

Inclusive Business: Creating Value in Latin America



Inclusion

Alliances

Innovation

SNV



World Business Council for
Sustainable Development

ALLIANCE FOR INCLUSIVE BUSINESS

SNV

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Disclaimer

This publication, prepared by WBCSD and SNV, is the result of collaboration between several companies, SNV, and the WBCSD secretariat. A considerable range of persons reviewed the drafts, ensuring that the document represents the opinions of a majority of the members of WBCSD and SNV. Nevertheless, this does not necessarily imply that the companies and / or WBCSD and SNV agree with every word.

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Prologue by SNV and WBCSD



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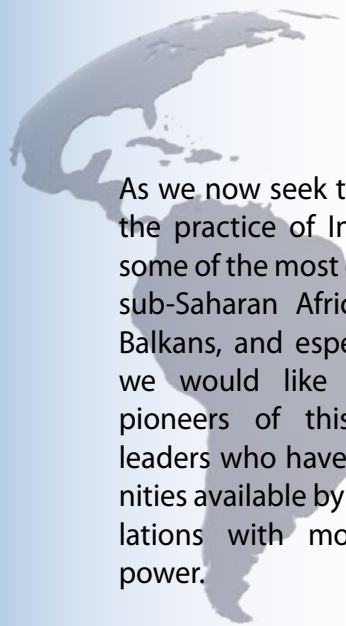
For decades, many believed that poverty could only be solved through charity—that poverty was in essence an economic or political problem, not necessarily a social one. Poverty was to be solved through sustainable macro-economic growth, trickle-down economics, or cluster development practices in “emerging markets.” For the private sector, the poor were another stakeholder group that a “responsible” business was increasingly required to manage, not serve.

Times have changed. Despite the continuing importance of aid and philanthropy in addressing poverty and development needs, there has been a paradigm shift—one that increasingly calls for aid and trade, philanthropy and impact investment. A paradigm shift that, beyond the rhetoric and new jargon, calls for “inclusive” economic growth—that is, economic growth that balances macro and microeconomic development strategies with private sector interventions that integrate all segments of the population in the value creation.

This change requires both the public and private sectors to rethink their conventional attitude and reassess how, in partnerships and through innovation, new strategies could emerge to improve the business climate while creating new business opportunities in new markets. We have called this “inclusive business”—and it is strictly business; but it is business that benefits the poor and that simultaneously benefits companies.

This “blended value” approach to business has been at the heart the World Business Council for Sustainable Development (WBCSD)–SNV Alliance for Inclusive Business, an alliance not only focused on awareness raising and advocacy, but on action—implementing inclusive business models on the ground with leading national and multinational companies in emerging markets. This report is a result of our experience with implementing inclusive business—an experience that has included more than 70 inclusive business efforts in ten countries. Our decision to experiment with inclusive business has been motivated by our collective belief that business cannot succeed in societies that fail. More importantly, it responds to the reality of an increasingly fragile and competitive global marketplace, where growth in and stability of emerging markets can make the difference between a company’s sustainability and a company’s stagnation.

The following case studies and analyses are as much a reaffirmation as a call to action—business can and should be at the forefront of efforts to bring the poor into the marketplace—not only as consumers, but also as partners—partners critical to creating long-term value and sustaining long-term growth. After all, amidst the world’s worst financial crisis in half a century, it is increasingly clear that the role of business must evolve beyond responsibility into action and that, at its best, should be rooted in innovation and inclusion.



As we now seek to scale up and replicate the practice of Inclusive Business within some of the most difficult environments in sub-Saharan Africa, Southeast Asia, the Balkans, and especially in Latin America, we would like to congratulate the true pioneers of this effort: the business leaders who have identified the opportunities available by creating value for populations with more limited purchasing power.

We would also like to congratulate our SNV Latin America colleagues and their counterparts in the WBCSD Regional Network, whose inspiring and constant commitment to entrepreneurship has provided the catalyst for this “movement” in Latin America.

This movement has brought together national governments, national and multinational companies, low-income populations and cooperatives, foundations, and multilateral development institutions in an effort which is yielding ever more positive results.

We invite you to consider these insights in the hope that they may inspire you to explore these new markets and business opportunities and incorporate some of the key strategies and lessons learned from our collective experience.

About SNV

What is SNV? SNV is a Dutch international organization, with over 40 years of experience, committed to eliminating poverty and inequity in emerging markets worldwide. We currently work in 40 countries in Africa, Asia, Latin America, and the Balkans. In Latin America, where the SNV-WBCSD Alliance started and continues to be implemented, SNV is a social enterprise and works as an innovative consultant, a “think tank”, a social investment fund, and an operational foundation.

At SNV, it is not enough to think differently. We believe that innovation is the ability to understand how to transform ideas into actions, and to catalyze actions into sustainable and scalable solutions. We provide a unique blend of integrated services and solutions that are tailor-made to the specific needs of each of our customers.

What is SNV’s main objective? The main objective of the work of SNV is to promote economic inclusion of populations with low purchasing power. SNV offers strategic advisory services to public entities, private enterprises, and civil society organizations, to create innovative solutions that increase the income of marginalized populations through economic inclusion practices, such as Inclusive Business.

SNV’s distinct advantage lies in its deep local knowledge and broad network of in-country contacts, established through over 40 years of on-the-ground presence. SNV employs more than 1,300 professionals worldwide; one hundred of these are located in Latin America. It has offices in Bolivia, Ecuador, El Salvador, Peru, Honduras, Nicaragua, Chile, and Colombia. SNV also develops activities in Guatemala and Panama.

www.snvworld.org and www.snvla.org

Björn Stigson, President, WBCSD
Marcel Engel, Managing Director Development Focus Area and
Regional Network, WBCSD

The world is going through an historic period of change in which economic and political power is shifting from industrialized nations to developing countries, which now generate more than half of the world's GDP. However, in spite of the considerable progress achieved by some emerging economies, poverty continues to be a challenge for sustainable development and global stability. Poverty takes many forms: approximately one-third of the world's population lives on less than US\$2 per day, many people suffer from malnutrition, and have no access to health, sanitation, electricity, drinking water, housing, or transport services.

Meeting the basic needs and aspirations of the growing and increasingly urbanized population in developing countries is one of the most important challenges of the 21st century. A challenge made all the greater because it will have to be met in an environmentally sustainable manner to avoid further exacerbating pressure on the world's ecosystems. Despite contributing the least to the environmental degradation of the planet, developing countries suffer the most from its consequences, and will continue to do so. There is no choice between economic growth and environmental wellbeing. What we urgently need is a rapid transition to a more inclusive, low-carbon, and resource-efficient world.

As an engine of economic growth and employment and a source of technology and innovation, business plays a key role in contributing to a more inclusive and sustainable future for developing countries—something that is very much in business' own interest. In the long run, business cannot succeed in societies that fail and therefore has a vested interest in stable and prosperous societies.

By developing a better understanding of and proactively addressing socio-economic and environmental concerns, companies will be able to better manage their risks and thereby underpin their license to operate, innovate and grow. Secondly, developing inclusive business ventures for doing business with low-income communities will help companies build positions in growth markets. Finally, the transition to a more sustainable world over the next decades will demand major technological and infrastructural investments to support better living standards for the growing population in developing countries. This represents a major business opportunity for companies and industry sectors that anticipate trends and respond with smart solutions.

However, business cannot alleviate poverty nor can it achieve sustainable development on its own. It needs appropriate legal, institutional, and financial framework conditions. Their absence far too often excludes low-income communities from the benefits of entrepreneurship and well-functioning markets. Business, governments, and civil society have a collective responsibility to ensure that markets work for all within the limits of the world's carrying capacity, thereby making globalization truly inclusive and sustainable.

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The Alliance between SNV and the WBCSD is an excellent example of a successful partnership. This partnership seeks to promote the role of innovative and inclusive business models as part of the solution to development challenges and translate ideas and knowledge into action. The Alliance is underpinned by the belief that

development goals can be supported by harnessing the innovation, technology, networks, and problem-solving skills of business in a manner that makes business sense and that does not undermine the role of governments.

We would like to particularly commend the national BCSDs and partner organizations affiliated to the WBCSD's Regional Network in Latin America for the leading role they are playing in promoting inclusive business opportunities. We trust that their leadership, as reflected in the experiences and lessons of the past several years and described in this brochure, will encourage many other companies in Latin America and around the world to wholeheartedly embrace the concept of inclusive business—for their own benefit as well as that of the societies in which they operate.

About the WBCSD

What is the WBCSD? The World Business Council for Sustainable Development (WBCSD) is a CEO-led, global coalition of some 200 companies advocating for progress on sustainable development. Its mission is to be a catalyst for innovation and sustainable growth in a world where resources are increasingly limited.

The Council provides a platform for companies to share experiences and best practices on sustainable development issues and advocate for their implementation, working with governments, non-governmental and inter-governmental organizations. The membership has annual revenues of US\$7 trillion, spans more than 35 countries and represents 20 major industrial sectors. The Council also benefits from a global network of some 60 national and regional business councils and regional partners.

