Value chain development by the private sector in Africa

Lessons learnt and guidance notes
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German development cooperation recognised the potential that inclusive business models have for sustainable development early on, and, since 2008, has been contributing to international debate in this area.

As part of this world-wide endeavour, the GIZ Center for Cooperation with the Private Sector (CCPS) and its predecessor, the UN Global Compact Regional Learning Forum, have been working to advance corporate social responsibility in sub-Saharan Africa since 2005. Although our most recurring themes are around the role of the private sector vis-à-vis anti-corruption, environmental sustainability, and advancing human and labour rights, the issue of value chain development is also high on the agenda.

From the perspective of CCPS’s work in the region, nowhere was the topic more prominent than in our engagement in Liberia. This was due mainly to the priority the issue received from the government of that country. In actual fact, our work on the topic in Liberia inspired the idea of this publication. To provide a short background, during the period 2010 – 2011, CCPS supported the Corporate Responsibility Forum Liberia in the latter’s inaugural project, Capacity Building for Better Business in Liberia (C3B). Under the banner of C3B, the forum organised a training workshop on the issue of partnerships in local supply-chains. Held in November 2011 in Monrovia, this training attracted over 80 participants from a diverse group of stakeholders. Later, in August 2012, CCPS worked with GIZ’s Regional Resource Governance Programme in Liberia to support another workshop in a related area under the theme, Sustainable Local Procurement and Employment in the Liberian Mineral Sector.

With value chain development clearly being high on the agenda of both our partners and our GIZ colleagues, we thought it would be useful to showcase approaches and experiences on the topic, as they pertain to our region. By drawing on country case studies and expert contributions, this book provides practical guidance notes which the private sector could use to advance practical value chain development projects in Africa. In that respect, the private sector is the primary target group which we seek to reach. However, we also believe that other stakeholders, for instance development cooperation organisations, will find this publication useful in their line of work.

In closing, I would like to thank the contributing authors of this publication. We are especially indebted to the contributors of our feature articles who sacrificed their valuable time to help us meet this objective. My heartfelt gratitude also goes to the authors and their respective organisations that were commissioned by CCPS to research and compile the country and company case studies on Kenya, Liberia and South Africa. It is important to note that the country chapters were significantly enriched thanks to the willingness of the companies that agreed to be the subjects of the case study research in each of the three countries.
Last, but not least, a special word of thanks to my own GIZ colleagues, Girum Bahri, Lisa Breitenbruch, Anne Reiner and Giovanna Catalano-Mathelemuse, for overseeing the huge project management and administrative tasks accompanying a project of this nature.

It is my sincere wish that this publication will add to our knowledge and understanding of value chain development issues in Africa. I hope it will inspire continuing dialogue, research and collaboration amongst the stakeholders concerned. I encourage our readers to engage fully with the text, and to share their thoughts and feedback with us.

Doris Popp

March 2013
Introduction

This publication sheds light on current understanding, experiences and challenges around inclusive business approaches in Africa. Its specific focus is on the role and responsibility of the private sector as regards value chain development in the sub-Saharan region.

The following are the main learning objectives which this publication attempts to address:

- Share key lessons learnt by focusing on factors that determine successful value chain development on the part of the private sector; conversely, highlight determinants that contribute to unsuccessful projects in this area;
- Explore and highlight opportunities and challenges for the private sector concerning value chain development; and
- Capture experiences in ways that generate new insights and perspectives, and inspire innovation in inclusive business approaches and value chain development.

The publishers set out to achieve these objectives with the help of expert and practitioner contributions, as well as in-depth country case studies. Drawing on these inputs, the guidance notes are aimed at helping the private sector in the region in its endeavours to advance inclusive business approaches.

As readers will soon discover, the over-arching term at the heart of this publication is ‘inclusive business’. Various definitions exist for this concept, but the one which guided this work is that of Endeva (2010) – a study supported by the German Federal Ministry for Economic Cooperation and Development (BMZ). Endeva’s (2010: 10) definition is as follows: “Inclusive business integrates people living in poverty into the value chain as consumers or producers, thus making a positive contribution to the development of companies, the local population and the environment.”

The primary target group which this book seeks to reach are managers in the private sector who work on inclusive business approaches; more specifically value chain development, the establishment of business linkages, and related themes. The second target group includes project managers in development cooperation organisations such as the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which work through partnerships with the private sector to advance inclusive business models.

Given the above, this book is organised into three main parts:

- **Part I** presents six feature articles contributed by researchers and practitioners on the subject of inclusive business approaches and value chain development. These chapters provide insights into different aspects of the topic from semi-theoretical and practice-oriented points of view. The authors, who write from different perspectives, mostly focus on approaches which they consider to be workable – as gleaned from their own research practice or the experiences of their respective organisations. The geographic scope of the chapters is primarily Africa and African countries; in some instances the experiences of other developing countries are also discussed.
Part II presents three in-depth case studies on Kenya, Liberia and South Africa. These chapters, compiled by local experts in these countries, provide a country overview accompanied by practical company case studies. The three countries were selected mainly for practical reasons: First, the Center for Cooperation with the Private Sector (CCPS) is currently active in these countries and has also established contacts with relevant non-governmental organisations (NGOs) and trusts working in the area of inclusive business. A second consideration was that these countries offered varied contexts: Kenya, as a relatively diversified economy which is not heavily reliant on mineral resources; Liberia, as a resource-rich country emerging from conflict; and South Africa, as an advanced economy which is also endowed with rich natural resources.

In an effort to make the publication more practical and relevant to the private sector, the country case studies are complemented by seven company case examples. Primarily, the cases were selected on the basis that they would offer the best learning experiences in the respective countries. Yet another factor was the willingness of the companies to share their experiences and to release the case studies for publication. On that basis, Part II presents case studies of projects implemented by the following companies:

In Kenya
- Syngenta Foundation for Sustainable Agriculture
- Sustainable Management Services Limited
- Entrepreneurship for Youth Empowerment Kenya

In Liberia
- TOTAL-Liberia
- Building Markets

In South Africa
- Standard Bank
- RTT Group

Part III is dedicated to recommendations and guidance notes. This chapter has been compiled by distilling the key lessons learnt and insights gleaned from Parts I and II, and combining them with supplementary information obtained from other sources. Where possible, short case vignettes have been included to further illustrate specific points under discussion. The chapter also contains a ‘useful links’ section which provides information on some of the prominent organisations pursuing inclusive business principles and approaches in Africa.

Reference

PART I
Feature articles
1. Literature review on inclusive businesses and value chain development in Africa

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1.1 Introduction

Over the past two decades, economic prospects in Africa have vastly improved. Foreign direct investment (FDI) projects in Africa grew by 27 per cent in 2011, pushing Africa’s share of the world’s investment to almost a quarter (Ernst & Young, 2012). FDI inflows into Africa, currently at US$80 billion per year, are projected to reach US$150 billion per year by 2015 (Ernst & Young, 2012). In addition, eight of the ten fastest-growing economies (over the past decade) are in Africa, while the overall gross domestic product (GDP) growth rate in sub-Saharan Africa is expected to reach 5.4 per cent in 2013. Growth has, however, not been uniform across the continent, as many African countries still have high levels of inequality, poverty and unemployment. The private sector in Africa, comprising innovators, producers and employers, presents the greatest opportunity for tackling some of these socio-economic and environmental problems and contributing to sustainable growth. Given the low levels of governance emanating from many state institutions in Africa, it is obvious that governments cannot deal with these challenges on their own. The private sector can “mobilize their resources, scale, and scope to co-create solutions to the problems at the base of the pyramid (BoP), those 4 billion people who live on less than US$2 a day” (Prahalad, 2005).

The Growing Inclusive Markets (GIM) initiative of the United Nations Development Programme (UNDP) defines businesses which “integrate people living in poverty into their value chains as consumers, and producers, thus making a positive contribution to the development of the company, the local population and the environments” as inclusive (UNDP, 2008). Within the BoP arena, the concept of inclusive business is strongly linked to the value chain development approach to economic development. This approach implies that efforts are made to address the major constraints and opportunities faced by businesses at multiple levels within a given value chain. Activities such as facilitating access to cheaper or better inputs, strengthening the delivery of business and financial services, increasing access to higher-value markets or simplifying export licensing, are included here (Campbell, 2010).

The overarching theme of these two approaches (value chain development and inclusive business) is the objective to improve the livelihoods of poor and marginalised communities through private-sector initiatives. This is done by affording poor people equal opportunities such as access to markets and finance, by building capacity and improving public policy.

Inclusive businesses are therefore important, because if scaled up and supported, they can help address some of the continent’s biggest socio-economic challenges.
The M-Pesa (M for mobile, pesa is Swahili for ‘money’) initiative in Kenya illustrates how an inclusive business model can transform the lives of millions of people.

Box 1.1: Glossary of terms and expressions related to inclusive business and value chain development

**Base of the pyramid** is an approach which integrates poor people at the base of the economic pyramid into the business models of companies as consumers (Prahalad, 2005; Hart, 2010; WRI & IFC, 2007).

**Inclusive growth** refers to the pace and pattern of socio-economic growth. This concept relates to the idea of equality of opportunities in terms of access to markets, resources and an unbiased regulatory environment for business and individuals (Endeva, 2010; UNDP, 2008). The inclusive growth approach is mainly aligned to the concepts ‘broad-based growth’, ‘shared growth’, ‘pro-poor growth’ and ‘green growth’. In this context ‘pro-poor growth’ refers to business strategies which help reduce poverty.

**Inclusive market development (IMD)** relates to markets that extend choices and opportunities to the poor and other excluded groups of producers, consumers and wage earners. The IMD approach focuses on entire markets or sub-sectors that are important to the poor by addressing barriers such as a lack of policies, limited access to finance and markets, and missing business value chain linkages (UNDP, 2010).

**Private sector development (PSD)** is a strategy for promoting economic growth and reducing poverty mainly in developing countries by building private enterprises and competitive markets that are stronger and more inclusive (OECD, 2009).

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M-Pesa is an electronic mobile money transfer system started in Kenya in 2008 by Safaricom, a telecommunications company, in a bid to make financial services more accessible to the poor. With over 15 million subscribers and 15 000 agents, M-Pesa is accessible to many ordinary Kenyans who are excluded from the formal banking system. The concomitant financial inclusion of millions of Kenyans helps them to manage their cash flow, do financial planning and increase their savings. Similarly, SABMiller’s innovative strategy in South Sudan, to integrate poor farmers as suppliers of cassava for its manufacturing plants, illustrates how businesses can effectively integrate marginalised individuals into their value chains (www.seasofchange.net). As part of the initiative, SABMiller supports smallholder farmers with inputs and technical assistance. The initiative has brought direct and significant long-term market opportunities for around 2 000 smallholder farmers with dependents, along with other employment effects from which approximately 15 600 people could benefit within the next three years.

In broaching the concepts of inclusive business and value chain development in Africa, this article presents some of the opportunities and challenges which the private sector faces in developing business models that are both profitable and integrate the poor into their value chains. There is consensus within the literature that for businesses to effectively integrate poor people into value chains through access to finance, markets and other resources, companies need a supportive ecosystem (Gradl & Jenkins, 2011). For example, many small and medium enterprises (SMEs) in Africa require financial and technical support to start and scale up their innovative solutions,
Part 1: Literature review on inclusive businesses and value chain development in Africa

whereas large multinationals require the local knowledge of non-governmental organisations (NGOs) or local SMEs to access low-income markets. According to the UNDP (2008), in order to create successful inclusive businesses, companies often rely on the support of other institutions with complementary capabilities. This article highlights four functions which are critical in enabling business to support inclusive growth: policymaking, advocacy and research, financing, and capacity building.

1.2 Opportunities for inclusive businesses and value chain development in Africa

According to Prahalad (2005), great fortune is to be found at the BoP “if we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers”. This approach on the part of inclusive businesses, namely to help the poor, involves partnering with them to innovate and achieve sustainable win-win scenarios. In such scenarios, not only are the poor actively engaged, but the companies providing products and services to them are also profitable at the same time. This means that poor people can be important partners in solving their own socio-economic and environmental problems by becoming consumers, suppliers, employers, intermediaries and innovators or entrepreneurs.

Poverty, unemployment and low levels of education remain a reality for millions of Africans, of whom more than a billion still live on an income of less than US$1.25 a day (UNDP, 2012). Nevertheless, this segment of the population, as consumers, presents great opportunities for inclusive businesses. In 2007, the World Resource Institute estimated that the consumer market in Africa, comprising people who earn less than US$3 000 per year, represented a total of US$429 billion (RWI & IFC, 2007). This consumer market is growing at a rapid pace. According to the McKinsey Global Institute, Africa’s total consumer spending will grow from US$860 billion in 2008 to US$1.4 trillion by 2020 (Roxburgh et al., 2010). Of that total, the poorest 18 per cent of households will represent a total consumer market of US$252 billion (Roxburgh et al., 2010:4). As a result of this growth, a much larger proportion of African households will have discretionary income, meaning that they will be spending more on non-essential goods and services such as consumer goods, banking and mobile telephony. McKinsey further estimates that in the information and communication technology (ICT), wholesale and retail, agriculture and resource sectors, this growth will represent US$2.6 trillion in revenue by 2020 (Roxburgh et al., 2010:11). The forecast is that by 2020, 47 per cent of the African population will be resident in urban areas, which will increase the demand for water, housing and energy. The increasing purchasing power of poor people in Africa will therefore present many opportunities which inclusive businesses can profit from, and will help solve some of the most severe socio-economic challenges in Africa, such as unemployment, thanks to increased productivity and capital flows into other sectors of the economy (Roxburgh et al, 2010:11).

Many poor people in Africa are involved in the informal sector, which often struggles to access markets. However, through innovative solutions inclusive businesses can access high-quality and affordable products from individuals at the BoP. For example, within
the agricultural sector in Africa, smallholder farmers are the main producers but they face many challenges, including a lack of agricultural inputs, weak infrastructure and irregular access to markets. Therefore, if these smallholder farmers are given adequate support to overcome such constraints, they have significant potential to improve their productivity and even become suppliers. This will result in higher domestic incomes, shorter supply chains and smaller environmental footprints. An example of this type of inclusive business strategy involves SABMiller’s business model to source cassava for its plants from local farmers in South Sudan (www.seasofchange.net).

In many cases, companies can leverage the strengths of the poor to design and grow inclusive businesses (Gradl & Jenkins, 2008:5). One such instance would be where companies need to develop distribution channels for products and services, but do not have the necessary networks, local expertise or trusted relationships in place. Many large businesses engage the poor in such ways, thereby bringing benefits to them in terms of income and skills. For example, Standard Bank, Africa’s largest bank in terms of assets, partners with over 10 000 informal retailers in South African townships to bring retail banking services to the poor. Between them, South Africa’s cell phone giants, Vodacom, MTN and Cell C, have created over 90 000 ‘community phone shops’ in their home market. These franchised outlets are run by entrepreneurs from low-income communities, who sell telecommunication services at discounted rates. In Kenya, Ecotact’s toilets are run by local entrepreneurs and the company also provides business opportunities to other entrepreneurs, by leasing retail space to them in their so-called ‘toilet malls’, where services such as mobile money transfers, beverage sales or shoe polishing services are provided in the vicinity of the toilets.

1.3 Challenges for inclusive businesses and value chain development in Africa

Despite significant opportunities, Africa is still confronted with numerous challenges which could hamper the success of inclusive businesses. Many of the challenges facing businesses in Africa also apply to inclusive businesses operating on the continent: unclear regulatory and policy environments, a lack of infrastructure, high levels of illiteracy, and a lack of knowledge and skills. Regulatory reform and government support are crucial for enabling low-income people to participate in the formal economy and to be integrated into value chains, as many of them do not have legal documentation for their informal businesses. Similarly, improving market infrastructure for low-income producers makes it easier for them to access markets beyond the local level, by ensuring price transparency and reducing transaction costs.

Despite its improved quality and increased sophistication, significant gaps in the financial landscape continue to create barriers to inclusive business and value chain development. From an investor’s point of view, the risk factor when investing in inclusive business strategies – particularly informal entrepreneurs and SMEs – is often more difficult to quantify, and therefore mitigate, than it is for ordinary business, as a result of a lack of information. This is inherently linked to the absence of documented success
In addition, due to specific constraints facing businesses in Africa (e.g. regulatory constraints, weak physical infrastructure), inclusive businesses may take longer to become profitable, and they therefore have long-term investment horizons. This could turn away a significant number of investors. Despite improving financing mechanisms for large inclusive businesses, numerous SMEs in Africa still struggle to access finance, probably due to the associated high risk levels. Research in this field suggests that there is little in the form of investments going through to the ‘missing middle’, which comprises the medium- to high-risk segments of investments (i.e. below US$100,000 and above US$1,000).

Research is essential for advancing insight into and know-how relating to inclusive businesses and value chain development, which are relatively new approaches to business and development. At present, very little is known about the market size of the BoP, yet that information is critical for companies having to make decisions about potentially successful ventures. A lack of information on the credit histories of many African entrepreneurs means that banks are less likely to grant them credit. Similarly, many African entrepreneurs, for example farmers and fishermen, do not know where their products are most wanted and what prices they should be asking. Therefore, the absence of market information for many informal and small entrepreneurs typically results in low bargaining power, low and variable prices for their products, little trade beyond the local level, high losses and high risks (Tollens, 2006).

While inclusive businesses have slowly been gaining ground in Africa, many entrepreneurs are struggling to scale up their innovative products and services. For instance, while mobile money services are successful in East Africa, they have not, to date, been successful in other parts of the continent. While in some cases the relaxation of regulatory barriers might help to expand the availability of mobile money services (The Economist, 25 August 2012), such services also need to be practical and must meet the needs of micro-entrepreneurs. The World Bank argues that the ‘usability’ of mobile money services needs to be improved, to allow for greater financial inclusion, by offering a wider range of services (Baijal, 2012). Currently, most mobile money programmes in Africa offer a narrow range of services, including airtime top-ups, person-to-person money transfers and limited bill payment capability. MasterCard estimates that only eight of the 130 mobile money programmes have more than one million active users. Of these, six are in East Africa, where mobile money services in their current form are highly popular (Mastercard Foundation, 2012). This means that in order to improve the usability of mobile money service accounts beyond a certain population segment or geography, the programme needs to be designed in a way that improves usability for the population segment in question, as opposed to merely relying on what has worked elsewhere. This calls for a good understanding of local consumer dynamics and consumer needs. More so, entrepreneurs should be able to communicate and market their products to low-income people who might distrust those products due to cultural differences. In Ghana, for example, research has revealed that many low-income people still prefer doing cash transactions to utilising formal banking services.
While partnerships between the private sector and civil society have yielded many benefits thus far (including assistance with project management or demand stimulation; negotiating the complexities of procuring or distributing to low-income segments; gaining valuable information, experience, financing or even legitimacy), there is room for greater clarity on their role as service providers to inclusive businesses. As John Fay, Director of Shared Value Africa, notes (Interview with the author): “A lot of NGOs we work with have a lot of networks in communities we work in. But the problem with some of these partners, such as NGOs, is that they don’t think like businesses.” Non-profits, community groups or informal partners may lack product knowledge and business experience, or may prioritise social objectives over commercial sustainability, thus clouding issues around governance and control. NGOs would be the ideal partners to design and provide ‘in-field’ training to micro-entrepreneurs. However, research to date indicates that their capacity to formulate and market these services to corporate entities is often imperfect.

1.4 An ecosystems approach to inclusive business and value chain development

Given that innovative inclusive business solutions are a result of the collaboration and partnerships between different actors, it is crucial for inclusive businesses to utilise their ecosystems or the environments in which they operate. Gradl and Jenkins (2011) adapted Moore’s business model ecosystem to the concept of inclusive business, to explain how ecosystems can help overcome the challenges such businesses face (see preceding section). Moore (in Gradl & Jenkins 2011:8) defines a business ecosystem as “an economic community supported by a foundation of interacting organizations and individuals – the organisms of the business world” (see Figure 1.1). Gradl and Jenkins (2011) argue that inclusive businesses are functionally equivalent in that they are “communities or networks of interconnected, independent players whose actions determine whether or not a company’s inclusive business model will succeed”. These ecosystems play an important role in the development of inclusive value chains. This means that through the active role NGOs and other social purpose organisations play, socio-economic issues are integrated into the design stage of business models (see Drayton & Budinich, 2008).
An inclusive business ecosystem includes actors such as individuals (as consumers and suppliers); companies; governments, business associations and other intermediaries; NGOs, private and public finance providers; academic and research institutions; media and other trend-setters. These players can fulfil critical roles in tackling barriers to inclusive business models and value chain development (see Drayton & Budinich, 2008). Each actor within the ecosystem will utilise its capabilities and incentives to contribute to the success of the inclusive business (see Figure 1.2). Such an ecosystem can involve actors with the following capabilities:

- **Companies** engage in research and development, commercialise new products and services, purchase from and sell to other companies, provide financing solutions, invest in new operations and infrastructure, create standards, compete against other companies, and lobby the government (often together with other companies via associations);

- **Governments** adopt new policies and regulations, adjust tax codes, and improve public services such as healthcare, education, and, in some countries, the provision of energy, water and sanitation;

- **Business associations, cooperatives, unions, standards bodies and other intermediaries** provide their members with services such as information on or access to markets, and represent their members’ interests;

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**Figure 1.1: Moore’s business ecosystem**

• **NGOs** raise consumer awareness and build trust, set environmental and social standards, change social and cultural norms, inform government policy reform and create training facilities;

• **Public and private donors** build the capacities of farmers and producers, provide catalytic financing to companies and entrepreneurs, and advise governments on how to improve market environments;

• **Academic and other research institutions** undertake basic research that will ultimately benefit all players in a market, analyse what works and what does not in the business and policy spheres, and undertake research that other actors may have neither the time nor the incentive to do themselves, in addition to making sure that the research findings are disseminated;

• **The media and other trend-setters** raise awareness, influence social and cultural norms, provide information and create momentum for change.

Both individually and collectively, these players can fulfil critical roles in enabling businesses to become inclusive and to bring about value chain development.

<table>
<thead>
<tr>
<th>Barriers to scale</th>
<th>Players and their roles</th>
<th>Strengthening strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited knowledge and skills among the BOP</td>
<td>Companies, specialized firms, media outlets, development agencies, and NGOs: education and training</td>
<td>BOP awareness-raising and capacity building</td>
</tr>
<tr>
<td>Lack of market information</td>
<td>Companies, specialized firms: trial-and-error learning, market research</td>
<td>Research</td>
</tr>
<tr>
<td>Ineffective regulation</td>
<td>Governments, companies: regulatory change, self-regulation</td>
<td>Information-sharing</td>
</tr>
<tr>
<td>Inadequate infrastructure</td>
<td>Government, companies, contractors: building infrastructure</td>
<td>Public policy dialogue</td>
</tr>
<tr>
<td>Limited access to finance among the BOP</td>
<td>Financial services companies: business model innovation</td>
<td>Creating new organisations</td>
</tr>
</tbody>
</table>

**Figure 1.2: Strategies for strengthening inclusive business ecosystems**

One of the major challenges lies in scaling up innovative inclusive business solutions. Therefore, chances are good that pro-poor innovative solutions will be arrived at, if an inclusive business can utilise the capabilities of the actors within its ecosystem (Figure 1.2). These actors can assist in scaling such innovative solutions through strategies which include awareness raising and capacity building, research, information sharing, public policy dialogue and the creation of new organisations (see Gradl & Jenkins, 2011).

1.5 Conclusion

In Africa, the private sector can leapfrog to a new paradigm of doing business, through creating wealth together with low-income people by enabling them to realise their potential while improving their socio-economic livelihoods. Opportunities for growth on the continent are enormous – with underlying factors such as political stability and global demand looking promising, potentially this growth could continue for a long time. Leaving behind those who are not benefiting from Africa’s upward trajectory today, will erode the very foundations of this growth and will seed social instability. Taking poor people on board, on the other hand, by including them in value chains, will unleash an enormous reservoir of human potential and will result in more sustainable economic growth.

As is the case with many businesses operating in Africa, inclusive businesses and value chain development also face numerous challenges, amongst which are scaling up the viability of products and services, securing financing and gaining the trust of low-income consumers. To overcome these challenges and maximise Africa’s opportunities, inclusive businesses can rely on certain enablers which tend to be created and provided by actors from other sectors: government and the public sector, civil society and academia. These actors can assist inclusive businesses in various activities, including communicating about and marketing products which yield a low income; providing resources to low-income entrepreneurs to enable them to be integrated into higher value chains; and capacity building. This means inclusive businesses can reach their full potential through integrating the poor as consumers, suppliers and intermediaries, by building on the capabilities of actors within their ecosystem, such as the public sector and civil society.

Notes

1 Inclusive pace and pattern of socio-economic growth. This concept relates to the idea of equality of opportunities in terms of access to markets, resources, and unbiased regulatory environments for business and individuals.
2 Ibid.
3 An example of such type of government policy is South Africa’s Black Economic Empowerment legislation which compels companies to source some of their products and services from individuals previously disadvantaged during apartheid.
4 Elena Mancebo Masa, Presentation at the South Network of Impact Investing in 2012.
References


Website

2. Developing inclusive business models – the BoP Sector Dialogues: How German development cooperation has been advancing the debate on inclusive business

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2.1 Introduction

Early on, thanks also to German development cooperation, the potential of inclusive business models for sustainable development was recognised. Since 2008 the development community has been contributing to the international debate with a view to increasing support for inclusive business models internationally (see GIZ, 2011).1 With the aid of German development cooperation, several international dialogue platforms have been organised to facilitate donor coordination and expert exchange.

The conference ‘Innovative Business Models as a Stimulus for Development’ (Berlin, 2008) provided an overview of the then current state of research and developed recommendations for German development cooperation. In 2009, the German Federal Ministry for Economic Cooperation and Development (BMZ) published a discourse paper based on the results of the conference.2 It analysed the relevance of inclusive business for development cooperation, identified success factors and derived proposals for action. In September 2010, at the United Nations Private Sector Forum in New York, 11 donor governments, including Germany, adopted the Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development.3 The donors emphasised the importance of the private sector in contributing to poverty reduction. They underlined that development partnerships with local and international businesses are necessary to achieve the Millennium Development Goals (MDGs) and can increase the effectiveness of development cooperation. The international policy forum ‘Inclusive Business and Effective Partnerships’ (Berlin, 2011) followed up on the Bilateral Donors’ Statement. Over 80 participants from politics, academia, civil society and business discussed challenges regarding, for example, funding and capacity building for inclusive business. The results were fed into the joint declaration prepared for the Fourth High-Level Forum on Aid Effectiveness in Busan.4 BMZ co-chaired the G20 ‘development pillar’ on private investment and job creation. In this role, it co-initiated a competition on ‘Inclusive Business Innovation’. The 15 winners (see www.g20challenge.com), who were announced at the G20 summit in Mexico in June 2012, came together in Berlin in September 2012 to discuss scaling opportunities for their business models and network with international mentors and experts (see www.g20challenge.com). The workshop in Berlin was the first in a series scheduled to continue during 2013.
The BoP Sector Dialogues introduce businesses to opportunities within markets at the BoP, and support them in developing appropriate business models. A sector-specific focus allows participants to analyse and discuss BoP-related challenges as they pertain to their particular industry. International discourse aims to create framework conditions that enable inclusive businesses to thrive. Still, on a very concrete level, these businesses face many challenges in their everyday operations that go beyond political dimensions. Furthermore, what emerges time and again is the theme that no two sectors are alike, and that every sector faces unique challenges – especially when tackling difficult markets.

2.2 The BoP Sector Dialogues

In 2009/10 the portfolio of BMZ’s facility for development partnerships with the private sector, develoPPP.de, was analysed with regard to its inclusive business characteristics (see GIZ, 2011:14–17). Interestingly, already a very substantial number of projects – often realised without having the inclusive business model concept in mind – could be accommodated under this heading.

However, the benefit of more actively promoting inclusive business through a clear focus on business model innovation soon became evident. Two observations guided the development of a hands-on format, aimed at company representatives, known as the BoP Sector Dialogues. First, it is clear that companies in general lack information on the market structures in informal urban areas and remote rural communities, as well as how the people living there earn their livelihoods. In addition, knowledge of market opportunities and interesting case studies is scarce.

Second, each industrial sector faces its own challenges. An insurance company planning to sell micro flood insurance to the population of the urban slums of Manila has to deal with quite a different set of questions relating to its business model, than a renewable energy provider setting up solar home systems in rural Senegal.

The main aim of the BoP Sector Dialogues is to provide companies with a methodological framework along which they can refine their inclusive business model, be it in the concept phase, recently established or already fully operational. The BoP Sector Dialogues introduce interested businesses to opportunities existing within markets at the BoP, and support them in developing appropriate business models. A sector-specific focus allows participants to analyse and discuss BoP-related challenges in depth, as they pertain to their particular industry. Business representatives share their experiences of the distinct demands on product design, distribution and customer care in BoP markets.

The BoP Sector Dialogues consist of two complementary elements: a practitioner guide and an interactive workshop. The practitioner guide provides an overview of the BoP market in a specific sector and summarises current research. It integrates knowledge from interviews with experts from business, academia and politics, and contains case studies of successfully implemented business models. The aim of the practitioner guide is to give companies with an interest in inclusive business initial guidance on how to launch their own activities or refine their existing business models.

The workshop targets business representatives and builds on the research findings. The first part involves experts presenting the business potential of BoP markets and outlining
market access strategies. The second part, which is interactive, offers company representatives an opportunity to discuss their experiences, and to work on their own ideas and business strategies. The workshop connects relevant stakeholders, facilitates knowledge exchange and creates opportunities for cooperation. Individual consulting is offered on the possibilities of obtaining financial and technical support.

To date, four BoP Sector Dialogues have been developed to cover the energy, insurance, pharmaceutical and agricultural sectors. How did participants benefit? What role did the workshops play in the history of their inclusive business ventures?

2.2.1 The BoP Sector Dialogue on energy – the case of Mobisol

Mobisol, a company which provides rural communities in developing countries with sustainable energy, was among those participating in the first BoP Sector Dialogue entitled ‘Energise the BoP’? The start-up builds on the idea of combining solar energy with mobile banking to facilitate payment for, and the maintenance of, solar home systems in off-grid communities.

In early 2011, Mobisol was searching for an appropriate business model to market its technology. The company’s initial idea, which was to register as a utility, proved too complicated considering the complexities of national regulations in target countries. At this stage it learnt about the BoP Sector Dialogue workshop which held the promise of a timeous opportunity to strengthen its business model.

The insights derived from the ‘Energise the BoP’ business model generator helped Mobisol reflect on and refine its approach. The process revealed that its approach to product and service distribution, as well as to the implementation of the model, needed further improvement. The workshop prompted the team to revisit their supply chain and to take a careful look at their customer touch points. Already strong in the business model generator components of ‘sales’ and ‘payment’, Mobisol found new inspiration for reconsidering the elements ‘service’ and ‘end of product use’. Both turned out to have potential for strengthening through leveraging information already collected in the process of administering payments. The solar panels include a chip that sends information on panel usage back to Mobisol; this information helps to determine the fee which the customer needs to pay via mobile banking services. A careful second look at this process revealed that the information may also be utilised to improve clients’ usage behaviour and to simplify maintenance by making local technicians responsible for maintenance services. Clients receive information via short message service (SMS) on how to make better use of their solar panels. Technicians are informed of potential product defects and may intervene accordingly to ensure the durability of the solar panels.

Through reflecting on the presented case studies and framework, Mobisol came out of the workshop with self-assigned homework: a number of key questions arose that would help the company reconsider and advance its business model.

With the improved business model, Mobisol successfully implemented pilots in Kenya and Tanzania. Collaborating with the specialised consulting firm Microenergy International, Mobisol is working on further enhancing its business model to respond
to the challenging business environments it encounters. Today, the company is close to installing the 1 000th solar panel providing low-income communities with energy.

2.2.2 The BoP Sector Dialogue on pharmaceuticals – the case of 1 A Pharma

1 A Pharma, a German producer of generic pharmaceutical products, participated in the first BoP Sector Dialogue on ‘Medicines for BoP’ in January 2012 (see GIZ, 2012). Dr. Wilhelm Volk, who leads the company’s international business unit, shared his idea of providing high-quality generic pharmaceuticals to a network of accredited health shops in Zambia. There, as in many other developing countries, people living in rural and peri-urban areas often do not have access to adequate healthcare services, due to a lack of healthcare professionals and sub-standard product offerings.

The workshop supported 1 A Pharma in critically assessing its planned business model. As a first step, Dr. Volk, together with international experts from several companies and the public sector, mapped all stakeholders that might play a role in setting up and running this inclusive business. It was important to Dr. Volk that the business model he proposed was commercially viable and satisfied the needs of all stakeholders involved. During a role-play session, the different actors’ possible interests and decisions were simulated. Two insights emerged: the incentive structure for individual stakeholders was vague, and it was unclear who would actually take the lead and invest the resources needed to organise the value chain. Furthermore, it became obvious that shop-owners would have to be trained to handle the products properly and to provide adequate customer service (e.g. what product to sell for what illness in what doses, etc.). The critical questions of the other participants helped to identify weak spots in the business model and to highlight important questions regarding cost structures, scalability and the design of the supply chain.

Less than six months later, 1 A Pharma was able to provide the first health shops with affordable, high-quality pharmaceutical products. 1 A Pharma played an important role in upgrading the medical capabilities of the shops, in close cooperation with the Pharmaceutical Regulatory Authority (PRA) of Zambia. It is worth remembering that a closed supply chain prevents the penetration of counterfeit or sub-standard drugs. 1 A Pharma aims to supply its products to at least 50 health shops in the first 12 months. Assuming a potential base of 5 000 people per shop, a total of 250 000 people could have access to affordable essential medicines.

According to 1 A Pharma, the BoP Sector Dialogue was a good exercise that helped the company identify remaining challenges relating to the viability and implementation of its business idea, and eventually led to a successful launch – but that was not the only benefit. Through a contact developed at the workshop, 1 A Pharma looked into partnership opportunities with GIZ, and as a result a memorandum of understanding (MoU) was signed outlining their future cooperation in improving healthcare in developing countries around the globe.

2.3 Outlook

The examples outlined here are encouraging and seem to validate the BoP Sector Dialogue format, which was originally developed as an experiment. No doubt many inclusive businesses start the same way.
In the coming months, the BoP Sector Dialogues will be extended to other industries, namely ICTs and water. The clear and identified goal is to host the associated workshops in various contexts and countries, not only to promote the concept, but also to get more inclusive business models up and running. The Responsible and Inclusive Business Hubs, to be launched in 2013, will surely help extend the reach. These hubs, which are financed by BMZ, have the aim of promoting inclusive business models in several focus regions.

In the medium term the format of the BoP Sector Dialogues can be complemented through additional aspects such as impact investing, since access to capital continues to be a substantial challenge for inclusive businesses. A first trial in this regard was done by a BoP Sector Dialogue on energy in India that included a match-making event with investors. Other additions might prove useful. In this regard, ongoing dialogue with inclusive business representatives will lead the way.

Notes
1 For an overview refer to ‘Promoting inclusive business models for sustainable development – Experiences of German development cooperation’.
2 ‘Geschäfte für Entwicklung – Bewertung des BoP – Ansatzes aus entwicklungspolitischer Sicht.’
3 Published in Meeting Report, United Nations Private Sector Forum on the Millennium Development Goals, 22 October 2010.
4 Joint statement for endorsement by representatives from the public and the private sector at the Fourth High-Level Forum on Aid Effectiveness, ‘Expanding and Enhancing Public and Private Co-Operation for Broad-Based, Inclusive and Sustainable Growth’.
5 The format was jointly developed with Endeva and MicroEnergy International and jointly financed by E.ON and BMZ. See the practitioners’ guide ‘Energize the BoP! – Energy business model generator for low-income markets’.
6 The format was jointly financed by Sanofi and BMZ. See the practitioners’ guide, ‘Bringing medicines to low-income markets – a guide to creating inclusive business models for pharmaceutical companies’.

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Volk, W., 1 A Pharma Gmbh. (September 2012). Telephonic communication with D. Hollmann.
3. A business-for-development perspective

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*The Southern Africa Trust is an independent, regional, non-profit agency, registered in South Africa, financed through donor funding. It supports processes to deepen and widen participation in policy dialogue with a regional impact on poverty, and strengthens organisations and processes in particular so that the voices of the poor can be heard in policy dialogue. To achieve its goals, the Southern Africa Trust has established solid links with governments at various levels, in particular at the South African Development Community (SADC) level. Since its establishment in 2005, the organisation has earned credibility for its ability to speak to issues of poverty in the region and also to mobilise and build capacity for civil society organisations. It accomplishes its mission through capacity building, policy dialogue, evidence-based advocacy, creating an enabling environment, and grant-making.

3.1 Introduction

The fight against poverty remains the most complex and daunting challenge for the governments of developing countries. It is estimated that in the SADC region some 40 per cent of the total population live below the poverty line (www.sadc.int). This encompasses almost 100 million people. It also shows how much greater the markets for goods and services could be, if only people had more income. If poverty is to be addressed in a sustainable manner, then the potential of the poor for consumption, production, innovation and entrepreneurial activity has to be recognised and tapped in a concerted manner as a matter of urgency, in order to meet the objectives of the MDGs. However, if SADC is to meet these targets, it has to mobilise all its available resources to spur growth and development on a sustainable basis.

At the SADC Conference on Poverty and Development (Mauritius, 2008), the attending Heads of State committed themselves to combating and eradicating poverty; accelerating economic growth; achieving a sustainable pattern of economic growth; and assessing mechanisms to drive change in the social and environmental performance of both domestic and foreign investors. The Heads of State recommended more and stronger partnerships between the private sector, government and civil society, to mobilise financial and technical resources to combat poverty. In the framework of this conference the Southern Africa Trust put forward a motion for SADC member states to support a project to test the feasibility of a corporate social responsibility (CSR) Ratings Index.

Following this conference, the Southern Africa Trust, in collaboration with the SADC Private Sector Forum (the former SADC Employers’ Group), initiated the Business for Development (B4D) Pathfinder Project based on a feasibility study by The Helical Group (2009). The B4D project was launched in October 2009 during an event attended by his Excellency, Benjamin Mkapa, former president of Tanzania.
3.2 Beyond corporate giving

The original idea for the B4D project was to create an approach to CSR that goes beyond the current practices of corporate giving, and integrates sustainable development objectives into the core business of businesses. A comprehensive feasibility study came to the conclusion that the concept of inclusive business is emerging as a new paradigm, as it can provide win-win situations for companies and people of the low-income segment, and even for the government. While in Africa many businesses regard CSR as a more philanthropic approach (GIZ, 2009), inclusive business is seen as an option for increasing companies’ profits and extending markets for the core business.

Although in most cases businesses must invest first, and increased profits might appear only after an average of five years, the inclusive business concept is seen as both understandable and motivating. The concept first appeals to companies’ desire for profits, and aligns with social development. Inclusive business demands from companies that they extend what they are doing anyway, but in a modified way so as to tap into new markets. Indeed, inclusive business presents a formidable opportunity for a more pragmatic approach to involve companies in social development by aiming at what companies know best: doing business.

Table 3.1: Benefits of inclusive business and requirements for companies for successful implementation

<table>
<thead>
<tr>
<th>Benefits for companies</th>
<th>Benefits for communities</th>
<th>Benefits for governments</th>
<th>Requirements for companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher profitability</td>
<td>Jobs and income</td>
<td>Increased tax revenues (SMEs)</td>
<td>Changed mindset: Open to collaborate with new markets</td>
</tr>
<tr>
<td>Wider market share</td>
<td>Increased market access</td>
<td>Improved social services</td>
<td>High understanding and knowledge of local / informal markets</td>
</tr>
<tr>
<td>Lower operating costs</td>
<td>Enhanced human dignity</td>
<td>Increased GDP</td>
<td>Market research, resources / investment</td>
</tr>
<tr>
<td>New consumers</td>
<td>Access, innovation and technology</td>
<td>Greater infrastructural support</td>
<td>Innovation and ‘thinking out of the box’</td>
</tr>
<tr>
<td>Better branding of products</td>
<td>Easier access to credit</td>
<td>Improved business climate</td>
<td>Proper calculation of return on investment (ROI)</td>
</tr>
<tr>
<td>Ease of doing business due to better relations with government and communities</td>
<td>Better living conditions as a result of the above points</td>
<td></td>
<td>Patience</td>
</tr>
</tbody>
</table>
According to Kubzansky et al. (2011), some 340 companies in nine African countries are currently implementing inclusive business approaches. Yet, despite the immensity of the markets and the example of various peer companies, the majority has not built sizable businesses to serve those who survive on only a few dollars a day. The reasons for this are varied, but the most quoted one is a lack of robust and reliable market information, including skills and capacities – especially at the BoP. In addition, existing data, mainly collected by governments or development banks, is often not published or is published in a format which is not user friendly. Furthermore, research institutes and agencies are rare in these markets (UNDP, 2008).

3.3 The B4D Pathfinder

The B4D Pathfinder is anchored on inclusive business practices, knowledge development and a strong tripartite partnership between business, government and civil society. The objective of the B4D project is to harness and strengthen the corporate response to overcoming poverty.

Private sector operations can involve the poor – both outside and inside the informal sector – in the production, distribution and marketing processes of new products and services, and develop and provide products and services to people at the BoP, in accordance with their needs. As shown in Figure 3.1, the poor can be involved as suppliers, distributors, retailers, consumers, entrepreneurs, and, of course, as additional employees.
The B4D project covers three pillars of activities: the joint promotion of inclusive business within the SADC region; the provision of tools; and co-facilitation to create an enabling environment at the regional and national levels (see Figure 3.2).

**Figure 3.2: B4D’s pillars of activities**

**3.4 Promoting inclusive business in the region**

With regard to the first pillar, already between 2009 and 2010, B4D embarked on a series of country visits and hosted training workshops which resulted in general awareness of the concept of inclusive business among the business community, civil society and governments. These country visits were arranged by the national member organisations of the former SADC Employers’ Group (now the SADC Private Sector Forum). Since then the trust has extended its network – it is now working with regional and national business associations, and also directly with individual businesses.

It is important to note that inclusive business is still a comparatively new concept on the African continent, and is likely to be met with scepticism within the private sector. There is not much support for the notion that involving the poor in the value chain will increase profits, rather than incurring losses – something certain companies may have experienced in the past. Consequently, in particular in the case of inclusive business, follow-up meetings with companies are of paramount importance, also taking into consideration that inclusive business often requires a change of mindset in companies when it comes to possible profits, reliable partners from the low-income segment and traditional products.
The latter must be adapted to the needs of poor consumers, or to their ability and capacity to distribute products in informal markets.

3.5 B4D tools

In addition to the above insight, another lesson learnt is that solely ‘spreading the gospel’ on a new concept is merely a second-best solution. Companies need knowledge at hand on how to start inclusive businesses, how to approach partners in informal markets and how to maintain these partnerships. For example, with regard to the supply chain, retailers in particular constantly argue about small-scale farmers being unreliable, the lack in quality and quantity of their produce, and the lack of continuity when it comes to smallholders’ delivery. They want solutions to overcoming these obstacles. The Southern Africa Trust is therefore in the process of developing B4D tools to help companies resolve these issues and improve their approaches (which indirectly also has a bearing on increased profits) and finally to measure their performance.

The B4D tools, which will be developed in the first quarter of 2013, are intended to support companies in the implementation, monitoring and assessment of their inclusive business activities. The following sections describe the general aims of these tools.

3.5.1 Toolkit

The toolkit will assist companies on how to implement inclusive business concepts. Essentially, it is a comprehensive source of information on inclusive business methods and practices. It consists of guidance notes, examples of good practice, case studies and links to appropriate websites and other service-related information. In developing these, a second lesson learnt is that any such tools must be as concrete and ‘on the ground’ as possible. This also means that popular tools such as toolkits, which are often used by development or multilateral organisations, should not only cover inspiring case studies and general statements, but also guide companies in terms of their specific cases. Therefore, the toolkit will contain concrete examples on how to successfully and profitably address the poor and integrate them sustainably into the value chain of a company. For instance, it will contain information on how to

- find, select, train and mentor suitable business partners;
- collaborate and communicate with these partners to achieve reliable and continuous partnerships;
- use existing support provided by third parties such as government programmes, funding and investment, micro-finance approaches and consultation processes;
- train partners in business skills and financial literacy; and
- use national and regional frameworks that comprise an enabling environment for inclusive business activities.
To be as practice-oriented and concrete as possible, the B4D Toolkit will help users understand how informal markets work. In addition, it will cover information that is strongly related to the inclusive business concept, like knowledge on small, medium and micro enterprises (SMMEs), their supporting organisations and their enabling environment in each of the SADC countries.

