



New Horizons

How Inclusive Business is Helping Achieve
the SDGs in the Philippines

CONTENTS



CONTENTS	1
LIST OF ACRONYMS	2
FOREWORD	3
ACKNOWLEDGEMENTS	5
EXECUTIVE SUMMARY	6
1. INTRODUCTION: INCLUSIVE BUSINESS AND THE SUSTAINABLE DEVELOPMENT GOALS	11
Global Development Agenda: Context for the Philippines	11
Inclusive Business and the Sustainable Development Goals	12
Capturing the Philippine Private Sector Contribution to the Sustainable Development Goals	15
2. THE STATE OF INCLUSIVE BUSINESS IN THE PHILIPPINES	19
Ongoing Evolution	19
Inclusive Business Awareness Among Companies	20
Inclusive Business Policy Environment	21
3. A CLOSER LOOK: INCLUSIVE BUSINESS OPPORTUNITIES ACROSS SECTORS	27
Insights Across Sectors	27
Food and Agribusiness	29
Infrastructure	37
Skills Building and Education	45
Financial Services	51
4. SCALING UP INCLUSIVE BUSINESS IN THE PHILIPPINES: A CALL TO ACTION	59
ANNEX 1: Methodology	65
ANNEX 2: Building Inclusive Business in the Philippines: PBSP Model	67
ANNEX 3: Summary of Featured Inclusive Business Models	70
ANNEX 4: Key Players in the Philippines Microfinance Industry	74

LIST OF ACRONYMS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BCtA	Business Call to Action
BoP	base of the economic pyramid
BPO	business process outsourcing
CLIS	Cebuana Lhuillier Insurance Solutions
CSR	corporate social responsibility
DTI	Department of Trade and Industry
GDP	gross domestic product
GRI	Global Reporting Initiative
HSSi	Hybrid Social Solutions
ICT	information and communication technology
LGU	local government unit
LIFI	Lao Integrated Farms Inc.
MKAVI	Mt. Kitanglad Agri-Ventures Inc.
MSME	micro, small and medium-sized enterprise
NWTF	Negros Women for Tomorrow Foundation
PBE	Philippine Business for Environment
PPP	public private partnership
SDG	Sustainable Development Goal
TSKI	Taytay sa Kauswagan Inc.
UNDP	United Nations Development Programme

FOREWORD

The 2030 Agenda, commonly known as the Sustainable Development Goals (SDGs), is remarkable in its ambition. These 17 Goals and 169 targets hold the promise of fundamentally transforming the world we live in. The Global Agenda calls on all countries, developed and developing, to eradicate extreme poverty in all its forms, to see people live in safe, peaceful and inclusive societies, and importantly to live within our means by pursuing sustainable consumption.

The SDGs are not for Government alone to pursue. Rather they require a collective and coherent effort by all stakeholders in society, and perhaps most critically the private sector. The private sector's ability to create jobs, stimulate economic growth and innovation, and provide financial resources – if steered in a more inclusive and sustainable direction – will undoubtedly make a significant contribution towards achieving the SDGs. Businesses can help catalyze into action what Jeffrey Sachs calls epistemic communities¹ – networks of expertise, knowledge, and practice – to deliver on the SDGs. In doing so businesses can also marry the profit imperative with sustainable development; these are not mutually exclusive.

As early as 2005, the World Business Council for Sustainable Development (WBCSD) coined the term **Inclusive Business**, referring to ventures that go beyond philanthropy by integrating low-income communities into their value chains as customers, suppliers, retailers, and distributors. These communities are the Base of the Economic Pyramid – people with less than USD 8 (approximately 400 Philippine Pesos) per day in purchasing power. As this report underlines, the private sector in the Philippines already provides 9 out of 10 jobs and is the source of 60 percent of all investments. If this engine for economic growth can be directed towards those who constitute the Base of the Pyramid, the endeavor to eradicate poverty and to leave no one behind would be significantly accelerated.

The Philippines is among the leading examples globally of how the private sector can support inclusive growth. This publication aims to provide different perspectives on the effectiveness of Inclusive Business in the country by analysing the current state of private-sector development initiatives across various sectors and presenting actual Inclusive Business cases in food and agribusiness, health, housing and financial services. This publication aims to create Sachs' epistemic communities by showcasing the Inclusive Business models of large corporations; medium, small and micro enterprises; and even start-ups.

This publication, a product of collaboration between Philippine Business for Social Progress (PBSP), Business Call to Action (BCtA) and UNDP in the Philippines, is just the commencement of our efforts to work with the private sector to contribute to achieving the SDGs in the Philippines and to leave no one behind.



Titon Mitra
Country Director, UNDP Philippines

Private sector in the Philippines provides 9 out of 10 jobs and is the source of 60 percent of all investments.

1 <https://www.weforum.org/agenda/2015/03/why-the-sustainable-development-goals-matter/>.

FOREWORD

In these challenging times, the business sector's crucial role in nation-building requires a more strategic response.

While there are many ways to engage in social development, such as philanthropy, social investment and responsible business practices, more companies are seeing the need to adopt Inclusive Business approaches to ensure both long-term improvements in the lives of poor people, as well as business sustainability.

In Inclusive Business, social development is no longer an add-on activity conducted once annually or for a short period, but an integral part of business operations. Companies can engage low income earners people as customers, employees or partners in their core businesses.

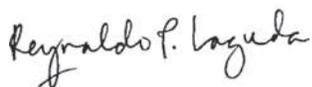
In 2012, Philippine Business for Social Progress (PBSP) began to promote Inclusive Business as a strategy to pursue development and address poverty. Since then, we have worked toward the establishment of the PBSP Inclusive Business Centre that encourages innovation of Inclusive Business models and practices, and facilitates partnerships supporting their implementation.

PBSP is privileged to be a part of this report, which presents a persuasive argument and inspiration for establishing Inclusive Business in many more Philippine and Asian companies.

Through this report, we hope to increase our understanding of business trends and practices as they relate to Inclusive Business. This will provide valuable insights that would help PBSP and its member companies to align their work and identify solutions needed by our country.

We also hope that this volume will demonstrate the headway that Inclusive Business has gained in the Philippines over the past several years, and its increasing uptake in many sectors. The effort will not be easy until a significant number of companies adopt these models and form a critical mass for Inclusive Business. It is in this regard that we acknowledge the contributions of Business Call to Action (BCtA) and other stakeholders in the production of this publication.

Lastly, we envision this initial effort of partners in Inclusive Business advocacy to establish a pathway toward achieving the Sustainable Development Goals (SDGs).



Reynaldo Laguda
Executive Director, Philippine Business for Social Progress

Inclusive
Business ensures
long-term
improvements
in the lives of
poor people as
well as business
sustainability.

ACKNOWLEDGEMENTS

The global launch of the 17 Sustainable Development Goals (SDGs) in 2015 created unprecedented momentum for private sector engagement in and contribution to a more inclusive and sustainable future – a world free from poverty, hunger and injustice, with lasting prosperity on a healthier planet. There is particularly strong potential for the private sector to deliver sustainable contributions across economic, social and environmental dimensions through Inclusive Business models.

Report Authors

Tatsiana Hulko and Michelle Roque, Business Call to Action, particularly recognizing the guidance and support of Marcos Neto, Director, Istanbul International Center for Private Sector in Development; Sahba Sobhani, Programme Advisor Private Sector, Bureau for Policy and Programme Support, United Nations Development Programme (UNDP); Paula Pelaez, Business Call to Action Programme Manager; and Aimee Brown, BCtA Communications Lead.

Project Team

The report acknowledges the contribution of PBSP, which lent local expertise and provided support in gathering insights for the report, including through interviews and workshops.

We extend special thanks to all company representatives that participated in workshops and in-depth interviews, allowing the project teams to gather valuable insights and feature their Inclusive Business models in the publication as case studies.

In addition, we would like to thank the following reviewers and experts for their support and insights:

- Murat Citilgulu, Consultant, Istanbul International Center for Private Sector in Development
- Markus Dietrich, Policy and Private Sector Expert, Inclusive Business Action Network
- Aissa Hermoso, Senior Investments Specialist, Board of Investments, Philippine Department of Trade and Industry
- Maria Luisa Isabel Jolongbayan, Team Leader of the Management Support Unit, UNDP Philippines
- Taimur Khilji, Policy Specialist, UNDP Asia-Pacific Regional Centre
- Reynaldo Antonio Laguda, Executive Director, Philippine Business for Social Progress
- Joji Pantoja, CEO, Coffee for Peace
- Andrew Parker, Senior Advisor, UNDP
- Anabelle Plantilla, National Project Manager, BioFin, UNDP Philippines
- Annabelle C. Trinidad, Senior Technical Advisor, UNDP

Copy editing: Hope Traficanti

Design: Laurie Douglas

Note: In this document, the term 'Inclusive Business' refers to commercially viable business models that benefit low-income communities (those who live on less than USD 8 per day in purchasing power parity) by including them in companies' value chains on the demand side as clients and consumers, or on the supply side as producers, entrepreneurs or employees.

EXECUTIVE SUMMARY

The global launch of the 17 Sustainable Development Goals (SDGs) in 2015 created unprecedented momentum for private sector engagement in and contribution to a more inclusive and sustainable future – a world free from poverty, hunger and injustice, with lasting prosperity on a healthier planet. There is particularly strong potential for the private sector to deliver sustainable contributions across economic, social and environmental dimensions through Inclusive Business models.

Defined as commercially viable business models that expand access to goods, services and livelihoods for low-income people, Inclusive Businesses engage populations at the base of the economic pyramid (BoP) in their value chains – as suppliers, distributors, retailers or customers.² What distinguishes Inclusive Business models from business as usual is these businesses' value for social impact – especially related to the BoP and social investment into a company's core business.

The Philippines is one of the Association of Southeast Asian Nations' (ASEAN) most dynamic economies, demonstrating robust growth and resilience to global and regional upheavals. However, its strong economic performance has yet to benefit the country's poorest citizens, who make up over 25 percent of its population. Poverty reduction is therefore at the top of the Government's new socio-economic policy agenda, which aims to lift 9 million Filipinos out of poverty by 2022.³ Domestic growth and development are naturally fueled by the private sector, which in developing countries generates nine out of ten jobs and funds 60 percent of all investments.⁴ However, growth that is inclusive of the poor does not happen automatically. BoP-focused models must be intentionally developed as part of companies' core business.

This publication aims to demonstrate how Inclusive Business can be engaged in the Philippines to contribute to achieving national development priorities and the SDGs – and how governments and other stakeholders can create an environment in which such business models thrive and reach scale. It is part of the report series that Business Call to Action (BCTA), a global advocacy platform, has developed with local partners in the Philippines, Kenya, and Colombia to highlight the market and SDG potential of Inclusive Business across sectors.

This publication draws its main findings from a series of workshops and interviews conducted by the Philippine Business for Social Progress (PBSP), a BCTA partner and the largest corporate-led organization in the Philippines promoting Inclusive Business. Representatives from 53 companies and over 100 stakeholders participated in the workshops, which

2 2015 G20 Inclusive Business Framework: http://www.g20inclusivebusiness.org/sites/default/files/reference-attachments/G20%2BInclusive%2BBusiness%2BFramework_Final.pdf.

3 Philippine Development Plan 2017-2022: http://www.iro.ph/article_doc/fc55bc53_PDP-2017-2022-Prepublication-2.pdf.

4 International Finance Corporation Job Study: http://siteresources.worldbank.org/CFPEXT/Resources/299947-1364681190360/IFC_Jobs_Report_Summary.pdf.

focused on major challenges and opportunities for private sector engagement in Inclusive Business in the food and agribusiness, skills building and education, infrastructure and financial services sectors. Initial findings were validated through in-depth interviews with senior executives and sustainability experts from 13 companies. The publication presents recommendations on how to scale Inclusive Business to meet the SDGs in the Philippines. It highlights both established and emerging private sector models that serve as inspiring examples for other businesses that are considering engagement in Inclusive Business.

Key findings



Inclusive Business demonstrates strong potential for contributing to the SDGs as companies adopting Inclusive Business models are providing sustainable income opportunities as well as more affordable goods and services for people at the BoP. The report highlights that Inclusive Business, while still a relatively new concept

in the Philippines, compared with traditional corporate social responsibility (CSR) and philanthropy approaches, is an effective way for businesses to contribute to achieving the SDGs. The country's strong tradition of private sector engagement in development-related initiatives, robust social enterprise movement and increasing government support for Inclusive Business offer compelling evidence that these efforts will establish a strong Inclusive Business ecosystem in the Philippines. Already, the country's micro, small and medium-sized enterprises (MSMEs) register the highest levels of inclusiveness among Philippine businesses,⁵ with several companies achieving scale. Similarly, large national companies that have aligned their CSR and sustainability strategies with their core businesses and are reporting on the SDGs are well-positioned to champion Inclusive Business in the country.



A combination of strong government support for Inclusive Business in the food and agribusiness sector, as well as the prevalence of Inclusive Business models, makes this sector the most promising for Inclusive Business. Of the four sectors highlighted in this report, food and agribusiness presents the greatest opportunity for companies

considering adopting Inclusive Business models. On the one hand, farmers and fishers represent the poorest sectors in the Philippines. On the other hand, the strong presence of the BoP in this sector – both on the demand and supply sides – creates opportunities for companies to adopt commercially viable models that also have social impact. Considering that the food and agribusiness sector claims the largest share of Inclusive

Philippine MSMEs register the highest levels of inclusiveness among businesses, based on the Business+ Survey findings.

⁵ Findings from Business+ national survey on Inclusive Business jointly conducted by UNDP, the Istanbul International Center for Private Sector in Development, the Philippine Department of Trade and Industry's Board of Investments, and industry associations in 2016 and 2017. The research measured the inclusiveness of Philippine business operations and identified major areas of policy intervention to accelerate Inclusive Business innovations. The report will be available in September, 2017: <http://www.iicpsd.undp.org/content/istanbul/en/home/library/reports.html>.

Partnerships with the Government, private sector, financial institutions and regulators, technical experts and international developmental organizations are essential for Inclusive Business success

Business in the Philippines,⁶ there are several successful Inclusive Business models to replicate. Furthermore, food and agribusiness was identified as one of the two priority sectors by the Government for piloting Inclusive Business initiatives. Initial success and scale have been evidenced by several nationwide pilots in which the Government has engaged with Inclusive Business practitioners to deliver inclusive growth.

Building effective and meaningful partnerships across sectors is a key success factor in scaling Inclusive Business. Whether with the Government, other business entities, NGOs or international institutions, partnerships are critical for pursuing successful Inclusive Business initiatives. Working with the BoP requires essential elements that some companies may not possess. These include technical capacity, knowledge, the ability to raise awareness among the BoP, and physical access to infrastructure and financing. One of the ways Inclusive Businesses are able to address these challenges is through meaningful, well-thought-out partnerships with relevant players.

Building capacity of the BoP to become part of the value chain and providing access to financing remain the most common challenges faced by Inclusive Business practitioners. The majority of companies in all four sectors referred to a lack of access to financing (for the BoP and companies alike), and technical capacity as major challenges for Inclusive Business models' growth. This is a call to action for all stakeholders – government, investors, local financial institutions and development organizations – to design and deliver better financial products and loan alternatives that meet the needs of both the BoP and companies. These include: increased availability of insurance products across sectors, especially in agriculture; less traditional and more BoP-tailored financing models; and more innovative risk-sharing arrangements and credit guarantees among market participants.

Key recommendations

Increase awareness and ensure greater engagement of Inclusive Business practitioners in policy and programme development. The Board of Investments of the Philippines Department of Trade and Industry has the mandate to promote Inclusive Business through policies and programmes. It can take the lead in establishing standards for Inclusive Business in the Philippines and supporting its potential to achieve national and global development agenda through the following actions:

- Carrying out a targeted communications and advocacy campaign to raise awareness about Inclusive Business and related support mechanisms such as tax holidays and enabling policies. Inclusive Business concepts should also be mainstreamed within the Government, with different departments – such as Trade and Industry, Agriculture, Finance, Housing and Energy – working collaboratively to develop and align Inclusive Business-focused programmes.
- Consolidating a localized knowledge platform as a repository for information on Inclusive Business. To remain relevant, the platform needs to be managed and

⁶ Asian Development Bank (ADB), (2013). Inclusive Business Market Study – Philippines.

updated by a number of its users, leveraging innovative information-sharing mechanisms such as cloud technologies, social media. This can be based on an existing platform, such as the Philippine Business for Social Progress (PBSP) Inclusive Business Imperative or integrated into the global platform.

- Including the private sector and BoP in policy planning and development of Inclusive Business-related initiatives, particularly the development of capacity building activities and design of curricula.

Private sector leadership on convergence initiatives to achieve the SDGs. The private sector can establish innovative partnerships across industries, stakeholders and regions. Because of their unique nature, Inclusive Business models require more diverse and creative types of partnerships than business as usual. Alliances that transcend a specific industry and enable collaboration between local, regional and global partners around the SDGs are the natural next step for Inclusive Business to scale. Public-private partnerships (PPP) can be redefined by expanding them to more sectors and integrating Inclusive Businesses and MSMEs as meaningful participants in bidding, procurement and implementation processes.

Build private sector capacity and incentives to measure and report on the SDGs.

Disclosure of SDG-related key performance indicators from the private sector is fundamental to capturing businesses' contribution to the SDGs. The Philippines has advanced such efforts by establishing an online unified country platform – a joint effort by BCtA, the United Nations Development Programme (UNDP) and Philippine Business for Environment (PBE), a data partner of the Global Reporting Initiative (GRI) for the Philippines.⁷ The platform documents and recognizes private-sector contributions to the SDGs in order to ensure success going forward.

- The Government, business associations and international organizations should develop strong initiatives that improve the measurement and reporting capacity of Philippine companies, and provide incentives to increase private-sector disclosure of SDG-related data.⁸ To this end, stock exchanges could be effective partners for collaboration since they play an increasing role in encouraging companies to report on environmental, social and governance information.
- The private sector should invest in measuring operational and social performance, and reporting on the SDGs through country-wide platforms and as part of companies' sustainability report.

.....

Disclosure of SDG-related KPIs from the private sector is fundamental to capturing businesses' contribution to the SDGs.

.....

7 The platform, currently being revamped by UNDP and PBE in line with the 'SDGs is Our Biz' project, was able to document private-sector contributions to the SDGs. This documentation will be published in August 2017.

8 A key output towards the 'SDGs is the Our Biz' project implemented by UNDP and PBE.



1. INTRODUCTION:

Inclusive Business and the Sustainable Development Goals



Global Development Agenda: Context for the Philippines

In September 2015, 193 countries committed to the Sustainable Development Goals (SDGs), which aim to end poverty, protect the planet and ensure prosperity for all by 2030. This new, ambitious framework calls for greater private-sector participation alongside governments and international organizations.

