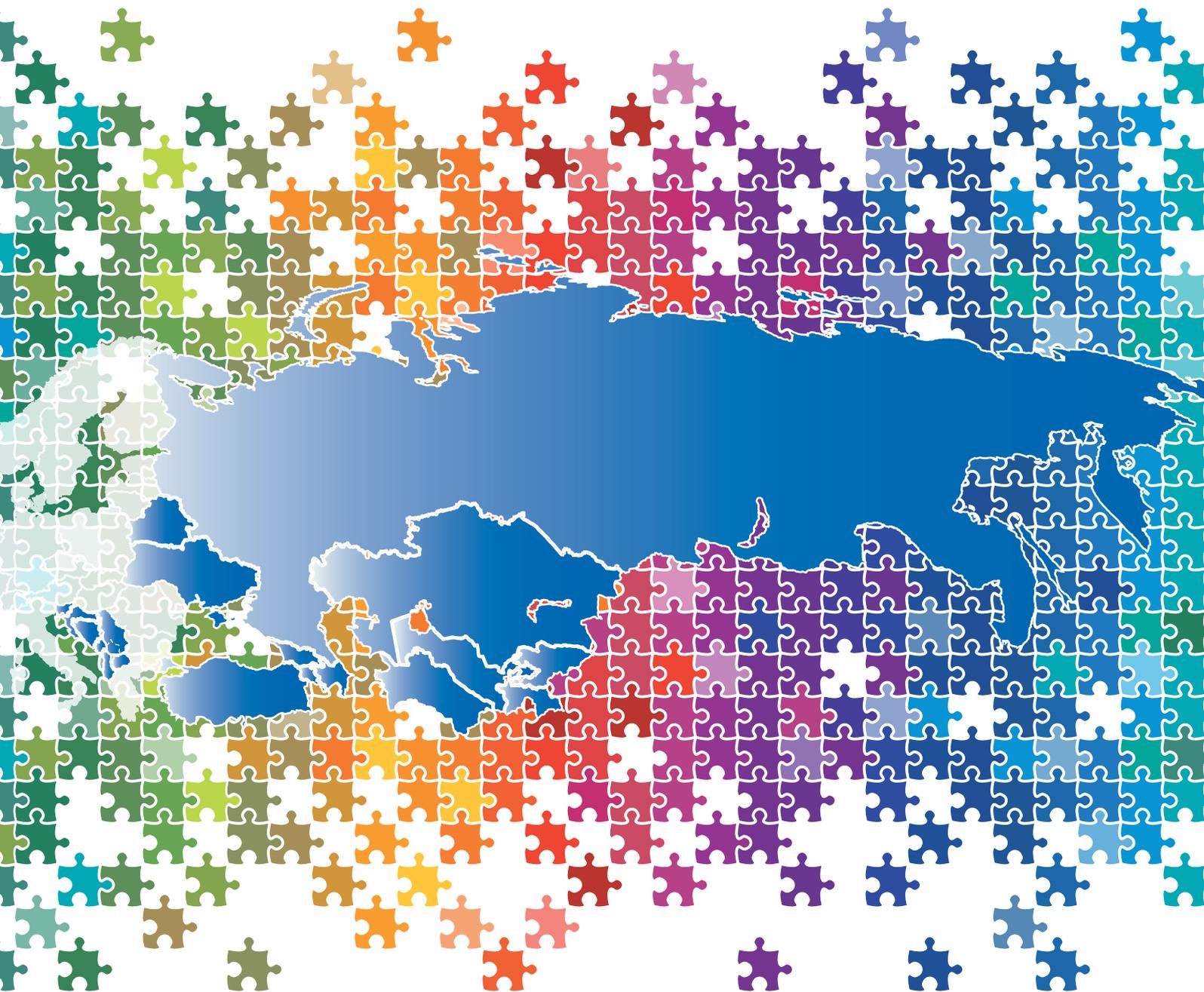


BUSINESS SOLUTIONS TO POVERTY

– How inclusive business models create opportunities for all
in Emerging Europe and Central Asia



United Nations Millennium Development Goals



Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria, and other diseases

Goal 7: Ensure environmental sustainability

Goal 8: Global partnership for development

This report is a result of a joint effort between members of the Poverty Practice, Bratislava Regional Centre, UNDP Regional Bureau for Europe and CIS, and of the Growing Inclusive Markets (GIM) team, Private Sector Division, UNDP Partnership Bureau. This report would not have been possible without the financial support of the Partnership Bureau and the valuable contributions of the regional GIM Working Group Members, Case Study Writers as well the Report Writing Team comprising: Christina Gradl, Jens Trummer, Iva Kleinova, Pascale Bonzom, Brigitte Duerr, Subathirai Sivakumaran, Austine Gasnier, Boleslaw Rok and Gul Berna Ozcan.

November 2010

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For more information on Growing Inclusive Markets and to download the full report please see: www.growinginclusivemarkets.org

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PHOTO: UNDP

FOREWORD

by Kori Udovički

*Assistant Administrator and Regional Director
UNDP Regional Bureau for Europe and the CIS*

The former socialist countries of Europe and Central Asia (ECA) have undergone a dramatic political and economic transition that has improved the futures of large parts of the population, but left many in deep poverty. Growth has not translated into poverty alleviation, with as much as 130 million people still living under US\$4.30 a day, measured at Purchasing Power Parity. Turkey, without sharing the same transition history as the other countries of the region, has the second highest number of poor people among countries in the region.