What are the WBCSD's main objectives?

- ✓ Be a leading business advocate on sustainable development.
- ✓ Participate in policy development to create the right framework conditions for business to make an effective contribution to sustainable human progress.
 - ✓ Develop and promote the business case for sustainable development.
- ✓ Demonstrate the business contribution to sustainable development solutions and share leading edge practices among members.
- ✓ Contribute to a sustainable future for developing nations and nations in transition.

The WBCSD benefits from a Regional Network of approximately 60 CEO-led business organizations united by a shared commitment to providing business leadership for sustainable development in their respective countries or regions. Membership of these organizations includes local enterprises as well as subsidiaries of multinational enterprises, many of which are also members of the WBCSD. At the same time as the WBCSD promotes business input for sustainable development worldwide, its regional counterparts do the same at the local and regional level. The Regional Network has an integral role to play in creating awareness, advocating action and concrete implementation of the WBCSD's message and activities in favor of sustainable development.

www.wbcسد.org



Executive Summary

In 2006 the World Business Council for Sustainable Development (WBCSD) and SNV, a Dutch international organization, created the Alliance for Inclusive Business. The goal of the Alliance is to contribute towards poverty reduction through the implementation of commercially viable initiatives led by the private sector. The Alliance has focused on the implementation of inclusive business ventures in ten countries in Latin America.

Inclusive Businesses are entrepreneurial initiatives that are economically profitable and environmentally and socially responsible. Underpinned by a philosophy of creating mutual value, Inclusive Businesses contribute to improving the quality of life of low-income communities by integrating them in the business value chain:

- ▶ As suppliers of services and/or raw materials;
- ▶ As distributors of goods and/or services;
- ▶ As consumers, by offering goods and services to fulfill their essential needs at prices they can afford.

The Table below includes a list of the eleven case studies that are described in this report, all of which are considered good examples of best practice in Inclusive Business in Latin America. Eight of these examples were promoted and facilitated by the SNV-WBCSD Alliance, while the remaining three were external to the Alliance. All, however, underline the great potential and impact of Inclusive Business models.

	Company	Country	Inclusive Businesses with Suppliers	Inclusive Businesses with Distributors	Platforms for Inclusive Businesses	Inclusive Businesses with Consumers	Market	Cases out side of the SNV-WBCSD Alliance
1	CISA	Nicaragua	✓				Agribusiness	
2	Delizia	Bolivia	✓				Agribusiness	
3	Pronaca	Ecuador	✓				Agribusiness	
4	Dinant	Honduras	✓				Agribusiness	
5	Dole	Peru	✓				Agribusiness	
6	Nestlé	Peru		✓			Agribusiness Nutrition Distribution	
7	E-connecting	Bolivia			✓		Digital platform to connect IB	
8	Feria a la Inversa	Bolivia			✓		Business fairs	
9	Promigas	Colombia				✓	Microcredit	✓
10	Gas Natural BAN	Argentina				✓	Provision of gas for homes	✓
11	SODIMAC	Chile				✓	Technical assistance to members	✓

Experience shows that successful Inclusive Business development depends on a combination of factors:

For companies

- ▶ **Reimbursable and non-reimbursable sources of co-financing** are important, particularly in the study and design phases of an Inclusive Business.

- ▶ **Brokering agents** are important in facilitating productive exchange between companies and low-income communities, as well as governments, financial entities, and other social networks that collaborate to promote Inclusive Business.

- ▶ **Support** provided by top company management is essential for the success of an Inclusive Business.

- ▶ **Innovation** in Inclusive Business has been a transversal and determining element for scaling up these initiatives.

For low-income populations

- ▶ It is important that companies **understand** the economic, social, and cultural **reality** of low-income populations whose principle objective is not necessarily to maximize their income, but to **minimize their risks**.

- ▶ Determining **expectations and roles** with low-income populations facilitates the investment of time and effort in an Inclusive Business; for this reason it is necessary to ensure the participation of community leaders and company managers.

For the environment

- ▶ **Inter-institutional agreements and alliances** or those between companies, reinforce and complement the capabilities of the principal company involved in an Inclusive Business.

- ▶ The effective integration of low-income populations and the scaling up of results in an Inclusive Business require **appropriate conditions created through adequate political and institutional frameworks and incentives**. Dialogue and collaboration between public, private, and social stakeholders are crucial.

Some of the difficulties identified in the development of Inclusive Businesses include the following:

For companies

- ▶ Many companies have difficulty obtaining **access to financing or risk capital sources** that allow them to design and implement an Inclusive Business.

- ▶ **Market demands** placed on companies obligate them to meet quality standards, ensure safe business activities, and maintain product traceability, which is often hard to comply with when working with low-income producers.

For low-income populations

- ▶ The somewhat dispersed nature of low-income populations, as well as low levels of organization, and especially a lack of cooperatives and associative structures, make it difficult for them to work closely with companies.

- ▶ The rate at which communities acquire **necessary capabilities and skills** is very often slower than the time needed by a company to develop an Inclusive Business.

Regulatory frameworks

- ▶ In general, regulatory frameworks in countries in many regions do not offer the incentives or facilities required to develop Inclusive Businesses.

The Inclusive Business case studies presented in this publication have generated important results for the companies involved in terms of increased sales, improvements in quality and quantity of raw materials, and decreased in risks. Furthermore, in terms of the social impact generated, the concept of Inclusive Business has demonstrated that the private sector can be an agent for positive change in the communities where it operates. In order to evaluate the risks and opportunities presented and to establish constructive dialogues with governments and communities, it is essential that companies evaluate the social, economic, and environmental impacts of their initiatives.



1. What is Inclusive Business?

An Inclusive Business is an economically profitable, environmentally and socially responsible entrepreneurial initiative, which integrates low-income communities in its value chain for the mutual benefit of both the company and the community. It seeks to improve the livelihoods of low-income populations while increasing returns to the company. An Inclusive Business offers the company an opportunity for sustainable development and expansion of its market segment to include low-income populations. Inclusive Business offers poor families a chance to take advantage of the opportunities offered by the market and profit from the dynamic nature of the business sector.

An Inclusive Business involves a relationship between a company—“anchor” company—and groups of local entrepreneurs or consumers and strives to maximize both the social and economic value of the opportunity. This is where Inclusive Business differs from other schemes such as philanthropy, which tends to be separate from business activities and does not necessarily seek to generate financial returns or create long-term economic sustainability.

Inclusive Businesses link low-income populations with companies in two ways:

► By integrating members of the low-income segment within the company value chain as business partners, suppliers of raw materials or services, or as distributors. The inclusion of small-scale entrepreneurs in a company’s value chain allows the generation of additional income, creates employment, and accelerates the transfer of capacities to low-income populations.

► By integrating low-income populations in the value chain as consumers by making it possible for them to access the products or services they need at prices they can afford.

What are the benefits of Inclusive Business?

With partners, suppliers, or distributors	
For the company	For the low-income population
<ul style="list-style-type: none"> • Secure supply of raw materials. • Traceability and quality control of raw materials. • Lower transaction costs. • Shared risks. • Access to knowledge and local networks. • Better relations with government. • Strategic positioning in new fair trade markets. 	<ul style="list-style-type: none"> • Fair prices and conditions. • Assured sales. • Employment creation and expansion. • Training and technical assistance. • Technology and knowledge transfer. • Access to financing. • Participation in a business and investment environment.

With consumers	
For the company	For the low-income population
<ul style="list-style-type: none"> • Access to new markets. • Increased income. • Transfer of product innovations to existing markets. • Increased brand value and positioning in order to capture new markets. 	<ul style="list-style-type: none"> • Greater access to quality products and services. • Lower and more affordable prices. • Better quality of life. • Increased productivity.

Source: Inclusive Business: Profitable business initiatives with impacts on development. SNV and WBCSD, 2008



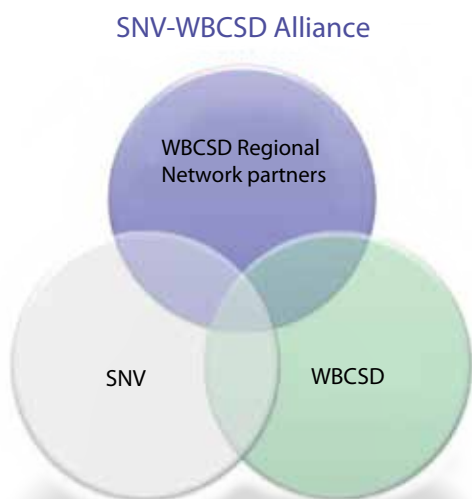
2. The SNV-WBCSD Alliance for Inclusive Business

In 2006, the World Business Council for Sustainable Development (WBCSD) and SNV created a strategic alliance to work together to achieve a sustainable reduction in poverty using private sector-driven initiatives.

