What are the ingredients of successful inclusive business models?
Consumers-focused models need to secure a strong product with workers, distributors, consumers – or as innovators. A three-year pilot of BIF finished in December 2013 and its findings to date may make a significant contribution to some of the key questions around business support partnerships:

- What are the ingredients of successful inclusive business models?
- What commercial and social results can inclusive business deliver?
- What value does donor-funded technical assistance add?

Our main findings draw from the 40 inclusive businesses that received the most substantial support from BIF. The 40 businesses include start-up companies and multinationals that are cut across sectors and evenly split between those that sell goods and services to BoP consumers and those that source from BoP producers. Their common feature is business models that are innovative, seek to deliver commercial success in BoP markets, and constantly adapt and change in the face of new challenges and opportunities. Those that work and scale should enable companies to achieve long-term strategic commercial objectives and reach thousands of producers or millions of consumers at the base of the pyramid. As of late 2013, the majority are progressing, a few are flourishing and a few are stalled. The BIF team estimate they will reach millions of people at the BoP over the next few years.

Inclusive business requires more innovation and perseverance than may be expected

As with many strategic investments, it takes time, resources and internal champions to get an inclusive business model right, but there are also unique challenges when operating in BoP markets. The returns to an inclusive business are often unclear, the journey ambiguous and target markets fragmented and underdeveloped.

This means that companies have to learn by doing and sometimes take on unfamiliar roles or work in new partnerships in order to get things done.

A passion for making the business more inclusive is a great asset, but so are patience and perseverance: turnover of leadership (champions) within companies has proven to be a main cause of initiatives stalling.

Getting the right business model is like putting pieces of a jigsaw together

Reaching poor consumers or procuring from low-income producers is rarely achievable through one innovation in a single element of a business model (i.e. a low-cost product alone, or a procurement contract with farmers that only addresses pricing). All the pieces of the model need to be tailored for operation in BoP markets. The result can be a highly innovative business.

- Consumer-focused models need to secure a strong product with a distribution channel and finance/payment mechanism that are appropriate for the target market, and often also need to create demand and wider elements of a functioning market.
- Producer-focused models sourcing from smallholders depend on the right product and all the normal elements of a production system (seeds, skills, extension), but crucially will also need appropriate credit and suitable intermediaries to engage with farmers and support aggregation.

In both consumer and producer-focused businesses, ensuring that each component of the model fits together coherently takes time and often multiple iterations. There are few quick wins for this reason. Changing one element of a business model will likely impact others, such that the whole business model will need to be reviewed and updated. The company is also likely to find that there are elements of the business model that require skills and assets that are beyond ‘business as usual’. The fact that companies rarely have distribution or procurement functions in deep rural areas is one example, but there are many more.

Partnerships are often critical and need to be well managed

The BIF portfolio suggests that partnerships are more important than is generally recognised in current inclusive business literature. Partners’ skills or networks can help a company reach beyond ‘business as usual’. However, partners need to be carefully chosen and can fail to deliver.
Collaboration can take many forms. Collaboration with competitors may be necessary when helping to create new customers, and not-for-profit organisations may provide vital insights and credibility, such as when procuring from small-scale producers who normally operate within local markets.

The Stanbic case study (see Box) involves collaboration amongst actors across the agricultural value chain, catalysed by a bank.

Another boxed example, JITA, is of an NGO project that has converted into a business thanks to investor partnership. MEGA is an example of a social enterprise aiming for viability but still partnering with donors for capital investment in power generation.

Managing collaboration is likely to be an unfamiliar challenge for a company. The time and resources needed for developing and then managing these collaborations should not be underestimated.

**Case study**

**Collaborating for smallholder finance: How is Stanbic closing the loop?**

Nigeria’s rural farmers are likely to be poor, uneducated and lack the access to financial services and resources that could transform them from subsistence to commercial farmers. Through its ‘smallholder farmer financing scheme’, the Agricultural Banking division of Stanbic IBTC is attempting to unlock this potential. The bank is intervening in the agricultural value chain to boost productivity and returns, and in the process is catalysing a new approach to smallholder farming and banking.

Stanbic is not just making a one-off loan to farmers but is building relationships all along the agricultural value chain. The bank provides smallholder farmers with seasonal finance (credit), a guaranteed market for their produce and modern farming methods to give them the best chance of realising significant increases in yield and incomes. Mechanised farming and credit from the bank enable farmers to also make profitable use of additional land which they might already have or can access through co-operatives which partner with Stanbic.

