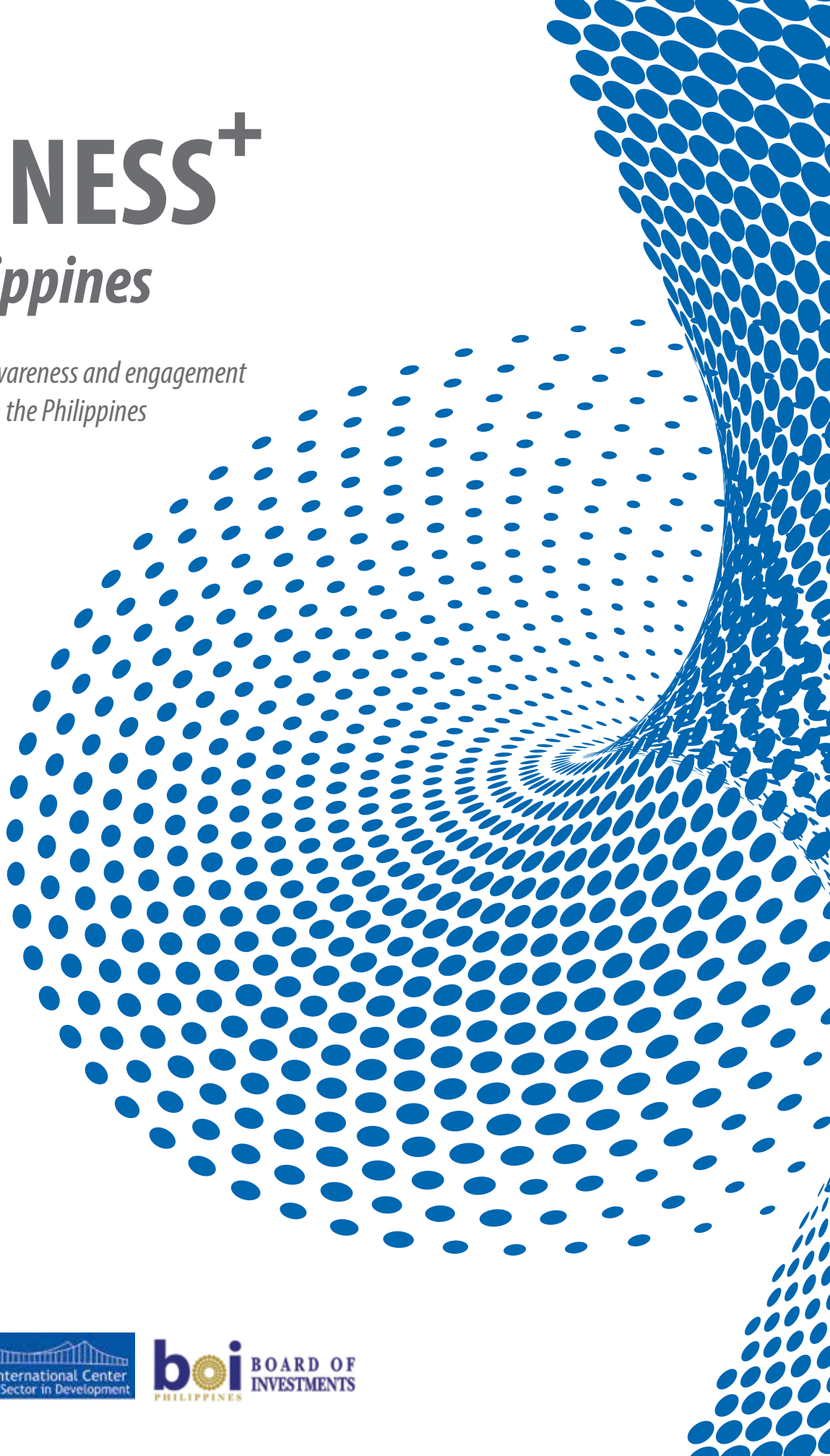


BUSINESS⁺

The Philippines

*Inclusive Business awareness and engagement
among companies in the Philippines*



*Empowered lives.
Resilient nations.*



ACKNOWLEDGEMENTS

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This report was produced through the joint efforts of a dedicated team from the Department of Trade and Industry - Board of Investments, the United Nations Development Programme Philippines, and UNDP Istanbul International Center for Private Sector in Development, and partners from academia. Philippine business associations, the Office of Senator Paolo Benigno Aquino, and the University of Asia and the Pacific provided valuable support during project implementation.

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Ensuring that the benefits of economic growth reach marginalized sectors requires proactive and targeted initiatives resulting from a strong and stable collaboration between government and the private sector.

Inclusive Business has emerged as one of the viable means by which companies can contribute to national development goals while still being able to achieve their commercial objectives. Inclusive Business provides business opportunities that can sustainably draw marginal groups into the social and economic mainstream by integrating these smaller players into the value chains of larger companies.

The Board of Investments (BOI) has been promoting Inclusive Business since 2014 and continues to encourage companies to go beyond what is just business-as-usual through policy support in the Investment Priorities Plan of 2017 to 2019 and various advocacy programs. The Business⁺ national survey is one of the board's initiatives in working with business executives and entrepreneurs in identifying constraints and necessary support mechanisms to foster an enabling environment for Inclusive Business.

Congratulations to the research team, business association partners, policy partners, and academe for making this joint effort a success. We hope that the practical insights from Business⁺ will spark meaningful conversations on Inclusive Business and stimulate more collaborations among Philippine-based businesses and key enablers in the country.

We call for sustained private sector engagement in generating decent-paying income opportunities, creating new markets for the untapped, and enhancing business models through innovation. BOI will actively pursue the Inclusive Business agenda with you toward a more inclusive and sustainable business environment.

FOREWORDS



OLA ALMGREN

United Nations Resident Coordinator

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Philippines

The Philippine economy has undergone unprecedented growth in recent years. Its average growth rate of 6.2% from 2010 to 2016 has made the Philippines one of the fastest growing economies in Asia. However, there are persistent challenges: Underemployment is still 18.3%, poverty remains at 25.2%, and inequality is still one of the highest in the region particularly in terms of income.

There are several ways companies can contribute to development but one is proving effective, sustainable, and feasible while addressing the unfulfilled gaps of poverty – Inclusive Business. At its heart is the integration of the base of the economic pyramid, those that often get left behind, into companies' value chains to ensure both commercial success and social impact.

Inclusive Business underscores the idea that the pursuit of profit and development can and should be supportive of society's more challenged sectors. There are emerging Inclusive Business models in agriculture, tourism, health, and education in the Philippines, but there is more to be done.

Inclusive Business is still quite new and a little unfamiliar to many companies yet it is already opening many opportunities including tapping a huge segment of the economic pyramid's base for employment or supply opportunities. Companies can shift focus to creating commercially viable goods and services that will have a significant social impact while addressing the needs of the poor. Those already implementing Inclusive Business face exciting challenges in financing, infrastructure, and skills development as they look toward scaling up.

The United Nations Development Programme (UNDP) in the Philippines and the Department of Trade and Industry-Board of Investments, with support from UNDP's Istanbul International Center for Private Sector in Development, initiated a study to learn the private sector's level of knowledge, engagement, and awareness of Inclusive Business to identify the characteristics and key drivers of successful initiatives. This can guide stakeholders – businesses, government agencies and local government units, communities, NGOs – to innovate and support the development of Inclusive Business models toward poverty alleviation and human development especially as guided by the 17 goals specified in the 2030 Agenda for Sustainable Development. These 17 Sustainable Development Goals challenge all to pursue development plans to end poverty, protect the planet, and ensure prosperity for all while leaving no one behind.

We hope this report will support the organization of a community of inclusive business advocates among private firms that proactively contributes to policy discussions for a more sustainable business climate. We look forward to working with government and private sector partners in this important venture toward the achievement of the 2030 Agenda.



JESUS VARELA

Director General

International Chamber of Commerce Philippines



The International Chamber of Commerce Philippines (ICCP) staunchly supports the Business⁺ study on the Inclusive Business initiative of the Board of Investments and the United Nations Development Programme. We laud the efforts of these institutions and other partner organizations in spearheading the Inclusive Business initiative.

Achieving inclusive growth and development has been the consistent advocacy not only of government but the private sector as well. The success of the Inclusive Business model in the Philippines will make sure that we are one step closer to attaining inclusiveness across sectors. Through this, low-income communities have a chance to take part in the overall supply chain, increasing their competitiveness and productivity. Businesses will then also have an opportunity to make a unique but vital difference in the way business is done while always keeping in mind the sectors that need our utmost support and involvement.

Rest assured that the ICCP will support the promotion of the Inclusive Business initiative, engaging our membership to be a part of this important endeavor in making an impact for sustainable and inclusive growth and development in the country.

FOREWORDS



A handwritten signature in black ink that reads "Marife B. Zamora".

MARIFE B. ZAMORA
President
Management Association of the Philippines (MAP)

Businesses need to create a more inclusive and humane economy especially in this world of diversity and disruption. This is why the Management Association of the Philippines (MAP) encourages collaborative and transformative actions and an economic system promoting growth while spreading its benefits to those who need it most.

The MAP partners with other business organizations, the government, and civil society to support reforms and policies geared towards eliminating poverty, capitalizing on disruptive technologies, and enabling a much more sustainable business environment where everyone has room to succeed.

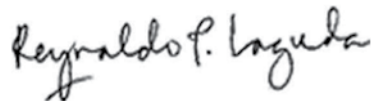
It is for this reason that the MAP is pleased to work with all the participating organizations in this nationwide research measuring Filipino companies' awareness of and engagement with the approaches of Inclusive Business. The results will certainly identify major areas for policy intervention and foster inclusive businesses in the Philippines.

We, in the MAP, thank the Department of Trade and Industry–Board of Investments (DTI-BOI) and the United Nations Development Programme (UNDP) for involving us as one of their national private sector organization partners for their Business⁺ national survey on inclusive business.

We are glad to participate in a survey highlighting different ways of including the less fortunate in a company's operations to empower them and give them the opportunity towards a much better future.

Congratulations to the DTI-BOI and the UNDP.

Mabuhay!



REYNALDO ANTONIO D. LAGUDA
Executive Director
Philippines Business for Social Progress



Philippine Business for Social Progress (PBSP) is the concrete manifestation of local business leaders' commitment to expand the role of business in the realm of social responsibility to contribute to the well-being of the nation. Through the years, PBSP has seen the growth and evolution of corporate social responsibility in the country.

PBSP adopted Inclusive Business (IB) in 2013 as a strategy to pursue development and address what seemed to be the unrelenting problem of poverty. PBSP established the PBSP–Inclusive Business Center to promote and encourage innovation in the creation of IB models and practices to facilitate strategic partnerships that support IB implementation.

PBSP is privileged to have been invited to support Business+ Philippines. Through this country report, we hope to better understand the trends and practices of businesses as they relate to IB. This will provide invaluable insights that can help PBSP and its member companies align their work with identified solutions needed by our country.

FOREWORDS



A stylized, handwritten signature in black ink, appearing to read 'P. Perfecto'.

PETER V. PERFECTO

*Executive Director
Makati Business Club*

It is unfortunate how I continue to see poor communities all over the country in the context of my colorful work experience – whether it is working on human rights and human rights education, providing credit card services for the Armed Forces of Philippines (AFP) and Philippine National Police (PNP), promoting the peace process in the Office of the Presidential Adviser on the Peace Process, or working with big business to craft and advocate constructive ideas to build the nation. I saw these communities as a student in Ateneo tutoring Tulong Dunong students in Marikina public schools in the 1980s and I still see more of these communities today. The number of people – and children – in these communities has certainly swelled. There must be ways forward to allow these communities to catch up and build better lives.

For government, that way is good governance and inclusive growth. For the business community, it can only be inclusive and sustainable business. This is business beyond just the bottom line and traditional corporate social responsibility (CSR). This is the business with strategic and embedded CSR that the Asian Institute of Management (AIM) Ramon V. del Rosario Center advocates.

This is about helping more and more micro and small enterprises grow and become part of national and even global supply chains. This is about not killing the small hardware and mini grocery while exploring options and opportunities with them and for them. This is about buying potatoes from farmer cooperatives and giving them much needed support so they can become competitive. This is about not always buying from the cheapest supplier and certainly not burdening them with 120-, 90-, or even 60-day payment terms. They need cash to survive and grow and they need it now.

This is about corporate foundations working with NGOs, communities, churches, and cooperatives that are already working with poor communities rather than starting their own programs. Yes, it is often more complicated to initiate and nurture relationships with these groups but it is definitely the more sustainable way forward. If a local group is weak, it should be made strong to let it professionalize, become more accountable and transparent, and manage its resources better.

This is about public-private partnerships (PPPs) that make nation-building and poverty reduction part of the bottom line. PPPs must help put in place the infrastructure and services that will not become just another way to further marginalize the poor. We must all accept the need of corporates to make a profit in a PPP but challenge them to lower costs so that the poverty-stricken Filipino population can be genuinely helped.

It is in this light that the Makati Business Club has committed its full support to the Business+ Philippines project that aims to thoroughly document successful long-term and value-driven partnerships where MSMEs become integrated in global value chains of big business. By documenting on-the-ground experience and best practices, government and business encourage paths to inclusive growth that we need now, more than ever.



CRISANTO S. FRIANEZA

Secretary General

Philippine Chamber of Commerce and Industry



The Philippine Chamber of Commerce and Industry (PCCI) is privileged to be part of the Business+ study on Inclusive Business.

As the premier business organization in the country, PCCI serves as vehicle for its members, composed mostly of micro, small, and medium enterprises, to expand their businesses by providing them the necessary support to enable them to grow and share their gains with society.

The objectives of Business+ are consistent with PCCI's own GIANT STEPS: Good governance, Infrastructure, Agriculture, New era in manufacturing and Tourism as enablers of growth with the determinants, Science and Technology, Education, People skills, and Sources of financing. GIANT STEPS is PCCI's platform for addressing and improving the Philippine business climate to bring about inclusive and sustainable economic growth.

The results of the study will enable MSMEs and the business community in general to learn best practices or business models on Inclusive Business. The study also serves as a vital source for policy making bodies involved in promoting the development of MSMEs.

We look forward to collaborating with other stakeholders in realizing the objectives of this project.

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LIST OF ABBREVIATIONS

ADB

Asian Development Bank

AFP

Armed Forces of Philippines

AIM

Asian Institute of Management

ALRO

Association of Laiya Resort Owners

ASEAN

Association of Southeast Asian Nations

ARCESS

Agrarian Reform Community Connectivity and Economic Support Services

BcTA

Business Call to Action

BMS

Business Management Summit

BOI

The Philippine Board of Investments

BOP

Base of the Economic Pyramid

BUTGEM

Bursa Chamber of Commerce and Industry Education Foundation

CSR

Corporate Social Responsibility

DepEd

Department of Education

DTI

Department of Trade and Industry

DTI- BOI

Department of Trade and Industry - Board of Investments

DTI- ROG

Department of Trade and Industry - Regional Operations Group

EMA

Enterprise Management Association

FEP

Farmer Entrepreneurship Program

GDP

Gross Domestic Product

G20

Group of 20

IB

Inclusive Business

ICCP

International Chamber of Commerce Philippines

IFC

International Finance Corporation

IICPSD

Istanbul International Center for Private Sector in Development

JFC

Jollibee Food Corporation

LNHS

Laiya National High School

MAP

Management Association of the Philippines

MBC

Makati Business Club

MD

Median Score

MDG

Millennium Development Goal

MOU

Memorandum of Understanding

MSMEs

Micro, Small and Medium Enterprises

NCR

National Capital Region

NGO

Non-Government Organization

NLDC

National Livelihood Development Corporation

PACT

Publish, Advocate, Connect, and Train

PBSP

Philippine Business for Social Progress

PCCI

Philippine Chamber of Commerce and Industry

PHP

Philippine Peso

PNP

Philippine National Police

PPP

Public-Private Partnerships

PPSA

Philippines Partnership for Sustainable Agriculture

PRDP

Philippine Rural Development Project

PSA

Philippine Statistics Authority

R&D

Research and Development

SDG

Sustainable Development Goal

SME

Small and Medium Enterprise

TESDA

Technical Education and Skills Development Authority

TVET

Technical Vocational Education and Training

UA&P

University of Asia and the Pacific

UN

United Nations

UNDP

United Nations Development Programme

USAID

United States Agency for International Development

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EXECUTIVE SUMMARY

The United Nations Sustainable Development Goals (SDGs) set targets for overcoming global economic, social, and environmental sustainability challenges by 2030. Governments remain a key player in driving sustainability but actual solutions should also propel efforts especially as challenges evolve. The 17 SDGs call for new and collaborative engagements among various stakeholders, highlighting the increased involvement of the private sector in achieving development targets.

