Inclusive business for sustainable livelihoods

L'entreprise au service du développement social

Negocios inclusivos para medios de vida sostenibles

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Abstract. What are the links between business and development? And what is the business role and opportunity in addressing sustainability challenges of developing countries and emerging economies?

As an engine of growth and development, and to underpin its license to innovate, operate and grow, business has a critical role to play in accelerating progress towards development.

Companies can most notably develop inclusive business ventures, that is, sustainable business solutions that expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways. The notion of inclusive business calls for additional focus and innovation in the way companies do business. It involves creating new forms of employment, new markets, and affordable products and services. This spurs economic growth and encourages entrepreneurship.

This article highlights the concept of inclusive business in the current global context, provides a few examples of its application in practice, highlights the foundations for its success, and briefly presents an interactive tool, the “Inclusive Business Challenge”. The latter, designed by the World Business Council for Sustainable Development, aims at helping companies and stakeholders identify and implement inclusive business in practice.

Keywords. Inclusive business, sustainable development, sustainability, poverty, sustainable solutions, low-income populations, value chain, business opportunities, innovation.

1 Towards a more inclusive, low-carbon and resource efficient economy

Poverty and inequity in many countries remain critical challenges for sustainable development and global stability. Business, as an engine of economic growth and development, has a critical role to play in accelerating progress toward achieving development goals through increasing investment, creating jobs, increasing skills, and developing goods, technologies and innovations which can make people’s lives better. This includes the private sector’s role as a source of capital for developing countries: globally private sector investments make up over 85% of investment and financial flows.1

But meeting the basic needs of a growing and increasingly urbanized population in developing countries— as well as the aspirations of their middle classes—will increase demand for energy and natural resources, exacerbating the pressure on the world’s ecosystems. Solving the seemingly conflicting imperatives of improving the living standards of the world’s population while preserving the environment will thus require a transition to a more inclusive, low-carbon and resource efficient economy.

As a global community, we already have the financing, technologies and scientific knowledge we need to carry out a transition toward a sustainable future. Studies such as the Stern Review on the Economics of Climate Change2 and The Economics of Ecosystems and Biodiversity3 show that

1See http://unfccc.int/press/fact_sheets/items/4982.php
2See http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/stern_review_final_report.htm
3See http://www.teebweb.org/
beginning sooner rather than later will save a great deal of money.

2 Business role and case in development

The World Business Council for Sustainable Development (WBCSD) believes that the leading companies of the future will be those that align profitable business ventures with the needs of society. In a recent report\(^4\), WBCSD argues that it is in the enlightened self-interest of global business to invest in providing sustainable solutions to development challenges:

- First, business cannot succeed in countries that fail. Stable and prosperous societies make for better business opportunities.
- Secondly, by developing a better understanding of and proactively addressing socio-economic and environmental concerns, companies will be able to better manage their risks and thereby underpin their license to operate, innovate and grow.
- Thirdly, developing inclusive business models, i.e. sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways, will help companies build positions in growth markets. By incorporating low-income populations in the supply, production, distribution and/or marketing of goods and services, companies generate new jobs, income, technical skills and local capacity. Likewise, poorer consumers can benefit from products and services that meet their needs in affordable ways.
- Finally, the transition to a more sustainable world represents a significant business opportunity due to the corresponding investments in infrastructure and technology by both governments and private entities and the long-term demand for related products and services needed to sustainably meet the needs of growing populations in developing countries.

As the report highlights, enhancing energy and resource efficiency, and finding new ways of sustainably meeting the rising demand for food, healthcare, shelter, energy, mobility, water, and sanitation are defining challenges. The companies that will be able to take advantage of those opportunities are the ones that anticipate trends and respond with smart solutions. They are also the ones whose leaders not only lead their companies, but also help guide society toward major investments in sustainability.

3 Inclusive business: part of the solution

Inclusive business leads to the creation of employment opportunities for low-income communities—either directly or through companies’ value chains as suppliers, distributors, retailers and service providers. Alternatively, companies can develop ways to supply affordable products and services to meet basic needs for food, water, sanitation, housing and health care. Or they can develop innovative business models to enhance access to key development enablers such as energy, communications, financing and insurance.

In essence, inclusive business models try to find synergies between development goals and the company’s core business operations. Sound inclusive models can deliver higher

socio-economic value for communities through greater access, choice and opportunity, and presents an exciting opportunity for the private sector because it is good for business. A variety of commercial returns–market entry, market share, secure supply chains, product line innovation, competitive advantage–all help to build market value.

Furthermore, inclusive business “is interesting for bilateral and multilateral donors, foundations, governments, and civil society organizations because it has the potential to drive development impact in self-sustaining, self-multiplying ways that do not require continuous infusions of grant funding.”