Growth can be made more inclusive through the right policies, but business also has a key role to play. There is a growing body of evidence that businesses that engage the poor on the demand side as clients and consumers, and/or on the supply side as producers, employees and business owners can capture benefits that go beyond the short-term bottom line, while creating value for the poor. For instance, *Creating Value for All: Strategies for Doing Business with the Poor*, a UNDP report published in 2008, highlighted portraits of 50 successful businesses that earned revenues while achieving social impact. It also drew lessons from key solution strategies on how to address challenges typically encountered in developing and emerging economies.

It is fair to say, however, that much of this empirical evidence stems from businesses operating outside the ECA region. Very little has been published so far on inclusive businesses and business models in this region, which could help harness the power of business for development and poverty alleviation. The present report attempts to close this gap by building on specially commissioned case studies from 19 countries of the region, showcasing examples of profitable businesses that are also having positive effects on people and the environment.

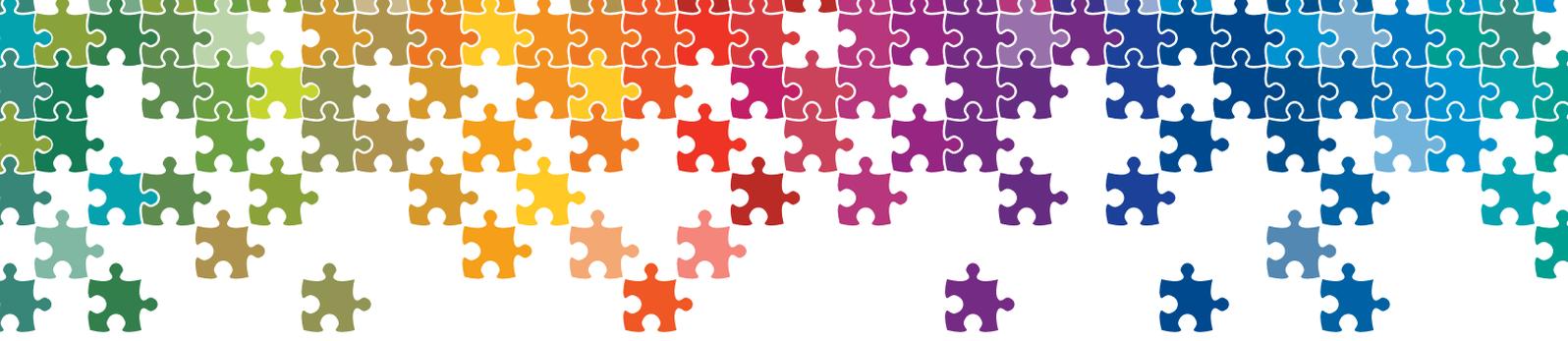
The report's aim is to catalyse more inclusive markets in the region, by tackling one of the key barriers to making markets work for the poor: the lack of awareness that inclusive business is possible, and of the successful models that have been tested in the ECA region. It presents data and cases from different countries and sectors. Further research is still needed of course. But there is enough evidence to show that an opportunity exists for business and for development partners.

It is our wish that the 19 case studies inspire the region's private sector to action. There are five years left to achieve the Millennium Development Goals (MDGs). The private sector can be a powerful engine for inclusive growth, greatly enhancing the probability that they will be met. At the same time, when societies fail to reach such goals, businesses cannot thrive and succeed.

As the report shows, collaboration with a number of different actors is a key success factor for inclusive business. UNDP is doing its part through policy advice, research and advocacy, funding and capacity development on the topic. However, the contribution of many others is also needed. We hope that this report will serve as an advocacy tool for businesses, governments, civil society and other development actors to work together to create a more inclusive ECA region.

Women are sometimes excluded from markets, even though they often have highly specialized and valuable skills to contribute to business value chains.





EXECUTIVE SUMMARY

The Emerging Europe and Central Asia (ECA) region may be considered at the same time the most and the least advanced region with regard to inclusive business.¹

It may be the most advanced because, until the early 1990s, all the countries in the region – except for Turkey – were under a socialist regime where business focused on providing economic opportunities to all people as consumers and employees. The legacy of this socialist period is a comparatively well developed infrastructure, even in remote regions, and a generally well-educated population – a solid basis for doing business. It may be considered the least advanced with regard to inclusive business because after the transition, companies abandoned the old, uncompetitive approach. Few businesses in the region have realized that inclusiveness can be a means to competitiveness. This report shows how inclusive business creates opportunities for people and business in the region.

WHAT ARE INCLUSIVE BUSINESS MODELS?

Inclusive business models include people with low incomes on the demand side as clients and customers, and on the supply side as employees, producers and entrepreneurs at various points in the value chain.

These models build bridges between business and people with low incomes for mutual benefit. The benefits from inclusive business models go beyond immediate

1) See Box 1 for the geographical scope of the report.

profits and higher incomes. For business, they include winning new customers, expanding the workforce, and strengthening supply and delivery chains. For people with low incomes, they include meeting basic needs, having sustainable earnings, and achieving higher productivity. In addition, the models can be designed in a way that uses environmental resources sustainably.