Governments across the globe are expected to ‘bring the SDGs home’ and report on their performance at the national level. The Philippines has integrated the SDGs into two key national policies – the Philippine Development Plan (2017-2022) and *Ambisyon Natin 2040*, a 25-year vision for development planning. The Government, through the leadership of Philippine Statistics Authority and National Economic Development Authority, is working to identify localized SDG indicators that reflect the nation’s contribution to the global development agenda. It remains to be seen how the private sector’s contribution will be captured through these initiatives, but they are nevertheless a commendable development. The SDGs have been used as a guiding framework for the 2018 national budget. From an environmental perspective, the Philippine Biodiversity Strategy and Action Plan has been mainstreamed into the Philippine Development Plan. As a next step, the Government plans to develop a SDG implementation roadmap, to include resource planning, advocacy and communication, and capacity building for local leaders, communities, statistical agencies and other stakeholders.

The Philippines currently ranks 95th out of 149 countries globally in progress towards the SDGs, as measured by the United Nations Sustainable Development Solutions Network and Bertelsmann Stiftung.⁹ It has made its most noticeable progress on SDG 4: Quality Education, SDG 5: Gender Equality, SDG 7: Affordable and Clean Energy, and SDG 13: Climate Action. The biggest challenge for the country remains its high poverty rate: if the Philippines is to achieve its SDG commitments by 2030, 22 million Filipinos must be lifted out of poverty in the next 13 years.

Inclusive Business and the Sustainable Development Goals

The private sector accounts for more than 60 percent of the world’s gross domestic product (GDP) and contributes 90 percent of all jobs and 80 percent of capital

PHILIPPINES COUNTRY STATISTICS¹⁰

Human Development Index

116th out of
188 countries

Population (2015)

Size: 100.7 million

Growth:

1.6 percent per year

GDP (2015)

Annual:
US\$292.5 billion

Growth rate:

5.9 percent per year

Per capita:

US\$2,904

Poverty

(national line, 2012)

25.2 percent

Ease of doing business rank (2016)

99 out of 190 countries

9 2016 SDG Index Global Report: <http://www.sdgindex.org/download/>.

10 World Bank. Data Bank. Accessible from <http://data.worldbank.org/country/philippines>.

What is Inclusive Business?

Business Call to Action (BCtA) uses the UNDP Inclusive Business definition according to which Inclusive Business is a commercially viable business model that benefits low-income communities (those who live on less than USD 8 per day) by including them in a company's value chain on the demand side as clients and consumers or on the supply side as producers, entrepreneurs, or employees.

The G20 platform considers Inclusive Business to entail a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people

at the BoP, making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. In 2015, the G20 platform further defined three distinctive Inclusive Business approaches depending on the BoP relationship to business, the company's financial return expectations and primary funding type for the business.

The BoP refers to people who are low-income and lack access to basic goods and services. The low-income segment is considered to include people earning USD 8 or less per day in purchasing power parity terms, in 2005 dollars.

flows.¹¹ Its ability to provide employment, stimulate economic growth, pioneer innovation and generate additional sources of financing all have multiplier effects.¹² The SDGs offer opportunities for businesses to go beyond traditional impacts and contribute to the well-being of communities and the environment without sacrificing business objectives.

Companies that choose to align their strategies with the SDGs can generate a unique competitive advantage and create new sources of growth. As identified by the joint UNDP-Deloitte publication *Uncharted Waters: Blending value and values for social impact through the SDGs* research,¹³ the SDGs drive financial value through

- New revenue generation;
- Talent recruitment and retention;
- Increased supply chain resilience;
- Creation of socially responsible investment capital; and
- Assured license to operate.

The Business and Sustainable Development Commission estimated the total worth of business opportunities created by the SDGs at USD 12 trillion in business savings and revenue by 2030.¹⁴

11 Mitra, T. (2016). Reporting Philippine Business Contribution to SDGs [Powerpoint slides].

12 Nelson, J.G. (2015). *Building Blocks for Success at Scale*. Retrieved from Business Fights Poverty website: <http://reports.businessfightspoverty.org/wp-content/uploads/sites/49/2015/09/BusinessandSDGs.pdf>.

13 UNDP and Deloitte, (2016). *Uncharted Waters: Blending Value and Values for Social Impact Through SDGs*: http://www.businesscalltoaction.org/sites/default/files/resources/UnchartedWatersReport_January2017_web.pdf.

14 *Better Business Better World*. Retrieved from Business & Sustainable Development Commission Website: <http://report.businesscommission.org/report>.



In the Philippines, business associations have been instrumental in raising awareness among the private sector of the SDGs and supporting their integration into businesses' core operations. The private sector, in turn, has responded with interest. The depth and breadth of their alignment with the SDGs, however, varies. While some Philippine businesses are already advanced in this field, many have yet to advance their understanding of the private sector's contribution to development beyond traditional corporate philanthropy. The focus is now on 'how'.

One of the most effective responses of businesses to the SDGs is Inclusive Business and engagement of BoP populations in companies' value chains. The promise of Inclusive Business – and what differentiates it from other shared-value approaches – lies in its ability to leverage companies' core businesses, thereby ensuring its commercial sustainability and capacity to operate at scale (a major barrier for social enterprises), while positively impacting the lives of people at the base of the economic pyramid (BoP).

There are 4.5 billion people in the world at the BoP – living below USD 8 per day in purchasing power parity.¹⁵ But these communities' collective purchasing power stands at USD 5 trillion. In the Philippines, people at the BoP spend USD 34 billion per year, which is almost 50 percent of the country's entire household expenditures. The number of people living at the BoP will soon exceed 20 million. That is why President Rodrigo Duterte's 0+10-point Socio-Economic Agenda for the next six years is primarily focused on reducing poverty by 1.25-1.5 percent every year. Inclusive Business is the proven model for achieving this goal.

Although the commercial drivers of Inclusive Business differ for growing companies and large, established businesses, the most common drivers include:¹⁶

15 2005 Purchasing Power Parity.

16 Insights from BCtA's 2014 report, *Breaking Through: Inclusive Business and the Business Call to Action Today*: https://www.businesscalltoaction.org/sites/default/files/BCtAImpactReport_BreakingThrough.pdf.

- Sustainability and security in the supply chain (supplier-focused Inclusive Business models);
- Competitive differentiation and profitability (consumer-focused Inclusive Business models);
- First-mover advantage in low-income markets; and
- Access to new markets and customer groups.

Inclusive Business not only attracts companies and the BoP, but also governments, donors and civil society organizations with its ability to sustain and expand development impact without continuous infusions of development financing. The benefits for the BoP go beyond access to quality goods, services and income-earning opportunities. They also: enable children to attend school; safeguard parents' healthcare; and protect families against economic shocks through savings. These stories are far-reaching and should be shared on a wide scale. But what will define Inclusive Business' relevance and contribution to sustainable development both locally and globally is strong, SDGs-aligned, quantitative data that reflects these models' social impact. To be able to link the changes Inclusive Business delivers locally to BoP communities with broader issues outlined by the SDGs, companies will need to invest in impact measurement and reporting.



Capturing the Philippine Private Sector Contribution to the Sustainable Development Goals

Measurement and reporting are pivotal elements of the 2030 Agenda's success for all stakeholders. This is particularly so for national governments, which are expected to report on their countries' progress annually, and the private sector, whose contribution is essential for a significant breakthrough on the SDGs. Experiences in striving towards the Millennium Development Goals demonstrated the importance of comparable data in the interpretation of progress across countries. It is now a challenge for the SDG framework to bridge existing data gaps, particularly in relation to the most vulnerable and economically disadvantaged population groups, for whom consistent measurements either do not exist or are hard to find.

The Philippine Government, one of the first countries to carry out a voluntary national review of the SDGs in 2016, is working to establish standardized mechanisms and localized indicators for SDG monitoring and reporting nationwide. The country's private sector, with its rigorous measurement standards, should be an aligned and accountable partner to the Government in this endeavor. Collective action can be catalyzed through national reporting platforms that capture contributions from multinational enterprises, flagship national companies and MSMEs towards more equitable, productive and thriving communities.

A country-wide platform – the first in the Philippines – has been piloted by UNDP's Philippines country office and the Philippine Business for the Environment (PBE) in an effort to enable companies – regardless of size or industry – to document SDG-relevant key performance indicators. The platform allows companies to report on business, environment and social indicators as well as sustainability strategies. It aims to build a community of practice among Philippine businesses reporting their SDGs contributions, which can be incorporated into the Government's voluntary national SDG reporting on private-sector inputs.

In all, 75 companies and 139 initiatives are part of the SDGs reporting activities, of which 56 initiatives have been voluntarily submitted through the online portal. Of those companies that submitted reports, 43 percent are large local businesses, around 20 percent are social enterprises and multinational corporations, and the remaining companies comprise three conglomerates. Initial experiences demonstrate that the challenges faced by reporting pioneers in the Philippines mirror global trends:

- Not all companies have strong monitoring and evaluation systems, and even fewer consistently measure social impact.
- Reported data are predominantly qualitative.
- Companies struggle in the absence of unified metrics since the SDG indicators differ from standard business performance and return-on-investment measurements.
- Data gathering and reporting takes time, which detracts from business operations. Companies need to see clear benefits of such investments if regular disclosure is to succeed in the long run.

.....

National reporting platforms can play a catalytic role in capturing private sector contributions to the SDGs.

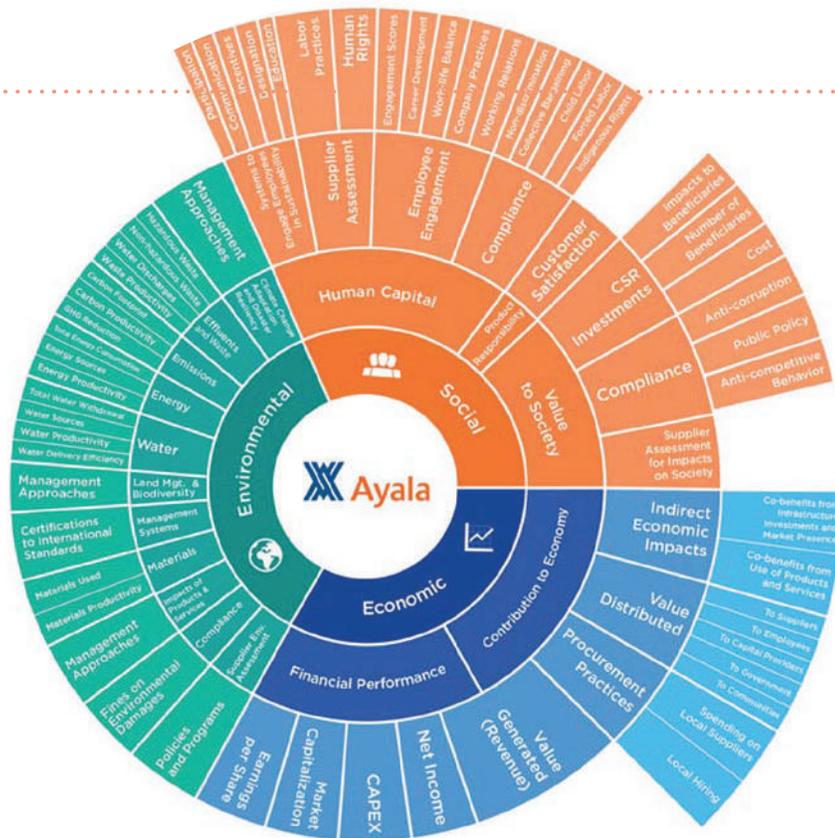
.....

These and other findings will be reflected in the upcoming UNDP Philippines-PBE report *Philippine Business Contribution to the Sustainable Development Goals*. Based on the companies' engagement experience, UNDP Philippines and PBE have developed the next phase of the SDG reporting initiative, 'SDGs is Our Biz', which focuses on improving the reporting capacity of Philippine companies through: training and individual consultations; developing unified reporting frameworks with standard business metrics together with the Government that reflect both global and national advancements; making reporting results more accessible through a mobile application for public use; and developing adequate incentives for the private sector to prioritize reporting.

Philippine companies are well positioned to meet the challenge of more systematically reporting on SDG progress. A cluster of innovative businesses in the country are already directly contributing to the SDGs; capturing this contribution would provide a good foundation. According to PBE – GRI's certified data partner in the Philippines – 21 organizations submitted GRI reports in the country in 2016; 16 of them were private companies. There is a robust support network through initiatives such as BCTa and GRI¹⁷ that strengthens the private sector's expertise in SDGs alignment, data collection and reporting.

One leading example of GRI-aligned sustainability reporting is **Ayala Corporation**, the Philippines' oldest and largest conglomerate, which does business in education, retail,

Ayala 360-degree Sustainability Framework



17 Local and global initiatives such as BCTa, PBSP's Inclusive Business Hub, GRI and PBE's SDG Online Platform offer Inclusive Business development and impact measurement services, training and certification in sustainability reporting, and recognition of private-sector contributions.

banking, telecommunications, renewable energy and healthcare. The company created its own 360-degree Sustainability Framework¹⁸ through a series of intensive workshops with its subsidiaries. It is used to capture and assess the corporation's impact on the environment and society, along with economic contributions amid sustainability challenges.

Performance against all of these parameters is now reflected in the company's sustainability reporting. Ayala Group's sixth sustainability report, *Let's Create Shared Value*,¹⁹ developed with assistance from PBE and released in 2015, was prepared in line with the GRI G4 Sustainability Reporting Guidelines and aligned with the SDGs. In it, the company disclosed global metrics on the conglomerate's financial, economic, social and environmental performance. Ayala Group's 2016 report was published in line with International Integrated Reporting Council and GRI G4 Sustainability Reporting Guidelines. It is the first Philippine conglomerate to produce an integrated report. As a flagship company pioneering integrated reporting and SDG alignment, Ayala is paving the way for other Philippine companies to pursue the same goals and presenting new opportunities to integrate Inclusive Business into reporting.

BCtA member **Kennemer Foods International, Inc.**, the country's leading supplier of cacao beans to the international market, supports smallholder farmers' access to financing, technical assistance and a guaranteed market through its Cacao Growership Programme. In 2016, Kennemer Foods partnered with the Netherlands Development Finance Company and the Dutch Sustainable Trade Initiative to establish Agronomika, a financing company that aims to meet the needs of smallholder farmers. This inclusive finance initiative was selected for a long-term impact evaluation, to begin in mid-2017. This pioneering study will focus on measuring impact on farmers in terms of agricultural production and economic development.

.....

Several leading Philippine companies are conducting impact measurement and delivering integrated reporting that is SDGs-aligned.

.....

18 <http://www.ayala.com.ph/sustainability>.

19 http://www.ayala.com.ph/uploads/sustainability_reports/2014/2014%20Ayala%20Sustainability%20Report.pdf.



bags | shoes | apparel | umbrella

ESTRADA

STREETS

Alasco

KAMPIL

TIN MAYN

HONDA

TRMX

2. THE STATE OF INCLUSIVE BUSINESS in the Philippines

Ongoing Evolution

With an average growth rate of over 5 percent in the last ten years and sound macroeconomic fundamentals, the Philippines remains a strong performer in the region. Continued commitment to inclusive growth and increased public infrastructure spending have allowed growth projections for 2017-2018 to reach 6.9 percent.²⁰

Despite its solid past economic performance however, the Philippines continues to face major development challenges. Progress towards poverty reduction has been slow and the country's growth has not been as inclusive as it could have been. Approximately 60 percent of the population lives on less than USD 3 per capita per day, and one out of every four Filipinos lives in absolute poverty and lacks access to basic services.²¹

The private sector's traditional response to the country's development challenges has generally been through corporate social responsibility (CSR) activities – specifically philanthropic CSR or corporate philanthropy.²² Corporate philanthropy has been a strategy of choice for family firms due to its straightforward nature and relatively flexible funding commitment. Moreover, the religious tradition of the majority of Filipinos influences companies' preferences to donate to charities and other religious organizations.

PBSP, a recognized leader in private-sector-driven social development efforts, traces the evolution and establishment of CSR as follows:

Evolution of corporate citizenship in the Philippines					
	1970s	1980s	1990s	2000s	2010s
Social context	Social unrest; poverty	Work with communities, 'neighbor of choice'	Reputation, capital, corporate citizenship as competitive advantage	Business sustainability	Expanding BoP market
CSR/Corporate citizenship practice	Philanthropy or giving	Community relations	Strategic social investment	Triple bottom line	Core business solutions to poverty

(continues)

The private sector's traditional response to the country's development challenges has been through corporate philanthropy

20 World Bank (2017). Philippines Overview. <http://www.worldbank.org/en/country/philippines/overview>.

21 2016 G20 Philippines Case Study, http://www.g20inclusivebusiness.org/sites/default/files/reference-attachments/Philippines%20Case%20Study_FINAL.pdf.

22 Asian Institute of Management, Ramon V. del Rosario Sr. Center for Corporate Social Responsibility. Strategic CSR for Large Companies.

Evolution of corporate citizenship in the Philippines					
	1970s	1980s	1990s	2000s	2010s
PBSP engagement with the private sector	Organized giving for social welfare and development	Building self-reliant communities	Enabling member companies to implement their corporate citizenship practices	Corporate citizenship integrated into core business; corporate-community partnership, business response	Inclusive Business

Source: PBSP

In recent years, there have been growing efforts to align companies' CSR activities with their core business strategies, creating mutually beneficial results for both companies and communities. This type of CSR, called **Strategic CSR**, is defined as

“strategic philanthropy aimed at achieving strategic business goals while also promoting social welfare.”²³

Strategic philanthropy is aligned with profit motives and spending on CSR activities is expected to yield financial returns in the long run.

Strategic CSR, creating shared value, pursuing a triple bottom line and developing business models that are inclusive of the poorest populations are all changing how companies' core business operates by linking their economic value to their value for society. Such approaches are complementary and Inclusive Business is an additional means of sustainably advancing the welfare of BoP communities, delivering economic impacts and contributing to the SDGs. The distinctive nature of Inclusive Business through the above-mentioned approaches is that the models constitute companies' core business – they are fundamental to commercial viability, rely on commercial sources of financing and are designed to operate at scale.

As identified by PBSP's extensive experience with Inclusive Businesses in the Philippines, before such models can operate in various socio-economic conditions, the social and business environment should reach a state of 'readiness'. This can be achieved through social preparation, community development and capacity building, which are no longer seen in terms of traditional corporate philanthropy but assume business value in enhancing communities through implementation. Further insights on the market segments where Inclusive Business would be most relevant in the Philippine context are discussed in Annex 2.

