudy_AUG2012.pdf?MOD=AJPERES, ADB, 2014

¹¹⁵ "Innovations Against Poverty 2013 Knowledge Exchange Report, From Paper to Practice: Learning from the journeys of inclusive business start-ups", Sida, 2013

Landscape Study – Building Inclusive Business

Based on B4MDs experience as an IB broker, a potential role for donor's lies in the awareness and early development phases, where attrition rates are the highest and donor funding could assist in supporting a greater number of companies as reflected in Chapters 1 and 4 of this report. Potential funding options for these phases are outlined in Chapter 8: Recommendations.

RECOMMENDATIONS

Inclusive business (IB) initiatives have the potential to make a significant contribution to poverty alleviation in the developing world. IB also represents a huge opportunity for Australian businesses seeking to expand into new markets across the Asia-Pacific.

Yet as this report has identified, IB initiatives face major challenges in moving to the launch phase, both internal and external to the company. Without external support, these challenges have proven too great for many companies.

To assist in addressing these challenges, this section outlines B4MD's recommendations to DFAT regarding potential donor support for the development of IB in Australia and globally. The recommendations build on the analysis presented in Chapters 1-7.

In the following section, B4MD outlines **seven key recommendations** for DFAT. These recommendations are supported by **12 specific actions, divided into two phases as part of a proposed five year IB roadmap**.

Seven Key Recommendations

1. *Demonstrate clear and consistent political support for IB*

The Australian government and DFAT can be a catalyst for the growth of IB in Australia by providing clear and consistent political endorsement of the role of the private sector in achieving development objectives. This political support and public advocacy is critical in setting the expectations for the Australian business community that IB is a government priority and that efforts by the corporate sector to support development objectives will be valued. Strong political support for IB has been a hallmark of leading donor countries, such as the UK, as evidenced by a recent public address by the UK Development Secretary, Justine Greening¹¹⁶.

Political support should include regular speeches by the Minister for Foreign Affairs and Trade and senior DFAT personnel at IB events and conferences, public recognition and awards for Australian companies that are demonstrating innovative IB approaches, and an action plan to demonstrate how the government and DFAT will support the growth of IB initiatives in Australia over time. Specific actions are discussed in detail below.

2. *Support the growth of IBs through advocacy, technical assistance and funding*

The experience of donor agencies internationally, and B4MD's practical experience as a broker, suggests that IB projects require a combination of advocacy, technical assistance and funding support in order to accelerate to launch phase. Without advocacy for IB initiatives many companies would never become aware of the potential of IB; without technical assistance, many IB initiatives fail to overcome internal and external barriers and achieve commercial sustainability; and without financial support, some companies fail to access the funding necessary to validate an IB concept.

B4MD recommends that DFAT draw on all three policy instruments to support the development of IB in Australia.

¹¹⁶ Business Fights Poverty blog (2014), Justine Greening, UK Development Secretary: Smart aid - Why it's all about jobs, <http://community.businessfightspovetry.org/profiles/blogs/smart-aid-why-it-s-all-about-jobs>, 27th January.

3. Focus on Awareness and Early Development phases to maximise impact.

Although there is a role for donor support across the IB decision roadmap, B4MD recommends that DFAT focus its support on the Awareness and Early Development phases where donor support can benefit the greatest number of companies, and where attrition rates are highest. This may include sponsorship of IB events, grants for exploratory mission, or subsidies for IB market intelligence services.

4. Establish an IB fund to accelerate development of IBs from awareness to start-up

Although B4MD believes that companies should have primary responsibility for financing IB initiatives to demonstrate commitment, there is a role for donor agencies to provide financial support for Awareness and Early Development phase activities.

B4MD recommends that DFAT establish a dedicated IB fund to support advocacy and technical assistance activities outlined in the following sections. The fund may provide small grants to cover the cost of a feasibility study, subsidies training from an experienced IB broker, or support an IB initiative indirectly by helping to financing capacity building initiatives for bottom of the pyramid producers and consumers.

5. Take a whole-of-department approach to support the development of IB initiatives

In order to be successful in launching an IB, companies require wide-ranging support, from market intelligence, to trade policy, aid policy and diplomatic relations. B4MD recommends that DFAT develop a whole-of-department approach to IB, drawing on the strengths and complementary capabilities of different DFAT sections, including aid, trade, and overseas missions.

As part of the development of this approach, DFAT should engage the Australian business community to understand priorities and to develop a communication plan outlining the ways in businesses can engage DFAT personnel.

6. Target high potential industries and countries in the Asia-Pacific

The experience of donor agency initiatives, such as the Business Call to Action (BCtA) and Business Innovation Facility (BIF), suggest that IB initiatives are more prevalent in some industries than others. Companies in the agribusiness and food manufacturing sector, in particular, appear to offer the best prospects for achieving commercial and development outcomes due the fact that company value chains often extend into developing country markets.

In line with this assessment, B4MD recommends that DFAT focus on industries where there is strong strategic alignment between Australian business interests and potential for development impact, including agribusiness and mining. With Australian company value chains increasingly expanding into countries in the Asia-Pacific, this represents a logical regional focus for DFAT's IB support activities.

