Inclusive Markets Development

BROKERING INCLUSIVE BUSINESS MODELS

A supporting document to the IMD Handbook

This series also includes:

And the following supporting tools:

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United Nations Development Programme

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Preface

This primer is written for brokers of inclusive business models, the people who provide the connecting tissue between companies, communities and development organizations, between business and human development, between business strategy and development expertise. The role of the broker is essential even though often hardly visible. Success for a broker means ensuring ownership with companies and partner organizations, the creation of a self-sustainable business model, it basically means becoming superfluous. And yet, brokers often provide the initial spark, the access to partners and resources, the ongoing motivation, support and advice that make inclusive business models succeed. We hope that this primer can support them in this important endeavour.

This primer on brokering inclusive business forms part of a larger effort of the UNDP to support the development of inclusive markets. The Primer is a complement to a main UNDP “Inclusive Market Development Handbook”, which provides the overall guidance and framework for UNDP’s work to support markets to better benefit the poor and contributing to the MDGs. The work to broker inclusive business models should be seen in the context of such broader inclusive market development efforts.

For the first time, this primer provides a collection of tools and knowhow specifically targeted at brokers. It should not be seen as a final and complete document. Rather, it is a first step towards creating a repository of broker knowledge. It builds on a variety of sources: frameworks from the UNDP report “Creating Value for All – Strategies for Doing Business with the Poor” and the UNEP publication “Towards Triple Impact – Toolbox for Analyzing Sustainable Ventures in Developing Countries” are introduced. Other publications are referenced in each chapter.

We wish all readers all the best for your work and are looking forward to your feedback.
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Introduction

The **objective** of this primer is to provide UNDP private sector brokers and other staff with the essential information and tools to build inclusive business models with companies and other partners. Brokers will be able to:

- Acquire practical tools to support the development of inclusive business models in co-operation with companies
- Learn to take the company’s point of view and acquire effective arguments
- Inform themselves about existing examples of inclusive businesses, broker approaches and support organizations, and
- Find ideas for how to deal with widespread broker challenges.

A **broker**, as conceptualized in this primer, facilitates partnerships between civil society, the public and the private sectors. The activities of a broker may include convening potential partners, researching context and feasibility, building the capacity of participating organizations, acting as a promoter to ensure progress of the overall initiative and monitoring the implementation of new partnerships.

**Inclusive business models** include the poor into a company’s supply chains as employees, producers and business owners or develop affordable goods and services needed by the poor. Here, human and business development go hand in hand. Sustainability, also with regard to natural resources, is inherent in the concept.

Inclusive business models take place at the **intersection of business and development work**. In many cases, private sector and development organizations collaborate as partners. Cross-sectoral collaborations have their own challenges: different organizational motivations, expectations and languages need to be bridged, different goals need to be united behind one project.

**Brokers can play an essential role** in developing inclusive business models: they understand the world of development as well as that of business and act as catalysts and connecting tissue between these worlds. They can support the business development at all stages, starting from market assessment and feasibility studies, via the development of a suitable business model, to implementation and evaluation.

Often, brokers are left to their own resources, their experience and intuition, when building inclusive business models. But building inclusive business models is a complex task: established business models rarely work in the slums and villages where the poor live and the triple bottom line needs to be considered at all times. **Good examples, best practices and analytical tools** can help brokers deal more effectively with these challenges. They also provide them with material to train staff within their own and the business organizations.
The guide contains three parts:

- The first part explains the idea behind inclusive business.
- The second part introduces some tools along the project cycle that help brokers to support inclusive business development.
- The last chapter shows how brokers can respond to common challenges in their everyday work.

Each chapter is illustrated by a case study. It ends with some questions for reflection and further references.
1 Concept

Inclusive business models include the poor into a company’s supply chains as employees, producers and business owners or develop affordable goods and services needed by the poor.

These business models may be developed by entrepreneurs or within existing companies, large or small. They may be driven by actors from the country where they are being established or from outside actors, be it from developed or developing nations. They may even develop through the initiative of not-for-profit or public actors. In fact, the institutional background, even though it makes a difference for the opportunities and constraints a business model faces, is insignificant for the approach per se.

Inclusive business approaches are undertaken in a wider market context and are facilitated by the existence of an enabling environment and necessary capacities for fair and transparent market activities. When brokering inclusive business models, it is important to do so with a view of also addressing constraints in the wider sector or market to perform better and be more inclusive. Inclusive business and inclusive markets go hand in hand and without a wider functioning and inclusive markets, it is difficult for individual business models to go to scale and be replicated by other market players.

1.1 Benefits

Inclusive business models build bridges between businesses and the poor for mutual benefit that go beyond immediate profits and higher incomes.

Business can strengthen their competitiveness in a number of ways:

- **Building new markets**: The demand for products and services in developing countries is growing and widely underserved. Companies can expand their customer base in emerging markets that will enable future growth when industrialized economies are saturated.

- **Strengthening supply chains**: Companies can broaden and strengthen their supply chain by including new suppliers into their business operations. Some of them can offer products with special quality (e.g. organic or artisanal) or at lower cost than traditional suppliers.

- **Improving reputation**: The social impact generated by inclusive businesses increases the reputation of companies and builds trust among customers, NGOs or investors.
• **Driving innovations**: Special market conditions require adapted products, operations and business models. Developing them demands fresh and different look at conventional operations and stimulate innovation.

• **Retaining employees**: Employees expect their employer to be a good corporate citizen and identify themselves a lot more with a company when it actively contributes to social progress. Inclusive business can be used as an opportunity for corporate volunteering, executive training or executive exchanges.

The poor benefit in a number of ways:

• **Satisfying basic needs**: Inclusive business models provide people in poverty with vital goods like clean water, nutritious food, health care or safe housing.

• **Increasing productivity**: People in poverty can increase their productivity when they have access to electricity, phones or the Internet. These tools help them to organize their everyday life more efficiently and open up new opportunities for smallholder businesses. They can also acquire new skills when they are integrated as suppliers or entrepreneurs.

• **Generating income**: Farmers, fisher- and craftsmen can access new sales channels, demand for services increases and new jobs are created – this raises the total income. In addition, cheaper products raise the real income.

• **Being empowered**: new opportunities and collaborative forms of market engagement (like cooperatives or consumer groups) empower people to take their lives into their own hands.

Three types of inclusive business models can be distinguished:

<table>
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<th>Benefits of the poor</th>
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*Brokering Inclusive Business Models – Private Sector Division, Partnerships Bureau, UNDP*


achieving fast growth • Deepening market penetration and increasing sales

opportunities • Skills • Empowerment

Sustainable honey production by smallholder farmers, Kenya (described on page 55)

1.2 Development

In 2002, strategy guru CK Prahalad pointed business leaders to “The Fortune at the Bottom of the Pyramid”. His proposition: companies could enter the ‘untapped’ market of 4 billion low-income consumers in developing markets. Consumers, in turn, would benefit from better access to goods and services and income generation opportunities that come with it. The idea was striking and triggered not only intense academic discussion and research, but also interest of many executives, often leading to concrete initiatives to explore this market.

Development organizations like UNDP and DFID had started to cooperate with companies some years earlier with the goal to leverage the power of business for development. In 1999, Kofi Annan, UN Secretary General at the time, launched the UN Global Compact as a platform to inspire and enable responsible business practice in line with development objectives. In 2002, the UNDP created the “Growing Sustainable Business” (GSB) initiative to support companies effectively in planning and implementing inclusive business models. Today, most donors have programmes to engage companies for development. NGOs like CARE or OXFAM have successfully set up own co-operations. And competitions like the SEED Initiative or the BiD Challenge identify and support promising grassroots initiatives.

Before, companies had already collaborated with development organizations, but rarely in their core business and from a business development perspective. The drivers behind the projects were mainly philanthropic. The new approach focusing on expanding ones core business into low-income markets has increased the stakes for both sides: Companies do not just consider “inclusive businesses” as peripheral CSR-projects but as a vehicle to future markets. For development practitioners, the cooperation with companies is an opportunity for achieving large-scale impact.
1.3 Terminology

There are several concepts that revolve around the idea of including people in poverty into business processes. Some focus more on the consumer side, others more on the producer aspect. Some are mainly used by business people, others more by development experts. Inclusive business is equally used by both sides and considers both the producer and the consumer side. Figure 1 gives an overview of the most important terms:

**Figure 1: Terms in the domain of inclusive business**

- **Inclusive business** – refers to the inclusion of people living in poverty as producers, consumers, employees or business partners along the value chain. This term is used by the alliance between the World Business Council for Sustainable Development (WBCSD) and the Dutch development organization, SNV, as well as by the United Nations Development Programme (UNDP) within the “Growing Inclusive Markets Initiative”. The non-profit organization Ashoka uses the term **Full Economic Citizenship** (FEC) for this concept.

- **Base (or Bottom) of the Pyramid** – describes the idea of selling products and services to people in poverty to eradicate poverty and tap vast markets. Marketing is in the centre of interest. The Inter American Development Bank (IADB) calls this approach **Opportunities for the Majority**.

- **Business Linkages** – explores the opportunities that arise from including smallholder farmers and small companies in developing countries. The International
Business Leaders Forum (IBLF), the International Finance Corporation (IFC) and the Harvard Kennedy School organize dialogue forums on this topic.

- **Making markets work for the poor / MM4P / M4P** – describes the efforts of development players like SIDA or DIFID to restore and build functioning market structures that enable income generation and improve the standard of living.

- **Inclusive Market Development (IMD)** is UNDP’s approach to supporting markets to be more accessible and beneficial for poor and excluded populations. While it is similar to concepts such as M4P as it takes a broader market approach, it includes an emphasis on engaging with companies to facilitate inclusive business approaches as an important part to make markets inclusive. It also includes a strong emphasis on environmental sustainability and inclusion of women.¹

- **Pro-poor value chain development** – is used by development actors to describe the inclusion of smallholder farmers into the value chain.

- **Responsible supply chain management** – summarizes management methods for sustainable supply chain organization. One focus is on the fair inclusion of microproducers, for example, for agricultural products.

Two concepts often occur in connection to inclusive business:

- **Social Enterprise / Social Business** – describes companies that pursue primarily social objectives and use business approaches to do so.

- **Corporate (Social) Responsibility (CR/CSR)** – describes the responsibility a company bears as a corporate citizen, to contribute to society and to minimize the negative effects of its operations. Some companies mainly engage in philanthropic projects, others are focussing on sustainable management of their operations. “Inclusive businesses” often start in the CSR department.

Example 1: Safaricom, Kenya - M-Pesa – mobile money for a developed Africa

Only 23 percent of Kenyans have a bank account. The others live in a cash economy. They cannot safely deposit money or transfer money reliably and at low cost. Non-bank financial services are usually very expensive – commissions for money transfers can be as high as 45 percent. Moreover, the lack of a bank account often hinders people from entering contracts e.g. with utilities. At the same time, mobile phones are widespread in Kenya: nearly 80 percent had access to a mobile phone in 2007.

When Safricom - the leading phone company in Kenya - started its mobile payment system M-Pesa in March 2007 it was aiming at those unbanked people with mobile

¹ See Inclusive Market Development Handbook, UNDP 2010
The company developed a network of agencies – small shops, kiosks or even hairdressers – that act as cash points. M-Pesa customers can buy airtime at one of those agents and transfer it either to other users or to another agent, where the recipient can collect the money. Thus M-Pesa customers enjoy all the advantages of a normal banking system: money is transferred safely, quickly and at a very low price from one M-Pesa account to another. Today, many companies allow their customers to pay their bills in this way.

M-Pesa has quickly gone to scale. In January 2010, M-Pesa counted more than 9 million customers, nearly 17,000 M-Pesa agents and a monthly peer-to-peer transaction volume of more than US$300 million.

Source: Safaricom (www.safaricom.co.ke)

Ask yourself:

- Do you know examples of inclusive businesses?
- In your examples, how do business and the poor benefit?
- Are there also risks when working together with companies for development?

Further Reading:


UNDP (2008) Creating Value for All – Strategies for Doing Business with the Poor


1.4 Business model and business case

„Business model“ and „business case“ are frequently used terms in the private sector. They both refer to conceptual descriptions of how a business creates value. While the business model describes the processes to achieve certain objectives, the business case focuses more on the costs and benefits of the business.