Inclusive Business Awareness Among Companies

In addition to building community readiness for Inclusive Business ventures, it is critical to understand how 'inclusive' Philippine companies already are – and willing to become. To

²³ Strategic CSR Initiatives for Large Firms, Philippines, 2011.

quantitatively analyze the ‘inclusiveness’ of the private sector’s business operations and understand the level of companies’ awareness of Inclusive Business, the Philippine Board of Investments together with the UNDP’s Istanbul International Center for Private Sector in Development, UNDP’s Philippines country office and industry associations surveyed 200 private sector companies in the Philippines. The survey findings revealed that Philippine businesses have low levels of awareness of – and engagement in – Inclusive Business. At the same time, many in the private sector see the relevance and potential of Inclusive Business for their industries, and consider Inclusive Business models effective in helping to reach both business and social goals.

The survey identified the highest levels of inclusiveness among Philippine micro, small and medium-sized enterprises (MSME) and established a positive relationship between business model innovation and the adoption of Inclusive Business models. This means that increasing the innovative capabilities of MSMEs and fostering an innovative environment will boost Inclusive Business.

Inclusive Businesses could benefit from a stakeholder advocacy and awareness campaign focused on the fundamental concepts that constitute Inclusive Business: integration into a company’s core business; engagement of the BoP; commercial viability; and scalability. Inclusive Business differs but does not compete with Strategic CSR or corporate sustainability, instead representing a proven means of delivering shared value and contributing to the SDGs.

The Philippine private sector should be presented with a strong business case for Inclusive Business and evidence of successful and replicable models so more companies can realize its value and consider adopting Inclusive Business models.

There are further opportunities for adopting Inclusive Business models to achieve the SDGs in the Philippines – both for large corporations, which currently lead on Strategic CSR, and scalable social enterprises, which demonstrate the highest levels of inclusivity and evidence of social impact. The Government, recognizing the importance of MSMEs’ contribution to poverty reduction (these enterprises comprise 99.5 percent of all businesses in the country and contribute 5 million jobs) has launched a number of MSMEs support programmes (see Chapter 2).

Inclusive Business Policy Environment

Recognizing the catalytic role of Inclusive Business in sustainable development and poverty eradication, G20 leaders endorsed the G20 Inclusive Business Framework²⁴ in 2015. The framework presents policy options for G20 and non-G20 governments, companies and international financial institutions to promote and support Inclusive Business in their respective countries.

The Philippines, as a permanent invitee to the G20 Inclusive Business dialogue, has actively participated in the platform’s policymaker workshops to strengthen Inclusive

.....

Inclusive Business models constitute companies’ core business – they are fundamental to commercial viability, rely on commercial sources of financing, and are designed to deliver social impact at scale.

.....

²⁴ G20 Development Working Group. G20 Inclusive Business Framework, 2015: http://www.ifc.org/wps/wcm/connect/f0784d004a9b1f2ea5f0ed9c54e94b00/Attachment+G+-+G20+Inclusive+Business+Framework_Final.pdf?MOD=AJPERES.



Business in the country. In 2016, the Philippines was one of nine countries²⁵ to examine how governments support Inclusive Business. This study recognized the Philippine Government's efforts to design and implement Inclusive Business-focused policies as they relate to integrating Inclusive Business into the country's Investment Priorities Plan. These efforts include providing financial incentives for Inclusive Businesses and designing policies to support MSMEs and social enterprises.

This chapter takes stock of the Government's existing initiatives to support Inclusive Business in three key areas – rules and regulations, finance and capacity. The aim is to enable and encourage companies to adopt Inclusive Business models, and include BoP populations in their value chains. It also aims to galvanize the active participation of other actors in the Inclusive Business ecosystem – including BoP populations – leading to more creative partnerships among the Government, private sector, international development institutions and communities.



Rules and Regulations: Given that Inclusive Business is still unfamiliar to many, a lack of established rules and regulations may prevent companies and BoP communities from participating. Introducing policies and incentives may help companies to see the value of Inclusive Business, encourage them to adopt inclusive models, and manage their expectations in the process. With the right rules and regulations, the Government can provide the BoP with greater opportunities to participate in Inclusive Business.

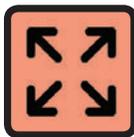
²⁵ http://www.g20inclusivebusiness.org/sites/default/files/reference-attachments/Philippines%20Case%20Study_FINAL.pdf.

Global best practices	Philippines examples
<p>Develop specific Inclusive Business regulations, including tax exemptions or reductions for businesses with a social mission; provide low-cost loans; include these companies in public procurement; provide technical assistance.</p>	<ul style="list-style-type: none"> • Every three years, the Department of Trade and Industry's Board of Investments formulates its Investment Priorities Plan, which assigns multi-year income tax holidays to companies that operate within priority industries. Inclusive Business was already included in the 2014-2016 plan as a general strategy. The most recent plan, for 2017-2019, introduces fiscal incentives for companies with Inclusive Business models in agribusiness and tourism. These include income tax holidays, income tax deductions, tax credits and special exemptions. • In 2016, the Social Value Bill and the Poverty Reduction through Social Enterprise Bill were introduced. The former proposes including social value in all competitive bidding criteria and requirements for public procurement, while the latter calls for tax exemptions for accredited social enterprises, the creation of a social enterprise council, special credit windows with banks for social enterprises and a programme of social enterprise education in schools. • In 2016, Senator Aquino introduced Senate Bill No. 349: the Inclusive Business Promotion Act to facilitate the development of a vibrant Inclusive Business sector in the Philippines. • In May 2017, the Senate passed the <i>Sagip Saka</i> Bill, which provides tax incentives to private companies that buy agricultural produce directly from smallholder farmers and fishers, and that provide equipment, machinery and other forms of assistance to farmers and fishers. • In June 2017, the Central Bank implemented the Credit Surety Fund Law (Republic Act 10744) to facilitate MSMEs' access to credit. With this fund, MSMEs are able to obtain small business loans ranging from USD 5,000 to USD 100,000 to grow their businesses. • In 2015, the Central Bank launched the National Strategy for Financial Inclusion, which provides a well-coordinated framework for public-private cooperation as well as harmonization of financial inclusion efforts. • Republic Act 8525, also known as the Adopt-a-School Programme, provides tax deductions to companies that provide support services such as classroom construction, provision of teaching materials and computer and science labs.
<p>Expand public-private partnerships (PPP) and concessions to mobilize the private sector's financial resources, expertise and efficiencies.</p>	<ul style="list-style-type: none"> • In an effort to reform the current PPP framework, the Government established the PPP Centre in 2010 as the main coordinating and monitoring agency for all PPP projects in the country. The centre also offers technical assistance and advocates for policy reform. Additional efforts to make PPPs more efficient include: updating the Build-Operate-Transfer Law; creating dispute mechanisms in the PPP contracts; issuing policy guidelines for enhanced transparency and a level playing field for all participants; and a developing risk allocation matrix to guide risk sharing between the Government and private sector. • PPP in protected area management is currently being studied to discern investments in protected areas.



Financing: One of the most common challenges experienced by Inclusive Businesses and people at the BoP is access to financing, which is critical in implementing Inclusive Business models. In the BoP market, the majority of people do not have access to formal financing institutions. As a result, many resort to borrowing from loan sharks, which do not require documentation or processing, but exact extremely high interest rates.

Global best practices	Philippines examples
Establish challenge funds, matching grants, credit guarantees, priority lending programmes, equity financing and other innovative instruments to improve access to financing for inclusive businesses and the BoP.	<ul style="list-style-type: none"> In May 2017, the Department of Trade and Industry piloted Pondo sa Pagbabago at Pag-asenso (Funds for Change and Progress), also known as the P3 Financing Programme, which gives MSMEs better access to financing and reduces the cost of borrowing. Initial funding for P3 of PhP 1 billion (USD 20 million) is part of the five-year budget of PhP 19 billion (USD 380 million) that will be lent through participating microfinance institutions in the country's poorest provinces.
Introduce end-user subsidies, vouchers, credit facilities and insurance programmes co-sponsored by the Government to protect people at the BoP against risk and improve their access to financial resources.	<ul style="list-style-type: none"> In the framework of its K-12 Education Programme, the Government implements the: <ul style="list-style-type: none"> Educational service contracting scheme to provide subsidies for students to attend private schools; Teachers' salary subsidy programme to support qualified teachers and encourage skills improvement; and Senior high school voucher programme to provide greater choices for students in private education.



Capacity: For people at the BoP to successfully leverage the opportunities of Inclusive Business, it is imperative that they build the skills and capacities required by inclusive companies. Companies also need to boost their internal capacity for implementing Inclusive Business activities to ensure the success and scale of their inclusive ventures.

Global best practices	Philippines examples
Support services for the BoP.	<ul style="list-style-type: none"> The Department of Trade and Industry established the Shared Service Facilities project to provide equipment, skills and knowledge to MSMEs in identified industry clusters. The project aims to increase access to the technologies needed to improve productivity and product quality. In collaboration with retail partners, this department also carries out the 'Go Local!' initiative to support products produced by the country's MSMEs through incubation, marketing and branding. It is a marketing platform for MSMEs to gain access to the local consumer market and ultimately the global export market. The Department of Agrarian Reform and Department of Agriculture have piloted programmes that provide support and necessary equipment to small-scale farmers.



Through the Board of Investments, the Philippine Government is committed to establishing Inclusive Business as a proven model to achieve inclusive growth and alleviate poverty. It explicitly supports private-sector companies with Inclusive Business models through incentives and policies. These significant advances aim to encourage the private sector to adopt and scale Inclusive Business models. However, a lack of awareness about Inclusive Business among companies, financial institutions and government agencies; a lack of readiness by companies to adopt such models; and a gap in BoP-specific market data may hamper Inclusive Business growth in the Philippines. And while heavyweights like PBSP and the Asian Development Bank (ADB) are strong in Inclusive Business promotion and advocacy, a government-led awareness-raising campaign has the potential to: firmly establish the concept of Inclusive Business in the Philippines; build a business case for Inclusive Business; promote the establishment of successful models across sectors; and demonstrate the contribution of Inclusive Business to the national development agenda and the SDGs.

.....

Through the Board of Investments, the Philippine Government supports private sector companies with Inclusive Business Models through a number of fiscal incentives and relevant policies.

.....



3. A CLOSER LOOK:

Inclusive Business Opportunities Across Sectors

Inclusive Business offers significant returns for companies of all types, sizes, industries and geographies. This report highlights four sectors that present opportunities for Inclusive Business in the Philippines given the country’s social challenges, development priorities, market needs, and existing successful models. The four sectors are food and agribusiness, skills building and education, infrastructure, and financial services. This section considers the market context in each sector and the momentum for social impact and presents most attractive business opportunities presented by the SDGs.

The insights presented in this chapter come from a series of workshops conducted by PBSP in Manila, Visayas and Mindanao with 53 companies and over 100 stakeholders from foundations, microfinance institutions, NGOs, business associations and the Government. The findings and recommendations are therefore not exhaustive, but reflect the experiences of Inclusive Business practitioners in their respective sectors. Workshop insights were validated through in-depth interviews with 13 companies that have successfully integrated development priorities into their core businesses.

This chapter summarizes key insights from the workshops across industries before detailing the market context, opportunities and recommendations for each of the four sectors. It presents examples of successful Inclusive Business models in each sector and their direct contributions to the SDGs.

Insights Across Sectors

- **Need to ramp up Inclusive Business awareness and understanding.** High interest in but low awareness of Inclusive Business were consistently demonstrated by workshop participants, including both private sector representatives and support providers. This calls for a joint effort to: carry out awareness-raising activities; conduct stakeholder mapping to identify information needs; and create platforms to address information gaps. Communications need to discuss the different business models that can achieve shared value.
- **Companies affirmed that Inclusive Business is an effective way to achieve SDGs.** Participants identified 14 SDGs to which their Inclusive Business initiatives were contributing. They include:



Food and agribusiness, skills building and education, infrastructure and financial services present the strongest opportunities for Inclusive Business in the Philippines

- **Workshop participants believed that conducting maturity assessment of their Inclusive Business efforts added value.** Several mentioned the need for individual consultations to analyze assessment results and develop action plans. During the workshops, companies assessed the maturity levels of their initiatives using a UNDP-Deloitte diagnostics tool.²⁶ In terms of Inclusive Business maturity, companies ranged from having no engagement with the BoP to unintentional Inclusive Business, aligning their CSR activities with their core business, piloting Inclusive Business models and scaling up these models. Workshop participants demonstrated high interest in applying the diagnostics tool to understand where their initiatives fall along the maturity spectrum and indicated the need for follow-up regarding action plans.
- **Inclusive Business practitioners emphasize the role of enablers.** Mindful that there is no ‘typical’ Inclusive Business model, participants considered several examples of existing initiatives to understand how Inclusive Business works in practice. The Inclusive Business models presented were mostly company specific and workshop participants expressed the need for an industry-based model that companies could utilize in working with other stakeholders including civil society and government. Although the development of such a model has its limitations, its validity can be assessed through the example of the seaweeds value chain in the food and agriculture sector.
- **Market expansion, investment and cost-saving opportunities were identified as the most powerful motivations for companies to engage with BoP communities.** Economic opportunities as entry points for Inclusive Business engagement triggered participants’ interest. Investment options could be presented as a package that indicates investment requirements, return on investments and other economic benefits. In addition, potential for social impact and non-economic benefits such as corporate image and reputation enhancement should be emphasized.
- **Communities of practice:** Given that Inclusive Business promotion and implementation are ongoing processes, no stakeholder has a monopoly on information, tools, technology or opportunities. A platform for exchanging ideas, sharing experiences and learning, and recognizing inspiring practices could strengthen Inclusive Business engagement. Participants also highlighted the supporting role of organizations and platforms including PBSP’s Inclusive Business Centre in assisting companies as well as enablers in their journeys towards Inclusive Business maturity.
- **Stakeholder engagement:** Several of the Inclusive Business models presented stressed the essential role of national agencies and local government units (LGUs) in their success, along with the limitations of this involvement. Government engagement was mentioned as particularly critical in product development, marketing and access to research and technology. Engagement of other stakeholders such as financial institutions and regulators, technical experts and international developmental organizations were also cited as essential for Inclusive Business success.
- **Environments of risk and conflict allow only select Inclusive Business models to operate successfully.** The need for extensive preparation, flexible and realistic

²⁶ Inclusive Business Maturity Toolkit: <http://toolkit.businesscalltoaction.org>.

leadership and management policies, and culturally sensitive communication strategies, along with the scarcity of market data and challenges in replication were discussed in the context of Inclusive Business scale-up. Managing risks is integral to all Inclusive Business ventures, but it is especially important in conflict-prone environments. Companies were eager to learn from the few Inclusive Business practitioners that have prospered in conflict- or disaster-prone areas.

Food and Agribusiness



The food and agribusiness sector has the potential to address several SDGs since it encompasses agriculture, health, the environment and industry. The business opportunities in this sector are extensive – the BoP market segment in the Philippines spends USD 29.8 billion per year on food and beverages, accounting for 89 percent of consumption in this sector.²⁷ As highlighted by UNDP Administrator Achim Steiner in his recent discussion on the agricultural economy of tomorrow,²⁸ “Agriculture represents much more than what is measured as a sector contribution to GDP – it provides access to food and represents one third of global employment.” Over 55 percent of the Filipinos depend on agriculture for income, yet they are also the country’s poorest and most vulnerable people.

The food and agribusiness sector forms part of the agriculture and fisheries industry, and is a critical driver of employment and economic activities in rural areas, where 55.6 percent²⁹ of Filipinos live. However, in 2015, agriculture constituted only 10.26 percent of the country’s GDP while expenditures for imports were three times higher than the earnings from exports.³⁰

Several constraints in the agricultural sector impede its growth and GDP contribution, including the country’s vulnerability to natural disasters, low productivity and scarce extension and capacity-building services. Investments in agriculture have been minimal because of: the disaggregation of farms into three to five hectares per family by the Agrarian Reform Law; rapid urban migration in which about half of the Philippines’ population has moved to cities and the remaining farmers receive remittances; high production costs resulting from inadequate agricultural policies; the misallocation of resources over decades; and corruption. Its ecosystems provide ecological services such as water supply, soil formation, natural pest management and pollination, which contribute to agricultural productivity and provide the basis for cultivating a variety of food products.

“Agriculture represents more than what is measured as a sector contribution to GDP – it provides access to food and represents one third of global employment.”

27 World Bank Global Consumption Database, 2010 data.

28 Achim Steiner, UNDP Administrator: McDougall Memorial Lecture at the 40th Session of the FAO Conference, Rome, “The Agricultural Economy of Tomorrow: Opportunities for Transforming our World”, July 2017. <http://www.undp.org/content/undp/en/home/presscenter/speeches/2017/07/03/achim-steiner-mcdougall-memorial-lecture-at-the-40th-session-of-the-fao-conference-rome-the-agricultural-economy-of-tomorrow-opportunities-for-transforming-our-world-.html>.

29 World Bank, 2015 data.

30 Philippine Statistics Authority, 2015 data. Earnings from agricultural exports have increased by 5.8 percent, with coconut oil and fresh banana as top earners, while expenditures for imports have increased by 19.86 percent – mostly for wheat, soybean oil and dairy products.



20 percent of
Filipino women
and 38 percent
of men work in
agriculture

Despite the challenges, the food and agribusiness sector offers enormous potential for inclusive growth: 20 percent of Filipino women and 38 percent of men work in agriculture, although their earnings are half the average minimum wage in the country.³¹ Innovative Inclusive Business models in this sector are increasing productivity and profitability, innovating solutions to farm-to-market infrastructure challenges, expanding support services and strengthening supply chains – offering farmers a dignified life beyond subsistence. More importantly, Inclusive Business has proven to be a successful peacebuilding model in the country’s poorest agricultural communities, where farmers struggle to conduct businesses as usual.

To ensure pro-poor agricultural development, the Philippine Government allocated over USD 2 billion in 2017 to support the lowest income Filipino farmers and fishers.³² Focus areas for the Department of Agriculture and the Department of Agricultural Reform include the development of high-value crops, improvement of fish farm productivity, expansion of credit and insurance services for agricultural workers, and infrastructure and technical support. Recognizing the important role of Inclusive Business models in this sector, the Department of Trade and Industry’s Board of Investments has identified it as a priority sector for Inclusive Business-specific tax incentives and non-fiscal support programmes. The USD 664.6 million Philippine Rural Development Project will support LGUs in providing infrastructure and technologies to raise incomes, productivity and competitiveness in poor rural communities.