4 Inclusive business in action

WBCSD member companies across all sectors are actively testing and rolling out activities in this domain, most notably by engaging independent entrepreneurs that distribute and sell products in hard-to-reach areas, to sourcing raw materials from small-scale producers, to facilitating financial transactions via mobile phones, to supporting the development of local enterprises.

The WBCSD’s online case study library contains detailed information on what companies from a wide range of sectors are doing to implement inclusive business ventures. Some examples from this collection include:

- **Anglo American**, one of the world’s largest diversified mining companies, sees local enterprise development as a key part of its commitment to helping build a sustainable future for communities surrounding the company’s mines. In 1989, it started its first small and medium enterprise (SME) development initiative in South Africa, with the aim of investing in black empowered SMEs demonstrating a commercially viable and sustainable business plan. Called Anglo Zimele (the Zulu word for “independence”), the scheme aims to increase employment and entrepreneurial opportunities for historically disadvantaged South Africans in the framework of the company’s obligations to engage black economic empowerment (BEE) enterprises in its business activities. Run on commercial lines, Anglo Zimele develops local entrepreneurial capacity to support both Anglo’s procurement requirements and broader local business and consumer needs. It has helped more than 520 local companies across a wide range of industries and sectors by providing business development services aimed at strengthening SMEs, most notably through equity, loans and short-term minority stakes as well as by facilitating opportunities to be included in Anglo’s value chain. The businesses supported by Anglo have an 85% survival rate. Anglo American has also worked with the South African government to manage and co-fund its business development program for small mining companies–known as the Anglo Khula Mining Fund.

- **The Allianz Group**, a leading global provider of insurance, banking and asset management, has been active in the microinsurance industry since 2005, when the South-East Asian tsunami devastated communities and left many families homeless. The company realized that the risks the poor face are much the same as those for others; but without insurance, the financial impacts of disasters are obviously greater. Yet less than 80 million people in the 100 poorest countries have access to insurance (3% of the population). This is a significant business opportunity: microinsurance in emerging economies represents a market of great potential growth and profitability, as insurance markets in many rich countries become saturated. However, a lack of local experience, the high administrative costs associated with servicing thousands of small-premium insurance policies, and local distrust have kept insurers from reaching low-income populations in the developing world. Allianz found that by working in partnership with local organizations, such as NGOs, trade unions, and microfinance institutions, it can reach out to clusters of villages across southern India, Indonesia, Egypt and soon West Africa. As an example, in 2006 Allianz’s subsidiary Bajaj Allianz joined forces with CARE International to launch a three year partnership aimed at providing microinsurance to people in Tamil Nadu, one of the areas hardest hit by the 2004 tsunami. The project was designed to deliver affordable life and non-life insurance products catered specifically to farm workers and fishermen in the coastal communities of Tamil Nadu. The premium for the micro-life insurance policies covering risks of accident, death, loss of household assets, natural disasters and fire is 1 euro per year, which provides families with € 370 of coverage in the event of a natural or accidental death. Currently, this covers around 200,000 people.

- **Coca-Cola is advancing business solutions for economic development through its innovative approach to distribution. Coca-Cola’s approach to distributing its products in hard-to-reach urban and peri-urban areas in Africa identifies and engages independent entrepreneurs that distribute and sell its beverages in small, specific geographical areas. The company has, to date, created over 2,500 manual distribution centers (MDCs) in Africa, generating over 12,000 jobs and more than US$ 500 million in annual revenues. MDCs are typically located in areas where a lack of stable roads and infrastructure makes it difficult for delivery trucks to travel, which helps the company secure hard-to-reach markets while creating wealth and job growth in those communities. Those who set up MDCs employ others in the area, who then sell and distribute beverage products to retailers, often by bicycle or pushcart. The MDCs account for over 80% of the company’s sales in East Africa.**

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6 Please visit the WBCSD’s online case study library at www.wbcsd.org/web/dev/cases.htm for detailed information on specific initiatives.
• **Vodafone**, a mobile telecommunications company, has developed a service that allows millions of customers that do not have a bank account to complete simple financial transactions by mobile phone. The service, which was launched in Kenya under the name M-PESA by Safaricom, allows customers to put money into their account by depositing cash at a local agent; send money to other mobile phone users by SMS instruction; withdraw cash at local agent; or buy airtime for themselves or other subscribers. This is transforming financial services by making transactions cheaper, faster and more secure. Vodafone has expanded this money transfer service to Afghanistan, Tanzania and South Africa, and has reached more than 13 million registered customers by early 2010.