One of the most remarkable ways businesses can contribute to the SDGs is through Inclusive Business. The G20 (2015) defined Inclusive Business as “a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP) making them part of the value chain of

companies’ core business as suppliers, distributors, retailers, or customers.”

Inclusive Business models provide a sound basis for building a resilient economy that gives due importance to human and economic development while providing an alternative model for businesses to be profitable and responsible.

Given the potential of Inclusive Business in delivering market-based solutions to the SDGs, the United Nations Development Programme (UNDP) decided to accelerate the implementation of Inclusive Business practices by identifying capacity gaps and barriers to the adoption of relevant models and the revelation of any drivers that would enable businesses to better promote and practice Inclusive Business models. UNDP thus developed Business⁺ as a quantitative tool to see inclusivity in the private

sector in different countries to guide development actors toward a more inclusive economy in the belief that "you can't manage what you can't measure."

UNDP and the Government of the Philippines implemented Business+ with the support of the most prominent business associations in the country to understand the current levels of awareness, knowledge, and engagement of the private sector in Inclusive Business and to determine both the challenges and possible policy interventions. The findings from 19 in-depth interviews with local business executives and the results of a survey involving 223 companies in the Philippines showed that the current levels of awareness and engagement in Inclusive Business are low – awareness was quite low and the terminology was hardly in use at all. This was true both in Turkey and in the Philippine experience. Even those companies that exhibited Inclusive Business practices were not aware that they were actually already doing it and they did not consider themselves inclusive businesses.

The research results showed, however, that the respondents themselves thought that the situation could be improved by strengthening the Inclusive Business ecosystem, through raising awareness, building capacity, encouraging collaboration, and initiating certain policy interventions. It is quite significant to note that the low levels of awareness about the principles and terminology of Inclusive Business and especially its successful application might have served to increase the hesitation to adopt this "new" mindset and approach.

Not surprisingly, it was social enterprises that had the highest levels of inclusiveness with the highest scores in all entry points. What was encouraging was that large national companies were next in being inclusive followed by multinational corporations and SMEs. Various factors, of course, contributed to this but it is hoped that with greater awareness and knowhow, plus a support system backed by both government and industry, there will be an increased number of opportunities for the poor to become much more active and effective participants in the fields of business and development.

Raising Awareness and Interest

The research suggests that participant companies generally had low levels of awareness or engagement with the ideas of Inclusive Business. It was, however, encouraging that those companies doing it, especially those with higher levels of inclusiveness, considered

Inclusive Business models effective in helping them reach both their business and social goals. To accelerate the adoption of more Inclusive Business models, a nationwide campaign needs to be conducted to address the lack of awareness and knowledge among businesses about:

- The term "Inclusive Business"
- The different applications of Inclusive Business in different sectors and the different entry points for the poor. "Entry point" here refers to the role the poor can take in the value chain: being an employee, consumer, supplier, distribution channel member, or entrepreneur.
- The importance of incorporating Inclusive Business into a company's core strategy to ensure the long-term commitment of resources
- The success of Inclusive Business models in creating social and business impact

Capacity Building

Considering the capacity gaps related to setting up, implementing, and/or expanding Inclusive Business models, we recommend:

- **Establishing an "innovation" nexus of policies and programs supporting Inclusive Business:** The strong and positive relationship between business model innovation and adopting Inclusive Business models in the Philippines means increasing the capability of Philippine companies to innovate and foster an environment of inventiveness which will inevitably boost inclusive businesses. To facilitate that, a nexus of sorts, putting together resources and references as well as existing policies and programs, needs to be put up.
- **Increasing the adoption of Inclusive Business among MSMEs and entrepreneurs:** Filipino MSMEs and entrepreneurs play a critical role in a more inclusive private sector and they need to better understand and appreciate Inclusive Business and the ideas surrounding it. Capacity-building efforts are necessary as their small-scale operations and relatively flexible business models are more easily open to innovation and change. On the other hand, large national and multinational companies are also of key importance especially considering the depth and scope of their impact. Therefore, it is equally important to increase the adoption of Inclusive Business among companies regardless of their size and people in these businesses need to have the requisite exposure to both ideas and practice so that they can make use of these in their spheres of influence.

- **Investing in skills development programs:** There is a skills gap in the Philippine market on Inclusive Business. Skills-development programs specifically targeting poor employees, suppliers, and entrepreneurs in different sectors to improve their efficiencies can significantly increase the private sector contribution to national development efforts and enhance the Inclusive Business ecosystem as a whole and should be both encouraged and even initiated.
- **Training people living at the BOP in the areas of marketing, entrepreneurship, and finance:** There is a need to provide targeted training sessions, seminars, and skills-development activities regarding inclusive businesses targeted to BOP suppliers and entrepreneurs to improve their skills in the fields of marketing, entrepreneurship, and finance will amplify the effectiveness of policies and programs supportive of Inclusive Business.

Bridging the Gap, Building the Ecosystem

Previous studies on Inclusive Business clearly showed that the long-term sustainability of Inclusive Business models depends on the collaborations established to overcome the challenges faced in BOP markets. This means an inclusive business requires the collaborative efforts and support of different actors including government, development actors, NGOs, financial institutions, universities, and research centers. The recent survey also revealed an immediate need to:

- Set up collaborations between companies and financial institutions
- Ensure ease of access to financial opportunities through government policies
- Establish market information systems connecting BOP suppliers with companies
- Strengthen supplier networks and cooperatives to ensure the inclusion of small-scale producers in the Inclusive Business ecosystem
- Form Inclusive Business research and consulting centers to offer consultancy services and support Inclusive Business practices

Regulatory Environment

Philippine companies see the national and local government bureaucracy and the existing regulatory environment in the country as the most significant challenges in doing inclusive business. Consequently, we recommend that public and private stakeholders in the Philippines join forces to:

- Take immediate action to reduce the bureaucratic red tape especially in obtaining required licenses and permits to carry out Inclusive Business
- Apply tariff and tax reductions for inclusive businesses
- Formulate national investment policies and incentive programs specifically targeting inclusive businesses

Other Suggestions Encountered / Food for Thought

We encountered several suggestions to improve the Philippine Inclusive Business ecosystem throughout the research process. Some of them are worth considering by Philippine players, although the ideas do need to be studied and developed further.

- An inter-agency Inclusive Business policy coordination board can be established with its own separate budget with a leading public institution with players from the private sector and other stakeholders also being made part of it. The board can produce action plans including policies and measures to improve four major areas: Information, Financial Resources, Rules, and Capacity (and structure).
- Certain sectors can be prioritized where new policy instruments can be piloted (e.g., agriculture and tourism).
- A national Inclusive Business database can be created to trace and develop inclusive value chains. All three forms of Inclusive Business (IB model, IB activity, and Social Enterprises) could be mapped for selected sectors and value chains.
- The Business+ survey should be replicated after certain policy instruments are introduced to advance Inclusive Business in the Philippines and to measure any progress made.

The Philippine Board of Investments (BOI): Facilitating Cooperation

Business+ was BOI's first formal partnership in Inclusive Business with local business associations. Although there were some initiatives promoting Inclusive Business among actors in government and the business community, these initiatives were mostly sporadic.

BOI partnered with key business associations Management Association of the Philippines (MAP), Makati Business Club (MBC), Philippine Chamber of Commerce and Industry (PCCI), Philippine Business for Social Progress (PBSP), and International Chamber of Commerce Philippines (ICCP) to engage Philippine businesses of all sizes and sectors in the Inclusive Business conversation for this national survey. The partners in the business community were industry thought-leaders and their involvement in the survey strengthened the advocacy for a mindset shift from business-as-usual to Inclusive Business.

Business+ generated interest from survey respondents who had never heard of Inclusive Business. BOI received feedback from businesses considering a move toward becoming inclusive particularly in communities where they operated and those re-thinking existing models to deepen engagements with low-income partners in their supply chains.

Similarly, the survey brought attention to a number of "accidental tourists," as Business Call to Action (BCtA) would describe, companies with Inclusive Business models without knowing so. These companies were more likely to become inclusive due to the business environment in which they operated.

For the Philippines, Istanbul International Center for Private Sector in Development's Business+ was more than just a survey. It was a milestone for key stakeholders in the Philippine business community collaborating toward heightening awareness and stimulating local interest in Inclusive Business.



INTRODUCTION

BACKGROUND

The world is changing. By 2015, 96 out of every 100 children were said to survive their first five years of life and around 85 of them were vaccinated and received basic education. Just a century before, with no vaccines, the world was losing half of its children below five years of age and could not offer schooling to more than half of those who did continue to live. The poverty trend was similar: The number of extremely poor in the world, by 2015, was three times lower than in 1970.¹ Extreme poverty in East Asia and the Pacific – then the poorest region – fell from 60% in 1990 to 3.5% in 2013.²

The world also seems to be uniting. Most of the world's governments have agreed to follow an ambitious agenda known as the 2030 Agenda for Sustainable Development in which they aim to reach 17 Sustainable Development Goals (Global Goals-SDGs) aimed at making the world a better place. Recent research from the Business and Sustainable Development Commission revealed that business and SDGs are, in fact, interdependent. *“First, it shows that business really needs the Global Goals: they offer a compelling growth strategy for individual businesses, for business generally and for the world economy. Second, the Global Goals really need business: unless private companies seize the market opportunities they open up and advance progress on the whole Global Goals package, the*

abundance they offer won't materialise."³ Thus, incorporating the SDGs in business goals is actually advantageous. The Inclusive Business models the Business+ study seeks to leverage in the Philippines (and the rest of the world) are one way to do that.

The 17 SDGs are reachable only with the private sector being actively involved, but how do companies of every size – from MSMEs to global giants – truly become part of this change? Can companies end poverty, promote responsible consumption and production, and still make a profit?

Yes, they can, and they have been doing so through a range of tools or mechanisms from philanthropic giving and responsible business practices to corporate social responsibility programs and international commitments for promoting sustainability and inclusive growth. The use of Inclusive Business models has emerged as a way for the private sector to become a part of this endeavor while remaining profitable and scalable.

*Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP) making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. Inclusive business should promote sustainable development in all its dimensions – economic, social and environmental.*⁴

In the quote above, it can be seen that inclusive businesses can spur innovation, strengthen value chains, and generate new income and livelihood opportunities. Promoting Inclusive Business then emerges as an innovative policy strategy to tackle poverty and generate inclusive growth.

The Philippines is the second country after Turkey where the Business+ survey was first implemented and the findings here will help feed the global study initiated in late 2014, in which the UNDP Istanbul International Center for Private Sector in Development (IICPSD) has been seeking to find the private sector's engagement with and awareness of Inclusive Business across regions. Once the studies are completed, IICPSD will compile the global results and comparisons in a separate report.

INCLUSIVE BUSINESS SCENE IN THE PHILIPPINES

In the Philippines, about 60% of the population have a family income of less than PHP 18,000 a month (USD 3 per capita a day). Out of this 60%, around 40% have less than PHP 12,000 (ca. USD 2 a day), and roughly 20% live in absolute poverty with less than PHP 8,500. Despite all the efforts and promising growth performance of the country as a whole, the poverty incidence has been high and perpetual in the last decade.⁵

The Government of the Philippines has been actively working on innovative policies to make growth more inclusive and enhance the lives of low-income Filipinos even in the remotest regions of the country. The government not only wants to scale up the existing inclusive businesses but also create new ones across the Philippine economy. Policymakers value their business counterparts as key stakeholders in reaching the SDGs nationally and have expressed the notion that private sector measurement and monitoring for the SDGs should be an essential ingredient of the national plan for implementing the 2030 Agenda.

Considering the social and policy environment, implementing the Business+ baseline survey was a timely effort of UNDP and the Philippine government to encourage Inclusive Business practices in the country. The largest business associations in the country did their part by actively participating in every stage of the study and mobilizing their networks.

The picture Business+ presents comes from in-depth interviews of 19 business executives and the descriptive analysis of a survey sent to 2,818 companies where 223 responded. The results show how Filipino companies integrated the poor into their core operations, how businesses contributed to national development efforts, and how their plans incorporated the SDGs into their operations. They reveal the strengths and weaknesses of the Inclusive Business ecosystem in the Philippines and finally suggest policy recommendations for moving forward.

The Philippines is a good case to investigate in this study especially with its economy having performed remarkably in recent years, with an average growth rate of 6.2% from 2010-2016 and a GDP of 6.5% by the second quarter of 2017 and 6.8% growth in 2016. Various economists have also predicted a GDP momentum between 6-6.5% annually in the next three years following

stable macroeconomic fundamentals and the revival of the manufacturing sector, among others, resulting in the strongest economic performance in three decades.

Nonetheless, while the country has successfully cut down poverty incidence to 21.6% in 2015 from an average of 28-30% in the last ten years, the poverty reduction rate could still be faster. At present, about 1 out of 5 Filipinos or roughly 21.6 million people in the population are still living in deep poverty.

President Rodrigo Duterte has prioritized inclusive growth initiatives in an effort to lower poverty incidence to 7.5 or, at most, 9% by the end of his term in 2022. Regardless, inclusive growth remains a complex task of ensuring the number of well-paying income opportunities for small players increases as quickly as the steady growth experienced by the formal sectors.

The Duterte administration laid out a 10-Point Socio-Economic agenda promoting rural and value chain development to create more and better income opportunities in the countryside. This agenda is complemented by The Philippine Development Plan

2017-2022, which includes developing Inclusive Business models and social enterprises as one of its strategies to expand economic opportunities. In line with this, the Department of Trade and Industry (DTI) has been exerting a conscious effort to push for more Inclusive Business models that sustainably integrate micro and small enterprises in the value chains of medium and large businesses. Through an *angat lahat* (all rise together) approach to employment and entrepreneurship, DTI works toward accelerating economic growth.

The Business+ national survey aims to complement the government's Inclusive Business advocacy programs and policy initiatives by attempting to measure the inclusiveness of Philippine businesses and their operations and trying to understand their level of awareness of Inclusive Business principles while identifying major areas of intervention to accelerate the incorporation of necessary innovations. Through Business+, the government can be assisted in arriving at realistic and relevant outcomes using Inclusive Business as a vehicle for achieving the country's socio-economic development goals.

How Did We Implement Business+ in the Philippines?

The Business+ Philippines project was initiated as part of a global effort to accelerate Inclusive Business with the Philippines being the second country after Turkey where the survey was first implemented. The project officially started with the signing of a memorandum of understanding (MOU) between the United Nations Development Programme (UNDP), the Board of Investments (BOI), and national business associations including Philippine Business for Social Progress Inc. (PBSP), the Makati Business Club (MBC), the Management Association of the Philippines (MAP), the Philippine Chamber of Commerce and Industries (PCCI), and the International Chamber of Commerce Philippines (ICCP). The project also enjoyed the support of Sen. Paolo Benigno Aquino and the University of Asia and the Pacific (UA&P). Thanks to the valuable contributions of all actors, Business+ Philippines serves as an exemplary model in demonstrating the importance of collaboration in building a supportive and Inclusive Business ecosystem.



METHODOLOGY

WHO ARE THE POOR? THE SITUATION IN THE PHILIPPINES

In 2015, the Philippine Statistics Authority (PSA) pegged poverty incidence at 21.6%. For over a decade, the PSA's official poverty rates remained more or less unchanged at around 25% of the population. The Millennium Development Goal (MDG) of halving the 1990 poverty incidence (which stood then at 34%) by 2015 had not been achieved. Despite strong growth since 2010 (an average of 6.3%), underemployment remained high (an average of 19.2%). In addition, most of the new jobs created were largely in the informal sector. Despite the success in economic growth, the country continued to lag behind its neighbors in the Association of Southeast Asian Nations (ASEAN), which had either already eliminated poverty (Malaysia and Thailand) or were well on their way to doing so (Indonesia and Vietnam).

At present, inequality in growth patterns at the household level can be partly traced to the disparities in economic activities across Philippine regions and sectors. The PSA also reported that over 60% of the country's gross domestic product (GDP) was accounted for by only three regions in Luzon. Figures in 2014 showed 36.3% from the National Capital Region (NCR), 17.2% from Cavite, Laguna, Batangas, Rizal, and Quezon (CALABARZON), and 9.3% from Central Luzon.