7. Develop a five-year roadmap for IB in Australia, divided into two key phases

B4MD recommends that DFAT develop a five-year roadmap to support the development of IB in Australia. The roadmap should take a two-phased approach, with the first phase covering year one to two, and second phase covering year three to five.

The goal of the phase one would be to fast-track the development of flagship or pilot IB projects to demonstrate how the poor can be integrated into the value chain of leading Australian companies.

Key activities in phase one would include public endorsement of IB events and conferences; support for IB brokers to fast-track the most promising Australian initiatives; and sponsorship and facilitation of in-country missions to validate early development of concepts.

The goal of phase two is to develop the next generation of IBs in Australia. Key activities in this phase would include building the capacity of DFAT to catalyse IB opportunities; sponsorship of an annual IB awards event to recognise Australian IB leaders; and the establishment of an IB centre of excellence to provide foundation training for aspiring IB leaders.

The following recommended actions have been divided into the two proposed phases.

Recommended Actions – Phase One (year 1-2)

Creating awareness of IB

1. *Leverage the power of IB events and conferences to inspire corporate Australia*

Events and conferences provide an important opportunity for company executives to hear first-hand accounts of the opportunities and challenges of IB from leading companies and thought leaders. These events have proven successful in inspiring companies to further explore IB opportunities relevant to their business and progress to the early development of a concept.

DFAT could support growth in attendance at IB events and conferences by facilitating ministerial and senior departmental speakers, by enhancing event credibility through co-sponsorship and co-branding, by using the department's convening power to encourage companies to attend, and by using the department's network and influence to attract renowned global speakers, such as Unilever CEO, Paul Polman, and Harvard University's Professor Michael Porter.

2. *Fund research and thought leadership to disseminate best practice*

Although the IB research agenda is accelerating at a rapid pace, there remains a lack of systematic analysis of the long-term impact of IB initiatives and the factors that enable initiatives to scale.

There is an opportunity for DFAT to build the evidence base for IB in Australia by funding focused research on key IB opportunities and challenges in the Asia-Pacific region. B4MD recommends engaging the business sector, academia, research institutes and NGOs to develop a plan of action. Similar collaboration already exists in support of the Aid for Trade (A4T) agenda, such as DFAT and the CSRIO's collaboration on the Food Security Initiative.

Early development of an IB concept

3. *Support exploratory and validation missions to inspire companies to act*

Exploratory and validation missions have proven a key source of inspiration for companies considering launching an IB. Missions allow companies to see business conditions and development challenges first-hand, and have proven critical in building awareness of the challenges and opportunities of bottom of the pyramid markets.

DFAT can support brokers to undertake exploratory mission by drawing on the department's market intelligence capabilities to identify opportunities and risks, similar to services offered through

Austrade's Export Market Trade Services Program; by sponsoring missions; and by leveraging the influence and networks of diplomatic staff to open doors with host country governments and local business and NGO partners.

4. Build the capabilities of IB brokers to guide and educate companies

At this early stage in the evolution of the IB concept, many companies lack the experience necessary to identify opportunities in the market and overcome the challenges of operating in bottom of the pyramid markets. Globally IB brokers have been shown to play a critical role in guiding and educating companies through the early phases of IB development.

DFAT can facilitate the development of IB initiatives by supporting the professional development of IB brokers. This support could take the form of subsidies for training and education programs that develop the core skills of IB brokers, including cross-sector partnership development, workshop facilitation, leadership capabilities, business data modeling, monitoring & evaluation, and social impact assessments. Funds for these activities could be drawn from the aforementioned IB fund.

5. Establish an annual IB company roundtable event to share lessons learned

Ultimately the most important advocates for IB are business to business. One-on-one meetings and workshops involving a range of companies can be a powerful way to motivate other companies to action and share best practice knowledge.

We recommend that DFAT sponsor an annual company roundtable event for Australian companies at an early development phase or that have started an IB. The roundtable would provide companies with an opportunity to share challenges and test and refine ideas. Similar events are regularly held internationally, such as the Bottom of the Pyramid Learning Lab forums noted in Chapter 1.

6. Build the capacity of bottom of the pyramid producers and consumers to engage with companies

Global studies by IB researchers, outlined in Chapter 1, consistently point to the limited information, skills and financial resources available to bottom of the pyramid producers and consumers as key barriers to the growth of IB initiatives. Without adequate technical and financial support, the poor cannot engage effectively with companies on IB initiatives.

DFAT should consider increasingly support for initiatives, such as the UNOPS administered Livelihoods and Food Security Trust Fund (LIFT) in Myanmar and the DFAT/GRM administered Promoting Rural Income through Support for Markets in Agriculture (PRISMA) program in Indonesia, which are aligned with high potential IB markets and build the capacity of the poor to engage with Australian businesses.

Recommended Actions – Phase Two (year 3-5)

Creating awareness of IB

1. Recognise Australian corporate leaders at an annual IB awards event

Government recognition of IB corporate leaders can send a strong signal to the market and motivate other companies to launch their own IB initiatives.