3.5.2 Monitoring tool

Information on companies’ performance regarding (inclusive) business and the results of successes is much needed as it assures companies that inclusive business can indeed

- have a positive impact on their market extension;
- bring about a positive Return on Investment (ROI);
- establish successful collaborations with people from the low-income segment; and
- create additional employment.

Companies need information on how improvements can be made in these fields, which can, in turn, be used to stimulate peer companies and help other businesses get started on inclusive business activities. Currently, however, solid information on these factors is scarce and scattered, and may be gathered at different departments of large businesses, for instance departments for enterprise development, corporate social investment (CSI)/CSR and corporate affairs. Pilot projects on inclusive businesses are often assessed as community development projects and not factored into the general financial reports which indicate a company’s profitability.

The above lessons learnt have resulted in B4D developing a monitoring tool, the B4D Barometer, which will address the (inclusive) business-making part of a company and will monitor these business activities throughout all value chain core business functions. The B4D Barometer will give a company an update on the status of its performance which, assuming the inclusive business is profitable, will: 1) be of value to them; and 2) give them guidance.

With the help of the B4D Barometer, which is an online self-assessment tool, businesses will be able to evaluate both their activities and their profits. It will contain questions ranging from issues related to inbound logistics to maintenance services and supporting functions in a business. Each of these functions can be analysed in terms of whether and how a company incorporates the poor in its value chain. The B4D Barometer is based on a road map approach. Hence, for every question, the performance of a company can be determined across any one of four levels.

Progressing from one level to the next is akin to taking a journey of continuous improvement. Performance graphics will demonstrate the state of inclusivity of a business for each core and support function. Concrete recommendations will be given on how to reach the next level of performance. In the beginning, these responses will be generated automatically. In the medium term, a working group will be requested to give companies specific, individual recommendations for further improvements.
A test model of the B4D Barometer, developed by The Helical Group (2009), is currently being refined in the wake of lessons learnt. Early on in the process, it became clear that the Barometer in its present form cannot satisfactorily cover the various monitoring needs of the different industry sectors, since some focus on supply, while others focus on distribution or sales. Consequently, parts of the Barometer online template will differ from one industry sector to the next. The Barometer will thus be developed further with the inputs of companies from different sectors, in an attempt to increase the value of the tool for the private sector. In this context another lesson learnt is that the tool will not be developed by the B4D Pathfinder alone, but will, from the outset, involve companies from various countries. This step will ensure that companies’ needs in terms of measurement are met. Currently, several businesses have indicated a strong interest in being part of the further development, and have volunteered to pilot the tool.

The B4D Barometer Reports obtained from companies will enable the Southern Africa Trust to monitor the extent to which companies abide by inclusive business practices. The reports will give some insight into the extent to which the poor are involved in a company’s value chain, as it will cover aspects of enhanced employment creation, income generation, training and skills development through integrating the poor as entrepreneurs and partners.

3.6 Creating an enabling environment

The B4D unit was involved in numerous discussions relating to the creation of an enabling environment at both the regional and the national levels. The major lessons learnt relate
to the well-known problem of a lack of harmonisation when it comes to regulations, procedures and processes within SADC and beyond, for instance in the field of customs, taxes, licensing and registration systems, non-tariff barriers, infrastructure, monetary policy, access to finance, and the free movement of goods and people, to mention but a few (see Southern Africa Trust and GIZ [2011]; www.b4dpathfinder.org).

At a national level, challenges are also evident in the scattered and mainly uncoordinated efforts in the field of enterprise development. A number of national institutional set-ups exist which offer vocational training and skills development for small entrepreneurs within the SADC region as a whole, but they do not operate on a collaborative basis. The objective would be to facilitate exchange between these establishments by urging vocational and training institutions to work together to pool their resources, expertise and skills. This includes facilitating comprehensive training for SMMEs, to enable them to partner with larger firms and to provide better service to the public.

3.7 Challenges

There are undoubtedly challenges involved, in terms of the speed of the buy-in as regards inclusive business, as well as its actual implementation by business. Despite being underpinned by a sound economic and social case, inclusive business is a new concept which has yet to prove that all the benefits attributed to it are in fact realisable. In addition to the institutional challenges presented by financial and legislative systems, uncertain property and land rights in Africa, and further challenges in promoting inclusive business in SADC, the following issues need to be kept in mind (see also the global challenges identified by the UNDP [2008]):

- Difficulties of in-depth market research in poor communities when it comes to identifying a profitable niche;
- The research and development (R&D) costs of developing new and appropriate products for the poor;
- Providing the training and technology required to raise the skills base;
- The danger of unrealistic expectations on the part of communities and other role-players;
- Ensuring high-quality, dependable goods and consistent services from suppliers; and
- Poor levels of infrastructure for servicing disadvantaged communities.

On the other hand, businesses need to realise the potential of the poor as a source of goods and services, as well as a market for final products. They therefore need to pay special attention to people at the BoP. In addition, the financial sector needs to be encouraged to provide more credit facilities to the poor and to assist them by providing training in risk mitigation. As the main driver of inclusive business, companies face the risks of
• finding internal acceptance and a shared understanding on inclusive business within the firm; this includes their stakeholders, in particular with regard to long-term investments and business partnerships with the poor;
• understanding the (informal) markets, their processes and existing demands;
• finding partners and related well-thought-out models to collaborate with them;
• designing products according to the needs, options and values of the customers/suppliers;
• pricing for products/supply and calculating the ROI;
• having enough resources allocated for a long-term process and for learning;
• sustainably distributing and marketing the product; and
• missing out on the support of a national, regional or local government.

Key aspects to mitigate risks are based on information, knowledge and experiences related to inclusive business, markets and tools to address the needs of the poor.

3.8 Recommendations and way forward

Inclusive business is an upcoming and successful model for combining profitability and the market extension of businesses, as well as developing and improving the lives of the poor. However, it requires an intense and deliberate process of determining the risks throughout the entire process, including a well-thought-through decision on how to involve the poor in which of the company’s value chains. Apart from these general requirements and the abovementioned challenges regarding the current enabling environment, there is need for businesses to

• have clear insight into the strengths and weaknesses of their pro-poor supply and value chains, based on an in-depth market analysis;
• identify and prioritise pro-poor interventions in their value chain and develop ideas and ways to sustainably maintain these new partnerships;
• open up the ability to address the markets in an innovative way;
• take ownership of their transformation to inclusive business on the basis of performance appraisals and best practice (norms and standards);
• re-engineer operations to suit pro-poor policies;
• invest in the long-term profitability of a business, in accordance with the results of the above research;
• develop a value proposition for new markets, and adopt and create products accordingly;
• develop and implement strategies on product distribution, marketing and services;
• consider feedback loops in the process of developing and establishing partnerships with the poor; and
• take corrective measures to meet set objectives in the context of inclusive business practices, by monitoring and evaluating the processes in the value chain.

The B4D Barometer and B4D Toolkit will support businesses by providing ideas and tools for many of the above bullet points, as well as an assessment of the steps being taken.

The major challenge, though, is to bring about a change in mindset: shareholders, who focus on the short-term maximisation of profits, need to be convinced (as do companies’ CEOs) about the value of research and investment. Governments need to be encouraged to improve the enabling environment for inclusive business, while NGOs need to follow a more collaborative approach in addressing the private sector.

SADC, as an institution (and with its numerous existing networks) can play a major role in realising the potential of inclusive business by developing an enabling environment and applying the concept of inclusive business in its poverty-reduction agenda. It can help address the many challenges by making regional integration an instrument for pro-poor growth and development.

The success of inclusive business rests on a solid tripartite partnership comprising the private sector, governments and communities. In this scenario governments should

• provide an enabling regulatory environment for inclusive business, within and across borders;

• support programmes aiming at establishing sustainable and inclusive economic growth initiatives for the people at the BoP;

• address the dire need for funds by providing incentives for larger companies that demonstrate a commitment to pro-poor businesses;

• create new funding mechanisms that allow companies and organisations operating at grassroots level to unlock vital sources of financial and technical support more easily; and

• promote flexible partnerships and the formation of networks among enterprises, development agencies and government organisations to bring about better business opportunities and facilitate access to technology, financing and information.

Another important way in which to overcome the above challenges is to mobilise current practitioners, multinational market leaders and business organisations to work together in a network as champions and drivers of the B4D project.
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Websites

http://www.sadc.int/
4. Multi-stakeholder collaboration and the scaling of inclusive agri-food markets

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4.1 Introduction

For more than a decade now, donors and development organisations have supported a plethora of value chain projects aimed at pro-poor market development. There are many great examples of this work. However, in the final analysis, does all this effort remain ‘islands of success’ or is a real seachange underway?

Along with undeniable successes there have also been many failures in the pro-poor agricultural value chain arena. Markets have not always materialised, farmers have struggled to organise, NGOs have frequently failed to adequately understand and engage with business, donors have found it difficult to finance ‘entrepreneurial’ initiatives, and business is not always willing to participate and invest the necessary pre-commercial costs or in pre-competitive collaboration.

We are now at a critical juncture. Behind us is a wealth of experience, albeit not always very well collated, documented and shared. Before us, the world has woken up to the challenge of global food security (FAO, 2009; FAO/WFP 2010; Foresight Commission 2011; The Economist, 2011) and business is looking at the agri-food sector with renewed interest (WBCSD, 2010; WEF, 2010), as the risks to supply and the opportunities of new markets become much more apparent.

This chapter positions the topic of multi-stakeholder collaboration and value chain development in the wider context of ‘inclusive business’ (Ishikawa, 2010; Ishikawa & Ribeiro et al., 2012; Jenkins & Ishikawa et al. 2011), and more specifically the idea of ‘scaling inclusive agri-food market development’ (Woodhill & Guijt et al., 2012). The emphasis here is on how to shift from aid-led value chain development to business-led inclusive agri-food markets. This has significant implications for stakeholder relations and the nature of public–private investments.

This chapter is based heavily on the outcomes of the first phase of the ‘From Islands of Success to Seas of Change Initiative’ (see www.seasofchange.net) on scaling inclusive agri-food markets (Woodhill & Guijt et al., 2012). The ‘seas of change’ work aims to spread awareness of how agri-food markets can contribute, at a significant scale, to food security and rural poverty reduction, while building profitable commercial relations. In April 2012, the Seas of Change International Learning Workshop brought together 100 leaders from business, development organisations, government, farmers’ organisations and research, for a dynamic and frank exchange of experiences, innovations and questions. A series of background research studies provided a rich backdrop for the discussions (see www.seasofchange.net).

As this chapter will explore, going from ‘islands of success to seas of change’ has much to do with creating effective multi-stakeholder collaboration. Innovation driven by investment...
opportunities and entrepreneurship can be a powerful force for positive change. But this process is far from automatic. Businesses need to see and understand the opportunities presented by more sustainable and inclusive ways of working. Governments need to help create supportive incentives and investment climates. Producer organisations must be effective and efficient business partners, and NGOs and researchers must contribute critically as knowledge providers, brokers and intermediaries.

All these issues are of particular relevance for Africa, for three key reasons. First, Africa will account for nearly half of the global population growth over the coming decades, when its population will double. Second, the continent remains a major agricultural resource base in which the rest of the world is becoming increasingly interested. Third, poverty and hunger in Africa remain stubbornly stuck at very high levels.

4.2 The case for scaling inclusive markets

In order to bring together different stakeholders around the challenge of scaling inclusive agri-food markets, it must be clear to them why it is important to engage and where the common interest lies.

Global food security has two interconnected dimensions: what is known as a ‘nine-billion future’ and a ‘one-billion problem’. Nine billion is the size of the future global consumer market whose food demands need to be met. The World Business Council for Sustainable Development (WBCSD, 2010), among many other organisations, sees enormous business opportunities in providing innovations and services that will make it possible to feed so many on a daily basis, and in a sustainable way. At the same time, one billion people go hungry every day, with at least another billion living in marginal economic circumstances (IFAD, 2011). Furthermore, most of the population growth will take place at the bottom of the economic pyramid. By 2050 there will be around four billion people at the BoP; if this group undergoes significant economic development, it represents a massive new market opportunity. Ignore it, and half the world’s population stays poor, goes hungry and creates conditions for global political instability. As Bill Gates pointed out when addressing the Group of Twenty (G20), global instability fuelled by hunger and poverty is in nobody’s interest, least of all those who want to do business.

It is important to understand the case for inclusive agri-food markets in relation to certain key facts and trends. Of the world’s poor, some 75 per cent live in rural areas, with approximately 2.6 billion people depending on agriculture for their livelihood (IFAD, 2011). The coming decades will see a massive growth in urban populations, with 70 per cent of people living in urban areas by 2050. Large numbers of poor people will, however, continue to live in rural areas, and feeding poorer urban people will become a major ‘inclusive challenge’. There are some 525 million farmers in the world, of whom 90 per cent are smallholders. Around 50 per cent of the world’s population depend on these smallholder producers for their food (Wegner & Zwart, 2011).
The concept of inclusive agri-food market development is based on the premise that private enterprise and public-private partnerships (PPPs) can make a substantial contribution to the delivery of ‘public goods’. So what, then, are the public good issues and the private interest issues, and how do they overlap? Table 4.1 gives six reasons why it is important to focus on inclusive agri-food markets from both a common and a private interest perspective. Reference is made here to common interest as opposed to public good, as these issues are important for business, even if this does not constitute their core responsibility.

Table 4.1: The common and the private interests of agri-food markets

<table>
<thead>
<tr>
<th>Common (public) interest</th>
<th>Private interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Feeding the world: Producing and distributing enough food for nine billion people by 2050, including for the 70 per cent living in urban areas</td>
<td>4. Securing a stable supply base: With rapidly growing demand for agri-food products, businesses will need to stabilise their supply base by using the potential of small-scale producers and processors</td>
</tr>
<tr>
<td>2. Tackling hunger and poverty: Developing agricultural production and markets in ways that help to create wealth, jobs and economic opportunity for those at the bottom of the economic pyramid, while providing affordable and healthy food</td>
<td>5. New market opportunities: Generating a positive spiral of wealth with large numbers of people at the base of the economic pyramid, which creates new markets for business</td>
</tr>
<tr>
<td>3. Peace and security: Organising and controlling agricultural markets to reduce inequalities that could generate political instability and social unrest, which translates into greater risks for business investment</td>
<td>6. Responsible reputation: Businesses are able to enhance and protect their reputations for social responsibility and ensure a ‘licence to operate’ in the face of growing public scrutiny of business practices and rapid communication technologies</td>
</tr>
</tbody>
</table>

The World Bank development report on agriculture and development (2008) emphasised the importance of agriculture for economic growth in low-income countries and for tackling inequality in emerging economies. While there is continued debate about the importance and the role of small-scale agriculture, moving into the future, a number of ‘realities’ seem patently clear. First, for at least the coming decades small-scale agriculture will be critical for the livelihoods of billions and for meeting the world’s rapidly growing food demands. Second, creating viable and prosperous rural economies is key to poverty alleviation in rural areas, and to slowing urban migration and the potential problems of urban poverty. Third, there will be a transition to more commercially oriented small-scale farming, while many will have to move out of farming to find alternative employment. Fourth, social safety nets will have to be in place for many during the transition period. Prosperous rural economies will have the dual function of reducing the scale of such dependency, while helping to provide countries with the economic capacity to cover the costs of social protection.
In relation to Figure 4.1, here is a hypothesis. Inclusive market development is about finding new ways of doing business that make it possible to work with the approximately 40 per cent of asset-limited farmers who have the potential to become commercially viable and who could be drivers of inclusive rural economic growth. If this can be done, a positive cycle of rural investment and entrepreneurship will be created. Here the benefits are derived not only from small-scale farming, but also from SMEs that provide services and are involved in upstream processes and marketing.

The alternative is that large national and multinational agri-food companies may end up trying to meet their supply demands through predominantly large-scale agriculture with negative impacts for poor rural communities and exacerbated pressures for land grabbing.

However, pushing down this economic pyramid and working with asset-limited small-scale farmers is not automatically profitable or interesting for agri-food companies. Governments, in an attempt to meet the public good interests of an orderly transition in agriculture, tackle poverty and ensure food security, will increasingly have to come to the table and work in partnership with business. This will require making pre-commercial and pre-competitive investments in partnership with business – something which presents a major challenge for multi-stakeholder collaboration.
4.3 Profitable partnerships

At its core, inclusive business is about managing commercial relations (see Figure 4.2). For the agri-food sector to be inclusive, these relations must contribute to fair economic opportunity at scale, while sustainably feeding the world population. Commercial relations include a wide range of actors – global companies, local business, financial institutions, local entrepreneurs, small-scale farmers and producer organisations. Aligning commercial relations to achieve wider public goods requires partnerships with and support from government agencies, NGOs and research – all within the context of a supportive environment of public policy and public investment.

Herein lie a number of critical messages for development organisations working to scale inclusive agri-food markets through multi-stakeholder engagement. First, non-business players must understand the nature of these commercial relations, and must be able to speak the language of business. Second, non-business players need to recognise their supporting role and be very careful about inserting themselves into actual business operations. Third, businesses often only look at and understand their immediate relations – those they do business with – they do not necessarily have a perspective on the entire value chain and how changes could be made to make it more profitable and more inclusive. Fourth, the sort of multi-stakeholder engagement that the development community is mainly used to – for example, full-day workshops and meetings – often does not work for business. Much more attention needs to be given to short meetings at suitable times, and to bilateral discussions.

Ultimately, partnerships must lead to the development of suitable conditions for the establishment of commercially viable and sustainable business models. The following crucial elements need to be in place:

- Building trust, capacity and long-term relationships within the supply base;
- Creating partnerships and coordination among different actors, e.g. through neutral brokers;
- Sharing risks and rewards equitably;
- Attracting public-private co-financing as well as intermediaries to drive procurement, quality and efficiency; and
- Cost-efficient mechanisms for aggregating inputs from producers, such as outgrower schemes.
The challenge is to find ways for these commercial relations to function so that they contribute optimally to the wider collective interests of food security and economic opportunity for the poor, while remaining profitable. This will only happen with the right incentives, coordination mechanisms and leadership. Partnerships and dialogue are essential to ensure that ‘rational’ decision-making at individual firm level does not result in ‘irrational’ outcomes for the entire agri-food system.

Figure 4.2: The partnership dynamics of inclusive agri-food markets
Box 4.1: Local seed business development in Ethiopia

Quality seeds are critical for small-scale farmers to increase their productivity. Historically, seed supply for small-scale farmers has been dominated by public agencies, often without a great deal of success. The Integrated Seed Sector Development (ISSD) programme has taken a multi-stakeholder approach to developing local, commercially viable, seed businesses. While targeting the creation of commercially viable local seed suppliers, much collaboration is needed with local and national governments, to create an enabling policy framework. The whole programme has been driven by multi-stakeholder innovation and facilitation platforms hosted by local knowledge institutions. Some key lessons from the process include: patience – it has taken seven years to build the credibility of the programme; policy engagement – local successes and pilots have been used to gain wider-scale support from policy-makers for creating a more supportive policy setting; local embedding – making sure that the system is embedded institutionally in local and national structures, and that external structures and inputs are minimised; brokering – the positive impact that committed, neutral brokers, backed by adequate funding, can have (see Bornman et al., 2011).

4.4 Key challenges for scaling inclusive agri-food market development

Given the above perspective on inclusive agri-food market development, it is interesting to explore the eight key issues which leading practitioners from business and development organisations identified during the Seas of Change workshop (Woodhill & Guijt et al., 2012). All these issues have much to do with improving the effectiveness of multi-stakeholder processes. They relate to two main challenges: on the one hand, supporting very large numbers of small-scale suppliers in improving their lives and helping them to become viable business partners, and on the other hand, creating incentives and mechanisms for business to work with lower-income groups.

- **Strengthening the intermediary function**: Inclusive business depends on good partnerships and relations. Trusted ‘ethical agents’ and platforms play key roles in brokering such relations and in stimulating innovation. People and organisations that can effectively take on this role are in short supply. They require a special skill set that needs to be developed. Much needs to be learnt about making multi-stakeholder platforms more effective. Questions about how to fund the intermediary function also need to be resolved;

- **Informing and shaping supportive policies**: Policy is critical, yet there are few mechanisms in place to enable business players and policymakers to engage deeply in shaping an enabling business environment and in setting up effective PPPs. Existing public–private funding mechanisms for the development of the agri-food sector are relatively new and need to build in rapid adaptation mechanisms based on quick feedback from the private sector. Regular policy dialogue and responsive shifts in policy settings are essential for ensuring progress on the inclusive agri-food market agenda, and for coping with emerging issues and a rapidly changing context.
• **Progressing towards a ‘new certification’ agenda:** Certification is a hot topic. Existing mechanisms and assumptions are being questioned even as concerns arise about the hazards of ‘throwing out the only tool we have’. Although certification does not focus explicitly on the wider issues of inclusion, it could be a mechanism for scaling, especially given the fact that a growing number of companies are committing to certification. Key concerns include how to make certification affordable while still remaining reliable at scale, and how to find complementary approaches;

• **Improving mechanisms for collaborative and pre-commercial financing:** Inclusive business in the agri-food sector often requires a kick-start before becoming commercially viable. This applies, in particular, where the intention is to provide economic opportunity at scale. The scenario calls for a fine balance between the public and the philanthropic funding needed to create the right incentives and the right level of risk-sharing to ensure appropriate innovation, while at the same time not subsidising business operations inappropriately. A further challenge is to provide this type of financing in such a way as to drive inclusive entrepreneurship without excessive ‘red tape’;

• **Strengthening agri-cluster and networked business initiatives:** A great deal of attention is being given to single value chains or commodities. Inclusive growth in the agri-food sector, however, also hinges on cluster development in areas where agri-services, processing and logistics can support multiple supply lines and create economies of scale. Many of those types of services are provided by SMEs – critical to economic growth, yet difficult to deal with at scale. This requires strategic coordination and investment on the part of agri-food companies, different levels of government and financiers;

• **Improving mechanisms for joint learning and research between all groups:** There are few mechanisms available for joint learning between the key players in business, government, producer organisations, NGOs and research institutions. New approaches are needed that have the efficiency and the responsiveness which business actors expect;

• **Monitoring and assessing social impact:** Many businesses that have made commitments to working in an inclusive way now feel the pressure to report on the social impact of their operations. At the same time, there is a growing need for a better overall assessment system for sector-wide trends and impacts, and donors are under increasing pressure to show the returns yielded by public investment. Gathering this information is a critical support element in learning and innovation. Finding the right metrics and cost-effective ways of collecting and reporting data are high priorities for all the parties concerned;

• **Deepening understanding and capacity across business, government, producer organisations, knowledge institutes and NGOs:** The inclusive business domain is changing rapidly. Old assumptions and prejudices are collapsing and the notion of shared value is creating a whole new constellation of partnerships. It is often hard for people, be they in business, NGOs or government, to keep up. A shared understanding of the current dynamics is critical and everyone needs new skills and capacities to put inclusive business strategies into practice.
4.5 The incentives and mechanisms behind inclusive business models that work

While the ‘why’ or the ‘conceptual win’ for scaling inclusive agri-markets might be clear, there is still a long way to go towards understanding how to make these markets work to meet the parallel objectives of profitable business, poverty reduction and environmental sustainability. As illustrated in Figure 4.3, bringing about change at scale requires a good understanding of the incentives that drive the behaviour of the different actors, and what mechanisms can be used to create the right incentives for inclusive business. Mechanisms are specific interventions that can be developed by a particular stakeholder group in order to shift the incentives of other groups. Examples include government investment in PPPs or legislation requiring schools to purchase local food products; NGOs making supply-chain issues transparent to the wider public or the collective establishment of sector-wide ‘round tables’.

**Box 4.2: Chain-wide learning guide**

*Chain-wide learning for inclusive market development – a guide to multi-stakeholder processes for linking small-scale producers to modern markets* was developed as part of the Regoverning Markets programme. It provides an overview of the drivers in modern agri-food markets and outlines a methodology for developing more inclusive value chains, with a particular emphasis on institutional factors such as policies, legal frameworks and cultural factors (Vermeulen & Woodhill et al., 2008).
In the global, regional, national and local contexts there is a set of economic, political, cultural and physical factors that combine to create drivers that either work towards or against inclusive markets. This contextual background is key to understanding what incentives and mechanisms are important for a specific situation.

Ultimately, it is important to be clear on what impacts are being achieved at what scale. Figure 4.3 shows five key impact areas on which to focus monitoring. This framework provides a useful way of analysing case studies by focusing attention on how incentives and
mechanisms interact to achieve (or not) desired impacts. For an individual business this interplay between incentives and mechanisms gives rise to a viable business model. A viable inclusive business model has the right mechanisms in place to create incentives that will lead different actors to collaborate and do business together in ways that are profitable, while delivering on inclusive impacts.

**Box 4.3: The LINK methodology**

To put the ideas of incentives and mechanisms into practice, specific guidance on creating inclusive business models can be a great help. Mark Lundy et al, from the International Centre for Tropical Agriculture (CIAT) developed the **LINK methodology** - a participatory guide to business models that link small-holders to markets.

This up-to-date guide captures and integrates ideas and methodologies from a wide range of sources. A particularly valuable section of the guide is its business model canvas approach that looks at all the factors revolving around the key value proposition.

**Box 4.4: Business-led oil seed sector development in Uganda**

Through an Oil Seed Sub-Sector Platform in Uganda (OSSUP), oil seed production and the price for local oil seeds have more than tripled. This has become an important substitute for imported oils, while generating significant benefits for 100 000 farmers, with the potential for 400 000 farmers to be involved. At the heart of the multi-stakeholder process has been a lead firm, Mukwano, which signed an agreement to work with SNV, the Netherlands Development Organisation, on inclusive market development. Mechanisms to create the right incentives for business partners include the innovation platform, structuring an efficient outgrower scheme, creating functional producer organisations and restructuring financial support using Stanbic Commercial Bank. Donors have played an important role in providing pre-commercial finance and SNV has been critical in its trusted intermediary function. While developing into a fully commercially viable sub-sector where farmers can now pay for services, none of this would have been possible without the publicly funded stakeholder engagement process (Lundy & Zamierowski et al., 2012).

**Box 4.5: Women, incentives and consequences in coffee production**

The right incentives at all levels are critical for scaling inclusive approaches. Since 2006, Ecom Agro-industrial Corp. and Hivos have been creating a smallholder coffee farmer support system built on embedded services within a marketing company, SMS Ltd. Substantial improvements are seen in the viability of 85 000 smallholder coffee farms, and for the marketing company. It appears that training women gives more value per training dollar: They are more precise in implementing what they learn and they share their knowledge wider within their community than men. Yet women are less keen on coffee than men, because of missing incentives. While women must put a lot of work into weeding, harvesting and getting produce to the market, the income generated goes to the men who usually spend it on their own priorities. Consequently, women actively ‘sabotage’ coffee production: When their husbands buy fertilizer for coffee production, women secretly use substantial amounts for home horticulture, which is their responsibility.
The result? A downward spiral of suboptimal coffee production, yields and incentives for all to invest in that sector. Tackling these issues requires attention at the level of the family farming system, and enabling women and men to work in a better partnership around their overall livelihood strategy. It also illustrates the importance of looking beyond single value chains to understand how a single commodity fits within the wider livelihood, farming and market systems.

### 4.6 Lessons for key stakeholder groups

The five main groups of stakeholders who have a critical role to play in inclusive agri-food market development are government, business, producer organisations, NGOs and knowledge institutions. Below is a summary of the key lessons learnt per stakeholder group, as distilled from the Seas of Change initiative.

#### 4.6.1 Government

Commercial interests must ultimately make inclusive agri-food markets the standard mode of operation. Government, however, has an essential role to play in creating an enabling environment by providing policy leadership and by developing appropriate incentive mechanisms. The private sector can do much to reduce poverty and can work fast to achieve this, but governments must create a supportive business environment, and effectively link public and private investment. Key lessons include:

- Ensure leadership and the alignment of stakeholders’ interests through creating shared goals and developing platforms for dialogue and PPPs;
- Create incentives for inclusive business through effective and efficient public investment, as well as appropriate regulation;
- Make inclusive business central to agricultural policy and rural development; and
- Tailor policy mechanisms to different categories of farmers – subsistence and landless; small-scale commercial and large-scale commercial.

#### 4.6.2 Business

The market potential of inclusive business models in the agri-food sector is illustrated by the number of companies, large and small, that are now testing out and working with new approaches. Clearly, a significant shift is occurring – one in which inclusiveness is less CSR-driven and where former philanthropic activities are becoming part of the core business strategy. This has major implications for business in terms of how inclusive strategies are analysed, invested in, and executed. Key lessons include:

- Look for market opportunities for inclusive business that will deliver medium- and longer-term opportunities;
- Create a clear strategy around inclusiveness and effectively communicate this with clients, partners and investors;
• Embed inclusiveness into core operations and organisational culture, and be clear about the business benefits; and

• Invest in effective partnerships with other businesses, NGOs, investors and knowledge institutions, especially around pre-commercial and pre-competitive activities.

4.6.3 Producer organisations

Finding efficient and cost-effective ways of working with large numbers of small-scale producers is a fundamental challenge to creating viable, inclusive agri-food markets. Producer organisations can play a critical role at the interface of production and markets, by helping to ensure the aggregation of product and the development of market linkages. In addition, producer organisations need to reach out to members by offering services, providing sound agricultural practices, and representing their interests. It can be a challenge for producer organisations to balance business efficiency with collective decision-making processes. In addition, they often find themselves having to take on a diversity and complexity of roles and functions that require good internal systems and management. Key lessons include:

• Ensure efficient and transparent business operations;

• Assist members in improving productivity and product quality;

• Monitor social and livelihood impacts;

• Support innovation in risk management on the part of members; and

• Engage in policy dialogue with government and business.

4.6.4 NGOs

The question as to the role and effectiveness of NGOs, when it comes to supporting inclusive business operations, has generated major debate. The discussion comprises a polarised field of stories relating inspiring success as well as dismal failure. Business is, however, increasingly interested in partnering with reliable and effective NGOs. Therefore, NGOs must find their place in the partnering role while continuing to effectively juggle their advocacy function. Key lessons include:

• Make business viability a priority concern and avoid unsustainable subsidising of enterprises;

• Support intermediary functions and pre-commercial activities;

• Adapt roles and functions as the partnership evolves and plan exit strategies;

• Recognise the local pioneering role of NGOs in the pre-commercial phase, which business may later build on; and

• Maintain a ‘watchdog’ function (which business regards as important) and avoid being ‘silenced’ because of business partnerships and funding.
4.6.5 Knowledge institutions

The Seas of Change event highlighted the extensive and very interesting innovation and learning agenda which exists at present. There is a relative dearth of cross-case study analyses and a major need for progress monitoring and analysis. Businesses, NGOs, producer organisations and policymakers are hankering after insights that could render their investments more effective. Changes are, however, occurring at a rapid rate and markets are highly dynamic; businesses need ‘information today about what happened yesterday to make decisions tomorrow’. This calls for different types of research and much closer engagement between researchers and knowledge users. Key lessons include:

- Develop applied research programmes with a strong outreach component;
- Work in partnership and use interactive and action research approaches;
- Foster and facilitate innovation networks;
- Integrate inclusive business in teaching curricula; and
- Support education capacity development at local levels, because this is where the skills are needed to make change happen.

4.7 Conclusion

Much has been learnt about multi-stakeholder collaboration for value chain development over the past decade. However, major challenges remain in achieving a scale of inclusive agri-food market development that will have a significant impact on poverty and global food security. Historically, business and donor investments in the agri-food sector have occurred in almost parallel worlds. The time has come for a much smarter coupling of public and private investment strategies. To succeed, this will require greater sophistication in terms of multi-stakeholder collaboration – something we are only just beginning to understand. As Vincent Lokin, Director Cooperatives and Governance of Rabobank Netherlands, said in addressing the Seas of Change workshop: “There is a huge challenge ahead; many interests are at stake. To beat this challenge, collaboration is key. The good news is that almost without exception all parties admit this – it’s in the air. The exact form still needs elaboration and that is exactly why we are here.”
Notes

1 This chapter draws heavily on ‘From islands of success to seas of change: A report on scaling inclusive agri-food markets’ co-authored by Jim Woodhill, Joost Guijt, Lucia Wegner and Monika Sopov.

2 Affiliation when the chapter was written. As from January 2013, Jim Woodhill will be the Principal Sector Specialist for Food Security and Rural Development with AusAID.

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5. Innovative approaches to market development in countries recovering from conflict and disaster: The experience of Building Markets

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5.1 Introduction

Building Markets’ experience demonstrates that there is a great deal of untapped potential to promote SME development through business linkages in post-conflict and fragile countries. This potential extends from public- to private-sector entities who act as major buyers in developing markets, including large aid agencies, international NGOs and multinational corporations (MNCs). Enabling local SMEs to participate in the supply chains of major buyers can play a significant role in kick-starting or revitalising domestic industries, improving local business capacity and standards, and injecting much needed cash into the economy. Building Markets has demonstrated that this is not only possible but also beneficial for economic recovery, job creation and poverty reduction.

Building Markets (formerly known as Peace Dividend Trust) is a non-profit social enterprise that builds markets, creates jobs and sustains peace by championing local entrepreneurs and connecting them to new business opportunities. This is primarily achieved through economic analysis and an innovative project model known as the Sustainable Marketplace Initiative (SMI; formerly known as the Peace Dividend Marketplace), which connects local entrepreneurs to domestic, regional and global supply chains. The SMI is adapted to each country where it operates, but revolves around the core objective of facilitating local procurement by improving the flow of market information and strengthening the capacity of local entrepreneurs.

This chapter focuses on Building Markets’ experience in implementing the SMI in Afghanistan, Haiti, Timor-Leste and Liberia. It provides background on the economic analysis that led Building Markets to develop the SMI concept and describes the results achieved as well as the common challenges faced. The chapter concludes with several practical recommendations on how private sector buyers in post-conflict and fragile countries can create opportunities for local SMEs to participate in their supply chains, thereby achieving a broader and more positive local economic impact.
5.2 History of the SMI: Leveraging aid and investment dollars

At its founding in 2004, Building Markets’ staff, together with like-minded development practitioners, observed that during post-conflict reconstruction the presence of development and humanitarian organisations, NGOs, civil society, donor agencies, international military forces and international corporations often constituted the largest domestic market and could have the potential to strengthen local economic recovery. Yet very little was known about the actual economic impact of such an international presence in post-conflict countries.

To address this gap, Building Markets was commissioned by the United Nations’ (UN) Department of Peacekeeping Operations to lead an initiative entitled the Economic Impact of Peacekeeping (EIP) project. Undertaken between 2005 and 2006, the study analysed the economic impact of ten current and former UN peacekeeping missions and carefully estimated how much of each mission’s budget was actually spent on locally sourced goods and services. With the exception of Kosovo, research showed that less than ten per cent of mission spending went directly into the local economy, although in four mission areas with very low economic activity, even such a low fraction of spending boosted the local gross domestic product by four to eight per cent.

While an upsurge in economic activity is associated with the restoration of basic security, the study identified further benefits and dispelled common misperceptions about peace operations. In economic terms, UN missions do more good and less harm than was previously believed. Spending, from international staff allowances, on local procurement and on national staff wages, stimulates the local economy. The perception that widespread inflation is caused by peace operations was not borne out – some price hikes occurred in parts of the economy servicing internationals, and wages for scarce skilled labour increased. Given these observations, the study also found that there was considerable scope to enhance the economic impact of peace operations, particularly in terms of local procurement practice.

As a direct result of these conclusions, in 2006 Building Markets developed and launched a one-year pilot project, the ‘Peace Dividend Marketplace’ in Kabul, Afghanistan, with the support of the Canadian International Development Agency (CIDA). The objective of the project was to increase the economic impact and the resulting peace dividend of the massive international military, aid and humanitarian presence in Afghanistan.

The one-year pilot project was expected to increase local procurement by an estimated US$3–5 million. By its third quarter of operations, it had exceeded its original objective ten-fold, resulting in US$36m in contracts being awarded to local businesses. The project model was refined and scaled in Afghanistan and replicated in Timor-Leste, Haiti and Liberia. Collectively, the project has helped SMEs access over US$1 billion in contracts across these economies.

The original focus of the concept now known as the SMI was to leverage a relatively short-term international peacekeeping and aid presence in post-conflict countries, but the model has proven to have strong applicability to MNCs’ local content obligations and objectives, as well as to domestic, regional and international business-to-business connections. In
each country where it has operated, the SMI has catered to a differentiated mix of buyers whose requirements for goods and services provide opportunities to ‘buy local’, thereby fostering SME development and enabling local entrepreneurs to help drive domestic growth and job creation.

5.3 How the SMI works

Using its initial research, Building Markets identified common obstacles to local procurement that tend to arise in post-conflict and fragile countries. Buyers often lack reliable information about the goods and services available in a country, and do not have the resources (time, information, mandate) to effectively access the local marketplace. On the suppliers’ side there is limited knowledge of tendering opportunities (including how to access tenders and other business opportunities), limited understanding of procurement procedures and inexperience regarding contractual matters. In addition, both buyers and suppliers are hampered by asymmetric information about the marketplace. Building Markets has found that addressing the information gap facing all stakeholders is a key component in developing domestic business capacity and maximising the economic impact of the international presence in countries where it has worked.

The SMI consists of a suite of six services designed to address obstacles and information gaps. Building Markets supports both buyers and suppliers, enabling them to work together more effectively, without sacrificing quality or value for money. The project services include:

- **Training**: Targeted training seminars are provided to local suppliers, to improve their understanding of procurement processes and enable them to successfully bid on, and win, contracts. This increases capacity and strengthens competition by improving supplier knowledge of business standards, procurement procedures and contracting requirements. Additional training modules on project management, business accounting, sales and marketing, and proposal writing were developed in Afghanistan and may be implemented elsewhere. Specialised training on the procurement processes of specific buyers is also offered;

- **Tender distribution**: The purpose of this service is to collect tender announcements and other business opportunities and distribute them to local companies. To reach the maximum number of businesses, information is disseminated online, via email or SMS. Hard copies of tenders are distributed through a tender distribution point in country offices, catering to local companies that have limited or no Internet access. Tender distribution also enables buyers to achieve greater transparency in their tender outreach, while expanding the pool of bidders;

- **Business matchmaking**: This bridges the demand of buyers with the capacity of local businesses by providing custom reports to match institutional buyers’ requirements with local providers of goods and services. Additional services that promote market linkages include site visits, vendor days, networking opportunities and other events attended by buyers and suppliers;
5.4 Building Markets’ experience in Afghanistan, Haiti, Timor-Leste and Liberia

5.4.1 Afghanistan

Building Markets implemented the Afghanistan Marketplace Initiative (originally known as the Peace Dividend Marketplace – Afghanistan) to increase the economic impact, and the resulting peace dividend, of the massive international military, aid and humanitarian presence in Afghanistan. Set against a backdrop of transition, including military withdrawal and decreasing levels of international spending, many argue that the key to Afghanistan’s future success lies in the continued development and support of its private sector.

The Afghanistan Marketplace Initiative began as a pilot project in Kabul in 2006, funded by CIDA, and subsequently expanded to several regions in Afghanistan. Field offices were established in Mazar-e-Sharif, Jalalabad, Kandahar and LashkarGah, where funding from the United Kingdom’s Department for International Development (DfID) allowed for the establishment of a fully-staffed office. The initiative was operational for six years, closing in March 2012.

Its experience in Afghanistan provided an important testing ground for the SMI concept and allowed Building Markets to demonstrate the strong impact of the suite of services it offers. Overall, the Afghanistan programme helped local businesses win contracts worth over US$1 billion and enabled them to create or sustain approximately 130,000 six-month jobs or 65,500 full-time equivalent jobs. This constitutes a grant effectiveness indicator of US$212 spent by donors per full-time equivalent job.

The Afghanistan programme helped local businesses win contracts worth over US$1 billion and to create or sustain approximately 130,000 six-month jobs or 65,500 full-time equivalent jobs. This constitutes a grant effectiveness indicator of US$212 spent by donors per full-time equivalent job.
In interviews with several aid agencies and military procurement officers, Building Markets found that the business directory was deemed a valuable and reliable source of business information. Some buyers made it mandatory for local businesses to be included in the directory, prior to pre-registration in their own systems. Buyers reported that the number of bids increased and the quality of bids received improved over the lifespan of the project. Afghan suppliers who attended training sessions felt they improved their understanding of procurement concepts, they bid on more tenders, and, alongside other factors, attributed US$144 million worth of contracts to the training they received from 2006 to 2012. Suppliers using the tender distribution service appreciated the convenience of the website and the relevance of the notifications they received. Businesses have reported winning US$190 million as a result of using this service.

International buyers are increasingly turning to Afghan entrepreneurs who drive job creation and GDP growth. By directly involving the domestic private sector in reconstruction and other economic opportunities, business can play a positive role in stabilising Afghanistan. As international spending draws down in the coming years, or shifts towards the extractive industries and other forms of FDI, the government of Afghanistan’s procurement needs will also afford an opportunity to further support the national economy, providing continued (albeit more limited) opportunities for local businesses.

### 5.4.2 Timor-Leste

On the heels of the Afghan pilot project, the idea for the Timor-Leste Marketplace Initiative (originally known as the Peace Dividend Marketplace – Timor-Leste) also originated from the findings of the EIP project (see above). The research highlighted the missed opportunities of the 1999 – 2004 period, during which the UN mission could have made a more significant impact on local economic recovery. Due to uncertainty in the local market, including a lack of information on market prices and a lack of mandate for local procure-
ment, it was indeed rare for large buyers from the international community to source locally. The Marketplace Initiative, launched in 2007 with support from the Australian Agency for International Development (AusAID), addressed this problem through its directory, matchmaking, tender distribution, advocacy and market research services.

**Box 5.2: Revitalising cross-border trade**

In November 2010, Building Markets hosted an event on the border between Timor-Leste and Indonesia, which 27 Timorese business people and 21 entrepreneurs from Indonesia attended. In addition, representatives of local government and the chambers of commerce on both sides of the border, a representative of the government of Timor-Leste, and Indonesian border police and customs officials participated. The purpose of the meeting was to remove obstacles to cross-border trade and to facilitate communication and business relationships between entrepreneurs on both sides of the border.

This meeting was one of the first of its kind since Timor-Leste’s independence. Participants indicated that a lack of communication was one of the primary obstacles to trade, and took the opportunity afforded by the meeting to network and exchange information. Discussion also revolved around customs requirements and the importance of ensuring that Timorese suppliers are fully apprised of the rules and regulations.

Since the event several steps have been taken by the participants to follow up on contacts and pursue commercial opportunities.

In addition to facilitating linkages between large international buyers and local entrepreneurs, the SMI in Timor-Leste adopted an innovative approach to matchmaking in order to extend economic opportunities to the remote, rural districts of the country. Called micro matchmaking, this service primarily focused on agricultural products and used mobile teams to help connect small farmers to buyers in Dili, the capital city, and across the border into Indonesian West Timor.

With Indonesia being Timor-Leste’s largest trading partner and the agricultural sector being central to Timor-Leste’s non-oil growth and development (World Bank, 2010), Building Markets’ micro matchmaking activities played a valuable role. In 2011, as the project drew to a close, entrepreneurs on both sides of the border were much more aware of potential opportunities, they had made important connections for future trade relations, and Timorese business owners were more aware of the standards expected of them, as well as the rules and procedures they needed to follow in order to export successfully.

The other dimension to opportunities for local purchasing in Timor-Leste was the emergence of local content requirements enacted by the Timor-Leste National Petroleum Authority, for oil and gas companies with concessions to extract natural gas in the Timor Sea. Services such as the directory, matchmaking and tender distribution proved to be highly valued resources to these companies and their sub-contractors who were relatively new to Timor-Leste and were unfamiliar with the business environment.

At project end, the SMI in Timor-Leste had helped local businesses win contracts worth over US$20 million and had registered over 3 000 businesses in the supplier directory.
Over its lifespan, the project received support from AusAID, the government of Norway, the Arsenault Family Foundation, Eni S.p.A., and the government of Canada.

5.4.3 Haiti

The Marketplace Initiative in Haiti (originally known as the Peace Dividend Marketplace – Haiti) started in June 2009 with funding from CIDA. Its goal was to help reduce poverty in Haiti by breaking down barriers to local procurement and increasing the participation of local businesses in the country’s development. Heavily dependent on foreign aid, Haiti is host to a multitude of international organisations (IOs), including UN peacekeeping forces, numerous bilateral and multilateral agencies, and up to 20,000 NGOs. After the devastating earthquake of January 2010, the project focused on increasing the participation of local businesses in reconstruction efforts.