Working through the local representatives of both organizations, the Alliance focuses on 3 areas of activity:

- ▶ Promoting interest for Inclusive Business models among the business community and members of the development field.
- ▶ Facilitating opportunities for Inclusive Business and furthering its implementation.
- ▶ Strengthening economic conditions, as well as institutional and legal frameworks that favor the promotion of this class of enterprise.

The desire to bring together and leverage the knowledge, strengths, and relations of the three stakeholders (see diagram below) is key to this collaboration so that Inclusive Business becomes a catalyst for promoting economic development and business success.




The initial focus of the Alliance has been on Bolivia, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru. In these countries, companies of different sizes and from different sectors are currently in the process of designing, developing, and implementing Inclusive Business initiatives.

The Alliance organized a series of dialogues where it brought together business executives from Latin American companies and leaders from the public and social sectors to identify and explore the potential for sustainable and economically viable business opportunities that could benefit low-income communities.

During the initial phase, the Alliance worked directly with more than 300 business leaders, as well as with social organizations and public entities throughout the region, to achieve a sound understanding of the networks, resources, and opportunities that could be drawn on as part of efforts to set in motion Inclusive Businesses within the region.

Approaches to the private sector generated a substantial number of ideas for Inclusive Business opportunities. Forty of these were subsequently developed by the Alliance with the support of SNV experts and facilitators assigned to each of the countries in which the initiatives were developed.

The engagement of the private sector was carried out alongside approaches to other organizations seeking to promote and finance market-based solutions to poverty alleviation and to contribute to the development of low-income communities in the region. Along the same lines, in September 2007, the Alliance signed a collaborative agreement with the Inter-American Development Bank (IDB) designed to replicate and scale up the Inclusive Businesses promoted by the Alliance.



Under this agreement, in Ecuador, Peru, and Central America, the IDB Multilateral Investment Fund contributed US\$5.3 million towards the development of 19 Inclusive Businesses with low-income communities. As a result, 19 companies have incorporated over 13,800 small-scale producers in their supply chains.



Within the framework of the same agreement, and with funds from the IDB's Opportunities for the Majority Initiative, SNV mapped over 500 companies in 13 countries of Latin America and the Caribbean to identify and profile business models that include or show an interest in including low-income sectors in their value chains.

The mapping exercise covered Peru, Ecuador, Bolivia, Colombia, Argentina, Brazil, Chile, Nicaragua, Honduras, El Salvador, Guatemala, Jamaica, and Trinidad and Tobago. It identified the main motivations, strategies, incentives, obstacles, and benefits identified by companies seeking to or who have incorporated the low-income sector in their value chains. The results of this study were published in March 2008 and are available at idbdocs.iadb.org, and snvla.org.

One country where the Alliance has achieved considerable success is Ecuador. The Alliance's collaboration with the Ecuadorian Government, which began in 2007, resulted in the Inclusive Business model being incorporated into national public policies with a public budget allocation of approximately US\$90 million intended to co-finance projects and create 250,000 new jobs.

In 2009, the Ministry of Agriculture, Livestock, Aquaculture and Fisheries in Ecuador and SNV began work on the design of a National System for Inclusive Business. Other governments in the region have also begun to incorporate Inclusive Business in their policies. For example, the Bolivian Government and the IDB assigned a credit of US\$40 million to the Trade and Poverty Initiative to be used for the development of Inclusive Business initiatives.

WBCSD and SNV are now seeking to leverage the successes of the Alliance in Latin America to scale up and roll out the concept of Inclusive Business in Asia, Africa, and the Middle East. The first steps, although still in their infancy, have already begun in Zimbabwe, Mozambique, and Vietnam.

Inclusive Business on the Internet

Updated information about the activities of the Alliance can be found online at www.inclusivebusiness.org. The website also provides links to external resources, cases, and tools related to the design and implementation of Inclusive Business ventures.



3. Best practices in Inclusive Business

The following pages describe some of the most outstanding examples of successful Inclusive Businesses in Latin America. The cases are grouped according to the manner in which the participating businesses have incorporated lower-income stakeholders in their value chains either as suppliers, distributors, or consumers, or through other platforms for Inclusive Business.



Inclusive Business with suppliers

These case studies demonstrate how companies can use Inclusive Business models to systematically and structurally incorporate low-income populations in their businesses as providers of raw materials or services.

Inclusion of producer cooperatives and groups of small entrepreneurs in value chains allows companies to increase their supply of high quality raw materials sustainably. At the same time it enables job creation for families, thereby improving their quality of life and enhancing the transfer of entrepreneurial skills.

Certified coffee: the best way to generate profits for small and large stakeholders

Mercon Coffee Group

Summary

The Mercon Coffee Group (MCG) is a group of companies dedicated to marketing and exporting coffee. Companies in the group have successfully entered the global market notably in the United States and the United Kingdom. The Mercon Coffee Group has companies located in Nicaragua, Honduras, Guatemala, Mexico, Vietnam, New York, and London.

As part of efforts to improve the well-being and prosperity of local communities and generate positive economic, social, and environmental impacts, companies in the group—including Comercial Internacional Exportadora S.A. (CISA-Exportadora) and Comercial Internacional de Granos de Honduras (CIGRAH)—are developing Inclusive Businesses in the main coffee-producing regions of Nicaragua and Honduras. Their strategy involves bringing together small-scale producers under the umbrella of cooperative and providing them with comprehensive technical assistance in good production practices, quality standards, traceability processes, and certification. Through this process, the small-holders have been able to gain access to specialist markets offering preferential prices and conditions for coffee whose production meets a set of specific criteria.



In the face of the global increase in demand for certified coffee, MCG companies are seeking to increase their international market share through certification. Their products carry the Utz Certified logo, an international seal based on a code of conduct for socially and environmentally sustainable production. Products bearing Utz certification are able to obtain higher prices in the international marketplace.

Since the certification, CISA-Exportadora and CIGRAH have been able to increase their supply of certified coffee which in turn has increased revenues. Their suppliers have also seen their profits rise due to the improved quality of their products and increased production on their farms.

The program to incorporate small-scale producers and certify their produce began in 2008. In the first year some 70,500 quintals (46-kilogram coffee sacks¹) were certified and given the Utz seal of approval—21,500 in Nicaragua and 49,000 in Honduras—equivalent to approximately 6-7% of the annual volume of coffee traded by CISA-Exportadora and CIGRAH.

Background

The Mercon Coffee Group was established in Nicaragua in 1952 with the creation of the CISA Company. In the 1980s, CISA closed its operations in Nicaragua when it opened business operations in the United States and Mexico.

In 1992 CISA-Exportadora decided to re-start its commercial operations in Nicaragua. Currently, the company has over 100 collection centers throughout the country's coffee-producing regions. Through these centers the company purchases coffee from more than 7,800 small-scale producers², who make up 80% of the company's suppliers and account for 30% of its sales.

In 2000, the Mercon Coffee Group started operations in Honduras with the establishment of the CIGRAH Company in San Pedro Sula. At the moment, this company has four coffee processing plants strategically located in the different coffee producing regions, each one equipped with a full taste-testing laboratory and a growing network of collection centers. The company is the third largest exporter by volume of coffee from Honduras.

1. One bag of coffee weighs 46 kilograms and is equivalent to one quintal.

2. Owners of farms of less than seven hectares



Company: Mercon Coffee Group
Country: Nicaragua and Honduras
Industry: Agriculture
Population involved: 650 producers in Honduras and 200 in Nicaragua



Current situation

“One of our fundamental focuses is to increase the supply of high quality coffee and consistency to satisfy the growing demand of our customers.

For this reason Inclusive Business represents an integral strategy for the sustainability of the Mercon Coffee Group, which is based on the inclusion of small producers into the formal supply chain, where they have access to training, financing, and additional revenues.

With this strategy, we are developing long-term win-win relationships based on trust, transparency, and active and fair collaboration between all participants. The results of the initiative with SNV are evident given that the increase in high quality coffee generates benefits for all.”

*Mercon Coffee Group
Dania Baltodano
Executive Director at
Origin Companies*

Coffee continues to be one of the most important Nicaraguan exports. Coffee plantations currently occupy 25% of the total rural area dedicated to crop production for international markets and generates approximately one-third of the employment in rural areas. Some 22,700 producers are directly involved in coffee production —of which 89.5% are small-scale producers—which indirectly generates between 180,000 to 200,000 employment opportunities.

Coffee is one of the country’s most important crops, covering an area of 120,000 hectares, 96% of which is shade-grown. Usually, coffee farms dedicate 30% of their land to coffee, 50% to forested areas, and 20% to other uses.

Coffee production in Nicaragua uses traditional methods. There is no national strategy in place to improve production methods. Research into improved crops is scarce and when found is carried out in isolation. There is no dedicated research center that could identify the needs of the sector as well as the tools necessary to improve production systems.