Companies typically find themselves in a competitive situation, where they have to continuously improve to remain profitable. To develop their activities further, some core strategic questions have to be answered: How to create value? How to make a profit? How to sustain competitive advantage? The business model and business case answer these questions.
Business Model

The business model describes how a company creates value. Value is created when a product or service is used. The user perceives a value and is willing to pay for it commensurably. If what the customer is willing to pay exceeds the cost of providing the good or service to the customer, the company makes a profit. Figure 2 and explanations below provide a conceptual framework of a business model.

![Diagram of business model]

Figure 2: Business model

The value proposition captures the promise a company makes to its customers. It describes a solution to a problem or a fulfillment of customer objectives and can relate both to the customer’s own quality of life and to the broader social, political and environmental goals. For example, a food product might promise to improve the health situation of the consumer or to improve the living situation of the farmers involved in the production.

Value creation can be thought of as a transformation process. Resources are transformed into something somebody wants. The business model describes the processes by which the resources are bundled and transformed. For example, the company may purchase wholesome rice from local farmers. They then process and package the rice and sell it to health stores. The business model explains not only the tasks the company takes on but also how these processes interrelate with other actors, such as the farmers or the health stores.

Through this value creation activity, the company can achieve its own objectives. Profitability is but one objective. A company (or rather their managers) typically pursues a variety of goals, from making a contribution to society to creating opportunities for employees and personal self-fulfillment. These objectives influence how the company is managed and developed.

The Business Case

The business case describes the rationale for a certain business from a cost-benefit point of view. It lists everything the company must invest to meet its value proposition...
and everything it can expect in return. All items are typically expressed in financial terms. If the benefits exceed the costs, the business is profitable.

Both costs and benefits can go beyond purely financial measures as Figure 3 shows.

**Figure 3: Business case (extended version)**

- **Benefits** can relate to all the various primary and secondary objectives of a company, from expanding the market to maintaining good stakeholder relations. A company is a long-term undertaking. To be able to implement the business model, good relations with all stakeholders (employees, customers, policy makers and society) are essential. Inclusive business models can often help to strengthen these relationships.
- **Costs** must consider not only the capital cost and operating expenses but also management time, opportunity costs and potential damage to relationships and reputation.
- **Profit** in this extended business case is therefore not always an actual positive financial margin. Whether the business is worthwhile or not can then be evaluated by comparing it with other measures to achieve the same objectives, such as advertising, training and team building, which all have a cost of their own.

**Example 2: BASF Grameen – Joint forces for common goals**

In 2008, BASF and Grameen Healthcare Trust jointly embarked on a new ‘social’ venture. The founded BASF Grameen Ltd. is a social business. Its **value proposition** is to improve the health situation of low-income people in Bangladesh through high-quality products.
Initially, it provides two **products**: Dietary supplements containing vitamins and micronutrients are packaged in single-use sachets and sold at a few cents. The supplements help to avoid malnutrition. According to the UNICEF State of the World’s Children Report 2008, the country has some of the highest child and maternal malnutrition rates. Impregnated mosquito nets offer protection against insect-borne disease. According to the WHO World Malaria Report 2008, 72 percent of the Bangladeshi population is at risk of malaria.

The **business model** is adjusted to the context of the target group. Product pricing is adjusted to cash flows of the poor, with single use sachets and microloans available to purchase mosquito nets. Products are distributed via established channels such as pharmacies. These channels have the capacity to familiarize people with the benefit and correct use of the sachets and the mosquito nets. In the medium term, the multi-micronutrient sachets will also be sold directly to end users via established Grameen networks. Grameen Bank plans to provide microloans to support people in setting up their own distribution outlets.

The **business case** of BASF Grameen Ltd takes into account the variety of positive benefits of this engagement, including employee motivation, community relations and communication. Financially, the business shall cover its own costs and recoup the partners’ initial investment. Any additional profits are reinvested in the company.


**Ask yourself:**

- How can a business create value?
- What is the difference between the business model and the business case?
- Can there be good reasons to implement a business even if it is not profitable?
- Can you formulate the value proposition of your own organization?

**Further reading**


*UNDP (2010) The MDGs: Everyone’s Business, September 2010*
1.5 The role of inclusive business for development work

Why should development organizations collaborate with companies? Traditionally, development organizations have collaborated with governments and communities to improve the well-being and opportunities of the poor. Only recently, starting in the 1990s, have development organizations engaged more systematically with companies as partners. This new approach was guided by the insight that companies had become powerful economic and political actors and were vital to economic and human development on the local and national level.2

Functioning markets are essential to enable not only economic but also human development. Today, many people remain excluded from essential markets to sell their production and to purchase goods and services. Gaining access to markets opens up opportunities for higher productivity and well-being. Improvements in the enabling environment, but also new business models, can enable more inclusive markets.

Inclusive markets are markets that include the poor and other marginalised groups (e.g. women, youth and indigenous people) on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points along value chains.

Markets are systems and require functional structures at the micro, meso and macro level.

- On the micro level, companies, entrepreneurs and cooperatives collaborate within value chains to deliver (private) products and services to customers.
- On the meso level, intermediaries from certification agencies to chambers of commerce provide ‘club goods’ like information and support services for these actors to operate efficiently.
- On the macro level, policy makers determine the rules of the game in a market and determine what public goods like physical infrastructure or education and health systems to implement.

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2 For UNDP staff, in depth information about Inclusive Market Development (IMD) and how to employ engagement with lead firms for systemic market change is available in the IMD handbook. See also UNDP’s Programme and Operations Policies and Procedures.
Figure 4: Levels of inclusive market development

The three levels are deeply intertwined. Changes on one level often influence structures on the other two levels. Brokers can play role on all three levels. They work with businesses, support or act as intermediaries and engage with policy makers. Companies are also not limited to the micro level. They participate in decision-making processes at the meso and macro level and co-invest into meso infrastructure.

Developing inclusive business models can play a role in market system development:

- **Innovation**: Inclusive business models invent and establish sustainable consumption and production processes. They can be pilots for new ways to achieve increased well-being with less resources.
- **Information**: As pilots, they also provide information about the benefits and constraints of these new processes as well as about required changes on the meso and macro level.
- **Incentives**: Functional models also create incentives to change the system, because they create benefits for companies and other actors.

Inclusive business models can thus help to influence more systemic issues around inclusive markets, including policies and institutions that provide legal rights and protection, strategies and mechanisms for specific value chains that allow the poor to participate, broader access to needed skills, services and inputs etc. The impact of inclusive business models goes beyond the immediate improvements of those directly involved. They can be drivers of systemic change through innovation, information and incentives.
Example 3: BASF SAFO – Fighting against malnutrition

The “Strategic Alliance for the Fortification of Oil and Other Staple Foods” (SAFO), a private public partnership between BASF and GTZ, shows how inclusive business models can lead to systemic change. It also highlights the essential role of the broker in enabling the business model. The objective of the alliance is the fortification of staple foods with micronutrients, especially Vitamin A. Two billion people globally suffer from malnutrition. BASF supplies the micronutrients while GTZ takes care of the stakeholder processes. The project is implemented in various countries.

In each country, the decision makers from the private, public and social sector are brought together to develop an action programme. SAFO works closely with the companies that produce and market staple foods like oil or flour. They receive support in the development of business plans and technical expertise. SAFO also develops a regulatory framework with policy makers and intermediaries, e.g. by setting voluntary or compulsory standards and developing a certified logo for fortified food.

The initiative creates benefits for all stakeholders: local companies can offer higher-value products. Consumers can achieve significant health improvements, while the price increase for the products is minimal, usually around 0,2-0,3 per cent. BASF has opened a new market for its products. And GTZ as well as the governments can achieve their development objectives more efficiently.

Source: GTZ

Ask yourself:

- How are you engaged on the micro, meso and macro level?
- What systemic benefits do you see in developing inclusive business models?

Further reading:


1.6 Environmental Sustainability

The Millennium Ecosystem Assessment discovered that humans have changed ecosystems more rapidly and extensively over the last 50 years than in any comparable period of history, largely to meet rapidly growing demands for food, fresh water, timber, fibre and fuel. 60 percent of the earth’s ecosystem are either weakened or are used unsustainably.

Damages of the ecosystem can affect people in poverty heavily. Their houses and huts are often prone to floods and storms, the incidence of which is increasing due to climate change. They often have no alternative to polluted water from rivers or wells. Many people living from less than two dollars a day are smallholder farmers. Droughts and soil erosion put their livelihood at risk. With few assets and therefore less ability to cope with loss, shocks like these can easily lead to destitution. Hence, poverty alleviation and environmental sustainability are intricately linked.

Up to now, economic growth is accompanied by an increase in resource consumption. The challenge of sustainable business models is to decouple economic development from the unsustainable use of natural resources. Well-being for all people on the globe can only be achieved with smart technologies, products and processes that spare natural resources.

The development of an inclusive business requires a systemic perspective on processes of consumption and production. Impacts are easily shifted from one life cycle stage to another, between stakeholder groups and between different kinds of impacts. To achieve real sustainability, the whole system has to be taken into account.

![Systemic perspective on the business model](Source: UNEP 2008)
Figure 5: Systemic perspective on the business model shows the three elements of a systemic perspective on sustainability as introduced in the UNEP publication “Towards Triple Impact”. A broker can use this systemic perspective to identify opportunities as well as to assess and improve the sustainability of a business model.

- **Impact Area**: “Triple bottom line” is a widely used concept to describe that for a sustainable business model, not only the financial result or ‘bottom line’, but also the social and environmental result has to be positive.

- **Life cycle stages**: The life cycle perspective considers all the steps in the production and consumption process. A life cycle begins with extracting raw materials that are then processed into goods, packaged, transported, used, and eventually recycled, reused, or disposed.

- **Stakeholder Groups**: The stakeholder perspective considers the relation between a business and the actors it impacts or is impacted by. Any venture has a multitude of stakeholders, ranging from its immediate business partners, its customers, employees, suppliers and investors, via those with a more distant relationship, such as communities and governments, to society at large on the national and global level.

This systemic perspective is the basis for various tools introduced in the primer, namely the ‘Crosshairs’ for coming up with ideas in chapter 2.1.1, the steps for understanding results in chapter 2.4.1 and the analysis for improving a project in chapter 2.4.2.

**Example 4: BSH Cook Stove Project – Improving health, reducing environmental damage**

2.5 billion people cook their meals on open fires. They mostly use charcoal or wood. These fuels are not only very expensive, but also harm people’s health. According to an estimate of the World Health Organization, 1.6 million people die every year as a result of inhaling the smoke from these fires. Furthermore, deforestation heightens the danger of floods and mudslides.

The PROTOS plant oil stove developed by the German company BSH Bosch and Siemens Hausgeräte GmbH (BSH) aims to improve this situation. The project has a positive “triple bottom line”:

- **Social**: The stove is affordable, economical to operate and safe in use. BSH only sells the stove in those regions in which the use of plant oil as fuel will not have negative consequences for the environment or people’s health and nutrition. The project supports income generation because it commissions local companies to build the stove and the oil is sourced locally.
• **Environmental**: The stove can be fuelled by vegetable oils such as coconut, sunflower or jatropha oil. Cooking with plant oil is CO2-neutral. Each stove avoids up to one ton of CO2 emissions per year. Up to 7 additional tons of CO2 can be saved where deforestation is avoided. After all, up to 700 kilograms of fuel wood per year is needed to handle the cooking needs of a single family.

• **Economic**: In the long run, the project needs to be financially viable for BSH as well. It has just entered its growth phase: in 2009, 50,000 stoves were produced in Indonesia.

*Source: BSH Group, www.bsh-group.de*

**Ask yourself:**

- Why is environmental protection important for people in poverty?
- Why is it necessary to take the three perspectives of stakeholder, life cycle and impact area into account?
- What are the steps in a product life cycle?

**Further references:**

Kumar Duraiappah (2004) Human Well-Being, Poverty and Ecosystem Services - Exploring the Links

Michael Kuhndt et al. (2005) Human Development Through the Market (Hdtm): An Innovative Market-Based Approach to Poverty Alleviation via Environmental and Social Improvements

2 Tools to support companies for inclusive business models

Brokers can support companies in developing an inclusive business. The tools in this chapter can support this process.

Note: All tools operate from the perspective of the company. They do not replace the processes and tools brokers use to identify promising sectors, projects and partnerships with a view to the broader objective of facilitating inclusive market development. Rather, they are a “subset” that can be applied whenever brokers are engaged in a specific collaboration with a company to help the company define, implement and improve and inclusive business model within the context of a broader inclusive market development initiative.