Vitmark in Ukraine is a case in point. Several years ago, people with low incomes in Ukraine rarely purchased fresh, high-quality juices because they were very expensive. Vitmark opened up juice factories in three Ukrainian cities and started selling juices that

were affordable to almost all. The company employs and trains local employees and procures fruit from local farmers. Salaries offered are one-third higher than the regional average. In addition, farmers receive regular training to improve the quality of their produce. At the same time, Vitmark brought the cost of juice down through efficient product packaging and marketing in order to target low-income consumers. Even after imitators entered the low-income market, Vitmark accounts for 30 percent of sales in the lower-priced segment of the juice market in Ukraine, generating a revenue of approximately UAH800 million (€78.5

Box 1 ECA – The region in focus

This report covers 19 countries in Emerging Europe and Central Asia (ECA), which are grouped into the following sub-regions:

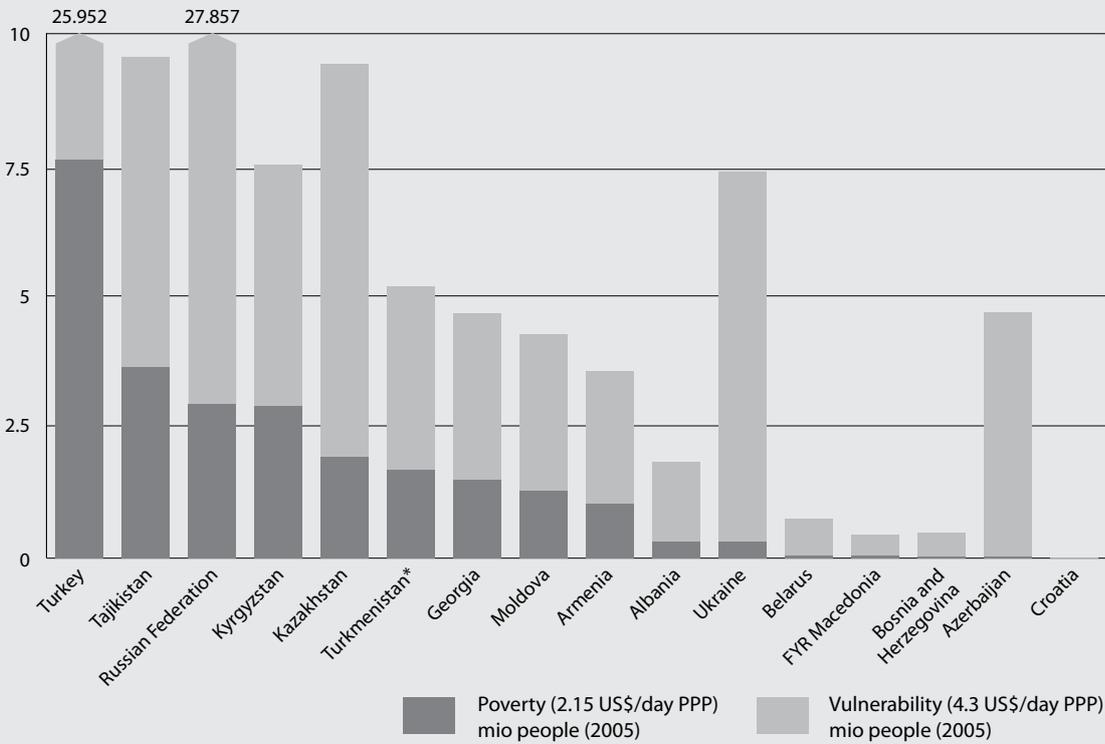
- **Caucasus:** Armenia, Azerbaijan and Georgia
- **Central Asia:** Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan
- **Turkey**
- **Western Balkans:** Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, and the Former Yugoslav Republic of Macedonia (FYR Macedonia)
- **Western Commonwealth of Independent States (CIS) and Russian Federation:** Belarus, Ukraine, Moldova and the Russian Federation.

The EU member states are not covered by the report.



With the exception of Turkey, all countries in this region share a history of socialist regimes from the mid-1940s and 1950s, and a transition to a market economy after the fall of the Iron Curtain in 1989. In 1991, the Soviet Union ceased to exist and in 1992, the Socialist Federal Republic of Yugoslavia was dissolved. As a result, a number of new States in this region were created. Indeed, only two countries discussed in this report – Turkey and Albania – have the same geographical boundaries as 20 years ago. Particular opportunities and challenges for inclusive business, which are highlighted in this report, have been created by the particular history of the former Socialist countries of the region, the ensuing social, economic and political characteristics, as well as the cultural and economic ties of the Western Balkans, Azerbaijan and Central Asia with Turkey.

Figure 1 Poverty in the region by country



* based on estimated PPP

SOURCE: World Bank, POVCALNET database

million) in 2008. Its market share increased from 7 percent in 1999 to over 22 percent in 2008.