Access to SMI services in Haiti helped small businesses get back on their feet. Contracts awarded to local businesses in the wake of the earthquake were directly responsible for allowing businesses that had seen large sums of their capital destroyed, to rebound and rebuild. Many of the contracts facilitated by the SMI established long-term business relationships that will increase the sustainability and stability of local firms. While the current bulk of transactions occurs between IOs and local businesses, there is also a trend towards more business-to-business transactions – a sign of a healthy economy (Fischer & Reuben, 2000; Willem to Velde, 2002).

Overall, the SMI in Haiti helped local businesses win 1,332 contracts worth more than US$28 million. Through verification surveys and registration in the Haiti Business Directory, the project brought online visibility to 3,965 Haitian businesses, including 972 that are female-owned. Over 1,000 businesses received training, which helped to improve their knowledge about procurement processes and boosted their ability to compete for and win contracts. Eighty-two per cent of trainees surveyed three months later:

Box 5.3: Sourcing local products for long-term sustainability

The mission Technique de Taïwao, which runs agricultural and food development programmes in Haiti, used to import all its heavy machinery and equipment from Asia, often spending months waiting for items to arrive. The lag-time slowed down productivity and delayed project completion dates.

It also affected the mission’s attempts at sustainability. “All of our projects end up getting turned over to our Haitian counterparts at the end of completion,” Yang Feng-Hsu, the mission’s project manager explained. “When the machinery was coming in from Asia, the transfer process was very complicated. You had instructions in Chinese, and you had parts that could only be ordered from Asia. This created a very messy supply chain that could potentially cause a project to be stopped or seriously delayed.”

Building Markets helped the mission connect with a Haitian business which could source equipment locally. This allowed the mission to buy quality equipment from trusted suppliers and also provided an in-country resource in case of any issues, or if replacement parts were needed, making it more sustainable in the long run.
later reported that thanks to the training, they had increased the number of contracts they bid on. Businesses were further helped to access contracts with the distribution of 1,081 tenders. More than 80 per cent of tender distribution users surveyed said that they found a tender on the site that they would not have found elsewhere.

Building Markets estimates that the contracts it helped to facilitate created 11,604 jobs that lasted on average one month. This is equivalent to 967 full-time jobs for one year. A quarter of surveyed businesses used the profits deriving from contracts to invest in their businesses—either in training staff, buying new equipment or expanding their operations. Eighty per cent of contracts won by surveyed businesses led to a follow-on contract. This demonstrates how the creation of linkages increases the stability of local businesses.

Although representing only a fraction of the aid that flooded into Haiti after the earthquake, the results of the SMI project further contribute to the demonstration effect of contracting. Many of the businesses that won contracts with the help of the Marketplace Initiative were very small: 56 per cent of the contracts went to businesses with fewer than 20 employees. This demonstrates the project’s focus on SMEs; its activities open up the market for small businesses rather than simply channelling contracts to the ‘usual suspects’ that have traditionally dominated the market. For example, the construction firm, Tempo, which has fewer than ten salaried employees, used construction managers to manage teams of over 100 temporary workers for its US$1.5 million United States Agency for International Development (USAID) contract to reconstruct the Haitian parliament building. The businesses that have benefited from the project services help make the case that in any post-disaster economy, local businesses should be at the heart of development and reconstruction efforts (www3.weforum.org).

### 5.4.4 Liberia

The SMI in Liberia began in September 2011 with support from Humanity United, and the project was formally launched in April 2012 with support from USAID and BHP Billiton Liberia Iron Ore. By June 2012, over 1,300 businesses had been registered in the Liberia Business Directory, the project had released its first market overview report analysing data from interviews with over 750 local firms and nine international buyers, and all other project services were fully operational.

Like Timor-Leste, Liberia is presently experiencing a considerable inflow of FDI. More than US$12.6 billion has been negotiated in concession agreements (Burger, 2011) since 2006, giving Liberia one of the highest FDI-to-GDP ratios in the world (CIA, 2012). However, significant FDI in the mining, energy and agriculture sectors has yet to impact the livelihoods of most ordinary Liberians. The European Commission (www.ec.europsa.eu) estimates that 76 per cent of the population live below the poverty line of US$1 a day, and 52 per cent live in extreme poverty of under US$0.50 a day. In this environment, repeated announcements of new concessions have created rising public expectations of increased employment that have yet to be met.

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**More than US$12.6 billion has been negotiated in concession agreements since 2006, giving Liberia one of the highest FDI-to-GDP ratios in the world.**
Against this backdrop, the government of Liberia (GoL) has adopted a growth and development strategy that includes among its key priorities the need to strengthen the environment for private sector growth and job creation. More specifically, the GoL has placed a strong focus on SME development, recognising that SMEs are the engines of growth and job creation (Ministry of Commerce and Industry of the GoL, 2010). The GoL, numerous donors, and several MNCs have identified business linkages between concessionaires and local SMEs as a key way to foster SME development and spur job creation. In addition, the R&D effort continues to be driven by substantial aid provided through international NGOs and UN agencies. While the UN’s peacekeeping mission (UNMIL) is implementing a prolonged draw-down, its purchasing needs continue to provide opportunities to engage local entrepreneurs.

The SMI in Liberia is examined in greater detail within the Liberia case study contained in this book and will, therefore, not be elaborated on here. In terms of Building Markets’ global experience, Liberia presents perhaps the greatest opportunity to leverage local procurement for sustained medium-term impact on SME development, because many MNCs are in an early exploration phase and are poised to deepen their investments for several decades to come.

5.5 Common barriers, simple changes

The SMI and other similar interventions have proven to be instrumental in facilitating business linkages and creating opportunities for the local private sector to grow through its involvement with large international buyers. Building Markets’ experience indicates that several common barriers are derived from similar practices and mistakes on both the buyer and supplier sides that can be fairly easily addressed directly, without a heavy investment of money or time and without sacrificing quality, standards and value for money. Instead, addressing these barriers often requires changing attitudes and ingrained habits.

Buyers can do the following:

- **Limit the use of closed prequalification lists**: Where possible, open up the tendering process to allow more companies to bid. This encourages competition, reduces collusion and allows new players to enter the market;
- **Have patience and communicate**: Try to aid communication by producing documents in the local language as well as in English. Sharing information about expected standards and future procurement plans will help local businesses to invest in meeting demand;
- **Trial longer tender submission deadlines**: Tight deadlines may be lowering the quality and quantity of bids from local businesses;
• **Ensure payments are made on time and offer advance payments:** Credit is often very difficult for local firms to access, and so without stable cash flow it is impossible for them to complete projects to a high standard while investing in their staff and equipment. Procurement officers should make prompt payment a priority and increase the use of advance payments, where feasible;

• **Reduce the size of contracts:** Breaking up or ‘unbundling’ contracts into a few smaller contracts will make it easier for local (predominantly small) businesses to compete;

• **Offer training on procurement processes and technical standards, if possible:** This will help local firms increase their bidding skills and improve their ability to carry out more technically complex work; and

• **Encourage joint ventures between local and international firms:** This allows local enterprises to participate in larger contracts while benefiting from opportunities for technology and capacity transfer.

Local enterprises can do the following:

• **Build a portfolio, show past experience:** Procurement officers repeatedly recommend that local businesses create proper documentation of past performance. This shows that a business is professional and takes its work seriously;

• **Offer detailed information in tenders:** The most competitive tenders thoroughly describe the relevant materials to be provided (for goods), personnel requirements (for services) and financial planning ability. The lack of accredited standards in post-conflict and fragile environments makes this level of detail extremely important for buyers seeking to minimise risk;

• **Justify pricing:** When submitting bids, businesses should stick to sensible, justifiable pricing. Most procurement officers can spot a poorly thought-out bid, and it only hurts the credibility of the business;

• **Pay attention to customer service:** Managing relationships is key to retaining business. International organisations will be more likely to re-contract a business they worked with well in the past;

• **Pay attention to stock quantities:** Local businesses should watch market trends and stock up on materials, as appropriate. Businesses that can supply hard-to-find materials will find IOs and companies coming back for more;

• **Partner with other businesses:** Where small businesses in particular are struggling to win international contracts, they can consider partnering with other companies to offer greater expertise and experience, and reduce overhead costs; and

• **Ask for feedback:** In order to improve, businesses should ask for feedback when they fail to win tenders and upon completion of a project.

Simply by changing their approach to doing business with one another, buyers can level the playing field and local businesses can improve their professionalism and capacity to deliver.
5.6 Conclusion

The SMI implemented by Building Markets offers an innovative approach to promoting SME development through business linkages. Since the first pilot project in 2006, the suite of six services has evolved and has been adapted to four different country contexts with a different mix of large public and private buyers. In each case, the services have helped promote local procurement, filled gaps in market information and strengthened local business capacity.

The business data collected through the project and the associated analysis are, in some cases, the only or most comprehensive information available about the local private sector, contributing to a better understanding of these markets and addressing a very basic barrier to local procurement. Providing training to local businesses, increasing their access to business opportunities and improving their understanding of how to engage with international buyers and meet their expectations can make a considerable difference in terms of their capacity to deliver effectively.

Building Markets’ experience suggests that local procurement is becoming more mainstream and forming part of the standard operating procedures of many large organisations. This is likely to increase as large organisations see more local content requirements being integrated into concession agreements, and as they take the initiative to adopt local content policies for their global operations. Building Markets has found that starting early (i.e. as international presence in a country grows) is important for leveraging their buying power and spending the development and investment dollar twice, thereby enabling local entrepreneurs to drive economic recovery and job creation.
Notes


2 Unless otherwise indicated, all monetary values are expressed in US dollar (US$).

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6. Inclusive business can transform poverty into prosperity: Experiences by UNDP’s African Facility for Inclusive Markets

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6.1 Introduction

Economic growth, which is essential for development, is largely driven by the private sector – from MSMEs to MNCs. Six of the ten fastest-growing economies in the world over the past decade are in Africa, and the overall GDP growth rate of sub-Saharan Africa is expected to reach 5.4 per cent in 2013, making it the fastest-growing region in the world (www.africaneconomicoutlook.org). However, Africa’s impressive recent economic growth has been largely ‘jobless’ growth and has failed to provide job and income opportunities for the majority on the continent.

Therefore, inclusive growth must address the phenomenon of ‘jobless’ growth and must tackle critical issues to create inclusive employment and income-generating opportunities for the majority in Africa. Jobs are first and foremost created in the private sector, and as Helen Clark, the head of the UNDP, states: “Businesses are engines of growth and have the potential to help improve the lives of people through their investments and activities.”

The landscape of global human development and official development assistance is changing rapidly. Especially, the area of engaging and partnering with the private sector has received significantly more interest in recent years, as embodied in discussions at the Busan Forum for Aid Effectiveness and the statement issued by 11 of the world’s largest bilateral donor agencies.

There is a paradigm shift from traditional aid to sustainable development, from official assistance focusing on governments to the inclusion of the private sector with its core business. This stresses the importance of inspiring the private sector to use inclusive business models, and enthusing governments and development partners to develop inclusive markets.

6.2 The UNDP’s IMD approach

The UNDP has been a leading agency in promoting private sector partnerships and IMD through projects and initiatives such as the Growing Sustainable Business (GSB) initiative which started in 2003. The UNDP’s ambition is to foster broader and more strategic alliances with the private sector around key development challenges of common concern, such as the provision of energy, job creation and supporting green growth.
IMD focuses on developing private sector markets to make them more inclusive of and beneficial to low-income groups as producers, consumers and employees. Specifically, IMD seeks to strengthen value chains to empower small enterprises, producers and distributors to participate in and benefit from the existing and potential markets in which they do business.²

The UNDP’s global private sector strategy for IMD combines private sector development and private sector engagement.³ The objective is to stimulate sustainable economic growth that creates jobs and thereby reduces poverty – primarily by ensuring that small enterprise owners and their employees participate in the growth of expanding markets. The most frequently employed approach to IMD is the development of value chains with growth, job and income generation potential.

IMD is a useful approach to employ when partnering with the private sector to inform, inspire and initiate inclusive business models and to integrate low-income populations into their value chains. To support IMD implementation, the UNDP published an IMD handbook and three related tools: Assessing Markets, Inclusive Business Models and Brokering Partnerships.⁴

6.3 The power of inclusive business models and value chains

Inclusive business is a relatively new approach, encompassing those businesses that consciously include low-income people in their value chains as producers, consumers, employees and entrepreneurs. Such businesses are not only profitable, but also improve the lives of low-income people and communities. Therefore, it is key for scale and sustainability to engage the private sector as a strong partner, i.e. with its core businesses, beyond philanthropy and CSR.

In 2008, a global UNDP report noted that inclusive businesses include low-income people on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment.⁵

Inclusive business models by the private sector, supported by public sector and development partners, can turn poverty into prosperity. The UNDP promotes exactly such business models, where the pursuit of wealth creation, human development and environmental sustainability are seen as fully compatible.⁶ What can the private sector do to contribute to sustainable development?

First, businesses can benefit low-income people by including them in their core business operations, whether as suppliers or business partners in their value chains, as employees in the workplace, or as consumers in the marketplace. There are many
examples of companies which have successfully integrated low-income people into their business models.

A to Z Textile Mills of Tanzania, for instance, is an African producer of long-lasting insecticide bed nets. Its products help in the fight against malaria, and the production provides work for more than 3,000 women. This was made possible by a broad PPP involving, among others, the Japanese chemical company Sumitomo, which is member of the Business Call to Action (BCtA), a UNDP-supported initiative challenging companies to develop innovative business models.

Second, the private sector can make important contributions to advancing sustainable development by bringing low-cost innovations to market. The low-cost mobile technology exists to conduct life-saving heart scans; there are energy-efficient LED lamps which enable children to do their homework at night; there are smokeless stoves which support better health; and mobile phone and Internet applications which help small farmers and fishermen get access to better information and prices.

One such innovative product solution in the agri-business field comes from Amiran Kenya, which won the 2011 Youth Empowerment MDGs award in Kenya. Amiran’s Farmers Kits offer local small-scale farmers affordable access to modern agricultural technologies, methods and inputs to suit the climate, terrain and agricultural experience of the farmer. Innovations like these, when accessible to low-income people, have the potential to significantly contribute to making markets more inclusive.

Third, and perhaps a more traditional way for businesses to support development goals, is giving back to the community through CSR activities and philanthropy. The scope and magnitude of these kinds of activities have grown exponentially in recent times – and indeed they need to be brought to scale more consistently, to have a wider and more sustainable impact.

In conclusion, inclusive business models and inclusive value chains generate jobs, help low-income populations increase their productivity and income, and enable people to access affordable products and services. Several prominent examples show that this paradigm shift towards a new way of doing business is possible, and that it pays off in sectors as diverse as agriculture, healthcare and financial services.

6.4 UNDP’s continental platform: AFIM

In November 2010, the UNDP launched AFIM, specifically for Africa. This project constitutes a continental platform working in partnership with the public and private sectors, development partners and UN agencies in Africa. AFIM works to reduce poverty and accelerate progress towards sustainable development, by supporting inclusive growth and inclusive market development across sub-Saharan Africa.

The facility aims to achieve four main goals:

- Increase the private sector-related capacity of targeted, regional institutions and governments;
• Strengthen regional and country-level initiatives;

• Build a broad-based alliance of partners for IMD in Africa (private sector, regional institutions, UN agencies, donors and other development partners); and

• Improve access to finance for small producers and MSMEs.

AFIM, which builds on the work of existing pro-poor national and regional initiatives, serves as a platform for coordinating inclusive growth activities between various partners. The platform also facilitates knowledge sharing and access to finance, advances tangible value chain projects, and disseminates best practices in IMD where the emphasis is on creating opportunities for low-income groups – especially women and youths.

The project’s particular focus is on promoting IMD in Africa through developing and expanding regional value chains in job-creation sectors. Due to the importance of agriculture (which employs about 60 per cent of people in sub-Saharan Africa) and its key relevance for food security, AFIM focuses on agriculture and agribusiness. Thus far, AFIM has undertaken and published several mappings and studies on the ‘Roles and Opportunities of the Private Sector in Africa’s Agro-Food Industry’ and ‘Inclusive Business Finance’. The AgriBusiness Forum 2011 (in Johannesburg) and 2012 (in Dakar) were co-organised with the NGO EMRC, and aimed to boost Africa’s agricultural sector by bringing together African agribusiness representatives, investors and policy-makers from all over Africa and beyond.

More specifically, the UNDP-led high-level public–private dialogue held in Johannesburg in October 2011 led to the adoption of the Johannesburg Declaration ‘Engaging the Private Sector in Furthering Africa’s Agribusiness, Food Security and Nutrition Agenda.’ This, the first joint declaration by the public and private sectors, calls for joint action to advance Africa’s agro-food agenda.

AFIM has built an alliance of IMD partners, including African Development Bank (AfDB), the African Union Commission (AUC), the New Partnership for Africa’s Development (NEPAD) Planning and Coordination Agency (NPCA), the NEPAD Business Foundation (NBF), the Pan-African Agribusiness Consortium (PanAAC), Regional Economic Communities (such as EAC, ECOWAS, COMESA), UN agencies and bilateral development partners.

6.5 AFIM’s innovative way of engaging the private sector through project facilitation platforms

AFIM has been establishing project facilitation platforms (PFPs) in East, West and southern Africa to boost food production as well as job and income opportunities for farmers, through engaging the private sector to advance agriculture value chains. Through these platforms, government stakeholders, UN agencies, the private sector, farmers, financiers and civil society discuss partnerships and their respective value-add as partners, in terms of strategic agri-food value chains.

The first such platform for East Africa was launched in Nairobi, bringing together East African Community (EAC) partners from Kenya, Tanzania, Uganda, Rwanda, Burundi...

The platforms are unique in that they focus on cross-border and regional value chains, bringing together all the relevant players and building the capacity of regional institutions to organise such platforms themselves in the future. Furthermore, they build bridges between the public and private sectors, and help to resolve issues arising between policy level and practical project implementation. The West Africa platform, attended by representatives from 13 countries and launched together with the Economic Council of West African States (ECOWAS) in Dakar, Senegal, has been advancing the value chains of cassava, mango, onions and palm oil.

To catalyse the field implementation of selected regional value chains, AFIM has put in place a catalytic funding programme for promising value chain projects, in addition to developing an African Supplier Development Programme (SDP). The SDP aims to develop the capacities of African suppliers, i.e. smallholder farmers and SMEs in agricultural supply chains, to increase their productivity, reduce post-harvest losses and thereby increase income and production levels. The programme has received strong interest from African and international lead firms which want to strengthen and grow their supply chains.

6.6 Increased importance of innovation for transformational results

To achieve greater development effectiveness and unleash the power of the markets and of people, innovation and inspiration are increasingly recognised as key drivers. Leading thinkers on the theory of development change pose the question: ‘How are transformational results achieved?’ As yet there are no widely accepted answers.

What seems to come to the fore is a recognition of the importance of people, societies and institutions in developing their own innovations, sometimes inspired by leading examples which are shared rapidly through communication technologies. Transformation differs from change in the sense that it is more fundamental, sometimes even ‘disruptive’ (e.g. the Arab Spring), an (r)evolution that has grabbed the attention of many African governments.

Transformation comes from a deeper level within the entity being transformed, and gives rise to a change in status level, just as a caterpillar transforms into a butterfly. In terms of international development, this could see one form of governance changing into another, typically not without difficulties and periods of disruption. In terms of business it could mean a drastically different business model applying a new way of thinking and doing business. ‘Breakthrough’ innovations and related shifts in awareness can inspire such transformations.
6.7 Transformation from jobless to inclusive growth through inclusive markets

A paradigm shift is taking place in the spheres of both business and development actors. Inclusive business models provide a useful new approach in advising new business thinking beyond CSR and BoP approaches. For development and government actors, IMD represents an innovative, holistic conceptual framework integrating economic and social development elements into a pragmatic multi-stakeholder development approach.

There is a clear need for inclusiveness and collective action, because no single actor alone can develop new markets in an inclusive way. Only through inclusiveness and (self-)empowerment will the transformation from jobless to inclusive growth happen. Further research is recommended to build the evidence base of inclusive business models, related value chain development and the more holistic IMD paradigm. Advancing both the evidence base and practical action-oriented implementation will build the envisaged future on a step-by-step, leap-by-leap basis.

Looking forward, one of the UNDP’s ambitions is to build broader and more strategic alliances with the private sector and other partners around key development challenges of common concern, such as the provision of energy, job creation and supporting green growth. In doing so, not only is development stimulated, but the potential of as-yet-unrealised markets is unlocked. Innovation and new ways of development and doing business will increasingly play vital roles in achieving transformative results, towards an envisaged and desired future.
1. The 2011 High-Level Forum on Aid Effectiveness in Busan stresses the importance of partnering with the private sector, see Joint Statement on Expanding and Enhancing Public–Private Cooperation.

2. Eleven of the world’s largest donors calling for more private sector partnerships, see Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development at the UN Private Sector Forum 2010, http://www.enterprise-development.org/page/download?id=1645


5. For UNDP’s Inclusive Market Development (IMD) handbook and related tools (2010) see www.undp.org/africa/privatesector


7. For more inclusive business cases and relevant reports see UNDP’s Growing Inclusive Markets (GiM) initiative.

8. Sumitomo Chemical is a Business Call to Action (BCtA) member company.

9. For more information on UNDP’s African Facility for Inclusive Markets (AFIM) see www.undp.org/africa/privatesector

10. See UNDP AFIM’s roles and opportunities of the private sector in Africa’s agro-food industry report, www.undp.org/africa/privatesector

11. For the Johannesburg Declaration and the conference report on the AgriBusiness Forum see www.undp.org/africa/privatesector


13. UNDP, AFIM and GiM have been working on documenting African inclusive business cases and will launch a major report on this topic in 2013.
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PART II
Case studies
7. Inclusive business in Kenya: Perspectives and opportunities for shared value

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7.1 Introduction

Inclusive business models seek to impact on social and environmental challenges through the market. These are sustainable business solutions that integrate the poor and impact on their livelihoods or standard of living. In Kenya, private-sector engagement in inclusive business is widespread and growing. The trailblazers in this regard are the information technology (IT)-based businesses and products which have proven extremely successful in meeting social needs. Growth in mobile phone ownership and usage has provided a viable, cost-effective and widespread platform for IT-based interventions. Agro-based value chain intervention has also shown marked success and proven impact, given the predominance of agriculture in the Kenyan economy. These two sectors dominate the inclusive business arena. Still, there are notable examples in the financial sector, and a couple of disparate efforts in crafts, health, water and sanitation, as shown in the Appendix. In general, the inclusive business model offers great promise for Kenya in efforts to address poverty.

7.2 The Kenyan context

7.2.1 Economy

Kenya is East Africa’s largest and leading economy. In 2010 the GDP stood at US$42.450 billion, with a per capita income of US$1,600. Real GDP growth rates in the last three years were 2.9 per cent (2009), 5.6 per cent in 2010 and 4.4 per cent in 2011 (CIA, 2012). The economy is anticipated to grow at 5.2 per cent in 2012 (Republic of Kenya, 2012). The Kenyan economy is predominantly agricultural, with a strong industrial base. The services sector has also grown considerably, driven by the tourism and financial sectors.

State of poverty

- Demographics

In 2012, Kenya had an estimated population of 43 million (PRB, 2011). The majority of this population, namely 78.3 per cent, comprises youths below the age of 35 years (IEA, 2010). Indeed, half of the population is below the age of 19 years, while the productive age of 15–65 years comprises 51 per cent of the population (KIBHS, 2005/6; KNBS, 2009). The greater majority of citizens, approximately 80 per cent, live in the rural areas. Women constitute 51 per cent of the population, and men 49 per cent (KNBS, 2009). The average household size is 5.1 persons (KIHBS, 2005/6). The population growth rate has steadily declined from a high of 5.4 per cent in the 1980s, to approximately 3.5 per cent (KDHS, 2010).
Poverty is considered to be acute and endemic in Kenya, where 67 per cent of the population lives on less than US$2 a day. This declines to 43 per cent when using the amount of US$1.25 per day. Food poverty declined marginally from 48.7 per cent in 1997 to 45.6 per cent in 2005/06. The incidence of rural poverty declined from 50.7 per cent to 42.2 per cent between 1997 and 2006/2007, while the urban incidence increased from 38.3 per cent to 40.5 per cent over the same period (KIHBS, 2005/6). The World Bank (2008) posits that the key drivers of poverty and inequality in Kenya can be summed up as a lack of access to income-earning opportunities and access to basic services.

Inequality manifests in various forms, including: income, lack of equal access to productive assets, social and political exclusion, and the inability of certain groups within society to access key social services.

Kenya has been described as highly unequal, ranking among the top ten most unequal countries in the world and fifth in Africa (SID, 2004). Inequality is worse in rural areas: the richest 20 per cent of the rural and urban populations earn 62 per cent and 51 per cent of incomes respectively, while the bottom 20 per cent earn 3.5 per cent of the rural income and 5.4 per cent of the urban income. Inequality manifests in various forms, including: income, lack of equal access to productive assets, social and political exclusion, and the inability of certain groups within society to access key social services (SID, 2004).

Unemployment and underemployment have been identified as Kenya’s most difficult and persistent problems (Republic of Kenya, 1969, 1983, 2008a & b). Unemployment and underemployment are currently estimated at 40 per cent. The youth comprise 64 per cent of the unemployed, while urban unemployment, at 19.9 per cent, is more than double that of the rural areas (Omolo, 2010).

### Table 7.1: Kenya at a glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita 2010</td>
<td>US$1,600 (2010 estimate)</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>59.48 years (2011 estimate)</td>
</tr>
<tr>
<td>Population</td>
<td>43 million (2012 estimate)</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>2.5% (2011 estimate)</td>
</tr>
<tr>
<td>Median age</td>
<td>18.9 years (2011 estimate)</td>
</tr>
<tr>
<td>Urban population</td>
<td>22% of total population (2010)</td>
</tr>
<tr>
<td>Urbanisation rate</td>
<td>4.2% annually (2010–2015)</td>
</tr>
<tr>
<td>HIV/AIDS prevalence</td>
<td>6.3% (2009 estimate)</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>85.1% (2003 estimate)</td>
</tr>
<tr>
<td>Overall unemployment</td>
<td>40%</td>
</tr>
<tr>
<td>Youth unemployment</td>
<td>45.5% (15–19 years) / 35.8% (20–24 years) / 22.8% (25–29 years)</td>
</tr>
</tbody>
</table>

Sources: CIA (2012); Omolo (2010)
The business sector

The structure of Kenya's private sector is best understood from an analysis by the Kenya Private Sector Alliance (KEPSA), based on the 2004 economic survey which categorises the country into four main sectors, namely:

- non-monetary economy;
- monetary economy;
- government services; and
- private households.

The monetary economy, which is mainly composed of the private sector, accounts for 80 per cent of the country’s GDP. The leading economic sectors are agriculture, trade, tourism, manufacturing, transport and financial services (KEPSA, 2005). The informal sector comprises the bulk of the private sector. In 1986, almost 80 per cent of all employment was in the formal sector, but by 2008 the inverse was true, with 80 per cent of employment being in the informal sector. Formal sector employment growth stagnated at under two per cent per annum over the last decade, while informal sector employment growth ranged between five and seven per cent (except in 2008) (IEA, 2010).

7.3 Policy and regulatory environment

7.3.1 Development planning

Kenya’s long-term development plan, Vision 2030, seeks to create a globally competitive and prosperous nation with a high quality of life by 2030. Vision 2030 aims to transform Kenya into a newly industrialising, middle-income country providing a high quality of life to all its citizens, in a clean and secure environment. The vision has been divided into three key pillars: economic, social and political. It also has several cross-cutting enablers to undergird the three pillars.

The economic pillar of Vision 2030 seeks to achieve a ten per cent GDP growth rate by 2012, and consistently sustaining this rate until 2030. The six key sectors within the economic pillar are tourism, agriculture, wholesale and retail trade, manufacturing, IT-enabled services and financial services.

The social pillar seeks to invest in the people of Kenya in order to improve the quality of life of all Kenyans by targeting a cross-section of human and social welfare projects and programmes. It targets education and training, health, the environment, housing and urbanisation, gender, children, social development, youth and sports.

The political pillar envisions a democratic system that is issue-based, people-centered, results-oriented and accountable to the public. This pillar is anchored in the transformation of Kenya’s political governance across five strategic areas: the rule of law; electoral and political processes; democracy and public service delivery; transparency and accountability; and security, peace building and conflict management.
These three pillars are anchored in macroeconomic stability, continuity in governance reforms, improved infrastructure, and enhanced equity and wealth creation opportunities for the poor (inclusion).

7.3.2 The Constitution of Kenya 2010
In August 2010, Kenyans voted for a new constitution. The Constitution of Kenya 2010 marks a radical departure from the previous constitution by providing an enhanced Bill of Rights, devolved governance, and the sovereignty of the people. Provisions within the constitution therefore have a major bearing on governance, political actors and business practices. Several new legislations have been enacted into law or are in the pipeline to become legislation. The most important legislation in terms of the private sector include the Companies Act 2009, the Consumer Protection Bill 2011, the Public Finance Management Act 2012, the Industrial Court Act 2012, the Environmental and Land Court Act 2011, the County Government Act 2012 and the Land Act 2012. All these legislative changes are being effected to ensure that legislation is in line with the new constitution.

7.3.3 Voluntary agreements
Numerous sustainability certification schemes are available in Kenya. Most aim to achieve triple bottom-line excellence. Generally, companies view voluntary schemes as a means to access markets – particularly international markets. Leading schemes include, amongst others, Fair Trade, UTZ, EuropeGap, the Rain Forest Alliance, the Marine Stewardship Council, the Forest Stewardship Council, the 4Cs (Concerned Citizens against Climate Change), the Kenya Flower Council, Eco-rating (Eco-tourism Society of Kenya), MPS, SEDEX and the Ethical Trading Initiative. Certification schemes play a key role in enhancing sustainable business practices and improving market positioning for companies, and are thus often pro-poor.

7.3.4 UN Global Compact
The UN Global Compact Network in Kenya is hosted by the Kenya Association of Manufacturers (KAM) and is engaged in the promotion of responsible and sustainable business practices, in line with the ten principles of the compact. The local network which was launched in 2009 currently has 80 members.

7.4 Key stakeholders
Key stakeholders driving the inclusive business concept and value chain management in Kenya are listed below. These include multilateral organisations, international donors, business associations, the national government, international development organisations, civil society organisations and companies. An inexhaustive list of various examples of these actors is provided below.

7.4.1 Multilateral organisations
The past four years have seen an increase in the number of multilateral organisations taking an interest in inclusive business. These include:
The UNDP

The GIM initiative is a UNDP-led global multi-stakeholder research and advocacy initiative that seeks to understand, enable and inspire the development of more inclusive business models around the globe, to help to create new opportunities and better lives for many of the world’s poor (www.growinginclusivemarkets.org). In addition, the UNDP’s GSB initiative facilitates enterprise solutions to poverty, in advancement of the MDGs. GSB engages the private sector in strategic partnerships and innovative business models that contribute to core business activities and local economic development. In Kenya, GSB worked with Airtel Kenya to imbed local payphone entrepreneurs, with CIC insurance to launch micro-insurance products, with Kevian Fruits to work with mango farmers, with Honey Care to develop new low-end distribution channels, with Kenya Nuts to work with macadamia nut farmers, and with Game Watcher as regards community water (http://undpke.digitalvision.co.ke/projects/40).

Business Alliance Against Chronic Hunger (BAACH)

BAACH harnesses business expertise to generate sustainable, market-based solutions to hunger and poverty. In Kenya, the alliance is led by a National Council which includes local members of the Global Steering Board, the government of Kenya, Monsanto, Tetra Pak, Western Seed Company and Promasidor / Nutro. Over 30 companies and organisations have joined the alliance and committed to action in Kenya (members.weforum.org/pdf/initiatives/baach_brochure.pdf).

7.4.2 International donor organisations

DFID

The Business Innovation Facility (BIF) is a three-year project that helps with the development and uptake of inclusive business models by companies in developing countries, by providing advisory support and facilitation as well as the exchange of information and insights. Projects lined up for Kenya include MAKIT, a micro-consignment model for the distribution of menstrual cups amongst women; SANERGY, which aims to improve sanitation in informal settlements; Text-for-Change, which seeks to provide market intelligence using mobile phone research; and Sunny People, which seeks to provide solar chargers for off-grid rural communities (www.businessinnovationfacility.org; www.dfid.gov.uk/Work-with-us/Funding-opportunities/Business/Business-innovation-facility/).

USAID

Development Innovation Ventures (DIV) aims to find and support breakthrough solutions to the world’s most important development challenges – interventions with the power to change millions of lives at a fraction of the usual cost (www.usaid.gov/div).

The Ford Foundation

The Ford Foundation’s programme on expanding livelihood options for poor households supports research and development organisations making investments in linking small-scale farmers to markets. The work focuses on creating market development policies and
doing action research to assess which markets and products offer the greatest potential to raise income and food consumption in marginalised communities where women and children, in particular, are vulnerable. The Ford Foundation is currently working in agriculture and poultry value chains in Kenya (www.fordfoundation.org/regions/eastern-africa).

**African Enterprise Challenge Fund (AECF)**

The AECF is a US$150 million private-sector fund hosted by the Alliance for a Green Revolution in Africa (AGRA). AECF aims to encourage private-sector companies to compete for investment support for new and innovative business ideas. The current funders of AECF are AusAid, the Danish International Development Agency (DANIDA), the UK’s DFID, the International Fund for Agricultural Development (IFAD), the Netherlands Ministry of Foreign Affairs (NMFA) and the Swedish International Development Cooperation Agency (SIDA) (www.aecfafrica.org).

**International Finance Corporation (IFC)**

The IFC has been working on inclusive business models for several years. In July 2010, the IFC launched a dedicated Inclusive Business Models Group to create the tools, resources and networks needed to help investment and advisory staff develop new ways to support IFC clients in scaling up their inclusive business models to reach more people at the base of the pyramid (www.ifc.org/inclusivebusiness).

**Innovations Against Poverty (IAP)**

SIDA launched IAP as a challenge to the private sector to develop products, services and business models that can benefit the people at the BoP and contribute to the fight against poverty and climate change. IAP was established to stimulate and support sustainable business ventures which might not otherwise be pursued by the private sector because of perceived commercial risks and the market uncertainties they present. Projects currently being supported in Kenya include SANERGY, which focuses on sanitation in the slums; Sunny People, which focuses on solar phone charging systems; MAKIT, a menstrual cup distribution firm; and Cafedirect (http://www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Challenge-Funds/Innovations-against-poverty/).

### 7.4.3 Business associations in Kenya

There are three major business associations in Kenya, all of which are involved in looking for business solutions to poverty.

**KEPSA**

KEPSA, founded in 2003, is the national apex body of the private sector in Kenya, whose mandate is private sector development. KEPSA provides a unified voice for the private sector through its advocacy for an enabling business environment, the capacity building of its members, and the building of strategic partnerships. KEPSA is currently involved in encouraging private sector innovation in addressing climate change under the Business Sector Programme Support II, funded by DANIDA. KEPSA is also involved in the IMD project of the UNDP which seeks, among other things, to facilitate investment in afford-

KAM
KAM is a representative organisation for manufacturing industries in Kenya. Established in 1959 as a private-sector body, KAM is currently the host of the UN Global Compact (UNGC) in Kenya. Besides its traditional role of lobbying for an enabling business environment for its members, KAM also offers a wide array of business development services to SMEs aimed at supporting the growth and development of the sector. Firm-level services offered on a cost-sharing basis include value chain development, market linkages, product design, trade credits and access to international markets (http://www.kam.co.ke/).

The Federation of Kenya Employers (FKE)
The FKE, Kenya’s leading employers’ organisation, is involved in advocacy, industrial relations, employment laws and related value-add services through management, consultancy and training. The FKE has been representing employers’ interests both locally and internationally since 1959. As part of its advocacy work, the FKE champions good corporate citizenship among its members, specifically in areas such as HIV management in the workplace, the eradication of child labour and the promotion of child education through its ‘adopt a school’ project, in collaboration with the International Labour Organisation (ILO) and the European Union (EU) (www.fke-kenya.org).

7.4.4 National government
The national government’s position on inclusive business is unclear. However, a number of government institutions and funds are involved in facilitating the growth of pro-poor businesses or business enterprises among the poor. Three institutions and two funds can be cited in this regard.

Development Finance Institutions (DFIs)
- Kenya Industrial Estates (KIE) Limited
  KIE was established in 1967, with the major role of promoting indigenous entrepreneurship by financing and developing MSEs through affordable financing, technology transfer and the provision of industrial sheds (www.kie.co.ke).

- Industrial Development Bank (IDB)
  IDB Capital Limited is a development finance institution established by the government of Kenya in 1973. Its mandate is to further the economic development of Kenya by assisting in the promotion, establishment, expansion and modernisation of medium and large-scale industrial enterprises (www.idbkenya.com).

- Industrial and Commercial Development Corporation (ICDC)
  The ICDC is the pioneer Development Finance Institution (DFI) in Kenya. The company was established in 1954 to facilitate the economic development of the country through the provision of medium and long-term financial solutions (www.ICDC.co.ke).
In general, these three institutions were created to support the fight against poverty through the establishment of enterprise. They have been key funders of leading enterprises in the region.

**Specialised funds**

- **Women’s Enterprise Fund (WEF)**
  The fund, which was established to provide alternative financial services to women who are excluded from the formal and informal financial sectors, offers accessible and affordable credit to support women as they start and/or expand their businesses for wealth and employment creation (www.wef.co.ke).

- **Youth Enterprise Development Fund (YEDF)**
  The YEDF was established in 2006 with the sole purpose of reducing unemployment among the youth, who account for over 61 per cent of unemployed in the country. The fund’s strategic focus is on enterprise development as a key strategy to increase economic opportunities for, and participation by Kenyan youth in, nation building (www.youthfund.go.ke).

**7.4.5 International development organisations**

There has been a marked move by international development organisations to create platforms that utilise the market as the key driver for social progress. Most of these projects involve partnerships with the private sector, with the development organisation engaging in non-strategic functions. The following are some of the key international development organisations involved in these arrangements.

**TechnoServe**

TechnoServe works with enterprising people in the developing world to build competitive farms, businesses and industries. The aim of the company is to find business solutions to poverty. TechnoServe has projects in the dairy, fruits and coffee sectors that aim to link producers to companies, while ensuring that they receive fair returns and the necessary support (www.technoserve.org).

**Solidaridad**

Solidaridad works to create sustainable supply chains from the producer to the consumer. This enables producers in developing countries to obtain better prices for better products, and helps preserve the environment. In addition, it helps companies in the marketplace to implement the principles of CSR and to find sustainable suppliers. Solidaridad is active in the coffee, tea and fruit sectors in Kenya (www.solidaridadnetwork.org/eastcentralafrica).

**SNV**

SNV started work in Kenya in 1967, with operations mainly located in the arid and semi-arid part of the country. SNV provides advisory services, promotes the development and brokering of knowledge, and supports policy dialogue at national level. It focuses on opportunities in the agriculture (dairy, livestock and horticulture), water, sanitation and hygiene, and renewable energy sectors (www.snvworld.org/en/countries/kenya).
ICCO
ICCO is an inter-church development agency that works on issues of fair and sustainable economic opportunities for people living in poverty. ICCO builds bridges between members of the business community and facilitates international cooperation (www.icco.eu/int).

7.4.6 Civil society organisations
Numerous projects are being run by non-profit organisations that have incorporated the poor as an integral part of their business model. Most of these are social enterprises whose major goal is to impact on social and/or environmental challenges. By their nature, they show numerous similarities to value chain interventions on the part of companies that aim to address poverty. Below are a few examples of non-profit initiatives.

Alive and Kicking
Alive and Kicking is an African social enterprise that manufactures balls for all types of sports. They not only provide balls for children, but also create jobs for adults and promote health education through sports (www.aliveandkicking.org).

KOMAZA
KOMAZA is a social enterprise which creates sustainable economic opportunities for farmers living in Africa’s semi-arid regions. Working through village-based field staff, KOMAZA partners with families and helps them plant and maintain small-scale, income-generating tree farms through microforestry (www.Komaza.org).

Kipepeo Butterfly Project
Kipepeo (Swahili for ‘butterfly’) is a community-based enterprise that supports the livelihoods of people living around Arabuko Sokoke forest in coastal Kenya, East Africa. The project incentivises communities to participate in conserving a forest with high biodiversity and endemism. Kipepeo, which seeks to demonstrate the tangible link between conservation and livelihood, currently sells butterfly and moth pupae and other live insects as well as honey and silk cloth produced by the community (www.Kipepeo.org). In return, the community has a reason for conserving the forest which safeguards its livelihood – something which has helped to stem the destruction of this rare coastal forest.

K-SIX
Established in 2006, K-SIX is a company limited by guarantee. Based in Nairobi, K-SIX brings together social purpose enterprises and social investors to achieve triple bottom returns. The company, which is hosted by AllaVida (a non-profit organisation), seeks to provide sustainable equity financing for inclusive businesses.

7.4.7 Other noteworthy companies
It is not possible to provide an exhaustive list of all the companies involved in inclusive business. Instead, this section seeks to highlight a number of these, in an attempt to portray the diversity of inclusive businesses in Kenya.
Honey Care
Honey Care Africa is a Kenyan company that manufactures and supplies Langstroth hives and related bee-keeping equipment to organisations, communities and individuals across the country. The overall objective of the company is to produce and market honey. To achieve this objective, the company has opted to work with rural community groups in accordance with an outgrower model. Honey Care company has worked with thousands of farmers through a ‘honey-for-money’ scheme that gives a guaranteed price for their honey (www.honeycareafrica.com).

Kenya Agricultural Commodities Exchange (KACE)
KACE, established in 1997, is the first and only national agricultural commodity exchange in Kenya. Its main activities include linking farmers and mainstream buyers: on a daily basis, KACE contacts market vendors for information on the prices which different markets pay for various commodities, before making available such prices to the farmers in real time. Modern ICT makes this possible through mobile phone handsets and personal computers. KACE also provides capacity enhancement, business training and technical assistance to farmers (www.kacekenya.co.ke).

Ecotact
Under the Ikotoilet project, Ecotact builds and operates high-quality, public, pay-per-use toilet and shower facilities on public land in urban centres, with particular emphasis on the most disadvantaged areas (urban slums, for instance). Ecotact uses a Build-Operate-Transfer model of PPP, entering into long-term contracts with municipalities to secure the use of public land (www.ecotact.org).

Child and Family Wellness (CFW)
To prevent needless deaths and illnesses such as malaria and diarrhoea by sustainably improving access to essential medicines, an American lawyer and a Kenyan pharmacist founded the Health Store Foundation, a franchiser of for-profit CFW micro-drugstores and clinics located in Kenya’s underserved rural areas and urban slums (www.cfwshops.org).

Safaricom Kenya
Safaricom is one of the leading integrated communications companies in Africa, with over 17 million subscribers. Safaricom Kenya, in partnership with Vodafone, created M-Pesa, an electronic money transfer product which makes financial transactions faster, cheaper and more secure. M-Pesa allows individuals and businesses to transfer money through a mobile phone SMS. Cash withdrawals and deposits can be made at registered retail outlets to pay for goods and services. Currently M-Pesa has 14 million subscribers (www.safaricom.co.ke).

K-REP Bank
K-REP Bank, which started operations in 1999, offers diverse products and services, including microcredit facilities (to low-income people), individual loans, wholesale loans (to microfinance providers), deposit facilities, letters of credit and bank guarantees. K-REP is a leading financial service provider that provides commercial banking services including
micro-finance loans. These loans are usually small and short term without the rigors of collateral. K-REP uses a group guarantee scheme and partial collateral, thus making it attractive for businesses in the BoP (www.k-repbank.com).

**SC Johnson**

In July 2006, working with partners Carolina for Kibera and the Coalition of Youth Entrepreneurs, SC Johnson formally co-launched the Community Cleaning Services business venture in three Nairobi neighbourhoods: Kibera, Mitumba and Mathare. The service cleans shared community toilets to improve cleanliness while generating an income for local entrepreneurs and creating jobs for others in the community. Entrepreneurs offer cleaning services directly to homes using SC Johnson products, such as Pledge® furniture care, Glade® air fresheners and Toilet Duck® bathroom cleaner (http://www.scjohnson.com).

**Grundfos LIFELINK**

Grundfos LIFELINK is committed to improving the living conditions of disadvantaged people in the BoP market by providing them with access to safe drinking water and other infrastructural platforms (www.grundfoslifelink.com).