Opportunities for Inclusive Businesses in the sector

Companies with Inclusive Business models in food and agribusiness represented the largest share of workshop participants. Such models also make up 40 percent of BCtA’s membership base in the Philippines. The following opportunities were identified through consultations with the private sector:

- **Scale up models that source produce directly from local farmers:** Inclusive Business models that source directly from smallholder farmers and cooperatives, implement leasehold agreements and provide mobile-enabled non-financial services to farmers have been most successful in the Philippines. With the recent passing of the *Sagip Saka* Bill, there is momentum for their significant scale up. The bill provides tax incentives to companies that buy agricultural produce directly from farmers and fishers, and provide equipment, machinery and other assistance to farmers. This business opportunity has already been captured by leading companies like Nestlé Philippines and Jollibee, which have increased their sourcing of coffee, onion and rice from local farmers, thus enabling farmers to double and even triple their incomes and yields in just over one year while strengthening the food giants’ supply chains.
- **Advance crop diversification, particularly focusing on the cultivation of high-value crops:** One of the biggest opportunities in this sector is the export of high-value cash crops such as cacao, specialty coffee, coco sugar block and others that offer higher incomes for Filipino farmers. Studies show that supporting high-value crops

31 Philippine Statistics Authority, 2014 data.

32 Department of Budget and Management: <http://www.dbm.gov.ph>.



not only results in higher returns, but improves farmers' living standards. There are additional opportunities for maintaining biodiversity services with Inclusive Business models. Nipa sugar processing, organic coconut production by Lao Farms and cacao production by Kennemer Foods can be used as models for other companies.

- **Develop innovative collaboration mechanisms between agriculture MSMEs and large companies:** Workshop participants noted that even the most successful Inclusive Business models of micro and small agribusinesses cannot reach scale without significant investment and access to larger markets. While occasional collaboration between large companies and MSMEs does occur, in order to enable small enterprises to drive inclusive growth, large companies need to integrate them into their value chains. MSME support is already included in the Board of Investments' priority plan and the Department of Trade and Industry is championing collaborative models with some of the country's leading enterprises.

Recommendations for scaling up Inclusive Business

In addition to the need for agricultural infrastructure investments, expanded access to financing for companies working with the BoP farmers and capacity building for low-income communities, participants recommended the following efforts to support Inclusive Business models in this sector:



Financing

Introduce higher cash-flow financing mechanisms for companies

working with BoP suppliers and employees: The nature of engaging BoP communities requires companies to be highly liquid and provide payments on a daily basis, which is not the standard cash-flow process. Several agriculture companies are addressing this issue by seeking additional capital from impact investors to supplement their investments. Access to financing tools with higher cash flow capacity from government agencies would provide the necessary support to these companies in replicating and scaling up their models.

Develop affordable financial products for the BoP: To be successful suppliers or producers, farmers need modern, high-quality inputs. Many inclusive companies are shouldering these expenses through internal financing mechanisms – for example, Kennemer Foods has launched a financing branch to assist farmers. Others are partnering with microfinance institutions to enable farmers' access to financing. Making financial products available to the BoP, including agricultural insurance, will allow companies to focus on growing their business models rather than resolving the input challenges.



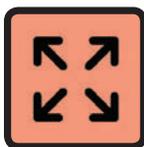
Information

Facilitate partnerships among large companies, NGOs and MSMEs to prepare farming communities for directly engaging in supply chains:

Large companies are often able to engage small-scale farmers directly, but they opt for established traders and middlemen since BoP suppliers may not meet quality standards or be familiar with the large companies' processes. NGOs and social enterprises are well positioned to prepare BoP farmers for productive participation in modern markets through training and capacity building. Such partnerships, as pioneered



by Jolibee’s Farmers Entrepreneurship Programme, can deliver benefits for both small-scale suppliers and large producers.



Capacity

Tailor available support services and training to farmers’ needs: According to workshop participants, existing agricultural support programmes often provide farming inputs that do not match needs on the ground or training programmes that are not market-based, resulting in wasted resources. Instead, agricultural authorities should work with the private sector to:

- Identify which capacity-building activities are most needed in farming communities and develop tailored skills-building programmes; and
- Leverage companies’ technical expertise to determine the exact quality and functionality of the equipment needed.

Inclusive Business contributions to the SDGs in food and agribusiness sector

Inclusive Business models in food and agribusiness sector directly contribute to at least six SDGs:

<p>1 NO POVERTY</p>	<p>SDG 1: Improving livelihood opportunities for BoP communities by engaging them as suppliers and providing increased or more stable incomes.</p>
<p>2 ZERO HUNGER</p>	<p>SDG 2: Increasing the agricultural productivity of smallholder farmers by providing access to markets, critical information, resources and training.</p>
<p>3 GOOD HEALTH AND WELL-BEING</p>	<p>SDG 3: Contributing to ending malnutrition among children through the provision of nutritional products.</p>
<p>5 GENDER EQUALITY</p>	<p>SDG 5: Engaging women in agricultural value chains and enabling them to earn independent income.</p>
<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>SDG 12: Training suppliers and producers in sustainable agricultural practices, which reduces both negative environmental impacts and produce losses.</p>
<p>13 CLIMATE ACTION</p>	<p>SDG 13: Strengthening farmers’ resilience and adaptive capacity to climate-related hazards and natural disasters.</p>



Case study: Mt. Kitanglad Agri-Ventures Inc., promoting peace and prosperity by lifting small-holder farmers out of poverty

Mt. Kitanglad Agri-Ventures Inc. (MKAVI), an exporter of Cavendish banana to Japan and other foreign markets, engages BoP farmers in conflict-affected agricultural communities in Northern Mindanao through land leasing and employment opportunities.

MKAVI leases and manages 650 hectares owned by 200 small landholders. The local landowners receive annual profits from the lease and a share of the banana harvest, which translates to additional income of PhP 3,000 per hectare (USD 60) each year. Prior to MKAVI's operations in the province, the majority of these landowners planted corn, from which the per-hectare total income per year barely reached PhP 40,000 (USD 800). Many of these farmers experienced food shortages. Today, each hectare earns landowners a minimum of PhP 150,000 (USD 3,000) per year from MKAVI.

In addition to establishing a land-leasing and profit-sharing model, MKAVI's core Inclusive Business

engages local landowners, indigenous peoples and their families as regular employees and local suppliers. To date, MKAVI has employed 1,500 community members in working on and managing farms. The company provides training for indigenous farmers to improve their skills and implements livelihood programmes such as cattle and chicken stock dispersal. In partnership with LGUs, MKAVI is also improving communities' water supply.

By creating reliable livelihoods for local people, MKAVI ensures peace and business continuity in communities. Poverty directly affects peace – when people are desperate to survive, they become easy recruits for rebels. Through its Inclusive Business, MKAVI farm sites have evolved into peaceful and productive communities. Moreover, by procuring food supplies, fertilizers and other agricultural inputs locally, MKAVI has reduced operating costs of and strengthened its supply chain.

MKAVI's SDG contribution



SDG 1: End poverty in all its forms everywhere

By integrating local landholders and indigenous peoples into its value chain, MKAVI provides stable incomes for farmers and their families, reducing their vulnerability to economic and social shocks, and contributing to peaceful development in BoP communities.



SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all

MKAVI ensures the well-being of its 1,500 employees by paying decent wages and providing additional benefits including 13th month pay, bonuses, scholarships, vacation and sick leave, loan benefits, health benefits, day care centres, and support to establish small personal businesses like *sari sari* stores.



SDG 13: Take urgent action to combat climate change and its impacts

By training farmers in good farming practices, including environmental conservation, MKAVI builds their resilience against loss of livelihoods and food shortages in times of natural disaster. During the prolonged drought in Mindanao in 2015 caused by El Niño, MKAVI's farmers continued to receive income from their harvests even when neighboring areas lost produce.

Key success factors

➤ Community engagement and consultative nature of doing business

MKAVI's collaboration with landowners, employees and other community members has helped the company to sustain its relationship with stakeholders and strengthen its business. From the outset, MKAVI set up community engagement mechanisms to protect low-income communities from potential exploitation. By implementing good management practices and engaging communities and employees in the business process, MKAVI was able to respond

to the needs and concerns of the community members, which increased their loyalty to the company.

➤ Partnerships

MKAVI leverages the support given by the Government to local landholders and has benefitted from seedlings, fertilizers, tractors, post-harvest facilities and marketing support in addition to those provided by its parent company. It will continue to partner with the Government as it improves market linkages to direct buyers abroad and introduces training programmes to retain young talent in rural communities. Farm groups like MKAVI are taking steps to keep themselves competitive with ASEAN economic integration and less protectionist trade and tariff barriers.

"Social and economic inclusion was key to MKAVI's enduring success", says Gary Lao Villar, an agricultural engineer employed as plantation director by agrarian reform beneficiaries. "This area and most of the surrounding provinces were so poor and people so desperate that they were easy recruits of the rebels. Security was a primary concern and deterrent for any investors. Only Inclusive Business succeeded here as it took on the risks in order to empower ordinary farmers to improve their lives by participating actively over the long term in the coop's value chain."

Delia Quinio, a superintendent, attests that the benefits are spread around the community: *"We get medical and other benefits that are better than what typical employees receive. Our children are given scholarships and other support for them to finish high school and college. Our relatives and neighbors are given priority when there is seasonal hiring, for instance, in weeding, washing and packing, and more so at harvest time, which happens at various times of the year. I can say our lives have greatly improved. And what makes us mothers especially happy is the chance to be working near our homes. We see our families every day, and we can easily rush home if we need to do so."*



Coffee for Peace: Indigenous peoples and migrant workers grow coffee and embrace peace

This award-winning social enterprise works with 600 indigenous rural poor people (80 percent of them women) in 13 conflict-torn areas of Mindanao and Northern Luzon to promote economic empowerment, peace and reconciliation, and environmental stewardship.

Indigenous communities are trained in growing export-grade Arabica and civet coffee, the principles of fair trade, trading policies and pricing. Planting different Arabica coffee varieties together with other forest trees enables the restoration the forests and provides shade for the coffee beans, raising their quality and, in turn, farmers' incomes. As a peacebuilder herself, Coffee for Peace founder Joji Pantoja incorporated peace and community-building programmes into her work with farmers. In addition, the company works with local tribes to protect the environment through sustainable agriculture practices.

While most of the country grows Robusta coffee (there is no native coffee variety in the Philippines), Coffee for Peace trains its partner farmers to plant

Arabica and civet – varieties that yield the highest profit in international markets. The company sources green coffee beans from these farmers at a fair prices, processes them and sells them locally and internationally. Major export markets include Canada and the United States, where Philippine-cultivated beans are sold at a premium price under the 'Just' coffee brand.

Coffee for Peace has improved the lives of indigenous communities, Muslims and migrant workers through its peacebuilding and economic development activities. By enhancing their coffee-growing practices, local farmers command higher prices for their specialty coffee. The company aims to increase the income of farmers it works with by 300 percent and establish long-lasting livelihood opportunities. These farmers then mentor other farmers and set up local coffee kiosks to raise consumers' awareness of the unique taste of Philippine coffee, helping communities take pride in local produce. Given the high demand for high-quality coffee globally, Coffee for Peace is planning to scale up its Inclusive Business model to more regions.



Lao Integrated Farms Inc. (LIFI): Organic farm in Davao shows that Inclusive Business is the way to go

Lao Integrated Farms Inc. (LIFI) is an organic and inclusive agricultural enterprise established by Benjamin R. Lao, the Philippines' biggest exporter of coconut syrup to the United States. The company also produces and exports coco sugar, coco honey and coco sap drink to markets in the United States, Australia and Europe. LIFI holds several local and international organic and safety certifications including from NICERT, the United States Department of Agriculture and ECOCERT.

The company has worked with hundreds of agrarian reform beneficiaries³³ and indigenous people to encourage crop diversification, including coconut products, vegetables and spices that are in demand year round. The company currently engages 86 farmers as employees and over 130 farmers as suppliers of coconut sap. These suppliers are able to earn as much as PhP 20,000 (USD 400) per month and own motorcycles to transport their harvested

sap. LIFI helps farmers to maximize their incomes through product diversification and organic farming practices (including chemical-free feed, charcoal to control odor and earthworms to convert waste into plant fertilizer). In addition to growing crops, agrarian reform beneficiaries are cultivating livestock including goats, chicken, hogs and honey bees.

LIFI has demonstrated the importance of partnerships for the success of a small Inclusive Business. This social enterprise has partnered with the Philippine Coconut Authority, the Department of Trade and Industry, particularly its Export Marketing Bureau and the Department of Science and Technology, to maximize its business and social impact. It has also demonstrated that government initiatives can benefit small businesses, encouraging other entrepreneurs to take advantage of government trade and other regional agreements.

³³ Agrarian reform beneficiaries are landless farmers and farm workers that benefitted from the Government's Comprehensive Agrarian Reform Programme, which aimed to redistribute 7.8 million hectares of public and private agricultural lands. The law allocates each beneficiary a maximum 3 hectares of land. As of December 2013, the Government had acquired and redistributed 6.9 million hectares of land.

Infrastructure



In the Philippines, the BoP represents 77 percent of total yearly household consumption in the infrastructure sector, accounting for USD 14.2 billion in spending on energy, housing, water utilities and information and communication technology (ICT) services.³⁴ The Philippines is outpacing most other Southeast Asian countries in

terms of urbanization: 50 percent of its population now lives in cities and the urban population is expected to reach 80 percent by 2025. While urbanization presents multiple opportunities for job creation and development, it also increases pressure on the country's infrastructure, including housing, water and sanitation, transportation, environment and healthcare. These challenges are exacerbated by the Philippines' extreme vulnerability to climate change and natural disasters, which – if not addressed – could jeopardize inclusive growth and the country's progress towards the SDGs.

Fortunately, infrastructure development has taken on unprecedented prominence in the Philippine Development Plan (2017-2022) as a tool for eradicating poverty and realizing the Government's ten-point socioeconomic strategy. The Government is spending PhP 847.2 billion (USD 17 billion), or 5.2 percent of GDP, to finance infrastructure projects in 2017; the infrastructure spending-to-GDP ratio is will reach 7.4 percent by 2022.³⁵

The opportunity to transform the daily lives of BoP communities through access to infrastructure services is evident from the pressing need for services this sector. According to the International Renewable Energy Agency's latest estimates,³⁶ 6.1 million households in the Philippines do not have access to electricity; most of whom live in remote areas and islands. Electricity prices in the country remain the highest in Asia, surpassing those of Japan and Singapore. Data from Water.org³⁷ indicates that 8 million Filipinos lack access to safe and clean water, and 26.5 million lack access to improved sanitation. The shortage of low-cost housing is between 5.7 and 6.5 million, and 2.2 million informal settler families were identified by the Housing and Urban Development Coordinating Council in 2015.³⁸ These needs, combined with business opportunities, create momentum for innovative Inclusive Business models.

50 percent of the Philippines population now lives in cities and the urban population is expected to reach 80 percent by 2025.

Opportunities for Inclusive Businesses in the sector

The following opportunities were identified through consultations with the private sector:

- **Scale construction of socialized housing units:** Through incentives such as the Balanced Housing Programme Amendment Act³⁹ and the Pag-IBIG affordable

34 World Bank Global Consumption Database. Annual household consumption in 2010.

35 Philippine Development Plan (2017-2022).

36 International Renewable Energy Agency. 2017 Renewables Readiness Assessment in the Philippines.

37 <http://water.org/country/philippines/>.

38 <http://www.businessmirror.com.ph/shantytown-philippines/>.

39 Under Republic Act No. 10884 or the Balanced Housing Program Amendment Act, which became law in 2016, housing developers are mandated to contribute to the construction of socialized housing stock by providing 15 percent of their projects to socialized housing.



mortgage programme, and strong enforcement of policies, the Government has successfully expanded developers' participation in affordable housing construction. Both newcomers and established Inclusive Businesses⁴⁰ in the housing sector have developed profitable models that can be emulated. In the coming years, 350,000 units will need to be constructed each year to meet the country's increasing demand in affordable housing.⁴¹ This presents a sizable opportunity for developers to scale up their initiatives in this market segment.

- **Grow a portfolio of mini- and micro-grid renewable energy products:** Considering that the Philippines are islands, grid infrastructure is not a feasible option in remote rural locations. In this context, mini- and micro-grids powered by renewable and mixed-energy sources have emerged as a viable and cost-effective solution to electrification at the BoP. This opportunity is facilitated by a significant decline in the costs of solar and wind technologies, and incentives ranging from tax holidays to the Green Energy Option introduced to scale up renewables in the country.
- **Improve and expand PPP for water and sanitation services:** Despite unusually complex institutional arrangements in the water supply and sanitation sector, local utility companies have become effective service providers partnering with LGUs through PPP.⁴² The PPP modality has increased access to water supplies and improved water quality. Once the modality is amended to establish a fair cost-sharing mechanism (in which tax and tariff expenses are not passed on to the poorest communities), it will be instrumental in expanding services to BoP households and rural areas.

Recommendations for scaling up Inclusive Business

Addressing infrastructure needs in the Philippines, particularly those of the most vulnerable populations, is as daunting as it is costly. The challenges range from complex and overlapping regulations (and the ways they are applied locally) to inadequate mechanisms for long-term financing and the impacts of climate change. The latter should be the core consideration for all large infrastructure investments both by the Government and the private sector. Rapid urbanization in the Philippines has exposed the extreme vulnerability of urban areas to changing climate. This has necessitated the revision of national building codes and implementation of vulnerability assessments. Considering poor people's vulnerability to disasters, any future inclusive infrastructure investments must go hand in hand with BoP community preparedness and climate change mitigation and adaptation actions.

Acknowledging government efforts to increase private-sector engagement in infrastructure projects that are inclusive of BoP populations and climate-resilient, workshop and interview participants identified several recommendations for supporting Inclusive Business models in this sector:

40 PHINMA Properties, Ayala Land, CEMEX Philippines, PA Properties, and 8990 Holdings, to name a few.

41 The Philippine Housing Roadmap (2012-2013), Bureau of Investments presentation: <http://industry.gov.ph/wp-content/uploads/2015/05/3rd-TID-Mr.-Tanchis-Presentation-on-Mass-Housing.pdf>.

42 World Bank (2016). Country Report: Philippines.



Rules and regulations

Revisit the PPP framework to create favorable conditions for Inclusive

Businesses' participation: Recognizing the value of PPP in leveraging private sector innovation and resources, the Government has developed a robust PPP programme over the last three decades. While this framework is operational, it could be significantly improved with regard to transparency, accountability and risk and cost sharing. These considerations have already been included by the Government in the hybrid model of PPP, in which risk sharing and responsibilities of the Government and private sector are clearly identified. Given the importance of this modality for serving the BoP, several recommendations emerged during consultations with the private sector:

- Develop provisions that facilitate the participation of Inclusive Businesses in bidding and procurement for PPPs.
- Revise compliance criteria to include requirements for service provision to the BoP.
- Expand the PPP modality to a broader range of sub-sectors, following examples in renewable energy, where electric cooperatives are now able to form joint ventures with private companies for power generation.

PPP modality leverages private sector innovations and resources and can be further expanded to serve the BoP.