5 **Foundations for success in inclusive business**

While the world’s low-income segment represents the market for the future, it is vital to ensure that the products offered and the partnerships built meet their needs. True, inclusive business models aim to use commercial means to better people’s lives. Developing appropriate products that meet people’s needs and integrating low-income suppliers sustainably into a value chain are delicate balancing acts, with the risk that companies market products that are inappropriate for low-income communities or that the local suppliers supply products and services that are inadequate for the operation of the company.7

The WBCSD identified a combination of three factors that help build successful inclusive business models: focus, partner, and localize.8 In essence, companies will need to:

- **Focus on their core competencies** – Companies that concentrate on their key strengths are better able to innovate around those strengths. This helps guarantee consistency between the company’s portfolio of activities and the inclusive business model, and will make it easier to take successful pro-poor business mainstream in the future.

- **Partner across sectors** – Governments and NGOs are increasingly interested in working with business. By involving development organizations that share complementary goals, companies can benefit from on-the-ground expertise and additional resources. Ensuring that they have the trust of the communities they work with is also essential. Likewise, thinking across sectors might lead to innovative partnerships involving companies from different industries, addressing a bundle of needs holistically.9

- **Localize the value creation** – Companies operating in developing countries often lack the usual infrastructure and support systems: market intelligence, manufacturing capabilities or distribution channels. So, they have much to gain from tapping into local networks and local knowledge.

6 **Financing inclusive business ventures**

One of the greatest challenges facing inclusive business is attracting sufficient and appropriate capital to finance such activities, especially in countries with considerable business risk. To overcome this barrier, a mindset shift is required whereby companies embrace new ways of thinking about how business could be done. To make the most of available resources, companies need to redefine how, from whom and for whom they raise capital.

Financing inclusive business does not involve abandoning the traditional modeling process of gauging risk after estimating the capital needs and expected future cash flows. However, it does entail adjustments to factor in indirect and less tangible benefits for the company. The considerable social benefits these projects bring mean that many non-traditional sources of capital may be interested in helping such a business succeed. These sources of capital can help remove obstacles to profitability and bridge the lead-time until a business is fully commercially viable. Both direct funding (project capital), and funding that improves the business environment and supports partner organizations (partner capital) can help to achieve this.

Some companies have begun to shift their thinking from a centralized capital strategy, whereby companies raise their own funds for their business to a distributed capital strategy, in which they also become capital conduits to existing local expertise and capacities. Development agencies are increasingly interested in working with business, and some private foundations are beginning to support for-profit ventures whose goals mesh with their own program objectives.

In order to benefit from this public money, inclusive businesses need to demonstrate tangible social benefits. And for partnerships to work well, managers may need to learn the language and goals of non-business organizations.10

7 **A favorable environment for inclusive business**

The contribution of the private sector to development can be accelerated, but only if there is a sound enabling environment in place. This is as true for SMEs as it is for large multinational corporations. Through endeavors such as those outlined above, companies are discovering that there is no “one-size-fits-all” approach. To be successful in these markets, companies must focus on meeting real needs,
using approaches adapted to the markets they target and that integrate well with their core business competences. This is not always easy and can carry with it considerable business risk.

Each country faces a different set of priorities; every development strategy must be orchestrated in tune with the local context. Therefore, rather than pressing simply for better governance or better framework conditions, the WBCSD encourages governments to consider key priority areas which, if addressed, could maximize the impact of development efforts and the benefits of increased investment inflows.

In this context, the WBCSD has called upon political leaders to focus their attention on the following priorities: A fair and competitive global market that is non-discriminatory, regulatory frameworks that uphold property rights, promote greater movement of entrepreneurs to the formal economy, and root out corruption, capacity building and access to finance for local enterprises and entrepreneurs, and investment in the necessary infrastructure such as roads, energy, telecommunications, and ports.

These key areas embrace companies’ most pressing concerns. Improving governance not only improves the business environment but strengthens human rights. Building up infrastructure and promoting education are investments that benefit people and thereby also development goals.

8 A tool for action: WBCSD’s “Inclusive Business Challenge”

Inclusive business holds great promise but is still limited and there is an urgent need to find ways to replicate, scale, and encourage other companies to take action. One way in which WBCSD is advancing the agenda is by developing resources and tools to support companies wishing to do business in a more inclusive way.

WBCSD and its member companies have developed various tools to support any company wishing to do business in a more inclusive way. For instance, the Council recently launched “The Inclusive Business Challenge”, an interactive presentation and simulation tool which introduces the challenges, drivers and principles of inclusive business. It presents good practice examples, and suggests ways to integrate inclusive business into company strategy. A key feature of the tool is in the simulation activity which is designed to be used in an interactive workshop setting to identify risks and opportunities in building inclusive business. The tool comes in the form of a PowerPoint pack and is therefore adaptable and customizable for awareness raising and capacity building activities of companies and organizations active in this field. It is available in English, French, Portuguese, and Spanish, and includes a facilitation guide with information on how to use the tool and links to additional resources.11

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11 Access the tool at www.wbcsd.org/web/ibchallenge.htm