The term "poor" is used in this report to represent people who live below the Philippine national poverty line of PHP 9,140 (approximately USD 175) per month for a family of five according to the PSA First Semester Report of 2015. This line is used as an approximate measure to define the poverty conditions in the Philippine context since a universally accepted empirical definition of poverty is elusive.⁶

OPERATIONALIZATION OF KEY CONSTRUCTS

Level of Inclusiveness

The level of inclusiveness was measured according to the different roles the poor took in business operations; this refers to what will be called the “entry points” of the poor in this research. Based on the adopted definition of Inclusive Business models (G20 Inclusive Business Framework), six entry points were identified: being an employee, consumer/customer, supplier, distribution channel member, entrepreneur, or local community. Participant companies were asked to rate how much they included the poor people in their business model for the given entry point on a 7-point Likert scale where a response of “1” indicated that poor people were not at all included in a company’s operations, while “7” showed that the given domain included poor people to a great extent.

Businesses were also asked to rate how strongly they emphasized the poor in their mission statements and strategies and how strongly they contributed to the skills development of the poor for each entry point.

Business Model Innovation

Business model innovation was measured using a 7-item, 7-point Likert scale asking companies to rate to what extent they made changes in their business models to become more inclusive.

Collaborations

Companies’ collaborations with different actors were measured using a 17-item, 7-point Likert scale (including an option marked “other” to allow for responses not included in those given). An “NA” or “not applicable” option was also provided. Companies were asked to rate to what extent each actor supported Inclusive Business.

Contextual Factors

Companies were asked to rate the effects of different contextual factors from -3 (very constraining) to +3 (very helpful), where 0 indicated “No Effect.”

STAGES OF THE RESEARCH DONE IN THE PHILIPPINES

In-depth interviews

Semi-structured, in-depth interviews were conducted with top-level managers or owners of 19 companies operating in the

Philippines. These companies included small and medium-sized enterprises, national companies, multinational corporations, and cooperatives. While 13 of these companies had previous Inclusive Business experience, only 7 companies were aware of the term “Inclusive Business” before the interview. The interviews provided information about the current inclusiveness practices of Philippine companies and helped in changing and finalizing the survey questions with a consideration of the local dynamics defining the inclusiveness ecosystem.

Survey

The Business+ survey tool was developed as a baseline survey to understand the level of awareness, knowledge, and experience of Inclusive Business in the private sector in different countries. The tool was first developed during the Business+ Turkey project where it displayed high levels of reliability. While the greater majority of questions included in the survey are universally operative, the application of the tool in different contexts requires some adaptation of items to suit local contexts. This includes details like the list of actors in the Inclusive Business ecosystems, contextual factors which may support or impede Inclusive Business efforts, and potential policies for fostering Inclusive Business.

A series of team meetings was first conducted so the in-depth interview questions could be adapted accordingly. The findings of these in-depth interviews helped in modifying the survey according to the Philippine context. Finally, a pretest was conducted and the participants’ feedback was used to determine the content and structure of the survey. With all the feedback evaluated and implemented, the finalized survey tool eventually included 25 substantive battery questions with multiple items in grids followed by 10 demographic questions.

The questionnaire consisted of 7-point, Likert-scale questions, open- and semi-open-ended and multiple-choice questions. A link to a self-administered online survey was sent by email to senior executives of 2,818 companies from different sectors and with different sizes. A total of 212 fully-completed and 11 partially completed responses were received – a response rate of approximately 8 percent.

PROFILE OF THE PARTICIPANTS

The responses of 223 companies from more than 17 sectors were included in the analysis. Of these companies, 68% operated only in the Philippines while 32% had operations abroad. The majority of the participant companies were micro, small, and medium-sized enterprises (MSMEs, 51.2%). Next came large national companies (24.7%), multinational corporations (15.8%), and social enterprises (8.4%) with different asset sizes.⁷

We asked the participants to choose their company type among a list of options including SME, Large National Company, Multinational Corporation, and Social Enterprise – the same types also used in the Business+ Turkey research. In addition, to look more into the “SME” category while staying relevant to the global research, participants were asked to choose the number of employees and company asset size from a list provided in line with the legal definitions of micro, small, and medium enterprises in the Philippines. Accordingly, the options for the number of employees were 1-9 (micro), 10-99 (small), 100-199 (medium), and 200 and up (large) while options for the asset size included “less than 3 Million PHP,” “3 to 15 Million PHP,” “100 Million PHP,” and “Greater than 100

Million PHP.” It must be noted that all participants indicated the number of employees their companies had whereas most of them did not provide any information about the asset size.

In addition, the participants were not provided any definition or explanation about the categories (i.e., SME, Large National Company, Multinational Company, Social Enterprise), thus a respondent’s choice defined the category of the company s/he answered for.

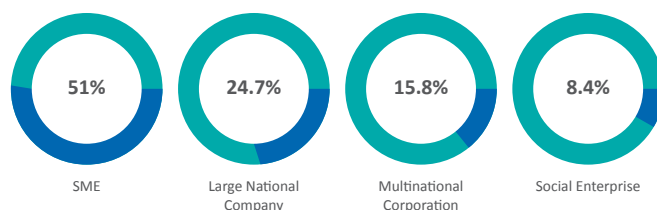


Figure 1 – Participant companies by company type⁸

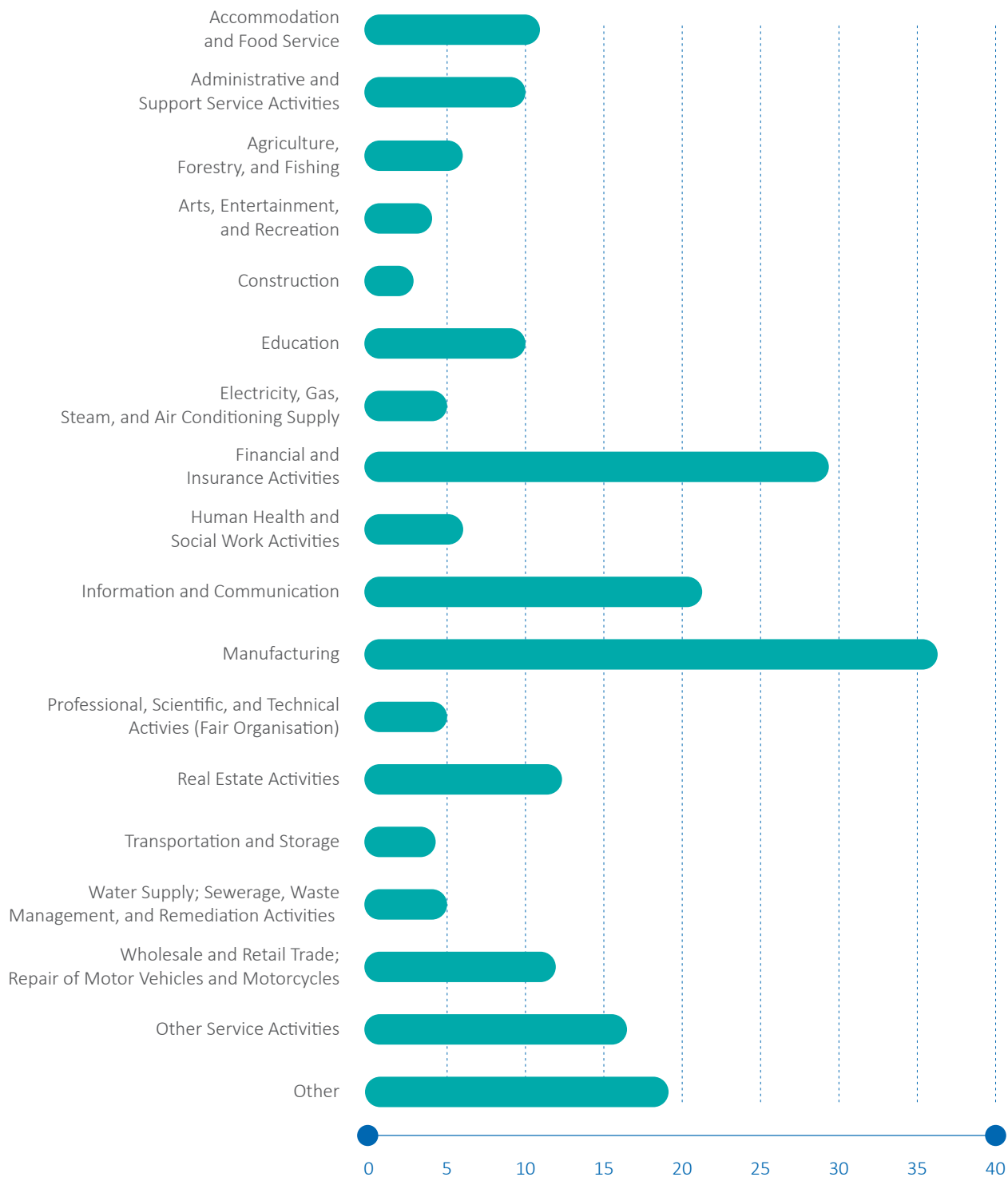


Figure 2 – Number of participant companies by sector



FINDINGS

1. HOW INCLUSIVE IS YOUR BUSINESS?

Filipino Companies' IB Awareness and Engagement

"Inclusive Business...so that's how you call what I can do!"

The results show that participant companies had low levels of engagement in Inclusive Business. Regardless of their level of inclusiveness, they still had very low levels of awareness of the "Inclusive Business" concept (with a mean score of 1.51 out of 7 where 1 indicated "not aware at all"). "Inclusive business" terminology is not very common in the business world in general, as evidenced by previous studies in Turkey as well as the Business+ Philippines project. In some cases, companies which had already adopted Inclusive Business models did not consider themselves

an "inclusive business" when asked, which points out an urgent need to close the gap in terms of the adopted terminology among different stakeholders. The lack of awareness regarding their own practices in inclusivity can easily result in their not being able to go further with it and benefits not being maximized in terms of reaching the poor.

However, respondents did think these models were applicable in their industry (4.64 out of 7) and could be successful when applied (4.60 out of 7). Yet, this attitude did not necessarily lead to engaging Inclusive Business practices. Low levels of awareness about Inclusive Business and the successful applications of these models might have been playing a role in the hesitation to adopt Inclusive Business.



Proving it could be done

“One of the obstacles was that when we were starting up, there were actually very few examples we could follow. At that point, it was around 2008, there were very few farmers who had actually been supplying to big companies and, at the start, the farmers' neighbors laughed at them. They would have been discouraged; so the first thing was actually proving that it could be done.”

A senior manager of a large national company supplied by smallholder farmers

Social enterprises had the highest levels of inclusiveness (Figure 3) followed by large national companies, SMEs, and multinational corporations. When the respondents’ responses were evaluated according to the number of employees in their organizations, large companies (those with more than 200 employees) were revealed to have the highest level of inclusiveness and medium-sized companies had the lowest. The difference in inclusiveness observed among micro, small, and large companies (in terms of number of employees) was not wide enough to draw any conclusion.

The survey provided the participants a set of questions on how and to what extent companies included the poor in their core businesses. Following the definition of Inclusive Business, participants were provided the different entry points of the poor in a business model (different dimensions of inclusivity). As shown in

the table below, the highest level of inclusiveness was achieved by allowing the poor the entry point of being employees, followed by investing in less developed neighborhoods, and emphasizing the poor in companies’ business strategies. However, the entry points which would have contributed greatly to sustainable human and economic development – such as doing business with the poor as entrepreneurs, suppliers, or distribution channel members – had relatively lower scores, followed by the lowest scores of the poor as consumers. Around 33.6% of the participant companies did not even target the poor as customers or consumers while 26.9% did not do business with the poor in their distribution channels and 22.9% did not do business with the poor as suppliers.

Looking at the type of organizations, companies differed in terms of the major entry points of the poor.

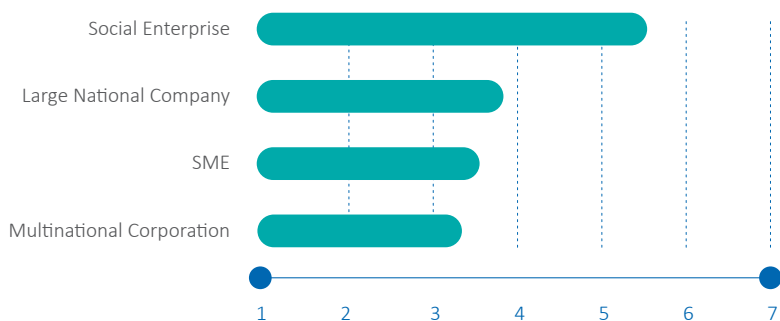


Figure 3 – Level of inclusiveness by company type

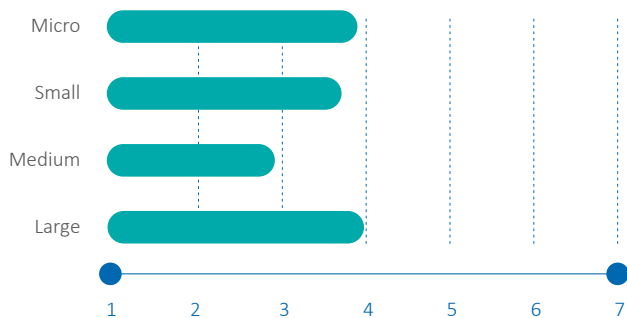


Figure 4 – Level of inclusiveness by company size (according to number of employees)

Inclusiveness of participant companies	
Indicator of inclusiveness	Mean scores for inclusiveness
Employ poor people	4.39
Target poor people as customers / consumers	3.35
Do business with the poor as suppliers (for example, buying products and/or services from low-income producers)	3.52
Do business with the poor in the distribution channel (as carriers, retailers etc.)	3.41
Consider poor people as entrepreneurs in your business model	3.74
Invest in less developed neighborhoods	4.03
Emphasize the poor in your mission statement	3.72
Emphasize the poor in your business strategy	3.79
Average inclusiveness score	3.74