Information

Improve coordination among multiple agencies in the infrastructure

sector: The Philippines' infrastructure sector is highly fragmented, with multiple overlapping agencies responsible for development. In this

institutional environment, Inclusive Businesses find it challenging to identify opportunities and partners. Inclusive Business practitioners recommend establishing a lead department to facilitate coordination among government agencies, identify resources that are tailored to support development in the infrastructure sector, and assist in administrative processes at the local level.



Financing

Support innovative mechanisms for long-term financing of infrastructure

development: The renewable energy and affordable housing sectors face a sizeable gap in project financing. Local commercial banks still operate

under a high risk perception, offering very conservative terms, especially to market newcomers. Financial institutions should be supported to change their lending behaviour and develop products like green investments, micro-mortgages and mortgage-based securities that enable Inclusive Businesses to scale up their operations.



Inclusive Business contributions to the SDGs in the infrastructure sector

Inclusive Business models in the infrastructure sector directly contribute to at least eight SDGs:

1 NO POVERTY 	SDG 1: Providing customers, particularly poor and vulnerable people, with access to basic goods and services, appropriate technology and financial services.
6 CLEAN WATER AND SANITATION 	SDG 6: Providing equitable access to safe and affordable drinking water and sanitation, improving water quality and supporting the participation of local communities in improving water and sanitation management.
7 AFFORDABLE AND CLEAN ENERGY 	SDG 7: Expanding affordable, reliable and modern energy services to BoP customers, providing innovative products and offering products and services that increase the share of renewable energy in global energy consumption.
8 DECENT WORK AND ECONOMIC GROWTH 	SDG 8: Promoting productive activities, job creation and entrepreneurship by offering products and services to BoP customers, including access to financial services.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	SDG 9: Increasing access to ICT, providing affordable credit and integrating the BoP into MSME value chains and markets.
10 REDUCED INEQUALITIES 	SDG 10: Providing products and services (such as renewable energy and telecommunications) that contribute to income growth of the lowest-earning 40 percent of the population.
11 SUSTAINABLE CITIES AND COMMUNITIES 	SDG 11: Providing access to adequate, safe and affordable housing and basic services, and upgrading slums.
17 PARTNERSHIPS FOR THE GOALS 	SDG 17: Encouraging and promoting effective public, public-private and civil-society partnerships, building on the experience and resourcing strategies of partnerships.



Case study: Last-mile distribution of renewable energy sources to remote Philippine communities by Hybrid Social Solutions

Established in 2010, Hybrid Social Solutions (HSSI) provides low-income, off-grid households in remote communities with access to energy through last-mile distribution of stand-alone solar energy systems. This socially-oriented for-profit company aims to address the gap in energy access in a country where over 20 million people in off-grid households rely on unstable and costly energy sources such as kerosene. HSSI believes that the most viable means of expanding energy access in these areas is through decentralized power generation via renewable sources.

To date, HSSI has reached over 220,000 customers, engaged 300 local sales agents and 400 aftersales technicians, and increased the number of its solar hubs from 1 in 2015 to 7 by the end of 2017. The company plans to scale up its solar hubs to 35 by 2022 (HSSI estimates that close to 100 Solar Hubs will be needed nationwide, strategically located near markets). In the future, the company plans to open solar hubs in Indonesia, Malaysia, and Myanmar, where it has already received invitations to enter the market.

HSSI's Inclusive Business approach focuses on four elements:

- 1. Marketing of solar-powered solutions.** The company carries a full range of durable solar-powered products and solutions that are designed for the needs of communities in poorly electrified rural areas. These solutions help to boost productivity, e.g. through portable personal lighting and charging systems; permanently installed systems that power home lighting, phones, fans and televisions; commercial bundles for lighting and charging in small shops, office and resorts; communal livelihood equipment; and community facility bundles for schools and clinics.
- 2. Provision of financing to end-users:** Because HSSI's target markets often do not have the capacity to pay for solar devices upfront, the company partners with community-based NGOs, cooperatives and microfinance institutions to offer six-month or one-year loans coupled with capacity building and maintenance services.
- 3. Education and training of community members:** HSSI has developed training to enhance end-users' ability to use the technology. By conducting regular solar user forums, the company is able to gather user experiences and feedback on its products, and share troubleshooting techniques with customers. It utilizes these inputs to market its products in BoP communities.
- 4. Technical support network:** Every HSSI solar product is easily serviceable and covered by a two-year warranty. To ensure that its service is reliable, the company recruits and accredits local technicians. This also provides additional income for local technicians.

Not only is HSSI's business commercially viable, it also has social impact. As documented in three independent impact assessments,⁴³ the company has contributed to the SDGs in the following ways:

HSSI SDG contribution



SDG 1: End poverty in all its forms everywhere

Household cash flow increased by 25 percent (Php 1,800 per month) through a combination of reduced energy expenditure on kerosene and batteries, and higher incomes resulting from longer and more productive working hours (e.g. fishermen can attract more fish and farmers can drive away pests).



SDG 3: Health and well-being

With a reduction in smoke inhalation, household members coughed 56 percent less and 97 percent of them felt safer, with a lower risk of fires and injuries, and the ability to seek help at night.



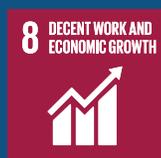
SDG 4: Quality education

Students studied 45 percent longer and improved their grades with access to HSSI's energy products.



SDG 7: Affordable and clean energy

HSSI is expanding access to solar-powered products in the most remote communities. The company is reaching the least electrified and most underdeveloped parts of the country, including the impoverished island provinces and conflict-prone areas in the far south. As a result, greenhouse gas emissions have been reduced by 130 kg per year.



SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all

HSSI provides income-generation opportunities for BoP entrepreneurs by engaging them in its

distribution network as technicians, operators and solution providers. The company's products improve communities' livelihoods: users of HSSI's newly introduced fishing lights have reported 3-12 kg per night of additional catch, worth USD 9 to USD 36 per night. Farmers employing HSSI's irrigation pumps can boost their incomes through additional harvests during the dry season.

Key success factors

HSSI has achieved customer sustainability and growing penetration of rural markets in the following ways:

- **Organizing hybrid value chains.** These include HSSI, technology partners and rural membership organizations like microfinance institutions and cooperatives, which buy the solar products from HSSI and resell them to members with loans. These value chains also include: institutional clients, which purchase products from HSSI to donate to disaster survivors, schools, and clinics; and accredited solar technicians, who are trained by HSSI to provide installation, repair and maintenance services.
- **Defining value-chain partner roles through the solar access programme.** This programme provides training, documentation and procedures on essential field-level activities such as sales and marketing, financing and collection, order fulfillment and warehousing, customer training and feedback, and repairs and maintenance (including spare parts and warranty replacement). Through the solar access programme, HSSI's staff are able to boast satisfied customers, good loan performance, repeat sales and happy partners.
- **Supporting hybrid value chain partners through local solar hubs.** These hubs serve as the operations centres for HSSI in priority markets, which typically cover clusters of municipalities. Located in the economic and logistical centres of clusters, solar hubs are manned by managers, three to six sales executives, one to two solar logistics technicians and a solar hub administrator.

⁴³ *Planete d'Entrepreneurs*, HEC Business School in 2012; a Pomona Fulbright scholar in 2014; and a Yale graduate student in 2016.



Davao Light and Power Company: Off-grid energy solutions for rural areas⁴⁴

Davao Light and Power Company, a subsidiary of the Aboitiz Group, is the third largest privately owned electric utility in the Philippines. It provides power for 1.8 million residents of Mindanao.

Mindanao has experienced power shortages since the 1990s. The isolation of the island's grid from the rest of the country and unbalanced generation capacity cause continuous blackouts, which hamper the district's economic development. The Mindanao Development Authority sees the solution in renewable energy sources, and actively supports the deployment of these projects in the island. The Aboitiz Group and Davao Light have successfully leveraged these opportunities to build a geothermal and solar portfolio that expands Mindanao residents' access to reliable and clean energy.

Davao Light's approach to helping local economies sustain robust growth is to ensure power reliability. A significant percentage of Davao Light's customers consume 200 kilowatts or less per month, and by law they pay less for electricity than higher-income families. Additionally, 17 percent of the company's service locations are not connected to the grid. To ensure that these communities have safer access to power than using kerosene lamps, Davao Light launched its solar charging station project in off-grid areas.

The company has already established ten solar charging stations, each servicing 303 households in the Marilog and Paquibato Districts of Davao City. Davao Light works with LGUs to train community members in managing solar charging stations to help the project achieve sustainability. A minimal cost of PhP 30 is billed for every charged battery, which the community can use to maintain these stations and finance other livelihood projects. Communities are also encouraged to co-finance the purchase of additional batteries and lights for other households.

In addition to providing access to energy, the project offers opportunities for the villagers to become part of Davao Light's value chain as service providers. The company's e.Lab project provides electrical labs to public schools and runs basic electrician skills training to train high school students who want to become electricians.

"There is no turning back from adopting Inclusive Business as a strategy for Davao Light", says Rodger S. Velasco, Executive Vice President and Chief Operating Officer. "We need to spur economic activities and initiate livelihoods so that the off-grid mountain barangays can break the cycle of poverty and participate in the region's economic growth. We anticipate that these areas will essentially develop into a viable franchise for the company."

⁴⁴ Davao Light is implementing this solar-power initiative to develop economic activities and initiate livelihoods so that this will eventually develop into a viable franchise area. The model is therefore in the preparation stage.



PHINMA Property Holdings Corporation: From socialized housing to Inclusive Business

PHINMA Properties, the triple-ISO certified affordable housing arm of the Phinma Corporation, provides quality-assured homes to low-income Filipinos, including informal settler families. The company is successfully working with the Home Mutual Development Fund, Pag-IBIG Fund, Social Housing Financing Corporation and the National Housing Authority on government-initiated socialized housing projects. PHINMA Properties has constructed 2,000 socialized housing units to date in partnership with the Government and has plans to expand to new areas such as Cebu, Cagayan de Oro and Muntinlupa.

In 2012 PHINMA Properties launched its first truly inclusive housing model. By entering into a PPP with the Quezon City LGU, a landowner, the Pag-IBIG Fund and Social Housing Financing Corporation, the company constructed one of the country's largest mass housing projects for hundreds of informal settler families in Quezon City, known as Bistekville II. For this initiative, PHINMA Properties went beyond contractor's responsibilities, deploying 'in-city relocation', which allowed residents to maintain their existing livelihoods in places where they were already

living. Second, the company engaged informal settler families as employees during construction, provided affordable loans from partner financial service providers and assisted families in registering as new homeowners. Third, the company implemented comprehensive community development initiatives, ensuring the new homeowners' social cohesion and community integration.

With the success of Bistekville II heralding Inclusive Business as a viable model, PHINMA Properties replicated this model in Strikeville IV, a new socialized housing project located in Bacoor, Cavite. The project employs a similar PPP model in which the company is partnering with the Housing Development Mutual Fund, Pag-IBIG, the Bacoor LGU and various NGOs focused on building integrated communities. PHINMA Properties has constructed over 1,900 residential units through its Inclusive Business model, bringing affordable and quality housing to the most vulnerable Filipinos. The company's next step in scaling up is L'Oasis Residences, a PPP project with the local government of Malabon City in Metro Manila.

Skills Building and Education



Education services in the Philippines are greatly valued by the BoP, which accounts for 71 percent of the USD 1.8 billion total yearly household consumption in this sector. The private sector has traditionally targeted high-income populations, tertiary education and technical training, only engaging the BoP populations through traditional CSR activities. However, a number of innovative models in skills building and technology-enabled education have been piloted in recent years, signaling growing opportunities for the private sector to enter new market areas and advance the competencies of BoP Filipinos.

The Philippine education sector has witnessed notable improvements in the past few years. The Government boosted its investment in the sector by increasing its budget allocation by 15.4 percent from 2015 to 2016, and adding USD 648.2 billion in 2017.⁴⁵ In 2015, the Philippines started the transition from a ten-year basic education system to a 12-year K-12 basic education programme. Prior to this, the Philippines was one of only three countries in the world that offered just ten years of pre-university education. The programme aims to increase school completion, decrease dropouts and expand access to better quality education.

However, the education sector continues to face other far-reaching challenges, including: low-quality technical vocational education and training; over 20 percent of young people out of school, work or training (predominantly from the country's poorest regions), and; among the highest unemployment and under-employment rates in Southeast Asia (at 6 percent and 16 percent respectively). Every year, 1 million youth entering the 40-million strong work force, including college graduates, cannot find gainful employment.

Opportunities for Inclusive Businesses in the sector

Workshop and interview participants from all sectors highlighted a common opportunity for private sector: addressing the gap between school graduate skill levels and the skills industries need. Active private-sector engagement through on-the-job and technical training can address this. Opportunities identified by Inclusive Business practitioners in this sector include the following:

- **Develop skills programmes for the information technology and business process outsourcing (BPO) industries:** In the Philippines, the BPO industry earns USD 24 billion and employs more than 1 million Filipinos.⁴⁶ This sector is also the fastest growing source of employment and one of the highest revenue-generating economic sectors in the Philippines today. This makes the sector a prime opportunity for offering inclusive solutions. Companies can leverage partnerships with BPO market leaders and financial institutions to provide tailored training, on-the-job internships and employment for low-income youth.

⁴⁵ http://www.dbm.gov.ph/?page_id=19265.

⁴⁶ <http://business.inquirer.net/192259/bpo-revenues-seen-to-overtake-ofw-remittances>.

In the Philippines, the Business Process Outsourcing industry earns USD 24 billion and employs more than 1 million Filipinos.



- **Replicate mobile education programmes through partnerships with mobile operators:** A 2012 study by McKinsey and Groupe Speciale Mobile Association estimated that the market opportunity for technology-enabled learning solutions in the Asia-Pacific region will increase from USD 120 million in 2011 to USD 6 billion in 2020.⁴⁷ Coupled with the Philippines' robust mobile infrastructure and growing penetration of affordable, low-end smartphones among Filipinos, mobile education is poised to reach millions of students across the country. There are already existing successful initiatives like Text2Teach and TechnoChart, and the country's major network providers are piloting mobile-enabled projects to reach remote communities.

Recommendations for scaling up Inclusive Business



Information

Engage the private sector, particularly Inclusive Businesses, in skills curriculum design and education policies: Private companies are expert consultants on determining which skills are needed by which industries, and Inclusive Businesses have intimate knowledge of educational needs at the BoP. Engaging businesses in the following areas will help to address the mismatch in skills between academia and industry, and ensure the most efficient integration of the BoP populations:

- Technical curriculum design and consultations on nation-wide exams content for high school students can ensure that curricula are responsive to the industry needs and that graduates are prepared for the work environment.
- Review and identification of industry positions that do not require a college degree can enable the private sector to work with the Government to offer relevant vocational courses.
- The inclusion of soft skills and income-earning opportunities such as apprenticeships into skills development training for the BoP populations can help the most vulnerable people to succeed in the workplace; these should be an integral part of skills curriculum design.

Introduce changes to the high-school curricula that enable companies to offer on-the-job training: Companies indicate that the education system in the Philippines should provide opportunities for high-school students to complete on-the-job training while still in school. This practice not only teaches basic workplace skills, but imparts critical knowledge of workplace culture and performance expectations.

Facilitate access to government incentives for companies with Inclusive Business models in skills building and education: The Philippine Government has made significant advances in its efforts to support MSMEs through skills building. However, as mentioned by workshop participants, not all MSMEs can easily access these incentives. Government agencies and financial institutions should consider launching awareness campaigns that help smaller enterprises to understand how best to tap into available resources.

⁴⁷ McKinsey & Company and Groupe Speciale Mobile Association. 2012. Transforming learning through mEducation. <http://www.gsma.com/connectedliving/wp-content/uploads/2012/04/gsmamckinseytransforminglearningthroughmeducation.pdf>.



Inclusive Business contribution to the SDGs in skills development and education sector

Inclusive Business models in this sector directly contribute to the following SDGs:

<p>1 NO POVERTY</p> 	<p>SDG 1: Ensuring that all men and women, in particular poor and the vulnerable people, have equal rights to economic resources as well as access to basic services.</p>
<p>4 QUALITY EDUCATION</p> 	<p>SDG 4:</p> <ul style="list-style-type: none"> • Providing access for all women and men to affordable and quality technical, vocational and tertiary education, including university. • Increasing the number of youth and adults with relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.
<p>5 GENDER EQUALITY</p> 	<p>SDG 5: Expanding women’s full and effective participation, and equal opportunities for leadership at all levels of decision making in economic life.</p>
<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<p>SDG 8:</p> <ul style="list-style-type: none"> • Achieving higher levels of economic productivity through technological upgrading and innovation. • Promoting development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation. • Achieving full and productive employment, and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. • Reducing the proportion of youth not participating in employment, education or training.
<p>10 REDUCED INEQUALITIES</p> 	<p>SDG 11:</p> <ul style="list-style-type: none"> • Achieving and sustaining income growth for the bottom 40 percent of the population at a rate higher than the national average. • Promoting the social and economic inclusion of all people, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
<p>17 PARTNERSHIPS FOR THE GOALS</p> 	<p>SDG 17:</p> <ul style="list-style-type: none"> • Enhancing the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources. • Encouraging and promoting effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.



Case study: Accenture Philippines scales up its skills building and on-the-job training model outside Metro Manila

Accenture, a global company present in over 120 countries, has been operating in the Philippines for more than 30 years, offering consultancy, technology and BPO services. In its outsourcing business, it employs over 45,000 Filipinos in 23 locations in Metro Manila and beyond.

Accenture provides opportunities to residents of urban centres outside Metro Manila through in-house training, personal development and other job-preparation activities. It targets young people who are considered ‘near hires’ or those who lack employment skills but are trainable. Through its ‘Skills to Succeed’ corporate citizenship programme, the company aims to equip 3 million young people around the world with the skills to find work or start a business by 2020.

The company has targeted the BoP in the Philippines with information technology vocational training and near-hire training of call-centre agents. It has partnered with several colleges and training centres that offer language courses, multicultural studies and high-value BPO services such as medical transcription, financial reconciliation, paralegal research, sports and events marketing, and tourism promotion. Accenture’s training programme prepares highly qualified young professionals, who are encouraged to find employment within the company’s value chain or those of other BPO companies.

To date, 618 youth have participated in Accenture’s training. Approximately 63 percent have found employment with Accenture and other BPO com-

panies, and 229 are being assisted with job placement with retail, food and service companies.

Accenture is one of the few companies in the Philippines with a placement and training strategy in provincial areas. Its four locations in Cebu and one in Ilocos Norte give it the largest BPO footprint in the country. By expanding its operations outside Metro Manila, the company benefits from a sizable manpower supply, efficient overhead costs in secondary cities and low turnover rates.

SDG contribution



SDG 1: End poverty in all its forms everywhere

By providing training and employment opportunities to BoP populations, Accenture is enabling these communities to lift themselves out of poverty.