**Fintrac**

Fintrac is a woman-owned and US-based consulting company that develops agricultural solutions to end hunger and poverty. In Kenya, the company works in six high-value product categories, namely passion fruit, chilli products, vanilla and spices, smallholder flowers, tree crops for processing (mango and cashew) and vegetables (onions, carrots, cabbages and tomatoes) for sale to local markets (www.fintrac.com).

### 7.5 Companies and inclusive business

#### 7.5.1 Active companies

In 2005, the term ‘inclusive business’ was coined by the WBCSD. It refers to sustainable business solutions that go beyond philanthropy and expand access to goods, services and livelihood opportunities for low-income communities in commercially viable ways. Inclusive business models identify synergies between development goals and the company’s core business operations. Sound inclusive models can deliver higher socio-economic value for communities, and present an exciting opportunity for the private sector, because they are 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.

**‘Buying from’: Integrating the poor in supply chains**

Buying from and contracting the poor into company value chains is a very common practice in Kenya – particularly in the agricultural sector. East Africa Breweries has a long history of contracting barley farmers. The company recently switched to using sorghum, and is aggressively encouraging sorghum production to meet its annual demand of...
32,000 tonnes. BAT Kenya Limited has tobacco leaf operations in Kenya and Uganda, where it contracts over 35,000 tobacco farmers. The Coca-Cola Company, in partnership with TechnoServe and the Bill & Melinda Gates Foundation, launched a project to enable over 50,000 small fruit farmers in Uganda and Kenya to participate in the company's supply chain for the first time ever. Promasidor Kenya Limited, the manufacturers of Sossi Brand, works with farmers from western Kenya to supply its manufacturing plant with soya beans. This model of integrating the poor in the supply chain is also common within localities. Hotels and restaurants across Kenya often encourage local communities to become suppliers of food items, as a means of building their social licence to operate.

‘Distributing through’ and ‘selling to’

Most Kenyan banks have begun pursuing a model of agency banking. This involves a bank appointing existing businesses to offer a variety of banking services, on its behalf, to its clients. Banks that have taken up these models include Equity Bank, Cooperative Bank, Kenya Commercial Bank and Chase Bank. Safaricom M-Pesa was a pioneer in using existing businesses to provide services to customers, rather than creating an exclusive distribution channel. The model has been copied by the other mobile phone providers in driving mobile money products.

The public and the private sector often refer to the BoP as the *kadogo* market. This signifies that products need to be made smaller and thus more affordable for this market. The result is that most companies which sell consumer products have been forced to package smaller products for the BoP market. This approach is most common with fast-moving consumer goods. One innovative model is Premier Gas, which pioneered the provision of gas to low-income earners and residents of informal settlements. One month after its launch, the company had already secured 1,300 clients in four low-income areas in Nairobi.

7.6 Drivers of inclusive business

7.6.1 Drivers that hinder

Endeva (2010) cites five key challenges which companies face while engaging in inclusive businesses: lack of market structures, limited number of success stories, time-consuming and costly processes, the need to work with non-traditional partners, and a high level of complexity. The BCtA, on the other hand, contends that the barriers companies face at the conception stage primarily relate to a lack of interest and/or opportunity. Issues around perceived risk, competing priorities, low internal support and a lack of necessary experience and skill may also be cited as key challenges at this stage. Once an idea has been developed and endorsed, companies move into a start-up phase, followed by ongoing management, monitoring and expansion. Key challenges during the execution stage include prohibitive start-up costs, the need for consumer financing, the marketing and distribution of novel products and services in hard-to-reach markets, risks within the operating environment, and working with new partners and external stakeholders. Measuring and monitoring the development impact of inclusive business models can also prove challenging for businesses.
In general, the private sector in Kenya already faces several challenges, even without attempting to engage in inclusive business. These include uncompetitive infrastructure and utilities, unfriendly legal and regulatory frameworks for business operations, cumbersome trade facilitation and administration procedures, low levels of labour and capital productivity, a constraining macroeconomic business environment, high rates of crime, insecurity and poor governance, high levels of corruption, and an unfriendly environment for micro and small business operations (KEPSA, 2005).

Several challenges have been cited as affecting inclusive business approaches. Due to the mix of social and financial returns, these models tend to require greater volumes to attain financial sustainability. M-Pesa was largely successful due to its unprecedented uptake by large numbers of consumers. Other models, such as micro-finance and micro-insurance, face greater challenges in terms of sustainability due to slower uptake. Within the inclusive business enclave literacy is a primary concern. Individuals at the BoP tend to have lower literacy levels. In addition, poor infrastructure has been a major factor in dissuading companies from engaging with communities in certain localities.

Start-up costs tend to be high and partnerships with non-profit organisations create the need to build trust, establish understanding and maintain good communication channels. In many cases companies are forced to hire hands-on persons to ensure that quality and quantity concerns are dealt with. In some instances, companies have invested in BoP businesses only to lose out to rivals who offer better prices for produce. This scenario is especially prevalent in agriculture and craft businesses. Finances are a major inhibiting factor preventing the poor from engaging with inclusive business opportunities. Although banks such as Equity and K-REP have helped establish a more conducive environment for micro-lending, certain sectors face greater challenges in accessing funds due to the inherent risks involved (for instance, in smallholder agriculture).

**7.6.2 Drivers that promote**

The discussion which follows, reflects Ufadhili Trust’s observations on this issue. There has been an international movement of companies engaging in mining the fortune at the BoP. In Kenya, the success of Safaricom and Equity Bank, in market segments that had previously been ignored due to perceived low purchasing power, has spurred interest in the BoP market. A main driver is the realisation by the private sector that the upper tiers of their value chains are saturated. This is attested to by the employment data which show that 80 per cent of employment (i.e. incomes) is being created in the informal sector at the BoP.

In addition, ease of access to credit and financial services through M-Pesa, MKESHO and Equity Bank has assisted numerous entrepreneurs in the BoP to raise capital for their businesses. Companies have learnt from these pioneers about the need to create relevant and suitable products and services for the BoP. Appropriate products and services, local distribution channels and strong partnerships with development organisations, government and other businesses have proven to be a formidable combination for success in the BoP.
7.7 Case 1: Kilimo Salama: a project of Syngenta Foundation for Sustainable Agriculture

7.7.1 Executive summary

*Kilimo Salama,* meaning ‘safe farming’ in Swahili, is an agricultural insurance product for inputs and harvests. It is designed for smallholder farmers, to shield them from risks arising from adverse weather conditions. The project, an initiative of the Syngenta Foundation for Sustainable Agriculture (hereafter Syngenta Foundation) and UAP Insurance, capitalises on strategic partnerships, innovative technology and local distribution channels to make the insurance product affordable and accessible to farmers in remote areas.

To ensure the financial inclusion of smallholder farmers, the project’s model addresses certain key barriers in serving this market. Some such barriers include cost, product access, infrastructure and customer trust. Thus far the project has managed to address these issues in a number of ways. The use of technology in Kilimo Salama’s index-based insurance allows for costs to be kept at a minimum, which in turn lowers the premium farmers have to pay. Traditional indemnity-based insurance attracts high premiums due to the high administrative costs of reaching small farms in remote areas. The majority of smallholder farmers cannot afford these premiums and are also deterred by the long claims process. To penetrate the market in remote areas, Kilimo Salama is distributed through channels which are accessible to farmers, for instance a mobile phone payment system via a well-established local network of agro-vets that farmers trust, or through agribusinesses, NGOs and micro-financing institutions (MFIs) working in agricultural lending.

Since the launch of the project in 2009, the number of insured farmers has been rising rapidly. There is optimism that Kilimo Salama can become a product for the masses in the coming years. Opportunities lie in scaling up distribution, diversifying products and leveraging strategic partnerships.

**Box 7.1: Project biographical data: Kilimo Salama**

<table>
<thead>
<tr>
<th><strong>Name of project:</strong></th>
<th>Kilimo Salama</th>
</tr>
</thead>
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<tr>
<td><strong>Year of launch (Kenya):</strong></td>
<td>2009</td>
</tr>
<tr>
<td><strong>Number of employees:</strong></td>
<td>20 full-time staff</td>
</tr>
<tr>
<td><strong>Co-founders:</strong></td>
<td>Rose Goslinga (Agricultural Insurance Initiative Technical Coordinator) and Fritz Brugger (Strategy Advisor)</td>
</tr>
<tr>
<td><strong>Coordinator responsible for the project:</strong></td>
<td>Rose Goslinga</td>
</tr>
<tr>
<td><strong>For further information contact:</strong></td>
<td>Nila Uthayakumar (Product Development Advisor): <a href="mailto:nila@kilimosalama.com">nila@kilimosalama.com</a></td>
</tr>
</tbody>
</table>
7.7.2 Background

The agricultural sector is a key driver of Kenya’s economy. The bulk of the country’s agricultural production is predominantly rain-fed and is carried out on small-scale farms averaging 0.2 – 3 ha. This small-scale production accounts for 75 per cent of the total agricultural output (GoK, 2010). It is expected that threats posed by climate change could reduce yields from rain-fed agriculture in African countries by up to 50 per cent by the year 2020 (IPCC 2007).

Kilimo Salama was developed to help smallholders shield themselves from weather-related risks, which for a long time have threatened their livelihoods. Farmers can insure their inputs and harvests against loss resulting from adverse weather conditions, such as extreme drought or excessive rain. First piloted in 2009 with 185 corn farmers in Kenya, the number of farmers insured in Kenya and Rwanda has risen to 73 000 (as of October 2012). The project launched as the ‘Agricultural Index Insurance Initiative’. Safaricom Limited, Kenya’s largest mobile network operator, provides the money transfer platform through its M-Pesa service.

Smallholder farmers in Kenya have limited access to conventional crop insurance products due to the high premiums charged on the policies, as well as a lack of availability in remote areas. In addition, limited access to credit from financial institutions prevents them from investing in quality inputs. Consequently, farmers are exposed to risk season after season, which has had an adverse impact on their livelihood. Kilimo Salama’s index-based insurance aims to address some of these challenges by offering a product that is relevant to smallholder farmers, through channels that keep costs to a minimum.

While the Kilimo Salama index insurance project shows great promise, micro-insurance is still a relatively new concept in the Kenyan market and its real impact in enhancing financial inclusion is yet to be fully realised. According to the Insurance Regulatory Authority (IRA), a regulatory framework needs to be devised in Kenya – one that will entrench micro-insurance as a tool for socio-economic empowerment and risk management for low-income households. The Kilimo Salama initiative offers useful lessons on how such initiatives can be further developed within the Kenyan context.

7.7.3 Processes and components

The Kilimo Salama index insurance product is currently available to farmers in six agricultural regions across the country (Embu, Nanyuki, Eldoret, Nyanza, Kitale and Bungoma), where approximately 53 000 farmers are insured. The product has also recently been introduced in Rwanda, where 20 000 farmers in the southern and western provinces have been insured.

The project relies on local distribution networks to reach farmers. Through partnerships with aggregators such as MFIs, agribusinesses and farmer cooperatives, farmers are able to purchase Kilimo Salama through channels they are familiar with. Additionally, with a total of 50 agro-vets recruited and trained on the product across the country, farmers can purchase their inputs and the insurance at the same time at those selected outlets. Once a farmer buys the insurance, local agro-vets register it using a mobile phone that scans a barcode. A confirmation message is then sent to the
farmer via a mobile phone, detailing the type of product insured as well as the sum for which it has been insured. At the end of the season, the farmer receives a text message on his/her mobile phone, stating whether or not a payout will be made.

Kilimo Salama uses automated weather stations to record weather data in a given area. If drought or excessive rain is recorded in a particular area, a payout is calculated and sent out to insured farmers via M-Pesa. The use of technology has drastically reduced transaction costs associated with insurance products. Farmers therefore do not have to go through the claims process, which has become an attractive feature of this offering.

Besides the insurance product, farmers also receive an additional service in the form of extension support. Syngenta Foundation, in partnership with Safaricom, has set up a helpline for farmers where they can receive insurance product information and seek agricultural advice from trained customer care personnel.

Kilimo Salama’s partnership with MFIs has also improved farmers’ access to agricultural loans, which can be bundled with the insurance. With these loans farmers have the capital to invest in improved inputs, thereby increasing their harvests. Through this set-up, the lending institutions also have the assurance that the farmers are covered in case of any weather-related loss, and are guaranteed to receive the loan repayment.

### 7.7.4 Roles, accountability and resources

Kilimo Salama has entered into partnerships with input suppliers such as the fertilizer company MEA and seed producer Seed Co, who pay half of the premium cost of the insurance when farmers choose to buy and insure their inputs at the agro-vets. This makes the insurance very affordable for farmers. The IFC also supports the initiative through a grant from its Global Index Insurance Facility (GIIF).

Kilimo Salama is managed by a team based in Nairobi, which is involved in the day-to-day running of the project. Since its launch, the project has evolved to reflect the changing needs of its customers. New products have been introduced, while distribution channels have been increased to facilitate greater coverage. The project team conducts regular surveys to obtain feedback from customers on the product, and the feedback is taken into account to improve the insurance product.

Maintaining customer trust is vital to the project. Farmers who are sceptical of the product can insure a small value of the inputs and harvests and, with each season, take out more insurance as they begin to trust that Kilimo Salama will pay out when it should. The project has also established channels through which customers can receive comprehensive product information, like the Kilimo Salama helpline. This has been useful for existing customers and also for potential customers who are interested in trying out the product.

As with most insurance products targeted at low-income earners, there is a need for sustained marketing and consumer education. Helping potential customers understand the concept and benefits of insurance is a first step in this process (Allianz Group report, 2010).
7.7.5 Activities, achievements and challenges

So far a total of 53,000 farmers in Kenya have been insured with Kilimo Salama and 20,000 in Rwanda, where the project was recently launched in partnership with Rwandan insurer SORAS. Kilimo Salama initially launched with a cover for maize in Kenya, but indexes have since been developed for other common crops grown in the agricultural region, such as soy, wheat, sorghum, potatoes and beans. Following the launch of Kilimo Salama Plus in 2011, farmers can insure any input (including farm labour, kept seed and land leasing fees) in addition to their harvest.

Smallholder farmers now have access to affordable insurance for their inputs and harvests. Payouts made under Kilimo Salama have helped shield smallholders from experiencing a total loss on their farms. For example, in 2011 below-average rainfall was recorded at five weather stations. This triggered a payout amounting to Ksh8.7 million (approximately US$102,000), which resulted in over 2,000 farmers receiving compensation. This enabled farmers to replant or purchase improved inputs during the following season. Through the project, farmers are increasingly investing in quality inputs, which in turn have helped boost their productivity.

To ensure the long-term success of the project, Kilimo Salama has to address a number of challenges. One obstacle the project faces is the underdeveloped weather-related infrastructure in East Africa. Currently, there are approximately 50 weather stations owned and operated by Syngenta Foundation, each covering a radius of 15–20km. These are not sufficient to cover farmers across Kenya. Syngenta Foundation is exploring alternative data sources, such as satellite imagery.

Another challenge Kilimo Salama has had to address in its model is the basis risk that comes with index insurance. Basis risk occurs when farmers experience loss that is not registered by the index to trigger a payout. In such instances, farmers may feel short-changed if they were not fully aware of the conditions under which they would receive compensation. To help address this, Kilimo Salama has invested heavily in financial education for farmers in order to help them make informed purchasing decisions, as well as in other technologies which will enable them to reduce the likelihood of basis risk.

Achieving financial sustainability often requires scaling up, while ensuring costs remain competitive. Generally, micro-insurance can only be profitable when large numbers of policies are sold because of the small margins per policy (Allianz, 2010). Kilimo Salama is currently maximising on its fastest-growing products sold in bulk through aggregators such as MFIs and agribusinesses, among others.

7.7.6 The future

Syngenta Foundation and its partners are looking to expand the reach of Kilimo Salama to cover more farmers in Kenya, as well as in other regions in eastern and southern Africa. Product development will remain a key feature in terms of meeting customer needs. In the long term, with a well-established market, the foundation is confident that it can achieve its goal of improving food security among smallholder farmers.
7.8 Case 2: Sustainable Management Services Limited\(^4\)

7.8.1 Executive summary

Sustainable Management Services Limited (SMS Ltd) has been operating in Kenya since 2006, focusing its energies on coffee smallholder farmers. In spite of the crucial role smallholder farmers play in Kenya’s coffee value chain, they have been neglected for a long time. SMS Ltd’s business strategy in addressing the plight of coffee farmers focuses on providing tailor-made and objective support, with the ultimate aim of contributing to poverty alleviation.

As a subsidiary company of Ecom Agro-Industrial Corporation (Ecom), SMS Ltd identified the need to work with the smallholder farmers to create mutually beneficial relationships for both parties. This was to be achieved through creating a mechanism to support farmers and help them improve their livelihoods through better yields and incomes, while creating sustainable supply chains for Ecom.

Box 7.2: Company biographical data: SMS Ltd

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<thead>
<tr>
<th>Year of establishment (Kenya):</th>
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</thead>
<tbody>
<tr>
<td>Number of employees:</td>
<td>26</td>
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<tr>
<td>Leadership:</td>
<td>Julius Ng’ang’a (General Manager)</td>
</tr>
<tr>
<td>Name(s) of value chain project discussed:</td>
<td>Kenya coffee value chain</td>
</tr>
<tr>
<td>Manager(s) responsible for the supply-chain project:</td>
<td>Charles Nzioka (Projects Manager)</td>
</tr>
<tr>
<td>For further information contact:</td>
<td>Charles Nzioka (Projects Manager Sustainable Management Services Kenya): <a href="mailto:cnzioka@ecomtrading.com">cnzioka@ecomtrading.com</a></td>
</tr>
</tbody>
</table>

SMS Ltd is a local operating company of Ecom Agro-Industrial Corporation, a global commodity trading and processing company headquartered in Switzerland. It deals in coffee, cotton and cocoa in major producing and consuming countries. In 2011, Ecom’s turnover was in excess of US$4 billion. In the coffee sector, Ecom is involved in trading sustainable coffee and has initiated sustainable coffee quality improvement projects in all coffee-growing countries in the world (see www.ecomtrading.com). Ecom’s Kenyan subsidiary, SMS Ltd, currently manages nine projects targeting smallholder farmers, and is aimed at improving their livelihoods through increased productivity, while creating sustainable supply chains for Ecom. The projects currently reach 84 000 coffee farmers directly and about 200 000 others indirectly.

7.8.2 Background

Kenya is highly dependent on commodity exports for its revenue, with the coffee industry contributing about eight per cent of foreign exchange earnings (Coffee Board of Kenya, 2011). However, in the last two decades, the coffee sector has performed dismally,
with current production averaging 50,000 metric tons—down from 100,000 tons in previous years. Despite this challenge, the coffee sector has great potential to contribute to the country’s economy and to impact on poverty, since it is grown by more than 700,000 farmers on smallholder farms in rural areas (GoK, 2010).

SMS Ltd targets underserved smallholder farmers in the coffee value chain. According to Antony Ngugi, Project Supervisor at SMS Ltd, “smallholder coffee farmers in Kenya possess an enormous potential in terms of yield improvement and quality coffee production but they are disadvantaged by the fact that they can barely afford the current farm management charges existing in Kenya”. SMS Ltd has therefore been working since 2006 to provide management services to smallholder coffee farmers in all the major coffee-growing districts in the country.

Low productivity and fluctuations in the price of coffee on the world market have led to apathy among farmers, who planned to abandon coffee-growing for other crops. On the other hand, the liberalised Kenyan coffee sector became a springboard upon which SMS Ltd would base its work of training farmers on best coffee practices in order to access niche markets. To make the services available to farmers, SMS Ltd is co-financing these projects with a number of donor partners, including Hivos, the IFC and Solidaridad. SMS Ltd has also forged partnerships with buyers to ensure the availability of a reliable market for the coffee which is produced. Demand for sustainable coffee on the global market, coupled with a favourable terrain to grow high-quality coffee in Kenya, are two of the opportunities SMS Ltd has to exploit, to further develop the smallholder market.

7.8.3 Processes and components

The underlying principle of SMS Ltd’s value chain projects is farmer participation in agricultural extension, while ensuring high adoption rates at low cost. A Promoter Farmer Model is used to enhance participation and ensure a bottom-up approach.

Farmers are organised into groups formed within neighbourhoods, and each group elects a ‘promoter farmer’ who receives technical training from SMS Ltd. The farmer then provides training to the rest of the group, on a regular basis, by following a coffee calendar of activities and certification standard guidelines under the supervision of SMS Ltd staff. On average, a promoter farmer trains 50 farmers assigned to him using a training kit. SMS Ltd also works with cooperatives where quality management teams are formed and trained to provide support to farmers.

Capacity development in ‘good agriculture practices’ (commonly referred to as GAP) is one key area which SMS Ltd focuses on. Due to inadequate resources to invest in quality inputs, smallholder farmers often sacrifice good crop husbandry, leading to low yields and poor-quality harvests. SMS Ltd uses customised training content, where inexpensive farming practices such as composting are encouraged. Thus far, 85 wet mills and 74,000 coffee farmers have been certified under schemes such as the Rainforest Alliance, Fair trade, UTZ Kapeh and 4C.
SMS Ltd and its project partners have adopted a quality management system based on risk assessment and continuous improvement through a ‘plan-do-check-act’ cycle, to ensure a high adoption rate on the part of farmers. This system allows SMS Ltd to monitor progress and document lessons learnt, in order to improve future initiatives.

7.8.4 Roles, accountability and resources

SMS Ltd has a fully-fledged management section in its offices, headed by a project manager who oversees the day-to-day running of initiatives in cooperatives. The project manager is supported by a team of project supervisors (trained agronomists) who are responsible for providing training and extension support to cooperatives. At the cooperative level, SMS Ltd has assisted in setting up an automated system by providing computers to each wet mill, where cooperative data can be stored. Training records kept by promoter farmers are also regularly inspected and recommendations are made on areas of improvement. SMS Ltd is in the process of strengthening its monitoring and evaluation system, to enable it to track the performance of the increasing number of beneficiaries in its model. Project progress reports are shared with the main partners, with terms of reporting agreed on in an MoU agreed to during the project launch.

The work of SMS Ltd is partly supported by grants from partners such as HIVOS, Solidaridad and IFC. Other partners include Ecom Trading, which provides part of the financing; Mars Drinks in the UK which identifies markets for the coffee; and Tchibo, which provides technical support. SMS Ltd is also exploring other income-generating streams that could enable it to scale up the coffee value chain project to cover more farmers.

“Project financing has been a major challenge for SMS Ltd as grants can only support a limited number of farmers in the projects,” says Ngugi. In addition, the financial sector has in the past given limited attention to smallholders when providing credit facilities, due to perceived high risks associated with this group.

7.8.5 Activities, achievements and challenges

SMS Ltd’s projects were first piloted in 2007, with 11 000 smallholder farmers. The original objective, as stated by Ngugi, was to “improve coffee quality and quantity with limited quantities of external chemicals”. By 2009, the average percentage of premium grades per wet mill had increased to 85 per cent, from 59 per cent in 2006 in 11 wet mills. The average yield per tree had increased from 1kg to 3.5kgs for 11 000 farmers.

To date, SMS Ltd has worked with 84 500 smallholder farmers who have been trained in good agricultural practices, with 74 000 being certified. Coffee production in all SMS Ltd projects doubled between 2010 and 2011. A case in point is the Muisuni Farmers’ Cooperative Society, which previously recorded production levels of 400 000kgs but has now managed to increase its output to 1.2 million kilos. SMS Ltd has also helped pioneer the development and implementation of the 4C climate code, in partnership with 4C, GIZ and 16 000 members of the Baragwi Farmers’ Cooperative Society.
Despite renewed interest in the Kenyan coffee sector – and specifically in developing inclusive models to benefit smallholder farmers – certain challenges persist. According to SMS Ltd, access to finance remains one of the major problems facing the country’s coffee industry. Banks and other financial institutions view farmers as risky borrowers and are reluctant to grant them loans. SMS Ltd has had to provide some financial support to farmers in the form of inputs and cash advances. However, such financing has been limited and is pegged on the coffee produced.

Another challenge revolves around the poor attitude of farmers towards coffee growing as a business. Coffee growing has been a traditional practice and a way of life for many smallholder farmers in Kenya, even when ROI was low. Public attitude has become a limiting factor among farmers, when it comes to developing the coffee sector. Over the years, SMS Ltd has incorporated the sensitisation of farmers in its interventions, in an attempt to shift this mindset.

There is also limited technical support available to smallholder farmers, as most coffee companies in Kenya tend to focus on large-scale farmers who can easily afford to meet management costs. SMS Ltd has had to fill this gap through its Promoter Farmer Model, which aims to turn poorly managed farms into profit-making enterprises. However, a limited number of farmers have benefited from this set-up.

According to SMS Ltd, the current policy environment is not supportive of sustainable initiatives in the coffee sector. Inclusive models such as that proposed by SMS Ltd therefore have to operate in isolation and struggle with additional challenges associated with BoP markets.

7.8.6 The future

SMS Ltd envisages that for farmers’ needs to be adequately met, more content must be incorporated into its model. Specifically, SMS Ltd would like to provide a wholesome extension package that includes other agricultural enterprises. Diversification will further help to cushion the company from market fluctuations associated with coffee prices, and will boost revenue streams. To reach more farmers in other coffee-growing areas of the country, SMS Ltd plans to forge partnerships with cooperatives, relevant government bodies, donors and coffee buyers overseas.
7.9 Case 3: Biashara Mtaani: a project of Entrepreneurship for Youth Empowerment Kenya (Eye Kenya)\(^5\)

7.9.1 Executive summary

Eye Kenya is an organisation affiliated to the Business Alliance for Economic Empowerment in Kenya, which works to promote entrepreneurship among Kenyan youths. The organisation, which has 6 700 registered members, is currently implementing an initiative dubbed *Biashara Mtaani* (‘Biz in tha Hood’, i.e. business in the neighbourhood) which provides access to clean, affordable energy through a direct distribution channel in informal settlements. The project is implemented by youth organised into enterprise groups which are involved in the direct procurement of kerosene fuel for onward sale to consumers in informal settlements. The project, implemented in partnership with the National Oil Corporation of Kenya (NOCK) as part of its CSR, is a demonstration of how business can move beyond philanthropy to deliver shared value through its supply chain.

**Box 7.3: Company biographical data: Eye Kenya**

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<thead>
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<th>Year of establishment (Kenya):</th>
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<tbody>
<tr>
<td>2009</td>
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<tr>
<td>Number of employees:</td>
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<td>Leadership:</td>
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<tr>
<td>Tonnie Mello (Chief Executive Officer)</td>
</tr>
<tr>
<td>Name(s) of value chain project discussed:</td>
</tr>
<tr>
<td>Biashara Mtaani</td>
</tr>
<tr>
<td>Manager(s) responsible for the supply-chain project:</td>
</tr>
<tr>
<td>Tonnie Mello (Chief Executive Officer)</td>
</tr>
</tbody>
</table>

For further information contact Tonnie Mello: mello@eyekenya.biz

7.9.2 Background

Rural to urban migration, fuelled by rural poverty and a dwindling per capita ownership of farming and grazing land, is estimated to account for 32 per cent of the total population in 2012. This has led to spontaneous growth and the haphazard development of Kenya’s urban centres, which has mainly taken place outside of urban planning interventions. Within the urban population, about 49 per cent are deemed to live below the poverty line (GOK, 2007, 2010). Despite high levels of poverty, rapid urbanisation is expected to drive up energy use. Typical activities of the average urban resident are usually more modern and energy-intensive than those of rural residents. Consequently, the ongoing rural-urban demographic shift is expected to result in a significant increase in energy consumption (Karekezi, 2002).

Residents of Kenya’s informal settlements are limited in terms of their energy choices. Cost, efficiency and ease of use are the main determinants in selecting an energy source. Kerosene fuel meets this need and has become the most popular choice for residents. However,
the distribution chain for kerosene in informal settlements is long, with several middlemen who all add a mark-up to their sales, thus increasing the cost to the end user (GNESD, 2008). In addition, there is a risk of adulterating the fuel along the chain, thus posing a safety risk to the poor majority who use it.

The idea behind the Biashara Mtaani model can be traced back to the World Economic Forum of 2006, where an initiative launched under the banner of the BAACH was tasked to explore the idea of business-led solutions to hunger in Kenya. One key initiative under this project was a pilot implemented in Siaya District, and aimed at strengthening food value chains. Eye Kenya – a member of BAACH – used this as a reference point from which to explore other retail business solutions to poverty in underserved communities. In 2010, Biashara Mtaani was launched with a focus on addressing the energy challenge in Kenya’s informal settlements. First piloted in Kawangware, one of Nairobi’s informal settlements, the project has now spread to all other major settlements in the capital. Through a partnership with NOCK (a state agency that deals with the importation and sale of petroleum products such as crude oil, white fuels, lubricants and Liquefied Petroleum Gas [LPG]), Eye Kenya was able to negotiate direct access to kerosene for young entrepreneurs, at a discounted price.

### 7.9.3 Processes and components

Oil companies in Kenya are generally unable to penetrate informal settlements due to poor infrastructure. As a result, informal settlements are served by local vendors who provide this service at an additional cost. In its model, Eye Kenya sought to address the cost and quality issues within the fuel distribution business which have impacted negatively on the livelihood and safety of slum dwellers. A direct procurement strategy was adopted to address this challenge.

An agreement reached between Eye Kenya and NOCK made it feasible for NOCK to supply kerosene through this business model. One condition, however, was that members had to purchase a minimum of 5,000 litres from its depot at any one time. This was initially a challenge to the youth who had little or no working capital. To overcome this obstacle, the youth were organised into groups which enabled them to pool their resources and make bulk purchases for onward sale. As a result, 55 ‘super retailers’ were recruited. Through this arrangement, NOCK is able to give a discount and cover the transport costs of kerosene which has been bought. In addition, NOCK provides safety training and equipment to the youth to ensure the safe handling of the kerosene. This has enabled end consumers to access the product at a cheaper price, while being assured of quality. In turn, the youth are able to make a small profit from the venture.

The high demand for energy in informal settlements makes kerosene a fast-moving product. The majority of consumers can only make purchases to cater for their daily or immediate needs. Consequently, retailers are involved in frequent cash transactions. To avoid the security risk involved in handling large sums of money, retailers have taken advantage of the M-Pesa mobile money transfer service to transact with customers.
Eye Kenya has adopted a wider approach in working with the youth. The high unemployment rate among the youth (estimated at 75 per cent) is now considered a potential political risk, as evidenced in their participation in the violence following Kenya’s 2007 disputed general elections. Besides providing business support to its members through mentorship, Eye Kenya also takes advantage of the platform Biashara Mtaani provides to tackle other issues affecting the youth, such as responsible civic engagement.

7.9.4 Roles, accountability, resources
Eye Kenya has been able to mobilise the core of its project resources from pooled funds contributed by its members. Transport costs covered by NOCK, as well as discounts offered for bulk purchases, are key factors that contributed to the project take-off. Eye Kenya charges a commission to cover administrative costs incurred in the project, which means financing remains one of the key challenges. Most youths wishing to participate in the initiative lack the initial capital required. However, the GoK is taking positive steps to address what is a major obstacle to developing youth enterprises in the country.

With a fully-fledged ministry established to look into youth affairs, initiatives like Biashara Mtaani are better positioned to receive support from the government. For instance, a presidential directive issued during February 2012 now allows Kenyan youths access to ten per cent of all government procurement. A Youth Enterprise Development Fund is also available. It provides loans to existing MFIs and other agencies for onward lending to young entrepreneurs. Eye Kenya is looking to such partnerships for support in sustaining its efforts, and for scaling up in order to target more youths.

The project, while still in its early stages, is working to strengthen its monitoring and reporting systems. Nevertheless, an MoU, signed by the main partners (Eye Kenya and NOCK) is the main tool used to manage the partnership.

7.9.5 Activities, achievements and challenges
Biashara Mtaani has so far penetrated the major informal settlements of Kenya’s capital, Nairobi, in providing access to cheaper kerosene through a direct sales channel that is monitored from source to delivery, to ensure quality. One major achievement of the project thus far, is the fact that it reduces the supply chain in the kerosene distribution business in informal settlements – something which in the past led to consumer exploitation through high prices. In addition, the model has also contributed to the development of youth enterprises through strategic linkages with business.

To ensure sustainability and consistent service delivery, there is need to strengthen the capacity of the youth in dealing with challenges associated with start-ups. As stated earlier, one of the major challenges facing the youth is how to raise the initial capital needed for purchasing kerosene in bulk. NOCK can only supply a minimum of 5,000 litres for every order. One way in which Eye Kenya has been able to address this, is by consolidating orders from group members in different areas. This ensures that the minimum quantity can be purchased. However, a long-term financing strategy is being explored whereby youths can access loans to expand their current capacity. This will also ensure that the
project reaches a larger number of beneficiaries who may wish to participate in the project, but are constrained financially.

For the majority of residents in informal settlements, price remains a key factor in their purchasing decisions. Since the launch of Biashara Mtaani, other vendors have taken to anti-competitive practices such as price-cutting, which is a challenge the youth have to deal with. Leveraging on quality has been a key competitive advantage in the project.

A poor attitude amongst youths in informal settlements is another challenge that Eye Kenya has had to deal with. Many have grown accustomed to a culture of handouts, and are therefore not readily receptive to business initiatives. Sensitisation and business mentorship have become key components of Eye Kenya’s interventions aimed at helping as many youths as possible to participate.

7.9.6 The future

Eye Kenya is looking to scale up and strengthen its Biashara Mtaani model by diversifying and incorporating other energy sources in its distribution chain. Eventually, the project hopes to phase out kerosene and move on to other energy sources, such as LPG and solar, which will still be affordable to the low-income groups it targets. Discussions are underway with stakeholders on delivery channels for these products.

7.10 Conclusion and recommendations

There are several examples of inclusive businesses in Kenya. However, a number of cross-cutting challenges have been noted by Ufadhili. First, most of the projects that have taken up this model, particularly in agriculture, are limited in scale. While M-Pesa has been able to reach the entire breadth of the country, similar achievement of scale has been limited. There is, therefore, a need to expand the scale of these models – especially those that have proven to be successful.

Linked to this issue is the challenge of scope. Diversification could make a great impact where proven models have succeeded in a certain sector, and could easily be replicated in other sectors, geographical regions or target groups. Currently, most value chain interventions are limited to specific sectors, thus ignoring the potential for impacting on other related sectors and value chains.

Kenya’s Vision 2030 is anchored on private sector growth. It would be of great value if the government could design specific measures to particularly encourage business models that impact on poverty. The current appeal to investors is based on a general assumption that such investments would impact on poverty, but a more specific and strategically designed approach towards encouraging inclusive businesses would be ideal.

One major missing link that could play a significant role in this arena is the development of business relations between big business and MSMEs. Although there have been several discussions and meetings on this issue, it has barely made inroads. It nevertheless remains a high-potential model.
Appendix 7.1: State of uptake of inclusive models in Kenya

The table below presents observations on the use of inclusive business models by companies and industry sectors in Kenya. The list of examples is not exhaustive.

<table>
<thead>
<tr>
<th>Business model</th>
<th>Description of business model</th>
<th>Examples, engagement level and potential</th>
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</table>
| Production/contract farming     | A system of contract production that directly sources from large numbers of small-scale farmers or producers in (often rural) supply chains. The contractor organises the supply chain from the top, provides critical inputs, specifications, training and credit to its suppliers, and the supplier provides assured quantities of specialty produce at fair and guaranteed prices. | **Examples of active engagement**  
East Africa Breweries, BAT Kenya, Coca Cola, Delmonte, Frigoken, Promasidor, Homegrown, Njoro Canners, Kevian Fruits, Kenya Horticultural exporters, East African Growers  
Outgrower schemes: Mumias Sugar, Nzoia Sugar, Brookside Dairies, Wilmar Flowers  
This is a common model in the agricultural sector that is widespread and growing.  
**Potential**  
Has high potential of impacting on poverty. Companies should be encouraged to pay fair prices and avoid the exploitation of producers. |
| Smallholder farmer aggregators  | Aggregators collecting cash crops and staples from smallholder farmers to supply large, top-of-the-supply-chain buyers. To help guarantee stable supply, many aggregators provide farmers with services such as credit, storage and transport, as well as low-cost seed and fertilisers to help improve yields. | **Examples of active engagement**  
Kenya’s agricultural sector is dominated by small-scale producers organised into cooperatives. These act as aggregators of produce and providers of key services. There are 13 000 cooperatives in Kenya, with a membership of eight million.  
**Potential**  
The potential for impacting on poverty is significant, if cooperatives are well governed and professionally managed as a business. However, poor governance has plagued the cooperative sector in Kenya. |
| Deep procurement                | A variety of direct procurement set-ups that bypass traditional middlemen and reach into the base of the economic pyramid, enabling direct purchases from large networks of low-income producers and farmers in rural markets and often providing training for quality and other specifications. | **Examples of active engagement**  
EABL, BAT Kenya, Brookside Dairies  
There are few examples of companies working directly with producers.  
**Potential**  
High, farmers must work in collaboration to attain bulk, avoid exploitation due to power dynamics and maintain sustainable supply for the company. |
<table>
<thead>
<tr>
<th>Business model</th>
<th>Description of business model</th>
<th>Examples, engagement level and potential</th>
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| Supplying from non-agricultural markets | A system of contract production that directly sources from large numbers of micro-producers. The contractor organises the supply chain from the top, provides critical inputs as well as professional product designers, and the supplier provides assured quantities of specialty products at fair and guaranteed prices. The collection of recycling material, such as cans, is possible. | Example of active engagement  
Chandaria industries  
Potential  
This model has great potential, since there is increased pressure to find ways to ensure that micro-businesses can access business with governments and other larger businesses.                                                                                                                                 |
| Supplying from SMEs                     | Companies support and fund SME development to foster procurement and business development opportunities for SMEs within the companies’ supply chain, including the procurement of the company’s non-core products.                                                     | Example of active engagement  
Kengeles Restaurant  
Potential  
High, given that 80 per cent of jobs are now being created in the SME sector.                                                                                                                                                                                                                                         |
| Distribution and sales through improved informal shops | Efforts by enterprises to develop a route to market that leverages (and upgrades) existing informal distribution and sales channels to sell socially beneficial products through multiple fragmented or disorganised shops.                                                                 | Examples of active engagement  
Safaricom (M-Pesa), Airtel, Orange Mobile, Cooperative Bank, Equity Bank, Kenya Commercial Bank  
Agency banking has become popular during the past two years. Banks now use informal networks to offer certain services to customers.  
Potential  
High, margins for these products tend to be low, however, and the market is quickly saturated with outlets reducing individual returns.                                                                                                                                                           |
| ‘Last-mile’ infrastructure: rural micro-grid electricity generation and urban water kiosks | Community-level ‘last-mile’ infrastructure directly addresses the infrastructure provision shortfall by providing end-users with access to a fixed utility asset, such as local mini-off-grid water kiosks, sachets or tanker supplies or also pay toilets. | Examples of active engagement  
Grundfos LIFELINK in water kiosks, several start-ups on solar and renewed energy and mini-hydro plants.  
Potential  
High, since few Kenyan households are on-grid and water supply (especially in rural Kenya and urban informal settlements) is sorely lacking.                                                                                                                                                                      |
| Mobile-enabled non-financial services   | Mobile-enabled business models aim to leverage low-income ownership or use of mobile devices to provide essential information or transactions to low-income customers in a range of sectors including agriculture and health.                                           | Examples of active engagement  
Kilimo Salama, National Farmer Information Service (NAFIS), Frontline SMS, Childcount, KACE, Drumnet, Mobile for Good, Voice of the farmer, Farmer’s helpline. Growing in popularity and use, especially among the farming community.  
Potential  
High, as more and more services are offered at a mobile phone level and social media are increasingly used to engage with poor communities.                                                                                                                                                     |
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<th>Business model</th>
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| Distribution through dedicated direct sales force | Dedicated direct sales force models recruit and train local agents to reach deep into communities to sell and distribute (socially beneficial) goods, bypassing shops and other channels, to make it easy for the (often rural) poor to obtain access they may not otherwise have. | **Examples of active engagement**  
EABL, Coca Cola, BAT Kenya, Mastermind, Safaricom  
Activities are intermediate.  
**Potential**  
Low, since the risks and start-up costs make it unattractive. |
| Pay-per-use                                        | An approach in which consumers pay lower costs for a single-use product of a community-level facility, individual product or service, sometimes on a rental basis. This delivers better value than buying a household asset like a lantern or filtration device, and matches cash flows. | **Examples of active engagement**  
Sanergy, Ecotact, K-REP Bank, Kenya Women’s Finance Trust (use of Temenos T24)  
**Potential**  
Intermediate, since it is mostly focused on individual demand for social products that are poorly delivered by the public sector. Impact is predominantly in the improvement of living standards and not necessarily in income generation. |
| No frills                                           | A pared-down service that meets the basic needs of the poor at ultra-low prices and still generates positive cash flow and profits through high volume, high asset utilisation and service specialisation. | **Examples of active engagement**  
Numerous consumer products. Pima gas, supplied by Premier Gas, allows purchase of low units of LPG.  
**Potential**  
Intermediate, the poor tend to pay higher per-unit costs. |
| Shared channels                                     | Distribution networks that penetrate remote markets via shared channels, piggybacking products and services through existing customer sales and distribution platforms, thus enabling poor people to afford and gain access to socially beneficial goods. | **Examples of active engagement**  
Equity Bank, Cooperative Bank, Safaricom, Chase Bank  
Companies avoid having to establish distribution networks, and instead work through existing networks.  
**Potential**  
High |
| Private vocational training / education             | Vocational colleges that offer a highly standardised and limited set of typical service-industry qualifications to low-income school leavers or job seekers, leveraging para-skilled teachers. The offer is sometimes complemented by job placement services. | **Examples of active engagement**  
This model could not be identified in Kenya. Most vocational training is owned by communities, government, churches and private businesses. There are no examples of the relationship cited here among these colleges, which seem to be run on a purely commercial basis with skilled staff.  
**Potential**  
- |
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<tr>
<th>Business model</th>
<th>Description of business model</th>
<th>Examples, engagement level and potential</th>
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<tr>
<td>Mobile money</td>
<td>Models that enable the poor to access and transfer cash outside of traditional financial services channels (but within the branchless banking approach), often via mobile devices or alternatives to bank branch infrastructure.</td>
<td>Examples of active engagement: M-Pesa, Airtel Money, Orange Money. Extremely popular and successful. High, has had a remarkable impact in Kenya.</td>
</tr>
<tr>
<td>Micro-credit</td>
<td>Extension of small amounts of credit, often via group lending, to the poor who are typically unable to access larger loans from formal banks due to a lack of collateral and formal credit histories.</td>
<td>Examples of active engagement: Equity, K-REP Bank, FAULU, KIE, BIMAS, ECLOF, Jamii Bora, Juhudi Kilimo, KADET, KWFT, Makao Mashinani, SISDO, SMEP, RAFODE. Savings and credit cooperatives (SACCOs) are an extremely popular source of low-interest credit and currently hold approximately US$2 billion in savings. Micro-credit is a popular model and a most likely source of credit for small entrepreneurs. However, some of the financing models have a cost of finance that is often prohibitive. High, since it enhances financial inclusion and provides tailor-made credit for the BoP.</td>
</tr>
<tr>
<td>Micro-savings</td>
<td>Small deposit account offered to low-income individuals with low or no minimum balance requirements and service fees, and the ability to save small amounts of money.</td>
<td>Examples of active engagement: Equity Bank, K-Rep Bank, Family Finance, Faulu, SMEP, Uwezo DTM, KWFT, SACCOs. The approach is in its inception phase, with few organisations being permitted to include micro-savings in the micro-credit concept. These organisations only proceed with granting loans once the savings activities of their clients are in place. High, but dependent on organisations receiving permission to deal with savings, despite not being banks.</td>
</tr>
<tr>
<td>Micro-insurance</td>
<td>Small-size insurance products offered along the lines of micro-credit, designed to meet the needs and cash flow of those excluded from formal insurance networks. Typically sold via bundles or other non-agent-based models.</td>
<td>Examples of active engagement: CIC Insurance, UAP Insurance (Kilimo Salama), Faulu Afya, APA Insurance. Relatively new model in Kenya. High, although it requires large numbers to become financially sustainable.</td>
</tr>
</tbody>
</table>
Notes

1. This segment was contributed by Nila Uthayakumar, Product Development Advisor with Kilimo Salama in an interview conducted 17 September 2012, in Nairobi.


3. In June 2012, the Insurance Regulatory Authority drafted a policy paper on micro-insurance that will be used as a roadmap in drafting the regulatory framework for the sector.

4. This segment was contributed by Antony Ngugi, Project Supervisor, Sustainable Management Services, in an interview conducted 17 September 2012, in Thika.