FINDINGS

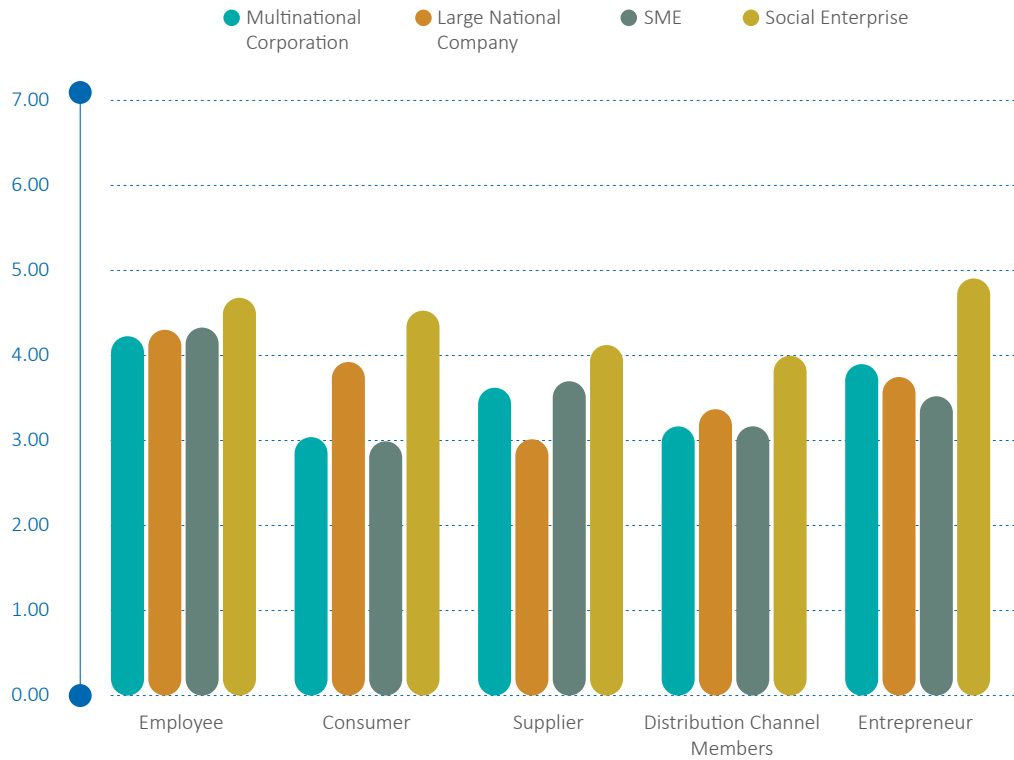


Figure 5 – Major entry points of the poor according to company type

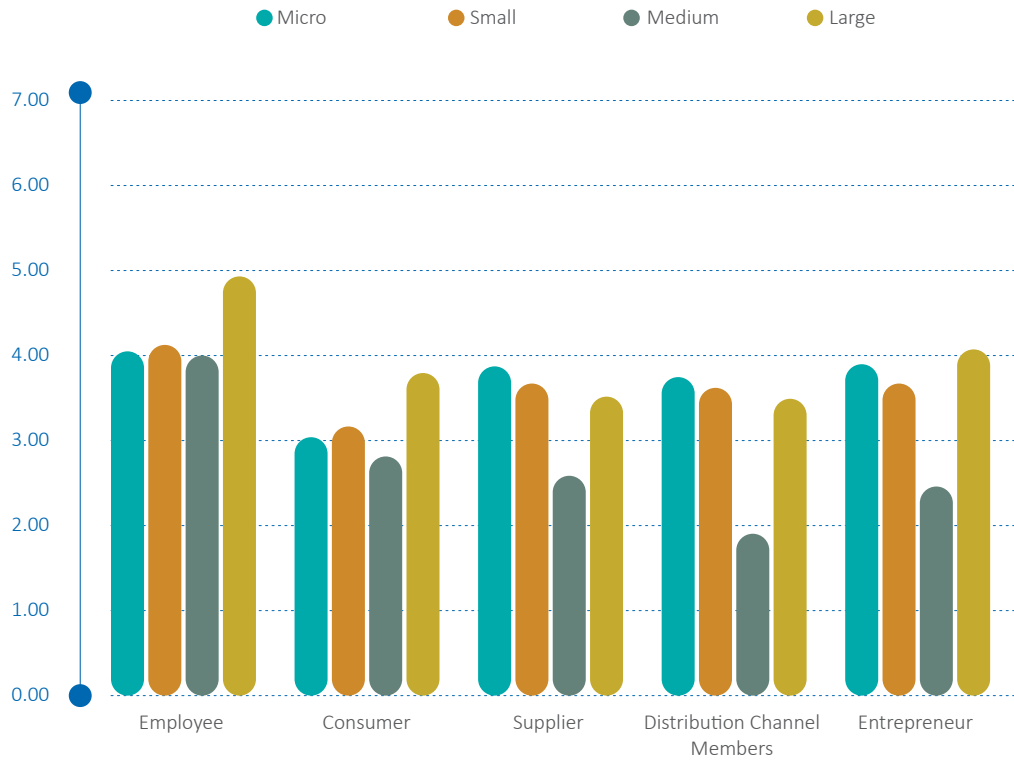


Figure 6 – Major entry points of the poor according to company size (according to the number of employees)

Social enterprises had the highest scores in all entry points. Again, this is hardly surprising considering how social enterprises in the Philippines, by definition, operate. Multinational company participants in the Philippines had lower levels of inclusiveness in allowing the poor to take on the role as employees but had relatively high scores for the entrepreneur entry point. SMEs integrated the poor in their business models mostly through employing the poor and doing business with BOP suppliers. Large national company participants did not buy from the poor and had relatively lower scores in the entry point of allowing the poor to be employees compared to social enterprises and SMEs.

Medium-sized companies (according to company size or number of employees) scored lowest for each entry point. Interestingly, large companies had relatively higher scores for the entry points of allowing the poor as employees and suppliers. Considering the fact that large national companies scored lowest for these entry points when analyzed according to company type, it may be possible to argue that multinationals – not large national

companies – were contributing significantly to these higher scores for large companies.

These figures could indicate the need to invest in developing the poor's skills as employees or suppliers to ensure an abundance of both a skilled workforce and reliable suppliers that can meet the expectations of large companies. This is supported by the comments of the participants in the in-depth interviews and the majority of the participants did mention problems associated with lack of education, skills, and required techniques or technologies which caused suppliers' outputs to be of low quality or resulted in their inability to deliver the required quantity ordered within specified deadlines. Encouragingly, the majority of the companies with BOP suppliers in their business models said they were already providing skills development plus capacity-building (introducing new technologies to increase efficiency in production) and financing opportunities to their suppliers. However, there was almost no reference to any activities focusing on improving the skills or knowledge of employees or consumers.

How can farmers become businessmen?

“Aside from the area of R&D, the other (element that needs to be supported) is market-oriented capacity building, meaning many government services (need to be) oriented toward the farmers as producers like (prioritizing) how to help them improve their production or yield. There is no perspective or training. How can the farmers sell their own products? How can the farmers become businessmen? And before that happens, in certain cases the government agencies themselves have to be updated. They also need that kind of capacity building because not all government agencies are able to do a market-oriented kind of approach. It is capacity building for the government staff, employees, and technicians and the farmers themselves.”*

A senior manager of a Philippine Food Service Company

**There are, in fact, Philippine public agencies that have capacity-building programs for rural entrepreneurs though the above observation is a clear indication that both effectiveness and visibility can be improved. An example of how this can be done is the Department of Agrarian Reform's Agrarian Reform Community Connectivity and Economic Support Services (ARCESS) project which aims to make agrarian reform beneficiaries successful entrepreneurs. (See <http://www.dar.gov.ph/mfos/program-beneficiaries-development/121-arcess>.)*

The Department of Agriculture also has the Philippine Rural Development Project. (PRDP) designed to establish the government platform for a modern, climate-smart, and market-oriented agri-fishery sector (PRDP website: <http://www.daprdp.net/>).

There were also differences regarding the major entry points of the poor for different sectors. (Please refer to Table I in the Appendix.) When companies scoring above and below the median inclusiveness score (MD = 3.75) are compared, a significant variation of inclusiveness can be seen between companies that emphasized the poor in both their mission statements and

business strategies and those that did not. This indicates that companies focusing on doing business with the poor in their overall strategy were far more inclusive. This can be regarded as empirical evidence for the importance of making the poor a part of the core business strategy to build more inclusive economies.

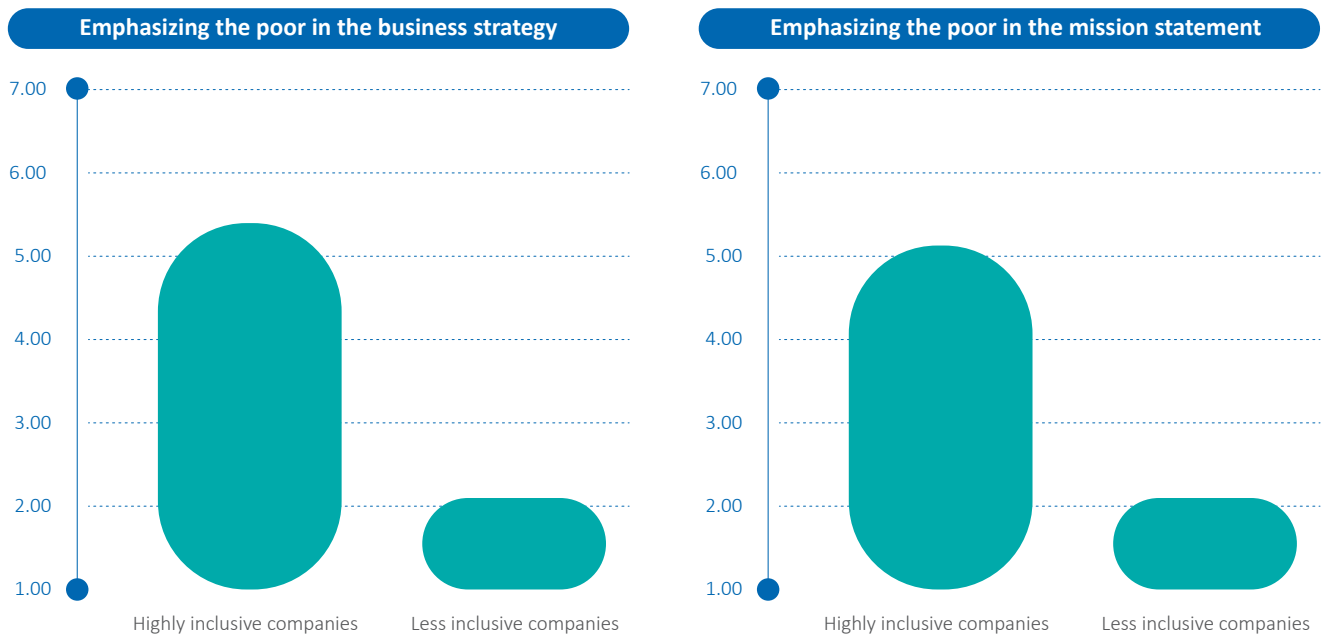


Figure 7 – Emphasizing the poor in the mission and strategy by level of inclusiveness

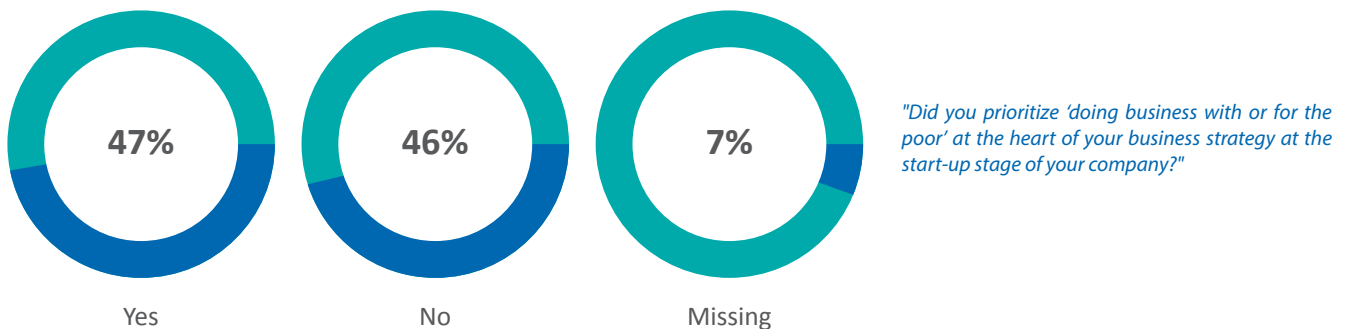


Figure 8 – Inclusiveness emphasis in the start-up strategy

On the other hand, 47% of the inclusive businesses prioritized “doing business with or for the poor” at the heart of their business strategies from the beginning. This was a notable number considering the importance of the startup strategy in the future direction of any company. This result was supported by input from the in-depth interviews including a view that an inclusive mindset helps in increasing the engagement in Inclusive Business.

When we look at the level of inclusiveness in different sectors, the most inclusive sectors were found to be:

- Arts, entertainment, and recreation
- Agriculture, forestry, and fishing
- Electricity, gas, steam, and air conditioning supplies

The least inclusive sectors were:

- Transportation and storage
- Finance and insurance
- Construction

It is, however, significant that companies were found to be slightly more inclusive when the definition of inclusiveness included other traditionally disadvantaged groups such as women, youth, and people with disabilities.

Skills development is a key factor in increasing the depth of the social and business impact of Inclusive Business and, therefore, should be considered a major part of an Inclusive Business model regardless of the entry point allowed for the poor. It was encouraging that companies with Inclusive Business experience thought they contributed to developing the skills of the poor; developing the skills of employees is particularly important because merely employing the poor does not necessarily and

immediately make a business “inclusive.” Inclusive Business models can only really reach their full potential of creating the highest levels of social impact when skills development opportunities exist and are made available to all.

The data reveals that the highest scores for skills development were reached when it was viewed as “skill development of the poor as local community” followed only by developing the skills of the poor as employees and entrepreneurs. This underscores the need to pay more attention to the local community’s existing skill level in different areas and looking at the whole community when formulating any development endeavor.

Effectiveness of Inclusive Business

Companies revealed that they were planning to be more inclusive in the future when asked about their intention to include the poor in their operations in the next five years. This can be regarded as an indication of some success of Inclusive Business models especially with the plans to extend their inclusive operations in the future. In a real way, it was not surprising that the top management of highly inclusive companies had such plans to be more inclusive in the next five years while those who scored lower inclusiveness scores, disappointingly, did not.

Companies were asked to evaluate the effectiveness of Inclusive Business to show the extent by which they thought Inclusive Business created market value and social impact. (Figure 10) What they revealed was encouraging. They said that Inclusive Business was effective in helping them reach their business and social goals and the more inclusive companies added that they thought Inclusive Business models were more effective regardless of the BOP entry point in their business model and saying further that it was most effective in creating social impact. This was followed



Figure 9 – Level of inclusiveness by sector



Figure 10 – Effectiveness of Inclusive Business in creating social and business impact

by improving corporate reputation, motivating employees, and improving company's competitiveness – the more traditional methods of increasing one's chances of reaching business goals. Additionally, the in-depth interviews also showed that commercial performance coming from Inclusive Business models was very promising. For example, most of the inclusive businesses interviewed claimed that they were already scaling up and would keep growing thanks to the resulting close relationships built between companies and their BOP suppliers.

Furthermore, even though the scores were close for different company types, large national companies and social enterprises considered Inclusive Business models to be slightly more effective. (Figure 11) This was in contrast to the perception of multinational corporations and SMEs. Large companies, in terms of company size, considered Inclusive Business more effective. They were followed by small, micro, and then medium-sized companies. (Figure 12)

However, these results may not create the desired impact or any impact at all if they are not communicated to those who can initiate the necessary effective programs. Measuring and communicating the impact of inclusive businesses play a key role in sustaining such activities and creating a business environment where the benefits are well known so it was disappointing that companies' responses revealed that inclusive businesses had paid little attention to measuring and communicating the impact of their operations. Interestingly, companies scored higher when comparing the social versus the business impact of their activities. Regardless, however, it was also revealed that companies did not communicate these outcomes. This means that key stakeholders for the sustainability of inclusive businesses such as the top management, employees, investors, and even the community, were, in general, not aware of the impact of inclusiveness.

2. POINTS OF ACTION TO LEVERAGE INCLUSIVE BUSINESSES

Previous academic studies and an analysis of 150 successful cases around the world, conducted during the development of the Business+ survey, point to the close relationship between a business model and the success of the initiative. The case analysis also revealed that strong collaboration among inclusive businesses and the various stakeholders they worked with was an important element of success. The longer and deeper a commitment was secured, the higher the chance of success for the inclusive business.

Data collected from inclusive businesses in the Philippines also confirmed a strong, positive relationship between innovation and the success of inclusive businesses similar to what was found in Turkey.

Collaboration among businesses and business stakeholders – NGOs, banks, or the company's own employees or managers – was seen as a success factor in the Philippines. Though this is true in almost all businesses and all environments, it is a “must have” for inclusive businesses, due to the scope of the challenges related to doing business with the poor and the institutional gaps inherent in subsistence marketplaces because, in most cases, it might not be possible to overcome these challenges with the resources of a community or a single entity.

Business Model Innovation

Business model innovation refers to transforming an organization's existing capabilities and processes to ensure higher efficiency in reaching intended business and social goals. It is closely linked to a company's general innovativeness and extending any capability in this regard needs to challenge and then initiate an investigation and gradual change of existing business processes through the application of a predefined strategy. Inclusive Business models require companies to be innovative because these companies need to change the way they do business to include the poor by gaining a whole new and transformative perspective. Business model innovation is key in inclusiveness as it finds new ways to generate revenue and define new value propositions for BOP employees, customers, suppliers, distribution channel members, and entrepreneurs.

Business model innovation in the participant companies with low levels of inclusiveness was seen to be very low; companies with higher levels of inclusiveness were more innovative in comparison. This supports empirically the relationship between business model innovation and inclusiveness. Similarly, and quite significantly, participants of the in-depth interviews who adopted Inclusive Business models declared that innovativeness and openness to change were part of their corporate culture. Social enterprises were the most innovative in adapting their business models because, by definition, their mission is to find innovative solutions to social problems.⁹ Large national companies, SMEs, and multinational corporations followed social enterprises in this regard.