Inclusive business models are unusual for many companies. The basic logic remains the same: companies need to strive for competitive advantage, efficient processes and excellent partners. But some things are very different: the market environment can be difficult, the target group unknown, the partners unfamiliar. Brokers can help companies overcome these challenges.

The process to develop an inclusive business takes place in the context of a broader inclusive market development process and happens in four basic steps: 3

- Identifying opportunities
- Developing the business model
- Implementing the model
- Analyzing its impact

The tools introduced in this chapter can be used to facilitate the collaboration with companies, e.g. by structuring the dialogue, by finding a common language during workshops and meetings, and by providing frameworks for project documentation.

These tools can be applied for companies of all sizes, industry contexts, organisational structures and countries. Certainly, every project has to consider the unique setting it is placed within. The frameworks presented here help to do that in a systematic way. The tools in this chapter are presented with a company’s perspective, because developing a business model with a company has to start from the current situation of the company.

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3 UNDP staff should not be confused by the similarity of these steps with the basic steps in the Inclusive Market Development approach (see IMD Handbook). While the IMD approach advises staff on the project cycle from the development perspective on markets and sector, the tools represented here have a company perspective and may be employed by brokers to advise and support companies. While this may be part of the overall IMD process in case of lead firm engagement, the IMD process goes beyond that in particular with regard to the involvement of a broader set of stakeholders. Engagement with lead firms is one area of activity within the broader set of IMD tools and should be based on an IMD market assessment.
2.1 Identifying opportunities

In the beginning, the company needs to find an area where it can create value, be it by including poor people as consumers or producers. The first part of the chapter provides a framework to come up with ideas, the second one introduces steps to further develop and strengthen the idea through market research. For brokers, identifying companies to work with and assisting them with identifying opportunities will normally be done once an initial market sector has been identified and once an assessment of that market sector has been undertaken.

2.1.1 Coming up with ideas

When looking for inclusive business opportunities, company managers should ask themselves: How can we create value for people in poverty using our skills, knowledge and products? How can we include people in poverty into our value chain?

To help companies find answers to these questions systematically, brokers can use the ‘Sustainable Venture Crosshairs’ (see below). It is part of the toolbox “Towards Triple Impact” published by UNEP. This framework describes the value-creation process, which transforms resources to meet needs. How well needs can be met with the resources available depends on the quality of the transformation process. It can be improved by eliminating inefficiencies and leveraging innovation.

![Figure 6: Opportunity crosshair (Source: UNEP 2008)](image-url)
• **Needs:** Poor people find many of their even basic needs unmet. More than a billion people lack access to clean water, 2.6 billion lack adequate sanitation. Many more people don’t have access to products and services that would make them more productive: 1.6 billion lack electricity and 5.4 billion lack access to the Internet. These figures show the enormous opportunity of increasing human well-being by better meeting the needs of the poor. Companies can ask themselves: Where do opportunities exist to improve well-being? Where do needs remain unmet? Could the company provide products and services to people in poverty? Could people from local communities and their products help to satisfy needs of customers?

• **Resources:** What resources – knowledge, skills, experts, products, money – does a company own that can respond to needs and improve well-being? What resources – raw material, land, labour, skills, knowledge – do the poor own that can contribute to meeting needs?

• **Inefficiencies:** In some stages of the life cycle, more resources are used than are actually required. Eliminating these inefficiencies increases the productivity of resources. Because markets are often not functioning well, inefficiencies are fairly widespread in a developing context. Sometimes they are quite obvious: water leaks, soil erodes, waste piles up, staff is idle, financial capital does not deliver a return or is lost. Often, however, inefficiencies are not that easy to see. Existing businesses can identify inefficiencies by offering stakeholders incentives to report inefficiencies and suggest improvements.

• **Innovations:** Innovation (re-)invents transformation processes and increases efficiency. Scientific and technological advances are important enablers of innovation. Better seeds and agricultural inputs have increased the yield from a plot of land, heat-resistant vaccines have reached more people, and renewable energy systems have enabled access to electricity for many. But innovation does not always rely on technology. Low-tech products, process redesign and new business models can have similar effects. Innovative agricultural practices can increase the yield while reducing inputs, micro-franchise models of distributing medicines and providing medical advice extend access to health care to millions.

**Example 5: Bionexx – Satisfying global needs with local resources**

Malaria infects 350 million people and kills 1 million every year. Medication is often expensive. In many cases, malaria has grown resistant to treatment. A rather new antimalarial contains Artemisinin, a substance extracted from the herb Artemisia Annua (AA). When the World Health Organization first recommended the therapy in 2004, the global supply of Artemisia could only satisfy part of the demand, estimated at 185 million treatments per year.
Looking through the crosshair, Bionexx might have discovered the following:

- **Need:** Global demand for Artemisinin as a key component of the latest antimalarials; increase the supply of AA to bring down costs for malaria treatment
- **Resources:** Localized artemisia variety in Madagascar; plentiful work-force and farms to grow the plant; technical knowledge of partners: Partnerships with GSB, USAID/Rutgers and Techno-Serve have provided the necessary knowledge
- **Inefficiencies:** Only small scale farming with little market access
- **Innovation:** Adopt and research innovate farming methods

At the beginning of 2005, Bionexx started cultivating AA in Madagascar with the help of small-scale farmers, extracting the Artemisinin and selling it to the pharmaceutical industry. The local broker of the UNDP Growing Sustainable Business initiative played a crucial role in discovering the opportunity: the initiative funded a feasibility study, helped to improve production techniques at cultivation sites, and analyzed opportunities for the small farming community in Madagascar.

GSB also engaged partners to ensure the success of the project. Rutgers University, in collaboration with the Business and Market Expansion (BAMEX) programme funded by United States Aid for International Development, supplied technical help. TechnoServe, a non-governmental organization, built capacities around improved agricultural techniques. Funding came from the Millennium Challenge Account and the European Union, through AEDES and the “Office technique d’études et de cooperation internationales.

The results of the projects are measurable: 130 permanent and 400 seasonal jobs have been created, 3000 out-growers have gained an additional income. Bionexx produces AA for 25 million malaria treatments per year.

**Source:** UNDP (2007) Fighting Malaria and Poverty in Madagascar

**How to apply this tool**

A broker can moderate the process of looking through these different lenses and to systematically identify ideas for inclusive businesses. Using the crosshairs is a way to ask new questions about well-known situations to discover new solutions.

In addition, brokers are more familiar with the needs and resources of poor people. They have close links to NGOs, development organization and local authorities that work towards human development. Including practitioners with close ties to local communities into the idea generation process broadens the horizon and provides a more grounded, multi-facetted perspective.
Ask yourself:

- What resources and needs come to mind when considering poor communities in your context?
- Do you see inefficiencies in consumption and production processes that can be eliminated to enable access for the poor?
- What kind of innovations can be leveraged for inclusive business models?

Further references:


2.1.2 Analyzing the market

In order to better understand an opportunity and start develop concrete business model ideas, a company needs to answer many questions: Does our offer meet the needs and wants of the target group? What products and services do people use today? How much are they willing and able to pay? What is the quantity and quality of production of the poor? What skills and knowledge do they have? Which constraints will make it difficult to enter the market?4

In established markets it is usually easy to get at least first answers to these questions from market research companies or through desk-top research. For the slums and villages of the developing world, this information is rarely available from conventional sources. Companies often have to answer these questions on the ground, involving expert organizations and the communities themselves.

Still, some research methods that are used in “normal” markets can be applied in the context of poverty.

- **Data research**: General information on markets is available on the Internet. Statistical offices, development banks like the World Bank, evaluation reports of

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4 The UNDP IMD approach stresses the involvement of stakeholders from the early stages of the project, including the market assessment phase. Involving stakeholders and their expertise and knowledge might in many cases be the most efficient way to get a good sense of the market opportunity, both from the perspective of the broker’s organization and the company. See the IMD handbook and especially the related tool on market assessment.
development agencies or national household surveys provide information on the socio-economic situation, general industry data and the development challenges.

- **Expert interviews**: To get an understanding for the context, it is helpful to talk to experts from development agencies, NGOs, chambers of commerce or national ministries.

- **On-site visits**: The fastest way to get an idea of the competitors, the risks and opportunities of a market, is to get on the ground. An on-site visit can also reveal information about trends or constraints.

Brokers can play an important role in getting to know the target group and its market environment. Companies are often not familiar with the markets and the environment of the poor. Development agencies or NGOs know those contexts well and can help companies understand them. Brokers can facilitate these collaborations.

When gathering information from poor people, certain challenges need to be considered:

- **Culture and language**: The person collecting the information has to be able to understand the local language and culture and interpret the information based on this background. For example, in many Asian cultures you will never get a “No” as an answer because this is considered rude. Instead, people express their dislike or rejection in a much more subtle way.

- **Skills and experience**: Sometimes low-income people in slums or rural areas might lack the skills and experience to answer some questions of a researcher. How could you describe the features of a mobile phone if you never had owned one before? People may just not know certain products, they often have very little exposure to media or advertising and they might have received only a few years of elementary education.

- **Trust**: The attitude of the researcher towards the interviewee influences the answers. People might be ashamed of their poor circumstances – e.g. when asked about their buying habits – or they might feel obliged to answer even if they don’t know an answer.

Due to these challenges, some methods like consumer surveys might end in misleading results. The following methods may be better suited to gather the relevant information:

- **Visualization**: Visual and haptic tools like toy money can help to overcome barriers e.g. when talking about financial matters. Building models and painting pictures can reveal information not mentioned in interviews or focus groups.

- **Self-monitoring**: The target group keeps a record of their everyday life in form of a diary or photos of their favourite products, the food they eat etc.
• **Idea competition:** The target group is asked to hand in their ideas for a certain product. They can enter the competition with pictures, drawings or written ideas.

**Example 6: MicroEnergy – Bringing energy needs to light**

The German consultancy MicroEnergy International helps Microfinance Institutions (MFIs) to develop business models that combine microfinance and energy solutions. When they started, MicroEnergy relied on conventional methods of market research, mainly interviews and focus groups. Sometimes MFIs would include some questions on energy consumption into their evaluation questionnaires. But the results were often not very satisfying. The interviewees often provided answers they considered as the desired ones.

More and more, MicroEnergy used participatory observation to learn about the target group. Anthropologists spent several days or longer with the target group and kept records of people’s everyday life. Lamps and cooking stoves are mainly used in the evening or early mornings, so overnight stays are indispensable. Director Noara Kebir is convinced of the methods: “We learned so much more from a few days of research on the ground than from 20 surveys.”


**Ask yourself:**

• What methods can be used to do market research in the context of poverty?
• What might be the biggest obstacles when doing market research in urban slums and rural areas of developing countries?

**Further references:**

Robert Chambers (2002) Participatory Workshops: A Sourcebook of 21 Sets of Ideas and Activities


2.2 Developing inclusive business models

The challenging market environment in the slums and villages drives up transaction costs to a degree that can easily make inclusive business models commercially unviable. The UNDP Growing Inclusive Markets Initiative (GIM) published the report “Creating Value for All: Strategies for Doing Business with the Poor” in 2008. Based on 50 case studies of inclusive business models, it answers the question: How do businesses overcome constraints and manage to work successfully with the poor?

The core of the report is a strategy matrix that links the five main constraints in the markets of the poor with five general strategies to overcome them (see below). The matrix can be used to challenge new and existing business ideas and develop business models further.

![Figure 7: Inclusive business model strategy matrix](Source: UNDP 2008)

The five market constrains are:

- **Market information**: Businesses know too little about the poor, their preferences, resources, skills, etc.
- **Regulatory environment**: Rules and contracts are not enforced. People and enterprises lack access to the legal system. Regulation is not conducive to business.
- **Physical infrastructure**: Lack of transportation infrastructure and networks for water, electricity, sanitation and telecoms.
• **Knowledge and skills:** The poor may lack the knowledge or skills to benefit from a product or service or participate in the supply chain.

• **Access to financial services:** People lack access to credit, insurance, savings and transactional banking services.

The five **general strategies** are:

• **Adapt products and processes:** Avoid constraints through product adaptations or business process redesign.

• **Invest in removing constraints:** Remove market constraints through own investments by maximizing private or leveraging social value.

• **Leverage the strengths of the poor:** By engaging the poor and building on their social networks, a company can increase access, trust and accountability.

• **Combine re-resources and capabilities:** Businesses collaborate with other organizations and pool resources

• **Engage in policy dialogue with governments:** Informing the policy making process can help to remove constraints on a broad scale.