However, several initiatives are being developed to train young producers and company and cooperative experts in production methods that meet sustainable coffee certification standards, such as Utz Certified, Rainforest Alliance, Organic, Fair Trade, 4C, etc.

Currently, national coffee production fluctuates between 1.2 and 2 million 46-kilogram sacks per year, of which 15-20% is marketed as certified coffee, meaning its production meets specific environmental and social sustainability criteria. Given the country’s climate and the different varieties of coffee and production systems available, Nicaragua has the potential to increase the volume of coffee destined for niche markets by as much as 40%.

Like Nicaragua, coffee is Honduras’ principal agricultural export. In 2007, coffee exports represented 23.5% of the total exports from the country⁴ and accounted for 5.75% of GDP.⁵

It is estimated that coffee production creates over 500,000 jobs during the harvest season alone, a figure that excludes the more than 86,000 direct producers and the indirect labor used throughout the rest of the production and export chain. The majority of direct producers are small-holder owners of farms of less than 10 hectares.

3. Data provided by CENAGRO, Agriculture and Livestock Census 2005.
4. Official figures by the Central Bank of Honduras.
5. Honduras Coffee Institute (IHCAFE in Spanish).

Certified coffee: the best way to generate profits for small and large stakeholders

Coffee production is usually practiced in mountainous areas, at altitudes of between 500 to 1,700 meters above sea level. A large part of the crop is cultivated under trees that provide shade, known as shade-grown. This has significant environmental benefits not least because it allows certain species of fauna and flora to thrive, thereby facilitating their conservation. Similarly, the roots of the trees and shrubs reduce the risk of erosion and landslides, which are common on slopes dedicated to the cultivation of other crops such as corn and beans.

During the 2007-2008 harvest, Honduras produced approximately 4.46 million 46-kilogram sacks—equivalent to 4.46 million quintals—from a total area of 248,000 hectares, representing an average per hectare production of 17.85 quintals. By offering technical assistance to producers to improve productive efficiency of farms, it is believed that productivity could rise to least 20 quintals per hectare.

The Inclusive Business model

The challenge: To strengthen the value chain of companies so that they can increase their share of the niche market for certified coffee. This can be achieved by improving productivity and quality standards among small-scale producers through the establishment of long-term commercial relationships and the supply of comprehensive technical assistance services.

The growing demand for certified and fair trade coffee produced according to environmentally friendly and socially responsible practices requires strengthened contact between the market and production facilities—customer and producer. This in turn requires improved coordination and access to technical advisory services throughout the entire value chain, from production and collection to processing and export.

Capitalizing on the market for certified coffee enhances income generation among producers while contributing to enhancing social, economic, and environmental aspects of production.



CISA-Exportadora and CIGRAH

in numbers

- ▶ Number of permanent employees CISA-Exportadora 158 – CIGRAH 85
- ▶ Number of temporary employees CISA-Exportadora 2,500 – CIGRAH 60
- ▶ Annual sales (2007-2008) CISA-Exportadora US\$92.3 million – CIGRAH US\$ 71.2 million
- ▶ Number of suppliers (2007/2008) CISA-Exportadora 7,390 – CIGRAH 355
- ▶ Market participation CISA-Exportadora 35% – CIGRAH 12%
- ▶ Market positioning of CISA-Exportadora: first place – CIGRAH third place
- ▶ Share of differentiated coffees in total annual sales: CISA-Exportadora 10% – CIGRAH 15%
- ▶ Annual sales in 46-kilo sacks: CISA-Exportadora 690,000 – CIGRAH 485,530

Mercon Coffee Group, Nicaragua and Honduras



Why is this an Inclusive Business?

► *The long-term relationship established between the Mercon Coffee Group and the new group of coffee producers guarantees a greater supply of high quality beans, provides access to new markets, and generates higher profits, both for the company as well as for the producers.*

In addition, producers benefit from technical, financial, and marketing assistance, based on environmentally sustainable practices, resulting in greater productivity at the farm level.

The Inclusive Business project implemented by Mercon links CISA-Exportadora with 300 coffee producers in Nicaragua and links CIGRAH with 1,000 producers in Honduras. The companies have established long-term business relationships with the producers and offer them a host of services including individual and group technical assistance at the farm level, with a primary focus on the development of good production and manufacturing practices; capacity building for the adoption of good, environmentally sustainable agricultural practices; administrative and accounting support; assistance in coffee processing; and finance and marketing services.

Design: The first stage in the development of this Inclusive Business was to identify the viable coffee-producing regions. The initiative was then presented to potential producers—small-scale coffee farmers—and new suppliers were identified. Once the potential suppliers were identified, a technical team responsible for implementing the Utz Certified code of conduct was appointed and given training. This helped strengthen commercial relationships with international buyers.

Once coffee producers were identified, they entered into an agreement to deliver and sell their coffee production to participating members of the Mercon Group. Depending on the capacity of individual farms, producers deliver their production in wet-process form, aerated, or as parchment dried to a humidity that varies between 12 and 15%. The purchase price is determined by the company in US dollars or at the exchange rate at the moment of the transaction, using the New York Commodity Exchange market price as a reference. The company then deducts fees for processing, transport, export, and administrative expenses along with a margin of profit. This fee is not necessarily predetermined in the supply contract.

In addition to providing coffee processing and marketing services, the Mercon Coffee Group companies offer financial services to cover working capital and crop maintenance requirements. Cash advances are given covering a period of up to one year, based on the purchase price of the coffee. The agreement is formalized in a contract for future delivery of the beans, a mechanism that guarantees the recovery of the investment.

The company also facilitates the purchase of inputs at very competitive prices, as well as offering individual advisory services and advice on agricultural extension techniques to producers involved in the Utz Certified program. The price premium and benefits obtained as a result of enhanced coffee quality are an important incentive for producers to continue improving the quality of their coffee.

Population involved: In Nicaragua, over 200 producers, from the regions most suited to high quality coffee production, have been involved, with whom the company (CISA Exportadora) had sporadic and informal relationships. These growers are small-holders cultivating land areas of less than 10.5 hectares with a net income of less than US\$ 3,200 per year. They have limited access to financial resources and technical training.

In Honduras, 650 coffee producers are involved in the program. Their situation is similar to that of their Nicaraguan counterparts: most of the farmers participating in the certification programs are small producers.

Institutions involved: SNV established an alliance with the Solidarity Foundation of the Netherlands through the Coffee Support Network, which developed a Sustainable Quality Program (PROCASO). This program provides assistance to coffee producing companies in Honduras and Nicaragua, including CISA-Exportadora and CIGRAH of the Mercon Coffee Group, to assist them with implementing the Utz Certification program code of conduct. Links have also been established with other entities such as Community Information and Epidemiological Technologies (CIET International), the Coffee School, and the Ministries of Health, Education, and Labor.

Investments: A total of US\$31,000 has been invested in Nicaragua, of which US\$15,000 was contributed by the PROCASO Program and US\$16,000 by CISA-Exportadora to provide technical assistance to 100 coffee producers.

A total of US\$100,000 has been invested in Honduras, of which US\$55,000 was contributed by PROCASO and US\$45,000 by CIGRAH, to provide technical assistance to 600 producers, 327 of whom obtained certification.

Achievements and results

For the company

- ▶ Technical assistance has been provided to 200 producers in Nicaragua and 650 producers in Honduras.
- ▶ 70,500 quintals (46-kilo sacks) of certified coffee were produced in 2008, including 21,500 in Nicaragua and 49,000 in Honduras; this is approximately equivalent to 6-7% of the total volume traded by CISA-Exportadora and CIGRAH.
- ▶ The technical capacities of both the companies and the producers have been strengthened.





For producers

- ▶ Increases in incomes as a result of the rising international commodity exchange price for premium Utz-Certified coffee from US\$ 4 to US\$ 5 per quintal.
- ▶ Adoption of environmentally sustainable and socially responsible cultivation practices, due to the certification processes.
- ▶ Substantial increases in the productive efficiency of farms, leading to medium-term economic sustainability.
- ▶ Increased competitiveness of producers as a result of a shift in emphasis from volume to quality.
- ▶ Some 850 producers received technical assistance during the first year to implement the Utz Certified code of conduct.

For the community

- Alliances with other bodies such as the Ministries of Health, Education, and Labor, which have served as an example and incentive for other producers.
- Communities have learned about the environmental, social and economic benefits yielded by good practice in coffee production.
- ▶

Lessons learned

Success factors

- ▶ Appropriate financial services are vital to guaranteeing the loyalty of small-scale producers, given unfavorable conditions in the microfinance sector and the lack of interest from the formal banking sector in working with rural producers.
- ▶ Working with small-scale producers in the certified coffee sector yields benefits relative to collaboration with large-scale producers, including reductions in certification costs as a result of working through cooperatives, strengthened collaboration within cooperatives, access to niche markets such as Fair Trade, and a greater capacity to control the quality of their coffee through better management of small areas.
- ▶ Premium prices are obtained by producers for the development of specialty coffees due to the “win-win” relationship.
- ▶ Producer receptivity to innovative attitudes and technologies in line with market demands.
- ▶ The market as the driving force for these changes.