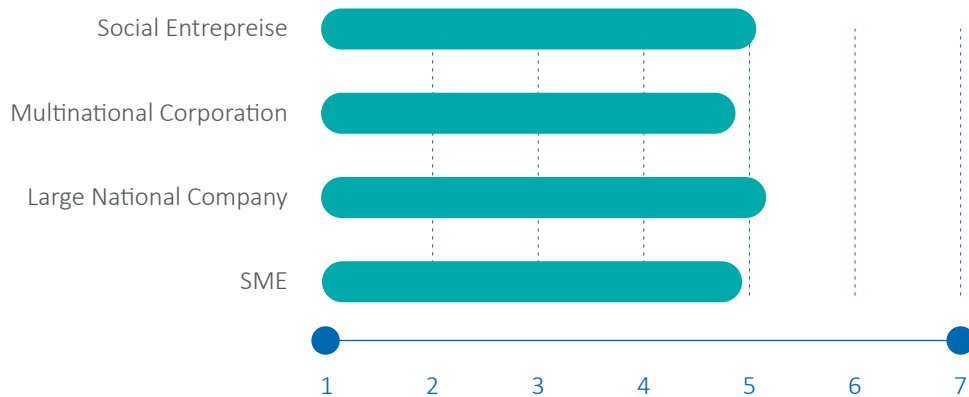


Figure 11 – Inclusive Business effectiveness by company type

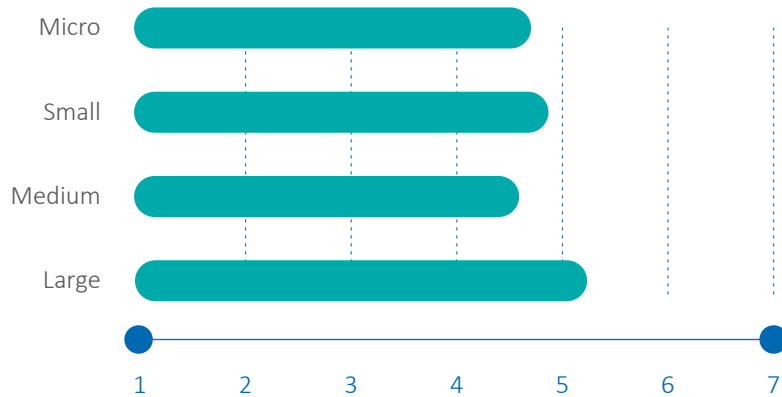


Figure 12 – Inclusive Business effectiveness by company size (according to number of employees)

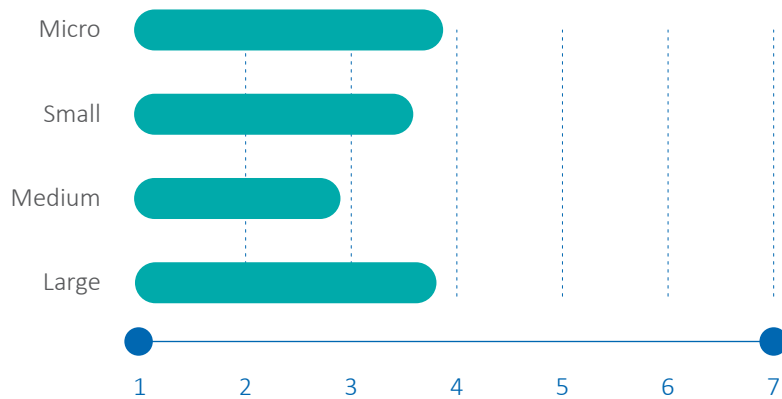


Figure 13 – Business model innovativeness by company size



Figure 14 – Business model innovativeness by sector

Adapting business models to become more inclusive could have proven more difficult for multinational corporations due to the sheer scale of their operations. Does this mean that smaller organizations would demonstrate greater innovativeness? Not necessarily. SMEs, for example, had a relatively lower score of business model innovation thus revealing a clear area of improvement. This is an important point as SMEs do play a very critical role in the expansion of Inclusive Business with their small scale operations and relatively flexible business models.

Micro enterprises with fewer than 10 employees were found to be the most innovative companies in terms of their business models when they were evaluated on the basis of company size. They were followed by large then small and medium-sized companies. As shown by both the inclusiveness and business model innovativeness scores, medium-sized companies had lower scores compared to micro, small, and large companies, something that clearly deserves some future attention.

Companies with the most innovative business models were from the fields of the arts, entertainment, and recreation (also at the top of the list of most inclusive sectors), education, and agriculture, forestry and fishing, while the least innovative sectors were construction, manufacturing and accommodation, and food services. While this is not surprising given the stringent requirements of the construction, manufacturing and accommodation, and food services industries, it does still underscore the necessity of getting them to adopt a more inclusive mindset.

Collaboration

Different forms of collaboration among stakeholders and businesses are needed to increase the impact of inclusive businesses. The long-term commitment of stakeholders needs to be ensured during the planning and implementation of Inclusive Business models.

Participant companies of the survey in the Philippines revealed that their employees and top management, along with non-government organizations, gave the most support to Inclusive Business models and activities. This finding was also supported by the in-depth interview data, with top management commitment emerging as an important factor to minimize internal resistance to the changes and adaptations in the business model.

It was both interesting and a bit disturbing to know that rural or cooperative banks, financial institutions, and research centers gave the lowest levels of support to stakeholders in doing Inclusive Business. Furthermore, as revealed previously, sector-based inclusiveness scores showed that participant companies from the financial and insurance activities sector also had very low inclusiveness scores. Additionally, the in-depth interviews did show the need to establish collaborative relationships with financial institutions, while emphasizing challenges like the difficulty in convincing them to consider adopting Inclusive Business principles and models. Financial institutions are key actors in establishing an ecosystem where inclusive businesses can flourish and their being able to contribute more actively to such efforts at inclusiveness is very important.

These low scores show an urgent need for collaboration between financial institutions and companies while guiding them in how to increase their level of inclusiveness. The difficulty in convincing financial industry players to be more inclusive may also indicate some difficulty in inclusive businesses to build a stronger case for having an inclusive mindset or, possibly, point to a current lack of applicable financial products.

A look into the collaborations of inclusive businesses classified according to company type revealed that for all of the types, except large national companies, the parties who supported Inclusive Business most were the top management of the company, their employees, local communities, and the non-government organizations. Large national companies, apart from



Instructions from the top

“The boss just says you have to buy from the farmers. You know in reality it takes much more effort to deal with the farmers because they are not used to business transactions. It takes more time, but this particular manager said that after they put in that initial effort they started realizing, “Yes, the farmers are capable of meeting it (the supply requirement).” It is directly their farms; they don’t rely on other people. So, I would say that there has been, if any, very minimal internal resistance to (our work), because the company and the foundation (of the company) are aligned in this. It is the direction; it is from the top.”

Philippine Food Service Corporation



Figure 15 – Levels of support received from stakeholders while doing inclusive business

the local communities and non-government organizations, rated municipalities and local government units and development actors (such as UNDP, ADB, IFC, USAID) as the best collaborators. Similarly, medium-sized companies also rated development actors and universities among the most helpful collaborators. Additionally, micro companies saw companies from other industries and their consumers as among the best collaborators.

The stakeholders providing the lowest levels of support differed among company types. (Figure 16) This shows the perceived levels of support received from stakeholders by different types of companies. As in the previous discussion, rural and cooperative banks, financial institutions, research centers, universities and development actors were the stakeholders seen as least supportive. For example, while large national companies stated that they

received support from development actors including UNDP, the SMEs, multinational corporations, and social enterprises saw development actors as some of the least supportive stakeholders. Consequently, SMEs, multinationals, and social enterprises need to work more closely with these development actors to close this gap.

Even when companies are analyzed according to company size, once again, financial institutions were seen as the least supportive collaborators. Interestingly, micro companies thought their peers in the same industry were not supportive either, which shows a need to establish collaborations among these micro sized companies considering the importance of cooperating while operating in or with the BOP markets.

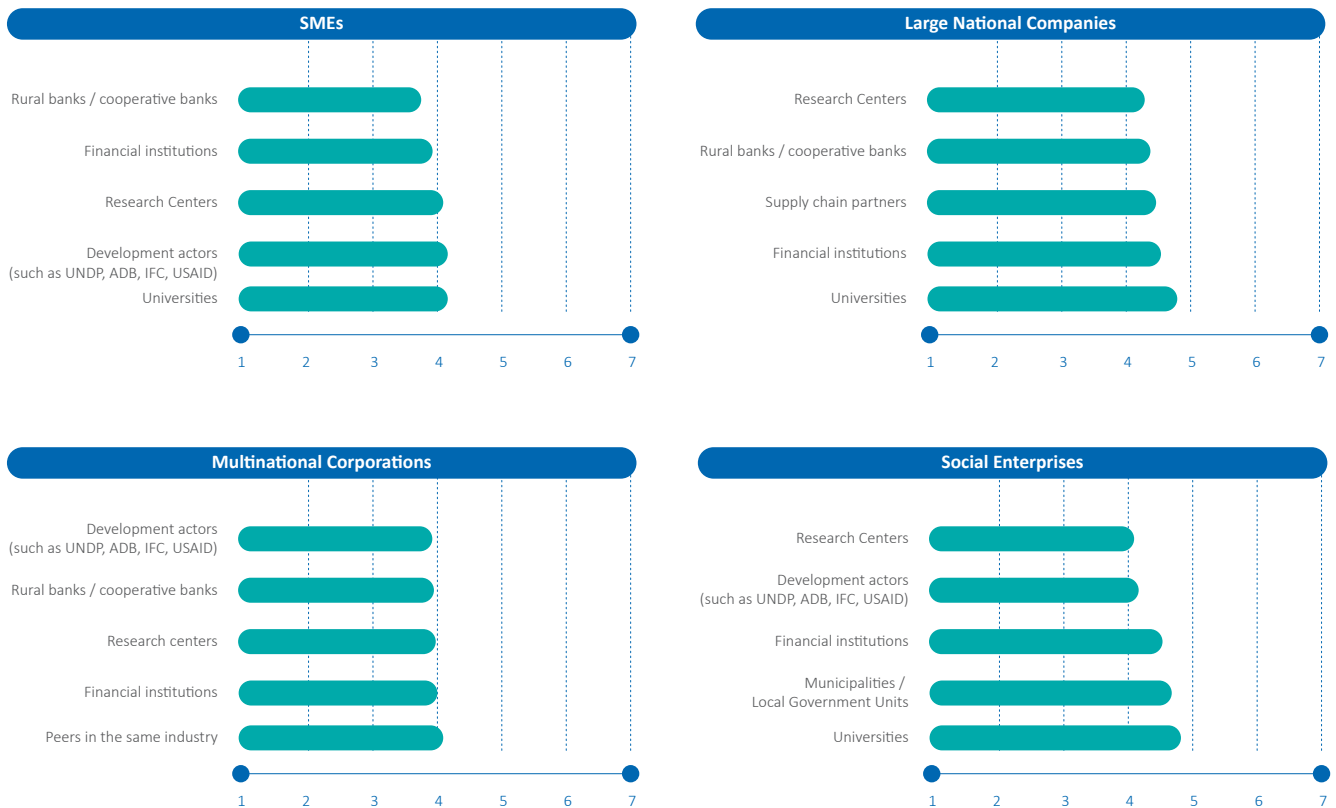


Figure 16 – Least supportive stakeholders by company type



Figure 17 – Least supportive stakeholders by company size (according to number of employees)



Figure 18 – “How do these different factors affect your Inclusive Business?”
 (On a scale from -3 (very constraining) to +3 (very helpful), where 0 indicates no effect.)

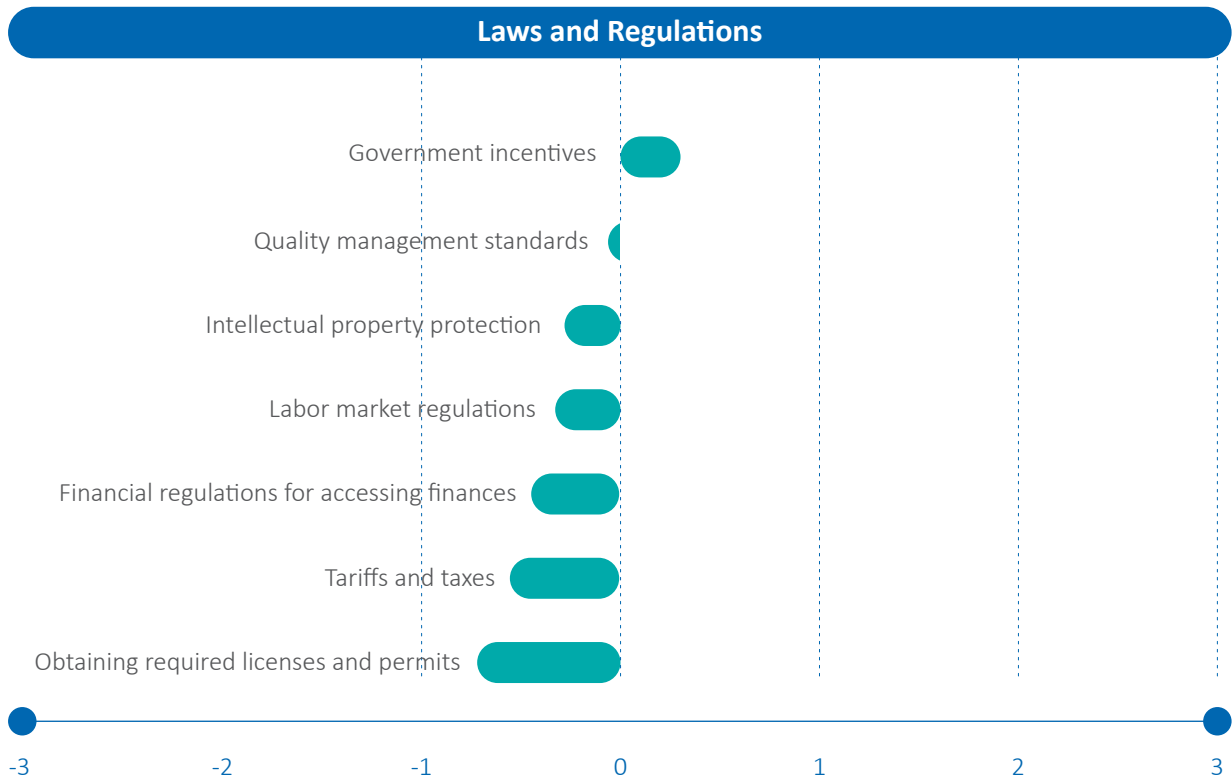


Figure 19 – “How do below regulations and standards affect your efforts to include poor people in your business model?”
 (On a scale from -3 (very constraining) to +3 (very helpful), where 0 indicates no effect.)



Figure 20 – Constraining contextual factors & laws and regulations by company type

Contextual Factors

The survey responses show that bureaucracy and the regulatory environment impeded Inclusive Business engagement in the Philippines while internal factors supported it. Companies thought that the most significant challenges to overcome while doing Inclusive Business were, unfortunately but perhaps unsurprisingly, national government bureaucracy, local government bureaucracy, and the regulatory environment in the country. The in-depth interviews showed that bureaucracy, the lengthy application processes, and registration times were among the factors impeding the adoption of Inclusive Business practices. Furthermore, the lack of connections and market information on the BOP supplier side (about who the potential buyers were, etc.) and on the buyer company side (about which suppliers or supplier groups were more reliable, was the optimal fit for their business, etc.) emerged as major challenges.

Top management's perspective, corporate culture, and an employee's perspective and attitudes were seen as contextual factors helpful in doing Inclusive Business.

Laws and regulations were generally considered impediments. While government incentives were considered the only item to have a slightly positive effect, obtaining required licenses and permits to carry out Inclusive Business, tariffs and taxes, and financial regulations for gaining access to financial assistance were seen as challenges.

For all types of companies, it was the difficulties with having to deal with the bureaucracy, tariffs and taxes, access to finances, and obtaining required licenses and permits to do Inclusive Business were seen as the major obstacles. SMEs and Social Enterprises which had smaller-scale operations saw obtaining required licenses and permits and financial regulations for accessing finances as the biggest impediment in terms of contextual factors. On the other hand, large national companies and multinational corporations saw obtaining required licenses and permits along with tariffs and taxes as their main challenges.