These strategies represent rather broad approaches. The specific constraints and individual capabilities of a company play out in a large variety of concrete solutions. Patterns are captured in sub-strategies, which are introduced later in the chapter.

### 2.2.1 Employing the matrix

The matrix can be used as a practical tool to identify constraints and challenge inclusive business models. It also helps to identify potential solutions and develop the business model further. The framework can be used in workshops or discussions to guide business model development.

Brokers can use the matrix in a workshop – either exclusively with the private sector partner or within a multi-stakeholder dialogue. The aim of the workshop is to identify constraints that limit the business model and solutions that can respond to them. The workshop can start from a new project idea and develop it further or look at an existing business model and challenge it. The results of the workshop should be used as basis for further research and development of the business model.

The participants of the workshop should be people from the company in charge of product/business development, from the management/strategy functions and maybe from the CSR/sustainability department. Moreover, some of the participants should understand the relevant context very well and understand the needs and background of the target group. These could be representatives from development agencies, NGOs, the local government or community or from local business associations. Ideally,
somebody with experience in a similar inclusive business model should be present, either from a company or a development partner.

To prepare for the workshop, the company and the broker can do some basic research: Is there any market information available? What might be the regulatory constraints? What partners might be available for production, sales and finance?

The agenda of the workshop can include a short presentation of the company and the specific project, a presentation of the broker’s work and an introduction into working with the matrix. In the interactive part all the participants brainstorm about constraints and possible solutions regarding the business model. A multi-stakeholder workshop guarantees that the business model is discussed from various perspectives. It is nice to use a big printout (2 x 2 meters) as “game board”.

During the discussion it is the easiest to consider one constraint – e.g. the lack of access to finance – and then go through the possible solutions: Can we change the product so there is no need for financing it? Make it very cheap or only sell the service? Can we invest in improving the infrastructure e.g. do some financial literacy campaigns? Can we leverage the resources of the poor to overcome the constraint? Or co-operate with an MFI to provide financing? Or can we co-operate with the government?

In the end the results can be summed up in a short presentation.

The tool can also used to structure one-on-one discussions. In that case the agenda might be less strict and the matrix might be used in form of a small print out.

Example 7: ANZ Bank Fiji - Taking banking to the financially excluded

In Fiji, close to 340,000 people living in rural villages and settlements remain un-banked in 2004. The UNDP and ANZ Bank partnership provides a commercial banking service to all rural communities. To set up the banking service, several constraints had to be overcome as shown in the matrix below.

1. Market information: There was no market information about the wants and needs of the rural poor with regard to financial services.
   - Invest: ANZ Bank sent a small team of bankers from Australia, the Fiji Islands, and Vanuatu on a fact-finding mission to the rural areas of Fiji to determine the demand for banking services in the rural community, and to conduct preliminary analysis on possible solutions.
   - Combine: UNDP assisted with the feasibility assessment work by sharing experience on microfinance schemes, providing information on the rural economy and validating that the poor are bankable.
Figure 8: GIM matrix of the ANZ Bank project in Fiji

2. **Regulatory environment:** Many people had no proof of identity.
   - **Adapt:** ANZ Bank accepts a letter from the village head or district commissioner validating name and residency coupled with another form of identity verification (school roll, baptism certificate, birth certificate) as proof of identity.
   - **Combine:** UNDP supported the bank in securing specific dispensations from the Reserve Bank and made a joint presentation to the Prime Minister and key Cabinet Ministers to seek endorsement for the initiative.
   - **Engage:** Fiji Reserve Bank changed the requirements for proof of identity to suit the realities of the rural population. This has opened up the entire rural sector to other financial institutions.

3. **Physical infrastructure:** There were no physical outlets for banking services in Fiji.
   - **Adapt:** ANZ Bank set up a fleet of 6 mobile banks in trucks that travel on a regular schedule to 150 designated rural villages and settlements on the islands of Viti Levu, Vanua Levu and surrounding islands.

4. **Knowledge and skills:** The people in rural Fiji knew very little about financial products:
• Adapt: ANZ Bank offered only two savings products in the beginning – a long-term savings account and an everyday savings/transaction account. This helped people not to get confused about the services.

• Combine: UNDP trained rural banking staff in financial literacy to enable proper customer information.

Source: UNDP

Ask yourself:

• What are the five major constraints in markets of the poor?

• What are the five most common strategies to overcome the constraints?

• How would you set up a workshop employing the GIM strategy matrix to find or test an inclusive business model?

Further Readings:


UNDP (2008) Creating Value for All – Strategies for Doing Business with the Poor

### 2.2.2 Adapting products and processes

The strategy “Adapting products and processes” is often used to deal with constraints that are very difficult to remove, like an ineffective regulatory environment or inadequate physical infrastructure. Designing products and processes that get around them is sometimes the only option for an inclusive business model.

Two types of adaptation can be distinguished: technological adaptation and business process design.

<table>
<thead>
<tr>
<th>Leverage technology</th>
<th>Explanation</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leverage information and communications technology.</strong></td>
<td>Technologies like mobile telephony, wireless data transfer and internet facilitate access to information.</td>
<td>M-Pesa used mobile technology to establish a system of mobile banking available in Kenya to everybody with access to a mobile phone.</td>
</tr>
<tr>
<td><strong>Apply sector-specific solutions.</strong></td>
<td>Decentralized renewable energy systems, medical technology, irrigation systems etc. can overcome market constraints.</td>
<td>Grameen Shakti introduced the “solar home system” to bring solar energy to villages in Bangladesh which had no access to electricity before.</td>
</tr>
<tr>
<td><strong>Achieve environmental sustainability.</strong></td>
<td>Renewable energies, energy efficiency, resource efficiency, biodegradable materials etc. improve the environmental footprint of a business</td>
<td>Grameen Shakti solar home systems also reduce the use of wood and save carbon emissions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Design business processes</th>
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</thead>
<tbody>
<tr>
<td><strong>Adjust to the cash flows of the poor</strong></td>
<td>Smart payment and pricing procedures reflect the cash flows of the poor, who are constrained by low and unreliable incomes and a lack of access to financial services.</td>
</tr>
<tr>
<td><strong>Simplify requirements</strong></td>
<td>A common solution is “de-skilling”—simplifying processes or making products easier to use.</td>
</tr>
<tr>
<td><strong>Avoid adverse incentives</strong></td>
<td>Design incentive systems that help to avoid fraud and simplify compliance mechanisms</td>
</tr>
<tr>
<td><strong>Make operations more flexible</strong></td>
<td>“Smart tweaks” can enable inclusive business models even in the most apparently discouraging circumstances, including conditions of lasting political instability and insecurity.</td>
</tr>
<tr>
<td><strong>Provide to groups</strong></td>
<td>Communities often access resources through joint investments, especially for such large expenses as durable goods and infrastructure-based services.</td>
</tr>
</tbody>
</table>

**Ask yourself:**

- Why do companies adapt products and processes in the context of poverty?
- How can a company adapt its products and processes to serve the markets of the poor?

### 2.2.3 Investing in removing constraints

Companies can invest to remove constraints, e.g. by training producers who lack skills or by doing market research where information is not available. Investing to remove constraints in poor people’s markets can create both private and social value. The sub-strategies build on these two levers.

<table>
<thead>
<tr>
<th>Ensure private value</th>
<th>Sub-strategies</th>
<th>Explanation</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conduct market research</strong></td>
<td>Amassing market information creates tangible value.</td>
<td></td>
<td>The construction company CEMEX allows Mexican migrants in the United States to purchase home building materials back home. CEMEX partnered with Mexican consulates in major US cities to do market research among this new target group.</td>
</tr>
<tr>
<td><strong>Build infrastructure.</strong></td>
<td>Businesses that depend on delivery infrastructure may have to invest in filling infrastructure gaps.</td>
<td></td>
<td>After Manila Water won the concession to serve the east zone of metropolitan Manila. The company invested heavily to improve pipeline infrastructure in slum areas.</td>
</tr>
<tr>
<td><strong>Improve supplier performance.</strong></td>
<td>Building employee and supplier knowledge, skills and access to finance creates tangible private value.</td>
<td></td>
<td>Guyana’s Denmor, a clothing manufacturer, spends over $250,000 a year training low-income employees in basic literacy and life skills.</td>
</tr>
<tr>
<td><strong>Raise awareness and train consumers.</strong></td>
<td>Investing in consumer knowledge and skills can create highly tangible, capturable value for a company.</td>
<td></td>
<td>UNDP conducted a financial literacy campaign among the rural population of the Fiji when ANZ Bank started its mobile operations for the poor.</td>
</tr>
<tr>
<td><strong>Build financial products or services.</strong></td>
<td>In some industries, removing constraints to consumer access to financial services can create tangible, capturable value for inclusive business models by enabling poor consumers to patronize them.</td>
<td></td>
<td>Grameen Shakti offers its solar home system and the micro loan to finance the product (in co-operation with an MFI).</td>
</tr>
<tr>
<td><strong>Capture the intangible benefits.</strong></td>
<td>Removing constraints can create intangible or longer-term value— for example, brand image, employee morale, corporate reputation and the potential to develop new capabilities and strengthen the competitive context for business.</td>
<td></td>
<td>BASF captures the intangible benefits to make the micro-nutrition product line profitable (see case study 2)</td>
</tr>
<tr>
<td><strong>Leverage social value</strong></td>
<td>Socially minded funding sources include international donors, individual philanthropists and non-profit social investment funds, as well as governments. They enable the private sector to create social value by sharing costs in two ways: through grants and through reduced-cost and ‘patient’ capital.</td>
<td></td>
<td>UNDP and the Armenian Centre for Agribusiness and Rural Development (CARD) invested 143,000 dollar in improving the milk distribution system in Armenia. Among others</td>
</tr>
</tbody>
</table>

| Use grants, subsidies and donations.                                                | Some donors aim to create incentives for one-time investments in shared resources, such as roads or electrical grids. Others aim to promote business models that will make |                                                                              |                                                                                                                                                                                                 |
|                                                                                   | UNDP and the Armenian Centre for Agribusiness and Rural Development (CARD) invested 143,000 dollar in improving the milk distribution system in Armenia. Among others |                                                                              |                                                                                                                                                                                                 |
people’s lives better on an ongoing basis, increasing their income, improving their health and so on. Some aim to do both.

| Finance with reduced cost or patient capital. | In contrast with grant funders, reduced cost or ‘patient capital’ investors expect returns—however large or small—from their investments in inclusive business models. | Acumen Fund is a non-profit global venture fund that uses philanthropic capital to make investments that yield both financial and social returns. |

Ask yourself:

- Why do companies invest in removing market constraints?
- In which field do companies invest to remove constraints?
- What partners might be valuable for these investments?
- What kind of external funding might supplement private investment?

### 2.2.4 Leveraging the strengths of the poor

To leverage poor people’s strengths—working with them and building on their social networks—is to reach deep into communities. When the poor take over tasks in a business model, transaction costs decrease while the poor receive new income opportunities. Moreover, poor people are efficient and reliable at linking their communities to the broader market. They have the knowledge to establish such links. And their strong social networks can often bridge market gaps and make up for missing enabling conditions.

<table>
<thead>
<tr>
<th>Engage the poor as individuals</th>
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<tbody>
<tr>
<td><strong>Sub-strategies</strong></td>
<td><strong>Explanation</strong></td>
</tr>
<tr>
<td><strong>Involve the poor in market research.</strong></td>
<td>Community members gather information about wants, needs, backgrounds and skills of their co-members.</td>
</tr>
<tr>
<td><strong>Train the poor to be trainers.</strong></td>
<td>Training people from the community to be trainers can ‘snowball’ the benefits of the instruction far beyond an initial trainee circle.</td>
</tr>
<tr>
<td><strong>Build local logistics networks.</strong></td>
<td>Engaging poor people to collect, distribute and sell in markets with inadequate logistics systems.</td>
</tr>
<tr>
<td><strong>Establish local service providers.</strong></td>
<td>Service providers must respond to clients’ needs quickly, but they often cover dispersed populations in areas with inadequate physical infrastructure and logistics networks. Only local providers can successfully do that.</td>
</tr>
<tr>
<td><strong>Co-create innovations with the poor.</strong></td>
<td>Poor people can become innovators, developing new products and business models.</td>
</tr>
</tbody>
</table>
Building on existing social networks

| Leverage informal contract enforcement mechanisms. | Social networks facilitate individual and collective activity by establishing trust, reciprocity and common rules. | Most MFIs do not borrow to individuals but to groups. The social pressure not to lose ones face secures that every member of the group makes the effort to pay back the loans. |
| Expand risk-sharing arrangements. | Businesses can expand traditional risk-sharing mechanisms and make them more effective. | Colombian coffee federation Juan Valdez promises above average prices to its farmers. It keeps a reserve for dips in the volatile coffee market. |
| Co-ordinate investments into common goods. | An inclusive business model can invest part of its revenue from product sales in common goods. Or it can require a community to make such investments. | Financed through revenues from the Mauritanian Tiviski camel dairy company, the organization offers animal feed, credit and veterinary care to camel herders. |

Ask yourself:
- How can companies include people in poverty into their business models?
- How can business use existing social networks?