5. This segment was contributed by Tonnie Mello, Chief Executive Officer with Entrepreneurship for Youth Empowerment Kenya in an interview conducted 7 September 2012, in Nairobi.

6. BAACH is an initiative that emerged after the World Economic Forum in 2006 that seeks to promote business-led solutions to hunger and poverty. Available from: http://www.weforum.org/

7. The Ministry of Youth Affairs and Sports was established in 2005 to address the socio-economic challenges affecting the youth in Kenya. Within the ministry, a youth department also exists whose mandate is to mainstream youth issues in national development as per the National Youth Policy. Available from: http://www.youthaffairs.go.ke/

8. The Youth Enterprise Development Fund (YEDF) was established to develop youth enterprises as a way of reducing unemployment. Other funds provided by the government for youth empowerment include the Women’s Enterprise Fund (WEF) and Kazi Kwa Vijana, meaning ‘work for the youth’.

References


Websites


8. Strong potential, big challenges: Liberia country and company case study

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8.1 Introduction
Private sector development in Liberia is brimming with promise. Emerging in 2003 from years of conflict, the country, led by President Ellen Johnson Sirleaf, has actively promoted an environment for the private sector to grow and prosper. A facilitating business environment, combined with the needs of a country in the midst of reconstruction, offers tremendous potential for active private-sector engagement. With the massive global interest in Liberia’s natural wealth, business linkages generated through increased local procurement offer a significant opportunity through which to include and promote SME development.

Deepening local supply chains through business linkages is not just a theoretical possibility in Liberia. The interests and objectives of government and private-sector stakeholders are aligned in this direction and, although many extractive projects in mining, oil and gas are in an early exploration phase, several initiatives are already well underway.

This case study provides background on the economic context in Liberia, as well as the opportunities and challenges that exist for expanding local supply chains through business linkages. It also profiles two private-sector initiatives – one that is being implemented by TOTAL-Liberia, a multinational oil and gas company, and one that is being implemented by Building Markets, an NGO that facilitates linkages between local businesses and international buyers. These two cases offer insight into early business linkage experiences in Liberia.

8.2 Country context
Over the past eight years, Liberia has maintained positive growth in terms of real GDP. In 2011, the real GDP grew by 6.9 per cent (www.africaneconomicoutlook.org), contributing to significant optimism about the future of the country. Commitment to economic and governance reforms prompted the International Monetary Fund (IMF) – World Bank-supported debt write-off of US$4.6 billion. Steady business climate reforms are continuing as the country climbs up the ranks in the World Bank’s Doing business report (2012). The government of Liberia recognises the crucial role of the private sector in growth and development. Initiatives such as the Business Reform Committee and the Liberia Better Business Forum, which promote public–private dialogue, signal government’s commitment to create an enabling investment climate.
The bulk of private-sector activity in Liberia revolves around its abundantly endowed agriculture and mining sectors. As in the period before the war, the country is heavily dependent on concession agreements with multinational companies. More than US$12.6 billion has been negotiated in concession agreements (Burger, 2011) since 2006, giving Liberia one of the highest FDI-to-GDP ratios in the world (CIA, 2012). Rubber is the country’s main export commodity. Iron-ore exports continue to grow, while palm oil, timber and diamonds hold promise. Recently, the country saw the start of offshore oil exploration.

There is wide agreement among government and private sector actors that a key way for Liberia to leverage its natural resource wealth towards more inclusive economic growth is by encouraging MNCs to develop local supply chains. High concessionaire activity creates demand for many supporting goods and services, which in turn creates the potential to revitalise domestic private-sector activity. A 2010 GIZ study prepared for the Liberia National Investment Commission (NIC) identified several potential ways in which existing and future concessionaires in the agriculture and mining sectors could engage with local enterprises in performing their operations. The study identified a group of low-tech activities that could very easily and immediately be outsourced to local companies. These include transport, catering, security, and simple goods production and purchasing (Burger, 2011). The study also noted that over time, as capacity in the domestic private sector increases, the transition could be made towards forging more technically demanding linkage relationships.

8.2.1 Existing support for SME development and promoting business linkages

The government of Liberia (GoL) has adopted a growth and development strategy that includes among its key priorities the need to strengthen the environment for private-sector growth and job creation. More specifically, the GoL has placed a strong focus on SME development, recognising that SMEs are the engines of growth and job creation. The Ministry of Commerce and Industry adopted an MSME Policy (2011) and
recently established a dedicated MSME Division. The policy highlights access to markets through linkages with both concessionaires and public agencies as a key element of SME development. The NIC, which has identified business linkages as a top priority, is in the midst of developing a linkages policy and an SME support strategy.

At this nascent stage, there is very little in the way of a regulatory or legal framework for local content or the promotion of business linkages by concessionaires in Liberia. Although it is now legally mandated that preference be given to domestic and Liberian firms in public procurement, this does not extend to the private sector. The relevant clauses of existing mineral development agreements are very vague and do not contain any clearly defined obligations, though companies are encouraged to employ and procure locally and share infrastructure with local enterprises. Companies are further encouraged to define their strategies for workforce development and investment in local suppliers as part of their overall corporate responsibility.

The NIC has indicated that a legal requirement surrounding local content could have a very high impact (Davis, 2011) as a strategy for promoting business linkages, but this comes with several challenges. The chairman of the NIC (Davis, 2011) notes that there is a delicate balance between promoting local content and incentivising multinational investment. The government continues to explore ways to promote linkages while recognising that there is a need for a phased strategy reflecting the different stages in concessionaire activities, from exploration to implementation.

Despite the lack of formally binding local procurement requirements, several MNCs that are currently investing in Liberia have corporate responsibility frameworks that include local content, and they make an effort to procure locally, where possible (Building Markets, 2012). The existence of the Corporate Responsibility Forum is an indicator of such willingness among corporate actors in Liberia. Established in 2010, the forum was the result of private sector-led discussions with government, civil society and international organisations on how best to promote responsible investment for sustainable growth. The forum aims to share best practices in corporate responsibility and, as part of its activities, has organised workshops and meetings aimed at developing and engaging with local suppliers. Several large MNCs which are part of the forum include ArcelorMittal, BHP Billiton and Chevron, to name a few.
Box 8.2: Key actors and stakeholders

Government stakeholders

The NIC is responsible for promoting Liberia’s investment opportunities, attracting and supporting the growth of value-adding FDI and advocating for and strengthening the growth of the domestic private sector. www.nic.gov.lr


Business associations

• Liberia Chamber of Commerce was established in 1951 and with a membership of more than 300 top companies in the country, aims to be a voice for the Liberian private sector. http://www.lcc.org.lr/

• Liberia Business Association (LiBA). Established by an act of the Liberian National Legislature in 1975, LiBA has traditionally been a strong advocate for privileging citizen-owned businesses and is the main defender of a government policy to protect certain sectors solely for Liberian-owned businesses, and implementing other ‘Liberianisation’ policies. Currently, LiBA has a large membership in greater Monrovia and affiliate members in Bong and Grand Bassa Counties.

Supporting entities and providers of business development services*

Corporate Responsibility Forum Liberia is a private-sector initiative supported by CCPA, GIZ, aimed at promoting responsible investment and good corporate citizenship. Several MNCs are currently members, and sharing best practices and promoting business linkages is the aim of the forum. http://www.crforumliberia.org/ (Accessed on 04.08.2012)

The Marketplace provides business development services such as on-site incubation, business training, consulting and advisory services to Liberian SMEs. http://www.themarketplacebds.com

SPARK works on entrepreneurship development services. In collaboration with the Association of Liberian Universities and local ministries, the Business Start-up Center was established in 2010 to develop entrepreneurship and education, with a view to empowering young Liberians. www.spark-online.org

Building Markets supports local entrepreneurs by connecting them to new business opportunities. In Liberia, Building Markets is implementing the SMI, which provides several services that strengthen local enterprise capacity, facilitate the flow of market information and bring together buyers and local suppliers to facilitate linkages between them. liberia.buildingmarkets.org

*Note: This is not an exhaustive list of business development service providers in Liberia, but serves to demonstrate the breadth of providers.
8.2.2 Challenges to building business linkages

Notwithstanding the willingness among concessionaires and other private-sector actors to procure locally, large buyers and local suppliers face two-fold challenges that hamper business linkages from being established with ease: there are general business environment constraints, and constraints which are specific to the creation of linkages. The general business environment in Liberia affects the ability of local firms to respond to local procurement demands. In addition, there are unique obstacles that deter multinational firms from doing business with local suppliers.

Business environment challenges

Several structural challenges impede private-sector development in Liberia. While some of these are common to much of sub-Saharan Africa, the consequence of being a post-conflict economy implies greater severity. The war in Liberia caused infrastructure destruction and decay on a large scale, which inhibited the ability to do business. Less than ten per cent of Liberia’s road network is paved, and a very small fraction of the population has access to electricity. In addition, while there have been several business climate reforms, legal and regulatory matters related to property rights and the registration of businesses continue to hamper the sector.

The World Bank Enterprise Survey (2009) identified access to finance as the biggest constraint to the business environment in Liberia, as reported by 40 per cent of the sample. According to this survey, access to finance is particularly limited for medium-sized enterprises that do not form part of the client base for microfinance or larger institutional lending. A lack of a comprehensive credit history, insufficient collateral, the relatively short life of enterprises, as well as their inadequate financial records have compounded the problem of access to credit (Dennis et al., 2011). Other major constraints, as identified by the enterprise surveys, include property and infrastructure security.

From October 2011 to January 2012, Building Markets surveyed more than 750 local businesses in the Greater Monrovia area. The survey, while not fully representative, is consistent with the challenges reported in the earlier World Bank Enterprise Survey. The challenges most frequently cited by these firms were a lack of access to finance, lack of access to information and marketing, competition from other businesses and poor infrastructure. The constraint of access to finance was found to be particularly severe. Only a quarter of the businesses responding to loan-related questions had taken out a loan, despite the fact that the demand for credit was high across all sectors.

Business linkage challenges

The GIZ report to the NIC on business linkages identified several hurdles that need to be overcome before an effective linkages strategy is put in place. The report notes that concessionaires may be reluctant to work with local enterprises due to a lack of familiarity, which includes not knowing where to find registered firms and having limited information about the quality of the goods and services they can expect. The report also highlights that local firms lack information about contracting opportunities, are unfamiliar with the tendering processes and often lack the capacity to respond to opportunities.
As part of the survey referred to above, Building Markets also sought to identify the main obstacles to local procurement in Liberia. The findings, which are summarised in Box 8.3, resonate closely with the issues highlighted by the GIZ report.

**Box 8.3: Obstacles to local procurement as identified in Seizing potential: An overview of the Liberian marketplace – Building Markets, April 2012**

As part of its initial activities in Liberia, Building Markets surveyed more than 750 local firms and nine major buyers to understand the scope and challenges associated with local procurement. The resulting data confirm the potential for local procurement and business linkages. Despite the preference for regular trusted suppliers, buyers reported that they were open to considering new vendors who could match quality standards. The data identify the capacity gaps that exist and need to be addressed in order to increase local procurement. Key findings from the report include:

- More than half of the firms keen on bidding for tenders reported that they had difficulties finding them;
- Most suppliers of goods and services are misinformed about what makes a winning bid. The majority of suppliers think the key factor is pricing, while, according to procurement officers, the quality of goods and services is the key factor that determines who wins the contract;
- Excessive diversification in the activities of many local firms works against them when procurement officers make decisions about suppliers. Many procurement officers expressed a preference for contracting with suppliers who specialise in a given area;
- Local businesses reported that training in management and procurement would be most helpful in bidding for contracts. While buyers agreed with these training needs, they also emphasised quality and customer service;
- Local businesses have limited experience with international buyers. Less than 40 per cent of the firms surveyed had had at least one international client in the past.

For the entire report, see [http://liberia.buildingmarkets.org/reportsandmetrics](http://liberia.buildingmarkets.org/reportsandmetrics)

Liberia is fortunate to possess numerous characteristics that make for a conducive environment and hold strong potential to foster inclusive business linkages between concessionaires and local enterprises. To unleash this potential, the challenges and obstacles highlighted above need to be addressed. The two initiatives profiled here as case examples of business linkage and local procurement initiatives present different approaches which may be followed to overcome some of these challenges.
8.3 Case 1: A multi-dimensional approach to supporting local trucking companies, implemented by TOTAL-Liberia

**Box 8.4: Company biographical data: TOTAL-Liberia**

- **Year of establishment (locally):** 2005
- **Number of employees in Liberia:** 70 directly employed (3,000 indirectly employed)
- **Leadership:** Robert Fenech, Managing Director, TOTAL-Liberia
- **Turnover (2011):** 140,000 tons of mixed products
- **Name of supply chain project discussed in case study:** Supporting local trucking companies
- **Manager (s) responsible for the supply chain:** Mr. Yves Poupon, Operations Manager, TOTAL-Liberia

For further information contact Sara Buchanan, Administrative Manager, TOTAL-Liberia. sara.buchanan@total-liberia.com.

TOTAL, a multinational oil and gas company headquartered in France, has been operational in Liberia since 2005, with a retail petrol station network and bulk supplies to large consumer customers. Its operations in the country require a reliable transportation network, particularly due to the nature of the goods being transported. In 2009, TOTAL-Liberia set out to improve its transportation system to comply with European safety, security and environmental standards. The goal was to reduce the age of the trucking fleet to less than four years and to equip vehicles with modern safety and tracking devices. With some trucks as old as 15 years, local companies would need to invest a substantial US$250,000 per truck, to comply with company regulations. Moreover, meeting the demands of the system of monitoring and safety would require additional capacity in local companies, given the low level of technical training in Liberia.

To build a reliable local transportation network, TOTAL-Liberia had to address several challenges which were hindering local trucking companies from responding adequately to TOTAL’s needs. Ultimately, the company established a programme that focused on strengthening local capacity and finding financing solutions, which enabled local companies to meet TOTAL’s health, safety and capacity needs.

**8.3.1 Leveraging size to negotiate better financing terms for local companies**

The backbone of this project is the financing agreement TOTAL-Liberia negotiated and guaranteed between Ecobank Liberia and the six trucking companies contracted by TOTAL. Negotiations began in late 2010, and initially 12 trucks were financed in November 2011 in terms of the agreement. TOTAL guaranteed that the companies would close a four-year contract for the use of the new trucks, during which time the loan would be repaid.
TOTAL makes all payments for services to the trucking companies directly to the bank, which then retains the monthly credit value and pays the remainder to the transporter. This guarantee arrangement means that the Liberian trucking companies have been able to secure favourable financing terms, which allow them to participate in the local supply-chain partnership.

In addition, TOTAL negotiated volume discounts with manufacturing companies, lowering the price of new trucks. At the time of writing, 20 new trucks had been bought and delivered, and 20 were scheduled for delivery during the next four to five months. Group insurance was also negotiated for the trucking companies, which reduced their liability – particularly in the case of product which is lost in transit. TOTAL is now exploring volume discounts for frequently used truck components such as tyres.

8.3.2 Building local capacity

TOTAL’s real-time tracking on-board computer systems monitor driver routes and their adherence to company rules (such as adhering to speed limits and complying with hours of operation). To help local companies comply with the demands of these company policies, training and capacity-building have been woven into the programme. As part of its Trainer Certification for Hydrocarbon Transportation, TOTAL brought in external trainers and driving simulators to train drivers. In addition, trainers have been brought in from Nigeria and France to train trucking company supervisors on safety issues such as dealing with oil spills and residues. There are future plans to establish a permanent training centre. They are also in the process of negotiating technical training arrangements with the truck manufacturing companies as part of the purchase deals. This ensures that trucks are well maintained, which improves their resale value at the time of fleet replacement. Further, the packing of truck contents is performed at the Free Port of Monrovia, to avoid the congestion that normally ensues when trucks pack on the roadside.

8.3.3 Challenge: Building confidence in TOTAL’s commitment

At the inception of the programme, convincing local trucking companies and banks of TOTAL-Liberia’s commitment was a communication challenge. This was compounded by the substantial investment that the project required, and by the fact that nothing similar had been done in Liberia before. Senior management, led by the managing director of TOTAL-Liberia, played a particularly crucial role early on in publicising the project via press conferences and other means. They continue to be active in ongoing communication efforts aimed at relaying a consistent message about TOTAL’s commitment. TOTAL also involved important institutional players such as the Truckers Union and the Ministry of Transportation to be part of the discussions with trucking companies, which helped build confidence in their commitment to support local trucking companies.

TOTAL-Liberia continues to be firmly committed to the trucking companies it works with. Workload and revenue are continuously tracked on a per-truck basis, to ensure that trucking companies earn fair revenue and are able to make the minimum monthly loan

TOTAL negotiated volume discounts with manufacturing companies, lowering the price of new trucks.

As part of its Trainer Certification for Hydrocarbon Transportation, TOTAL brought in external trainers and driving simulators to train drivers.

There are future plans to establish a permanent training centre. They are also in the process of negotiating technical training arrangements with the truck manufacturing companies as part of the purchase deals.
8.3.4 Evaluation and achievements
The local transportation network that TOTAL-Liberia has established through this programme, allows the company to access some of the remotest parts of the country. This is achieved through real-time tracking systems that ensure driver adherence to rules, by sending trucks in pairs to remote areas, and through a system of establishing safe parking areas for trucks in different cities.

For TOTAL, the most significant indicator of the success of the programme will be proving its financial viability. Plans are in place to evaluate financial viability at the completion of the first year of the loan cycle, to determine whether payback is happening as scheduled (or even sooner). This initial evaluation is set for November 2012, when the first group of trucks has been operational for 12 months. On the basis of the continuous workload and revenue tracking that is currently underway, TOTAL is confident that loan repayments are on track. At the time of writing, two of the trucking companies had successfully paid back their loans and were already seeking to buy new trucks to replace older ones.

8.3.5 Future plans
TOTAL continues to tackle ongoing challenges within its transportation system. An issue of concern is emergency response to accidents, given the current state of Liberian infrastructure. The company is considering working with other large local firms to create a task force for emergency response. TOTAL is also developing educational material on road safety for the public. The current contracts between the trucking companies, banks and TOTAL-Liberia will expire after four years. However, TOTAL plans to continue to implement this partnership approach for as long as the company operates in Liberia. TOTAL-Liberia hopes that the process of replacing and maintaining a high-quality fleet of trucks is one that will become second nature for local companies, with the current support system in place.

8.4 Case 2: The SMI implemented by Building Markets

Box 8.5: Organisation biographical data: Building Markets

| Year of establishment (locally): | 2011 |
| Number of employees in Liberia: | 20 |
| Leadership: | Matthew Jones, Country Director |
| Name of supply chain project discussed in case study: | Sustainable Marketplace Initiative |

For further information contact Jenna Slotin, Chief Operating Officer Building Markets, slotin@buildingmarkets.org
Building Markets (formerly known as Peace Dividend Trust) is an NGO that seeks to build markets, create jobs and sustain peace in developing and post-conflict countries by championing local entrepreneurs and connecting them to new business opportunities. This is primarily achieved through economic analysis and an innovative project model called the SMI, which links local entrepreneurs to domestic, regional and global supply chains. The SMI is adapted to each country where it operates, but revolves around the core objective of facilitating local procurement by improving the flow of market information and strengthening the capacity of local entrepreneurs. Building Markets started up the Liberia SMI in 2011.

Originally developed as a method to leverage aid and peacekeeping spending to increase the economic impact of the international presence in post-conflict and fragile countries, the SMI now focuses on connecting local firms to the supply chains of all major buyers in the economies where it operates. In Liberia, this translates into a strong focus on linkages between local businesses and concessionaires.

Building Markets has developed a unique niche as a third-party facilitator of local procurement. Rather than being driven by a single private-sector buyer and therefore being focused on a single company's supply chain, the SMI offers a multidimensional set of services calibrated to the needs and demands of a given market. These services support both buyers and suppliers across a range of high-demand sectors, enabling them to work together effectively, without sacrificing quality and ensuring value for money. This is accomplished by establishing an in-country team that can interface effectively with local businesses, strengthen local business capacity, and provide a neutral interface between buyers and suppliers to convey rules, procedures, standards and expectations around local purchasing. The SMI services include the following:

- **Training:** Targeted training seminars are provided to local suppliers in order to improve their understanding of procurement processes and to enable them to successfully bid on, and win, contracts. This increases capacity and competition by improving supplier knowledge of business standards, procurement procedures and contracting requirements. Specialised training on the procurement processes of specific buyers is also offered;

- **Tender distribution:** The purpose of this service is to collect tender announcements and other business opportunities for distribution to local companies. To reach the maximum number of businesses, information is disseminated online, via email or SMS. Hard copies of tenders are also available at Building Markets' office in Monrovia, which therefore caters to local companies that have limited or no Internet access;

- **Business matchmaking:** Business matchmaking is designed to bridge demand and supply by providing customised reports to match institutional buyers' requirements with local providers of goods and services. Additional services that promote matchmaking include site visits, vendor days, networking opportunities and other events;

- **Local business directories:** Local business directories contain detailed profiles of domestic businesses and are searchable by sector and location. The profiles are initially
compiled through on-site interviews with business owners or managers. Detailed business profiles help procurement teams meet due diligence requirements. To ensure the integrity of the data, the business information is updated every six months. The Liberia Business Directory, which is available online at liberia.buildingmarkets.org, includes nearly 1,500 detailed profiles of registered businesses from three of Liberia’s counties, and more businesses are added on an ongoing basis;

• **Market information and research:** This service generates data and reports that provide market information and contribute to a more complete understanding of the impact of local procurement. The market research service also undertakes periodic surveys to measure the impact of the SMI’s other services in terms of job creation and reinvestment. The service tracks changes in attitudes towards local procurement and perceptions of confidence in local suppliers and of the health of the Liberia marketplace overall; and

• **Advocacy and communications:** This service promotes the importance of ‘buying local’ through ‘host nation first’ policy promotion, marketing campaigns, events and social media.

### 8.4.1 Monitoring, evaluation and indicators of success

Building Markets systematically integrates monitoring and evaluation into its operations and sees the measurement of its impact as an important part of its project design. Each service within the SMI is responsible for regularly tracking and monitoring outputs and outcomes, including user satisfaction, contract facilitations, changes in access to business opportunities and indicators of capacity enhancement. These data are collated on a monthly basis, and over time the combination of monthly monitoring and impact surveys provides a detailed picture of the overall impact of the SMI.

Building Markets’ monitoring and evaluation (M&E) methods are structured to be participatory by using rigorous survey methods with a focus on the project’s core clients – local suppliers and international buyers. By involving project clients in regular monitoring and impact evaluation, Building Markets is able to respond quickly to the needs of clients, in real time, and to modify or re-target services to ensure maximum impact.

Overall, the SMI seeks to help win more contracts for a wider range of local enterprises. Achieving this contributes to the following goals:

• Jobs are created in the short term, as businesses need to hire additional workers or retain employment for existing workers;

• Local enterprises become more sustainable because they are able to reinvest in capital and human resources, improve their production and delivery standards, and expand their client base by developing a strong track record; and

• Buyers have better experiences of local purchasing, which increases confidence in the local market.
8.4.2 Experience in Liberia

The SMI in Liberia started in September 2011 with support from Humanity United, and the project was formally launched in April 2012 with support from USAID and BHP Billiton Liberia Iron Ore. By the end of July 2012, nearly 1,500 businesses were registered in the supplier directory, the project had released its first market overview report analysing data from interviews with over 750 local firms and nine international buyers, and all other project services were fully operational.

At the time of writing it was too early to assess the results of the project because services had only been operational for one quarter. Early monitoring showed that user satisfaction ratings were high among training participants, local businesses were generally enthusiastic about being included in the supplier directory, buyers reportedly found the directory and the market overview report to be valuable sources of information, and service uptake among buyers and suppliers was on the rise. However, it was too early to determine whether the volume of local contract awards was increasing, whether there was any effect on job creation or reinvestment, or whether supplier capacity had been enhanced, because these impacts are assessed at quarterly or annual intervals in the project life cycle.

Although there is enthusiasm and support for the SMI among government, private sector and local business stakeholders, achieving concrete results through the SMI is not without challenges in Liberia. Shallow supplier capacity remains a consistent hurdle: if local businesses fail to deliver on contracts, their likelihood of sustained interactions with international buyers will be low. The SMI training service strives to respond to weaknesses in supplier capacity, as identified by major buyers in the market. The findings published in the market overview report, and translated into short communications products for local businesses, also serve to reinforce buyers’ expectations and communicate basic requirements to suppliers.

A lack of organisation and information remains an issue with regard to buyers. Many large corporate buyers have only nascent procurement plans, owing to the early stage of their own projects in Liberia. As a result, their purchasing has been largely ad hoc to date and they have engaged in limited long-term forecasting around their procurement needs. This limits Building Markets’ ability to target its services effectively and support local businesses by giving them as much lead-time as possible to prepare for new business opportunities. The SMI is working with willing concessionaires to identify patterns and repeat needs, in order to build a more reliable forecast of upcoming purchasing trends.

8.4.3 Project trajectory

The SMI is envisioned to be a three-year project in Liberia, with the possibility to extend it for an additional three-year cycle depending on results and demand for the services. As an NGO, all of Building Markets’ projects are made possible with donor support. A unique mix of private and public donors, including USAID, Humanity United and BHP Billiton Liberia Iron Ore, is generously supporting the first phase of the Liberian project cycle.

Depending on demand, needs and service uptake, Building Markets will develop a context-specific exit plan which involves considering the continuation or handover of
each service on a separate basis. Some services may outlive their usefulness in the mar-
ketplace, while others may continue to be in high demand and can effectively be handed
over to local public or private entities. For example, in Afghanistan the Chamber of
Commerce took over the tender distribution and training services, while in Haiti the
same services were taken over by the Ministry of Commerce. With support and ad-
vice from Building Markets, buyers can effect low-cost and low-effort changes in their
approach to local procurement, to enable local businesses to compete effectively for
contract opportunities and ultimately reduce the need for certain SMI services.

At present, Building Markets is focusing on service provision in the Greater Monrovia
area and has just begun to expand to more remote counties using mobile teams. Dis-
cussions with buyers have demonstrated a considerable interest in a broader Building
Markets presence around the country, with a particular focus on key concession areas
where knowledge of the market in these remote communities is even more limited, and
local firms are at an even greater disadvantage in terms of access to business information
and capacity development opportunities.

8.5 Conclusion

Liberia is a country on the move. FDI is increasing at an impressive rate and the gov-
ernment is taking active steps to create an enabling environment for investment and
private-sector development. Establishing business linkages between large concession-
aires and local SMEs has been identified as a key strategy to promote SME development
and extend the economic impact of concessionaire investment to a larger proportion of
the population.

The programme implemented by TOTAL-Liberia shows that it is possible to engage local
suppliers through linkages. By identifying the major barriers to local enterprise participa-
tion, TOTAL was able to establish a programme of support that increased the capacity of
local businesses and gave them access to the resources they needed to meet the standards
required by TOTAL. Although the medium- to long-term effects have yet to be evaluated,
TOTAL is confident it has been able to establish a reliable local transportation network
for its products.

TOTAL’s example is admirable and reflects a proactive attitude towards local purchas-
ing. Unfortunately, other major buyers may not have the resources in terms of time and
capacity to set up similar programmes. The SMI offers another approach to help kick-
start business linkages by connecting large buyers with local suppliers and reducing the
initial barriers preventing them from doing business with one another. As a third-party
facilitator of business connections and market information, the SMI helps buyers un-
derstand and engage with the local market, particularly where they are unfamiliar with
the operating environment and have little time to get to know it. The SMI is a relatively
short-term intervention that can strengthen the capacity of local businesses, help them
understand the standards and expectations of major buyers, provide greater access to
information about the market and the opportunities it offers, and help buyers integrate
changes in their approach and procedures that will enable local enterprises to compete
effectively.
Both approaches to business linkages have value and strong potential in Liberia. Despite this, the eventual trajectory of inclusive business in this country remains to be seen. Leveraging business linkages for strong private-sector growth requires active participation and support from all stakeholders, both public and private. The outlook is positive, but the challenges remain significant.

Notes

1 The authors are grateful to Building Markets’ Liberia staff who contributed to this chapter. Frank Alexander, Market Researcher, conducted the interview with TOTAL-Liberia and Matthew Jones, Country Director, reviewed and edited the text.

2 Unless otherwise indicated, all monetary values are expressed in United States dollars.

3 All statistics taken from The investor’s guide to Liberia, a National Investment Commission of Liberia publication, unless otherwise indicated.


6 Total official development assistance received by all sectors, OECD stats. http://stats.oecd.org/

7 Public Procurement and Concessions Act, 2005.

8 NIC, The investor’s guide to Liberia. Approximately ten per cent of urban residents and fewer than two per cent of rural residents have access to electricity.

9 Based on an interview with Mr. Yves Poupon, Operations Manager, TOTAL-Liberia, on 25 July 2012.

10 For more information on the history and development of the SMI, see the feature article by Building Markets in this volume.

11 See http://liberia.buildingmarkets.org/reportsandmetrics

References


9. Ayoba in Mzansi: The state of inclusive models in South Africa

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9.1 Introduction

Its economic stability, receptive markets and business culture of corporate citizenship make South Africa conducive for inclusive business. Yet 60 per cent of the population is considered to be under-served or unserved by business. With many flagship companies emerging from the proof-of-concept phase, inclusive models are taking off and exhibiting mainstreaming potential across the economy’s business sectors.

9.2 South African context

9.2.1 State of poverty

The context for value chain development in South Africa is a unique legacy of race-based poverty. The World Bank regards the country as an upper-middle-income economy. It has a GDP of US$363.9 billion (2010) and a GDP growth of 3.1 per cent (2011) (http://data.worldbank.org). South Africa’s population of 50.59 million, estimated at mid-2011 (www.statssa.org), live and work in a land area of 1.2 million km² – over three times the size of Germany.

Table 9.1: Unemployment by population group in South Africa

<table>
<thead>
<tr>
<th>Population group</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall unemployment</td>
<td>23.9% *</td>
</tr>
<tr>
<td>Black population **</td>
<td>30% ***</td>
</tr>
<tr>
<td>White population</td>
<td>5.4%</td>
</tr>
<tr>
<td>Indian/Asian population</td>
<td>14.3%</td>
</tr>
<tr>
<td>Coloured population</td>
<td>22%</td>
</tr>
<tr>
<td>Youth unemployment (18–25 years)</td>
<td>&gt;45%</td>
</tr>
</tbody>
</table>

* Quarter 4, 2011. http://www.statssa.gov.za/, ** 79.5 per cent of the population, *** Figure from June 2011 (29.1 per cent in 2004)

The population increased by ten per cent from 1996 to 2000, and by 12.7 per cent from 2001 to 2011. The majority of the South African population is black (79.5%) and mainly poor (Table 9.1). As such, it is largely this demographic that forms South Africa’s BoP group. The BoP threshold is set at US$3 per day (around R20 per day, February 2012 exchange rates). More than 18.2 million South Africans are in this category (adapted Eighty20 [2009], more than one-third of the population).
Wide income gaps exist. Between 1995 and 2008, inequality rose from 0.64 to 0.67. Since then, income disparities have increased (Pellicer et al., 2011). Today, the country with the world’s greatest gap between the wealthiest and poorest citizens is South Africa (www.data.worldbank.org).

Twenty years since the dismantling of apartheid, spatially segregated settlements (located far from services, places of work and transport networks), lack of decent housing, and weak services and support infrastructure continue to marginalise the historically disadvantaged from the economy (John, 2012). This persistence of social inequality is the result of poor education systems, skewed financial markets and inter-generational support networks amongst families and communities that have since eroded (Pellicer et al., 2011). Compounded by mass migration to urban townships and informal settlements, urbanisation is rapid, and higher than predicted and planned for, thus exerting considerable pressure to create jobs.

A total of 60 per cent of the population is under- or unserved by business (Ismael et al., 2012). South Africa’s BOP thus co-exists inharmoniously with first-world lifestyles, presenting fertile ground for crime and corruption. In this context, the structure of the South African economy is typified by a dual economic system.

9.2.2 State of business

Despite the baggage of the country’s history and its present socio-economic state, South African citizens are highly optimistic in their belief that their children will have high incomes and that hard work plays a major role in success – significantly more so than Americans or Swedes (Pellicer et al., 2011). Both findings reflect the typically positive South African mindset, suggesting that the betterment aspirations of the poor are inadequately met by government, business and other stakeholders.

At the heart of closing the gap between South Africa’s dual economies and including those excluded from the economy, is the policy of Broad-based Black Economic Empowerment (B-BBEE) which was introduced by South Africa’s post-apartheid administration (see other sections of this chapter).

A favourable feature of the economy is its fiscal policies, and well-functioning and highly disciplined banking and financial services regulations. For example, out of 142 countries, the Johannesburg Stock Exchange (JSE) Limited was voted number one for its securities exchange regulations for both 2010 and 2011, in the World Economic Forum Annual Competitiveness Report (www.weforum.org).

Out of 183 economies, South Africa slipped one place, to no. 35, in the 2012 World Bank’s Ease of Doing Business rankings (www.doingbusiness.org). This serves as an important indicator for entrepreneurs who are the potential partners of larger companies in the implementation of inclusive business approaches.

The economic landscape is shifting from being dominated by mining and agricultural value chains, to one where manufacturing and financial services are increasingly contributing a larger share. Imports and exports are currently dominated by Asia and Europe,
but the forecast is that the bulk of South Africa’s exports will be to Asia and the rest of Africa (www.sars.gov.za).

The 2008/2009 global recession cemented the world’s economic blocks, forcing companies to be more innovative, to diversify and to use parallel business models. In response, South Africa mainly relies on (multi)national champion companies to help buffer lag effects of the recession, as MNCs are well placed to lead the best practice implementation of inclusive business value chain development.

Being a BRICS (Brazil, Russia, India, China, South Africa) member, South Africa is regarded as the gateway for doing business in and with Africa. South Africa dominates the regional electricity market through Eskom, the state-owned utility company, and it is also a top destination for Africans fleeing unrest or seeking economic opportunities. Sustainable and equitable growth in South Africa therefore has important regional benefits, including stability.

9.3 Policy and regulatory environment

9.3.1 Legal environment

The leading national strategy for economic development in South Africa is the New Growth Path. Implemented in December 2010, it identifies job creation as a priority, followed by skills development and the development of SMMEs. The New Growth Path aims to reduce unemployment (10 per cent is the target by 2020) through the creation of five million new jobs.

Despite the fact that there is no framework or national strategy for inclusive business, the New Growth Path presents numerous avenues for undertaking inclusive business, such as the Green Economy Accord. There are no explicit legal incentives for inclusive business models, but what exists may provide a future platform for advancement.

The Local Procurement Accord is an agreement involving supply chains and service providers (www.info.gov.za). It was introduced to protect local businesses from the ‘David-versus-Goliath’ power of MNCs. Local businesses have the distinct advantage of being closer to the needs of the BoP and generating sound market information so as to be first-movers in an inclusive business venture.

A myriad of potential opportunities on the South African law books are supportive of inclusive business, to wit:

• Disciplined lending practices are ensured by the National Credit Act, 34 of 2005 (with amendments thereafter), especially when insufficient venture capital exists to buffer risk. The SMMEs Business Confidence Index improved by eight per cent from 2009 to 2012. Thus, the National Credit Act is highly relevant to SMMEs which are more vulnerable to financial failure than large, established local businesses, or MNCs that have access to safety-net funds when it comes to implementing inclusive business models in new or emerging markets;

• The Companies Act, 71 of 2008, outlines processes ranging from business registration to liquidation. It thus confers protection in the form of legal rights to value chains.
from unforeseen over-exposure to risk and uncertainty in emerging markets, and poorly conceived investment destinations;

- The Consumer Protection Act, 68 of 2008, affords more equitable rights to consumers and businesses. For example, it provides rights to low-income, semi-literate consumers against false branding and exploitative sales pitches that may be associated with new value chain developments in BOP markets. In response, many companies provide labelling on products, or make use of call centres for handling complaints.

Through recent provisions in the Tax Act, the South African Revenue Services (SARS) (www.sars.gov.za) provides CSI tax incentives. At present, the criteria focus on goodwill, such as employee-community involvement and volunteerism, ‘Give as You Earn’ donation of redundant goods and assets, and education amongst SMMEs (literacy, HIV / Aids, disabled people, and women). As these criteria are not explicitly developmental or long-term in vision, there is scope for their refinement.

9.3.2 Voluntary agreements

B-BBEE is focused on correcting historical imbalances by increasing the number of black people who participate in, manage, own and control the country’s economy. There is no legal obligation for a business to commit to B-BBEE – it is voluntary and no direct penalties are involved. However, public procurement managers and the private sector are unlikely to favour a business if there is little will to transform or if the business is not B-BBEE compliant. In South Africa, the uptake of B-BBEE will ultimately influence the success of an inclusive business value chain. Recently, the South African government proposed new empowerment codes of good practice in connection with B-BBEE. At the end of October 2012, the present Minister in the Department of Trade and Industry (dti) called for amendments to B-BBEE to ensure that South Africa’s economy is more inclusive (www.fin24.com).

Locally, various initiatives that have been implemented with regard to CSR have catalysed a business culture which is open to inclusive business. For example, the King Code, the Socially Responsible Investment (SRI) Index of the JSE and UN Global Compact Local Network South Africa collectively leverage commitment from companies to take more seriously the adoption of various codes of conduct (especially in the mining sector), charters (e.g. the Financial Sector Charter) and principles (e.g. Equator Principles in the banking sector; the Kimberley Process certification scheme of the mining sector). Collectively, these provide a launch pad in ecosystems of subsidiary companies, business partners, suppliers and service providers, to implement and aggregate inclusive business activities.

The Johannesburg Declaration on Engaging the Private Sector in Furthering Africa’s Agribusiness, Food Security and Nutrition Agenda was signed on 19 October 2011 (www.business.un.org). Facilitated by the UNDP, organisations such as the Institute of Food and Agricultural Sciences (IFAS), the UN Global Compact, UNIDO, COMESA, the Food and Agriculture Organisation (FAO), NEPAD, the World Food Programme and several other civil society groups, development agencies and private sector members, participated in and supported the high-level public-private dialogue on inclusive growth in the agri-food sector during the Agri-Business Forum.
Historically, South Africa’s mining and agricultural sectors are most strongly associated with exploitation during apartheid.\textsuperscript{15} Perhaps in wishing to compensate for the past, out of all sectors, the South African mining sector is progressive in taking up principles of B-BBEE, as well as environmental sustainability and corporate citizenship (Hamann, 2008). Many businesses, starting with large MNCs, have adopted these principles by committing voluntarily to legally non-binding and mostly international agreements. This has engendered progress in entrepreneurship and inclusive business development.

9.3.3 Key stakeholders

Key stakeholders driving the inclusive business concept and value chain management in South Africa are located at the global, regional, national, provincial and local levels. International influences are evident in the inter-connections between South African companies and global initiatives. Many local companies collaborate with international organisations, rather than with other local institutions.

- **Multilateral organisations** such as the UNDP and the related BCtA are in constant direct exchange with companies in South Africa and Africa at large. Companies collaborate with organisations that either work at the national or regional level in South Africa, or at the global level (but with national offices in African countries). For instance, the achievement that Anglo-American plc is about to create 25,000 new jobs in Limpopo Province is partly due to its commitment to its BCtA membership;\textsuperscript{16}

- **International donor organisations** continue to lay the foundation for inclusive business programmes. These include the DfID,\textsuperscript{17} GIZ, USAID and, to a lesser extent, L’Agence Française de Développement (AFD) and the Ford Foundation.\textsuperscript{18} Regional donor organisations or funding streams are increasingly tapping into the need for inclusive business and related topics such as enterprise development. Amongst these are the Open Society Initiative of Southern Africa (OSISA), Trust Africa, and the DfID-funded African Enterprise Challenge Fund. Currently, the most important global investor for inclusive business activities in (South) Africa is the IFC. In the future, the African Development Bank may play a bigger role.

Presented below is a brief account of key actors and stakeholders who are visible and well known in South Africa. No opinion is proffered on their functional value, or their effectiveness and impact on promoting, scaling up and diversifying inclusive business models.

9.3.4 Business associations in South and southern Africa

- **The NEPAD Business Foundation (NBF), a regional non-profit company, is a platform for dialogue between the private and public sectors, with the aim of creating a more sustainable business environment in Africa. Its key activities include growing agricultural investment along Africa’s regional corridors, and supporting and linking small-scale farmers with larger companies in these corridors (‘TransFarm Africa’ concept). Efforts to increase market access through improved rural infrastructure and other trade-related interventions have also been made (www.nepad-caadp.net);**
Business Unity South Africa (BUSA) (www.busa.org.za) is a confederation of chambers of commerce and industry, professional associations, corporate associations and sectoral organisations. As part of the SADC Private Sector Forum, BUSA supports the B4D Project of the Southern Africa Trust (see the contribution by Ulrich Klins). In May 2012, UNDP, BUSA and the BBC (Black Business Council) signed a memorandum of understanding to establish a forum for collaboration on developing more inclusive markets in South Africa;

The National Business Initiative (NBI) (www.nbi.org.za) is an umbrella organisation with a membership of some 140 large companies in South Africa. The NBI, which is the representing national body of the WBCSD, supports national and international enterprise linkage initiatives.

9.3.5 National government

The national government in South Africa facilitates a regulatory environment that is conducive to inclusive business, and also supports enterprise development and project funding.

The Economic Development Department (EDD) coordinates the New Growth Path. Its agencies include, amongst others, the Industrial Development Corporation (IDC) which wholly owns the newly created Small Enterprise Finance Agency (Sefa), a merger of the former South African Micro Finance Apex Fund (Samaf), Khula Enterprise Finance Ltd.,20 and the IDC’s small business lending portfolio. Samaf facilitates access to affordable finance for micro, small and survivalist businesses,21 while Sefa supports small businesses to take advantage of infrastructure projects by linking up with the Presidential Infrastructure Coordinating Commission (PICC). The agency’s products include bridging finance, revolving loans, asset finance, working capital and term loans. It also provides wholesale microfinance facilities to financial institutions – following on the practice of Samaf – and microfinance of up to R100 000 will be available to micro enterprises (www.southafrica.info);

The dti leads the development of policies and strategies that promote enterprise growth, empowerment and equity in the economy. It implements SMME-related policies to ensure that adequate financial and non-financial assistance is provided to boost this sector (www.thedti.gov.za). The Small Enterprise Development Agency (Seda) falls under the auspices of the dti.22 Various initiatives have been undertaken by the dti to drive B-BBEE trade;23

The Department of Social Development coordinates and facilitates the delivery of various programmes that promote holistic community development and social wellbeing through partnerships, often involving civil society. In terms of the scope for inclusive business in the agricultural and land-use sectors, the Department of Agriculture, Forestry and Fisheries and its related provincial departments, as well as the Department of Rural Development and Land Reform are key players. The Department of Public Enterprises is responsible for mainstreaming new business and procurement policies within state-owned companies (SOCs).
9.3.6 Centres of learning

Thought leadership of inclusive business in South Africa is advanced by local and international universities, institutes and technical consultants. South African centres of learning build research, training and other capacities to promote inclusive business. Their activities largely include conferences; training workshops with companies, entrepreneurs and students; lunch-hour meetings with the continuous participation of companies; immersion visits by companies to townships; bridges between business schools and township communities; lectures on innovation; the compilation of fact sheets and case studies of companies operating at the BoP; research dissertations and books; and research on best practice.

One of the oldest learning centres on inclusive business in South Africa was the BoP Learning Laboratory, established in 1996 through a Kellogg Foundation grant. Essentially a university-based research facility, its members included the Gordon Institute of Business Science (GIBS, affiliated to the University of Pretoria), the University of Stellenbosch Business School (USB) and the Unit for Entrepreneurship at the University of the Free State. Today, these centres of learning operate independently.

Relevant research is also done by the University of Cape Town (UCT) and by the BenchMarks Centre for Corporate Social Responsibility at North-West University. Others are more specific in their focus, such as informal markets, township development and SMME development (the University of Johannesburg’s Centre for Small Business Development and its School of Tourism and Hospitality, as well as the Bureau of Market Research at the University of South Africa [Unisa]). The Centre for Inclusive Banking in Africa at the University of Pretoria is associated with financial inclusion and microfinance. Finally, there is the comparably new Bertha Centre for Social Innovation and Entrepreneurship of the University of Cape Town, which conducts research on social franchise models.

9.3.7 Non-profit organisations and programmes in South and southern Africa

The FinMark Trust, a regional organisation, undertakes market research to identify the systemic constraints that prevent financial markets from reaching out to low-income consumers, and advocates change on the basis of its research findings. It is involved in implementing the project, ‘Making financial markets work for the poor’ by “promoting financial inclusion and regional financial integration” (http://www.finmark.org.za/).