SDG 4: Quality education

Through its training programme, Accenture increases the number of people with relevant employment and entrepreneurship skills.



SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all

Accenture provides direct employment opportunities to its trainees, both within the company value chain as well as with other BPO companies.



Wellmade Motors and Development Corporation: Machinery company trains people with disabilities and provides jobs to high-school graduates

Founded in 1988, Wellmade Motors and Development Corporation is a manufacturer of high-quality machines for the metalworking industry in the Philippines and abroad. It runs six plants and three franchises, employing more than 160 people.

Wellmade takes pride in implementing an Inclusive Business model that provides high school graduates and persons with disabilities with skills training and employment opportunities, addressing the scarcity of industry-trained workers. To date, these groups constitute 5 percent of Wellmade's workforce. Philip N. Tan, Wellmade's CEO, gives priority to residents of remote communities and people who are struggling to make ends meet, particularly from technical vocational schools in Mindanao.

By training young people to use modern tools and machinery on the job, Wellmade Motors is able to improve their skillsets and increase their chances of gainful employment. Wellmade's BoP employees earn between 120 percent and 200 percent of the minimum wage in the region. In addition, they earn

bonuses under a profit-sharing scheme every quarter, depending on sales revenues. These employees are also ensured equal opportunity to for promotion.

Although the original intention was to promote social equality, graduates of the training programmes have proved to be both hardworking and loyal to the company, which proved that the initiative also makes business sense. The Inclusive Business model has allowed Wellmade to increase its productivity output by 30 percent and decrease supply and consumables costs by 25 percent. The company's franchise model is demonstrating significant progress and there are plans to scale up in the future.

According to Mr. Tan, *"Wellmade believes that while it is challenging to be an inclusive company, there can only be true progress for the country if everyone cooperates to build an equitable future. Given a chance to grow and succeed, BoP populations will surpass expectations and succeed in breaking the cycle of poverty."*



Messy Bessy: Home products firm helps traumatized learners to get a second chance, then pay it forward.

Messy Bessy is a manufacturer, wholesaler and retailer of naturally derived, non-toxic and biodegradable household and personal care products. Founded in 2007, Messy Bessy aims to provide education and employment to at-risk youth. These include formerly abused, trafficked and incarcerated youth, formerly homeless teens and impoverished young adults from BoP communities.

Its innovative flagship model, the Helping Ourselves Programme, hires these young adults (called 'learners') as part-time workers. To ensure learners' success in the workplace, Messy Bessy provides them with education, life skills and psychosocial development. It employs a full-time teacher to conduct the in-house learning, college-preparation classes and one-on-one tutorials. Regular employees allocate time to help students with their schoolwork through tutoring and mentoring. In addition, it has an in-house counselor dedicated to counseling and psychosocial development. Messy Bessy deems these to be critical in preparing learners, especially those with traumatic backgrounds, for employment. In addition, Messy Bessy teaches its learners financial literacy, soft skills and strong work ethics.

Currently, 70 at-risk youth make up Messy Bessy's 110-strong workforce. Four of them are in-house high-school students, 41 are currently enrolled in college and the rest are preparing for college. Messy Bessy pays for the students' tuition fees upfront; these fees are later repaid by students through their work. Messy Bessy's learners work between two and a half and four days per week and earn approximately USD 10 per day. To prepare the learners to find long-term employment, they are deployed in all Messy Bessy departments – including production, logistics, administration, finance and sales – performing tasks expected from regular employees.

To date, Messy Bessy has assisted more than 250 at-risk youth, helping 20 finish high school and 18 finish college. The company is now replicating Helping Ourselves Programme through its social-impact initiative the Helping Ourselves through Sustainable Enterprises (HOUSE) Foundation and other businesses like Bauhaus Fabrics, Happy Skin Cosmetics, Starbucks Philippines and Straightforward Clothing.

Financial Services



The BoP in the Philippines represents 75 percent of all consumption in the financial services sector, accounting for USD 1.1 billion in annual spending. But despite a strong microfinance sector and the expansion of mobile financial services, the Philippines continues to have the lowest access to and use of financial services among ASEAN countries.

As of 2014, only 28.1 percent of Filipinos aged 15 and over reported having a bank account, and only 15 percent and 12 percent respectively have access to formal savings and borrowing.⁴⁸ More than 600 of 1,634 municipalities in the country (37 percent) lack banking offices, with remote island areas particularly isolated.

The Philippine banking system is highly liquid and stable, and has been noted for its resilience to global financial shocks. In 2014, the banking system's total resources reached USD 260.6 billion (up from USD 233.2 billion in 2013) as a result of an increase in loans, financial assets and equity investments.⁴⁹ The government actively promotes financial inclusion as part of its national development strategy, focusing on policy and regulation, financial education, consumer protection, data and measurement.⁵⁰ However, more efforts are needed to provide tailored financial products and services to economically active but financially excluded populations in the Philippines.

In 2016, remittances from overseas Filipino workers reached USD 26.9 billion,⁵¹ accounting for 9.8 percent of the country's total GDP. Though it is not widely acknowledged, a significant number of people have migrated from rural areas to cities to find jobs. Money transfers by both internally displaced and international migrants are almost entirely cash based given the lack of access to bank accounts at the BoP. The high volume of cash transactions often leads to remittance centres running out of cash. This in turn contributes to high remittance costs, which can range from 5 percent to 12 percent of transferred funds.

MSMEs, which make up 99.5 percent of Philippine enterprises,⁵² lack access to financing from banks and formal lending institutions. While MSMEs account for about 98 percent of jobs and one third of the country's GDP, these entrepreneurs are part of the 65 percent of the population that is 'unbanked'. Large commercial banks – those with over 1,000 branches and ATMs, and rural or thrift bank subsidiaries – are struggling to change their processes in order to access MSMEs and other unbanked clients.

The BoP in the Philippines represents 75 percent of all consumption in the financial sector, accounting for USD 1.1 billion in annual spending.

48 World Bank Global Findex Database.

49 Llanto, G.M. (2015.). ADB Institute: Financial Inclusion, Education, and Regulation in the Philippines. Retrieved from: <https://www.adb.org/sites/default/files/publication/171786/adbi-wp541.pdf>.

50 Central Bank of the Philippines. National Strategy for Financial Inclusion 2015: <http://www.bsp.gov.ph/downloads/publications/2015/PhilippinesNSFIBooklet.pdf>.

51 <http://business.inquirer.net/224635/ofw-remittances-hit-record-high-2016>.

52 <http://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>.



Opportunities for Inclusive Business in the sector

The following opportunities were identified during consultations with the private sector:

- **Extend innovative and affordable microinsurance products to the BoP across sectors:** Insurance penetration in the Philippines remains low, as is beneficiary awareness. However, in recent years a number of unconventional players including pawnshops, microfinance institutions, cooperatives and mutual benefit associations have increased their microinsurance product offerings. The market for these products remains vast, particularly at the BoP. These opportunities can be strengthened by raising awareness of the benefits of insurance and cultivating BoP communities' trust in microinsurance products. The development of crop insurance, disaster protection and other innovative products build BoP households' resilience to various shocks.
- **Grow a portfolio of digital financial products for the BoP:** Digitally-enabled financial inclusion has the potential to increase the Philippines' GDP by 3 percent and translate into a 10 percent increase in incomes for BoP households.⁵³ Products like mobile wallets with savings accounts and electronic payment systems can both meet the demand for payment services and incentivize savings – ultimately building BoP households' resilience to withstand economic shocks and other financial pressures.

Recommendations for scaling up Inclusive Business

Mikko Perez, CEO of Ayannah, a digital financial services provider and workshop participant, explained: *“Stringent regulation in the banking industry makes it challenging for businesses to operate in remote areas of the Philippines. To set up a banking branch, the Central Bank requires at least 200 square metres of office space and USD 500,000 worth of cash deposits. For most banks, these expenses do not justify a branch or an ATM in remote and poor areas. Digital finance offers much-needed solutions to reach the most underserved populations without having to open a physical branch. However, it cannot do so without adequate regulatory support from the Government.”*



Rules and regulations

Improve regulations to support companies operating in digital finance:

Digital finance needs a fully digital environment to reach customers. Currently, a customer's identity has to be verified physically through a bank branch. Automating 'know-your-customer' processes and controls⁵⁴ by introducing a national, digitized ID system is the first step to enable digital finance. These automated systems simplify processes like opening accounts and applying for loans without jeopardizing data security.

53 ADB Institute (2015). *Financial Inclusion, Education and Regulation in the Philippines*, Working Paper: <https://www.adb.org/sites/default/files/publication/171786/adbi-wp541.pdf>.

54 Know-your-customer programmes are required for all financial institutions to prevent fraud, identity theft, money laundering and financing of illegal activities.



Finance

Create an enabling environment for collaboration between microfinance institutions and commercial banks:

Formal financial institutions are currently unable to meet either BoP individuals' or MSME' needs for payments, transfer services, savings or credit services.⁵⁵ Rural banks and microfinance institutions have attempted to fill the gap; however they have limited financial resources to scale their efforts. At the same time, Philippine microfinance institutions have extensive reach to the BoP and other underserved communities, which commercial banks could leverage for their products and services. By providing attractive financial products and services that microfinance institutions can retail through their presence in BoP communities, commercial banks can engage microfinance institutions as their wholesale clients. Such collaboration will deliver larger markets to both parties, access to new funds for microfinance institutions and access to financial services for people at the BoP.

Inclusive Business contributions to the SDGs in financial services sector

Inclusive Business models in this sector directly contribute to the following SDGs:

<p>1 NO POVERTY</p> 	<p>SDG 1:</p> <ul style="list-style-type: none"> • Building the resilience of poor people and those in vulnerable situations, and reducing their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks. • Ensuring that all men and women have access to financial services.
<p>2 ZERO HUNGER</p> 	<p>SDG 2: Expanding access to financing and financial services for smallholder farmers.</p>
<p>3 GOOD HEALTH AND WELL-BEING</p> 	<p>SDG 3: Promoting the health and well-being of vulnerable populations by enabling their access to health insurance.</p>
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>SDG 9: Increasing access to ICT, providing affordable credit and enabling integration into value chains and markets.</p>

55 ADB. Accelerating Financial Inclusion in Southeast Asia with Digital Finance.



CEBUANA LHUILLIER

Case Study: Cebuana Lhuillier Insurance Solutions offers affordable, accessible and innovative insurance products and services to under-served Filipinos

Established in 1999, Cebuana Lhuillier Insurance Solutions (CLIS) is the micro-insurance arm of Cebuana Lhuillier, the country's largest non-bank financial service provider. To date, CLIS has covered over 7 million Filipinos and paid PhP 170 million (USD 3.4 million) in clients' claims since 2004. Its innovative approaches and pursuit of inclusive growth have enabled it to become a market leader in the microinsurance segment.

Given the low insurance penetration rate in the country, the Insurance Commission of the Philippines set a target to insure half of all Filipinos by 2020. Located in the Pacific Ring of Fire, the country experiences an average of 20 typhoons and other

natural disasters per year, yet insurance remains out of reach for many people.

With these hazards, the creation of a suitable product for the poorest populations is challenging. To meet the needs of the country's vulnerable citizens, CLIS has developed microinsurance products that are affordable and accessible for low- and middle-income Filipinos. The company has leveraged the existing infrastructure of its pawn-brokering business, which has more than 2,000 branches across the country, bringing in its innovative technology and marketing strategies.

CLIS offers over 15 individual and group insurance products that target the needs of the low-income communities while considering their payment capacity. Each insurance certificate is valid for four months with a premium of USD 0.80. For as low as USD 2.40 per year, claimants can be covered for as much as USD 600. Both the registration and claims processes have been simplified for users.

Recognizing the importance of a fast and convenient claims procedure, especially in disaster-stricken areas, CLIS focuses on rapid claims: CLIS employees are dispatched within 24 hours of a disaster to handle customers' claims. During typhoon Haiyan, when no documents or other proof of purchase could be salvaged, CLIS proactively engaged with the National Disaster Risk Reduction and Management Council agency to identify and assist its customers.

SDG Contribution



SDG 1: End poverty in all its forms everywhere

CLIS products enable access to microinsurance for BoP Filipinos in order to build their resilience against natural disasters, social and economic shocks.



SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation

CLIS offers insurance products to MSMEs that are among the most vulnerable to economic and natural shocks. It aims to cover at least 30,000 MSMEs in the coming years, building their financial resilience.



SDG 17: Revitalize the global partnership for sustainable development

CLIS considers multi-stakeholder partnerships to be critical for effective BoP service. The company partners with government regulators (e.g. the Insurance Commission), LGUs, the

Department of Social Welfare and Development, the Department of Trade and Industry, seven insurance companies in the country, NGOs and other industries such as telecommunications and pharmaceuticals. It spearheaded the establishment of the Micro-insurance Agents Association of the Philippines, a platform to connect all microinsurance agencies nationwide.

Key success factors

Creative marketing

Understanding that insurance products were not popular among the BoP in the Philippines, CLIS used creative marketing campaigns, forums and road shows to raise awareness of the value of insurance products. The company knows the needs of its market segment very well, which allows it to create simple products that are popular with this segment.

Mobile technology

Realizing the need for continuous innovation in light of the growing mobile-connected population, CLIS developed the Micro Pinoy app for customers to receive microinsurance products and quotes, and the Cebuana Alerto app to provide updates on the weather and disaster warnings, and allow customers to send 'I'm safe' messages to families without the Internet. In addition, CLIS is launching TextInsure, a mobile microinsurance product, in partnership with a national telecom provider.



Taytay Sa Kauswagan (Bridges To Progress) Inc.: Enhancing livelihoods for marginalized rural women

Taytay sa Kauswagan Inc. (TSKI) started out with three employees, USD 50 and an aim to support the livelihoods of the marginalized rural women through group loans – a practice it learned from the Grameen Bank’s founder Mohamad Yunus. With credit support from the Department of Agriculture, TSKI set up a microfinance bank with six partner organizations to provide capital for successful MSMEs. Today, the company assists marginalized people through microfinance, business development services, community enterprise development, training, and integrated development assistance for farmers.

In addition to microfinance loans, TSKI provides housing, emergency, education and water, sanitation and hygiene loans. For marginalized farmers with less than 2 hectares of land, the company extends loans for farm inputs, post-harvest facilities, product development and marketing expenses. It also supports: more than 230 coffee growers from the Ati tribe who cultivate civet coffee on ancestral lands; and cacao growers that supply Kennemer Foods (and by extension Mars Chocolate). Health insurance was recently introduced, with TSKI becoming the first microfinance institution in Visayas and Mindanao to be accredited by the National Health Insurance Agency.

The company now has a loan portfolio of PHP 1.148 billion (USD 23.1 million) and serves

nearly 1 million members in 404 municipalities. In the process, it provides employment to 2,500 staff members in 152 branches across the Philippines. Through TSKI’s Inclusive Business model, it has helped more than 200,000 clients from poor rural households and enterprises to sustain and scale up their businesses.

Bernardina Javier of Lipa City in Batangas has been a client of TSKI since 2012, operating a microenterprise that sells and rents ball gowns and suits. The business is going well, although it took her many years to achieve success. In the early 1990s, with her uncle’s help, Bernardina opened a ready-made garment store in the Lipa market. When she married Vicente, a veterinarian, she used their wedding capital to expand the business. In 1993, a fire burned down the market, leaving the couple with just a few gowns. Bernardina continued to sell dresses in Lipa and nearby towns, but she no longer had a store. She heard about TSKI from a local women and applied for a small business loan, which helped her to get back on her feet. Today, Bernardina operates a large display area in Lipa’s central market. She has fully paid off her first loan, but remains a client of TSKI to expand her business. She has been able to put all of her three children through college and become a successful businesswoman, but she always remembers her first loan with TSKI.



Tapp Commerce: Mobile marketplace app helps the unbanked sector to buy, sell and find employment

According to the World Bank's Global Findex Database for 2014, nearly seven in 10 Filipinos remain unbanked, making mobile phones more prevalent than bank accounts in the country. Unbanked Filipinos are excluded from the wider marketplace since cash remains their only available means of payment.

Finland-based e-commerce network Tapp Commerce has created a mobile marketplace application that allows unbanked customers to purchase goods online, pay tuition fees, top up mobile credit and pay for electricity, water bills and other services using cash through trusted local shopkeepers who are trained as Tapp agents. The application uses a QR code for each customer, which is shown to agents when buying a good or a service. Interested individuals can register as Tapp agents using the same application. To date, Tapp Commerce has reached 1 million consumers in the Philippines with its innovative service.

Unlike existing e-commerce solutions, the unique TappMarket app is autonomous of any existing global banking ecosystem and targets consumers whose purchasing power is limited to cash. Tapp's success is rooted in its extensive local sales network, which consists of thousands of micro-entrepreneurs; TappMarket provides them an opportunity to offer much-needed services and generate income. While margins are kept low in order to ensure affordability to BoP consumers, TappMarket's revenue is derived from its high sales volume.



Ayannah: Digitizing financing in the Philippines

Ayannah specializes in affordable and accessible digital financial services. The company focuses on international and domestic migrants, which make up more than 50 percent of the Philippines' population and remit large sums of money to their families in the country. In 2016 alone, the World Bank estimated that the 12 million overseas Filipino workers remitted USD 29.1 billion, the third largest amount of remittances worldwide after India and China. The company has established a network of 7,000 sales agents and is expected to double that number by the end of 2017.

Because most Filipino migrants and their families remain unbanked, they prefer to receive remittances in cash. This has given rise to thousands of pawnshop branches and couriers across the country. Large remittance flows into and within the country, coupled with a large unbanked population, often result in remittance centres running out of cash and remittance fees as high as 12 percent.

To address these challenges, Ayannah developed the Sendah Remit software, which connects remittance centres, pawnshops and couriers. It allows remittance recipients to receive cash at any collection point closest to them that has cash available, as long as it is part of the Sendah Remit network.

The company also enables organizations and individuals – including those who are unbanked – to process digital transactions. Ayannah's digital services deliver for all parties: big players avoid running out of cash, which affects their profitability, while the small players benefit from being part of the network. By maximizing the liquidity available in the network and increasing the number of players in this field, Ayannah hopes to lower interest rates for remittance transactions, benefitting millions of Filipino migrants and their families.



4. SCALING UP INCLUSIVE BUSINESS IN THE PHILIPPINES: A Call to Action

Since the private sector drives economic growth, we depend on it to make this growth inclusive of poor people and environmentally sustainable. We must therefore ensure that it contributes to human development – with an enabling environment, sound policies and right incentives. Inclusive Business models in the Philippines have demonstrated strong capacity to lift people out of poverty by engaging them in market value chains, offering healthy and affordable goods and services, creating dignified livelihoods and building the financial and social resilience of the BoP communities. However, for such models to deliver national and global impact, they must reach scale.