Inclusive business models are not just an opportunity for companies; they are valuable for organizations that work to improve the prospects of people with low incomes. They are financially sustainable, create choices and can empower these people to become included in the business value chain as entrepreneurs, employees or consumers. Helvetas, the Swiss Association for International Cooperation, introduced community-based tourism (CBT) to Kyrgyzstan. This type of tourism is owned and managed by the local community. There are now CBT groups in 19 villages, directly involving 350 families.

Vitmark: Triple inclusion of people with low incomes as producers, employees and consumers.



PHOTO: VITMARK



PHOTO: VITMARK



PHOTO: VITMARK

WHY READ THIS REPORT?

This is the first report that applies the concept of inclusive business models to the ECA region. It addresses decision makers from the region and from different sectors: company representatives, policy makers, development agencies and civil society organizations. For all of these actors, the report provides:

- Concrete examples of inclusive business models from the region that can serve as inspiration and models. Nineteen case studies – one from each country – have been studied to provide the empirical foundation for this report;
- Empirical evidence of the benefits that these business models have created for the business, people with low incomes and the environment;
- Practical frameworks that can guide the design of inclusive business models and the support from

governments, development agencies, civil society organizations (CSOs) and others.

With the above, the report seeks to inspire companies and other stakeholders in the ECA region to identify and realize opportunities for including people with low incomes into value chains and to provide guidance on how this can be achieved. It shall also help to create space for dialogue among the relevant stakeholders – locally and on higher levels – to improve the enabling environment for inclusive markets development in the region.

WHAT ARE THE MAIN MESSAGES OF THE REPORT?

The report shows that inclusive business models can create opportunities for business and for people with low incomes. It also explains that this is not “business as usual”. Because market constraints are widespread, innovative solutions are required and supporting in-

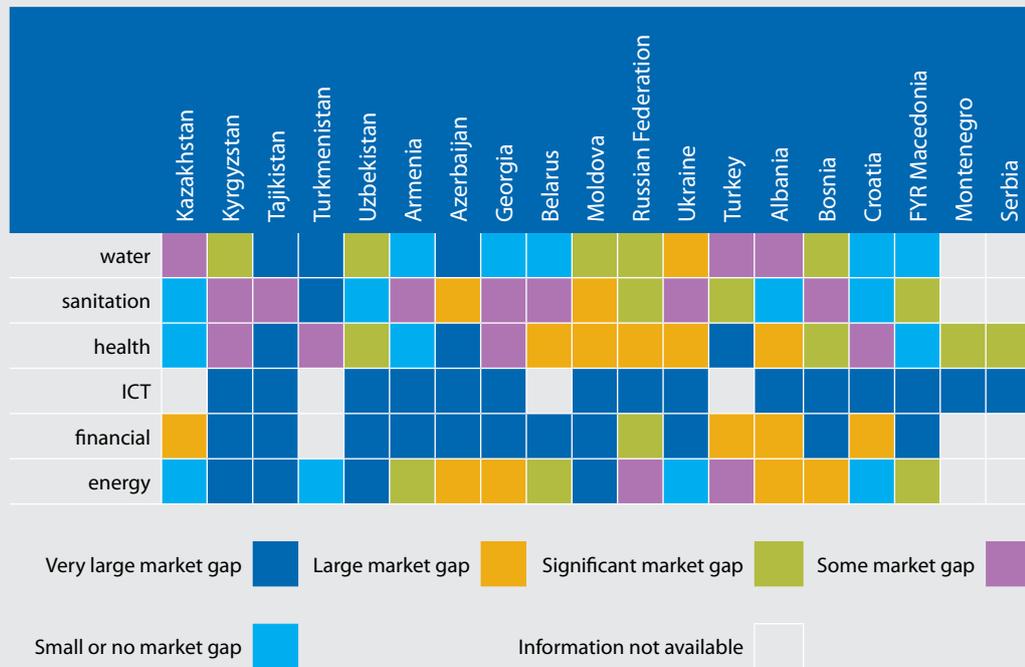
stitutions can improve the foundations and act as partners. All actors, not just companies, are called on to realize these opportunities through their contribution.

There are opportunities to include people with low incomes as consumers, employees, producers and entrepreneurs.

People with low incomes benefit from being included into business models by increasing incomes, meeting basic needs and gaining productivity. In the ECA region, 130 million people live on less than US\$4.3 per day; 45 million live on US\$2.15 per day (Figure 1); 11 million are unemployed and 140 million work in the informal economy. Almost 19 million people lack access to clean water and almost 40 million lack access to an improved sanitation facility. Health services are often expensive and of poor quality. These needs can be met by using business approaches.

2) A detailed explanation of the measures used to create this map by sector is available in the full report.