2.2.5 Combining capabilities and resources with other organizations

Inclusive business models often create partnerships with other business or non-business partners. Non-business partners can include churches, farmer co-operatives, microfinance institutions, nongovernmental organizations and public services organizations such as schools or hospitals. Partners can either combine complementary capabilities or pool resources.

<table>
<thead>
<tr>
<th>Combine complementary capabilities</th>
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<tbody>
<tr>
<td><strong>Sub-strategies</strong></td>
</tr>
<tr>
<td>Acquire market information.</td>
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<tr>
<td>Leverage existing logistics networks.</td>
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<tr>
<td>Impart knowledge.</td>
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<tr>
<td>Promote training in needed skills.</td>
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<tr>
<td>Brokering Inclusive Business Models</td>
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Typically NGOs or public programmes. Collaborating with established organizations can help to build trust in trainees. and advantages of the insurance services provided by Allianz.

### Make sales and provide services.

The quality of sales and service provision depends on availability. Building on other organizations’ existing networks is often more efficient than building a new one.

In Ghana, Susus are the traditional money collectors on local markets. Barclays Bank co-operates with Susu Collectors Association whose members now store their money safely in their Barclays bank accounts.

### Facilitate access to financial products and services.

In markets where access to finance still excludes the poor, businesses that require credit or insurance must facilitate access. Existing providers can include microfinance institutions, commercial banks and government agencies.

UNDP partnered with the Kenyan Equity Bank, UNIDO, ILO, and the Ministry of Finance to establish the Fanikisha Initiative that would increase women’s access to credit facilities and reduce poverty in local regions by giving women capital for economic activities.

### Pool resources

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<thead>
<tr>
<th>Gather market information.</th>
<th>Companies co-operate in conducting feasibility studies or they can pool resources in dedicated programmes.</th>
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<tr>
<td></td>
<td>Rating agencies provide information about clients that is available to all credit institutions. This service is rarely available for SME in developing countries—one reason why these target groups often lack sufficient credit. Several Indian banks set up the rating agency “SMERA” especially for SMEs.</td>
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<tr>
<th>Fill gaps in market infrastructure.</th>
<th>Since basic physical infrastructure typically lies in the domain of government, companies often collaborate with governments to build such necessities as roads, ports or electricity networks. But businesses may share a need for more specialized infrastructure: for example, cold chains or sewage treatment plants. To fill the gaps, they can pool resources through collective action or by guaranteeing a provider an agreed amount in sales.</th>
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<tr>
<td></td>
<td>Companies and local government in Tirupur, Tamil Nadu, jointly set up a new utility to build and operate the water and sewerage system.</td>
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</table>

### Self-regulate.

Self-regulation can improve the regulatory environment without requiring action by policymakers. It can be effective where governments cannot help — across countries, for example, or in conflict situations.

The Worldwide Responsible Apparel Production system certifies compliance with a code of conduct that covers labour practices and customs legislation.

### Build knowledge and skills.

Wherever companies do similar business and do not have exclusive relationships with contributors to their value chains, they have a common interest in adding to those contributors’ skills. They can pool their knowledge and skills—often through engaging civil society organizations.

The World Cocoa Foundation comprises more than 50 companies including Hershey, Kraft and Nestlé. It has worked with USAID to help African cocoa farmer organizations to become more effective and the farmers’ trade relationships more profitable. The companies in the Foundation benefit from improved product quality and reliability of supply.
<table>
<thead>
<tr>
<th>Sub-strategies</th>
<th>Explanation</th>
<th>Example</th>
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<tr>
<td>Engage individually - Remove local constraints</td>
<td>Individually engaging government can be an effective strategy to influence policy on an occasional basis and in response to specific concerns. Often the goal is relatively limited—for example, to encourage government to provide public goods or public services the business needs to operate in particular locations.</td>
<td>In Madagascar, the lychee and tropical fruits company Faly Export advocated with local and regional authorities to involve them in road maintenance, because poor road quality complicates its product distribution.</td>
</tr>
<tr>
<td>Engage individually - Change market structures</td>
<td>Sometimes individual public policy engagement by entrepreneurs and companies can have far-reaching implications, changing market structures and in some cases opening entirely new markets.</td>
<td>When M-Pesa started its mobile banking service there was no regulation for mobile banking in Kenya. Due to the success of the service the central bank started talks about suitable regulation.</td>
</tr>
<tr>
<td>Engage through demonstration effects - Develop regulation in new market sectors</td>
<td>Demonstration effects can also influence policy when regulatory frameworks or public goods and services are absent or inadequate. Such effects depend on channels that enable the government to hear about and learn from a business’s experience, whether the</td>
<td>When Electricité de France created the Rural Energy Services Companies in Mali, the country did not regulate energy provision. The companies’ success, together with the support of the World Bank, convinced the government to set up new regulations.</td>
</tr>
</tbody>
</table>

Increase access to financial products and services.

Companies can share the cost of extending access to financial products and services in hard-to-reach areas.

South Africa’s four major banks—Absa, First National Bank, Nedbank and Standard Bank—and the government-owned Postbank partnered to offer low-cost, easy-to-use banking services within 15 kilometres of all South Africans. Although the banks now market the accounts competitively, they shared brand development costs estimated at about 15 million rand—or about $2 million.

Ask yourself:

- Why should private sector companies partner with competitors or NGOs?
- How can businesses combine resources with other to overcome market constraints?
- Who are suitable partner for companies in inclusive business models?

2.2.6 Engaging in policy dialogue with governments

Regulatory constraints are clearly within the sphere of government. Providing public goods is also in the realm of government action. But in a lot of developing countries, government and local authorities are not aware of the constraints regulation, taxation or the lack of infrastructure may mean to business development. Starting a constructive dialogue with the government may remove the constraints. Companies engage with governments often collectively, or in collaboration with other stakeholder groups. This helps to avoid the notion of irresponsible lobbying and the promotion of individual interests over common good.
communication is direct or mediated by a third party such as a development agency.

<table>
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<tr>
<th>Engage collectively - Establish public-private engagement</th>
<th>Companies should look for opportunities to leverage their influence alongside that of industry colleagues, those with common interests in particular issues and others working in geographic clusters.</th>
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<td></td>
<td>The WBCSD-SNV Alliance, which engaged the government of Ecuador in 2007, created a powerful advocacy network with presidential advisers to put economic inclusion on the social development agenda.</td>
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</table>

Ask yourself:

- How can inclusive businesses benefit from a dialogue with governments?
- How can companies avoid irresponsible lobbying?
2.3 Implementing inclusive business models

Finding reliable partners and funding are fundamental to implementing an inclusive business model. Brokers can support companies in acquiring these resources. As part of broader inclusive market development approaches, a set of main stakeholders in the targeted market sector will already have been identified that will serve as partners with the company at different levels.

2.3.1 Facilitate partnerships

Most companies are highly specialized in offering a certain range of products and services. Therefore they are used to co-operating with partners in all areas that are beyond their ‘core businesses’. The same is true for inclusive business models. But in developing countries, traditional service providers like sales agents, logistic providers or customer support centres might not be accustomed to the context of poverty or might not be available at all. To get access to the urban slums or rural villages in developing countries, companies often rely on non-traditional partners: development agencies, donors, NGOs, farmer cooperatives or public institutions.

For companies finding a fitting partner is crucial to the success of an inclusive business model. Brokers can help to identify suitable partners among development agencies, NGOs, public institutions or other companies already active in inclusive businesses.\(^5\)

Over the last few years patterns have emerged regarding partner profiles for certain tasks:

- **Micro finance institution (MFI)** have a well organized and dense network of credit groups and staff that can be employed not only to sell financial services like insurance but also to provide training, to organize sourcing, or sell other products to people in poverty.

- **Local development agencies and NGOs** are in close every-day contact with low-income communities. They are trusted and know the members of the communities. Therefore they can take over tasks in direct interaction with the target group like trainings, awareness campaigns, distribution or customer support.

- **Public institutions** like schools, universities, hospitals or agricultural information centres are in a good position to disseminate knowhow about new products, services

\(^5\) More information about building partnerships with companies is available in the Guide to Partnership Building.
or methods of production. They have access to the target group and the necessary authority and credibility.

At the start of such an unusual partnership both sides should take into account that the counterpart might think and work with a different mindset.

- **Decision making**: NGOs and development agencies use public money and are therefore tied to rather strict project plans, whereas company representatives can change and make decisions flexibly in agreement with the management.
- **Culture**: NGOs are driven by a culture of dialogue and inclusion, companies typically strive for efficiency and growth.
- **Outcomes**: Development partners work to achieve social aims, companies are looking for opportunities to develop their business, enter new markets and generate profits.

When entering the partnership, partners should clearly define their objectives and roles in order to avoid conflicts and misunderstandings. Brokers play an important role in bridging the different mindsets and facilitating the partnering process.

**Example 8: Allianz and CARE International – cooperating to serve the poor**

After the devastating tsunami in 2004, CARE International joined forces with the insurance company Allianz to bring microinsurance to people living in rural South India.

Both organizations had separate but compatible objectives: The humanitarian organization CARE International had been looking for a partner who could offer insurance to low-income customers and thus enable them to handle risks like illness, death or loss of property better. Allianz was forced by Indian regulation to expand its customer portfolio to rural areas. After the tsunami, the company also sensed that it missed out on the large market of low-income customers.

The partners divided up responsibilities within the business: Allianz develops the product and takes over the claim settlement process. CARE International conducts awareness campaigns, explains the product to the people with the help of drawings, plays and music, sells the product in cooperation with local MFIs and helps assessing claims.

This successful partnership helped both partners to achieve their objectives. In 2009, Allianz served 3.2 million microinsurance customers with life, property or health insurance, while CARE is able to offer formal risk management services to its clients.

Source: Emergia Institute (2010) Learning to Insure the Poor

**Ask yourself:**

- Why do companies need partners for building and running inclusive businesses?
• What is challenging about establishing and maintaining a partnership?
• How can a broker help to create a successful partnership?

Further Readings:


2.3.2 Facilitate funding

For a company, it might not be easy to finance an inclusive business model. In current business logic, the earlier and bigger the expected return on investment, the easier is it to get funding. Inclusive business models usually take a lot longer to become profitable and the expected financial returns are not always competitive. Moreover, risks are often perceived as high and so is uncertainty. Because these models require time and experimentation to develop, funding should be flexible and include reserves for unexpected developments.

There are several sources of capital that companies can tap into:

Companies’ own resources

Large companies can often finance inclusive business models through their own resources. To justify the use of resources for less profitable projects, businesses take into consideration the total value created (see the ‘extended business case’ in chapter 0). Intangible assets like employee motivation, innovations and a rise in reputation are all factors that can help to convince management to support the project. Brokers can help project staff to develop the ‘extended business’ case. They may also use existing examples from other firms to provide some empirical evidence for the ‘soft’ contribution of inclusive businesses.

Donor funding and public money
Projects that contribute to reducing poverty or protecting the environment can be eligible for public funding.

- **National development agencies**: DIFD in Great Britain, GTZ in Germany, USAID in the US and many other national development agencies offer public-private-partnership programs. In these projects, both sides combine resources to address development, health, education or infrastructure problems.
- **Multinational donors**: Donors like UNDP might finance feasibility studies or contribute to an inclusive business with resources for education and training.
- **Development banks**: Organizations like the International Finance Corporation, the Asian Development Bank, the Inter-American Development Bank, The European Bank for Reconstructions and Development and the African Development Bank provide debt and equity investment in their domain.
- **National Governments**: National government may hand out subsidies for example for infrastructures development or education programs.

These programs are often unknown to company staff. Brokers can make them aware of these possibilities, create transparency about the funding landscape and can help them to develop proposals.