To achieve this, the Philippines needs an industry transformation in which Inclusive Business becomes business as usual. This requires its adoption by a critical mass of private-sector businesses, support through strong national policies and investment institutions willing to shoulder the ‘social’ costs and await long-term returns. This is not easy given multiple external and internal constraints to reaching scale, including: a lack of Inclusive Business awareness and readiness to adopt these models; insufficient BoP market data; limited access to financing that is specifically tailored to BoP communities and companies, but is critical to sustaining low-income-driven initiatives; and a lack of skills and capacity among BoP participants in the value chain.

This publication calls the private sector, Government, financial institutions and communities to pave the way for Inclusive Business scale up and increased impact. This chapter concludes with a set of recommendations that were formulated based on: the experiences of PBSP in private-sector engagement and Inclusive Business; UNDP’s Philippines country office and BCtA commitments to promote Inclusive Business in the Philippines; and lessons learned from recent workshops and interviews with experts from the private sector, Government, financial institutions and NGOs. The recommendations are structured around: (i) increasing awareness and engagement around Inclusive Businesses in policy and programme development; (ii) partnerships; and (iii) SDG measurement and reporting. They include sector-specific insights and cross-sector findings.

.....

With an enabling environment, sound policies and right incentives, we must ensure that the private sector drives economic growth that is both inclusive of poor people and environmentally sustainable.

.....



Rules and Regulations

1. *Increased awareness and greater engagement of Inclusive Business practitioners in policy and programme development*

The Philippine Government, through the Department of Trade and Industry’s Board of Investments, has been recognized as one of the most active proponents of Inclusive Business in Asia. As detailed in this report, the Government has made great strides in identifying ways that Inclusive Business can gain ground in the country –through incentives for companies and support to people at the BoP.

Carry out a targeted communications and advocacy campaign

Opportunities exist to strongly establish Inclusive Business as a business model of choice for the private sector and within government agencies, including the Department of Agriculture, the Department of Finance, the Department of Housing and others. A significant share of companies in the identified sectors are still unaware of Inclusive Business (or lack readiness to adopt Inclusive Business models). Those that are implementing Inclusive Business could benefit from best practices to scale up these models. To this end, the Board of Investments should conduct a targeted communications and advocacy campaign tailored to key market actors. This campaign should:

- Highlight the business case for contributing to the nation's development through Inclusive Business alongside similar initiatives such as shared value and CSR;
- Inform leading companies in each priority sector about government programmes and incentives geared to support Inclusive Business such as tax holidays and access to financing in order to facilitate engagement and create a critical mass of private-sector entities adopting Inclusive Business models;
- Demonstrate the success of Inclusive Business support programmes in specific sectors and detail how companies can benefit from existing incentives (highlighting how companies can get assistance in developing Inclusive Business models); and
- Engage business associations and other organizations pioneering Inclusive Business in the Philippines in working with the private sector to adopt and scale up Inclusive Businesses.

Collaborative efforts are also needed to mainstream Inclusive Business within government agencies in order to develop new support programmes and align existing programmes that promote Inclusive Business. This can happen via sectoral working groups or as part of the wider collaborative platforms along the lines of Grow Asia Philippines.⁵⁶

Consolidate a localized knowledge platform that is maintained by all its users

To complement the communications and advocacy strategy for promoting Inclusive Business, the Government, donors and business associations should also develop a localized repository of information on Inclusive Business, including: case studies of the most successful Inclusive Business models; maps of relevant stakeholders and programmes; capacity-building resources; opportunities to access financing; Inclusive Business initiatives and events; sector-specific opportunities; and market data on the BoP. This platform can be based on an existing platform such as PBSP's Inclusive Business Imperative or Inclusive Business Hub, or integrated into a global platform. Since many such databases become obsolete or do not reach BoP audiences, the platform should be innovative in the following ways:

- Instead of being maintained by a single entity – like an NGO or the Government – it should be collectively maintained by a number of its users. To ensure data security,

⁵⁶ The Philippines Partnership for Sustainable Agriculture: <https://www.growasia.org/philippines>.

Collaborative efforts are needed to mainstream Inclusive Business within government agencies to develop new and align existing IB programmes.

changes must not be made without a record. This will ensure buy-in, transparency and trust among the platform managers and end-users.

- To ensure the platform reaches and benefits the BoP, the platform managers should conduct support activities in the field to share critical information from the platform while raising its profile among BoP stakeholders.

Include the private sector and the BoP in policy planning and development of Inclusive Business initiatives

Government agencies proposing policies and incentives related to Inclusive Business should ensure that both the private sector and BoP populations are engaged and represented whenever new policies are developed. For example, important certifications should be extended to small producers, especially given ASEAN integration and emerging competition. Wider engagement of Inclusive Business practitioners is also required in the design of programmes that aim to support Inclusive Businesses. During consultations with the private sector, the development of capacity-building activities and design of curricula were mentioned by many respondents. It is critical for both types of initiatives to be demand-driven and highly contextual, which can only be achieved with the private-sector engagement.

Engagement of Inclusive Business practitioners is critical to the development of capacity-building activities and design of technical curricula.



2. Convergence of initiatives to achieve the SDGs

Aligning development efforts by the Government, private sector and civil society to achieve the SDGs through Inclusive Business has multiple benefits. It streamlines implementation and contributes to more favourable regulatory and operating environments. Multi-sector collaboration aligns the social, economic and environmental agendas, and allows all partners to devote their capacities and resources.

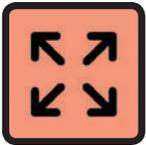
The private sector should lead innovative partnerships across industries and involve an unconventional set of stakeholders

While technology and financing provide cross-cutting solutions that can be easily integrated across industries, there are also opportunities to expand partnerships in other sectors that are not included in traditional partnerships models. Inclusive Business models automatically require more diverse and creative partnerships than business as usual. Additionally, there is growing interest from foreign enterprises in pursuing joint ventures with Philippine Inclusive Business companies. Cross-regional partnerships on Inclusive Business could strengthen the uptake of Inclusive Business models by local market players. Alliances that transcend a specific industry and bring together several business sectors, government agencies and civil society partners around the SDGs are the natural next step for Inclusive Businesses to reach scale.

This report's case studies validate the value and impact of solution-oriented cooperation to achieve the SDGs through Inclusive Business while building more sustainable, innovative and productive industries. For PHINMA Properties, partnerships with the National Housing Authority, LGUs, landowners, finance institutions and BoP communities provided access to low-income Filipinos and allowed the company to build integrated communities rather than just socialized housing projects. Similarly, CLIS was deliberate in forging partnerships with various stakeholders to achieve its business and development goals. Its collaboration with LGUs, the Insurance Commission of the Philippines, the Department of Trade and Industry, and telecommunications and insurance companies have proven critical in expanding its reach, improving its products and services, and sustaining its credibility.

Rethink PPPs

With the new direction towards a hybrid PPP model, the Philippine Government has a perfect opportunity to implement this popular modality – both by expanding it to more sectors and involving Inclusive Businesses and MSMEs in bidding, procurement and implementation. This will place BoP communities at the forefront of private sector engagement. While establishing the new generation PPPs is easier said than done, it can deliver major progress towards achieving the SDGs.



Capacity

3. Capacity building and incentives for private-sector SDG disclosure

For the private sector:

Invest in measuring social performance and impact

Stakeholders, including financial institutions, international organizations, governments and the public, are increasingly mindful of how businesses perform beyond profitability. With the SDG global development framework, attention to social data has become paramount. Impact measurement can also bring additional business value to companies: it has the potential to improve financial performance, operational efficiency, and product development. Companies that aspire to lead on the SDGs need to assign business value to development impact measurement and invest financial and human resources into these processes, including through outsourcing impact measurement, reporting and partnering with relevant actors. Enterprises can significantly benefit from the existing impact-measurement support initiatives of organizations such as the UN Global Compact, GRI, Acumen, BCtA and the Impact Investment Exchange Asia Foundation. However, resource constraints should be considered, especially for small businesses and social enterprises.

Report on the SDGs, including through the country-wide reporting platforms

Reliable data and comparable key performance indicators are fundamental to capturing private-sector contributions to the SDGs. Without consistent disclosure on social, environmental and financial data from multinational enterprises, large national companies and MSMEs, it will be difficult to measure overall progress both nationally and globally. There are still multiple obstacles regarding compatibility and standardization of SDG reporting processes for the private sector; however companies should proactively engage with the Government and local reporting initiatives to jointly address these challenges. The Philippines has spearheaded a country-wide SDG reporting platform to

.....

Impact measurement brings additional business value to companies, particularly through improved financial performance, operational efficiency, and product development.

.....



collect private sector contributions to the SDGs. This initiative will continue to support companies in data collection and reporting.

For the Government, business associations and international organizations:

Develop initiatives that improve the measurement and reporting capacity of Philippine companies

As the first year of experience with the SDG reporting platform demonstrated, many companies – especially MSMEs and social enterprises – do not have strong monitoring and evaluation systems, and even fewer are measuring social impact. International organizations and service providers can add significant value by offering impact measurement support to Philippine MSMEs in improving their SDG alignment, data collection and reporting capacity. Existing support initiatives in the Philippines provide impact measurement services (including BCtA and the Impact Investment Exchange Asia), certification training on sustainability reporting (GRI and PBE), and other tools to collect, integrate and analyse social performance data (such as Acumen’s Lean Data).

Engage the private sector and international organizations in developing standard business metrics for SDG reporting

The Philippine Government is already working to adapt the SDG indicators for national monitoring. Additional challenges to including private sector contributions stem from compatibility of companies’ business and social metrics with the SDGs. Engaging the private sector in developing and rolling out standard business metrics (that make sense to companies) and reporting guidance will enable private sector’s disclosure to be incorporated into the country’s national reporting of SDGs progress.

The establishment of standardized, nationwide and accessible mechanisms for SDG monitoring and reporting, led and coordinated by the Government, is strongly recommended.

Provide incentives to the private sector for SDG disclosure

Impact measurement and reporting – although paramount for analysing the private sector’s contribution to the SDGs, are serious investments for companies in terms of financial and human resources – which smaller enterprises struggle to allocate. Understandably, their priority is developing and running their business. If the nature of private sector engagement in SDG reporting relies solely on voluntary submissions, it may fail to capture the reality of Philippine companies’ involvement in achieving the SDGs. An incentive system, starting with a nationwide award and recognition mechanism, and expanding to include financial incentives, outsourcing support or making disclosure mandatory, can motivate the private sector to prioritize measurement and reporting their development contributions. In this context, stock exchanges can be strong partners for collaboration since they play a distinct role in encouraging companies to report on environmental, social and governance information by including disclosures in their listing rules and maintaining indices to promote sustainable investments and transparency.⁵⁷

⁵⁷ Sustainable Stock Exchanges Initiative, 2016 Report on Progress: http://unctad.org/en/PublicationsLibrary/unctad_sse_2016d1.pdf.

ANNEX 1:

Methodology

Between October 2016 and February 2017, PBSP conducted four workshops in Manila, Visayas and Mindanao with 53 companies and 50 representatives of government agencies, foundations, microfinance institutions, NGOs and business associations.

The workshops were designed to collect insights regarding challenges, opportunities, best practices and recommendations for scaling up Inclusive Business towards the SDGs in four sectors: (i) food and agribusiness; (ii) skills building and education; (iii) infrastructure; and (iv) financial services. Workshop insights and lessons learned were validated through the in-depth interviews with 13 leading companies (six of them BCtA members) that have successfully integrated development priorities into their core businesses. The interviews were conducted with the companies' CEOs, senior executives and CSR or sustainability experts.

Insights and findings from the consultations with private sector and other stakeholders, and from studies on Inclusive Business applications in the Philippines, are reflected in this publication.

List of participating companies

Company	Sector	Representative
Mt. Kitanglad Agri-Ventures Inc. (MKAVI)	Food and agribusiness	Edgar L. Bullecer, Unifrutti Group Philippines Director
Coffee for Peace/BCtA member	Food and agribusiness	Joji Felicitas Bautista Pantoja, CEO
Lao Integrated Farms	Food and agribusiness	Benjamin R. Lao, President and CEO
Hybrid Social Solutions Inc./ BCtA member	Renewable energy	Jaime "Jim" Ayala, CEO
Davao Light and Power Company	Power	Arturo M. Milan, Executive Vice President and CEO
PHINMA Properties/BCtA member	Housing	George Richard "Ricky" Siton, Vice-President of Socialized Housing
Accenture Philippines	Professional services and consulting	Emerson Enriquez, Corporate Citizenship
Wellmade Motors and Development Corporation	Manufacturing	Philip Tan, President and CEO
Messy Bessy/BCtA member	Natural products	Kristina Reyes-Lopez, CEO
Cebuana Lhuillier Insurance Solutions(CLIS)/BCtA member	Financial services	Jonathan Batangan, General Manager
Taytay sa Kauswaan Inc.	Microfinance Institution	Angelo B. Solarte, Executive Director
Tapp Commerce/BCtA member	Financial services	Heini Saari, Head of New Market Development
Ayannah	Financial services	Mikko Perez, CEO

Sectoral workshops

Workshop	Sector	Participants
Business beyond the Usual: Inclusive Business and the Sustainable SDG CEO Forum and Workshop Manila, October 6, 2016	Food and agribusiness	CEO Forum: 44 participants including 24 private-sector companies Inclusive Business workshop: 38 participants including 29 private sector companies
Inclusive Business Challenge: Visayas Workshop Cebu City, 29 November 2016	Skills Building and education	17 participants including 8 private-sector companies
Inclusive Business Challenge: Mindanao Workshop Davao City, 14-15 December 2016	Food and agribusiness; Infrastructure	22 participants, including 11 private-sector companies
Inclusive Business Challenge: Enablers Workshop Manila, 27 February 2017	Financial services	20 participants including 5 microfinance s and financial institutions. Government agencies represented: Department of Trade and Industry, Board of Investment, Department of Finance, Department of Agriculture.

TOTAL: 103 participants, including 53 companies

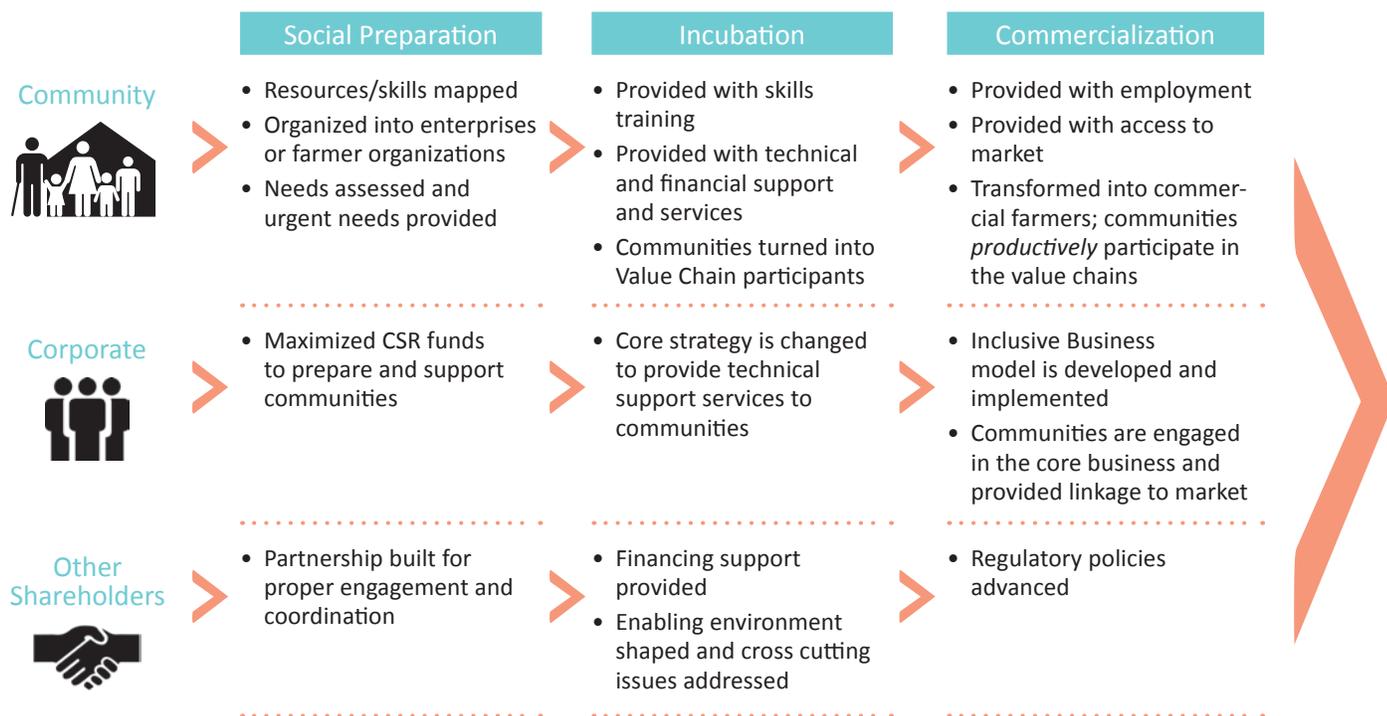
Review of studies and reports on Inclusive Business applications in the Philippines

- The Inclusive Business Market in the Philippines, 2013 by ADB, PBSP and Asian Social Enterprise Incubator
- Inclusive Business Study – Philippines, 2013 by ADB
- Country Case Studies on Inclusive Business: Philippines, 2016 by G20
- Inclusive Agribusiness in Mindanao, 2014 by PBSP and the COMPETE Project
- Growing Inclusive Businesses in the Philippines: the Role of Government Policies and Programs, 2016 by the Philippine Institute for Development Studies
- Renewables Readiness Assessment in the Philippines, 2017 by the International Renewable Energy Agency
- Financial Inclusion, Education and Regulation in the Philippines, 2015 by ADB
- Investment Priorities Plans 2014-2016 and 2017-2019, Department of Trade and Industry, Board of Investments.

ANNEX 2: Building Inclusive Business in the Philippines: PBSP Model

When PBSP, a business-led social development foundation, began documenting companies implementing Inclusive Business models in the Philippines, it became apparent that minimum conditions must be present in the business environment for robust Inclusive Business models to operate. During the years when 25 percent of the population was below the poverty line, 10 percent fell below the threshold of ‘subsistence’. The implication was that when poor people are struggling to obtain food and other basic necessities, all other activities pale in comparison – even those that alleviate poverty in the long term. In these conditions, ‘subsistence’ (food-insecure) communities need to be engaged differently than those falling just below the poverty line or those that are ‘vulnerable’ (the BoP). The urgency of food-insecure communities’ needs requires the involvement of government and humanitarian organizations well before Inclusive Business models can be implemented. With income-poor communities, risk-taking Inclusive Business models can begin their work, but not without social investment.