Looking at the perceptions of participating companies regarding constraining contextual factors by company size, it can be seen that labor market regulations emerged as one of the biggest

impediments, interestingly, for both micro and large companies. Medium-sized enterprises were slightly different because, according to them, the appropriateness of their products and services to poor consumers were an impediment along with the general regulatory environment in the country. This also shows a link between the low business model innovativeness scores of medium-sized enterprises and the capacity of a firm to serve the poor with appropriate products and services. Their low levels of innovativeness in terms of products, services, and processes, might have resulted in the perception that targeting the poor was a challenge. Increasing the capabilities of companies in business model innovativeness could lead to a broader perspective in the appropriateness of serving the poor with adapted products and services.

Policies to Support Inclusive Business

Companies were asked to select the top three options helpful for their organization to utilize Inclusive Business. They chose:

1. Skill development programs targeting poor employees, suppliers, and entrepreneurs
2. Collaboration between businesses, financial institutions, policymakers, and NGOs
3. Establishing market information systems to link companies with the poor (as suppliers, employees, entrepreneurs, etc.)

These three "suggestions" were in agreement with the responses from the in-depth interviews which revealed that training employees and suppliers were a fundamental part of the establishment stage in all the inclusive businesses followed by microfinancing. Furthermore, interview participants stressed the importance of developing collaborations and establishing market information systems as there was a lack of connection between companies seeking local supplies and BOP suppliers needing new markets to sell their products.

SMEs revealed that establishing market information systems to link companies with the poor (as suppliers, employees, entrepreneurs, etc.) would be helpful while social enterprises thought that courses offered by universities and research centers would facilitate Inclusive Business.

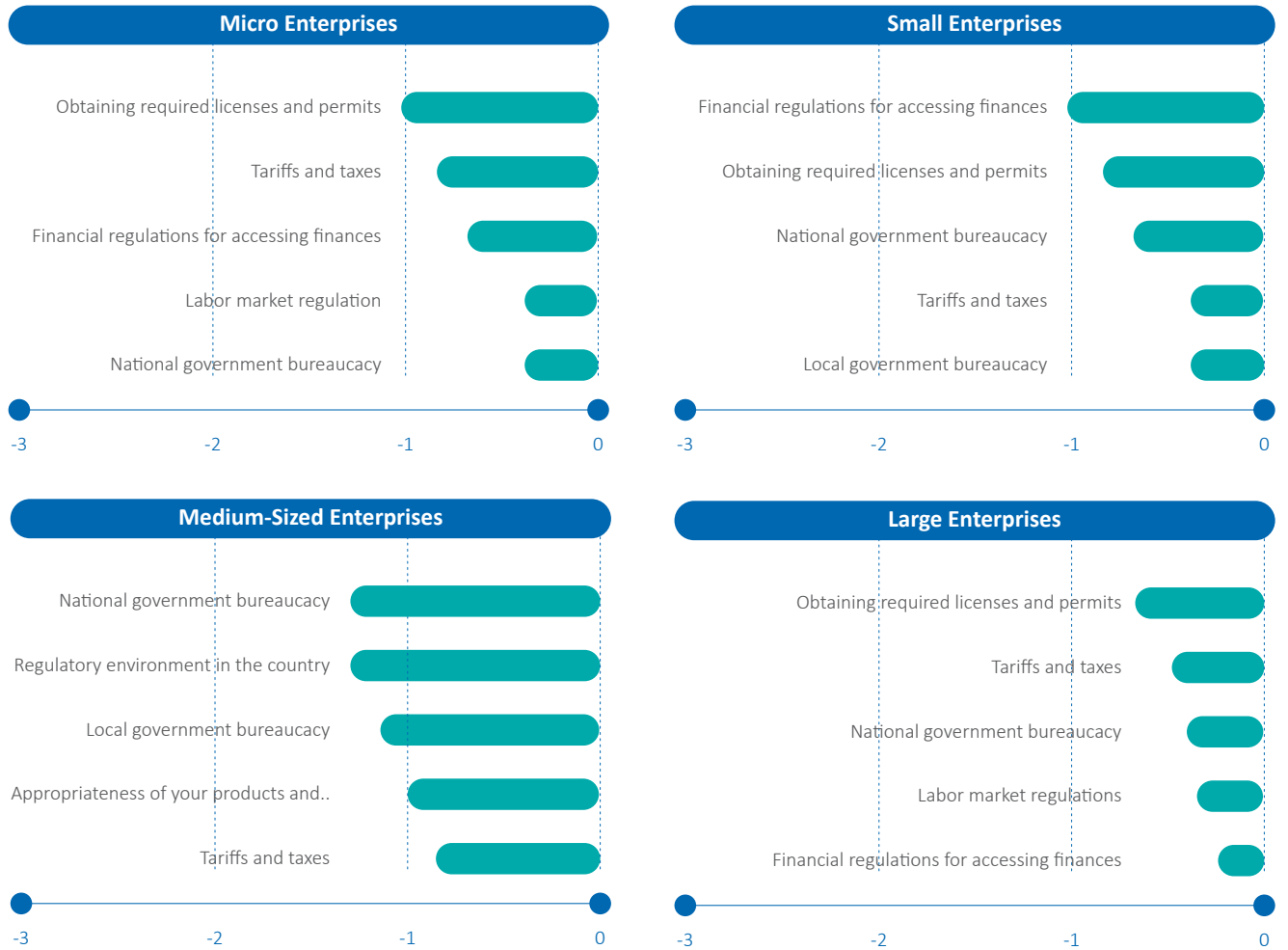


Figure 21 – Constraining contextual factors & laws and regulations by company size

Companies of all sizes emphasized the importance of developing collaboration among different parties and initiating skills development programs as the “top of the list” factors that would help inclusive businesses flourish. Micro-sized companies said establishing market information systems was an important facilitator, while small companies focused more on the availability of fiscal incentives. Differently, medium-sized companies also listed the establishment of an Inclusive Business center and courses offered by universities and research centers among the most helpful options, while large businesses saw the existence of a national strategy as being highly important in supporting Inclusive Business.

3. REACHING SUSTAINABLE DEVELOPMENT GOALS: WHERE DO COMPANIES STAND?

Philippine companies were asked to evaluate the importance of the private sector’s contribution to the Sustainable Development Goals and whether their current and future activities had any impact in this. The participant companies thought that it was important for companies to abide by the SDGs and when they were asked to rank the top five goals where they thought their business (including their value chain) currently had the greatest impact,

companies said they contributed most to SDG 8, promoting inclusive and sustainable economic growth, employment, and decent work for all.

Companies said they contributed most to SDG 9 (Build resilient infrastructure, promote sustainable industrialization and foster innovation) next, followed by 4 (Ensure inclusive and quality education for all and promote lifelong learning), 3 (Ensure healthy lives and promote well-being for all at all ages), and finally, 1 (End poverty in all its forms everywhere), which is, after all, the desired social impact of Inclusive Business.

When companies were asked to rank the top five SDGs that could provide their company a business opportunity in the future, the list included SDG 8 - Decent work and economic growth, SDG 9 - Industry, innovation and infrastructure, SDG 17 - Partnerships for the goals, SDG 11 - Sustainable cities and communities, and SDG 4 - Quality education. Accordingly, companies said they would be investing more in creating sustainable cities and communities and developing partnerships to reach these goals while SDG 1 (no poverty) and SDG 3 (good health and well-being) were not evaluated as priorities for the future.



Figure 22 – “Please select the top 3 options which would be helpful for your organization to utilize Inclusive Business.”

FINDINGS

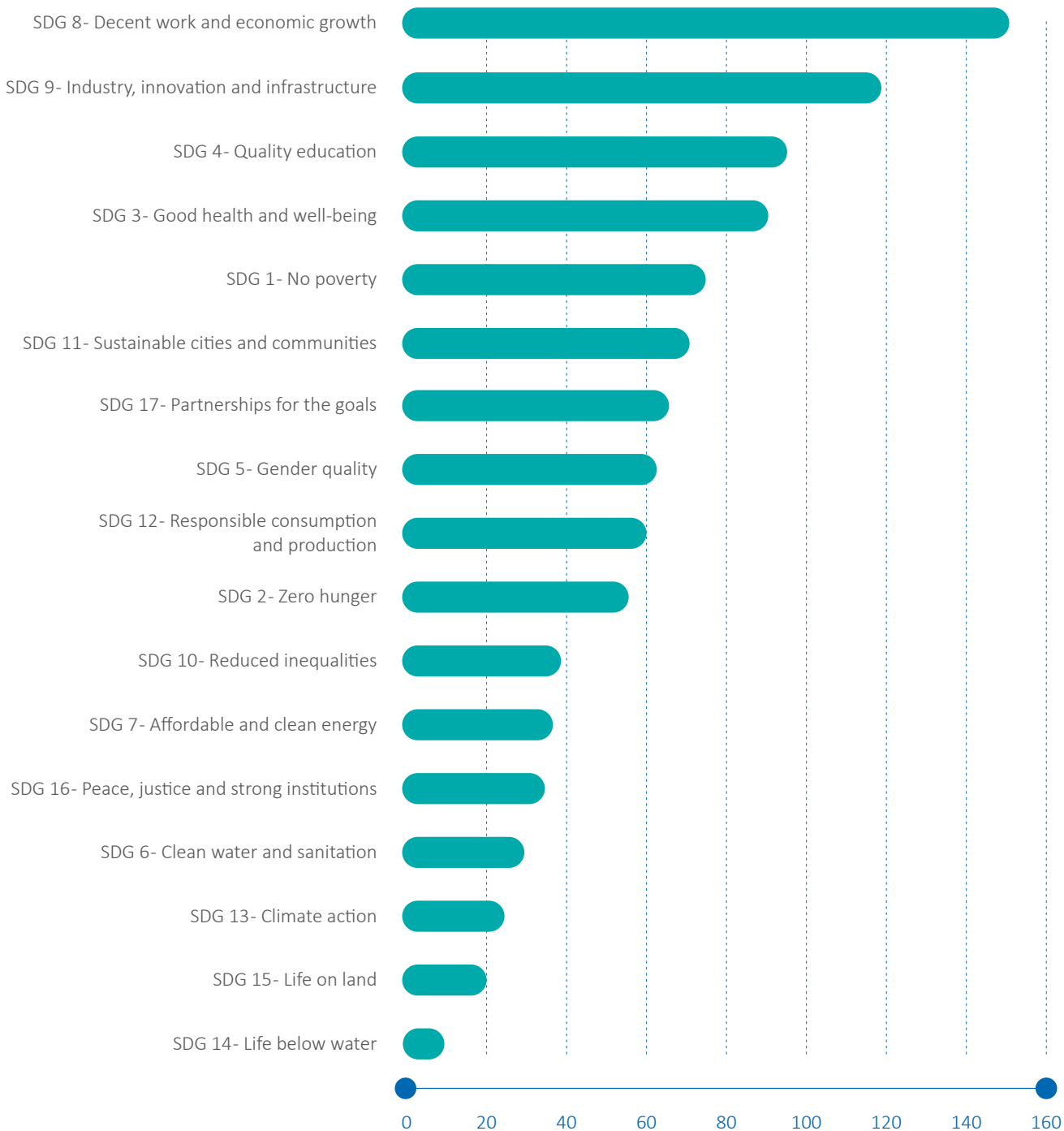


Figure 23 – “Please rank the top five SDGs where you think your business (including your value chain) **currently** has the greatest impact.”

Bridging the Skills Gap in the Philippines

PCCI's K to 12 PLUS project: In 2013, the K to 12 PLUS project was initiated by the Philippine Chamber of Commerce and Industry (PCCI) together with the German Chamber of Commerce to address the issue of job-skills mismatch. The project combines formal education with on-the-job training with its pilot Technical Vocational Education and Training (TVET) cluster launched in the areas of Cebu-Visayas, Mindanao, and Metro Manila-Calabarzon with the collaboration of business enterprises and vocational training schools.

Such an approach enables vocational training curricula to be tailored according to the requirements of key industries such as construction, microfinance, manufacturing, and tourism. An example is the pilot hospitality cluster in Laiya Beach, Batangas, launched in cooperation with the Laiya National High School (LNHS), the Association of Laiya Resort Owners (ALRO), the Department of Education (DepEd), the Department of Tourism (DoT), and the Technical Education and Skills Development Authority (TESDA). By the time this report was written, 144 students had already benefitted from their involvement in the Laiya Beach hospitality-cluster project. These students were given firsthand experience at the host resort, preparing them for a much smoother transition from a school to a work environment. This project is in its second phase with the final outcome expected in 2019. More information is available at: www.k-12plus.org

Source: *PCCI Human Resources Development Foundation, 2016. K to 12 PLUS project, Developing hospitality professionals – A Philippine Senior High School Case Study.*

FINDINGS

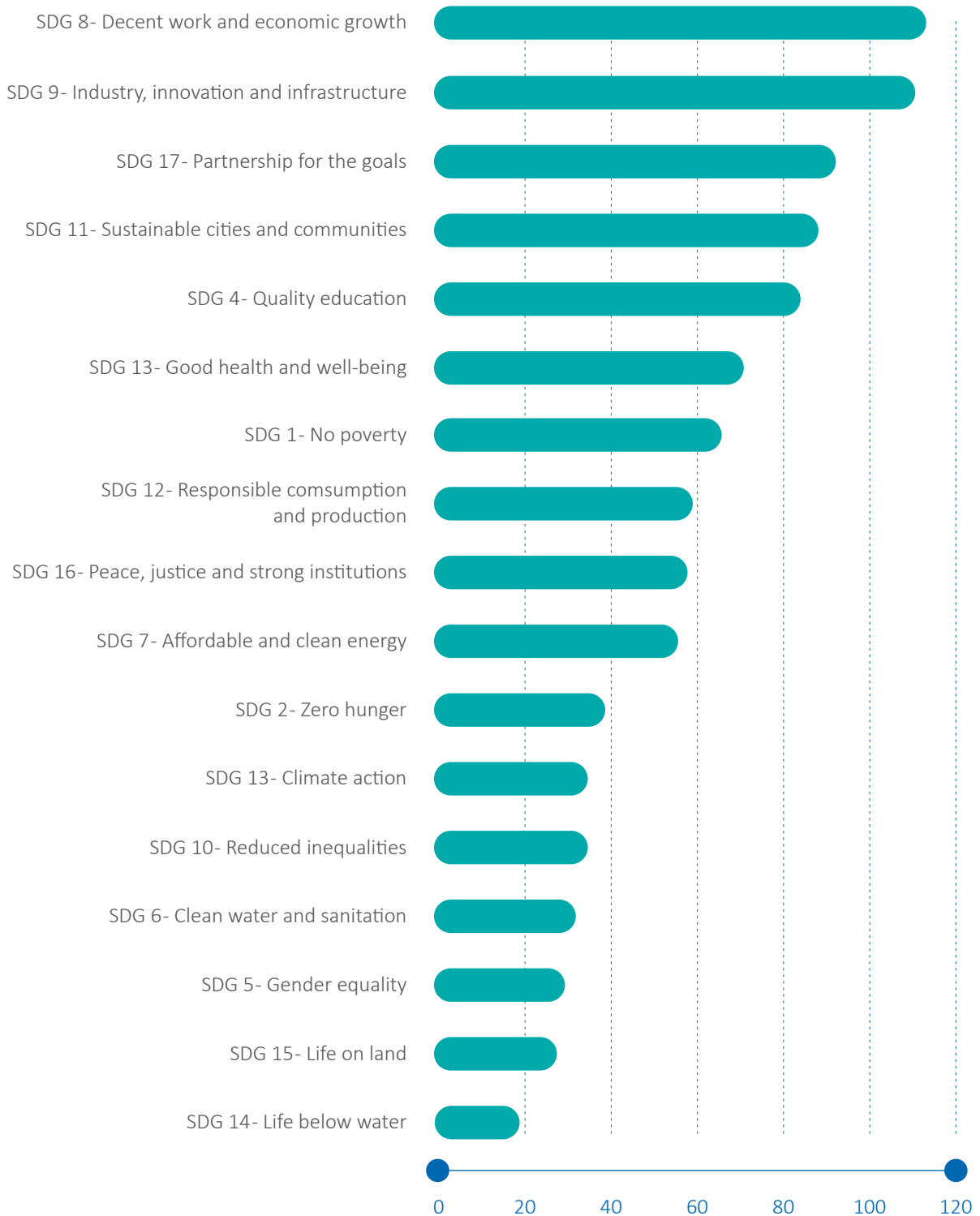


Figure 24 – “Please rank the top five SDGs that could provide your company a business opportunity in the future.”