In South Africa, the UNDP has established the AFIM. A regional programme, it aims to accelerate progress toward the MDGs by supporting the development of inclusive, pro-poor markets across Africa (see Chapter 6). AFIM builds on the work of existing pro-poor national and regional initiatives, and serves as a platform for coordinating inclusive growth activities between the UN, governments, regional economic communities and the private sector.

TechnoServe, an NGO supported by USAID, has global, regional and national offices. In South Africa, since 2003 the organisation has supported previously disadvantaged people
to gain the skills, information and resources required for new economic opportunities. TechnoServe helps and promotes entrepreneurs, trains them in business skills and raises capital. Apart from its entrepreneurship programmes, TechnoServe creates linkages between entrepreneurs – farmers and larger companies, in particular, and especially food corporations. TechnoServe is thus an important player for building capacity and facilitating inclusive value chains.

In 2012, after 12 years in existence, significant practical knowledge was transferred from the Business Trust to an organisation called Vumelana. A market facilitator in the agri-inclusive business sector, Vumelana was established to link new land owners with investors. It aids in granting communities access to capital and reduces investment risk for investors. It brings together the land and the labour that new land owners can provide, with the capital, entrepreneurship and management skills that investors can bring. The former Business Trust linked small-scale farmers with intermediaries and companies, in particular through the Maruleng and Bushbuckridge Economic Development Initiative (Mabedi). The Business Trust also managed the African Enterprise Challenge Fund for South Africa.

The Southern Africa Trust, a regionally active civil society organisation, predominantly supported by the DfID, established a project called the B4D Pathfinder (see Chapter 3). B4D’s major three pillars of work cover 1) the promotion of inclusive business in the region jointly with business associations and individual companies; 2) the development of tools to implement, measure and assess the performance of companies in doing inclusive business (B4D Toolkit and B4D Barometer); and 3) the co-facilitation of creating an enabling environment for inclusive business at both the regional and the national level.

Solidaridad, a global NGO, works in South Africa to create sustainable supply chains from the producer to the consumer. It trains farmers in farming techniques; supports producer organisations through capacity building and organisational development; assists producer organisations in accessing the means of production, finance and markets; and supports these and industrial producer companies to qualify for social and environmental certification standards.

9.3.8 Further key players in South and southern Africa

Investment companies

Previously known as Capricorn Social Investments, Yellowwoods is an investment company which is the holding company for Hollard, Telesure, Clientèle, Nandos and other prominent businesses. Yellowwoods aims to introduce the concept of inclusive business to its subsidiaries, with Hollard being one of the pioneers in the field of micro-insurance in South Africa.
Consultancies
Several international, national and local consultants are involved in inclusive business in South Africa, amongst them Accenture, Dalberg, Genesis, KPMG, McKinsey, PricewaterhouseCoopers, as well as local consultants.

9.4 Companies and inclusive business

9.4.1 Active companies
In South Africa, some companies factor poor communities into their value chains, whereas others make low-income markets the focal point and key driver of the entire business approach (see Appendix 9.1).

Together with the overview of the state of uptake of inclusive models in South Africa (Appendix 9.1), the account below is a snapshot of the large and growing number of companies involved in inclusive business in this country. In addition, the processes, components, roles, resources, activities and challenges associated with inclusive business are presented in two case studies – that of Standard Bank and RTT respectively.

One of the flagship companies that integrate the poor throughout its value chains is the brewery and bottling company, SABMiller.25 Globally, the company, among others, works with some 33 000 small-scale farmers (via training and mentorship programmes); it has established an owner-driver fleet to distribute products;26 trained some 10 000 taverners at sales outlets; involved entrepreneurs in bottling, designing and packaging. It has also established successful markets for products and brands using local ingredients elsewhere on the continent (sorghum, cassava and maize).

The company no longer distinguishes between traditional and inclusive business, indicating that it regards inclusive business as core business rather than a bolt-on initiative. In South Africa, SABMiller’s programme was not too successful, given the difficulties of sourcing sufficient irrigation.

SABMiller combines three fundamental approaches of inclusive business, namely ‘buying from’, ‘distributing through’ and ‘selling to’.

‘Buying from’: Integrating the poor in supply chains
Most retailers involve the poor in their supply chains in South Africa. Examples include large supermarket chains such as Woolworths, Pick n Pay and Spar, as well as food corporations such as Nestlé, Unilever, Tiger Brands, the beverage company Entyce, and (now starting in South Africa) Massmart and Mondelēz International (former Kraft Foods). Several producers of commodities in South Africa have become more inclusive, like TSB Sugar, but most of these efforts remain scattered and do not yet cover a significant range of companies’ supply chains.

Companies also tend to work with small-scale farming cooperatives (aggregators), which strive to attain efficient produce sourcing, processing and logistical services, and also provide management support that assists in the development of bankable investments.
Other small but prominent groups of companies that involve low-income people in South Africa include

- Eskom, Mondi, Anglo American plc, Anglo Platinum, Rio Tinto, MTN, Sasol (SME development and local procurement);
- Mondi, SAPPI and Illovo sugar (using outgrower models);
- Nampak and ArcelorMittal (‘collect-a-can’ recycling);
- Spier Hotel; and
- Streetwires, Township Pattern, Essay Gifts (arts and crafts from small-scale entrepreneurs).

‘Distributing through’ and ‘selling from’

Throughout the last few years, South Africa’s four largest banks (ABSA, First National Bank, Nedbank and Standard Bank) have significantly increased their efforts to become more inclusive and to ‘bank the unbanked’. What accounts for their success is branchless banking, bank products and financial services that are tailor-made for low-income groups, and the formation of new incentive-based partnerships (with supermarket retailers, companies in the ICT sector and informal retailers) to aid the distribution of their products, and to deepen market penetration and capture. These banks also provide risk-manageable credit lines through enterprise development funds to entrepreneurs involved in, for example, low-cost housing and small-scale farming projects. New South African banks, such as Capitec and African Bank, are remarkably successful for their fee-free accounts and long opening hours, which have led to rapid growth in market volumes.

The potential of the ICT sector in South Africa remains high. The sector is vibrant for its adoption of inclusive business models such as ‘pay-as-you-go’ mobile airtime packages and telephone banking. Vodacom, MTN and Cell C. Telephony innovations include Vodacom’s M-Pesa, although this has not been as successful as in Kenya, Tanzania and other African countries. Smaller local enterprises such as WIZZIT offer a ‘low cost, transactional bank account that uses cell phones for making person to person payments, transfers and pre-paid purchases’ (www.wizit.co.za). Others, such as Flash Cow in the Cape Town township of Khayelitsha, address selling and buying pre-paid airtime and electricity vouchers.

Software MNCs such as Microsoft and Intel are involved in a range of initiatives and “have worked alongside governments to invest in ICT use, primarily in the education sector” (The Helical Group, 2009). Popular mobile-enabled non-financial applications are provided by local entrepreneurs, Mxit, Mobenzi and Inathi SysCare.

Other industry sectors have involved the poor as distributors or purchasers. The popular model of Coca Cola using manual distribution centres to sell their products – a project which was first successfully implemented in Ethiopia and Tanzania – was started in South Africa, including the ’5-by-20 Pilot’ aimed at creating five million female entrepreneurs by the year 2020.
Inclusive business issues relating to South African government priorities and social wellbeing, such as human health, housing and education, are being addressed. Some examples illustrate this:

- Health: Aspen (a pharmaceutical manufacturer which provides affordable antiretroviral drugs) and RTT (a logistics company for pharmaceutical products) pilot the option of a ‘clinic-in-the-box’ model (see the RTT Unjani case study);
- Housing: Rand Merchant Bank, Nedbank, Moladi, Safrmarine and FinMark Trust;
- Education: Edu-Loan, Jeppe College of Commerce and Computer Studies, Silulo Ulutho Technologies, DT Nursing Institute, Edu-fix Training Institute (see Kubzansky et al., 2011).

9.4.2 Potential of business sectors

There is the potential to substantially expand inclusive business activities in South Africa. The ICT and retail sectors offer the greatest scope for growth. The comparative advantage of the ICT sector is that it has matured to a stage where it now strongly driven by market demand. In 2009, mobile penetration in South Africa was the second highest on the continent (almost 100 per cent of the South African population). Mobile phones are thus an essential part of life. Due to ongoing technological advancement amongst ICT rivals and innovation in market access, value chain development appears to be continuous and somewhat self-automating (The Helical Group, 2009).

By contrast, the retail sector has not fully utilised its potential, although all major food-producing companies have commenced with at least some inclusive business practices. In spite of the increasing demand for food in South Africa, fertile farmland is not fully used. Government, donors, investors, companies and civil society organisations are, however, making efforts to improve the output of small-scale farmers, mobilise additional farmers to use the land, and link them with retailers and others.

Food and beverage choices (products and brands such as organic, low cost, low input packaging, locally produced, etc.) are associated with domestic markets that are seemingly overwhelmed by the wide range of choice and price. In this regard, the retail sector is ‘playing catch-up’ to the market. In order to drive down prices and consolidate markets, collaboration with agro-aggregators can reduce the risks associated with low quality standards and the quantities of products destined for the domestic market, local farming standards (including transport, storage and refrigeration supply-chain logistics), the linkage between small-scale farmers and retailers, and the consistency of delivery to wholesalers and retailers. There will always be a demand for food production, and, as such, food security for the domestic market is a priority when it comes to intervention.

All major banks in South Africa are already highly active in inclusive business. Despite the financial and banking sectors contributing an increasingly larger share to the South African GDP (www.sars.gov.za), some 32 per cent of South Africans are formally unbanked.
(FinScope, 2011). The competitive advantage of this sector is its investments in the experience obtained and the insights gained over several years on inclusive business. These sectors have emerged from the ‘proof-of-concept’ phase, and are now rapidly scaling up. In addition, banks are attracting a new client base by offering value-added secondary financial service packages, of the kind often required by South Africa’s low-income groups. Due to consistently strong business growth in South Africa and elsewhere on the continent, and a stable financial regulatory environment in South Africa, continuous growth in inclusive banking is envisaged.

With innovations like the ‘clinic-in-the-box’ model and others, as well as greater acceptance of generic medicines and improved awareness of health and wellbeing amongst South Africans in general (e.g. HIV/AIDS, tuberculosis, childhood diarrhoea, diabetes and malaria), there is clear potential in the health sector for adopting inclusive business models. This is fuelled by the high social demand for more affordable healthcare, which is caused by inadequate public service delivery to the poor (see the RTT case study below).

At present, the manufacturing and textile sectors have not fully exhausted their potential. However, the manufacturing sector is multifarious, difficult to define, and hence difficult to assess objectively. The recent introduction of South Africa’s Local Procurement Accord is likely to incentivise the manufacturing sector to integrate the poor in its business operations. Notably, the inherent risk associated with this sector is its operational environment where, for example, it is vulnerable to high strike action; inefficient industrial energy usage (which implies high production costs and high carbon emissions); as well as the rising domination of large, competitive Asian producers.

The potential of the tourism sector has not yet been exhausted either. There are ongoing efforts to try to unlock opportunities in this sector through local economic development (LED) initiatives and integrated development plans (IDPs), because most of South Africa’s tourist destinations (e.g. the Kruger National Park, Addo Elephant Reserve, isiManagaliso Wetlands Area, etc.) are located near remote rural villages which are greatly in need of socio-economic opportunities.

Combating climate change is a national priority. Probably the greatest unexplored potential for inclusive business in South Africa is the energy sector – in particular, renewable energy and cost savings associated with energy efficiency. The competitive advantage of this sector, when it comes to inclusive business, is entrenched in the huge demand for accessible, affordable, reliable and renewable energy. A further opportunity is the fragmented nature of off-grid, local-level inclusive business energy projects in South Africa. Due to the regulatory environment being in flux, large (mostly untapped) pools of resources exist amongst national and international investors and donors (funds, facilities, green credit loans and technical management expertise).

Overall, many South African sectors have not fully begun to reflect on inclusive business. This is most evident in the infrastructure/construction sector, the automotive sector and the chemical industry, because integration at the BoP is typically seen as encompassing semi-skilled, on-site or factory floor workers.
semi-skilled, on-site or factory floor workers. Other than the promotion of B-BBEE, the absence of best practise inclusive models in these sectors means that venture opportunities are being overlooked.

9.5 Drivers of inclusive business

9.5.1 Drivers that hinder

The UNDP (2008) defines five major obstacles as retarding the implementation of inclusive business. At the global level, these include the lack of 1) market information on informal markets; 2) physical infrastructure; 3) knowledge and skills; 4) access to finance services; and 5) an insufficient regulatory environment. In relation to these global obstacles, aspects that characterise the South African context are described here to give some insight into what, for example, is meant by companies lacking data and knowledge.

As recently as 20 years ago, the private sector in South Africa was widely renowned for consumer exploitation by selling misleading products. Today, an element of distrust remains towards untried and untested brands, along with disdain of certain companies. This is not uncommon in the former homelands (bantustans) where consumers historically had the least rights to complain and limited access to ancillary services during the apartheid heydays (Ismael et al., 2012).

There is also high brand loyalty amongst the BoP in South Africa, particularly amongst those who are illiterate, making new market penetration cumbersome. In response, marketing new products, goods and services relies on ‘convincing and winning over’ strategies based on 1) providing transparent and clear information; 2) communicating in various media in the local language (community-based TV and radio channels); and 3) using local celebrities in advertorials because local people relate to them and feel they share their aspirations, tastes and beliefs. Overcoming this obstacle to trust and the ability to transform the market so that it is stimulated by the curiosity of new brands and products, will unlock space for new market players in the field of inclusive business.

The lack of skills and knowledge is a significant challenge in South Africa. Limited literacy, numeracy and computer skills amongst the BoP represent a major setback. For example, it is near impossible to work in or run a business if basic communication by email or fax is lacking. Other associated deficiencies are in record-keeping, which is important for doing inventories and stock-taking. What this translates to, is that the BoP in South Africa is clearly segregated into those with skills and those without. To date, this sub-division has not been recognised in inclusive market access, while at the other end of the skills scale there is a very small but growing pool of inclusive business thought leaders.

In looking critically to the future, the overarching factor hindering inclusive business in South Africa is another global economic recession. It changes the business risk environment, signalling risk and advising caution when developing value chains.
In South Africa, during an economic recession the most vulnerable in the private sector are energy-intensive users such as mining, agriculture and manufacturing. These sectors are significant job creators which will be hit badly by higher electricity, water and fuel bills (Altman et al., 2008). In this case, companies will experience reduced productivity as a result of being unable to pay higher bills. The ensuing cutbacks will involve severing contracts with low-income, poorly skilled staff, because they are regarded as the cheapest and most replaceable assets. In addition, high-risk and investment-needy value chain initiatives will be halted in value chains where the market information remains flawed, stereotyped, inaccurate or incomplete.

9.5.2 Drivers that promote

Globally, companies that start inclusive business initiatives are driven by the expectations of higher profitability, wider market share, lower operating costs, new consumers, better brands or products, and ease of doing business due to constructive relations with government and communities (Gradl & Knobloch, 2010; Southern Africa Trust & GIZ, 2011; UNDP, 2008). In this regard, South Africa is a formidable stakeholder in a globally competitive environment. Its markets are supported by solid infrastructure and thriving institutions which can attract sustainable capital flows from investors who are interested in inclusive business.

Various companies across nearly all industry sectors have begun to integrate inclusive business models (or aspects thereof) in their day-to-day business. This is partly due to the business strategies of many MNCs, and large companies from the African continent locating their regional headquarters in South Africa’s major cities. These companies are actively approached by international, regional and national organisations that promote inclusive business models.

Large and established South African companies typically maintain and extend their market share – a form of nationalism/patriotism and an assurance of brand loyalty. These companies therefore have the potential to foster innovations and invest in the value chain for new products, new distribution systems, training, mentorship, communication and feedback loops. Furthermore, these companies often make use of local supply chains that are somewhat independent from global price fluctuations. Finally, these local yet established companies are better positioned to be recipients of seed funding from donor organisations and other credit lines that enable innovative pilot projects.

Some drivers are based on the national or regional enabling environment. One strong incentive is provided by the requirements of the government’s B-BBEE policy which, amongst others, rewards companies that use their enterprise development funds to establish, support and train (black-based) SMMEs in the form of points being allocated to their B-BBEE scorecard. The latter is taken into serious consideration in public procurement decisions. Consequently, companies base their inclusive business models on their experiences gained in establishing SMMEs or in using finance allocated to their CSI budgets or CSR activities.
A further strong promoter of inclusive business is South Africa’s human capital. Shaped by history, it involves the creation of small, local businesses that provided affordable and easily accessible household products to communities in townships and rural areas.49 A good example of this is South Africa’s spaza shops which are micro-retail enterprises operating from a residential stand or home, and which are engaged in the local trading of consumer products alongside larger shops or even supermarkets. This presents opportunities (part of the value chains of larger shops) and challenges (competition/conflict over market share) (http://www.spazanews.co.za/).50 South Africans thus have a comparably strong culture of entrepreneurship.

In addition, there are several organisations and initiatives on the part of government, the banking sector, donor-funded organisations, as well as public and private MFIs that promote the development of SMMEs in the country.

The value proposition and the business case for inclusive business are being disseminated across South Africa. This is because inclusive business models in this country are emerging from the proof-of-concept phase and are now being valued as a means to achieve high profits and high social impact in new niche markets (Ismael et al., 2012).

In summary, in South Africa the promoting drivers of inclusive business are the availability of venture finance, business development support services, a comparably well-developed infrastructure and savvy market intelligence support, conducive legislation and regulatory frameworks, partnerships with other stakeholders as well as the expertise provided by specialised service providers.

9.6 Case 1: Standard Bank

9.6.1 Executive summary

Standard Bank Group (hereinafter Standard Bank) is Africa’s largest financial institution, and one of South Africa’s most formidable banks. Because the cost of conventional retail banking is comparatively high in this country, Standard Bank, like its rivals, has had to innovate in order to reduce the cost of services to the unbanked and under-banked. Encouraged by the success of mobile phone technology and branchless banking in other emerging markets (such as Brazil and Kenya), it launched a fully-fledged Inclusive Banking Division and a low-cost transactional account. This account enables holders to conduct transactions such as money transfers, person-to-person payments and payments via mobile phone, or to use a linked debit card at normal traditional transaction points such as retail stores, ATMs and the bank’s branches.

The distinguishing feature of Standard Bank’s inclusive banking strategy, however, is not its technological innovation but its distribution model. It has entered into partnerships...
with thousands of retail operators in poor communities across South Africa’s peri-urban, rural and urban areas. These points of sales function as no-frills branches, where account holders can do various transactions, using their bank debit card (cash in/out and balance enquiries) to send cash to another person (remittance / money transfer), and purchase prepaid airtime (mobile phone credits) as well as electricity. In future, customers will be able to pay for goods and services by swiping their bank debit or credit card.

The bank has built a network of 9 700 AccessPoints. Some 900 000 clients have signed up and the average rate of new account openings on the part of the previously unbanked reached 90 000 per month (as at March 2012). Independent operators affiliated to Standard Bank have increased their revenue in the form of commissions. In the process, Standard Bank’s approach has also helped to stimulate economic activity in impoverished areas.

9.6.2 Company profile

South Africa’s Standard Bank Group is Africa’s largest financial institution. It employs 52 000 people in 30 countries. Its assets are of the order of US$202 billion. China’s largest bank, the Industrial and Commercial Bank of China, is the main shareholder (20 per cent). In the past 20 years, the group has expanded to Nigeria, Kenya, Uganda, Angola, the Democratic Republic of Congo (DRC), Ghana, Zambia, Mozambique and 11 other African countries.

9.6.3 Background

Locally, Standard Bank is deepening access to affordable financial services on the part of low-income earners. Standard Bank made available three low-cost products (Mobile Bank Account, E-plan and the Mzansi accounts). By 2005, a total of about 4.5 million Mzansi accounts had been opened. This highlighted finer market sub-categories, which allowed it to scale up and refine its inclusive business model in later years. By 2010, the results were encouraging enough for Standard Bank to aim for scale, and commit significant resources to the development of the product as well as the distribution channel.

As part of a continuum, these products were subsumed to a single platform, called the AccessAccount. The AccessAccount enables mobile phone transactions. This product offering is the outcome of years of scoping, gathering market intelligence and designing tailor-made products and services.

Through Standard Bank’s new Inclusive Banking Division, partnerships are entered into with retailers in low-income communities to establish sales outlets called AccessPoints. An AccessPoint is a branch facility offering basic services (low-cost cash in/out and balance enquiries) and goods for purchase (pre-paid mobile phone credits, electricity vouchers and, in the future, other goods and services).

Instead of relying on the traditional, expensive branch infrastructure, the bank’s innovation in the field of inclusive business is its low-cost, no-frills distribution concept, because it deeply penetrates the target market in South Africa’s remote villages and town centres of rural and peri-urban areas. Standard Bank’s massive network of AccessPoints is unmatched at this point by any other local bank. This network places the bank in a dominant position in the BOP market segment.
9.6.4 Processes and components

AccessAccount holders who have never banked before can access basic financial services for the first time, enabling them to build a credit history and potentially qualify for loans or micro-loans. For people who already have a bank account, the low cost of the AccessAccount naturally has major appeal.

Spazas, taverns and other informal traders recruited as AccessPoints benefit from the model in the form of more customers who spend more time in their outlets and, hence, measurably higher turnover.

The combination of minimal infrastructure, smart use of technology and partnerships with informal traders, allows Standard Bank to offer competitive pricing on basic transactional services. Two fee choices are offered on the AccessAccount Plan: a flat fee option at R30 per month (equivalent of US$4) or a per-transaction option. For example, the former allows for three cash withdrawals, one deposit, one electronic transaction (such as a beneficiary payment or inter-account transfer), one debit order and four card swipes.

AccessAccounts can be opened on the street in under ten minutes, with the assistance of sales agents recruited from the local community. By using Exemption 17 of the Financial Intelligence Centre Act (FICA), the only legal requirement for vouching client-worthiness is a valid South African identity document (ID), unlike most other applications which require proof of address and proof of salary. The condition for the exemption is that the account balance does not exceed R25 000 (US$3 335 equivalent) and that transfers are limited to R5 000 per day (US$665). Mobile sheds, visibly branded in Standard Bank’s blue and white colours, are familiar sights.

After recruiting informal retailers and traders to operate as AccessPoints, retailers are supported by comprehensive training, marketing and mentorship. To qualify as an AccessPoint the retailer does not have to be a formally registered business. As long as prospective retailers have a good credit record, are recognised and established within the community, and are South African-owned, then even spazas or taverns can serve as AccessPoints. Owners of AccessPoints receive rebates on airtime and electricity sold, and qualify for commissions on all banking transactions and money transfers they assist a customer with.

9.6.5 Role, accountability and resources

Standard Bank is committed to the Financial Sector Charter (2003) which was drafted to help drive the financial industry’s specific obligations to BEE. It commits the financial sector to improve access to financial services on the part of poor South Africans, and to other objectives linked to national development goals, such as ‘empowerment financing’ which refers to targeted investments in low-cost housing, agricultural development, support for black-owned SMEs, and CSI.

Standard Bank’s AccessAccount and the AccessPoint invite comparisons with other financial service innovations, such as Kenya’s M-Pesa (see Chapter 7). From Standard Bank’s perspective, M-Pesa has great merit as an electronic wallet and mobile money transfer solution. However, Standard Bank is not trying to replicate M-Pesa, but rather to bank people at the BoP (integrating the unbanked and under-banked into the banking system).
this context, it seeks to ensure that people benefit from a good savings product, including savings towards children’s education and housing, that they take out loans at reasonable interest rates, obtain insurance, and so forth. The ability to transfer money is really only a first step, or one part of a full-service offering.51

9.6.6 Activities, achievements and challenges

Today, some 900 000 account holders – the majority previously unbanked – can access a nationwide network of 9 700 AccessPoints. By March 2012, the average rate of new clients was 90 000 per month. “We are the only large bank in the country at this stage that opens bank accounts in the street with a simple phone.” 52

People living in poverty directly benefit from the bank’s simple administrative procedures, low transaction costs as well as the savings, convenience and safety afforded by a bank account. The network of AccessPoints enables them to bank in their communities without having to travel and queue at a branch, and they can do this outside of traditional banking hours. AccessPoint owners, who themselves are from low-income communities, benefit in the form of increased turnover as a result of increased foot traffic in their outlets, as well as an additional revenue stream in the form of commissions.

Standard Bank’s inclusive banking strategy has brought tangible economic benefits for AccessAccount holders, sales agents and the bank itself. The effort that the bank has invested in establishing a non-traditional banking channel has also brought tangible benefits to AccessPoint owners. This has increased economic activity in low-income areas.

Specific challenges which face those banks implementing inclusive business models include marketing the value proposition by encouraging higher transaction frequencies. This would enable banks to make returns on their investments by capturing BoP customers and making profits from this market sector. Currently, many account holders do not transact regularly, meaning that they conduct fewer than two transactions per month.

Ensuring continuous skills transfer to AccessPoints agents for the sustainability of the model is also a priority. Other more universal challenges involve gaining the trust of existing and prospective clients as regards the reliability of mobile technology, and ensuring a consistent supply of and access to cash to clients at AccessPoints (e-float).

There remains a large degree of financial illiteracy amongst South Africans, and thus amongst the majority of AccessAccount clients and the uncaptured market sector. They regard banks as temporary storage facilities for safe-keeping, rather than as providing a service that enables money planning, management and responsibility. In wishing to reduce travel time and costs, and to avoid bank charges, clients tend to withdraw all their money in one transaction a month. If banks can provide financial education to existing and unbanked low-income clients, then not only will it serve the interests of banks, but it will also help clients make better informed decisions about financial responsibility.

We have not yet reached financial inclusion. Full financial inclusion requires us to link people to markets through a bank account, to offer savings, insurance and lending, and most powerful of all, to develop financial literacy ... It should by now be well understood that there is no fortune at the bottom of this particular pyramid. At best, banks
can hope eventually to earn modest returns in this segment. The real payoff will come over a much longer term as entrants to the payments and transactions system grow their wealth and use more services. (*Business Day*, 20 June 2011)

9.6.7 The future

As from 2012, Standard Bank will be investing approximately R120 million in inclusive banking, secured from internal sources, to develop additional banking products attached to the AccessAccount. Its immediate target is to increase the number of AccessPoints to approximately 15 000 by 2014, in order to recover its investment in this inclusive business model. Standard Bank’s research estimates that around 58 per cent of wages are paid in cash in South Africa, and 51 per cent of this country’s 15 million recipients of social welfare receive their grants in cash. These factors suggest that there is great scope for scaling up in the local banking sector.

9.7 Case 2: RTT’s Unjani ‘clinic-in-the-box’

9.7.1 Executive summary

The Unjani Clinic was designed some 18 months ago by RTT Group, one of South Africa’s largest logistics firms. RTT Medical, the group’s medical subsidiary, reaches 8 000 delivery points every day in the South African market, on behalf of more than 30 local and international pharmaceutical manufacturers. The Unjani model, which is currently still in a proof-of-concept phase, aims to meet the need for primary healthcare at community level, by providing essential medicines and healthcare education at an easily accessible point of dispensation. Also, it aims to create opportunities for community-based healthcare workers to develop social franchises and run medical care centres on a commercial basis. In the longer term, it aims to incorporate informal retailers to provide over-the-counter (OTC) medicines at affordable prices. RTT is currently testing Unjani Clinic in Etwatwa, a peri-urban township in Gauteng Province. In order to achieve the necessary scale to make a tangible impact, RTT must ensure the model’s economic viability, find qualified staff who can combine healthcare with entrepreneurial skills, and build the optimal partnerships needed for the model to function.

If RTT is able to overcome these challenges and successfully scale up its model, a future extended network of Unjani Clinic social franchises could potentially reach millions in South Africa’s poorest communities in isolated rural areas where both private and public primary healthcare are in under-supply. The model could also potentially gain considerably from partnerships with the public sector, as well as with pharmaceutical companies.

9.7.2 Company profile

With 7 000 employees, a fleet of 1 400 vehicles and a turnover of R2.5 billion, the RTT Group is one of South Africa’s largest logistics firms. Founded in 1980, its main shareholders include investors from the South African financial services industry, such as Old Mutual and Rand Merchant Bank. It has operations across the African continent, with regional hubs in Kenya and Ghana.
The RTT Group has several subsidiaries, two of which serve the healthcare sector (RTT Medical and RTT ScriptWorx). At present, its service to the healthcare sector involves the distribution of eight million units per month, with 63 per cent of deliveries going to pharmacies, hospitals and dispensing doctors (8,000 delivery points per day). As such, RTT Group’s experience provides the backdrop for its Unjani ‘clinic-in-the-box’ model.

9.7.3 Background

Some 83 per cent of the South African population (50 million people) use public healthcare services, which are often understaffed and under-resourced. At an average of R8,250 per person per annum (approximately US$1,090), private sector healthcare is six times higher than what the South African government provides. The cascade effect of these factors ultimately drives specialised medical staff (pharmacists, dentists, optometrists, qualified nurses, etc.) from the public sector.

The model, still in the proof-of-concept stage, aims to alleviate the financial and logistical burden on overwhelmed public healthcare facilities, and to simultaneously provide affordable access to primary healthcare and medicines to low-income earners.

Converted shipping containers are ideal shells to accommodate an Unjani unit, because containers are compact, easily moveable, cost-effective and can be configured to specific requirements. Furthermore, the housing of the ‘clinic-in-the-box’ structure could, in future, be adapted to fit into a prefabricated building, community centre, school or any other suitable structure.

9.7.4 Processes and components

For the past 18 months, RTT has been piloting Unjani Clinic in Gauteng Province. For a fee of R60 (about US$8 at March 2012 exchange rates), patients receive primary healthcare and medicines to treat ailments common to the area. Unjani Clinic also provides clinical services such as infant weighing, immunisation, HIV and glucose testing, family planning, and basic health education.

The main revenue stream for the Unjani Clinic consists of consultation fees, charged at R60 per visit and R70 for each follow-up visit. A second revenue stream is drawn from script delivery fees (fees charged for prescription medicine that nurses are legally permitted to issue for a specific set of drugs), and a 25 per cent margin on the sale of OTC medicines.

The South African National Council for Alcohol and Drug Abuse (SANCA, an NGO active in monitoring and preventing alcohol and drug abuse) helped RTT penetrate the community. SANCA helped RTT penetrate the community. RTT gained the community’s trust by first disseminating information on the project through community focal points, such as churches and schools.

Because the Unjani model operates on a localised community level, it also aims to provide essential medicines and healthcare education at an easily accessible point of dispensation. Similar to a hub-and-spoke design, with Unjani Clinic at its centre, opportunities for community-based healthcare workers are created to develop social franchises and run medical care centres on a commercial basis.
The feasibility of a leasing or ownership arrangement of social franchises is under consideration. RTT Group would be in charge of branding, quality control and training, and would be responsible for supplying and delivering equipment and medicines (as the franchisor). The franchisee would then rent the site, manage the unit’s staff, order stock and be accountable for all the day-to-day management activities and operations of the clinic. This provides the opportunity for nurses to develop from being healthcare providers to self-employed entrepreneurs and creators of employment opportunities for others in the community.

9.7.5 Role, accountability and resources

RTT is currently exploring multiple avenues to ensure the overall feasibility of the project, and to achieve its goal of expanding the Unjani Clinic network to 500 units around the country. It estimates that the total investment needed for this is R127 million (approximately US$17 million at March 2012 exchange rates).

In its current form, the Unjani Clinic is not immediately profitable or financially neutral. For the moment, income is mainly generated through consultation fees, but that does not cover all of the costs, which include staff compensation, services, waste collection and stock replenishment. The Etwatwa unit currently has a cost base of R28 000 to R30 000 per month, including personnel costs. The break-even point is 460 – 500 patients per month, which translates into around at least 23 consultations a day (on a basis of 20 working days per month). The company intends to provide capital expenditure for the Unjani Clinic model through its Enterprise Development budget. Further investment will be sourced through partnerships such as donor funding or enterprise development funding from its own client base, including large pharmaceutical firms such as GlaxoSmithKline (GSK), Johnson & Johnson, Merck, and Carecross. Other potential partners include MTN and Sanlam, which have an interest in the Unjani programme in terms of the mobile phone-based treatment protocol programme, as well as providing basic health insurance.

A priority issue of accountability is ensuring that services conform to acceptable medical/pharmaceutical management practices. The private, secure and efficient supply chain of RTT ensures that products reach informal retailers in a controlled and monitored manner.

Unjani’s objective is to empower spaza owners with knowledge that can be shared with the community, for the self-treatment of minor ailments.

A priority issue of accountability is ensuring that services conform to acceptable medical/pharmaceutical management practices (maintaining standards of codes of conduct, and hygiene, safety and sanitary standards, etc.). For instance, a possible unforeseen risk, particularly amongst secondary distribution outlets such as spuzas, is that expired, adulterated or fake drugs may be sold. The Unjani Clinic is the centralised point through which spuzas bearing the Unjani brand will collect the drugs. Whilst there is room for counterfeit and illegal drugs to creep into the supply chain, the private, secure and efficient supply chain of RTT ensures that products reach these informal retailers in a controlled and monitored manner.

All RTT shipments make use of track-and-trace software for full visibility to point of delivery. To prevent expired drugs from being distributed in the market, patient and spaza owner education is important. Unjani’s objective is to empower spaza owners with knowledge that can be shared with the community, for the self-treatment of minor ailments. It should also be noted that drug manufacturers are introducing technologies such as barcodes which can be scanned with a mobile phone to detect and expose counterfeit medicines.
9.7.6 Activities, achievements and challenges

As the model is in the inception stage of implementation, its impacts (achievements and challenges) are not fully understood. Poor local communities will benefit in the form of shorter waiting times and thus a perceived higher quality of service, compared to the local public healthcare facility. Moreover, the appeal of the clinic is that the nurse is perceived to be taking the time to see her patients. Unjani Clinic is also significantly more affordable than other alternatives, such as private doctors or traditional healers, and it is easily accessible.

Increasing the number of consultations or visits to the clinic (related to productivity) will determine the sustainability of the model. With lesson-learning and piloting underway, there is room for productivity gains, and measures to reach a target of 23–25 patients per working day are being implemented. A loyalty card for patients has been introduced (a free consultation after nine visits). In addition, opening times will be adapted to demand. Other productivity gains can be made by automating processes that are currently performed manually (patient data management and stock management) and linking staff compensation to the number of consultations (although such an approach has certain drawbacks in terms of quality perceptions and not taking the time to build relationships with the community).

In summary, the key challenges for RTT are to identify where and how its model can be improved during the proof-of-concept phase; how Unjani Clinic can be appropriately branded to obtain buy-in; and to recruit qualified staff who can combine healthcare with entrepreneurial skills, and can build the partnerships needed for the model to be operationalised effectively.

9.7.7 Future

Considering the encouraging results of the proof-of-concept phase, RTT is planning to roll out the next phase during the second half of 2012 by opening several more sites, including one in Delft, a low-income community 25km outside of Cape Town, as well as in Tembisa, a large township north-east of Johannesburg.

At a later stage, the Unjani model intends to scale up by integrating informal retailers to provide OTC medicines at affordable prices. Informal retailers would then be the first point of contact for patients with minor health problems, thus relieving the burden on clinics and public health facilities. Sales of generic drugs, which can be supplied at low wholesale prices and facilitated by RTT’s partners in the pharmaceutical industry, would provide an additional profit stream for informal retailers in low-income areas and would stimulate local economic activity.

The network of Unjani Clinic social franchises could potentially reach millions of people in low-income communities, especially in isolated rural areas where the availability of any form of primary healthcare – public or private – is problematic. The model can also potentially gain much from corporate partnerships with the public sector, as well as with pharmaceutical and mining companies.

Regarding the latter, mining companies such as Anglo-American, BHP Billiton, Xstrata, Total Coal and others seek to improve their socio-economic impact in the communities...
The Unjani model provides an ideal opportunity to improve B-BBEE scorecards, particularly in the fields of enterprise development and other forms of socio-economic development.

9.8 Recommendations

9.8.1 Approach

There is an ever growing number of role-players and stakeholders, many ideas are in place and several initiatives are underway. However, platforms for taking inclusive business to the next level are poorly defined. Bigger-picture questions such as ‘What is the vision for inclusive business in South Africa?’ and ‘Who takes the lead on multiple coordinated efforts to drive an inclusive business national agenda?’ are at the forefront.

At present, approaches to introduce change or to drive up standards are still rather opportunistic. Stronger coordination is required. Instead of working in silos, there is a need to network amongst important stakeholders at national, regional and even global level, to bring about more synergistic outcomes. To further enhance this, the efforts of civil society and multilateral organisations can be combined with those of business associations. Government agencies that promote SMME development must work together more closely and exchange ideas in a more effective manner.

More systematic approaches to support companies on the path to inclusive business are required. There is room for more efficient, target-orientated approaches to promote inclusive business in this country. For example, instead of supporting individual companies to adopt inclusive business approaches, in certain instances it may be more effective to provide technical assistance at sectoral levels (e.g. industry sector, business associations, chambers, etc.).

Because sectors are representative of shared interests, working at this level will leverage the multiplier effect, and will increase the impact of support to the numerous companies within the same sector. The added advantage of such a targeted approach is that it will decentralise inclusive business transformation and build capacity amongst industry sectors or business associations, allowing them to take ownership of the process.

9.8.2 Practical activities

Finally, the question arises as to how the practicalities of inclusive business activities can be accelerated and amplified in South Africa. Issues relating to information management, the investment regime and incentives, as well as a national policy dialogue are discussed below.

Data and knowledge that promote inclusive business

From a technical point of view, a national database on inclusive business value chains needs to be created. This will allow for large national trend analyses associated with how, when and why businesses in South Africa conduct inclusive business. At present information is largely narrative, unconsolidated and fragmented. Such an information portal can form the basis for scaling up inclusive business in an informed way, and can be an entry point for placing inclusive business on the national governance agenda.
Case studies can be prepared in the form of advertorials that explicitly benchmark measurable quantifiers of pre- and post-inclusive business activities. These quantifiers should include profits/savings; the number of jobs created (youth and women); the number and areas of new enterprises created in the value chain; and the number of people skilled, etc. These number descriptors are the basis for presenting the value proposition in a manner that will take the concept to market. Promoting a concept in the form of lengthy pages of text (often in academic or NGO language) and photographs is off target. New media (e.g. email) and forms of presentation can be investigated.

Scaling up

In terms of scaling up, franchises offer significant opportunities for aggregating the multiplier effect of inclusive business models. South Africa has numerous well-run franchises governed by an industry body, the Franchise Association of South Africa (FASA) (http://www.fasa.co.za/history.php), which has a membership base of 28,000 companies.\(^{57}\) As entrepreneurship is a priority focus for government, support for inclusive franchising is a smart way in which to tackle unemployment and ultimately grow the economy. This is most promising in the retail and entertainment sectors (supermarkets, restaurants and fast food outlets) and in the public health sector (see the RTT Unjani case study).

Of concern in South Africa is the fact that much of the land transferred under South Africa’s Land Reform Programme is no longer economically active.\(^{58}\) The economic development of transferred land requires linking land under black ownership with skills and capital. The required inputs for production are often available, but new, inexperienced land-owners do not have access to the technical services needed to organise large transactions or contracts with investors who can provide the capital and skills required. This represents a significant opportunity for community–private partnership (CPP) models involving land (agriculture and pastoral production, and harnessing natural capital such as water and the sustainable use of biodiversity resources) to foster inclusive business where communities are the direct beneficiaries.\(^{59}\)

Private-sector partnerships, such as CPPs and PPPs are important delivery vehicles to communities, as these share risk and ownership, and leverage the expertise of all partners involved. Most importantly, partnerships with the private sector ensure co-responsibility and co-accountability, thereby spreading knowledge of inclusive business best practice. In this regard, there are a growing number of ‘intermediaries’ (e.g. state-owned agencies which are often also resourced with funds or facilities, and private-sector agencies) that offer a variety of services, including bringing parties together, getting projects ‘off the ground’, and managing and monitoring the progress of CPPs and PPPs.

For all of the above to be brought to fruition, significant and affordable investment is required (particularly skills), as are hands-on and long-term transaction advisory services tailored to specific industry sectors. With increasing numbers of MNCs entering South Africa, this presents skills transfer, large investments, best practice experience, and windows of opportunity to introduce inclusive business principles into the structuring of foreign investment frame agreements.
Incentives

Incentives offer the most leverage and multiplier potential for cultivating a culture of inclusive business. These can emanate from the statutes, and may take the form of tax rebates, tariffs, waivers and subsidies, etc. Of these, one of the most overlooked incentives is a tax mechanism, specifically CSI tax. The advantage of a tax mechanism is that it can be widely introduced across the business spectrum, and can easily be monitored. However, the current state of South Africa’s CSI tax evaluation criteria (www.sars.gov.za) could be refined to reflect measurable and quantifiable performance indicators of inclusive business. Rethinking the existing criteria to fit the line of thinking of a ‘pro-poor development tax incentive model’ calls for highly focused strategic dialogues.

Other incentives are to be found in the market sphere. These are voluntary and entirely up to the company’s response to market drivers. As such, incentives such as labelling and branding, for example, are unlikely to fast-track inclusive business.

9.8.3 Enabling broader recommendations

What appears to be missing in South Africa is a push to introduce inclusive business into the national dialogue, and placing it as a priority on the governance agenda of job creation, skills transfer and SMME development.

One potential line of opportunity exists amongst MNCs, in that South Africa is reviewing its FDI regime. South Africa will not be renewing some of its bilateral investment treaties with Europe.60 The South African government is seeking a better balance of rights in future treaties. It wishes to inculcate principles of corporate governance, social and environmental responsibility, job creation and skills development, amongst others, in future contracts with foreign investors.
## Appendix 9.1: State of uptake of inclusive models in South Africa

The ranking criteria are given below the table. The list of examples is not exhaustive, and represents observations about the use of inclusive business models by companies and industry sectors in South Africa.\(^{61}\)

<table>
<thead>
<tr>
<th>Business model</th>
<th>Description of business model</th>
<th>Examples, engagement level and potential</th>
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</table>
| Production / contract farming   | A system of contract production that directly sources from large numbers of small-scale farmers or producers in (often rural) supply chains. The contractor organises the supply chain from the top, provides critical inputs, specifications, training and credit to its suppliers, and the supplier provides assured quantities of specialty produce at fair and guaranteed prices. | **Examples of active engagement**  
Woolworth, Pick ’n Pay, Spar, Nestle, Unilever, Tiger Brands, SABMiller, Entyce, Coca Cola, TSB Sugar  
Outgrower schemes: SAPPi, Mondi, Illovo Sugar  
Still comparably scattered and not too significant within most of the companies’ supply chains.  
**Potential**  
High, could be combined with aggregators (see below). |
| Smallholder farmer aggregators  | Aggregators collect cash crops and staples from smallholder farmers to supply large, top-of-the-supply-chain buyers. To help guarantee stable supply, many aggregators provide the farmers with services such as credit, storage and transport, as well as low-cost seed and fertilisers to help improve their yields. | **Examples of active engagement**  
Pleiad Foundation  
Starting, but challenges with funding and solid implementation.  
**Potential**  
High, increase local farmers’ income if they are involved in the value addition (e.g. in the aggregator’s structure and gains). |
| Deep procurement                | A variety of direct procure-ment set-ups that bypass traditional middlemen and reach into the base of the economic pyramid, enabling direct purchases from large networks of low-income producers and farmers in rural markets and often providing training for quality and other specifications. | **Examples of active engagement**  
TSB Sugar, Illovo, Tongaat Hulett (all sugar milling companies), SABMiller, pilots by Tiger Brands and Nestlé  
The use of the business model is not yet advanced, which is also due to the fact that in the past, 1) agriculture in South Africa was dominated by large-scale commercial farming; and 2) many small-scale farmers just getting started have insufficient farming know-how.\(^{62,63}\)  
**Potential**  
High, but farmers need to liaise in larger networks and platforms to safeguard the constant delivery of quantities and qualities, and to acquire negotiation skills. |
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<th>Business model</th>
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| Supplying from non-agricultural markets | A system of contract production that directly sources from large numbers of micro-producers. The contractor organises the supply chain from the top, provides critical inputs as well as professional product designers, and the supplier provides assured quantities of specialty products at fair and guaranteed prices. The collection of recycling material, like cans, is possible. | **Examples of active engagement**
ArcelorMittal and Nampak (“collect a can”) (see also www.reciprocity.co.za). Streetwires, Township Pattern, Essay Gifts
Option for SMMEs, sales at national level and exports.