**Competitions**

There are several competitions for sustainable ventures or inclusive business models. Companies may hand in a business plan or just a draft of the suggested business model that includes social and environmental aims into its business logic. These competitions not only help to fund an inclusive business but also increase its visibility.

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<tr>
<td>World Challenge</td>
<td><a href="http://www.theworldchallenge.co.uk">www.theworldchallenge.co.uk</a></td>
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<td>(BID)</td>
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<tr>
<td>SEED Initiative</td>
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Patient capital of social investors

There are several foundations and organizations that support social entrepreneurs. Unlike other venture capitalist, ‘patient capital’ providers expect above all social and environmental impact.

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<td>Echoing Green</td>
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<td>New Profit Inc.</td>
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<td>Shell Foundation</td>
<td><a href="http://www.shellfoundation.org">www.shellfoundation.org</a></td>
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<tr>
<td>Schwab Foundation for Social Entrepreneurship</td>
<td><a href="http://www.schwabfound.org">www.schwabfound.org</a></td>
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Markets for public goods

Creating markets for public goods is a rather new approach that can help companies to monetize their social and environmental contribution. The international trade with carbon emission certificates shows that it is possible to create a market for a good like climate protection. Companies may use this and sell of the reduction of carbon emissions on the market. The German Bosch und Siemens Hausgeräte (BSH) replaced energy inefficient fridges in Brazilian slums through modern ones. The project was partly financed through registering a method under the Clean Development Mechanism (CDM) and selling the certificates that equalled the amount of saved energy.

Ask yourself:

- What sources of financing can inclusive business models use?
- What might be the biggest challenges in financing an inclusive business model?
- How can a broker support the financing of an inclusive business model?

Further reading:

2.4 Improving impact

The first step to improving impact is assessing it. Strategic analysis can help to systematically develop a project further.

2.4.1 Understanding results

Inclusive businesses strive for more than profit. They also aim to create social and environmental benefits and intangible assets like employee retention and improved reputation. Therefore, understanding results is often more complex than in mainstream business.\(^6\)

The UNEP publication “Towards Triple Impact” introduces a framework for understanding results that can be adjusted to the actual needs of the company. With this framework, brokers can help companies to systematically assess the results of their business. Depending on the objective of the company, the assessment can involve up to three steps, as illustrated in figure 9:

- Mapping: allows to get a complete picture of the results a business generates
- Measuring: allows to understand the exact size of the results and to track and manage them over time
- Comparing: informs decision making between different projects or different courses of action

![Figure 9: Three steps for understanding results](Source: UNEP 2008)

\(^6\) The two approaches introduced in this chapter are both consistent with the measuring approach many development organizations use, the framework by the Donor Committee for Enterprise Development (DCED). The DCED approach emphasizes the need to understand result measurement as a continuous process. It needs to be incorporated already at the formulation stage, throughout the implementation phase and it may even continue after the programme interventions have been completed. It is based on the articulation of impact logic. Brokers should seek to align their own reporting needs with those of the companies they work with.
From one step to the next, understanding results becomes more complex and costly. Therefore, it is important to clearly define in advance what the purpose of the endeavour is and how outcomes will be used. Brokers can help companies think through their objectives and needs regarding an assessment of results: Is it to ensure that potential negative effects are discovered early on in the pilot, so they can be controlled during implementation? Then a simple mapping may be enough. Do stakeholders of the company expect it to report about results? Then measurement of the critical results is necessary. Is the assessment supposed to inform a decision about investing in one project or another? Then results must be made comparable.

**Mapping results**

An understanding of all environmental, economic and social costs and benefits that arise from a business is necessary to discover risks and opportunities. For example, pollution can create resistance by affected stakeholders. On the other hand, positive results strengthen a company’s value proposition. The mapping of results takes the three perspectives of a systemic approach into account (see chapter 1.6):

- **Life cycle**: What costs and benefits arise within the life cycle steps relevant for the business? Because results are easily shifted around the life cycle, the assessment should not only consider the steps the business controls, but also those before and after in the life cycle.

- **Stakeholders**: Who are the main stakeholders that are affected by the activities in these life cycle steps and how are they affected?

- **Triple bottom line**: What are the economic, social and environmental costs and benefits falling on the different stakeholder groups in the life cycle?

The mapping can be performed by means of a simple table that incorporates all three perspectives, as shown in Figure 10: Results mapping table.

![Figure 10: Results mapping table](image-url)
Measuring results

Measuring critical results helps to track them over time. Measuring is thus a basis for targeted management of results. It is also vital for a transparent communication with investors, regulatory bodies or the general public. Measuring all results would be too complex. Measurement should focus on the results that inform decision making, e.g. due to their magnitude, significance as enablers, costs, risks, or opportunities, relevance for strategic priorities or their public interest.

Critical results can be evaluated with qualitative or quantitative data. It might help to use indicators that are used in other contexts as well e.g. for the sustainability report. There are several frameworks that help companies to assess complex social, environmental and economic impacts of inclusive businesses. Within the project “Impact Reporting and Investment Standards” (IRIS), several social investors have joined forced to develop a reference list of indicators. The Global Reporting Initiative (GRI) also sets an important standard for measurement.

Comparing results

Where analysis serves to inform decision-making between different ventures or different courses of action, results need to be made comparable in terms of the dimensions and timing of impacts, the stakeholders affected, and the levels of uncertainty. A variety of tools and methodologies are available for that purpose. In essence, they are all about weighting the relevance of one type of impact or one point in time etc over another. The weights are by nature a matter of decision, and making the rationale behind these decisions transparent is important to inform the process and outcome.

Aggregating all results on a monetary level can help to communicate them effectively towards executives and the broader public. For that purpose, each result receives a price tag, e.g. by comparing it with alterative measures. How much would it cost to conduct an advertising campaign with the same public effect? On the other hand, a single monetary indicator conceals the very information one has gathered to influence the decision.

In 2008, the WBCSD presented an approach to “Measuring Impact” that was developed by representatives of member organizations of the council. It provides detailed guidance on how to conduct an impact assessment. The framework is based on a four-step methodology as shown in Figure 11: Four steps of the WBSCD measuring impact frame that attempts to merge the business perspectives of its contribution to development with the societal perspectives of what is important where that business operates. It is rooted in a business approach and begins with measuring what business does through its business activities. The business activities are grouped into four clusters: governance and sustainability, assets, people and financial flows. The model
emphasizes the integration of stakeholders into the assessment. Here, brokers can play a valuable role as facilitators and neutral moderators.

**Figure 11: Four steps of the WBSCD measuring impact framework**

**Example 9: Manila Water Company – Tracking results for continuous improvement**

Manila Water Company, Inc. is a water and wastewater concessionaire operating in the east service zone of Metro Manila. When it assumed operations in 1997, Metro Manila’s water system was losing almost two-thirds of the water it produced (so-called non-revenue water) to leaks and illegal connections. Piped water reached only about 60 percent of Manila households, with the poor—at least 40 percent of the population—disproportionately underserved by the network. Households with piped water received intermittent service, usually under low pressure. Less than 7 percent of the population was connected to sewerage services.

Manila Water won the concession to use the existing infrastructure along with the right to collect revenues throughout the 25-year term, provided the service targets in the concession were met. For example, the 2006 service targets for the East zone required water service to 98 percent and sanitation and sewer service to 55 percent of residents. Non-performance would be met with financial penalties.

To provide reliable reporting to the public authority, Manila Water Company set up a comprehensive measurement system. Because the company takes a sustainable management approach, this system also reports on other essential social, environmental and economic results. Planning provides targets for the performance
indicators amongst these measures. Comparing actual results with targets helps the company to improve its operations over time.

Since Manila Water took over the East zone in 1997, both the state of the infrastructure and customer service levels have improved. The company has invested more than 17.5 billion pesos in capital works, which has paid off in terms of performance and efficiency. The customer base has doubled, the non-revenue water has decreased, availability of service is consistent and water quality is excellent.


**Ask yourself:**

- Why should companies measure the results of their inclusive business?
- What dimensions should be considered when looking at results?
- What role can a broker play in mapping, measuring and comparing results?

**Further Reading:**


Impact Reporting and Investment Standards: [www.iris-standards.org](http://www.iris-standards.org)


UNEP (2008) Towards Triple Impact – Toolbox for Analysing Sustainable Ventures in Developing Countries

2.4.2 Planning ahead

Inclusive businesses typically start as small pilots and require significant experimentation and learning until they reach maturity. Systematic analysis of the factors that influence the success of the venture can help to cut this process shorter. The determinants of success can be divided into the positive and the negative factor that impact the business now and in the future, its the enablers and constraints, risks and opportunities, as illustrated in Figure 12: Determinants of success. This framework for strategic analysis has been published in UNEP’s “Towards Triple Impact”.

![Figure 12: Determinants of success](Source: UNEP 2008)

Constraints and enablers, risks and opportunities can be identified by applying the three basic perspectives that were introduced in chapter 1.6: stakeholders, life cycle and triple bottom line.

Enablers

Enablers are the foundations of a venture. They are the things that make it possible for the venture to succeed, and can range from access to finance to contacts in export markets. Ventures in a developing context can typically benefit from abundant labour supply and natural resources. The following questions help to identify enablers:

- Who are the stakeholders that support the venture?
- What are the economic, environmental and social resources and capabilities that enable the venture?
- What are the strengths within the life cycle of the venture?
Constraints

Ventures in a developing context face many internal and external constraints. The most widespread are probably governance issues, missing infrastructure, lack of knowhow and access to finance. The following questions help to identify constraints:

- Who are the stakeholders who oppose the venture or hamper its progress?
- What are economic, environmental or social resources and capabilities that are missing and limit the development of the venture?
- What are the weak links in the life cycle?

Opportunities

Opportunities are potential changes to the current situation that would contribute to the success of the venture. They can arise when new partners enter the field or when new funding becomes available. In addition, changes in regulation as well as changes in political priorities and social awareness can support the growth of a venture. The following questions help to identify opportunities:

- Who are the stakeholders that might positively impact the venture in the future?
- Could there be changes in the availability of economic, social or environmental resources and capabilities that will potentially benefit the venture?
- Might there be changes within the life cycle that could contribute to the success of the venture?

Risks

Risks are potential changes that would harm the venture. Since any venture depends crucially on its partners, changes in performance of these partners can signify major risks. What if the supplier of raw material decides to sell elsewhere or can’t keep up the supply? What if vendors decide to change for the competition? Because markets in developing countries are often not very mature, it may be difficult to simply find a new partner. Also, political instability is still an issue in many developing countries. The following questions help to identify risks:

- Who are the stakeholders that might negatively impact the venture in the future?
- Could there be changes in the availability of economic, social or environmental resources and capabilities that will potentially harm the venture?
- Might there be changes within the life cycle that could damage the venture?
This analysis can help companies to better understand their market environment as well as their own capacities. They can discover risks and opportunities early on and build on enablers to overcome constraints and manage change. Brokers can facilitate such strategic assessment by organizing a workshop or engaging in a sparring partner role with project staff.

Example 10: Honey Care Africa – Sweets in small portions with big impact

Honey Care Africa (HCA) has set up a network of small-scale beekeepers in Kenya, Uganda and Tanzania. They sell their honey under the HCA brand to local supermarket chains and export markets. HCA plans to expand its product portfolio to reach low-income consumers by introducing and selling 20g jars of honey to slum areas in Kenya. The selling price is planned at 5 Kenyan Shilling (about 0.07 US dollar) per jar, the distribution shall rely on local structures like kiosks, street vendors etc. The low price shall be cross-subsidized by selling to hotels and catering companies for 8-9 Kenyan Shilling and existing sales.

- **Enablers:** HCA already has exposure to the low-income market through its network of beekeepers. The low-income market in Kenya is large: about 40 percent live on less than 2 dollars per day (local purchasing power). The product – honey in small portions – is suitable for low-income markets and its supply is guaranteed by the existing network.
- **Constraints:** HCA does not have experience in operating an own distribution system and it has no reliable sales partners yet.
- **Opportunities:** The project will have an income generating effect for the street vendors and secure the income of the beekeepers, who will hence support its implementation. When low-income consumers see the benefits of honey, demand for it may rise and so may willingness to pay.
- **Risks:** The model relies on cross-subsidization, at least in the beginning; issues with the other business lines will negatively impact on the project. Competition may arise from local vendors who organize their own supplies.

The analysis shows that pricing is an important issue for the project. A good understanding of customers’ willingness to pay and reactions to the product is warranted before the project is actually implemented.