Strengthening private sector partnerships to achieve the Sustainable Development Goals

The United Nations Development Programme (UNDP) in the Philippines is strengthening its partnerships with the private sector to help achieve the Sustainable Development Goals (SDGs) by 2030. The SDGs present the private sector an opportunity to develop innovative and scalable solutions to development challenges while providing a unique way for corporates to continue improving profitability through responsible and sustainable action. UNDP will continue to advocate and work with the private sector to identify opportunities to move toward achieving true development with greater profitability and productivity using inclusive and sustainable business models, going beyond the usual concepts of project-based philanthropy and corporate social responsibility.

UNDP's efforts focus on contributing broadly to create communities of educated and trained people in the Philippines, with networks of experts possessing current knowledge and practices, to strengthen partnerships that help achieve the SDGs. This is through producing knowledge products that provide critical information on areas of engagement, establish metrics to gauge and monitor all input and contributions, provide different perspectives on inclusive businesses that work effectively, and present examples of approaches and strategies that are already working and changing lives.

UNDP is working closely with Philippine business associations, through the Philippine Country Office and the Istanbul International Center for Private Sector in Development (IICPSD), to identify actions and commitments the private sector can adopt following Inclusive Business (IB) models. It is in line with this that the UNDP-hosted Business Call to Action (BCtA), a global platform of inclusive businesses, published *New Horizons: How Inclusive Business is Helping Achieve the SDGs in the Philippines*, outlining the private sector's role in meeting SDG targets and improving the lives of low-income Filipinos. More directly, UNDP Philippines facilitated the enrolment of different Philippine companies to the BCtA fold.

UNDP partnered with various groups to share the ideas and concepts of inclusivity to spread the message further and faster. It worked with Philippine Business for Social Progress to organize public-private dialogues, putting together the country's top business leaders, government heads, and representatives from various sectors to discuss how Philippine companies can adopt Inclusive Business models to contribute to development.

UNDP joined hands with Philippine Business for the Environment in the "SDGs is Our Biz" project to guide and enable businesses in incorporating the SDGs in their business activities. This provides a platform allowing the institutionalization of mechanisms where the contributions of private companies to sustainable development, regardless of size, portfolio, or industry, can be documented, recognized, and replicated. Using metrics agreed upon by relevant stakeholders, this endeavor increases the accountability of companies while redefining the milieu in which the private sector operates thereby encouraging increased collaboration with government and all other development players. In its pilot phase, the project gathered 139 initiatives from 75 companies highlighting their good practices. These cases will eventually be published as a collection to help initiate a culture of impact measurement and reporting among companies.

UNDP is also boosting support for and encouraging investments in social enterprises in the Philippines through the Social Impact Fund project in partnership with the Australian Government.

UNDP has also been engaging with the private sector on specific issues such as climate change and biodiversity. Through its Low Emission Capacity Building-Philippines project, UNDP and the Climate Change Commission (CCC) are developing long-term comprehensive strategies to engage the private sector in climate change mitigation, including the development of a Greenhouse Gas Reporting Protocol and Inventory Management Plan for business and industry. The Biodiversity Finance Initiative (BIOFIN), on the other hand, is exploring opportunities to work with the private sector on biodiversity conservation through corporate social responsibility, grants, technical assistance, direct investments, and policy support for public-private partnerships.



POLICY IMPLICATIONS: WHAT'S NEXT?

The recommendations and policy implications presented in this section were derived from the findings of the Business+ Philippines research and are supported by empirical evidence from previous studies in the field. Despite the fact that we recommend the adoption of certain strategies to foster Inclusive Business, it is beyond the scope of this project to advise the actors who should be responsible for the development and implementation of these strategies as such would require further research. A coordinated effort is required to clarify the roles different actors can take in the ecosystem and to strengthen the collaborations among them in the way to increase the impact.

RAISING THE AWARENESS AND INTEREST

Our research suggests that:

1. Overall, participant companies had low levels of awareness and engagement with Inclusive Business.
2. All companies doing Inclusive Business, but specifically the ones with higher levels of inclusiveness, thought that Inclusive Business models were effective in helping them reach their business and social goals.

3. In addition, they thought that these models were applicable in their industries and were successful models when applied. These findings clearly indicate a need to increase the awareness of managers on the successful applications of different Inclusive Business models providing different entry points for the poor. “Inclusive Business” needs to be introduced and reintroduced as part of Philippine business jargon both as a concept and practice to truly strengthen its potential and consolidate its meaning. UNDP and other development actors should step in to increase this awareness especially through peer learning. A **nation-wide awareness campaign** about models of Inclusive Business, including the following topics, will be helpful in creating awareness and interest among different parties and encouraging more companies to adopt this mindset.

Terminological awareness

The majority of the participants in this research was not even aware of the term “Inclusive Business.” This suggests a need for increasing awareness regarding just what “Inclusive Business” is to close any communication or comprehension gaps among the private sector, government, and other development actors to ensure better cooperation and collaboration.

Awareness about different applications of Inclusive Business

There were low levels of awareness regarding the successful applications of Inclusive Business models in different sectors. Informing companies about these successes in different sectors through case studies, seminars, conferences, and business consultancy services will surely increase the number of companies wanting to learn about this mindset and then adopting it eventually.

Establishing platforms for peer-learning like “Publish, Advocate, Connect, and Train (PACT) for Inclusive Business” could be a strategy for building and raising awareness. This approach

includes Publishing and Advocating good practices and case studies, Connecting good practices with mainstream businesses especially financial service providers, and Training businesses for creating capacity.¹⁰

The entry points that can contribute greatly to sustainable human and economic development, such as doing business with the poor as entrepreneurs, suppliers, or distribution channel members, have not yet been adequately explored and this should be a cause of some concern. This reality seems to have also resulted in the fact that the entry point with the lowest scores was the one with the poor as consumers. Companies should, therefore, be introduced to successful Inclusive Business models with different entry points for the poor to trigger their interest and engagement in alternative ways of doing Inclusive Business. Policies also should emphasize the other entry points of the poor such as becoming entrepreneurs, suppliers, distribution channel members, or consumers rather than just focusing on hiring them as employees.

Awareness about the importance of incorporating Inclusive Business into the core strategy

There was a significant difference between companies with high levels of inclusiveness in terms of emphasizing the poor in their mission statements and business strategies and those who did not. Seminars and training sessions on Inclusive Business should target those organizations with low levels of inclusiveness on the importance and advantages of making the poor a part of their core business strategy to build more inclusive economies.

Companies which already have inclusiveness in their start-up strategy were, not surprisingly, already highly inclusive. Starting with such a mindset helps in increasing the engagement even further. Entrepreneurs, startups, and MSMEs should be specifically targeted in awareness campaigns to ensure that they have an inclusive mindset from the beginning.

Awareness about the success of Inclusive Business

Inclusive Business is seen as a successful way of doing business with the social and business impact it creates especially by companies highly engaged in them. Communicating these success outcomes then is of utmost importance in increasing the interest in companies without any prior Inclusive Business experience. Peer-learning and consultation can easily play a key role in this process. Meetings, conferences, and other platforms to get inclusive and non-inclusive companies to come together and compare notes can lead to very fruitful outcomes.

To properly communicate these outcomes, it is imperative that the impact of Inclusive Business be measured. It is the measured outcomes and the documented processes that should be communicated while trying to increase awareness so that companies can be encouraged to come into the fold. However, participant companies' responses reveal that inclusive businesses have thus far paid little attention to measuring, communicating, and reporting the impact of their inclusive operations.

UNDP and other development organizations should play a very active part in encouraging the measurement and communication of successful results by actively trying to increase awareness about the importance of measuring the social and business outcomes of Inclusive Business, adopting social performance indicators, and communicating whatever is learned in both the measurement and adoption exercises.

The following example, for example, highlights the fact that there is interest in Inclusive Business models and that the existence and

awareness of such can contribute to broadening the perspective of those who can contribute to inclusive practices in their own organizations. The problem and challenge is that, so far, they have not been made aware of such and the goal is getting them to realize that these models not only exist but they can certainly work for those businesses.

Closing the gap of awareness among different sectors and company types

It is necessary to identify less inclusive companies and sectors and then focus efforts on them to increase the probability of their future engagement toward a more inclusive economy. Medium-sized companies are, in particular, in need of such focus as they have been shown with significantly little awareness and engagement in inclusiveness.

Establishing accreditation systems

There is always a need for standards by which an entity can calibrate and benchmark itself. This is particularly true for companies that have seen the benefits (and challenges) of Inclusive Business but still need a constant guide by which to measure themselves. Certifications and accreditation systems can contribute greatly to this and foster greater and increased awareness and engagement in Inclusive Business practices especially if government incentives for accredited companies are introduced. Furthermore, certified or accredited companies can form associations and serve as advocates and even mentors in influencing other companies in their sectors and industries.

The search for good models

“We are always on the lookout for more examples to learn from especially in the country because they are hard to find. You hear about other examples but there is also not much information on how they define success, how it can, indeed, help farmers, etc.... That is something we have been looking to do as we look ahead in our future plans. If you are aware of any good models that we could look at, we would definitely be interested.”

Philippine Food Service Corporation

CAPACITY BUILDING

Developing Innovative Capacity

The research data revealed that the more innovative companies, in terms of their business models, were also more inclusive. The in-depth interviews showed that those companies with a corporate culture embracing innovativeness and openness to change were, likewise, more inclusive. Therefore, increasing the innovative capabilities of Philippine companies and fostering an environment conducive to it seem to increase the chances of companies becoming interested and allowing themselves to the possibility of looking more deeply into Inclusive Business models and ideas. Of particular concern now is the fact that the research data has revealed that business model innovativeness of participant companies was very low, indicating the need for much more focus and attention on them regarding the power of both being open to change and inclusiveness.

Another issue worthy of concern is the finding that participant multinational corporations and large national companies, often enough, did not consider the poor as suppliers. This may signal the need for more out-of-the-box thinking through increasing the capabilities of these companies for innovativeness. Inclusive Business models that assign sustainable roles to the poor in the value chain are of particular importance in creating true long-term social impact. Promoting what some still consider radical thoughts and practices can lead to the development of innovative value chains in which the poor can take the role of entrepreneurs, suppliers, and distribution channels.

SMEs had a relatively lower score in business model innovativeness and this contributed a lot to the very low scores of medium-sized enterprises. However, they do play a critical role in extending the reach of Inclusive Business with their small scale operations and relatively flexible business models, more easily and quickly adaptable to the local context better than large companies. This is a significant point to be made because, as was found in the Business+ Turkey research, a major proportion of Inclusive Business approaches are developed by SMEs.¹¹

Policymakers should, therefore, also target SMEs and entrepreneurs. At the very least, starting with an inclusive mindset helps in increasing the engagement in Inclusive Business and this is facilitated by SMEs and entrepreneurs who are well versed and enthusiastic about Inclusive Business models.

Skills Development in the Value Chain

As shown by both the survey and, specifically, the in-depth interview findings, companies do recognize their needs and do ask for support to improve the skills and capacities of their BOP value chain members, including suppliers, distribution channel members, and entrepreneurs. Therefore, it is recommended that skills development programs targeting poor employees, suppliers, and entrepreneurs in different sectors be planned and initiated with the collaboration of different stakeholders including universities, other educational institutions, development actors, NGOs, and the government.

Scaling Inclusive Businesses: Private sector-led skills development

Integrating the disadvantaged in the market as consumers, entrepreneurs, or employees is an especially challenging task if the poor are without requisite skills. Two flagship reports of the United Nations Development Programme (UNDP), *Creating Value for All: Strategies for doing business with the poor* and *Unleashing Entrepreneurship: Making business work for the poor*, identified the absence of necessary knowledge and skills as a key constraint limiting the growth of inclusive markets. Low productivity caused by this absence of skills and information has then become an even more significant barrier toward business growth; investing in human capital now becomes key in achieving improved development outcomes and furthering inclusive market growth.

Identifying the need to engage the private sector in skills development so that Inclusive Businesses can scale, the Istanbul International Center for Private Sector in Development (IICPSD) prioritized market-driven skills development program design and delivery as key thematic areas. Through knowledge generation and program and project development activities over the course of five years, the center identified, analyzed, disseminated, and replicated private sector-led skills training modalities around the globe. IICPSD produced two studies covering best practices and lessons from 17 models in Turkey and India. The center shares this knowhow through two toolkits, one on the overall engagement of the private sector in upgrading skills and the other on skills development endeavors in the extractive industry. Both of these highlight good practices from other countries so those using the toolkits can benefit from the experiences of others.

One of the examples IICPSD shares is the experience of the Bursa Chamber of Commerce and Industry Education Foundation (BUTGEM), a non-profit training center in Bursa, Turkey. BUTGEM has been addressing the dual challenge of limited skilled human resources for industry and the lack of sustainable jobs and career paths for the youth. It demonstrates the key contribution of a local chamber in inclusive growth through delivering demand-driven technical and vocational skills training covering a wide range of areas based on market demand in Bursa, from textiles and mechatronics to computer hardware and software to automotive metals. Local skill needs drive the overall training process and curriculum with insights from industrialists. As a result of the continuous support of the local private sector, BUTGEM now has the capacity to train more than 3,000 individuals annually and rapidly place at least 80% of the trainees in relevant work thanks to vibrant industry linkages. This success has been acknowledged as an exemplar of how the private sector can generate inclusive growth and bridge the skills mismatch.

The solid private sector commitment and ownership behind the initiative is the differentiating factor. The Bursa Chamber of Commerce and Industry is the owner and private sector patron of the initiative, fully undertaking the necessary financing. The trainees, either unemployed or lacking employability skills, are not charged for training in almost all programs. Industry collaboration thus paves the way for growth, competitiveness, and productivity as well as economic integration and livelihood.

Sources:

UNDP IICPSD, 2014. *How the Private Sector Develops Skills: Lessons from Turkey*. United Nations Development Programme - Istanbul International Center for Private Sector in Development.

UNDP, 2015. *Human Development Report 2015*. Washington: United Nations Development Programme.

UNDP, 2008. "Creating Value for All: Strategies for doing business with the poor."

The findings show that large national companies did not normally buy from the poor and had relatively lower scores for opening the entry point of hiring the poor as employees as compared to social enterprises and SMEs. On the other hand, when it came to company size, large companies' scores were higher for entry points, with the high scores of large multinationals compensating for the low scores of large national companies.

Companies need the investment, support, and assistance of national and local government, universities, development actors, NGOs, and other relevant parties in developing the skills of the poor as suppliers. Small-scale suppliers lacking the required skills for quality and efficiency should be supported with training and seminars to develop their skills in order to ensure continued and high-quality supply aided by the skill to properly document and record all transactions. The earlier suggested Inclusive Business certifications and accreditation can easily emerge as factors to ensure the BOP suppliers' development and sustainability in the market and should be looked into and considered by all relevant actors. Along with all those mentioned so far, affordable business development services (business plan development, establishment, marketing, how to scale up) should also be developed, made available, and served to BOP suppliers and farmers.

The findings of this research, especially the comments and recommendations from participant companies, point toward the following ideas to improve the skills and capacities of both inclusive businesses and the BOP companies in their value chains:

- Universities, NGOs, and development organizations should provide training and consultancy on how to improve the efficiency of business models.
- Universities should provide short business courses on entrepreneurship, scaling up a new business, and marketing strategies.
- Managerial and entrepreneurial skills development activities are needed to become more market oriented.
- Consultancy services in the areas of marketing, new technologies, and product development should be developed.
- Agribusiness, Inclusive Business, and entrepreneurial marketing courses should be included in the curriculum of business schools.
- R&D activities should be incentivized and affordable technology options provided to businesses to increase their efficiency.
- Universities can serve as centers for incubating innovative Inclusive Business models. This includes educational institutions in different fields; engineering schools can do this for technological development while business schools focus on business model development, marketing, and finance.

Building Inclusive Value Chains: Examples of Philippine Inclusive Business Initiatives

Farmer Entrepreneurship Program (FEP): FEP was initiated in 2008 by Jollibee Food Corporation (JFC) – the largest fast-food chain in the Philippines – with Catholic Relief Services (CRS) in the Philippines and the National Livelihood Development Corporation (NLDC), a government agency mandated to meet the credit demands of farmers through accredited microfinance institutions to attain the objective of ensuring the active and sustainable participation of smallholder farmers in the supply chain of institutional buyers. The program focuses on capacity building through vocational training and partnership management assisting in improving farmers' management skills and productivity. FEP has collaborated with more than 40 local institutions and has successfully trained 900 farmers from over 15 provinces in the Philippines who now directly supply vegetables to 15 institutional markets.