Figure 2 Market gaps by sector and country²

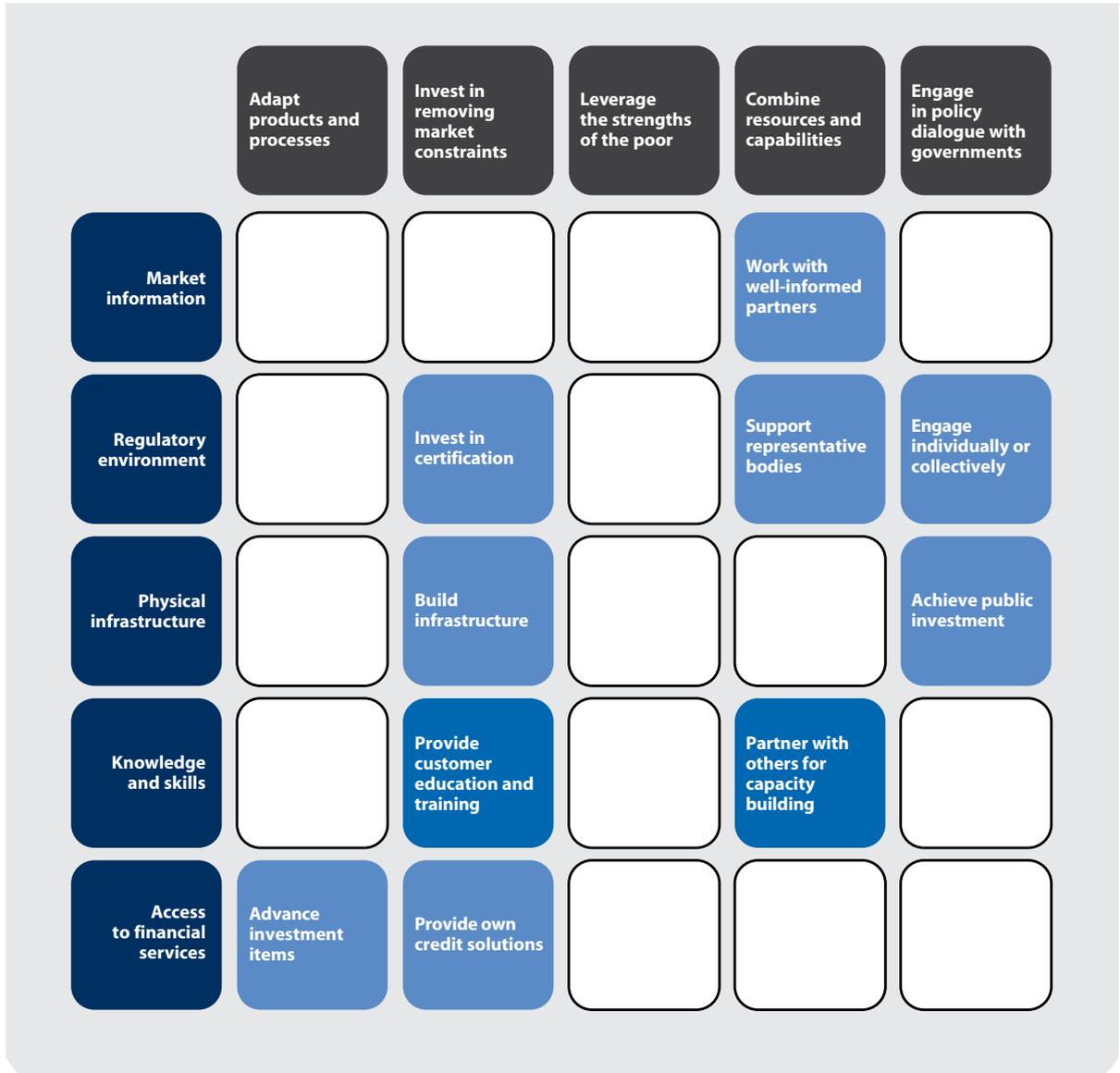


SOURCE: World Development Indicators, UNICEF; World Bank: Finance for all; International Telecommunication Union; Measuring the Information Society, World Resource Institute; Earth trends.

Small-scale producers and entrepreneurs can strengthen the supply and delivery chains of inclusive business models.



Figure 3 GIM Strategy Matrix with regional patterns for ECA



Similarly, access to goods and services can increase productivity. Furthermore, 5 million people in the region lack access to electricity and more than 150 million lack access to financial services. Internet access can also be improved.

INCLUSIVE BUSINESS MODELS CAN INCREASE ITS COMPETITIVENESS

Businesses that include people with low incomes can benefit by winning new customers, expanding

the workforce and strengthening supply and delivery chains. The access gaps highlighted above and in Figure 2 as well as poor price/performance levels can mean new markets for companies that can address these shortcomings. Similarly, the large pool of unemployed or informally employed people – most of them at least with a secondary education – can be tapped to win new employees at reasonable conditions. The 8.5 million micro- and small- sized enterprises (and more if including the informal ones) in the region and the 1.3 million small-scale farms located in Central Asia only can offer supply and delivery services.

Small retailer in Uzbekistan: The ECA region includes 8.5 million registered micro-, small- and medium sized enterprises.



PHOTO: UNDP

WIDESPREAD MARKET CONSTRAINTS REQUIRE INNOVATIVE SOLUTIONS

The lack of market infrastructure often increases the transaction costs of doing business with low-income populations. Based on the global report “*Creating Value for All: Strategies for Doing Business with the Poor*” of UNDP’s Growing Inclusive Markets Initiative, five areas of constraints are discussed: limited market information, ineffective regulatory environments, inadequate physical infrastructure, missing knowledge and skills, and restricted access to financial services. Of these, the missing knowledge and skills was the most widespread constraint in the case studies examined. Investing in removing constraints and combining resources and capabilities were the strategies that were mainly used (Figure 3).