The model is highly ambitious. The bank is not supporting just one part of the agri-chain, but making them all work together. In doing so, it is developing its own customer base while simultaneously providing the agricultural system with access to the finance and value chain relationships that are needed for significantly increased productivity. The potential is nothing short of a step change in the way that farming is undertaken, from farming as a way of life to farming as a business.

But while risks seem high due to the level of ambition, a number of strategies are in place to minimise and mitigate these at every turn. The inclusive business model places a lot of emphasis on ‘closing the loop’ and tackling the weakness in smallholder models. It reduces the risks of failure by financing high quality inputs, technical assistance and crop insurance, and by guaranteeing a market to farmers for their increase in produce. Its end-to-end assistance to farmers reduces the risk of side selling and develops the trusted relationships needed for long-term sustainability and growth. Support from the Business Innovation Facility included a review of the business model in order to make it more robust and assistance in applying for donor funding for the scheme.

Although the model is strongly influenced by the Nigerian context – including weak value chains, government ambitions for agricultural exports and insecurity and low investment in the north – it also has implications throughout Africa. The larger success of this project could catalyse significant change in the market for smallholder finance and interrelated agribusiness markets throughout the continent.
The inclusive business journey is long, strategic and can take unexpected ‘zigzag’ directions

The inclusive business journey can go slowly for many reasons. Given most companies supported by BIF are four to five years from initial concept, we estimate a decade from inception to scale. They persevere because they are seeking – and achieving – long-term strategic goals: market share, competitiveness and productivity.

We see strategic shifts of direction as a major – but under-recognised – element of the inclusive business journey. As companies alter and improve the business model in response to reality they often navigate the business in a new direction entirely.

Case study

The JITA sales network: An inclusive business on the rise

In rural Bangladesh, a group of destitute women living amongst the poorest people in the country have become the focus of a successful inclusive business selling consumer goods to rural villagers, challenging gender roles and opening up new markets at the base of the pyramid (BoP). These women are known as ‘aparajita’, a Bangladeshi word meaning ‘one who cannot be defeated’, and they sell consumer goods like shampoo, yoghurt, shoes and seeds door-to-door in their communities, as channel partners of JITA’s rural sales network.

Born in 2004 as a non-profit CARE Bangladesh programme, JITA was designed with a strong social mission. After success as an NGO programme, JITA was spun out as an independent, for-profit business in 2011 to enable the initiative to scale and become sustainable. Since launching as a social business it has expanded into new areas, added new products to the aparajita basket of goods and developed its service offering to ensure commercial success and ongoing benefits to women at the BoP. JITA now connects global consumer goods companies like Unilever, Bata, BIC, Square, Lalteer, Gramene Danone and D.Light with hard-to-reach consumers at the BoP through its flourishing sales network.

JITA’s value chain engages women at the BoP as both retailers of goods and consumers of these products. These women are considered to be living at the BoP, as the majority live on below a dollar a day when they are selected.

JITA works as a co-ordinator for the network, establishing sales partnerships with consumer brands which supply the products that aparajitas sell, as well as creating and supporting a network of distribution hubs throughout Bangladesh. The distribution model brings a diversified basket of goods to consumers who are too remote (both geographically and economically) for traditional market channels to reach, and particularly targets women who are unable to buy goods in shops and markets because of logistical or cultural constraints.

In its first 18 months as JITA, the organisation has grown from 2,500 aparajitas to a network of 4,700. JITA was poised to break even as of the end of 2013, then to continue to grow and reach more beneficiaries as the network expands.

We have seen consumer-focused companies re-invent the product, distribution channel and target market as they learn by doing. Producer-focused companies have transformed how they engage, and who engages, with their supply chain. Such ‘zigzags’ are a natural strategic response to the need to innovate.

Most of the businesses predict steep rises in turnover, though few have reached profit yet, and many report early achievement of other commercial drivers such as reaching new customers and improving competitiveness.

Conclusion

Technical assistance can have high impact, but needs to be differentiated, well designed and targeted.

The vast majority of companies are positive about the value added by technical assistance from BIF and 50 per cent report that their business development is bigger, better or faster due to BIF support. Small and large companies require different types of support, but both find it adds value.