Difficulties and barriers

- ▶ Unfavorable and inappropriate financial services to expand and renew crops and to invest in infrastructure and technology at the farm level, which limits the viability of a competitive coffee growing culture within the context of a globalized economy.
- ▶ Low education level of the producers, which limits the learning processes for the development of certification norms.

The future

In 2011, members of the Mercon group will continue to work with 300 producers in Nicaragua and 1,000 producers in Honduras. During that time some of the Utz Certified producers will be able to obtain other certification labels, including those for 4C and C.A.F.E. practices, which will enable them to expand opportunities for marketing their coffee in the international market.



More milk, higher incomes in the Highlands of Bolivia

Delizia Compañía de Alimentos Ltda.



Summary

Delizia, a Bolivian company founded in 1988 and specialized in dairy products, has incorporated small-scale milk producers from the Highlands of Bolivia into its value chain. The company's strategy is to strengthen the competitive position and productivity of producers, through activities that improve the nutrition and genetic characteristics of cattle, enabling them to gain access to sources of financing.

As a result of this program, Delizia has seen its volume of dairy products increase from 360,000 liters to 900,000 liters per month. Furthermore, the company has been able to establish more stable relationships—based on greater levels of trust—with its suppliers. In turn, the suppliers (dairy farmers) have been able to grow their herds by 18% and their productivity by 29% in that way increasing production from 24 to 31 liters per day. As a consequence, their family incomes have grown by approximately 42% in six months from US\$ 189 to US\$ 269 per month, equivalent to almost three minimum wages.¹

1. The minimum wage corresponds to US\$ 91.

More milk, higher incomes in the Highlands of Bolivia

Background

In 2001, the Delizia Compañía de Alimentos Ltda. opened an industrial plant in the city of El Alto.² Its principal products are ice cream and yogurt; the company processes some 30,000 kg a day. Fresh milk accounts for 50% of the raw materials used in production processes. At present, according to the Bolivian weekly magazine Nueva Economía, Delizia is one of the 50 largest companies in Bolivia by turnover.

Changes in the international dairy market lead to changes in the Bolivian dairy market. Delizia's program is playing a central role in this transformation. In the past, the supply of fresh milk from the Highlands was provided by the PIL La Paz Company. This company had a monopoly of the market, practiced price-fixing policies, and determined purchasing conditions that negatively affected milk production. Starting in 2006, increases in the international price of powdered milk led to decreases in imports of powdered milk by the Bolivian food industry, which stimulated internal production and collection of milk by domestic industries.

Recently, increases in the price of a liter of milk in regions such as Cochabamba, Santa Cruz, and the Highlands, have created a boom and provided a boost to the national dairy industry. Delizia occupies an important place in this industry being Bolivia's number one ice cream producer, with a market share of 65%. Furthermore, the company has a 40% share of the national market for yogurt. The company is active in the provinces of Omasuyos, Murillo, Los Andes, Ingavi, and Aroma.

Current situation

Milk production in the Bolivian Highlands is mainly carried out by small-scale producers with low levels of productivity, who often combine milk production with other agricultural activities. During the low production season, each farmer produces approximately seven liters of milk per cow with production rising to approximately eleven liters in the high season. Even though monthly income from small-scale milk production averages about US\$ 189, or approximately 50 to 60% of the farmers' total income, milk farmers are still able to generate higher income than potato or quinoa farmers.

2. El Alto is a city located in the western part of Bolivia at an altitude of 4,000 meters above sea level in the Highlands plateau, northeast of La Paz, with which it forms the largest urban area in the country. With a population of 827,239 inhabitants, it is the second largest city of Bolivia. It plays host to migrants coming from the rest of the country, especially recent arrivals from rural areas. El Alto has recorded the highest level of growth in Bolivia; 74% of its population is Aymara, a native ethnic group from the Andes and the South American highlands, 6% is Quechua, and 19% is of mixed descent. The recent development and economic growth of its commercial and industrial activities have resulted in it being named the "Economic Capital of Bolivia", thereby becoming a model for industrial development.



Company: Delizia, Compañía de Alimentos Ltda.
Country: Bolivia
Industry: Agriculture
Population involved: 116 small-scale suppliers



"I feel that the best way of contributing to society is by creating sustainable sources of employment. I am surprised that our contribution, which we consider a grain of sand in the desert, is relatively large and contributes to the well-being of many people."

Delizia

Felipe Vera Loza
Executive Director



Low levels of productivity in this area are the result of limited availability of green fodder to feed the small number of cattle owned by each family. In addition, milk production is also affected by climate conditions; during the dry season, from June to October, production drops drastically—between 30 and 40%—compared to the rainy season. The effects are worsened by low-technology animal husbandry practices.

Most producers lack adequate infrastructure, including stables, feeding troughs, and corrals. Furthermore, farmers often transport milk to points of sale on foot due to the absence of paved roads in the region.

As a result, producers try to time calving season for the summer months to ensure an abundance of food during the milk production season and to avoid it taking place during the winter months when there is a lack of green fodder for the animals. They then sell their cattle during the winter and replace their herds in the spring as the food supply increases. This situation affects the incomes of the farmers and requires careful planning of the feeding and genetic management of their herds. It also has a direct impact on the volume of milk available to Delizia to satisfy its demand, which fluctuates between 25,000 and 30,000 liters of milk per day to supply the growth of its national market.

The need to sustainably increase milk supply and promote production in the highlands became evident to Delizia. Relying on producers that supply to other companies risked creating unfavorable and unsustainable price competition. Delizia therefore decided to focus its attention on critical areas of the supply chain to encourage an increase in milk production in the Highlands and simultaneously improving management of cattle nutrition and genetics.

The Inclusive Business model

The challenge: To sustainably increase milk supply, avoid market distortions, positively influence milk producers, and create loyalty between the company and the farmers.

More milk, higher incomes in the Highlands of Bolivia

This project was the result of initial contacts between Delizia, SNV, and CEDES (the Bolivian chapter of WBCSD). Together they developed a series of measures intended to facilitate the effective inclusion of the milk producers in different parts of the supply chain. The starting point of the project was to convince milk producers that the project had several advantages and that co-investments and strategic collaboration would yield important benefits.

Delizia started by engaging with the dairy farmers to propose the development of hydroponic greenhouses to ensure sufficient fodder to feed their cattle—an ideal solution in the highlands where it only rains a few months of the year. Producers were asked to invest US\$1,000 in hydroponic crop production, which would ensure stable levels of milk production throughout the entire year. In turn, Delizia would secure guaranteed milk supply throughout the year thereby reducing the risk of shortages of this all important raw material.

As the project progressed, producers sought to buy more cattle and improve their cattle breeds. This required access to financing along with the support of other bodies that shared the goals of the project, understood the business model, and were willing to accept the economic risks and benefits of working with small farmers included in the value chain of a large company. Similarly, it required training farmers in the skills necessary to optimize their investment. Training manuals were prepared on a host of topics including selection and purchase of cattle, and cultivation of fodder through hydroponic technology.

Delizia and SNV established alliances with the Productive Development Bank and several private financial funds such as the FIE, as an effort to finance activities. As a result of this Inclusive Business model, which created a stable business relationship between the “anchor” company—in this case Delizia—and the milk producers, the financial risks were reduced and it was possible to structure an economic package for the milk producers with favorable economic and administrative conditions including favorable credit terms, sound guarantees, and favorable interest rates. Interestingly, women accounted for 55% of the producers applying for credit.

Design: This project required milk producers to come together and form dairy cooperatives. Under this scheme, the dairy farmers deliver their daily production to milk-gathering centers where it is collected by Delizia employees. Every fifteen days Delizia pays to the dairy cooperatives the fees for all the milk producers. The leaders of the dairy cooperatives distribute the payments to all participating producers.



Delizia in numbers

- ▶ 530 employees
- ▶ One of the 50 largest companies in Bolivia by annual sales
- ▶ US\$ 14,695,671 in annual sales
- ▶ 50,000 points of sale
- ▶ Number one producer of ice cream in Bolivia with 65% share of the national market
- ▶ 40% share of the national yogurt market
- ▶ 40,000 kilogram per day capacity for the production of yogurt and ice cream

Why is this an Inclusive Business?

- ▶ *This business generates a 'win-win' situation between the Delizia Company, which increases and stabilizes the supply of milk necessary for its production of ice cream and yogurt, and the small-scale producers, who gradually improve their income and capital. All of this has been possible through training processes that permit farmers to increase their productivity by gaining access to technologies and financing to improve the handling of feeding, the genetic quality of cattle, and to increase herd size, as well as to better adapt to difficult environmental conditions.*

Delizia offers technical assistance to milk producers in the production of fodder using hydroponic technology and in cattle feeding, cattle selection, and technology to increase and optimize management of the herd to achieve increased milk production per cow and thus increase farm productivity.