Source: www.jollibeefoundation.org/farmer-entrepreneurship-program/

PinoyME Foundation: PinoyME began in 2007 and is a non-profit organization serving to empower small farmers and the poor in the Philippines through its role as a rural enterprise incubator. The foundation aims to improve the livelihood of 50,000 beneficiaries by promoting and ensuring their involvement in inclusive value chains by at least 30%. It has been providing several services on enterprise development, advocacy, and finance. PinoyME works with its network of development agencies, government agencies, donors, and private individuals to build the capacity of these farmers by providing them technical expertise in finance, business management, and institution building and assisting them to become suppliers of big companies, helping them to eventually become commercially viable enterprises.

Source: www.pinoyme.org/

BRIDGING THE GAP AND BUILDING THE ECOSYSTEM

Previous studies and Business+ Turkey itself suggest that successful inclusive businesses flourish through a network approach, a collaborative effort with the support of multiple actors in the ecosystem including government, development actors, NGOs, financial institutions, universities and research centers (G20 Inclusive Business Framework). Sadly, though financial players do play a big part in making inclusiveness succeed in a country, Philippine companies reported that the lowest levels of support came from rural and cooperative banks, financial institutions, and research centers. Furthermore, participant companies from the financial and insurance activities sector had very low inclusiveness scores. Both findings show the need to take immediate action to make financial institutions more inclusive and more responsive to the demands of inclusive businesses.

Collaborations with financial institutions

The in-depth interviews contributed greatly to knowing what is now needed to foster Inclusive Business. The majority of the comments made in those in-depth interviews also pointed out the need for new policies to establish links between inclusive businesses and financial institutions. These comments include the following:

- Financial institutions are key actors in establishing an ecosystem where inclusive businesses can flourish. It is recommended that collaboration to this end be established between financial institutions and companies and that increasing the inclusiveness level of these financial institutions be treated as a priority. They should support different aspects of Inclusive Business and the development of more inclusive value chains.

- Access to cheaper financial services for companies with Inclusive Business models should be done as a form of financial assistance. The government can help with selective guarantees to bring down interest rates.
- Alternative payment systems, especially for BOP suppliers, like mobile fund transfers to ensure the inclusion of BOP suppliers/farmers in the financial system should be established.

Establishing connections and market information systems

The lack of connections and market information on the BOP supplier side (about who potential buyers are, etc.) and on the buyer company side (which suppliers or supplier groups are more reliable, who can be the optimal fit for their business, etc.) emerged as major challenges inhibiting the scale and scope of inclusive businesses in the Philippines.

Any gap in market information is arguably one of the main factors slowing down the adoption of Inclusive Business but such an issue is not necessarily difficult to deal with. Market information systems need to be established to close any existing information gap between BOP suppliers and inclusive companies linking certified small-scale suppliers with companies. The government can establish a market information system to facilitate this.

Cooperatives should also be established to bring small BOP suppliers together to consolidate their output making for smoother interactions between companies and the small-scale suppliers. What's more is that the cooperatives can now serve as alternatives to traders who may want to exploit a situation where there are information gaps for their own advantage as they serve

Training and more

“The risk of failure in engaging the community is quite high. Maybe our company needs to be trained on how to conduct training effectively. We are principally designers and sometimes do not have the patience to train. Maybe shoulder some of our training cost, refund at least 50% of our losses related to engaging with communities (e.g., tardy deliveries, low quality, etc.)”

Philippine design and decoration company

“NGOs and development organizations should provide volunteer consultants who will oversee the whole business process and present techniques for improving and increasing efficiency in business processes. The academe should also offer short business courses for aspiring entrepreneurs.”

Philippine wine producer

as middlemen between the small-scale suppliers and possible buyer companies or organizations. Existing cooperatives which can serve as representatives of traders with buyers should be supported by government.

NGO engagement in the above initiatives should be ensured considering their importance in providing valuable insights about existing situations and contexts and their ability to get people to meet and discuss on equal footing.

Establishing platforms to initiate collaborative efforts

Platforms for collaborations should be established to overcome challenges faced especially in the establishment and scaling-up stages of inclusive businesses and to address any market gaps. These platforms can play an important role in creating awareness through education, policy making, and the establishment of market information and accreditation systems to promote Inclusive Business. Bridging the gaps existing among institutions like the national and local government, companies, universities, financial institutions, NGOs, and development actors is a major yet necessary challenge in the creation of a more Inclusive Business ecosystem.

SMEs, multinational corporations, and social enterprises saw development actors as one of the least supportive stakeholders and, as such, these same development actors need to work closely

with the SMEs, multinationals, and social enterprises to close this gap. The first step for development actors and UNDP should be to fully understand the current needs and expectations of the private sector and how they can contribute to facilitating Inclusive Business while always considering the contextual challenges and market gaps.

Research centers, universities, and development actors were among the stakeholders in the list of least supportive stakeholders. They now need to adopt both a socially and economically driven perspective so that they don't end up giving inordinate amounts of attention to purely economic development. They have to be encouraged to also give an ample amount of attention to the Sustainable Development Goals.

A good way for this to happen is for universities to play a key role in building this ecosystem by integrating new and more responsible ways of doing business in their curricula and increasing the awareness among students who are the future managers of businesses. Other stakeholders should join forces with academia to this end especially since more Inclusive Business research needs to be done and consulting centers established to offer consultancy services that will effectively support Inclusive Business practices. A closely-knit network tied to research and consultancy can be very helpful for the Philippine Inclusive Business ecosystem.

Easing the burden of financial regulations

“What I would like are ways that encourage us to get cheaper financing. We spent and got equity investments but we also have debt investments which are risky and charge interest. Excess money goes to payment of interest. Government can help with selective guarantees and other ways to bring down interest where government sees a beneficial impact on economic programs. It gives credit to allow companies to access financing in an easier and cheaper rate, sharing the risk with government...the Central Bank can help; they need to push commercial banks to get into this. Government can guarantee.”

Philippine agribusiness company

REGULATORY ENVIRONMENT

Philippine companies thought that the most significant challenges to overcome while doing Inclusive Business dealt with national and local government bureaucracy and the regulatory environment in the country. While government incentives did have a slightly positive effect, easing the concerns regarding these perceptions, the challenges pertaining to the processes in obtaining required licenses and permits to carry out Inclusive Business and the tariffs and taxes and financial regulations for gaining access to financing were all still seen as major stumbling blocks. The government needs to step in to reduce the red tape and provide a supportive legal environment for Inclusive Business. Reducing the barriers to obtaining required licenses and permits to carry out Inclusive Business is the first step on the way to a more inclusive economy. Furthermore, tariff and tax reductions for inclusive companies can act as a major accelerant in the adoption of Inclusive Business ideas and practices.

Local government units can formulate and implement programs in their localities to create a more favorable environment where inclusive businesses can thrive. This includes the possibility of government or development agents providing funding opportunities to cover costs related to training BOP suppliers in particular or the BOP community in general. Special incentive programs can be developed for inclusive businesses or those companies still planning on investing in Inclusive Business. This can come in the form of covering a percentage of the losses which may emerge in working with the poor as suppliers (non-delivery, low quality, etc.).

OTHER INTERVENTION IDEAS SUGGESTED AT VARIOUS STAGES

In addition to the policy implications based on the research findings presented thus far, the research team encountered several suggestions to improve the Philippine Inclusive Business ecosystem for the stakeholders interested in doing any form of research. Some of these ideas are worthy of consideration by Philippine Inclusive Business ecosystem players, although the ideas should be studied and developed further beyond the limits of this research. These suggestions were:

- The establishment of an inter-agency Inclusive Business policy coordination board with its own budget and charter with the private sector and other stakeholders also being considered part of it. The board can produce action plans which include policies and measures for improving the Inclusive Business ecosystem in terms of information, financial resources, rules, capacity (and structure).
- The prioritization of certain sectors like agriculture and tourism where new policy instruments can be piloted.
- The creation of a national Inclusive Business database (which is already being considered by the BOI) to develop inclusive value chains through determining and leveraging specific Inclusive Business initiatives. All three aspects of Inclusive Business (IB models, IB activities, and social enterprises) could be mapped for selected sectors and value chains, including actors, flows, and gaps in each respective value chain stage. Such a database would also show inclusive businesses that are to be promoted at awareness-raising initiatives.
- The replication of the Business+ survey (in part or as a whole) after certain policy instruments are introduced to advance Inclusive Business in the country. The survey can be made to apply to different target groups to measure specific progress areas. One example of a possible target area for further investigation can be the beneficiaries of an Inclusive Business incentive put in practice after the publication of this report.



Who will connect them with each other?

“The farmers don’t have access to that kind of information that’s why they all sell to traders who know where all the big markets are. On the part of the companies, how will they know which are the reliable farmer groups? We don’t have access to that kind of information either. The markets are looking for suppliers and farmers are looking for markets but who will be the one that will connect them with each other?”

Philippine food service company

Collaborating for Inclusive Business: The Philippine experience

Philippines Partnership for Sustainable Agriculture (PPSA): PPSA was initiated in 2015 by Grow Asia and the Philippine Department of Agriculture (DA) as a multi-stakeholder partnership platform focused on inclusive and sustainable agricultural development in Southeast Asia. Grow Asia encourages the adoption of inclusive value chains of coconuts, cassava, coffee, corn, and fisheries, focusing on addressing value chain inefficiencies to do so. These inefficiencies arise due to the constraints faced by farmers such as the lack of access to financing, challenges faced due to infrastructure and logistical inadequacies, and the slow adoption of modern farming techniques. To address these constraints, PPSA, together with more than 80 partner organizations from government, the private sector, and civil society, develops interventions and provides training and capacity building activities and opportunities for Filipino farmers.

Source: Grow Asia Philippines, 2016. Philippines Partnership for Sustainable Agriculture.

Business Management Summit 2016: When Students Get Inspired

The Enterprise Management Association (EMA) of the University of Asia and the Pacific organized the Business Management Summit (BMS) 2016, inspired by the Inclusive Business Model (IBM) of the Department of Trade and Industry and the Business+ Philippines project. This was introduced in some of the major classes in the university thus inspiring EMA to share it with both students and business practitioners.

The organizers brought together students from different universities to expose them to successful Inclusive Business practices. There were talks and panel discussions on Inclusive Business and a competition on the formulation of Inclusive Business plans. Successful businesses practicing IBM shared how their own operations adopted these practices and how they continuously profited from them. Students were then asked to create their own business plans incorporating IBM ideas.

EMA is planning other similar events to help students get exposed to the newest trends and developments of IBM.

¹ Roser, Max and Esteban Ortiz-Ospina (2017). Global Extreme Poverty. Retrieved from <https://ourworldindata.org>.

² The World Bank defines extreme poverty as living with an income less than 1.90 international-\$ per day

³ Business and Sustainable Development Commission (2017). Better Business, Better World. Retrieved from <http://report.businesscommission.org/uploads/Executive-Summary.pdf>

⁴ G20 Development Working Group (2015). G20 Inclusive Business Framework. Retrieved from: <http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf>

⁵ The Philippine Statistics Authority (2015). Poverty incidence among Filipinos registered at 26.3% as of first semester of 2015. Retrieved from <https://psa.gov.ph/content/poverty-incidence-among-filipinos-registered-263-first-semester-2015-psa>

⁶ London, Ted (2007). A Base-of-the-Pyramid Perspective on Poverty Alleviation. University of Michigan: The William Davidson Institute. Retrieved from https://www.researchgate.net/publication/242236614_A_Base-of-the-Pyramid_Perspective_on_Poverty_Alleviation

⁷ The question about the asset size of the companies was answered by 163 companies with 60 missing answers. Among these 163 companies, 66 reported an asset size greater than PHP 100 Million followed by 23 companies between PHP 15-100 million, 37 companies between PHP 3-15 million, and 37 less than PHP 3 Million.

⁸ This classification was adopted from UNDP Growing Inclusive Markets case studies.

⁹ Perrini, Francesco, and Clodia Vurro (2006). Social entrepreneurship: Innovation and social change across theory and practice. *Social Entrepreneurship*. Palgrave Macmillan UK, 57-85.

¹⁰ IICPSD follows PACT as points of action in many of its works under Inclusive Business, private sector led skills development, impact investment and resilience and crisis response thematic areas. For more information and an example of the PACT approach to awareness raising on impact investment, please see the Islamic Finance and Impact Investing report at <http://www.iicpsd.undp.org/content/istanbul/en/home/library/reports/Islamicfinanceimpactinvesting.html>

¹¹ Gürhan-Canli, Z., Yalçin, S., Yurdakul, D. (2016). Business+ Inclusive Business: A New, Sustainable and Innovative Private Sector. Retrieved from: <http://www.iicpsd.undp.org/content/istanbul/en/home/library/reports/BusinessPlus.html>

Investing in less developed neighborhoods						
Entry Point/ Ranking	Employee	Consumer	Supplier	Distribution Channel	Entrepreneur	Investing in less developed neighborhoods
1	Construction	Agriculture, Forestry, and Fishing	Agriculture, Forestry, and Fishing	Arts, Entertainment and Recreation	Arts, Entertainment and Recreation	Arts, Entertainment and Recreation
2	Agriculture, Forestry, and Fishing	Electricity, Gas, Steam, and Air Conditioning Supply	Accommodation and Food Service	Agriculture, Forestry, and Fishing	Professional, Scientific, and Technical Activities (Fair Organization)	Electricity, Gas, Steam, and Air Conditioning Supply
3	Electricity, Gas, Steam, and Air Conditioning Supply	Education	Electricity, Gas, Steam, and Air Conditioning Supply	Information and Communication	Electricity, Gas, Steam, and Air Conditioning Supply	Agriculture, Forestry, and Fishing
4	Arts, Entertainment and Recreation	Arts, Entertainment and Recreation	Arts, Entertainment and Recreation	Other Service Activities	Agriculture, Forestry, and Fishing	Construction
5	Manufacturing	Information and Communication	Professional, Scientific, and Technical Activities (Fair Organization)	Professional, Scientific, and Technical Activities (Fair Organization)	Information and Communication	Other
6	Accommodation and Food Service	Water Supply; Sewerage, Waste Management, and Remediation Activities	Construction	Accommodation and Food Service	Education	Human Health and Social Work Activities
7	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Human Health and Social Work Activities	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Education	Human Health and Social Work Activities	Real Estate Activities
8	Water Supply; Sewerage, Waste Management, and Remediation Activities	Administrative and Support Service Activities	Human Health and Social Work Activities	Human Health and Social Work Activities	Administrative and Support Service Activities	Water Supply; Sewerage, Waste Management, and Remediation Activities
9	Education	Other Service Activities	Manufacturing	Transportation and Storage	Other	Information and Communication

Investing in less developed neighborhoods						
Entry Point/ Ranking	Employee	Consumer	Supplier	Distribution Channel	Entrepreneur	Investing in less developed neighborhoods
10	Professional, Scientific, and Technical Activities (Fair Organization)	Transportation and Storage	Other Service Activities	Other	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Manufacturing
11	Other Service Activities	Other	Administrative and Support Service Activities	Administrative and Support Service Activities	Accommodation and Food Service	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
12	Real Estate Activities	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Education	Manufacturing	Water Supply; Sewerage, Waste Management, and Remediation Activities	Accommodation and Food Service
13	Information and Communication	Financial and Insurance Activities	Information and Communication	Electricity, Gas, Steam, and Air Conditioning Supply	Manufacturing	Education
14	Human Health and Social Work Activities	Real Estate Activities	Transportation and Storage	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Other Service Activities	Other Service Activities
15	Other	Manufacturing	Other	Water Supply; Sewerage, Waste Management, and Remediation Activities	Construction	Administrative and Support Service Activities
16	Financial and Insurance Activities	Professional, Scientific, and Technical Activities (Fair Organization)	Water Supply; Sewerage, Waste Management, and Remediation Activities	Real Estate Activities	Real Estate Activities	Professional, Scientific, and Technical Activities (Fair Organization)
17	Administrative and Support Service Activities	Accommodation and Food Service	Real Estate Activities	Financial and Insurance Activities	Financial and Insurance Activities	Financial and Insurance Activities
18	Transportation and Storage	Construction	Financial and Insurance Activities	Construction	Transportation and Storage	Transportation and Storage



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