**Potential**
Medium, as many products cover niche markets and create specifically designed or even unique products. Important market for local people. A stronger link to the tourism industry could significantly scale the demand. Profitable options for recycling on a micro-enterprise and multinational company level. |
| Supplying from SMEs | Companies support and fund SME development to foster procurement and business development opportunities for black-owned SMEs within the companies’ supply chain, including the procurement of the non-core products of a company. | **Examples of active engagement**
Anglo-American, Anglo Platinum, Mondi, Eskom, Rio Tinto, Spier Hotel, Sasol
Comparedly well-developed approach, many companies use their internal enterprise development fund to build up an SMME supply chain.

**Potential**
High, in extraction and mining industries. Important for socio-economic development and community development around mining companies or forest plantations. |
| Distribution and sales through improved informal shops | Efforts by enterprises to develop a route to market that leverages (and upgrades) existing informal distribution and sales channels to sell socially beneficial products through multiple fragmented or disorganised shops. | **Examples of active engagement**
Standard Bank, Vodacom, Coca Cola, SABMiller, MTN, Vodacom, Cell C, FNB (“Mini ATM”) Intermediate involvement of spaza shops by specific industry sectors, such as finance, ICT, food and beverages.

**Potential**
High, based on the huge number of informal food vendors. Other companies, such as ABSA and RTT (see case study) currently develop and test models to strongly involve spaza shops in South Africa. |
| ‘Last-mile’ infrastructure: rural micro-grid electricity generation and urban water kiosks | Community-level ‘last-mile’ infrastructure directly addresses the infrastructure provision shortfall by providing end-users with access to a fixed utility asset, such as local mini-off-grid water kiosks, sachets or tanker supplies, or pay toilets. | **Examples of active engagement**
Amanz’ Abantu, Restio Energy, Specialised Solar Systems (pilot model)
Options, in particular in the field of water kiosks, are not yet fully exploited.

**Potential**
High, in particular as a reaction to energy scarcity (South Africa’s energy supply is mainly based on coal) and water scarcity. According to Smart Grid Research (2012), “from 2012 to 2020, South Africa’s market is projected to grow from $50 million to US$ 312 million with a compound annual growth rate of 25%”. Initiatives like Lighting Africa might soon carry more weight in this country. |
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| Mobile-enabled non-financial services             | Mobile-enabled business models are those that aim to leverage low-income ownership or the use of mobile devices to provide essential information or transactions to low-income customers in a range of sectors including agriculture and health, or even in terms of their livelihoods. | Examples of active engagement  
Mxit, Mobenzi, Inathi SysCare  
Activities have started, but are not yet as popular as in other African companies.  
Potential  
High, as more and more services are offered at a mobile phone level and social media are increasingly used to engage with poor communities. |
| Distribution through dedicated direct sales force  | Dedicated direct sales force models recruit and train local agents to reach deep into communities to sell and distribute (socially beneficial) goods, bypassing shops and other channels, to make it easy for the (often rural) poor to gain access they may not otherwise get. | Examples of active engagement  
Danone, Coca Cola, Standard Bank  
Activities are intermediate.  
Potential  
Intermediate, as it requires the establishment of direct sales forces at a sustainable level going along with a higher risk factor. Proper selection processes need to be in place. |
| Pay-per-use                                       | An approach in which consumers pay lower costs for a single-use product of a community-level facility, or individual product or service, sometimes on a rental basis. This delivers better value than buying a household asset like a lantern or filtration device, and matches cash flows. | Examples of active engagement  
Hollard (‘Pay as you drive’), Vodacom (access to phones), MTN (PayAsYouGo)  
Business model is not yet fully developed in South Africa and can be confused with pre-paid methods, such as for Subscriber Identity Module (SIM) cards.  
Potential  
The potential depends on the product and industry sector. While pay-per-use approaches for products such as filtration devices and household assets have not yet gained a foothold in the market, insurance and mobile telephony products have a bigger market potential. |
| No frills                                         | A pared-down service that meets the basic needs of the poor at ultra-low prices and still generates positive cash flow and profits through high volume, high asset utilisation and service specialisation. | Examples of active engagement  
Safmarine, Moladi (www.recipocity.co.za), RTT, Mwanzi (increasingly replaced by branchless banking approaches)  
Business model is used rather sporadically.  
Potential  
High, but innovations are required. |
| Shared channels                                   | Distribution networks that penetrate remote markets via shared channels, piggybacking products and services through existing customer sales and distribution platforms, thus enabling poor people to afford and gain access to socially beneficial goods. | Examples of active engagement  
Hollard/PEP (for townships and semi-urban areas)  
Engagement is rather sporadic.  
Potential  
High, as consumer platforms are increasingly built up. |
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| Private vocational training / education | Vocational colleges that offer a highly standardised and limited set of typical service-industry qualifications to low-income school leavers or job seekers, leveraging para-skilled teachers. The offer is sometimes complemented by job placement services. | Examples of active engagement  
Edu-Loan, Jeppe College of Commerce and Computer Studies, Silulo Ulutho Technologies, DT Nursing Institute, Edu-fix Training Institute  
(Kubzansky et al., 2011)  
Engagement has begun, but is scattered and sporadic.  
Potential  
High, as per the large education deficit in South Africa and the option to collaborate with companies from other industries. |
| Mobile money                  | Models that enable the poor to access and transfer cash outside of traditional financial services channels (but within the branchless banking approach), often via mobile devices or alternatives to bank branch infrastructure. | Examples of active engagement  
FNB (partly with Cell C), Standard Bank, ABSA, Vodacom and Nedbank, WIZZIT, Cash Cow, N1  
This business model created a strong, upcoming market.  
Potential  
High, is one of the most vibrant and dynamic inclusive business markets in South Africa. |
| Micro-credit                  | Extension of small amounts of credit, often via group lending, to the poor who are typically unable to access larger loans from formal banks due to a lack of collateral and formal credit histories. | Examples of active engagement  
Women’s Development Bank, Kuyasa Fund (housing), The Township Project, Marang Financial Services, Small Enterprise Foundation, SACCOL, Community Microfinance Network  
Popular business model, especially for entrepreneurs, which can lead to success if it is combined with longer-term training and consulting. In particular, in the rural area micro-finance per se can fail without constant guidance and support.  
Potential  
High, as it often enables market entrance for an entrepreneur. However, the product must be connected with knowledge of market access, linking new entrepreneurs with other business. Communication by the micro-credit provider must be constant, confidence of entrepreneurs must often be strengthened and business opportunities have to be demonstrated to create a business-oriented mindset.  
| Micro-savings                 | Small deposit account offered to low-income individuals with low or no minimum balance requirements and service fees, and the ability to save small amounts of money.                                                                                                                                   | Examples of active engagement  
Marang Financial Services, SACCOL, Small Enterprise Foundation, Women’s Development Bank (encouraging clients and monitoring)  
The approach is in its inception phase, with few organisations being permitted to include micro-savings in the micro-credit concept. These organisations only proceed to grant loans when the savings activities of their clients are in place. |
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<tr>
<td>Micro-savings</td>
<td>High, but dependent on organisations being granted permission to deal with savings despite not being banks.</td>
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| Micro-insurance| Small-size insurance products offered along the lines of micro-credit, designed to meet the needs and cash flows of those excluded from formal insurance networks. Typically sold via bundles or other non-agent-based models. | Examples of active engagement
Hollard, Sanlam
Already a successful inclusive business model in South Africa.
Potential
High, as combined inclusive business products can be offered, for instance Coca Cola Manual Distribution Centres that go along with a micro-insurance product, or spaza shop owners who are involved in branchless banking and might need insurance against theft. In 2010, in South Africa there were around 5,979,510 small businesses (FinScope, 2010), most of them at the individual or micro level, who needed insurance for their stock. |
Notes

1 Ayoba is South African slang to express excitement. Mzansi, derived from uMzantsi, which means ‘south’, is widely used to refer to South Africa.

2 The views expressed here are not necessarily those of the Southern Africa Trust.

3 Apartheid systematically excluded black people from education opportunities, certain jobs and doing business.

4 Following the South African BoP income definition, it is a minimum daily living requirement (http://www.eighty20.co.za/databases/index.cgi). Adapted for local purchasing power, it is derived from the global population living on less than US$3 000/year. More than four billion people fall into this category worldwide (IFC/World Resources Institute, 2007).

5 As measured by the Gini Coefficient, an international standard for measuring the distribution or dispersion of income and wealth in a country. Zero represents absolute equality and a value of 1 absolute inequality.

6 B-BBEE, which is based on the Broad-Based Act Black Economic Empowerment Act, 53 of 2003, is by far the most promising enabling policy for inclusive business in South Africa. B-BBEE is an integrated and coherent socio-economic process that directly contributes to transformation.

7 SMMEs are defined as employing 1 to 200 staff.

8 The New Growth Path has six thematic areas: infrastructure development, agriculture, mining, manufacturing, the green economy and tourism. A strong focus is on the development and protection of local supply chains.

9 B-BBEE has taken off on a big scale, but there are views that it has amounted to ‘window-dressing’ as it favours a small group of elite black business people, active only in certain industry sectors. See http://www.empowerdex.co.za/Portals/5/docs/research/OwnershipEDIT.pdf

10 A black enterprise is defined as being at least 51 per cent owned by black persons and where there is substantial control by black people in the business. This may involve preferential procurement towards black-owned SMME suppliers; community-based businesses; opportunities for employment, empowerment, ownership and management; and decision-making in the business.

11 The King III Code, developed from the King Commission process, provides guidelines on the governance of companies, their accountability and reporting standards.

12 The Johannesburg Stock Exchange (JSE) SRI was launched in May 2004 and responds to driving up sustainability standards of listed companies. It was the first such initiative in a developing country and the first launched by a securities exchange to improve SRIs (Sonneberg & Hamann, 2006). It lists companies’ corporate sustainability principles into their everyday business practices and serves as a tool for investors to assess companies.

13 In South Africa, the UN Global Compact Local Network is hosted by the National Business Initiative (NBI).

14 Set up in terms of the Broad-Based Black Economic Empowerment (B-BBEE) Act to cover the financial industry’s specific obligations. It commits the sector to improve access to financial services for poor South Africans, and to other objectives linked to national development goals, such as ‘empowerment financing’ (defined as targeted investments in low-cost housing, agricultural development, support for black-owned SMEs), and CSI.

15 Mines were known for low wages, poor living conditions for migrant workers in hostels, asbestos poisoning, and so forth, and with landmark court cases still continuing today. Farms were known for the infamous ‘dop’ system that paid workers’ salaries in the form of alcohol.

16 Similarly active and with influence throughout Africa are the World Business Council for Sustainable Development (WBCSD) in collaboration with The Netherlands Development Organisation SNV, the World Economic Forum (WEF), but also to less-known organisations such as Endeva (in Germany) or Business Innovation Facility (BIF funded by the DFID).

17 For example, the DFID initiated and co-initiated various programmes, such as ‘Making Markets Work for the Poor’ and ‘Making Finance Work for the Poor’. Structures such as FinMark Trust and ConMark were created to help implement these programmes and boost financial inclusion in Africa.
18 A former important donor for inclusive business, DANIDA, pulled out of South Africa at the end of 2010, but is strongly involved in inclusive business activities in other (African) countries.

19 The SADC Private Sector Forum (SPSF), formerly SADC Employers’ Group, jointly with the Southern Africa Trust, launched the B4D Pathfinder Project in September 2009. Through the engagement with the SPSF, the concept of inclusive business was introduced to businesses, governments and civil society organisations in ten southern African countries.

20 The company, acting as an independent agency under the auspices of the Department of Trade and Industry (dti), was a wholesale finance institution which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business. http://www.khula.org.za/

21 Samaf was a wholesale funding institution tasked, and with an SME toolkit, to facilitate the provision of affordable access to finance with the purpose of reaching deeper and broader into rural and peri-urban areas. http://www.samaf.co.za

22 It provides business development and support services for small enterprises through partnerships with others in areas regarded as priorities by the government.

23 The initiatives include the establishment of B-BBEE Codes of Good Practice; the development of Sector Charters in Forestry, Tourism, Construction and Transport; accreditation of B-BBEE Verification Agencies; and establishment of the B-BBEE Advisory Council.

24 Communicated by e-mail (G. Mahove, General Manager of Vumelana) to the main author, 25 July 2012.

25 SABMiller originated in 1895 as a South African company. It is the world’s second-largest brewing company. In 1999, it moved its primary listing to the London Stock Exchange (LSE), and retained a secondary listing on the JSE.

26 DHL South Africa also has started an entrepreneur-owned fleet system covering the area of Johannesburg.

27 Whilst Eskom provides numerous examples of inclusive business across its value chain operations, one highlight is its successful introduction of a pre-paid system using a single energy tariff which allows BoP customers to easily regulate and monitor electricity usage.

28 Anglo-American plc has been working with SMEs for at least 20 years. Zimele, its enterprise development and investment initiative fund, aims to create commercially viable and sustainable SMEs by providing empowerment opportunities for emerging black businesses and creating jobs in mining areas (predominantly located in rural, poverty-stricken areas). http://www.angloamerican.co.za/about-us/anglo-zimele/about-zimele.aspx

29 Rio Tinto promotes local employment, and provides numerous skills and leadership development programmes. In South Africa, its Richards Bay and Phalaborwa operations are most associated with the development of local SMMEs. Rio Tinto provides mentoring, training and opportunities to develop their capacity in the supply of goods and services, such as motor spares, tools, paint and electrical consumables to the company. In Richards Bay, an agreement was made with taxi operators serving low-income communities to provide local transport to shift and overtime workers at the mine (The Helical Group 2009).

30 MTN is involved in an electronic waste (e-waste) recycling project, a joint PPP project with GIZ, and establishes collection points for e-waste, the management of supply logistics, support for small-scale enterprise development and also provides overall project management and implementation support (GIZ et al., 2011a).

31 Like many other corporations in South Africa, SASOL sources a large contingent of equipment and auxiliary supplies from abroad. “For example, the Secunda Coal-to-Liquids factory with its 15 000 personnel has to import close to 160,000 protective gloves each year at substantial cost” (GIZ et al., 2011b). Within a PPP, jointly with GIZ, Sasol is building up a local supply chain (including training and capacity development measures for selected business) and expanding its local procurement.

32 Outgrower schemes can be defined as a contractual partnership between (small-scale) farmers (‘growers’) and a company for the production of commercial goods.

33 See the Standard Bank case study.

34 Developed in Kenya, M-Pesa facilitates money transfers, cash withdrawals and deposits at registered retail outlets, vendor shops and at petrol stations for making payments for goods and services (see Chapter 7).

The average South African might argue that the greatest debilitating factor is not knowing ‘how to’ farm (e.g. harvesting, pruning, weed and pest control, selection of appropriate cultivars, managing fertilisation and pesticide applications, seasonality, disaster management, etc.). For instance, First National Bank (FNB) supports small-scale farmers through the company’s enterprise development fund. It approaches farmers at a later stage to become bank clients after having established trust through financial support.

The private sector lost more than 2.5 million working days in 2011 due to stoppages, compared to 200 000 days in the public sector. Reported in Business Day (2012:1), ‘Majority of workers on strike were skilled and well paid’ (and see DoL, 2012).

The Department of Tourism is currently developing a Community Participation Framework (August 2012).

The Green Economy Accord is written into South Africa’s New Growth Path. Furthermore, a number of South African companies signed a voluntary Energy Efficiency Accord with government through the former Department of Minerals and Energy. This accord was facilitated by the NBI, and its aim is to assist in implementing energy-efficiency targets.

At the global level, various initiatives have started to involve the poor in the energy sector, like ‘Energize the BoP’ (www.energize-the-bop.net/) and ‘Lighting Africa’, an initiative that is strongly supported by the International Finance Corporation (IFC) and the World Bank (www.lightingafrica.org/).

Companies operating in townships and rural areas sold household products that were harmful and misleading in brand quality, such as tobacco and tea that were mixed with sawdust, or building plaster mixed with flour pap (pap is a South African staple food of white maize).

Examples of well-known products are green Sunlight soap for hand-washing clothes and hair treatment products such as Dark and Lovely and Black Like Me. These directly serve the needs of South Africa’s BoP.

Chicken Licken is a popular South Africa-based fast food chain, and is the largest global non-American fried chicken franchise. Its outlets are located in South Africa’s rural areas and townships and at low-cost taxi ranks in urban centres. Consumed chiefly by low-income earners, it is widely marketed as ‘soul food’ on billboards, with well-known comedian and actor, Joe Mafela, as its celebrity mascot.

Coal-derived electricity in South Africa remains amongst the cheapest in the world; South Africa is the world’s biggest per capita carbon emitter; and uninterrupted power supplies to businesses are uncertain (Never, 2011; Winkler et al., 2011). In 2010, Eskom electricity prices were set to rise by an annual average of 25 per cent over three years. In 2012, the price hike was reduced to 16 per cent after government intervened. Several mines have been shut down.

The South African government urges companies to invest a certain percentage of the net profits in social investments.

In general, developing countries have a long history of inclusive business, which was born out of a need to provide goods and services to low-income earners. This history precedes today’s context of inclusive business which also involves large, established businesses that develop their value chains to cater for the needs of the poor.

There are at least 100 000 spazas in South Africa, with a collective turnover of well over R7 billion per year. Spazas typically employ two or three people. In turn, each supports an average of four relatives, meaning that almost one million people benefit from the existence of spazas in their community.


Mal Leserwane, Head of Sales, Standard Bank Inclusive Banking. Interview conducted on 21 February 2012 in Johannesburg.

According to Deon Vos, RTT’s former Unjani Project Director and initiator of the Unjani Clinic in Etwatwa (2009 – 2011).

Trixie-Belle Nicolle, Project Director, Unjani Clinics, RTT.
55 Trixie-Belle Nicolle, ibid.

56 Mining companies in South Africa require local health services; they require entrepreneurial activities for their supply chains (equipment, construction and procurement); they are embedded in the local economic development plans of municipalities and demonstrate commitment to B-BBEE; they have commitments to agreements and charters (such as the BCIA) which are core to company philosophy because, to some extent, corporate citizenship is part of their licence to operate (in terms of their legacy after mine closure).

57 FASA members practise ethical franchising. Criteria for membership conform to international best practice. FASA is a full member of the World Franchise Council.

http://www.fasa.co.za/history.php

58 Minister Gugile Nkwinti (Rural Development and Land Reform) estimates that 90 per cent of the 5.9 million ha of transferred land is no longer economically active. The Times, 11 March 2010.

59 There are many important factors that make this possible in South Africa, such as the availability of high-value land whose owners are willing to enter into commercial partnerships, the availability of investors with strong market networks and a willingness to enter into CPPs, and the availability of competent transaction advisors and other service providers who can structure and manage CPPs.

60 The series of presentations and speeches at the South African launch of the UN Conference on Trade and Development’s (UNCTAD) Investment Policy Framework for Sustainable Development, held at the University of the Witwatersrand (Wits University) in July 2012 reflect this.

61 The inclusive business models used in this table were identified by Kubzansky et al. (2011).


63 Therefore the situation in South Africa differs from those in Mozambique or Zambia, where companies work together with larger networks of farmers in the field of cotton, sugar and maize.

64 In 2004 there were an estimated total of 750 000 hawkers, spaza shops, shebeens and other informal traders across South Africa. They were responsible for R30 billion/year in retail sales, of which R17 billion was spent on food (Ligthelm, 2005).

65 Inathi Syscare offers ICT solutions for primary healthcare, including the offer of a mobile service.

66 The project has since been terminated in South Africa.


References


Websites


‘Energize the Bop’. Available from: www.energize-the-bop.net/


PART III
Recommendations and guidance notes
10. Strengthening inclusive business delivery in Africa: Guidance notes

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10.1 Introduction

Africa’s massive market volume of under- and unserved low-income earners and the unemployed (more than 900 million active consumers) has long been recognised for its potential to shape the curve and direction of the continent’s economic growth (Mahajan, 2009).

There is great recognition of the potentially powerful role of the private sector in helping to eradicate poverty through inclusive business. If harnessed in the right way, the international and domestic corporate sector can contribute significantly to this effort through collective and well-directed activities. For this to happen, mobilising business ecosystems – businesses, development and financing organisations and research institutions – with a view to forming new partnerships is critical for innovative approaches and for building confidence amongst stakeholders to achieve high and sustainable business growth.

The case studies in this publication confirm the high importance of Africa’s primary growth sectors (agriculture and mining) in boosting economies. Increasingly, it can be argued that the international and domestic extractive and agricultural sectors are leading the drive in inclusive business, drawing on their significant experience (both good and bad) over the long term of working closely with the BoP.

The purpose of this chapter is to provide information on inclusive business, first as it relates to the private sector’s operations in Africa, and second as it pertains to development cooperation organisations and other stakeholders. It is intended to be applicable across a range of business sectors, scales of enterprise and local circumstances. Next, this chapter aims to inspire companies to form strategic business partnerships with domestic enterprises and/or SMMEs, both in their contribution to poverty alleviation and to enterprise development. Finally, the chapter offers guidance and broad lessons learnt to companies which are new in terms of their experiences with inclusive business, and which face difficulties in community or business engagement in Africa because of a lack of knowledge, skills or funds.

10.2 Africa’s changing business culture

In the recent past, concerns have been voiced about the negative impacts arising from the poor business practices of certain foreign and domestic investors operating in Africa. The impacts of irresponsible business activities have not been restricted to the natural environment and neighbouring communities, but have extended to the success of companies, their shareholders and their stakeholders, including staff, suppliers and customers (UNIDO, 2005).

The majority of problematic business transactions were concentrated in the lower tiers of value chains, and usually involved the supply of raw materials sourced from productive soils, vast mineral wealth and cheap labour.

The international and domestic extractive and agricultural sectors are leading the drive in inclusive business, drawing on their significant experience over the long term of working closely with the BoP.
soils, vast mineral wealth and cheap labour. These concerns were especially rife in Africa’s mining sector. Particular challenges included the threat of competition with domestic and/or smaller businesses, inadequate job creation and training, and the low level of integrating domestic challenges, aspirations and culture with foreign business operations (African Development Bank, 2007).

Today, however, the role of the private sector in resolving many of these problems through CSR and inclusive business is widely acknowledged (see, e.g., GIZ, 2011). Companies in Africa are now becoming vital contributors to the drive for poverty alleviation through their financial and management capacities to deliver positive change, often with limited support from local governments (African Development Bank, 2010; UNIDO, 2011). While significant progress has been made, important gaps still need to be closed in Africa (Box 10.1).

Who undertakes inclusive business? At its simplest, some are businesses that entirely devote their value chains to the lower-income tiers of society (their ‘core business’). Others exist as businesses with only certain components of their value chains incorporating the BoP (‘bolt-on’ activities).

MNCs appear to be at the forefront of rolling out inclusive business models in Africa because they tend to be the most established and most organised stakeholders in emerging markets. By contrast, there has been significant proliferation of local businesses serving the BoP, for instance in South Africa (Kubzansky et al., 2011). Based on a sample of 439 inclusive businesses in the Monitor Group study, ratios for MNCs to national corporations include: Ghana = 17:83 per cent; Kenya = 36:64 per cent; Senegal = 18:82 per cent; South Africa = 16:84 per cent.
Inclusive businesses in Africa also predominantly include SMEs with strongly-held market positions, and business foundations, start-up ventures and social enterprise entities which are still receiving grants and / or seed capital, but are working towards financial sustainability and securing market positions.

10.3 Challenges to companies

The value chain environment in Africa is marred by political baggage which seems to be playing out continuously. The post-World War II and Cold War global history, colonialism, political rule, military coups and civil wars have continued to shape the drivers and opportunities for inclusive business, and to present obstacles and hindrances. As such, it is useful to briefly review recent socio-political events based on the country case studies presented in this publication.

10.3.1 Socio-political context

The three case-studies contained in this publication – Kenya, Liberia and South Africa – provide a rich snapshot overview of the socio-political environment in sub-Saharan Africa. Although the discussion which follows is restricted to these countries, useful conclusions can be drawn (see guidance notes which follow).

Liberia is a post-war country which achieved political stability after the overthrow of Charles Taylor, resulting in democratic elections where Ellen Johnson Sirleaf was elected as president. The country was regarded as a murky global playground for ‘blood diamonds’ and the illegal logging of timber trees (Meredith, 2006). Two civil wars in Liberia during the past 20 years have left some 250 000 people dead, thus decimating the governance and infrastructure pillars and human ties required to maintain and build an economy (www.haguejusticeportal.net/index.php?id=5758). It is in this post-trauma legacy that inclusive business in Liberia finds its roots.

Whereas Liberia has been pillaged for its wealth in natural resource commodities, Kenya, while subject to British colonial rule until 1963, was farmed by exploiting the country’s land access through ‘land grabbing’ from tribal communities, and leveraging high soil fertility and water resources for agriculture and irrigation. The country’s tea and coffee estates were frequently the cause of clashes with indigenous Kenyans (Meredith, 2006). In the post-colonial years, Daniel arap Moi led Kenya (1978 – 2002) under what was essentially a one-party state. Most recently, under a multi-party state system, a 30-day ethnic violence period during 2007 / 2008 left more than 1 220 dead, 3 500 injured and 350 000 displaced (http://www.haguejusticeportal.net/index.php?id=11604). The legacy for both Liberia and Kenya is, in fact, one which involves the plundering of natural resources, with high social costs associated with a violent and corrupt business and political culture.

South Africa’s equally recent political history is no different. Up until 1994 and in the years preceding the release from incarceration of Nelson Mandela in 1991, a segregation policy, termed apartheid, prevented people born in their own country from living and working where they chose. Black South Africans were systematically excluded from advancement. Today, a strong business culture of affirmative action, which is legislated as B-BBEE, exists. Still resisted by pockets in the business community, it has significantly augmented BoP
ownership of business, and has been a strong factor in the success of increasing corporate engagement in low-income communities (Kubzansky et al., 2011).

The social, political and economic situations outlined above are markedly different. South Africa and Kenya have a relatively experienced inclusive business corps, compared to that of most other African states. It is important to note that South Africa and Kenya’s business experiences hold the promise of opportunities to exchange ideas. However, fresh perspectives from other countries can add to and enrich such perspectives, and bring new innovations to the fore.

### 10.3.2 Business hindrances and obstacles

Ongoing privatisation and globalisation have placed the private sector (and FDI) at the heart of economic development decision-making in Africa.

Effective, well-regulated systems for the provision, accessibility and affordability of electricity, water, transport (domestic and international facilities) and technology are prerequisites for viable value chains and for fostering inclusive business. In general, however, governance, regulatory and infrastructural dysfunctions exist in most African countries, with some being better off than others. Table 10.1, although not exhaustive, summarises the key obstacles and hindrances businesses face in at least 50 per cent of African economies (>30 countries).

Amidst the complexity of country-specific socio-political contexts and general obstacles faced by value chains, implementing the same basket of solutions for value chain development across Africa is not possible. Drivers of inclusive business, market opportunities, challenges to capture new markets, and stakeholder typifications are not homogenous across countries.8

How the private sector identifies inclusive business opportunities structures partnerships, penetrates markets, and establishes distribution and logistics channels, varies from country to country. Similarly (and of relevance to development organisations and research institutions), variable country approaches are required to identify project focal areas, project conceptual design and approach, stakeholder engagement and project implementation.

#### Table 10.1: General obstacles and hindrances influencing value chains at the continental level

<table>
<thead>
<tr>
<th>Problem domain</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring</td>
<td>Limited environmental inspections and inefficient legal recourse</td>
</tr>
<tr>
<td></td>
<td>Lack of visibility and tracking of organisational activities</td>
</tr>
<tr>
<td>Regional border posts and integrated compliance</td>
<td>Border congestion where road haulage is used</td>
</tr>
<tr>
<td></td>
<td>Corruption at border posts</td>
</tr>
<tr>
<td></td>
<td>Multiple customs duties and load compliance systems; number of countries that need to be traversed to destination</td>
</tr>
<tr>
<td>Problem domain</td>
<td>Issue</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td>Export facilities</td>
<td>Inefficient port and airline infrastructure</td>
</tr>
<tr>
<td>Finance</td>
<td>High exchange rate of foreign currency</td>
</tr>
<tr>
<td></td>
<td>Limited availability of foreign currency</td>
</tr>
<tr>
<td>Rule of law</td>
<td>Unenforceable legal rights and poor quality contracts</td>
</tr>
<tr>
<td></td>
<td>Piracy of branded products</td>
</tr>
<tr>
<td></td>
<td>Theft</td>
</tr>
<tr>
<td>Domestic facilities</td>
<td>Weak road, rail, electricity and water provision infrastructure (or lack thereof)</td>
</tr>
<tr>
<td></td>
<td>Inconsistency and unpredictability of domestic technologies</td>
</tr>
<tr>
<td>Business principles</td>
<td>Weak customer service culture, and returns and warranty policies</td>
</tr>
<tr>
<td></td>
<td>Long lead times and weak/slow responses</td>
</tr>
</tbody>
</table>

Source: Country and company case studies used in this publication, supplemented with the author’s own observations.

10.4 Monitoring and evaluation

While there is growing commitment to inclusive business across Africa’s private sector, current levels of performance and delivery are uneven amongst countries, and are not rigorously monitored. However, case studies of companies presented in this publication demonstrate that companies undertaking inclusive business appear to be implementing policies which are respectful of the environment, community development, human rights and economic integration.

Worldwide, there is a plethora of products for enhancing inclusive business. These products serve different purposes for the private sector, although most are used for planning, monitoring and evaluation, due diligence, quality assurance and enhancing business impact (see Box 10.2). Their value is context-specific, and as a result they differ widely in their application and relevance (they may differ in terms of a particular region, the political or social climate, the business sector or niche, or the stage of business maturity).

The large diversity of inclusive business models has been explained in detail (Endeva, 2010) and in specific reference to Africa, in Promise and progress by Kubzansky et al. (2011). Their implementation is characterised by high turnover – new models and multiple variations are constantly emerging in real time. Variants of inclusive business models in Africa take many shapes and forms, which implies the use of a wide range of context-specific monitoring and evaluation products.

The variable features of inclusive value chains in Africa can be defined by four key principles, namely 1) social purpose; 2) financial sustainability; 3) social and environmental value; and 4) values and operational governance (see Box 10.3).
Box 10.3 outlines key operational principles for viable inclusive businesses. As distilled from the country and company case studies presented in this publication, broad performance indicators that will foster successful value chain management, drive up inclusive business practises and can be used to monitor and evaluate inclusive business performance, are summarised in Box 10.4. In later sections of this chapter, these indicators are used as the basis for compiling guidance notes.

Box 10.3: Common principles for inclusive business in Africa

In Africa, an inclusive business must have a strong social purpose, which must explicitly improve social or development problems – particularly in healthcare, education and housing. The many infrastructural weaknesses facing African countries – from clean drinking water to electricity and medicine – generate opportunities to build businesses that profitably meet social needs, expectations and aspirations.*

An inclusive business in Africa, as anywhere else in the world, must be financially sustainable. It must be profitable – higher balance sheets, increases in production and delivery rates, diversification of the business or the product range, and the expansion of their client base, etc. In other words, the objective must be focused on maximising profit (from the perspective of the business or non-financial business development service providers [BDSPs]) and on this basis, it must be able to attract investors or equity shareholders.
Although it is understood that an inclusive business can in some cases create social and environmental value without being engaged or involved, there must be connectivity through engagement or consultation with the community which the business claims to serve, and natural resources should be utilised in a sustainable manner.

Finally, inclusive business in Africa must demonstrate participatory, transparent and accountable business governance that focuses on sound financial, social and environmental values.

*The context of social purpose is characterised by low levels of economic and social development in Africa; gender inequality; HIV/AIDS and other diseases; landlessness and food insecurity; a lack of education; and the effects of climate change and natural disasters.

Organisational proponents of the inclusive business concept and value chain management in African countries can be found at the global, regional, national, provincial and local levels. Many companies in Africa (mainly MNCs) collaborate with international organisations, rather than with locally-based institutions in the country in question.

The Appendix (Useful links) provides information to organisations involved in development cooperation, dialogue and knowledge-sharing forums, as well as monitoring and evaluation products to foster inclusive business.

Box 10.4: Indicators that foster successful inclusive value chains

- Investing in people in a systematic way, over long time frames, and working towards increasing competence trust;
- Focusing on African empowerment and local wealth creation, where Africans flourish by owning and leading businesses, having shares or a say in the business;
- Using Africa’s rich heritage of natural resources in a sustainable manner;
- Creating space for, and growing, local enterprises – those ‘born in Africa and serving Africa’ – to become more sustainable, productive and competitive;
- Undertaking and making use of rigorous market surveys that allow for better experiences in local purchasing and investment, which increases confidence in local markets;
- Increasing the number of quality contracts being awarded to a wider range of local businesses;
- Providing ‘decent work’ and ‘decent jobs’ in the short, medium and long term.*

*See the ILO’s Decent work agenda.

10.5 Guidance notes

A critical mass and genuinely enhanced capacity are required to achieve the necessary shift in inclusive business performance across Africa. In particular, high-level political processes may be required to bring together the sometimes conflicting interests of private sector, governments, NGOs – and, especially – communities.
Reshaping the business environment for greater inclusivity in value chains will require consistent and systematic interventions over the long term. Certain activities must be ongoing and must be intensified, particularly in business training, the delivery of business services, the generation of market information and access to finance.

Below, several features of successful value chains are presented, the priority needs for developing value chains and their components are identified, and responsible stakeholders are suggested.

10.5.1 Invest in people

African education systems are typically weak. Therefore, developmental benefits are significant to local communities. Educational programmes focusing on literacy, numeracy and skills development can result in a more productive workforce (International Finance Corporation, 2003).

Survey results presented in the World development report 2013 (conducted with 54 000 companies in 102 developing countries) found that the vast majority of enterprises in the developing world generally see little point in professionalising and learning about practical business management (http://siteresources.worldbank.org). A globally prominent success story, showing that intensive training does indeed pay off, is depicted in Box 10.5.

Box 10.5: Intensive training accounts for the rise of the giant in Bangladesh’s textile sector

Learning from abroad, in 1979, Desh, a Bangladeshi textile company, sent 130 new staff for an eight-month intensive management training course to Daewoo, a South Korean textile plant. They covered diverse topics, from sewing skills to factory management and international marketing. At the time, Bangladesh had no textile industry to speak of, no modern industry and no exports. Upon their return, almost all the trainees left Desh to start their own garment companies (Mottaleb & Sonobe, 2011).

Today, the export-oriented garment industry in Bangladesh is among the largest in the world. It employs 3.6 million textile workers (80 per cent of whom are women), generating US$ 13 billion in exports a year. This success is attributed to initial technology transfer and the continuous learning of advanced skills. As a result, highly educated entrepreneurs were attracted to the industry, resulting in the division of labour between manufacturers and traders which has further facilitated the expansion of the industry – an industry which accounts for 75 per cent of the country’s export earnings and 25 per cent of its GDP.

Many MNCs with operations in Africa have their headquarters in China, Europe or America. In African countries it is often difficult to find local employees at any level with high-quality skills sets; and it is often difficult to incentivise managers and skilled personnel from other countries to work on the continent. MNCs can be encouraged to create company learning academies, training centres, opportunities for internships and satellite campuses in the country where they operate. This will perform the niche function of cultivating skills sets specific to companies and increasing local content in companies. A further advantage of the private sector recruiting locally is in delivering on company
mission, because the recruitment and retention of African employees will become crucial for enhancing the company’s position, impact, value and longevity.

Short-term training and one-off seminars which aim to increase understanding of how to run a business are unlikely to change deeply embedded ways of operating. To address this dysfunction, free or subsidised business management training to individuals and emerging entrepreneurs can be provided or subsidised through partnership arrangements between the private sector (individual companies and industry associations) and development organisations, in the form of practice-orientated mini-Masters of Business Administration (MBA) running over several months.\(^{13}\)

Determining the impact of investing in people can be measured through surveys. For example, surveys can establish the number of skilled individuals finding relevant employment within six months, the proportion of business sectors enrolled in formal skills development programmes, and the extent to which employers and trainees value skills training provision (Dunbar, n.d.).

Much of this information can be generated from banks, company registration centres, government tax collection centres, and skills development centres in countries.

10.5.2 Increase quality contracts to more local businesses

More new jobs associated with informal business are created annually in Africa than in the formal sector, thereby creating a massive growth percentage in ‘necessity entrepreneurs’ relative to ‘opportunity entrepreneurs’ or ‘reluctant entrepreneurs’ (poor people who run their own businesses only because they cannot find jobs) (Mahajan, 2009).

There is growing pessimism that enterprises run by ‘reluctant entrepreneurs’ can pave the way for poverty eradication (Banerjee & Duflo, 2011). This view is corroborated in the World development report 2013, which identifies greater potential for success in larger local enterprises than micro-enterprises (<20 employees).

Key problem features of local SMMEs include weakly developed entrepreneurial skills; poor access to micro-finance and training; weak linkages with large companies (including MNCs); inconsistent and poor product standards and supply chain problems; low transformation rate from informal to formal enterprises; and low export capacity and innovation capability, amongst others. In addition, internal operational capacity in local SMMEs is typically beleaguered by a lack of expertise in business management\(^{14}\) and technical aspects\(^{15}\) of the business.

Thus, in order to grow Africa’s SMME base, there is a need to enable SMMEs to deliver quality contracts. In countries where a formidable track record on inclusive business is just emerging from the ‘proof-of-concept’ phase, the prerequisite for this is building linkages to connect businesses with each other. Here, the creation of more registered / accredited BDSPs that offer professional ‘cradle-to-grave’ services can play a role.

BDSPs must be organised with the purpose of addressing dysfunctions in the market, along with a range of capacity deficits amongst SMME:

MNCs can be encouraged to create company learning academies, training centres, opportunities for internships and satellite campuses in the country where they operate

More new jobs associated with informal business are created annually in Africa than in the informal sector, thereby creating a massive growth percentage in ‘necessity entrepreneurs’ relative to ‘opportunity entrepreneurs’ or ‘reluctant entrepreneurs’
Activities involving building linkages can be performed by BDSPs to help increase the quality and quantity of contracts to local businesses. BDSPs that provide business linkages are especially vital in certain countries, as their activities often relate to:

- disseminating company contact details, changes in procurement policies and procedures, and business opportunities such as tender announcements or descriptions of local buyers and sellers. This is relevant where the Internet or telecommunication is not in great use, and where hard copy distribution strategies may be best; and
- organising vendor days, networking opportunities, marketing campaigns and other events for cross-fertilising ideas.

Until these professional advisory gaps are closed thanks to the facilitation role of the BDSPs, development cooperation organisations and NGOs as well as SMMEs will find it difficult to break through the growth ceiling (Banerjee & Duflo, 2011).

Achieving this goal can be supported by the private sector (it is in their operational interest to procure locally and with confidence) through mentorship, training, internship and linkage programmes (Box 10.6).

Box 10.6: Bettering non-profit BDSPs to provide better services to SMMEs

NGOs and the civil society organisations (CSOs) they work with (including grassroots and village organisations, associations and other citizens’ groups) often lack management and technological expertise, bringing to light the need for business skills training and IT support which is critical to each NGO’s regional scalability and long-term sustainability. In response, Microsoft Corp launched its NGO ICT4D Academy in 2008.

To help bridge critical skills shortages among many NGOs across the continent, Microsoft Corp delivered information, resources, planning guidance, workshop and discussion forums, tools and training on topics ranging from IT management to ICT4D solutions, in regional Centres of Excellence across Africa. Microsoft’s rationale was grounded in its ‘Unlimited Potential’ vision, which was to make technology more affordable, relevant and accessible by helping to transform education and foster a culture of innovation, and through these means to enable people to access better jobs and opportunities. Key partners included the Aga Khan Foundation and the Academy for Educational Development.

The web-based information portal is available on the NGO Connect website, http://www.ngoconnectafrica.org.

Assessing the influence of BDSPs can be measured by the growth in number of BDSPs and SMMEs as well as their longevity, the sizes and type of SMME transactions and turnover, the number of target populations in skilled employment and self-employment, and the degree of industry involvement in the governance of training institutions, amongst others (Dunbar, n.d).

10.5.3 Generate and use market information

Obtaining deeper and wider databanks on market structures and market segmentation is a continuous undertaking for any business anywhere in the world. Africa’s social sectors are incredibly diverse and poorly studied, making it difficult to identify and respond to specific market needs that are under- or unserved.
Africa’s BoP consumers are typically regarded as a homogenous mass (Mahajan, 2009), although this is rapidly changing. Women, youth (the ‘Cheetah generation’) and the disabled remain poorly understood in Africa.18

Companies in general lack comprehensive information on Africa’s BoP, typically in:

- informal urban areas and remote rural communities, as well as on the livelihoods and aspirations of the people living there; and
- industry sectors, and the various sub-sectors and tiers in value chains.

Detailed market information affords a greater understanding of consumer needs for inclusive business, their buying habits and purchasing power, and people’s aspirations. In turn, companies can use this information to innovate and generate ideas for improving product design, fine-tuning their services, improving their distribution and logistics channels, and enhancing their branding and customer care.

Generally, professional market practitioners from the private sector, and those in research think-tanks with practical experience in surveys and messaging who ‘get on the streets and gather data’ are best at generating detailed market information.

The extent to which labour market data is used in policy-making decisions, the range of tripartite partnerships (involving government, employer and employee representatives), industry involvement in policy decisions, and the extent to which companies innovate indicate the impact of functionally useful market information.

10.5.4 Organise markets

African markets are typically informal and disorganised.19 They are dominated by traders who appear to be more interested in selling products than building brands. Inclusive businesses can create opportunities by organising markets, and formalising informal and illegal businesses.20

Like many emerging markets, African markets start out as generic, thus presenting opportunities to the private sector to organise unbranded goods. Brand-building requires strong ties to local dealers, a strong sales force and market pitch, and marketing communications customers can relate to.

Various strategies can be employed by the private sector to create the ‘route to market.’ These may include training and advising agents from local communities, or developing local intermediaries that risk-averse BoP customers trust and can relate to (a good example is South Africa’s Standard Bank country case study, by Golding and Klins in this publication).

Existing distribution and logistics channels can be utilised (instead of building new ones) as BoP consumers are often dispersed or resident in remote areas. Finally, accessing market channels can be improved by investing in customer education, through demand stimulation, and building brand development and customer loyalty. This will require intensified business-community engagement and flexible partnerships.
All these company activities are core growth principles for being first-movers at seizing business opportunities in emerging markets, for spending company resources effectively and for not ‘reinventing the wheel.’

10.5.5 Provide technical support for accessing finance

Africa’s financial institutions have a long journey ahead of them if they are to develop as credible, service-oriented institutions that can provide cheap loans to stimulate inclusive business markets. Commercial banks are characteristically weak credit providers (expensive loans and high interest rates).

Managing financial risk (risk appraisal and risk-sharing) and income volatility are relevant to inclusive businesses. This is because these markets are still emerging. As such, business maturity can initially be gradual (small market, high-risk, volatile suppliers, etc.). These businesses must be able to deal with slow sales and uptakes, and they need collateral and access to capital to act as a buffer against unforeseen circumstances.

In response, financial institutions must find creative frameworks and methodologies to appraise, mitigate and manage risk, so that new inclusive business ventures are bankable. Obtaining credit lines and reducing loan risk paybacks is a problem, but what can help are accepted frameworks, incentives and greater flexibility to assess creditworthiness. Here, donors can play a role by providing finance, and they can even offer technical assistance to banks in respect of designing methodologies, collecting relevant market data and structuring competitive loan packages to stimulate inclusive business.

Technical support to local inclusive businesses that need help in preparing project proposals, feasibility studies, bankability and deal closure, is required. Here, BDSPs can provide transaction and other services to the fledgling inclusive business ventures of local SMMEs.

The number and size of successful credit applications for finance, loan payback times and growth in the number of inclusive businesses are key success indicators associated with assistance in accessing finance.

10.5.6 Build social development and empowerment

Solving problems related to poverty and development in Africa is often discussed in terms of job creation en masse through inclusive business. At best, this offers a broad scope for providing millions of unskilled labourers with jobs. At worst, genuine empowerment and wealth creation are limited to a few individuals, because jobs are usually temporary, associated with marginal social benefits (such as pensions and medical aid), and with limited emphasis on career development and training.

Local leadership opportunities, wealth creation, ownership and empowerment issues are rarely discussed amongst MNC business leaders in Africa. The continent’s growth path and the business operational environment will not be sustainable if these issues remain under-discussed.
Thus, transforming the local business paradigm that MNCs are, in fact, the service providers to Africa, rather than the other way around, perhaps presents a new way of bringing about more balanced power dynamics in business negotiations for linkages, partnerships and ownership. This will level the playing field for empowerment and wealth creation in Africa’s business ecosystems.22

PPPs, CPPs and franchises are commonly-used contractual vehicles for replicating the successful impacts of inclusive value chains, and for spreading the multiplier effects of social development spin-offs (Box 10.7).