Delizia also helps to facilitate producers' access to credit to enable them to purchase more cattle and to develop hydroponic food production. Delizia employs two people whose job is to visit each farm, offer credit options, and guide producers through credit application processes.

Delizia pays the producers every fifteen days. It deducts the financial debts and fees from these payments, but does not act as a guarantor for the debts. The financial entity is responsible for analyzing the credit-worthiness of each producer. The project uses georeferenced maps so that microfinance entities are able to locate each producer in the Highland region.

Population involved: In the first phase of the project 116 small-scale suppliers, with an average of 4.4 hectares of land devoted to milk production and an additional 1.4 hectares devoted to other agricultural crops, were involved. Among the milk farmers, 50% completed elementary school and only 20% have completed or are studying at high-school level. In most families involved, between two and four members work in the dairy farming having women usually play a key role.

Institutions involved: Delizia, CEDES, SNV, and microfinance entities including Private Finance Fund, FIE, and the Bank for Productive Development through its Private Finance Fund, Prodem.

Investment: Delizia has invested US\$ 11,668 in the construction of three demonstration greenhouses for hydroponic production of fodder and the purchase of equipment and instruments for determining milk volumes. Microfinance entities have approved credits for producers totaling some US\$ 116,000; 60% of investments were for sums between US\$934 and US\$1,697. These loans were intended for cattle purchase. In total, 193 head of cattle were purchased with each producer on average adding an additional two cows or calves to their herd to improve breed and productivity.

More milk, higher incomes in the Highlands of Bolivia

Achievements and results

For the company

- ▶ An increase of 150% in the monthly collection of milk in 2008, reaching a volume of 900,000 liters.
- ▶ An increase of 21% in the number of milk suppliers between June and December 2008.
- ▶ Improvements in the quality of milk produced, improving the efficiency of the pasteurization process and the preparation of final products, such as ice cream and yogurt.
- ▶ Enhanced relationships between the company and the milk producers from transactional to greater trust; Delizia and the milk farmers are now working together as partners for mutual benefit. Both the company and the producers hope to replicate this project in the future. In fact, 67% of milk farmers have expressed an interest in continuing to participate in the Inclusive Business with the company.
- ▶ Outstanding strategic positioning relative to competitors.
- ▶ An 82% return on investment four months after the company's net investment.

For producers

- ▶ An increase of 18% in the size of each family's dairy herd between June and December 2008.
- ▶ An increase of 29% in the productivity per family, from an average daily production of 24 to 31 liters between June and December 2008.
- ▶ An increase of 42% in the average family income of producers within the first 6 months.
- ▶ All milk production is sold to Delizia, which represents an average increase in daily milk sales from 17 to 31 liters.
- ▶ Strengthened producer-company relationship recorded in 65% of cases.
- ▶ Access to credit aimed at optimizing dairy-related assets; the average credit granted was US\$1,080 with an average pay-back term of 29 months.

For the community

- ▶ Farmers in the region observed improvements in production and conditions.





Lessons learned

Success factors

- ▶ The design and implementation of a successful project whose scope goes well beyond concerns for corporate social responsibility.
- ▶ The capacity to visualize a business model in collaboration with other stakeholders working towards a common objective; the realization that the company can go beyond the simple scope of corporate management within its own business to benefit other businesses.
- ▶ Implementation of a collaborative model in which the producer is an equal economic partner with whom the company seeks to establish a stable long-term relationship of mutual respect; a model that avoids paternalism and promotes the entrepreneurial and personal development of producers.
- ▶ Technical support provided by the company for the selection and purchase of cattle and the hydroponic production of cattle feed.
- ▶ Collaboration between several diverse participants under a business strategy that includes small-scale producers and suppliers of specialized financial services, such as microcredit.

Key points

- ▶ Inclusive Business requires support and technological solutions to achieve an increase in production capacity.
- ▶ The inclusion of new suppliers in the Inclusive Business should correspond with production cycles; ideally new participants should be integrated between February and March.
- ▶ Greater producer loyalty achieved as a result of the company's efforts to accompany, train, and facilitate their access to credit.
- ▶ An Inclusive Business related to the core activity of the company generates short-term returns for the investor.
- ▶ Greater willingness among financial and banking organizations to provide financing.

Difficulties and barriers

- ▶ Identifying a project manager with the necessary skills and vision took longer than anticipated.
- ▶ Identifying appropriate associates for each one of the activities proved a challenge.

More milk, higher incomes in the Highlands of Bolivia

- ▶ Convincing producers of the benefits of investing in the green hydroponic fodder model and improving the genetic characteristics of cattle took time.
- ▶ Identifying the most appropriate financial entities and convincing them to work with the project proved difficult.
- ▶ Overcoming operational limitations and risks perceived by the financial entities when providing credit to low-income sectors.
- ▶ Identifying an adequate financing structure for dairy families, and in turn offering profitability in accordance with the risk profile and return on investment.
- ▶ Adequately managing producers' expectations and acting on a timely basis in relation to the annual season when developing the hydroponic fodder component of the project. It was crucial to implement this component of the project during the dry season when the need for fodder was critical; during the summer months producers prefer to buy cattle.
- ▶ After the company made the investment, it had to assure compliance of milk deliveries by producers and avoid the sale of milk to other companies.
- ▶ Lack of producer interest in green hydroponic fodder technology.

The future

The initial phase of this project concluded in February 2009. Going forward, Delizia plans to increase its sales by 20%. For this, greater volumes of milk will be required. The company therefore plans to continue to work with small producers to improve the quality of their milk. It will also continue with its training programs so that producers can achieve improved quality control standards. During the second phase of the project, Delizia plans to expand the project to include new producers and increase investments in additional hydroponic fodder greenhouses to feed newly purchased cattle.

In addition, and in light of the successful growth in production, Delizia plans to complement the Inclusive Business by providing the various points of sale and neighborhood stores with refrigerators allowing them to contribute to the company's marketing and sales activities. With the support of SNV, the company plans to enter into partnerships with microfinance entities and vendors of Delizia yogurt and ice cream.



Nationally produced corn, a source of income and savings

PRONACA C.A.

Summary

The National Food Processing Cooperation (PRONACA) is one of Ecuador's leading food production and marketing companies. Each year, it processes 350,000 metric tons of corn, locally known as hard yellow maize. Of this, only 30% is sourced on a regular basis from local medium and large producers. In order to secure a sustainable supply of raw materials that meet stringent quality standards, PRONACA is using an Inclusive Business model to promote agricultural development.

Through this project, PRONACA works with small-scale corn farmers from the Ecuadorian coastal region in a mutually beneficial business relationship and hopes to increase its annual supply of corn to 30,000 MT within three years.

The focus of this Inclusive Business is poor farmers with production units of less than 10 hectares with an income of approximately US\$72.23 per month. Under this model 650 corn farmers are offered training in quality control and innovation, coupled with access to credit to facilitate the purchase of inputs—a combination that allows them to increase their income by 350%.

Background

Established 52 years ago, PRONACA is one of the largest companies in Ecuador. Its main activity is the production and sale of chicken and pork products. The company creates approximately 6,500 direct jobs; it is the eighth largest company in the country, by sales volume, with annual sales of more than US\$550 million. In addition, it is the country's leading buyer of corn, a primary component of animal feed and an essential input to the company's livestock activity.



More than 18 years ago, PRONACA set the strategic goal of increasing its supply of domestic corn by implementing a contract agriculture system, focused on large and medium scale producers. Although PRONACA had already been working with small producers for many years, the Inclusive Business became a new opportunity for the company, ensuring a secure supply of high-quality raw materials necessary for the company's production activities while contributing to the agricultural development of Ecuador.

In early 2007, the SNV–WBCSD Alliance approached PRONACA with a proposal to develop an Inclusive Business directed at strengthening the national network of corn suppliers. This proposal sought to integrate the company's strategy to increase its foundation of local suppliers with the needs of small-scale corn producers in Ecuador by including them in the company's value chain.

Current situation

The supply of corn in Ecuador is highly unpredictable with insufficient production to meet demand. Medium and small-scale farmers involved in corn production typically have less than 20 hectares under cultivation, which supply about 50% of domestic demand. Furthermore, average corn productivity in the country is below the international average; in 2006, as a result of high-yield hybrid seeds which were introduced in 2000, there was an average annual increase of 10% bringing annual productivity to 3.42 metric tons per hectare. Despite this increase, production has remained below that of other corn producing countries including the United States, China, Brazil, and Peru. Production in the latter two countries averages about 3.8 metric tons per hectare per year.

The Ecuadorian government protects corn producers through a price band system that uses an import tariff that fluctuates according to international prices. Similarly, through its Harvest Absorption Program the government requires industrial importers to first buy 100% of the national production before they are allowed to import corn.