Figure 1. Three-tiered approach to Inclusive Business as designed by PBSP, highlighting the need for social investment in the form of preparation and incubation activities that facilitate Inclusive Business model implementation.

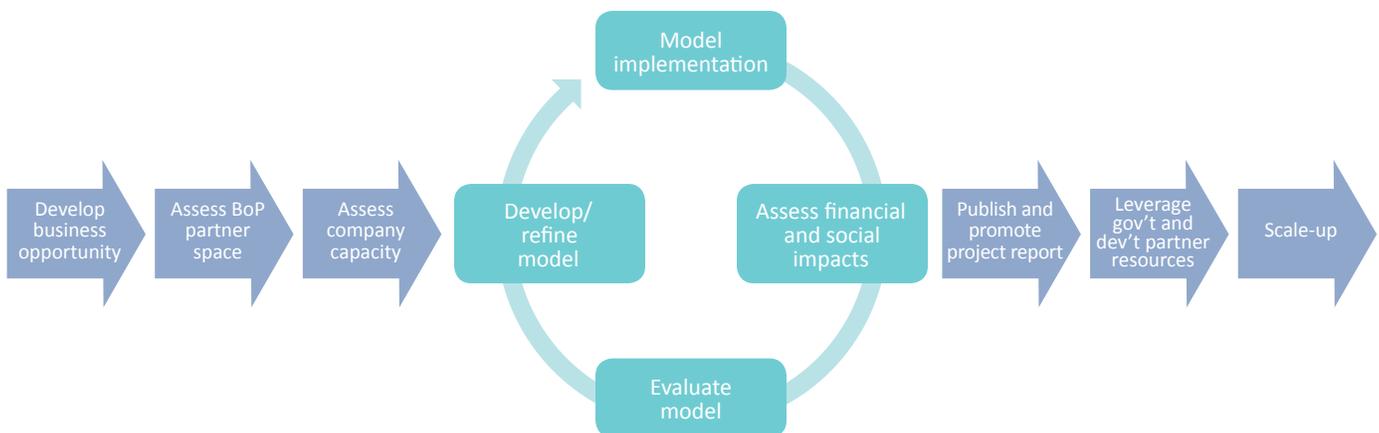


In light of these observations, PBSP follows a three-tiered approach to the development of Inclusive Business models. This approach asserts that there is business value in activities associated with social preparation, community development and capacity building – all of which are traditionally within the spheres of corporate philanthropy and CSR. As highlighted in the *Uncharted Waters* report, it is important to assess the community context for business planning, but it is also necessary to direct company resources towards social preparation – the first tier. An active approach considers engagement beyond just the community to all players in the enabling environment; leveraging corporate resources for Inclusive Business allows for multi-stakeholder collaboration. The result is a multiplier effect on the use of company resources as well as a framework for sharing risk.

The second tier looks into Inclusive Business model development and pilot testing. At this phase, there will likely be a gap between the company’s requirements and poor communities’ capacities. To bridge this gap, company resources must be leveraged along with partnerships in an enabling environment. Here, the emphasis shifts from social preparation to development of needed skills, knowledge and capacities. Once this has been achieved, the next step is commercialization – the third Tier – which increases the company’s share of the potential business space.

The three-tier model describes business model development that creates interdependence among companies and the communities they seek to engage with. Activities that enhance community capacities are no longer just distinct from the company’s business model (as in traditional CSR programmes), but are integrated investment activities linking community enhancement to business success. Interdependence is not a tool or a technology, but a way of thinking. Value chain-based modelling is one example of technology that can facilitate mapping of activities that create this interdependence.

Figure 2. Inclusive Business process in the Philippine context: Beyond the usual business modelling, social investment at the BoP and transparent reporting are critical to ensuring to the successful implementation and expansion of Inclusive Business initiatives.



Like any business model, an Inclusive Business model begins with defining the business opportunity: this includes market demand, competition and all other market forces. Immediately however, it diverges from business as usual in the second tier, where there is an assessment of the BoP partner space. Given the requirements for production, manufacturing and marketing of the intended goods and services, the company must begin identifying communities that can participate in its value chain. This can be achieved by:

- Scanning the environment by assessing the existing economic, human and infrastructural resources, and the political climate and business risks (including climate change);
- Developing a value chain analysis map to identify points of community participation and disaggregating data on men and women to identify the value allocation of all value-chain players (including BoP participants); and
- Analysing gaps in the value chain and identifying internal and external partner to address these gaps.

Current company capacity is assessed in light of business opportunities and BoP partner space. This assessment should cover both internal company resources and the external resources (i.e. existing company partnerships and networks).

Next, the Inclusive Business model is developed, implemented, assessed for financial and social impacts, and evaluated, from the overall strategy down to the procedures involved. Then, the cycle begins once more by refining the business model. In this process, social investment activities are integrated into the model design and are therefore integral to model implementation.

The next few steps relate to accelerated scale up of the Inclusive Business initiative. Key players in most value chains are hesitant to throw their resources into the pot without any demonstrated proof of concept. This is often described as a 'wait-and-see' attitude – which is borne of multiple frustrations and disappointments in previous investments. To overcome the wait-and-see attitude and secure partners' buy-in, companies need to develop a critical mass of opinion favoring the business model's implementation. The best way to do this is to produce a clear and well-packaged report on the Inclusive Business model's financial and social impacts. Showcasing the company's Inclusive Business model is a means to promote it while reaching out to other companies and linking to government and development partners' resources. The scale-up stage not only requires an increase in the company's investment but a commensurate increase in support from the enabling environment.

The keys to Inclusive Business models' success are the: (i) creation of an interdependent relationship with the BoP partner; (ii) assignment of business value and integration of social investment into the Inclusive Business model; and (iii) integration of BoP communities as productive participants in the value chain. Accelerated scale up of Inclusive Business models is facilitated by the public dissemination of results, which leads to easier access to government and development partner resources.

ANNEX 3:

Summary of Featured Inclusive Business Models



Inclusive Business Model

Insights

FOOD AND AGRIBUSINESS		
<p>Mt. Kitanglad Agri-Ventures, (MKAVI) Inc.</p>	<ul style="list-style-type: none"> • BoP-as-employee model engaging agrarian reform beneficiaries and indigenous peoples in conflict-affected areas as farm workers at its banana plantation • Providing generous employee benefits ranging from complete health insurance to bonuses, loan benefits, day care, etc. • SDG 1 – No Poverty; SDG 8 – Decent Work and Economic Growth 	<ul style="list-style-type: none"> • Giving livelihood opportunities to local people promotes peace in communities and creates safer operational environment for businesses. • Good management practices and community inclusion in the business process protect the most vulnerable populations, establish loyalty and boost productivity. • Modern farming practices, gained through strategic partnerships, lead to disaster-resilient and environmentally sustainable farms.
<p>Coffee for Peace</p>	<ul style="list-style-type: none"> • BoP-as-supplier model engaging indigenous communities, minorities and migrant workers in conflict areas as suppliers of export-grade Arabica and civet beans • Farmers’ technical assistance coupled with community and peacebuilding • SDG 1 – No Poverty 	<ul style="list-style-type: none"> • Revitalizing high-value crop industry and diversifying from cash crops like rubber helps to increase farmers’ incomes. • Integrating technical training into peacebuilding programmes creates more cohesive and productive communities. • Value-chain engagement should be a continuous process. Farmers are trained in post-harvest production, retail and microenterprise building.
<p>LFI/Lao Integrated Farms, Inc. (LIFI)</p>	<ul style="list-style-type: none"> • BoP-as-employee-and -supplier model engaging agrarian reform beneficiaries and indigenous people as suppliers of coconut sap and company employees • Farmers are maximizing income opportunities through product diversification, organic farming practices and livestock cultivation • SDG 12 – Responsible Consumption and Production. 	<ul style="list-style-type: none"> • Innovative use of local materials coupled with strong support and use of government resources allows for effective implementation of business models in remote locations. • There are long-term benefits from initially costly organic practices such as acquiring organic certifications.



Inclusive Business Model

Insights

INFRASTRUCTURE		
Hybrid Social Solutions	<ul style="list-style-type: none"> • BoP as consumer of stand-alone solar energy systems through last-mile distribution of products to off-grid, rural communities by local sales agents • Provision of financing mechanisms, in partnership with select microfinance institutions and community-based NGOs and cooperatives • SDG 7 – Affordable and Clean Energy 	<ul style="list-style-type: none"> • Customer training on proper product use is helps users to maximize products for improved livelihoods. It also helps the company by maximizing the acceptability and credibility of the product within communities. • After-sales service and easy access to providers are critical. • Proper training and provision of support materials to local sales agents is key to the programme’s success.
Davao Light and Power Company	<ul style="list-style-type: none"> • BoP as consumer of solar solutions model in remote rural locations • Additional training and employment opportunities with the company created through the need to service solar devices • SDG 7 – Affordable and Clean Energy, SDG 8 – Decent Work and Economic Growth 	<ul style="list-style-type: none"> • In an Inclusive Business, profit should not be the only business indicator that is tracked. Franchise protection, market share capture and other indicators are also important. • Capturing government initiatives like net metering and renewable energy support programmes allows Inclusive Business models to be developed within large national corporations.
PHINMA Properties	<ul style="list-style-type: none"> • BoP (including informal settler families) as consumer of affordable housing units in urban areas • Housing construction coupled with accessible loan programmes and community-development initiatives • SDG 11 – Sustainable Cities and Communities 	<ul style="list-style-type: none"> • Leveraging country-wide PPP and government-initiated socialized housing programmes has allowed the company to scale, impact and replicate the model across the country. • Inclusive Business is not only about providing affordable housing to the BoP. It is also about building social cohesion and integrating communities as productive members of society.



Inclusive Business Model

Insights

EDUCATION		
Accenture Philippines	<ul style="list-style-type: none"> • BoP-as-employee model • Shift in hiring practices to consider non-college graduates and out-of-school youth in provinces, providing training in order to qualify for BPO hiring • SDG 4 – Quality Education, SDG 8 – Decent Work and Economic Growth 	<ul style="list-style-type: none"> • When competition for good workers is stiff, the BoP – with provision of training – can be a good alternative resource.
Wellmade Motors and Development Corporation	<ul style="list-style-type: none"> • BoP-as-employee model • Provides on-the-job training to out-of-school youth and persons with disabilities • SDG 1 – No Poverty, SDG 8 – Decent Work and Economic Growth, SDG 10 – Reduced Inequalities 	<ul style="list-style-type: none"> • Good training and appropriate customization of work-related equipment and processes enables high productivity, even among people with disabilities. • By engaging the BoP, Wellmade Motors has built a unique competitive advantage with this target group as its most productive employees.
Messy Bessy	<ul style="list-style-type: none"> • BoP-as-employee model • Provides education opportunities, holistic training, and employment to at-risk youth (formerly abused, trafficked, homeless, incarcerated and out-of-school) • SDG 4 – Quality Education, SDG 8 – Decent Work and Economic Growth 	<ul style="list-style-type: none"> • Programmes can be developed to cater to difficult human conditions and still maintain a high level of productivity. • Aside from education and employment, value formation and psycho-social development are critical to the programme’s success (the latter takes into account the context in which BoP youth are living). • Proper implementation, customization and documentation of the programme have facilitated the replication of this model for other companies and social enterprises.



Inclusive Business Model

Insights

FINANCIAL SERVICES		
Microfinance institutions (TSKI, NWTF, CARD, ASA)	<ul style="list-style-type: none"> • BoP-as-consumer model • Microfinance institutions provide quick access to financing for ‘unbankable’ clients • SDG 1 – No Poverty, SDG 8 – Decent Work and Economic Growth 	<ul style="list-style-type: none"> • Engaging in microfinancing is human capital intensive and is not viable for most large commercial banks (despite policy-compliance requirements). Business-to-business partnerships are likely to be a win-win solution both for commercial banks (which can find additional revenue stream through wholesale lending to microfinance institutions) and microfinance institutions (which can access additional sources of funding). • Social enterprise development ensures the success of BoP enterprises and in turn, their repayment of loans to microfinance institutions.
Tapp Commerce	<ul style="list-style-type: none"> • BoP-as-consumer-and-distributor model • Use of mobile app allows for easy use and access by BoP clientele for financial transactions • Use of local sales agents to service BoP clientele using Tapp Commerce’s mobile application • SDG 9 Industry, Innovation, and Infrastructure 	<ul style="list-style-type: none"> • Innovative use of technology can increase BoP financial inclusion. • Use of local sales agents enhances entrepreneurial opportunities and activities in the company’s areas of operation. • Piggy-backing on existing technology (like inexpensive smart mobile phones in the Philippines) has proven to be helpful in reaching more people at the BoP.
Cebuana Lhuillier Insurance Solutions (CLIS)	<ul style="list-style-type: none"> • BoP-as-consumer model • Provides affordable insurance and personal protection products • SDG 1 – No Poverty, SDG 8 – Decent Work and Economic Growth, SDG 13 – Climate Action, SDG 17 – Partnerships for the Goals 	<ul style="list-style-type: none"> • Quick transactions and high convenience make products and services more acceptable to the BoP. • Leveraging companies’ existing capacities and infrastructure while continuously developing innovative products and forging meaningful partnerships are the keys to a successful Inclusive Business. • Covering the entire ecosystem is an effective means to address the lack of financial inclusion in the Philippines (i.e., education, provision of loans to enable MSMEs to operate and provision of safety nets through insurance that facilitates business continuity).
Ayannah	<ul style="list-style-type: none"> • BOP-as-consumer model • Development of digital finance software to provide more reliable, affordable remittance services to millions of Filipino migrants (domestic and international), including BoP • SDG 9 – Industry, Innovation, and Infrastructure, SDG 10 –Reduced Inequalities 	<ul style="list-style-type: none"> • Technological advancements can make products and services more affordable for people at the BoP while ensuring that companies profit. This can be achieved by addressing opportunity costs and business losses through digital finance technology. • Business-to-business linkages are key to attaining success in the digital finance industry.

ANNEX 4:

Key Players in the Philippines Microfinance Industry

In an archipelago like the Philippines with significant income inequality and regional disparities, approximately 72 percent of the population lacks access to formal financial institutions. This precludes them from leveraging financial products such as savings and loans to pursue entrepreneurship opportunities. Microfinance institutions have begun to fill this gap by providing accessible financial services to the BoP. While there are several institutions currently operating in the Philippines, this report highlights three of the most outstanding.

Negros Women for Tomorrow Foundation, Inc.

NWTF was founded in 1984 to help poor women in Negros Occidental. It was one of the pioneer adapters of Grameen Bank technology, with the founders going to Bangladesh in order to train directly under Professor Yunus. In 1989, NWTF started branching out in Negros Occidental. Over the next two decades, it established 88 branches in the Visayas.

NWTF branded its Grameen-supported operation 'Project Dungganon', derived from Hiligaynon and meaning 'honorable'. In 2004, it established the Dungganon Bank, the first private micro-thrift bank in the Visayas, providing deposits, loans and auxiliary services. The Project Kasanag (meaning 'light') financing service was launched in 2000 to provide larger loans to individuals. The company's cloud funding service, launched with KIVA, provides loans from USD 100 to USD 275 payable within six months to one year.

The majority of borrowers (71 percent) are engaged in trading or retailing – 3 percent for services, 21 percent for agriculture and fisheries, and 5 percent for manufacturing and processing. Vending and *sari sari* stores accounted for the greatest share of these loans. Of NWTF's clients, 95 percent (247,726 individuals) have received loans averaging PhP 8,409.

NWTF also supports more than 700 scholars who receive tuition and allowance. At least 564 of them are enrolled in college while the remaining 141 are in technical and vocational schools in partnership with the Government's vocational training office.

The Center for Agriculture and Rural Development, Inc.

CARD was founded in 1989 by Aristotle Alip, who led its evolution into a holistic group of 14 organizations delivering MSME loans, microinsurance, capacity building and other important services. He won the Ramon Magsaysay Award (often called the Asian Nobel Prize) for this work to encourage microenterprises. The impact of CARD's operations may be gleaned from its over 1 million members and 12.8 million individuals insured.

In 2016, total resources expanded to PHP 8.2 billion, with equity of PHP 3.2 billion. This makes CARD one of the Philippines' largest microfinance institutions in terms of resources.

ASA Philippines

Established in 2004, ASA Philippines is the first microfinance institution to establish a full presence in all 82 provinces and is the Philippines' second largest in terms of resources. It operates in all 144 cities, 1,199 municipalities and 22,926 *barangays*, with 4,824 professional staff.

Branch expansion has fueled loan growth and ASA Philippines has reached out to the poorest of the poor *barangays* to develop microenterprises. Loan repayment is near perfect as a result of its weekly collections, with portfolio risk standing at 0.04 percent. ASA also offers interest free loans for disaster-related livelihood support.

To date, ASA has assisted 478,321 people and 165,852 jobs have created by its clients' established or expanded businesses. At least 55.7 percent of these clients are located in Luzon, 28.8 percent are in Mindanao and 15.5 percent are in the Visayas.



Copyright © 2017

United Nations Development Programme

Bureau for Policy and Programme Support

All rights reserved.

This document is copyright protected by UNDP. The reproduction and distribution of this document for information and/or use is permitted with proper citation of the report. The views expressed in this publication do not necessarily represent those of United Nations, including UNDP or UN Member States.

Photo credits:

Front cover: Suriya99 / Shutterstock.com

Pg 10: Kennemer photo

Pg 13: aldarinho / Shutterstock.com

Pg 14: Suriya99 / Shutterstock.com

Pg 18: Allen.G / Shutterstock.com

Pg 22: Cebuana photo

Pg 25: Kennemer photo

Pg 26: Bucha Natallia / Shutterstock.com

Pg 33: Mt.Kitanglad Agri-Ventures Inc photo

Pg 35: Coffee for Peace photo

Pg 36: drpnncptak / Shutterstock.com

Pg 41: Hybrid Social Solutions photo

Pg 43: Davao photo

Pg 44: PHINMA Property photo

Pg 48: Photographee.eu / Shutterstock.com

Pg 49: Wellmade Motors and Development Corporation photo

Pg 50: Messy Bessy photo

Pg 54: Cebuana photo

Pg 56: Daniel Zuckerkandel / Shutterstock.com

Pg 58: Kennemer photo

Pg 61: Messy Bessy photo

Pg 63: Coffee for Peace photo

Pg 75: Kennemer photo



Ministry of Foreign Affairs of the Netherlands



MINISTRY FOR FOREIGN AFFAIRS OF FINLAND



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC



USAID
FROM THE AMERICAN PEOPLE



SWEDEN



UKaid
from the British people



Empowered lives.
Resilient nations.



Contact Business Call to Action

E: bcta.secretariat@undp.org
www.BusinessCalltoAction.org



@BCtAinitiative



www.facebook.com/businesscalltoaction