Source: Honey Care Africa (www.honeycareafrica.com), UNDP

Ask yourself:

- How can strategic analysis help to develop a business model further?
- What factors should strategic analysis consider?
• What role can a broker play in the process of strategic analysis?

Further reading:

UNEP (2008), Towards Triple Impact – Toolbox for Analyzing Sustainable Ventures

3 Broker challenges and solutions

Brokers not only support companies in the development of inclusive business models. They also drive the establishment and implementation of such initiatives. In preparing for and executing engagements with the private sector, brokers often face their own challenges in developing and implementing a project, including:

Developing a project:
- Raising awareness
- Finding partners within a company
- Convincing a potential partner
- Selecting a project

Implementing a project
- Acquiring funding
- Finding technical expertise
- Organizing the project

Ideas for dealing with these challenges are collected on the following pages. The majority of these ideas were collected during the UNDP Private Sector Focal Point Training in Mombasa in December 2009. The chapters don’t aim to provide comprehensive answers but rather inspiration to think creatively about these challenges.

3.1 Developing a project

Brokers often find themselves in a situation where the inclusive business approach is barely known. Even though opportunities for combining business and development goals exist, these may not be realized due to ‘blind spots’ in people’s perception. Brokers can change that perception, starting from raising awareness generally to engaging with partners. As they spark ideas and move towards concrete projects, they have to always keep the developmental objectives in mind.

3.1.1 Raising awareness

The ‘inclusive business’ approach is still quite new. Not only are many people from the private and public sector not familiar with the idea of doing business with the poor. Many also find it counterintuitive that this may create value for the poor or worry that the poor may be harmed through exploitative practices. Therefore, the approach requires information and explanation. Raising awareness helps to create a fertile ground for possible interventions. It can also attract potential partners.
Possible formats

There are many ways to raise awareness for inclusive business.

- Conferences (with speakers known by the target group, to launch an initiative etc.)
- Workshops with the target group
- Presentations at existing events (Global Compact forum, Chambers of Commerce etc.)
- Publications (showcasing best practices, market assessments etc.)
- Blogs or social networks
- Contributions to existing media (newspapers, magazines etc.)
- Policy dialogues

Both the cost and the effectiveness should be considered when evaluating possible formats. Often it is more effective to use existing events or channels that already reach out to the target group than to create new ones.

Possible messages

The message has to take the perspective of the target group into considerations. Where are they coming from? What is their point of view? What might be concerns that require answers? To better understand the target group and adjust the message, it is useful to test your communication with some representatives in beforehand.

Messages may be strengthened by the following evidence:

- Empirical data on market size and estimates of market opportunity (to show why it is an appealing business case)
- Best practice examples, ideally from the relevant sector and country (including pictures and videos)
- A spokesperson from a best practice example or company

Example 11: UN Global Compact Networks – Learning platform around the globe

The UN Global Compact is a global learning platform for more responsible business. It aims to mainstream the Compact’s ten principles in the areas of human rights, labour, environmental protection and anti-corruption into business activities around the world. It also seeks to catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs). Today, the Global Compact is the largest corporate citizenship and sustainability initiative in the world -- with over 7700 corporate participants and stakeholders from over 130 countries.

The Global Compact maintains local networks in more than 80 countries. These networks are typically among the first contact points for companies that seek to improve
their management practices. It can thus be a useful platform to raise awareness about opportunities around inclusive business.

In Egypt, for example, the local Global Compact network together with the Ministry of Investment hosted a conference on CSR with a strong focus on inclusive business in 2009. Several hundred representatives from companies, NGOs and government gathered to discuss opportunities of and constraints to including the poor.

*Source: Global Compact Website, own research*

Ask yourself:

- Who are the companies or other actors you want to raise awareness with?
- What are the channels that reach out to them?
- What messages are best suited to convince them of the benefits of inclusive business?

### 3.1.2 Finding partners

Often, brokers have a special interest in a particular sector or firm. Some sectors and firms are particularly promising from a human development perspective, e.g. because they supply basic goods and services, source products small producers can supply or have a large economic footprint. But approaching companies directly is not always easy. Companies can be intransparent. And finding the right person to talk to can be difficult.

**Getting to know the company**

If a company appears interesting due to its existing or potential development impact, the broker will probably want to go one step further and understand its activities and structures better. The following guiding questions may help to get a good sense of what a company does and how it works:

**Business model:**

- What is the value proposition of the company? What goods or services does it provide?
- Who are the customers? What other options do they have (competition)?
- What activities does the company perform? How does it interface with other players in the life cycle (suppliers, distributors etc.)?
- Who are the employees of the company? Why do they work for the company?

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7 UNDP staff should review the IMD handbook and undertake a market assessment to identify target markets/sectors.
• What resources (land, buildings, machinery, knowhow, finance, relationships, political influence etc.) hat the company at its disposal?
• What can the company do well? What are its competencies?

Organisation:
• How is the company organized (headquarters, subsidiaries etc.)?
• How are decisions taken within the company?
• Who are the executives in the company or local subsidiary? What is their background?
• What is the strategy of the company? What are its strategic goals for the near and long-term future?

Context:
• What is the history of the company? How long has it been in this market/country?
• What is the size of company (branches / countries / employees / turnover)?
• How is the company embedded into the broader socio-cultural, political and economic context?

Answering these questions helps to see the various points where business interests of the company may intersect with development interests. Gaining low-income consumers as customers is just one option. Improving employee morale and reducing turnover may also be of strategic relevance, and so may be strengthening the supply chain or improving public reputation and relationships with public authorities.

Finding the right person to talk to
Generally, there are two ways for identifying the right people in a sector or company: searching and attracting them.

Searching
There are a few positions within a company that will typically be more open to your agenda than others because they are familiar with social expectations and can benefit directly from collaboration. These include:

• **CSR or sustainability department or manager:** if the company has such a position, it is already quite advanced in sustainability management. The manager will most likely be somewhat familiar with the concept of inclusive business or ‘base of the pyramid’. Company websites often have a section on responsible management or sustainability with the responsible contact person.
• **Communications department or manager:** communications’ task is to deal with stakeholder expectations. The manager(s) there will be familiar with existing
corporate citizenship activities in the company and may be interested in developing new, more advanced initiatives.

- **HR department or manager:** HR is in charge of developing the skills of employees and keeping morale and motivation high. Social responsibility activities create identification and purpose among staff. HR may hence be aware of existing corporate citizenship activities and interested in developing further opportunities.

- **Marketing and business development:** these functions deal directly with the growth of the company’s business. They may be interested in existing and solid business ideas. If these don’t exist yet, it may be easier to develop them together with staff from the other functions mentioned above.

- **Company leader:** Small and medium sized companies are much less specializes and often very hierarchical. In this case it can make sense to approach the head of the company directly.

**Attracting**

Attracting company partners may often be more effective than searching them. Basically, the idea is to put up a flag that says ‘who is interested in this approach?’ and see who comes. Potential partners identified in this way already show their interest in the subject, and don’t need to be convinced starting from zero.

The following format can act as ‘flags’

- **Own events:** conference or workshop on ‘inclusive business’ broadly or a specific sector or theme

- **Other relevant events:** conference or workshop with a relevant theme hosted by another organization. The participant list can be used to identify interesting persons to network with.

- **Business plan competition or prize:** asking for submissions for a competition or prize with a relevant theme not only identifies motivated companies and people but also the ideas they are currently developing.

- **Virtual Networks:** social networks like Facebook or NING offer the possibility to set up thematic groups. Organizing a social network around the theme of inclusive business not only helps to identify interested people but also provides a channel to keep this group of people updated and engaged.

All of these formats should be advertised to the target group via relevant channels (see ‘raising awareness’).
Example 12: Business Fights Poverty – A network of inclusive business people

Business Fights Poverty is a social network that brings together professionals interested and involved in ‘fighting poverty through good business’. The network has more than 6000 members from all over the world. Network members advertise events and publications, stay informed and form groups of similar interests.

This and other social networks can be a useful tool to research contacts and organize existing contacts for a specific country, region or sector.

Source: http://businessfightspoverty.ning.com/

Ask yourself:

- Do you see certain companies in your country that might be interesting partners? What opportunities to you see for inclusive business in their operations? What interest might the company have in this agenda?
- What opportunities do you see to attract people from the private sector with an interest in inclusive business?

Further resources:

Business Fights Poverty NING Network

BiD Network (network of entrepreneurs, investors and coaches)

3.1.3 Convincing a potential partner

The broker role is usually described as a service that responds to private sector demand. The reality is often different: brokers have a mission to create inclusive businesses and see opportunities where people from the private sector would not look. They also know what value their organization can bring to an inclusive business project and the risks, in particular for the target group, if the company is left alone. Therefore, brokers frequently find themselves in a situation where they have to convince a potential partner of the value their organization can add in a partnership. The arguments often revolve around three key themes: (1) contacts, (2) reputation and (3) technical expertise.

Contacts

Development organizations are involved in a network of actors that is typically foreign to the private sector but essential for the establishment of an inclusive business model. These contacts are not rarely strengthened by years of cooperation and enjoy a high level of reliability and trust. This network can be useful in a number of ways:
• **Development organizations:** Networks can facilitate cooperation with NGOs, micro-finance institutions, cooperatives etc. who can support the implementation of the business model.

• **Communities:** Networks can facilitate access to low-income communities for market research and business development (in a way that is sensitive to and reflects the communities’ situation) and help to build capacities in the communities to enable participation in the business model.

• **Policy makers:** Networks can facilitate a dialogue with government officials and policy makers to improve the enabling environment.

• **Experts:** Access to experts from other countries in a specific sector, technology or domain (like conflict, gender or environmental protection) helps to integrate relevant knowledge.

• **Funding:** Access to unusual funders like donors, foundations or public programmes helps to acquire the necessary financial resources.

• **Multi-actor:** Networks with other companies or relevant actors can enable multi-stakeholder dialogues and alliances.

**Reputation**

When companies start to get involved in development issues, other actors often get weary; they don’t trust the official communication and wonder whether there is not a hidden agenda or whether the company is serious about its plans. Cooperation with a renowned development organization can provide the reputation required to implement the business model.

• **Credibility:** the credibility of the initiative is increased by a partnership. After all, a development organization would not lend its ‘good name’ to a project that was not trustworthy.

• **Control:** the partnership ensures that activities are in the interest of the poor, because this is the mission the development partner seeks to achieve. There is hence an inbuilt control mechanism against exploitative practices.

**Technical expertise**

Development organizations also have a lot of relevant technical expertise that a company typically lacks. Here are some capabilities that are required in a typical inclusive business development project:

• **Market knowledge:** understand the reality of the poor. (Not only have development organizations a good sense of the demands and constraints of the target group, but often also relevant empirical data.)
• **Market research:** collect information through surveys, focus groups or interviews that properly reflect the background of the target group.

• **Capacity building:** build capacities to enable poor to participate in the business model.

• **Business model development:** support the development of processes at the interface with poor communities (e.g. marketing and sales, distribution, payments or service).

• **Evaluation:** assess the social and environmental impact of a business model.

• **Communication:** reflect the language and sensitivities of communities, public and development actors in the communication on the project.

**Communication style**

In conversations with the private sector, it is most effective to argue with a ‘business logic’:

• Data and empirical evidence to support the arguments
• Simple language and not technical and bureaucratic lingo
• Understanding of business terminology
• Thinking from the perspective of the company

**Example 13: Business Call to Action – Mobilising companies for inclusive business**

The Business Call to Action (BCtA) is a multi-stakeholder platform that encourages companies to develop innovative business models that meet both development and business goals. Participants in the BCtA include both multinational and national companies committed to contributing to development solutions through their core business activities. To convince companies to participate in the BCtA, the initiative offers a number of benefits, including:

• Visibility for companies to demonstrate their commitment to eradicating poverty
• Knowledge and expertise on inclusive business models and a global community of practice
• Credibility through the recognition, validation and dissemination of reported results
• Limited technical support to help identify and develop appropriate company initiatives
• Contacts to other implementing partners and enterprise development experts

Source: http://www.bcta-initiative.org
Ask yourself:

- What are the benefits the company has from working with your organization?
- How can you best make the case for your organization, using fact-based arguments?
- What worries on the side of the company may you have to diffuse and how?

3.1.4 Selecting a project

Sometimes, a broker has to decide whether to engage in a project or not. To determine whether a project is eligible at all, they have to check whether it meets the criteria. To select among a variety of projects, systematic prioritization is helpful.