There are almost one hundred producers of corn-based animal feed in Ecuador. In 2008, PRONACA purchased the entire supply of corn from local suppliers, dealers, and large farmers in the country.



Company: PRONACA C.A.
Country: Ecuador
Industry: Agriculture
Population involved: 424 farmers by 2010



“The promotion of Inclusive Businesses is a direct consequence of the mission of PRONACA: ‘to provide good food by developing the agriculture and livestock sectors’. PRONACA’s philosophy is to grow and develop together with its suppliers, especially farmers. We are very happy to state that the Inclusive Business program has linked hundreds of small-scale corn producers to modern technology, credit, and fair prices, improving their production and, therefore, their standard of living.”

PRONACA C.A
Juan Ribadeneira
Executive President



These suppliers provided the company with 40% of its total annual demand of 350,000 tons; the company had to import the remaining 60%. In order to reduce dependence on imports and to support governmental and constitutional objectives of promoting food sovereignty, PRONACA needed to increase the local supply of corn. However, the initiative to increase the local supply met with several obstacles that damaged relationships between small-scale producers and the company.

The Inclusive Business model

The challenge: To develop an Inclusive Business integrating small-scale producers. With the support of the SNV-WBCSD Alliance, PRONACA purchased raw materials from medium and large producers as part of efforts to improve the incomes, technical capacities, and access to credit of farmers’, and to ensure favorable market conditions for the sale of their produce.

Participating producers are located in the province of Guayas, one of the highest corn-producing regions in the country with a high concentration of small-scale producers. In October 2007, with the support of SNV, PRONACA conducted a survey of 624 geographically referenced households in the province. Based on the information gathered, PRONACA was able to put together a profile of all the small-holders and design a farmer training methodology tailored to the individual conditions of the farmers.

Following analysis of the information PRONACA was able to identify farmers who could act as project leaders. It was also able to define a general profile for participating farmers. The leaders are tasked with assuring the sustainability of the model and facilitating access to financial services. They are also responsible for providing specialized training to the small-scale or grass-roots farmers-identified as the most vulnerable in the production chain.

Small-scale corn producers are able to gain access to training services, new and tested technologies, and in some cases, credit, which is borrowed against the delivery of their harvest. This Inclusive Business was intended to improve the farmers’ incomes by increasing crop productivity or by providing the conditions necessary for them to grow a second crop.

Nationally produced corn, a source of income and savings

In addition, this Inclusive Business project is intended to help overcome some of the obstacles confronting the poorest farmers. In general, these farmers do not own their land but are tenant farmers; they usually only manage to produce a single crop during the production cycle; they often pay high interest rates for loans that they take out to buy agricultural inputs; and receive very low prices for their crops from ad hoc buyers. As a result, they are often unable to break the cycle of poverty and so continue to subsist on monthly incomes of around US\$72.23.

Design: Under this business model, a group of farmer leaders was identified according to a previously defined profile. These leaders are responsible for identifying the small producers, usually the most vulnerable in the production chain. As a general rule, the latter already enjoy a relationship of trust with the lead farmers. The role of the leaders is to ensure the sustainability of the model by facilitating access to financial services and specialized training for small producers.

In addition, these leaders act as debt guarantors for small producers who require loans for the purchase of agricultural inputs; they also provide them with technical assistance. By way of payment for their services, the leaders receive a commission based on the harvest that the small farmers sell to PRONACA. In this way, leaders help the smaller producers throughout the process, from training and provision of inputs to the delivery of the harvest to collection centers.

This particular Inclusive Business model includes three innovative elements that generate benefits for PRONACA. First, there is a training and technical assistance program for leaders. This consists of two distinct modules: a 40-hour module devoted to rural micro entrepreneurial skills. This module is deals with identifying the needs of the leaders and promoting agricultural and non-agricultural quality services. The second module is devoted to the transfer of knowledge and expertise and is intended to provide producers with technical assistance during the critical periods of the harvest through technological transfer, communication, and leadership skills.

The second innovative characteristic of this program lies in the training program for small-scale farmers. This consists of two basic and intermediate modules of 80 hours each. During the course of the first module, producers learn about corn cultivation, including activities required to prepare the soil. They are also trained in how to develop a basic business plan. During the second module the focus is on other relevant elements of the production environment, optimizing resources to increase the productivity of the land, lowering costs, and improving profitability in a sustainable manner.



PRONACA in numbers

- ▶ 6,500 employees
- ▶ US\$ 500 million in sales in 2008
- ▶ Eighth largest company in Ecuador by sales, largest purchaser of corn
- ▶ Supply chain of 650 small corn farmers

Why is this an Inclusive Business?

- ▶ *This initiative is closely related to the core business of PRONACA. It has positive impacts on the local supply of its principal raw material, contributes to reducing production costs by decreasing the need for imports, and reduces the company's dependence on imported grain. Likewise, it increases the incomes of the producers, helps to strengthen their capacities, allows them access to new technologies, promotes leadership among farmers, and favors environmentally sustainable agricultural practices.*

Finally, the third innovative feature is a focus on innovation in production. Using what are termed 'validation units', the company tests different irrigation technologies and identifies other sustainable crop alternatives that can be rotated with corn crops to enable farmers to become more competitive. During the first year, three validation units of three hectares each were established; these will be monitored for two years. In the second year of the project, three additional units will be established.

Participating population: 424 farmers by 2010

Participating institutions: SNV, PRONACA, the Inter-American Development Bank, the National Financial Corporation (CFN), and the National Bank for Development.

Investment: The initial phase was planned over three years. It had a budget of US\$216,250 for the training component. This was financed by the IDB-MIF that contributed 52.48% or US\$113,500 and PRONACA financed 47.52% or US\$102,750 of the total budget.

Achievements and results

For the company

- ▶ A 300% increase in the purchase of corn from small-scale producers, from 2,000 metric tons in 2007 to 6,000 metric tons in 2008.

For producers

- ▶ An increase in productivity of approximately 16 to 20%; a rise in production from 5 to 6 metric tons per hectare in 2007 to 6 to 7 metric tons in 2008.
- ▶ An increase of 350% in the daily income of producers, from US\$ 0.63 to US\$ 2.70 between 2007 and 2008.
- ▶ Access to banking services, including bank accounts and direct deposit facilities facilitating direct deposits and removing the need for withdrawing cash from bank tellers. Improvement in credit conditions: 77% of farmers now have access to direct credits with market interest rates of up to 18% per year, while in the past only 60% had informal credit under usury interest rates of up to 72% per year.
- ▶ Reduction by 4 to 5% in interest rates incurred by formal credit arrangements compared the rates farmers were expected to pay in the past.
- ▶ Safe use of agricultural chemicals under international standards for Good Agricultural Practices.

Nationally produced corn, a source of income and savings

For the community

- ▶ Creation of 234 new jobs during the 2008 harvest year, which represented a 59% increase over the previous year.
- ▶ Improvements in agricultural practices that have resulted in better soil and water quality. There has been a decrease in the use of fertilizers, rotational crops are being used to increase nitrogen in the soil, and there is integrated management of disease and pests.
- ▶ Construction of deep water wells that guarantee water supplies for the community.

Lessons learned

Success factors

- ▶ The presence of agricultural leaders responsible for identifying small farmers.
- ▶ The training of agricultural leaders with an entrepreneurial vision who offer paid services to smaller farmers.
- ▶ Access to credit has been a critical success factor.

Key points

- ▶ The development of new service providers enhances competition for quality products.
- ▶ The development of the Inclusive Business is a process that creates trust among various stakeholders; the role of the mediator is fundamental.
- ▶ It is important to demonstrate flexibility with regard to the changing attitudes of participating stakeholders.

The future

PRONACA considers that the Inclusive Business has the potential to expand by up to eleven times its present size within the pilot region. This implies that there is potential still to be assessed, for scaling up this project to include small-scale corn-producing farmers in other regions of the country. The scalability and scope of this Inclusive Business are yet to be defined. The company is waiting to conclude the three-year pilot plan after which it will have a comprehensive methodology that could be applied to new inclusive models. During the current (initial) phase, the plan is to offer training to between 60 and 100 lead producers and 650 small-scale producers. PRONACA is contemplating initiating similar Inclusive Businesses involving other products.



The Cohune Palm business: An opportunity for the social and economic inclusion of ethnic families living in extreme poverty

DINANT Corporation

Summary



The Pech and Garífunas ethnic groups have been capitalizing on the properties of the Cohune Palm and selling its biomass and nuts to the DINANT Corporation, at a price that has enabled them to double their incomes. In turn, DINANT has been making a profit by marketing the oil from the palm to companies that specialize in manufacturing food, cosmetics, and pharmaceutical products. Concurrently, the company is working to develop the technology necessary for the profitable cogeneration of energy using the biomass of the Cohune Nut.