THE SUPPORT FROM OTHERS IS OFTEN ESSENTIAL FOR SUCCESS

Supporting institutions often play a critical role in the success of these models. They create the necessary foundations through policy-making and research and advocacy. They also act as partners, providing financing and complementary capabilities (Table 1).

Everybody can contribute to make business more inclusive

Companies — but also governments, development agencies, civil society organizations and others —

can take action to make inclusive business models a reality. Some of the examples found in the report are provided below;

Companies can:

- Identify opportunities for inclusion of people with low incomes along the entire value chain. Vitmark in Ukraine sources from small-scale producers, employs workers in rural areas and sells its high quality low-cost juices to low-income consumers;
- Take a new look at marginalized populations. Tinex in FYR Macedonia provides jobs to foster children. The programme has worked so well that it aims to include more marginalized groups;
- Listen to advocacy. Some of the business models featured here have been initiated by public or civil society organizations that came to a company with a concrete opportunity. International Finance Corporation (IFC) pointed Tojiksodirot-bonk (TSB) in Tajikistan to the market of cotton

Table 1: Activities of supporting institutions

Role	Activities
Policy-making	<ul style="list-style-type: none"> • Governments create the legal environment that enables and motivates companies to include people with low incomes. • Associations and development agencies and banks support governments.
Research and Advocacy	<ul style="list-style-type: none"> • Research institutions, think tanks and specialist organizations create the empirical data, analytical knowledge and practical know-how that guide the creation of effective inclusive business models. • Advocacy creates the broad-based awareness and support required to successfully initiate and implement such models.
Financing	<ul style="list-style-type: none"> • Grant and seed funding finances the start-up phases of inclusive business models. • Subsidies and other shared-cost models improve the business case for inclusion.
Complementary Capabilities	<ul style="list-style-type: none"> • Inclusive business models often require capabilities that the company itself does not have and require time and investment to build, such as trust and networks among the target group, or the ability to effectively train and inform this group. • Organizations that have longstanding experience in working with the target group often come in to take on these and other tasks.

Creating a new market can resemble putting together a jigsaw puzzle, which often requires collaboration to bring the missing pieces together. No piece is alike - and each has its unique role to play.



farmers that had not previously been served by banks.

Governments can:

- Provide incentives for inclusive business. The Turkish Government gives tax breaks to companies that create jobs in rural areas. Hey Textiles has taken this subsidy as a starting point to invest in a factory in rural Turkey;
- Improve the enabling environment. Inclusive business models are often hampered by inadequate market conditions. Alleviating these constraints can make it much more attractive for companies to commit themselves. When the Rural Finance Cooperation (RFC) started to provide microcredit in Moldova, there was no adequate legal framework for this activity. The Government developed it together with the microfinance players;
- Inspire inclusive business models. In FYR Macedonia, The Ministry of Labour and Social Policy together with the State House for Foster Children in Skopje introduced the possibility of employing foster children (of 18 years of age and over) to supermarket chain Tinex.

Development partners can:

- Establish community-based inclusive business models. In Kyrgyzstan, Swiss development agency Helvetas initiated community-based tourism in rural areas;
- Broker partnerships to enable inclusive business models. In Belarus, the United Nations Global Compact Secretariat convinced MTS of the opportunity of offering telemedicine to rural hospitals. It also brought together the different partners of the telemedicine project, linking MTS with the Ministry of Health;
- Provide funding. Seed funding, co-funding and preferential loans are important means to stimulate innovative inclusive business models. The EBRD invested EUR2 million equity in Edipack in Albania to help scale up the business. It also provided technical assistance on how to increase efficiency and profitability.

Civil society organizations can:

- Provide technical assistance to inclusive business models. The Rural Development Centre (RDC) in Moldova helped to set up savings and credit

associations, and provided its members with marketing and extension services, trade information and training;

- Advocate and raise awareness. In Albania, Edipack works with local non-governmental organizations (NGOs) to reach out to potential suppliers of waste paper from vulnerable groups;
- Represent beneficiary interests. The National Partnership for Microfinance Market Stakeholders (NAMMS) lobbies for better legislation on microfinance in the Russian Federation.

HOW WAS THE REPORT DEVELOPED?

The Growing Inclusive Markets (GIM) Initiative is a global UNDP-led multi-stakeholder platform with the aim to further the creation of inclusive business models and inclusive markets through research, advocacy, knowledge networking and capacity building. The initiative promotes an evidence-based, Southern-focused and partnership-oriented approach guided by a human development framework.

In 2008, the initiative's first report "Creating value for all" was launched. It is based on 50 case studies developed by local researchers following a common protocol. Analysing the evidence, the report identifies strategies for dealing with the constraints in the markets of the poor to establish successful business models.

The regional GIM initiative in ECA was launched in 2009. It is led by UNDP Bratislava Regional Centre and supported by a broad range of institutions, including business organizations, academic institutions, civil society organizations and development partners. It aims to promote and catalyse more inclusive markets in the region.