If donors are willing to take risks, technical support can have strong returns, though it must be carefully packaged and tailored. So far 2,000 households at the BoP have been reached by 16 businesses

Top 10 challenges

Evolution of top challenges over BIF lifetime

<table>
<thead>
<tr>
<th>Top challenges*</th>
<th>Has BIF made a difference?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of market information</td>
<td>73%</td>
</tr>
<tr>
<td>Insufficient internal resources and finance</td>
<td>60%</td>
</tr>
<tr>
<td>Need partnerships with government</td>
<td>44%</td>
</tr>
<tr>
<td>Policy and regulatory environments are restrictive</td>
<td>43%</td>
</tr>
<tr>
<td>Lack of skills within company (knowledge, awareness, expertise)</td>
<td>83%</td>
</tr>
<tr>
<td>Need to access finance that is appropriate to the nature of the project</td>
<td>57%</td>
</tr>
<tr>
<td>High-risk project</td>
<td>67%</td>
</tr>
<tr>
<td>Low return on investment</td>
<td>33%</td>
</tr>
<tr>
<td>Need new or better partnerships with others</td>
<td>60%</td>
</tr>
<tr>
<td>Lack of information about similar work elsewhere</td>
<td>43%</td>
</tr>
</tbody>
</table>

*Top 10 challenges identified at baseline and percentage of projects rating them ‘high’ at the time of progress report (n=28)
Case study

MEGA: A commercial approach to off-grid power in rural Malawi

In Malawi, the national grid fails to service an estimated 99 per cent of the country’s rural population. Bottom of the Pyramid (BoP) households spend a disproportionally high percentage of household income on alternative fuels such as kerosene, wood and charcoal. These fuels contribute to poor lung and eye health due to emissions. The lack of electricity limits the quality of health and education services, and constrains opportunities to grow small businesses. The repercussions of widespread deforestation to supply household energy are immense and cut across health, livelihood and environmental impacts.

Mulanje Electricity Generation Agency (MEGA) is an innovative inclusive business aiming to transform this situation for households living in mountainous areas with fast flowing water, where there is potential for micro-hydro power generation. MEGA is a start-up company providing energy to off-grid low-income households. It targets a potential market of 520,000 people in the Mount Mulanje area who will be able to access energy services, of which 9,600 households (42,420 men, women and children) are expected to be directly connected.

MEGA is a social enterprise and the first operational private energy company in Malawi. Its business model focuses on making energy available and affordable to its target market – promoting price minimisation, rather than ‘traditional’ profit maximisation, within the parameters of building a financially sustainable business. Support from the Business Innovation Facility has been focused on helping MEGA to develop its business model and company infrastructure.

Consumers of the electricity generated are individual households and community services, both government and private, such as the clinic and maize mill.

In July 2013, MEGA’s first micro-hydro scheme at Lower Bondo on the Lichenya River became partially operational and the community is starting to see results – and opportunities.

The critical challenge facing MEGA is to reach scale and operational financial sustainability whilst adhering to its founding principles of providing affordable, available and sustainable electricity to BoP consumers. MEGA’s financial projections predict operational break-even in Year 6, after the fifth micro-hydro turbine is commissioned. Donor grant funding is needed to build and commission each site, totalling approximately US$2 million in the first five years and $1.4 million for the second five years. Over $1 million has already been spent on the first site and surveys for sites two and three.

If MEGA is able to achieve and maintain momentum, there is potential to influence the wider energy landscape in Malawi, paving the way for further investment in private energy provision. MEGA’s development has challenged the Malawian administration to review their current licencing frameworks for privately owned energy companies. The new energy bill is likely to make it easier for other privately owned transmission and distribution entities to operate.

NOTE: MEGA is an unusually capital-intensive project within the bif inclusive business portfolio.

ENDNOTES

1 This article draws on the BIF Summary Findings (October 2013) and Portfolio Review (December 2013). For further resources and information, including on these results and cases studies, see http://businessinnovationfacility.org/page/bif-findings-and-results.

2 Box text is based on case studies by a range of authors. Details at http://businessinnovationfacility.org/page/bif-case-studies.

3 Although income data is rare, available information suggests that many people at the BoP who are being reached by companies in the BIF portfolio are living on under US$2 per person per day. Others may be in the ‘next billion up’ but still have limited access to cash, credit, markets and basic goods that are needed for well-being.

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