One way for DFAT to demonstrate political leadership is to sponsor a high-profile annual awards event to endorse the IB initiatives of leading Australian companies. Companies could submit entries for the awards event, with initiatives judged by a panel of experts and a top 10 and an overall winner selected based on both commercial success and the scale of social impact. The event would allow company executives to gain some publicity for their efforts, as well as showcase best practice. The Minister and Secretary could attend the event to signal the government's commitment to IB.

2. Build the capabilities of DFAT personnel to catalyse IB opportunities

In order to effectively engage and support companies wishing to develop IB initiatives, donor agencies need to build the necessary internal capabilities. Internationally donor agencies, such as DFID, have signaled their intention to place greater focus on capabilities that will enhance private sector development approaches.

There are a number of options available to DFAT to build the capacity of personnel to catalyse IB opportunities. Firstly, DFAT should consider recruiting personnel with private sector experience to assist in building relationships with companies. These individuals should have many years of experience in designing and launching business initiatives in developing country markets in order to provide companies with advice and support.

Secondly, DFAT should consider sending personnel to IB events, design workshops and missions to build deeper understanding of IB challenges and opportunities. Building on this experience, DFAT consulate personnel could develop the capabilities to identify and catalyse IB opportunities within developing country markets. Thirdly, DFAT should consider the establishment of a business advisory panel of leading companies to advise the department on the design of IB support programs. Finally, DFAT should consider establishing KPIs and setting specific targets for services provided and outcomes achieved in relation to IB.

3. Establish a centre of excellence to train the next generation of IB leaders

There are currently few corporate executives in Australia with both the commercial experience and understanding of development issues needed to drive the IB agenda forward. By comparison, many companies in Europe have a long history of engagement with developing country markets and have CEO's, such as Paul Bulcke of Nestle, that have been prominent advocates for IB.

DFAT should consider ways to develop the next generation of IB leaders in Australia. One way to achieve this goal would be the establishment of a centre of excellence to provide foundation training for aspiring IB leaders. The centre could provide an accredited course covering the theory of IB, practical field experience and ongoing mentoring from leading IB practitioners. Scholarships could be funded from both government and the corporate sector. Similar models have proven to be successful in related field including the Centre for Sustainable Leadership, and DFAT's Mining for Development Initiative.

Early development of an IB concept

4. Assist companies to navigate the challenges of bottom of the pyramid markets

Unlike some peer companies in Europe or North America, Australian companies do not have a long history of operations in bottom of the pyramid markets. As a result, many companies struggle to either identify the opportunities or to accurately assess and manage the risks.

There is an opportunity for DFAT to provide targeted support to companies launching IBs. Drawing on Austrade's Export Market Trade Services Program as a starting point, this support may include advisory services in relation to market opportunities; government relations; taxation, legal and regulatory environment; host country security; understanding the development context; export insurance grants; and managing risk in bottom of the pyramid markets.

As mentioned under key recommendations, B4MD recommends that DFAT consult with the business sector to develop a suite of potential service offerings that would help companies meet the challenges of launching an IB.

Starting an IB

5. Enable IB by supporting host governments to strengthen laws and institutions

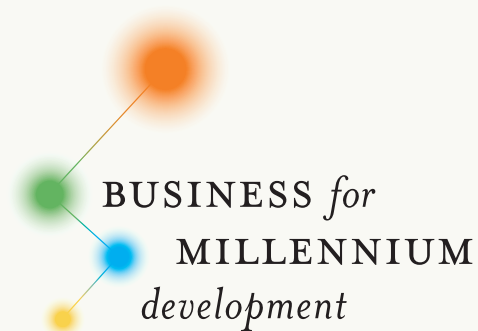
For IBs to develop and flourish, donor agencies need to look beyond support for individual companies and consider how different elements of the overall IB ecosystem can be strengthened to enable IB.

As part of its overall approach to IB, DFAT should consider providing technical assistance to host governments to strengthen laws and institutions that enable IB. This may include, for instance, enacting new or strengthened laws in relation to land rights that give companies, producers and consumers the confidence to invest in IB initiatives. This may also take the form of support for new policy frameworks that encourage and embed IB. The ADB, for example, have recently collaborated with the Philippines Board of Investment to design an accreditation scheme that would make adherence to an IB model a precondition for companies applying for grants and tax incentives to invest.

6. Support the development and uptake of IB impact measurement

A number of IB impact measurement standards and tools are being trialed in Australia and internationally, such as the BCtA Reporting Framework and Social Return on Investment (SROI) Model. However, there remain challenges to the uptake of impact measurement tools, including a lack of one widely accepted standard, and resistance from companies due to the resource intensive nature of reporting.

There is a role for DFAT in collaboration with other donor agencies to promote the development and uptake of effective IB impact measurement. This may involve reviewing the effectiveness of existing standards and tools to provide a basis for recommendations to the corporate and NGO sectors; publicly endorsing the importance of IB impact measurement to the corporate sector and linking this to awards and recognition programs; and subsidising IB impact assessments to encourage greater uptake by companies.



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