This report is part of this endeavour. 19 case studies – one from each country in the region – have been developed to inform this report. Following the GIM methodology, these case studies are written by researchers from the countries in a joint research process. The 19 case studies, which are summarized in Table 2, form the empirical foundation of the report.

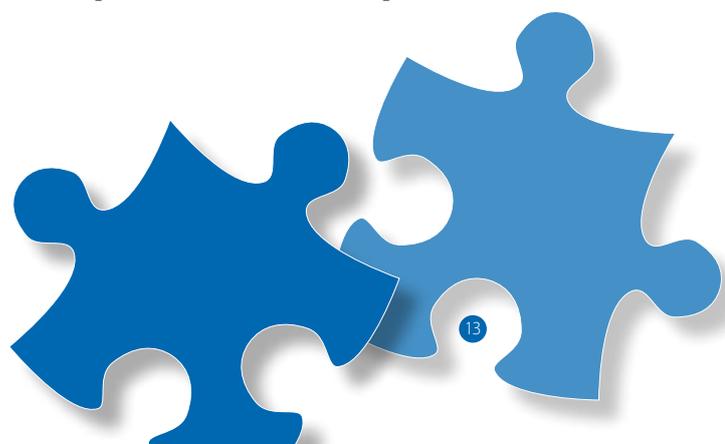


Table 2: Case studies from the ECA region

Name	Short description	Country	Lead organization
Agriculture and Food			
Vitmark	This producer successfully penetrated the low-income fruit juices market (22% market share) with a high quality, nutritious, low-cost fruit juice as a result of judicious decisions on packaging and marketing. Vitmark provides decent work to 2,600 local full time employees in relatively economically deprived regions of Ukraine, and income-generation opportunities to 2,500 small-scale, local producers of fruits and vegetables.	Ukraine	Large domestic company
Begeli	An organic produce distributor with a 10% annual growth rates provides a direct marketing channel for over 400 low-income farmers that receive a price premium and are provided with capacity building support to satisfy the organic standards.	Georgia	Small-and medium-sized enterprise (SME)
Eco Farm Mavrović Ltd	An organic food producer worth over US\$2 million, which provides decent work conditions, is the biggest employer in its local community, and has just started a social rehabilitation programme offering farm employment to socially excluded people.	Croatia	SME
Marap	An Austrian organic food producer importing its raw material from Uzbekistan increased the quantity and quality of its inputs by planting 150,000 new fruit and nut trees in environmentally degraded regions on land leased by small-scale producers, thereby increasing income-generation opportunities for over 500 rural poor.	Uzbekistan	SME
Extractive Industry			
Tengizchevroil	To increase its local supply chain, this oil company helped 174 small-scale, local suppliers access over US\$7 million of affordable loans to expand their businesses.,,	Kazakhstan	Large multinational company
Financial Services			
Voronezh Oblast State Fund	This entity with 25 branches and affiliates enables the underprivileged businesses in remote areas in one province of the Russian Federation to gain access to financial services through modern technology.	Russian Federation	State-owned company
Rural Finance Corporation (RFC)	A micro-finance organization with an annual net profit of US\$1.9 million in 2008, 25% of market share, and almost 29% of industry profits offers financial services on favourable terms to farmers and entrepreneurs in rural areas, thus contributing to rural development.	Moldova	Large domestic company
Tojiksodirotbank (TSB)	This bank branched out to a new untapped, yet very large market group and benefitted over 8,400 people involved in cotton farming, through loans, for an amount equal to US\$4.2 million, provided to 150 small-scale farms, between 2007 and 2009.c	Tajikistan	Large domestic company
ICT			
Temerin Telecottages	This not-for-profit organization offers inexpensive computer and Internet services to over 15,000 rural poor customers annually, improving the access of unemployed to job services and farmers to inputs and markets.	Serbia	Not-for-profit organization (NPO)
Mobile-TeleSystems (MTS)	A telecommunication group expanded its customer base by targeting rural hospitals in need of telemedicine, thereby saving lives and training medical staff in cutting-edge technologies.	Belarus	Large domestic company
Manufacturing			
Production & Training Facility (PTF)	A textile manufacturing business established by the Deaf and Blind Society employs 167 hearing impaired persons and is using its quarterly revenues of US\$42,000 to fund its founding NGO activities supporting the deaf and the blind.	Turkmenistan	NPO