Basic Selection Criteria

Each organization will have its own criteria that have to be met by a project and the partner company. These need to be carefully assessed in advance of the project. The most common criteria include:

- Part of a priority sector or value chain as defined by the broker organization’s own strategy
- Compliance with standard responsible business practices (e.g. following the principles of the UN Global Compact)
- Not falling under certain exclusions (e.g. alcohol, tobacco or defence industry)
- Include the poor in a way that benefits them
- Own relevance for the project (do we make a difference?)

Prioritization

Choosing among a number of potential projects requires reflection about where best to focus ones attention and resources. A systematic prioritization, leading to a ranking of alternatives, supports decision making. Here are the steps for prioritization

- Define: Determine the criteria by which the projects shall be evaluated. Typical dimensions are the expected impact (defined e.g. by the contribution to the MDGs) and likelihood to succeed

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8 Within the UNDP IMD process, projects in collaboration with companies would be developed in a step-by-step process starting from the strategic choice of a market or sector based on a market assessment involving stakeholders. In most cases, projects arising from this process will meet the criteria, since these are embedded in the development process. Still, a careful look to these criteria before actually venturing into the project might be useful. Also, the need for prioritization might arise during the project definition process, e.g. after a brainstorming of possible interventions.
• **Assess:** Evaluate all projects based on these criteria. Ideally, this process takes different perspectives as well as available data and factual information into account.

• **Rank:** Plot all projects on a matrix that displays the selected criteria, as shown in Figure 13: Prioritization matrix. If there are more than two criteria, these can be integrated by attaching weights to each criterion. You can use this integration process also to determine the position in the matrix, e.g. ‘likelihood of success’ can be a function of the financial resources available, the expertise of the project team and the commitment from management.

![Prioritization matrix](image)

**Figure 13: Prioritization matrix**

• **Decide:** The projects with the highest ranking (in the upper right corner) should be done first. You may also define a point in the evaluation below which projects are not eligible any more (e.g. if they have a low likelihood of success). This process may also lead to the decision that none of the potential projects should be implemented.

**Example 14: SEED Initiative – Selecting promising inclusive business models**

The SEED Initiative identifies, profiles and supports promising, locally-driven, start-up enterprises working in partnership in developing countries to improve livelihoods, tackle poverty and marginalisation, and manage natural resources sustainably.

Initiatives can apply for SEED award. To apply, initiatives must be:

a) demonstrating entrepreneurship and innovation

b) supporting sustainable development
c) able to become financially sustainable

d) a partnership between different stakeholder groups

e) locally driven

f) able to grow or replicate significantly

g) in the early stages of implementation

h) in a country with a developing or emerging economy

An internal selection team processes the applications in order to compile a shortlist of the 50 most promising partnerships. Shortlisted candidates are then asked to provide additional information. Following that, an independent international jury of experts in the field of sustainable development selects the SEED Award Winners and Gold Award Winners.

Source: http://www.seedinit.org/

Ask yourself:

- Are the eligibility criteria for projects clearly stated and agreed upon within your organization?
- What, in your view, are the most important criteria when selecting a project?
3.2 Implementing a project

Brokers can help companies in developing an inclusive business model, and the previous chapter provided some tools that can support this process. But brokers sometimes also face own challenges when implementing a project, relating to funding, technical expertise and organization.

3.2.1 Acquiring funding

Funding is an issue for most companies starting inclusive business models. But it is also a challenge for the broker. While the broker’s task is not to provide funding to the company, being involved in a project always has a cost, and often these costs are not reflected in the business case.

Funding needs

Brokers usually have a funded position to support the partner projects on an ongoing basis. But each project has tasks that need more manpower or are better outsourced to experts. Some of these are difficult to fund for either the broker organization or the company. But they may well be crucial for the success of the project. These tasks include:

- Market research and needs assessment
- Impact assessment
- Stakeholder dialogues

Sources of funding

A number of sources can be considered to receive funding.

- **Impact investors**: a variety of organizations are providing funding to support inclusive business models. They include foundations (Rockefeller, Gates, Skoll, etc.) and traditional donors (UN, bilaterals).
- **Competitions**: Award schemes and calls for proposals focusing on sustainable development provide small funds and often technical support.
- **Partners**: Partners from government or international organizations can co-fund or execute certain tasks.
**Example 15: S.E.VEN Fund and Pioneers of Prosperity – Investing in thought leadership**

S.E.VEN (Social Equity Venture Fund) is a virtual non-profit entity with the objective to increase the rate of innovation and diffusion of enterprise-based solutions to poverty. The fund organizes competitions that seek to inspire and reward thought leadership around these solutions through books, films and websites, supporting role models in developing nations, and shape the around this theme in government, the press and the academy. Competitions may be a way to receive funding for research and documentation.

A S.E.VEN spin off, the Pioneers of Prosperity programme awards entrepreneurs in developing countries with grants of up to US$100,000. Grants can be applied towards technical infrastructure, including equipment such as computers, training facilities, and software, as well as training for executives and employees, and strategic planning support.


**Ask yourself:**

- What are your specific funding needs that can not be covered by the company?
- What types of funders might have an interest in these activities?
- Are there any competitions, calls for proposals or grant programmes that fit your needs?

**Further resources:**


**3.2.2 Finding technical expertise**

Facilitating partnerships, supporting companies, developing sector-specific business models in difficult market surroundings – these are challenging tasks for a broker. Technical expertise helps to plan projects more efficiently and to achieve better results. First points of contacts to find experts include:

- **Development organizations** have supported many public-private-partnerships over the last years. They also have country experts and thematic experts on topics like health, financial systems or nutrition.
- **Investors** like the World Bank/IFC, regional development banks or social investors like Acumen Fund can help to finance a project. They also have sectoral expertise and experience in evaluating projects.
• **Local actors**, including business associations, NGOs and public agencies may be helpful with any kind of country-specific expertise about the industry sector, relevant regulation and support systems.

• **Specialized Think Tanks and consultants** can provide expertise on inclusive business models that is based on analysis of existing examples and contacts with stakeholders.\(^9\)

• **Companies** that have set up successful inclusive business are often willing to share their experience. This helps to get first hand information from the same sector or industry. The case study databases in chapter 0 help to identify existing players.

• **Universities** that do research on inclusive business models are often also hubs for practitioners in the field. For questions regarding the local context or for support for impact research in the field, local universities might also offer expertise and manpower. Existing research centres include:
  - Cornell University – Johnson School - Center for Sustainable Global Enterprise, Stuart Hart (Samuel C. Johnson Chair in Sustainable Global Enterprise and Professor of Management)
  - IESE Platform for Strategy and Sustainability; Christian Seelos (Director) and Johanna Mair (Associate Professor of Strategic Management)
  - Harvard Kennedy School CSR Initiative; Jane Nelson (Director)
  - Massachusetts Institute of Technology; D. Lab; Amy B. Smith (Design Lab Instructor)
  - TU Delft BoP Initiative; Prabhu Kandachar (Associate Professor of Industrial Design Engineering) and Jan-Carel Diehl (Assistant Professor for the Design for Sustainability)
  - William Davidson Institute, University of Michigan, BoP Initiative; Ted London (Director)

Ask yourself:

• What kind of technical expertise may the development of an inclusive business model require?

• Do you already have established relationships that you might leverage for that purpose?

\(^9\) The UNDO Private Sector Division has a roster of specialist available and can present country offices with a short list of candidates for any specific assignment.
3.2.3 Organizing the project

Initiatives around inclusive business models can be quite complex, with a variety of partners involved that may not be used to working together. All the more important is it to have clear and transparent roles, structures and planning.

Roles

Inclusive business projects are often developed in such close collaboration between the company and the broker that roles may become blurred. Still, it is important to be clear about what each party can contribute.

Brokers can take on the following tasks:

- **Advise companies:** The broker supports the company in developing an inclusive business model using his expertise in development and business as well as his knowledge of local conditions.
- **Facilitate partnerships:** Brokers can often rely on a broad networks of actors, speak the languages of these different worlds and can thus help to initiate partnerships.
- **Facilitate funding:** Brokers may know “unusual” sources of finance like development banks, social investors and local subsidiaries.

The company is responsible for the actual implementation of the business model:

- **Develop the business:** The company is responsible for developing the business model, for designing suitable products and processes, for setting up operations and running the business.
- **Manage interactions with partners:** The company is in charge of all the communication and collaboration processes with partners.
- **Invest:** The company invests own resources into the project.

Structure

Standard good practices of project organization apply. The complexities of multi-actor projects require a particular focus on:

- **Governance:** Establish a clear governance structure that reflects the interests of the various partners. For example, a steering committee can take strategic decisions and a project manager takes the day-to-day decisions. Define when decision boards meet and how they are informed.
- **Objectives:** Define the measurable goals and milestones the project shall achieve. Who is responsible for those? What happens when objectives are not met?
- **Termination:** Define when and how the project can end. What expectations can project partners have towards each other or the project, if any?
Planning

The project manager should develop a project plan for the whole project. The plan should contain measurable milestones as well as tasks and responsibilities.

- **Flexibility**: build flexibility into the process. Include contingency plans for delays, failures etc. Inclusive business models require experimentation and innovation, things that take time and are hard to plan.
- **Timing**: timing should be realistic. Take internal organizational processes into account and make them transparent to avoid frustrations during the project.

**Example 16: KARL STORZ, GTZ and UNU for Women’s Health in India – Planning, operating and evaluating an inclusive business**

KARL STORZ GmbH & Co KG is a leading producer of medical technology, in particular endoscopic equipment. The German company entered a partnership with German technical assistance company GTZ. In a joint project, the partners set up a training programme for gynaecologists in India on endoscopic diagnosis and therapy with the goal to make these services available to poor women. In addition, the United Nations University acted as a neutral partner to ensure objective documentation and learning. The project started in April 2005.

The structure of the project clearly reflected the stake each partner had in the partnership, with a steering committee representing all three partners. The committee agreed on specific objectives regarding the number of trainees as well as poor women benefiting from treatment. KARL STORZ was responsible for the actual implementation of trainings in India. GTZ took over the responsibility of monitoring the progress on the ground. A project plan guided the implementation. UNU organized the learning workshops and documented the insights of the initiative in a book.


**Ask yourself:**

- What should be the role of your organization in the project?
- How can the structure of the project be defined to reflect the interests of all parties?
- How well does the speed of your organization match the speed of the partner organizations? How can differences be reflected in the project planning?

**Further resources:**

ANNEX: Resources

Publications

Beth Jenkins (2007) Expanding Economic Opportunity: The Role of Large Firms
Beth Jenkins et al. (2007) Business Linkages: Lessons, Opportunities, and Challenges


Kumar Duraiappah (2004) Human Well-Being, Poverty and Ecosystem Services - Exploring the Links


Michael Kuhndt et al. (2005) Human Development Through the Market (Hdtm): An Innovative Market-Based Approach to Poverty Alleviation via Environmental and Social Improvements


Olsen and Brett Galimidi (2008), Catalogue of Approaches to Impact Measurement


Prabhu Kandachar und Minna Halme (eds., 2008) Sustainability Challenges and Solutions at the Base-of-the-Pyramid: Business, Technology and the Poor, Greenleaf. Sheffield

Robert Chambers (2002) Participatory Workshops: A Sourcebook of 21 Sets of Ideas and Activities


UNDP (2008) Creating Value for All – Strategies for Doing Business with the Poor


**Brokering Inclusive Business Models**

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**WBCSD (2009), Measuring Impact – Framework Methodology**


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**Websites**

BoP Learning Labs [www.bopnetwork.org](http://www.bopnetwork.org)

Business Fight Poverty [http://businessfightspoverty.ning.com](http://businessfightspoverty.ning.com)

International Business Leaders Forum [www.iblf.org](http://www.iblf.org)

UN Global Compact [www.unglobalcompact.org](http://www.unglobalcompact.org)

World Business Council for Sustainable Development [www.wbcsd.org](http://www.wbcsd.org)

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**Case study repositories**

Ashoka [www.ashoka.org](http://www.ashoka.org)

Acumen [www.acumen.org](http://www.acumen.org)


NextBillion [www.nextbillion.net](http://www.nextbillion.net)

SEED Initiative [www.seedinit.org](http://www.seedinit.org)

UNDP Growing Inclusive Markets [www.growinginclusivemarkets.org](http://www.growinginclusivemarkets.org)

WBCSD [www.wbcsd.org > case studies](http://www.wbcsd.org)

World Bank Development Marketplace [www.developmentmarketplace.org](http://www.developmentmarketplace.org)