Measuring wealth creation and empowerment can be determined by the number of people lifted out of poverty, along with various macro-economic signals within countries and regional trade blocs.

**Box 10.7: Interesting facts about PPPs and CPPs**

In terms of inclusive business and PPPs, there is limited attention on the private sector in the context of aid effectiveness (Davies, 2011). There are few references to the private sector in the Paris Declaration on Aid Effectiveness (2005) and the subsequent Accra Agenda for Action (2008), the key international agreements on aid effectiveness which over 100 countries and institutions are party to. In Africa, for example, the fight against AIDS, malaria and tuberculosis represents a common example where the value chains of private foundations and the for-profit private sector have increased engagement with international donors and national governments, to combine their strengths in funding, sharing of experiences and catalysing contributions to development.

CPPs in Africa have evolved from initiatives in community-based natural resource management (CBNRM), based on community ownership of land and its resource base (primarily wildlife biodiversity and water resources). This has resulted in a mushrooming in the number of CPPs (usually brokered by NGOs) in eco-tourism, hunting safaris, trade in plant products for pharmaceuticals, as well as cultural tourism, amongst others. More recently, CPPs have been moving into agricultural land development. Common difficulties, to date, are the identification of rightful landowners, the equitable sharing of benefits amongst community members, and a lack of business ‘know-how’ amongst community members. In this regard, the importance of BDSPs that function as transaction advisers, rather than civil society NGOs, is being recognised (see the description of Vumelana, a BDSP mentioned in the country case study dealing with South Africa).

10.5.7 Share best practices

At present, case studies of inclusive business typically focus on MNCs or small, local, inclusive business champions. Social enterprise foundations, including those owned by Africans, are rarely showcased as case studies.23 These overlooked business entities have a potentially significant role in sharing and inspiring best practices, promoting good governance and shaping Africa’s youth entrepreneurs. Their inclusion as case studies can be taken up by knowledge-sharing facilities (usually present in development agencies, NGOs and research institutions) that undertake the assessment, publication and dissemination of case studies to the private sector.24
Few case studies are transparent. Most are narrative, with little emphasis on verifiable statistics. In order for case studies to be valuable, baseline figures of the before and after state of inclusive business must be presented (profits / liquidity; number of long-term jobs created; number and types of new enterprises that have been created and are owned by Africans; and so forth). These figures are the basis for defining the value proposition and evidence of the business case. Furthermore, most case studies concentrate on best practices (including those presented in this publication), rather than highlighting bad practices, challenges and dilemmas.

The private sector can assist in the sharing of best practices by contributing to advocacy campaigns and discussion forums, as well as being forthcoming with data, with the understanding that information disclosure is not intended for use by business rivals to gain competitive advantage, but to raise the bar of inclusive business standards and improve the business operational environment.

How well best practices are shared can be estimated by the growth of inclusive businesses.

10.5.8 Contribute to local economic development
Promoting and driving up inclusive business standards in African countries are priorities which can only be achieved by creating and managing market forces. Multiple businesses which are active in similar markets and associated with similar products or services will compete for bigger volumes at lower prices, thus creating opportunities to improve quality and quantity standards.

If the private sector engages in partnerships to simplify operations and slash costs, then these partnerships may present some scope for LED, which is much needed in Africa (Table 10.1). Win-win outcomes for LED and inclusive business require leveraging the business ecosystem to form multi-stakeholder partnerships. These partnerships will foster synergies on inputs, services and the technical needs of the business. They will also enable greater and faster knowledge transfer, all partners are likely to have a sense of ownership and accountability, and prosperity can be realised at the local level.

If there are opportunities for making gains in LED impacts, then priority regions or business sector agglomerations can be selected for inclusive business ventures. These can be, for example, an agricultural area, an industrial development zone, an area close to a transport network (e.g. a harbour or main road), a village or a small town. Different objectives can be pursued in a cluster selection process, such as employment creation, increasing export potential, forming linkages with research institutions, etc., which helps to identify clusters (in coordination with national stakeholders, which includes communities).
10.5.9 Sustainability managers to help ensure sustainability of value chains

Inclusive businesses are not exempt from reducing their social and environmental footprints. Given the social, environmental and economic context of business operations in Africa (Table 10.1, Box 10.1 and Box 10.4), CSR must be integrated as a core operational value of inclusive business practices (GIZ, 2011). The issue has not been raised in this publication, but it is a necessary consideration for developing sustainable value chains.

Commitment to inclusive business in Africa means that sustainability managers and other colleagues in companies follow global best practices on CSR, and that they understand that sustainability and ethical considerations are central for the development and viability of their value chains, as well as the wider impacts of their operations.

This requires companies to give attention to 1) social considerations (commitment to local laws and cultures, the wellbeing of employees and surrounding communities, labour and employment practices, and child labour); 2) environmental considerations (pollution, environmental impact assessments and restoration of habitats; the wise use of water and energy resources, research and development, the provision of infrastructure); and 3) governance considerations (financial practices and procedures, risk identification and management, diversity management, and the management of corruption).

Following global best practice, this means that inclusive businesses should publicly state their adoption of CSR values, and report on and disclose their social and environmental performance (typically in the company’s annual report). However, as with most internal business policies of this nature, none of the latter may be legally binding.

Of special relevance to companies is the fact that the more accurately the company identifies and responds to social and environmental considerations in its value chains,

- the higher its capability to execute inclusive business;
- the deeper the relationship with the business ecosystem and the value chain; and
- the greater the likelihood that an inclusive business will sustain itself in the long term.

10.5.10 Appreciate the leadership context

While a myriad inclusive business structures exist (PPPs, CPPs, cooperatives and social franchises, amongst others), at the heart of the matter is ownership and raising the quality of life of the poor. Following the proverb, ‘a log in the river will never be a crocodile’, there is a great need to carve out a bigger space not only for Africa’s poor, but also for the small but growing cohort of future African business leaders.

The African Diaspora\(^5\) is emerging as one of the primary drivers of inclusive business, typically in the financial services and investment sector. No segment of the world has a better understanding of Africa – its primary challenges and the investments it requires – than these individuals. Much of local inclusive business in new enterprises has been initiated through this segment. Inclusive business ecosystems should be aware that this...
group is often the most ambitious, with the greatest stake in the success of Africa (see the World Bank’s *Diaspora for development* [Plaza & Ratha, 2011]).

### 10.6 The business case: Why companies should be interested

For most companies, there is a critical mutual dependence with communities where they operate. Companies rely on communities for markets and skills and, ultimately, their licence to operate. Equally, communities may rely on the private sector for jobs, products and services and, ultimately, opportunities to build social and economic capital.26

At the company level, there are numerous justifications for companies and industry associations to commit to inclusive business. All businesses exist in a competitive, ever-changing environment. As such, they face risks to which they must respond in order to stay in business and grow. The nature of risks determines the attractiveness of inclusive business propositions. Overall, inclusive businesses in an emerging market can choose to compete on cost leadership, differentiation (branding) and/or by focusing on niche markets, which are discussed below.

#### 10.6.1 Leverages prices

A company can charge a premium if it has a strong, well-respected brand or if there is some improvement in the quality of the product. Consistently offering high-quality goods and services translates into powerful branding. Inclusive business can help to improve both.

#### 10.6.2 Builds stronger brands

Business reputation can be at risk if products are perceived to be associated with unacceptable practices. As consumers become more aware of human rights and issues of sustainability, production practices across the entire value chain are increasingly scrutinised. Across Africa, it is often the norm for companies to relax their public image and branding, based on the perception that poor people and society at large are ignorant or do not care about human rights and sustainability issues (Mahajan, 2009).27

Sensitivity to the needs and aspirations of the BoP can generate real benefits for a company and enable it to charge a premium price. As new consumer markets mature, companies would want to be seen to promote good behaviour, and may pay a premium for products, goods and services that attend to pressing social and development problems.

#### 10.6.3 Improves quality

Inclusive businesses can improve quality in a number of areas, including the greater motivation (for the company and its staff) that comes from being part of a chain that explicitly connects producer to consumer. They can also improve knowledge, resulting from closer connections, of the needs of low-income earners.
Product quality improves, especially, if the poor are the main producers who have been excluded from other parts of the value chain by intermediaries (‘middle men’). When the producer is connected to the buyer and the final consumer, the connectedness is itself a good incentive: the producer feels valued and is more likely to pay attention to quality. A closer link between, for example, the farmer and buyers, means that improved practices and techniques to improve quality can be transferred to farmers (Box 10.8).

**Box 10.8: Improvement of quality through closer linkages**

In Rwanda, the Land of a Thousand Hills Coffee Project between Paramount Coffee and farmers yielded great value. This is a major international brand, best-known in the US, where its coffee products are sold at specific coffee houses. The programme, initiated with Michigan State University’s Institute of International Agriculture and USAID, links Rwanda’s depressed coffee farmers with key coffee industry organisations throughout the world. The result is the development of better farming techniques, the use of best practices in coffee processing, and access to global Fair Trade markets that bring hope and success to the farmers of Rwanda.

**10.6.4 Increases units and volumes**

The number of units sold is another revenue lever which is available to build inclusive businesses. Units sold can be increased through increased sales per customer, or by increasing the number of customers. The units sold can be greatly augmented if products are available to poor members of society. The traditional constraint is often inappropriate packaging, which does not take into account that poor people typically need smaller quantities of a product (sometimes single usage) and cheaper packaging. The poor also tend to live in areas with inadequate infrastructure (such as transport networks and electricity). As such, innovative distribution channels allow, for example, donkey carts and bicycles to become part of the distribution fleet (Box 10.9). In the long term, the greatest benefit to inclusive businesses is the innovative spirit that tends to develop as companies try to reach these markets.

**Box 10.9: Make use of what is available: Distribution channels**

Since the publication of a groundbreaking report on Unilever in Indonesia (Clay, 2005), the potential for millions of poor people to participate in supply and distribution chains has been realised and is now widely pursued by large MNCs such as Coca-Cola and SABMiller. Unilever now uses small sachets and innovative distribution networks to sell to hard-to-reach markets.

**10.6.5 Reduces costs**

Inclusive businesses can provide opportunities to make cost savings and so increase profitability. Africa’s poor generally can provide cheap labour compared to BRICS member countries, thereby cutting the cost of production. With proper training in quality control, inclusive businesses can provide locally produced raw materials more cheaply.
10.7 Research gaps

A new, current area of research, both globally and regionally, entails assessments of how well (ROI) the private sector goes about its business, compared to inclusive business. Much of this work appears to be done by independent, non-government technical research organisations, and much appears to be descriptive rather than quantitative and criteria-based. This research would promote the business case for inclusive business.

Determining the most useful benchmarks and standards against which companies can measure their performance in inclusive business is an integral and ongoing part of business success. But, more importantly, concentrating on helping companies that struggle with the gap between theory and practice can assist them in making tangible contributions to poverty eradication, even if only in the simplest of ways.

It is important to note that there is scant market data in Africa related to mega-trend studies and scenario planning. What African consumers will want and need in ten, 20 or 30 years’ time is not well understood, and requires further study. What might be most important to African consumers in future decades is likely to depend almost entirely on infrastructure availability, energy security, water security, food security and, most certainly, trade and export security. Information to undertake these studies is severely limited, yet it is critical for creating new markets in Africa and for making the required macro-economic decisions at the political level.

There is a need to evaluate the culture of CSR in inclusive business practices, as, for example, an inclusive business may in fact ignore sustainability issues (care for the environment, surrounding communities or good corporate governance). As such, an apparent research shortcoming is developing inclusive business models that centrally integrate principles to guide and operationalise CSR. Without inculcating social, environmental and governance ground-rules in inclusive business standards, companies practising inclusive business may not be sustainable in the rapidly changing business landscape in Africa.

Few effective political mechanisms exist to foster dynamic business relations between government, civil society, labour and business. A research opportunity for organisational analysts is to investigate the efficacy of institutional arrangements, trade and investment policies, and performance gaps.

10.8 Conclusion: Lessons learnt

New market entrants in Africa have gone virtually unmentioned in this publication, and their collective significance is worth raising here. China, and the North-South flow of FDI in response to the Eurozone crisis, both provide monumental opportunities for Africa – more so than at any time in the history of the continent.

The influx of MNCs, the rise of Internet access and mobile phone usage, and the successes of inclusive business initiatives achieved to date, are stimulating the growth of rapidly evolving markets. In turn, this is giving rise to dynamic developments in respect of inclusive business models and their variations. Increasingly, the market base is being better
understood. These growth factors suggest the implausibility of defining any one blanket framework for monitoring and evaluating progress.

CSR must be promoted as an integral part of best practice inclusive business (as showcased in case studies). This will help develop a responsible business culture in Africa and lead to more sustainable value chains.

Obstacles associated with national and regional framework conditions will increasingly stymie the impacts of inclusive business, and, by implication, may constrain economic growth. Big investments in infrastructure development and trade stimulus, economic cooperation, and macro-economy reform projects are required to overcome this.

Training courses (more managerially-orientated, sector specific, longer term), the delivery of business services (more organisations, wider range of services) and market information (more segmented, more functional) and access to finance have been consistently raised as overarching priorities throughout the chapters contained in this publication.

The impacts of booming value chain initiatives that take account of Africa’s poor offer considerable new learnings and provide scope for research to continue along the inclusive business growth path.

Continual development of value chains associated with inclusive business can make meaningful inroads into Africa’s poverty. Systematic, flexible and long-term support to foster this growth is required.
### Appendix 10.1: Useful links

Below are notes on leading organisations pursuing the implementation of inclusive business principles in Africa. The list is not exhaustive. What they have in common is their global nature, their previous and currently known impacts in Africa in the field of inclusive business, and their inclusive business programmes or statements of intent in their work programme mission.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Approach and activities</th>
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<tbody>
<tr>
<td>African Development Bank (AfDB)</td>
<td>The African Development Bank is Africa’s premier development finance institution which is dedicated to combating poverty and improving living conditions across the continent. The AfDB is also engaged in mobilising resources for the economic and social progress of its member countries. <a href="http://www.afdb.org/en/">http://www.afdb.org/en/</a></td>
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<tr>
<td>Business Action for Africa (BAA)</td>
<td>BAA is an “an innovative international platform for harnessing the collective energy of business in support of Africa’s development”. It is a network of businesses and development partners that “advocates for the policies needed to drive growth and wealth creation in Africa, and to facilitate business engagement in tackling development issues”. The network supports the concept of inclusive business at a global level and is supported by the IBLF. The network also catalyses business-to-business partnerships. <a href="http://businessactionforafrica.org/">http://businessactionforafrica.org/</a></td>
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<tr>
<td>Business Call to Action (BCta)</td>
<td>Connected to the UNDP and many others listed in this table, the BCta offers memberships to companies. The membership agreement is a pledge or a commitment concerning the company setting goals and determining measures of success. The BCta has published a series of case studies involving companies that are active in Africa. <a href="http://www.businesscalltoaction.org/">http://www.businesscalltoaction.org/</a></td>
</tr>
<tr>
<td>Business Fights Poverty</td>
<td>The world’s leading experts on inclusive business (researchers, consultants and business practitioners) are accessible. This is an information-sharing portal with active blog postings and links to social networking sites (e.g. Facebook and Twitter). It enables the sharing of experiences, new trends, findings and the outcomes of meetings and workshops. <a href="http://www.businessfightspoverty.org/">http://www.businessfightspoverty.org/</a></td>
</tr>
<tr>
<td>Department for International Development (DFID)</td>
<td>DFID (the British government’s key development agency) supports innovation in core business models through the Business Innovation Facility (BIF), which provides expertise at the practitioner and technical level through a global network of experts. The DFID also supports the BCta (see above); the Food Retail Industry Challenge Fund (FRIC) “which aims to get more African products onto UK supermarket shelves”; with ComMark Trust it supports the global programme, “Making Markets Work for the Poor”; with FinMark Trust it is working on “Making Finance Work for the Poor”; it provides funds for the Business Linkages Challenge Fund (2000 – 2008) and the African Enterprise Challenge Fund (see below). <a href="http://www.dfid.gov.uk">http://www.dfid.gov.uk</a></td>
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<td>Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH</td>
<td>GIZ implements BoP-sector dialogues, for example on micro-insurance, energy and medicine, and in the future, will provide the same service relating to small-scale farmers. Its key institutional portal is the Center for Cooperation with the Private Sector (CCPS) Africa, which undertakes research, prepares publications, and supports workshops and discussions forums. &lt;br&gt;<a href="http://www.giz.de/en/">http://www.giz.de/en/</a></td>
</tr>
<tr>
<td>International Business Leaders Forum (IBLF)</td>
<td>The IBLF raises awareness, primarily through roundtable discussions and workshops, and assists companies in identifying opportunities for inclusive business. The IBLF is known for being a driver of company partnerships, linking small and micro enterprises with larger companies, and supporting the BCTA and other initiatives in the field of inclusive business. The IBLF also established the Partnering Initiative. At present, the IBLF is collaborating with well-known MNCs such as Anglo-American, Cadbury, Schweppes, Citi Group, Coca-Cola, Diageo, Microsoft, SABMiller, Rio Tinto and Standard Chartered, to name a few. &lt;br&gt;<a href="http://www.iblf.org/">http://www.iblf.org/</a></td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>The IFC’s Inclusive Business Models Group provides investment finance and technical advisory assistance to promote inclusive business. The IFC also works to foster a network of corporates, financial institutions, donors, service providers and others who are interested in simplifying the process of starting and scaling inclusive business models. The IFC manages the G20 Challenge on Inclusive Business Innovation, which recognises and awards businesses. &lt;br&gt;<a href="http://www.ifc.org">http://www.ifc.org</a></td>
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<tr>
<td>NEPAD Business Foundation (NBF)</td>
<td>The NBF aims to create a platform for dialogue between the private and public sectors, predominantly to improve rural infrastructure and other trade-related interventions, primarily in the agricultural, natural resource and infrastructure business sectors. &lt;br&gt;<a href="http://nepadbusinessfoundation.com">http://nepadbusinessfoundation.com</a></td>
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<tr>
<td>NGO Connect Africa</td>
<td>A business development service provider portal for NGOs, the site has active blogs and tools, organisational directories and a myriad other important tools for linking NGOs across the continent. The purpose is to improve the business and operational ‘know-how’ of NGOs, so that they can provide better services to their audience (which includes the private sector). This is especially important for CPPs. &lt;br&gt;<a href="http://www.ngoconnectafrica.org/NGOCONNECTAFRICA/Home/">http://www.ngoconnectafrica.org/NGOCONNECTAFRICA/Home/</a></td>
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<tr>
<td>Netherlands Development Organisation (SNV)</td>
<td>SNV is partnering with WBCSD in its global inclusive business initiative. &lt;br&gt;<a href="http://www.snvworld.org">http://www.snvworld.org</a></td>
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<tr>
<td>The Practitioner Hub for Inclusive Business (Business Innovation Facility)</td>
<td>The Practitioner Hub was developed by the Business Innovation Facility in partnership with Innovations Against Poverty. It is a platform for practitioners to share their experiences and gain knowledge in order to help grow inclusive business ventures, based largely on case studies. Its database of financial and technical support provides a comprehensive search facility of organisations that offer finance or technical assistance which may be useful to inclusive businesses in developing countries. &lt;br&gt;<a href="http://businessinnovationfacility.org">http://businessinnovationfacility.org</a></td>
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<tr>
<td>United Nations Development Program (UNDP)</td>
<td>The UNDP established the Growing Inclusive Markets Initiative. It is research-orientated and serves as the basis for furthering the activities of the UNDP and other actors. Over 100 case studies have been published. The UNDP works as a policy advisor, undertakes advocacy informed by research, co-finances inclusive business projects that contribute to the public good, and serves as a technical advisor and capacity developer. It co-founded and works with BCtA. The UNDP also established the African Facility for Inclusive Markets (AFIM). <a href="http://www.undp.org">http://www.undp.org</a></td>
</tr>
<tr>
<td>World Business Council for Sustainable Development (WBCSD)</td>
<td>In 2006, the WBCSD and SNV entered into a strategic alliance to work together in the field of inclusive business. These partnering organisations have developed a comprehensive global toolkit for inclusive business, including guides, and they frequently publish case studies. <a href="http://www.wbcsd.org">http://www.wbcsd.org</a></td>
</tr>
<tr>
<td>World Economic Forum (WEF)</td>
<td>The WEF releases reports on inclusive business, including more than 200 case studies and 150 consultations with business leaders and other stakeholders. <a href="http://www.weforum.org/">http://www.weforum.org/</a></td>
</tr>
<tr>
<td>UN Global Compact (supply chain sustainability)</td>
<td>The UN Global Compact encourages its members to develop more sustainable supply-chain practices. By signing up to its Ten Principles, which range from resource use efficiency, sound financial/procurement governance and banning child labour, companies can improve their business operations through their supply-chain management practices. <a href="http://www.unglobalcompact.org/issues/supply_chain/guidance_material.html">http://www.unglobalcompact.org/issues/supply_chain/guidance_material.html</a></td>
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Notes

1. Examples from the extractive and agricultural sector include coffee, tea, tobacco, oil, petrochemical and a variety of mineral resources.

2. Mining contracts in the DRC are discussed by Kabemba (2007); Maleleka (2007) provides a social development and economic critique of diamond mining in Lesotho; and the negative impacts of mining in Zambia are discussed by Mwitwa and Kabemba (2007).

3. For example, the majority of mining companies in attendance at a recent GIZ workshop in Liberia do not directly address the needs of local communities through defined company policies on ‘local content development’. In addition, not all companies in attendance had demonstrable corporate interest or activities relating to CSR (GIZ, 2012).

4. MNCs often 1) have experience in inclusive best practice, and are likely to have retained learnings from undertakings in countries elsewhere; 2) have relatively easier access to knowledge and information platforms such as inclusive business informational portals, toolkits, guidelines, discussion forums, barometers and so forth; 3) are likely to have more resources available for inclusive business – market survey expertise and other analytical teams (or they can procure this expertise), venture capital or business development financial resources; 4) are signatory to charters or commitments expressing social development objectives; 5) wish to uphold and augment reputational brand in order to retain buyer loyalty; and 6) have the business acumen to encourage, through procurement preferences or knowledge-sharing or
mentorship facilities, for example, to initiate and drive up the adoption of inclusive business amongst lower tiers in their value chain.

5 Data unavailable for Liberia (Kubzansky et al., 2011).

6 Africa’s first female president and Nobel Peace Prize winner (2011, jointly with Leymah Gbowee [Adebajo & Daniel, 2013]).

7 The response by South Africa’s dti has been an amendment of the codes relating to B-BBEE to prevent the phenomena of ‘tokenism’ and ‘fronting’ (see http://www.thedti.gov.za/economic_empowerment/bee_veri.jsp).

8 If the African Union (AU) is used as a basis, then there are 54 member countries, with South Sudan being the youngest (see http://www.au.int/en/content/african-union-welcomes-south-sudan-54th-member-state-union). Morocco is the only African country not to have joined the AU (see http://news.bbc.co.uk/2/hi/africa/country_profiles/3870301.stm). These countries are in very different stages of socio-economic development and political stability.

9 These are not summarised here as it falls beyond the scope of this chapter. Consensus exists amongst academics, business practitioners and advocacy groups that no one measure is superior to another.

10 Company disclosure is required for generating monitoring and evaluation metrics (both quantitative and qualitative), and for verification purposes. Unless companies establish time-bound targets, baselines and milestones, and share this information, monitoring and evaluating progressing in a standardised and objective way, is unlikely to be transparent. Monitoring and evaluation parameters should therefore be broad (as suggested in this chapter) in order to capture non-conformity, value-adds and the great diversity of inclusive business contexts. This will enable a big-picture understanding of the trends in gaps and opportunities across industry sectors and countries.

11 Google and Microsoft, for example, have training academies across the continent (see Box 10.6).

12 This suggestion can add value to the series of recommendations made at a GIZ workshop in Liberia on sustainable local procurement and employment in the Liberian mineral sector, in August 2012 (GIZ, 2012).

13 Modules might include marketing research and implementation, operations management, strategic management, business design, human resource management, financial management, project appraisal and risk control, the international business environment, sales and distribution management, and wage and office administration.

14 Business management skills that are lacking include the ability to identify business opportunities, business cycle planning and implementation. Often, the technical components associated with contracting, business planning, applications (for access to finance, for example), permits, registrations and document preparation processes are found wanting. Other weak areas include comprehensive business and financial planning and reporting.

15 Technical expertise in rendering high-quality and efficient operations is also often absent. This is relevant for pre-feasibility and feasibility studies (as part of business scoping and pre-project preparation), and also in the ability to deliver on contracts successfully. Examples include dialogue and briefing sessions, or compliance and licensing issues, which are required for activities such as cost-benefit and optimisation assessments.

16 The Liberia country case study (Chapter 8, this publication) and its SMI implemented by Building Markets (effectively a non-profit BDSP actor in this regard), provide useful insights on the context and need for building linkages. In addition, the IFC’s Linkages Programme (two- to four-year advisory services programmes aimed at increasing local procurement by strengthening SMEs and entrepreneurs linked to IFC investment clients) has been implemented in Chad, Guinea, Ghana, Liberia, Sierra Leone, Mozambique, Nigeria and Zambia.

17 It ensures allocation of sufficient financial and human resources to execute a new business venture, and it leads to the efficient implementation of schedules and activities.

18 Other examples of inaccurate or incomplete market data include Muslims in Africa, those who are illiterate or who have a limited understanding of the English language which is typically used in advertising campaigns and branding (indigenous languages,
to which the majority of the BoP relate, are widely spoken across Africa, as well as in Franco-
phone and Lusophone countries (Mahajan, 2009).

19 Street vendors, unbranded products, smuggling, out-of-date products, low-quality goods and
counterfeits are common.

20 Good examples of this are second-hand shops (usually discarded clothes and cars acquired
from abroad) and shopping malls (Mahajan, 2009).

21 Much of the informal economy in Africa operates underground. It is not unusual for business
people in Africa to carry around stacks of cash in environments where fraud and theft are
commonplace. Often, a suitcase filled with cash in local or foreign currency (usually US$) is
the preferred method of payment (Mahajan, 2009).

22 This will ensure that the BoP does not shoulder a disproportionate level of the costs and risks
of inclusive business, and that they become more equitable stakeholders in the economic
development process.

23 Examples of formidable business foundations owned by African business leaders include the
Mo Ebrahim Foundation (http://www.moebrahimfoundation.org/) and the Mara Foundation
(http://www.mara-foundation.org/), amongst others.

24 Though there is a great need for hardcopy material (see the Liberia country case study), new
advertorial media (e.g. email and social networking sites) can be further pursued in countries
where Internet access is relatively widely used (see the Kenya and South African case studies
in this publication).

25 These are ambitious African individuals (‘young lions’) who have lived and worked abroad, are
typically very well educated from universities in the UK and the US, and to a lesser extent in
Europe, and who have returned home with the purpose of contributing to positive change.

26 With respect to creating an enabling environment for inclusive business, governments are
meant to attract private-sector investment and trade, build capital and overcome current
dependence on external assistance. Macro-economic convergence and tax coordination
are also its main policy mandates which include, for example, customs cooperation and
modernisation; investment and development finance; macro-economic convergence; mining
concessions; productivity and competitiveness; regional and multilateral trade policies; and
standardisation, quality assurance, accreditation, etc.

27 Some common examples that illustrate perceptions of public concern (or lack thereof) include
the use of harmful chemicals in skin-lightening and hair-relaxing products, or financing
schemes that are debt-led rather than savings-led.

28 The UN Global Compact, in the form of ten principles, offers prominent guidance on CSR (see
http://www.unglobalcompact.org/ and for specific CSR aspects of supply chain sustainability:
The Global Reporting Initiative is especially useful for its detailed criteria, and is widely used
by sustainability managers (see https://www.globalreporting.org).

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List of abbreviations and acronyms

4Cs: Concerned Citizens against Climate Change
AECF: African Enterprise Challenge Fund
AFD: L’Agence Française de Développement
AFDB: African Development Bank
AFIM: African Facility for Inclusive Markets
AGRA: Alliance for a Green Revolution in Africa
ATM: automated teller machine
AU: African Union
AUC: African Union Commission
AusAid: Australian Agency for International Development
B4D: Business for Development
BAACH: Business Alliance Against Chronic Hunger
BAT Kenya: British American Tobacco Kenya
B-BBEE: Broad-based Black Economic Empowerment
BBC: Black Business Council; British Broadcasting Corporation
BCIA: Business Call to Action
BDSP: business development service provider
BEE: Black Economic Empowerment
BIF: Business Innovation Facility
BMZ: German Federal Ministry for Economic Cooperation and Development
BoP: base of the pyramid
BRICS: Brazil, Russia, India, China, South Africa
BUSA: Business Unity South Africa

C3B: Capacity Building for Better Business (in Liberia)
CBNRM: community-based natural resource management
CCPS: Center for Cooperation with the Private Sector
CIA: Central Intelligence Agency
CIAT: International Centre for Tropical Agriculture
CIC: community interest company
CIDA: Canadian International Development Agency
CEO: Chief Executive Officer
CFW: Child and Family Wellness
COMESA: Common Market for Eastern and Southern Africa
CPP: community-private partnership
CSI: corporate social investment
CSO: civil society organisation
CSR: corporate social responsibility
DANIDA: Danish International Development Agency
DFI: development finance institution
DfID: Department for International Development
DIV: Development Innovation Ventures
DRC: Democratic Republic of Congo
dti: Department of Trade and Industry
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>EAC</td>
<td>East African Community</td>
</tr>
<tr>
<td>ECOM</td>
<td>ECOM Agro-industrial Corporation</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EDD</td>
<td>Economic Development Department</td>
</tr>
<tr>
<td>EIP</td>
<td>economic impact of peacekeeping</td>
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<tr>
<td>Eskom</td>
<td>Electricity Supply Commission</td>
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<td>EU</td>
<td>European Union</td>
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<td>Eye Kenya</td>
<td>Entrepreneurship for Youth Empowerment Kenya</td>
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<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<tr>
<td>FASA</td>
<td>Franchise Association of South Africa</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>FICA</td>
<td>Financial Intelligence Centre Act</td>
</tr>
<tr>
<td>FKE</td>
<td>Federation of Kenya Employers</td>
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<td>FRICH</td>
<td>Food Retail Industry Challenge Fund</td>
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<td>G20</td>
<td>Group of Twenty</td>
</tr>
<tr>
<td>GAP</td>
<td>good agriculture practice</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>GIBS</td>
<td>Gordon Institute of Business Science</td>
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<tr>
<td>GIIF</td>
<td>Global Index Insurance Facility</td>
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<tr>
<td>GIM</td>
<td>Growing Inclusive Markets</td>
</tr>
<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
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<tr>
<td>GoK</td>
<td>Government of Kenya</td>
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<tr>
<td>GoL</td>
<td>Government of Liberia</td>
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<tr>
<td>GSB</td>
<td>growing sustainable business</td>
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<tr>
<td>GSK</td>
<td>GlaxoSmithKline</td>
</tr>
<tr>
<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit</td>
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<td>HIV</td>
<td>human immunovirus</td>
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<td>IAP</td>
<td>Innovations against Poverty</td>
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<td>IBLF</td>
<td>International Business Leaders Forum</td>
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<td>ICDC</td>
<td>Industrial and Commercial Development Corporation</td>
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<td>ICT</td>
<td>information and communication technology</td>
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<td>ICT4D</td>
<td>information and communication technologies for development</td>
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<td>ID</td>
<td>Identity document</td>
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<tr>
<td>IDB</td>
<td>Industrial Development Bank</td>
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<td>IDC</td>
<td>Industrial Development Corporation</td>
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<tr>
<td>IDP</td>
<td>integrated development plan</td>
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<tr>
<td>IEA</td>
<td>International Energy Agency</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFAS</td>
<td>Institute of Food and Agricultural Sciences</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMD</td>
<td>inclusive market development</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>IO</td>
<td>international organisation</td>
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<tr>
<td>IRA</td>
<td>Insurance Regulatory Authority</td>
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<td>ISSD</td>
<td>Integrated Seed Sector Development</td>
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<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
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<td>JSE SRI</td>
<td>Johannesburg Stock Exchange Social Responsibility Index</td>
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<td>KACE</td>
<td>Kenya Agricultural Commodities Exchange</td>
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<td>Kenya Association of Manufacturers</td>
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<td>KEPSA</td>
<td>Kenya Private Sector Alliance</td>
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<td>KIBHS</td>
<td>Kenya Integrated Household Budget Survey</td>
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<td>KIE</td>
<td>Kenya Industrial Estates</td>
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<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<td>LED</td>
<td>local economic development</td>
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<td>LiBA</td>
<td>Liberia Business Association</td>
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<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
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<td>LSE</td>
<td>London Stock Exchange</td>
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<td>M&amp;E</td>
<td>monitoring and evaluation</td>
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<td>Mabedi</td>
<td>Maruleng and Bushbuckridge Economic Development Initiative</td>
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<td>MBA</td>
<td>Master of Business Administration</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MFI</td>
<td>microfinance institution</td>
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<td>MNC</td>
<td>multinational company</td>
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<td>MoU</td>
<td>memorandum of understanding</td>
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<td>MSMEs</td>
<td>micro, small and medium enterprises</td>
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<td>NBF</td>
<td>NEPAD Business Foundation</td>
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<tr>
<td>NBI</td>
<td>National Business Initiative</td>
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<td>NEPAD</td>
<td>New Partnership for Africa’s Development</td>
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<td>NERT</td>
<td>National Electricity Response Team</td>
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<td>NGO</td>
<td>non-governmental organisation</td>
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<td>NIC</td>
<td>National Investment Commission</td>
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<td>NMFA</td>
<td>Netherlands Ministry of Foreign Affairs</td>
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<td>NOCK</td>
<td>National Oil Corporation of Kenya</td>
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<td>NPCA</td>
<td>NEPAD Planning and Coordination Agency</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OSISA</td>
<td>Open Society Initiative of Southern Africa</td>
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<td>OSSUP</td>
<td>Oil Seed Sub-Sector Platform in Uganda</td>
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<td>OTC</td>
<td>over-the-counter</td>
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<td>PanAAC</td>
<td>Pan-African Agribusiness Consortium</td>
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<td>PFP</td>
<td>project facilitation platform</td>
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<td>PICC</td>
<td>Presidential Infrastructure Coordinating Commission</td>
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<td>PPC</td>
<td>public-private cooperation</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>PRA</td>
<td>Pharmaceutical Regulatory Authority (of Zambia)</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<td>PRB</td>
<td>Population Reference Bureau</td>
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<td>PSD</td>
<td>private sector development</td>
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<tr>
<td>QMS</td>
<td>quality management system</td>
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<tr>
<td>R&amp;D</td>
<td>research and development</td>
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<tr>
<td>REC</td>
<td>Regional Economic Community</td>
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<td>ROI</td>
<td>return on investment</td>
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<td>Sacco</td>
<td>savings and credit cooperative</td>
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<tr>
<td>Saccol</td>
<td>Savings and Credit Cooperative League of Southern Africa</td>
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<td>Sadc</td>
<td>Southern African Development Community</td>
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<td>Samaf</td>
<td>South African Micro-Finance Apex Fund</td>
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<td>Sanca</td>
<td>South African National Council for Alcohol and Drug Abuse</td>
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<td>Sars</td>
<td>South African Revenue Services</td>
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<td>Sdp</td>
<td>Supplier Development Programme</td>
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<td>Seco</td>
<td>Swiss Economic Cooperation</td>
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<td>Seda</td>
<td>Small Enterprise Development Agency</td>
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<td>Sefx</td>
<td>Supplier Ethical Data Exchange</td>
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<td>Sefa</td>
<td>Small Enterprise Finance Agency</td>
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<td>Sid</td>
<td>Society for International Development</td>
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<td>Sida</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>Sim</td>
<td>subscriber identity module</td>
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<td>Smes</td>
<td>small and medium enterprises</td>
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<tr>
<td>Smi</td>
<td>Sustainable Marketplace Initiative</td>
</tr>
<tr>
<td>Smme</td>
<td>small, medium and micro enterprises</td>
</tr>
<tr>
<td>Sms</td>
<td>short message service</td>
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<tr>
<td>Smst</td>
<td>Sustainable Management Services Limited</td>
</tr>
<tr>
<td>Soc</td>
<td>state-owned company</td>
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<tr>
<td>Spsf</td>
<td>SADC Private Sector Forum</td>
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<td>SRI</td>
<td>socially responsible investment</td>
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<tr>
<td>Uct</td>
<td>University of Cape Town</td>
</tr>
<tr>
<td>Uk</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Un</td>
<td>United Nations</td>
</tr>
<tr>
<td>Unctad</td>
<td>UN Conference on Trade and Development</td>
</tr>
<tr>
<td>UnDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>Ungc</td>
<td>United Nations Global Compact</td>
</tr>
<tr>
<td>Unindo</td>
<td>United Nations Industrial Development Organisation</td>
</tr>
<tr>
<td>Unisa</td>
<td>University of South Africa</td>
</tr>
<tr>
<td>Unmil</td>
<td>United Nations Mission in Liberia</td>
</tr>
<tr>
<td>Uss</td>
<td>United States dollar</td>
</tr>
<tr>
<td>Usaid</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USB</td>
<td>University of Stellenbosch Business School</td>
</tr>
<tr>
<td>Wbcsd</td>
<td>World Business Council for Sustainable Development</td>
</tr>
<tr>
<td>Wef</td>
<td>World Economic Forum; Women’s Enterprise Fund</td>
</tr>
<tr>
<td>Wri</td>
<td>World Resources Institute</td>
</tr>
<tr>
<td>Yedf</td>
<td>Youth Enterprise Development Fund</td>
</tr>
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Notes on contributors

Ainsley Butler is Chief Investment Officer at Building Markets. Previously, she was the organisation’s Project Director and Senior Advisor for Afghanistan and Haiti. Ainsley’s field work includes an appointment as Building Markets Afghanistan Country Director and sustainable development consultant for a large-scale development project in Kandahar. Other work commitments have taken her to Haiti, Sierra Leone, Liberia, Kosovo and Timor-Leste. Ainsley has contributed to research related to aid effectiveness, development economics and the non-profit sector for the government of Afghanistan, the government of Canada, the North Atlantic Treaty Organisation (NATO) and the Organisation for Economic Cooperation and Development (OECD). She holds a Master’s degree from the Institut d’Etudes Politiques de Paris (Sciences-Po), was a visiting graduate fellow at New York University and holds a Bachelor’s degree (honours) from Carleton University.

Janice Golding was part of a group that prepared a feasibility study and laid the groundwork for the Business for Development (B4D) Pathfinder at the Southern Africa Trust. She has since worked as a consultant in this domain, and in impact monitoring and performance evaluations of public programmes. A published biodiversity scientist and management consultant, she manages the Swiss government’s economic cooperation with South Africa in environment, sustainable development and climate change (in terms of macro-economic policy, trade, investment promotion and infrastructure). She holds a doctorate from the University of Oxford’s Environmental Change Institute.

Diana Hollmann joined the Private Sector Cooperation Business Unit of GIZ in 2012 where she works to promote inclusive business approaches for sustainable development. She began her career as Marketing Communications Manager with Philips Medical Systems prior to focusing on the advancement of inclusive and sustainable entrepreneurship in developing countries, mainly in Latin America, the Middle East and North Africa, for instance with Ashoka and the UNDP. Diana holds a graduate degree in Business Administration from FH Nordakademie and a Master’s in International Relations from the Maxwell School of Syracuse University.

Farai Kapfudzaruwa is a researcher and consultant based at the Graduate School of Business, University of Cape Town (UCT). His research focuses on inclusive businesses, CSR and environmental management, particularly in relation to strategy and the management of business firms in emerging markets. He has worked on numerous projects in the past five years, including the role of inclusive businesses in Africa, in partnership with Reciprocity, Endeva and UNDP AFIM; business responses to climate change in South Africa and Kenya; the Clean Development Mechanism (CDM) in South Africa and China; and small-scale fisheries compliance in South Africa. Currently, Farai is completing his PhD at the Graduate School of Business at UCT, researching business strategies in climate change in Africa. Farai holds a BSc (honours) in Environmental Science and an M. Phil in Environmental Management from UCT.

Mumo Kivuitu is the Executive Director of Ufadhili Trust. Mumo has a background in private-sector development and is a practitioner in the area of responsible and sustainable business practices. He has worked in the development sector for over ten years on CSR, participatory community development and development finance. He has extensive experience in the promotion of responsible business practices, private enterprise
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**Ullrich Klins** is the Coordinator of the B4D Pathfinder project at the Southern Africa Trust, located in Midrand, South Africa. For about two-and-a-half years he has been promoting the concept of inclusive business in the southern African region. Formerly employed in a project team of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), he worked for almost four years in the field of CSR in sub-Saharan Africa. He has a doctorate from the School of Forest Science and Resource Management of the Technische Universität München.

**Elizabeth Koshy Kalarikad** is a 2012 Summer Fellow with Building Markets. She is a student of the Harvard Kennedy School of Government, where she is studying towards her Master’s in Public Administration, with a specialisation in International Development. Elizabeth has worked with Innovations for Poverty Action, developing protocols and providing support services in survey design and management. She also spent two years with the Centre for Microfinance in India, managing a research project studying micro-entrepreneurs and working-capital debt. At the Centre for Microfinance she co-authored a working paper entitled ‘What savings products do people want?’ – a case study profiling of formal and informal savings products. Originally from India, she has a Master’s and an undergraduate degree in Economics from Delhi University, India.

**Matthew McDermott** has been working on topics related to inclusive business, BoP markets and social entrepreneurship in the Business Unit: Private Sector Cooperation of GIZ since 2009. He has international experience working for research institutions, business consultancies and social entrepreneurs in Egypt, India and Germany. Matthew has a Bachelor’s degree in Philosophy and Economics from Bayreuth University, Germany.

**Jürgen Nagler** is the Programme Specialist of the UNDP’s African Facility for Inclusive Markets (AFIM). Born in Germany in 1976, he has worked with leading stakeholders, ranging from grassroots development organisations to Fortune 500 companies and the UN, both the UN Global Compact and the UNDP. Jürgen, who co-founded the Mali Initiative, has travelled around the world and worked on all five continents. He obtained a Bachelor’s degree in Business Administration from the University of Cooperative Education, Mannheim, Germany, and a Master’s in International Development from the University of New South Wales, Sydney, Australia.

**Jonas Naguib** joined GIZ’s Business Unit: Private Sector Cooperation in summer 2009, where he focuses on developing innovative approaches that advance collaboration between private sector and development cooperation, with a strong focus on inclusive business. Prior to that, he worked for five years in the Egyptian-German Private Sector Development Programme of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in Cairo. He began his career as an advisor to companies in the start-up phase, and has worked in a venture capital firm and a training organisation. Jonas studied in Berlin, Cairo and London, and graduated with an MSc in Economics from the London School of Economics.
Judy Njino runs the Responsible Business Programme at Ufadhili Trust. She has four years’ experience in the development sector, working on issues of responsible and sustainable business practices. She was previously involved in a study on behalf of Imani Development, on The inhibiting and enabling factors for corporate social responsibility in Kenya and several other studies by Ufadhili Trust on different aspects of CSR in East Africa. She holds a Bachelor’s degree in Psychology and Community Development and is a final-year Master of Arts (Project Management) student at the University of Nairobi.

Jenna Slotin is Chief Operating Officer at Building Markets. Previously, she was the organisation’s Project Director for Liberia and Timor-Leste. Prior to joining Building Markets, Jenna spent three years at the International Peace Institute, where she co-managed a programme on peace-building and state fragility and undertook field research in Liberia, Sierra Leone and Burundi. She has published several independent reports on the UN’s peace-building architecture and has contributed to publications for the OECD. Jenna also spent two years with the UNDP in Kosovo, working on local governance and supporting UN coordination. She has consulted for the UN Development Group Office in their Crisis and Post-Conflict Cluster, the UN Peace-building Support Office and the United Nations Children’s Fund (UNICEF). Jenna holds a Master of International Affairs from Columbia University with a concentration in International Security Policy and a BA in Peace and Conflict Studies from the University of Toronto.

Jim Woodhill is Director of the Centre for Development Innovation at Wageningen University and Research Centre. He has over 25 years’ experience across the fields of agriculture, rural economic development, natural resources management and development cooperation. An experienced process facilitator, he has worked extensively on the theory and practice of multi-stakeholder engagement. In 2013 he will take up the position of Principle Sector Specialist – Food Security and Rural Development with AusAID.