Name	Short description	Country	Lead organization
Manufacturing			
Hey Textile	A textile manufacturer expanded its production facilities in remote areas of Turkey, where operational costs are lower, thereby increasing its profits by 10% while employing over 1,000 low-income, 50% of whom are women.	Turkey	Large domestic company
Gadim Guba	A carpet manufacturer took over a formerly state-owned enterprise and in its bid to maintain traditional carpet weaving techniques, uses natural dyes and employs 140 women, constituting most of the workforce.	Azerbaijan	SME
Retail			
Tinex	This second largest supermarket chain in the country with over 1,000 employees provides employment, mentoring and capacity-building to former foster children over 18 years of age; it currently employs 25 former foster children.	FYR Macedonia	Large domestic company
Tourism			
Tufenkian	This hotel chain builds on Armenia's rich cultural and natural heritage to offer rural tourism services to 3,000 customers annually, thereby employing 174 rural people, buying food products from local communities, and protecting the environment by using solar energy, planting 1,500 trees and reducing the amount of waste water.	Armenia	Large domestic company
Community-based tourism (CBT)	By 2008, these community-run eco-tourism services have increased by 400% the number of tourists in eight years and have created 412 rural jobs.	Kyrgyzstan	SME
Waste Management			
Čistoća	This municipal waste management company employs people with low incomes to collect and sort recycling materials. Of the 98 employees, 32 are Roma from poor communities. They receive a higher-than-average salary and health insurance benefits. Solid waste in the municipality was reduced by 30% following on an awareness-raising campaign implemented in collaboration with local partners.	Montenegro	State-owned company
Industrijski Otpad	This enterprise recycles and processes between 350 and 1,000 tons of industrial and household waste annually, and employs and buys from vulnerable groups.	Bosnia and Herzegovina	SME
Edipack	The company produces packaging from recycled materials that it collects from local SMEs and households — providing them with average monthly earnings of US\$ 160/person. It helps its cosmetics sister-company grow, thereby increasing its sales by 60% and generating a turnover of US\$2 million in 2008.	Albania	SME

GIM KNOWLEDGE PLATFORM

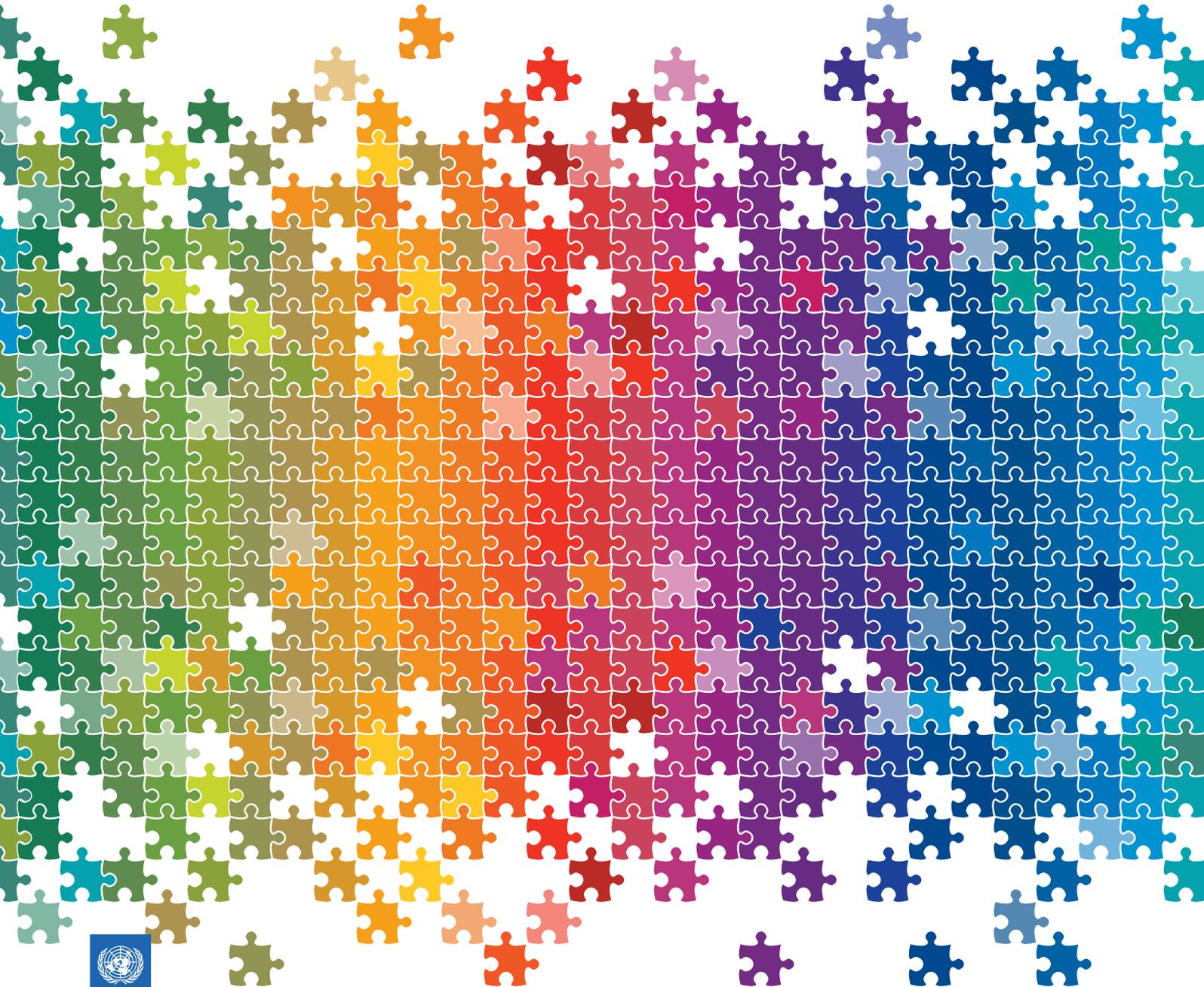
The full report, the case studies from this report as well as profiles of supporting institutions in the region are available on the global knowledge platform of the GIM Initiative at: www.growinginclusivemarkets.org.



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