The Cohune Nut is produced by a palm tree¹ that grows wild in the broadleaf forests on the Atlantic coast of Honduras. This is the most productive region of the country. Activities include banana, sugar cane, pineapple, and African Palm production, as well as agro-industry, tourism, and trade. Given intense competition in this region, it is difficult to find employment without a profession or trade.

1. Species name of the Cohune Palm is *Attalea cohune*.

Background

Established in Honduras in 1957, the DINANT Corporation is today a leading business group in Central America with activities in different agro-industry sectors. The company began its activities with the assembly of cleaning and personal care products; from there it rapidly evolved toward the production and sale of fresh and processed foods. The corporation created an agricultural division, Exportadora del Atlántico, which produces, packages, and markets the company's agricultural products.

The company grows its own fruit and vegetable crops; it also owns forests that provide the raw materials needed for its commercial activities. By way of a complement to its agricultural activities, DINANT recently developed greenhouse protected crops that allow the company to supply fresh vegetables to the domestic market, which has increased its international market share.

In the last few years, as a by-product of efforts to develop alternative energy sources to replace fossil fuels, DINANT has made important investments in processes to extract biodiesel from the African Palm, as well as biogas from the effluents of industrial plants used in oil production. At present, the company is one of the largest producers of African Palm in Central America and also provides technical and logistical support to other small-scale producers from whom it buys one hundred percent of their harvest at a competitive market price.

The corporation sells and exports palm oil derivatives, including a full range of edible fat and oil products, to Mexico and other Central American countries. Its products enjoy a good reputation in Central American markets.

Because of its multi-sector focus, DINANT is an entrepreneur in niche markets for products derived from the Cohune Palm; processes for the use of agricultural production effluents and waste to generate bioenergy³, such as biogas and electric energy; the production of bio-diesel from different oils such as the African Palm and *Jatropha curcas*; and, the exploration of new Inclusive Businesses with the production and industrialization of *Jatropha curcas*,³ cassava, bananas, and malanga, among other crops.

2. Bioenergy—renewable energy—is produced from biological materials; DINANT generates bioenergy from Cohune Nut biomass and through effluents that emanate from the agro-industrialization processes of its products, especially oils.

3. *Jatropha curcas* is an oleaginous plant that originated in Central America and Mexico; its oil has a high value as an alternative fuel; it is not fit for human consumption because of its toxic substances.



Company: DINANT Corporation
Country: Honduras
Industry: Agriculture
Population involved: 52 families



“Our company has identified that it is possible to obtain excellent oil for the food, pharmaceutical, and cosmetic industries starting from the fruit of the Cohune Palm, *Attalea cohune*, and to incorporate ethnic and farmer families that live on the Atlantic coast of Honduras, through a competitive business relationship by developing a new profitable product. Likewise, investigation continues into its possible application in the production of activated carbon.”

DINANT Corporation
Miguel Mauricio Facussé
Vice-president

Since its establishment, the corporation has become a market leader in the production of superior quality products as a result of which it has been able to enter global markets. In addition, the company has a commitment towards social responsibility and seeks through its activities to contribute to the economic development of the country. The corporation’s operations are certified and carry the recognized seals that are a testimony to its commitment to comply with the most demanding quality standards—environmental and social. DINANT has received important marks of recognition for its commitment from the Honduran government. In addition to its agro-industrial activity, the company owns three protected areas that offer refuge, habitats and reproductive grounds for a large number of endangered species.

Current situation

The Inclusive Business is intended to respond to a macro-economic problem in the country: how to integrate families living in conditions of extreme poverty into the production value chain. It also seeks to respond to a government policy, namely the search for low-cost raw materials for the production of biofuels.⁴ The presence of large areas of forest throughout the Honduran Atlantic coast, which are home to this wild palm tree, help solve both of these problems.

Honduras has been in the throes of an economic crisis worsened by the country’s complete dependence (100%) on imports of the petroleum-derived fuels that it consumes at high international market prices. In order to address this, in 2008, the Government of Honduras started a campaign to promote the cultivation of 200,000 new hectares of African Palm for the production of biodiesel.

As a pioneer in palm oil and bio-diesel production, DINANT Corporation began to explore the possibility of using the Cohune Nut as a cheaper substitute for African Palm, Canola and soybean to obtain biofuels. Early results of the pilot project revealed that because of the high costs associated with obtaining the Cohune Nut, it was more effective and efficient to position the Inclusive Business towards the production of oil—high quality and fully organic—which could then be marketed to the cosmetic, pharmaceutical, and food industries and to use the biomass from the Cohune Nut to generate bioenergy.

4. Bio-diesel is a liquid biofuel produced from plant oils or animal fat. The main oils used by DINANT for its production are obtained from African Palm. The company is currently researching development processes for Cohune Nut and *Jatropha curcas* oils.

The business opportunity of the Cohune Palm

An opportunity for the social and economic inclusion of ethnic families living in extreme poverty

The Inclusive Business model

The challenge: To identify niches in the international market for Cohune Palm oil in the cosmetics, pharmaceutical, and food industries; and at the same time to explore the potential for producing activated carbon from the cohune fruit biomass obtained in the nut extraction process. This requires the development and consolidation of the different value chains involved and the integration in the value chain of Cohune Nut gatherers, as the suppliers of the raw material, to assure adequate quantity and quality to satisfy market demand.

DINANT and SNV began the Inclusive Business by conducting a feasibility study and developing a business model to integrate poor families living on the Atlantic coast of Honduras in the biofuel value chain. But due to the high costs involved in obtaining raw materials from the Cohune Nut, DINANT and SNV decided to redirect the project to research other possibilities for Cohune Nut derivatives, including marketing them to specialized industries such as the food, pharmaceutical, and cosmetics industries to enable the company to generate profits while at the same time offering equitable compensation to the fruit gatherers.

The pilot project began in March of 2008. At present, the project is focusing on developing the necessary technology to increase the productivity of the ethnic families engaged in gathering the fruit and extracting the Cohune Nut. The project is also examining the design of sustainable practices for gathering, processing and transporting the fruit. Additionally, it has begun to define safety norms for workers.

Equipment that will enable the gatherers to take over the extraction of the nut is currently being put in place. This equipment will enable them to add value to their part of the production chain and thus, obtain better prices for their product.

DINANT in numbers:

- ▶ 7,000 direct jobs and over 30,000 indirect.
- ▶ Annual sales equivalent to 80,000 metric tons of African Palm oil.
- ▶ Leading Central American company in all of its product lines.





Design: The Inclusive Business focuses on the Cohune Nut gathering and transport processes. To start with, ethnic and farmer families gather the fruit in the mountains and transport it to local community centers. From there, the fruit is collected and taken to a processing plant where it is dried in ovens fuelled using the pericarp of the Cohune Nut—external part of the fruit. Alternatively, the fruit is dried in the sun. Once it is dry, men and women separate the nut from the biomass with equipment specially developed for this purpose.

Nuts and biomass are then sold through community collection centers. The price that DINANT pays for raw material is based on the international price for Palm Kernel Oil. DINANT then transports the raw material to its industrial plant where it extracts the oil and generates energy.

Population involved: Fifty-two families of the Pech and Garífunas communities in the Moradel region. The majority of these families have low levels of schooling and high illiteracy rates.

Institutions involved: DINANT Corporation, SNV, the local governments of Trujillo, Santa Fe, and Limón in the Colón department (where the project is being piloted), community councils, the Commonwealth of Garífunas, Municipalities of Honduras (MAMUGAH), the Capiro and Guaimoreto Environmental Foundation (FUCAGUA), the National Institute of Professional Training (INFOP) and the International Financial Consultants (COFINSA).

Investment: The DINANT Corporation and SNV have jointly invested US\$33,500 in preparing feasibility studies, developing the Inclusive Business model, and formulating forest management plans for the sustainable harvest of the Cohune Nut.

The corporation has made additional investments of US\$32,300 and both entities have invested employee time and effort to develop this Inclusive Business. In July 2008, DINANT formalized a cooperation agreement for US\$160,500 with the IDB-MIF to strengthen this Inclusive Business; 40% of this amount was contributed by DINANT.

Achievements and results⁵

For the company

- ▶ Development of a business model to launch the Inclusive Business.
- ▶ Design of a forest management plan to ensure that extraction of the Cohune Nut, a wild and non-wood resource, is environmentally sustainable.
- ▶ Establishment of a good practices protocol for fruit gathering and transportation and for nut and biomass extraction.
- ▶ Definition and implementation of safety norms for workers.
- ▶ Design of technology for optimized nut extraction processes.
- ▶ Two sub-products: due to its high energy value, the DINANT Corporation uses 88% of the biomass obtained from the Cohune Nut as a raw material to generate the energy that the company consumes; the company uses the remaining 12% of the nut to produce oil of an extraordinary quality that is used in the cosmetics, food, and pharmaceutical industries.

For the communities

- ▶ The opportunity to participate in a business that allows the communities to take advantage of a sustainable resource that grows wild and which is normally lost in the forest.
- ▶ The chance to be integrated and participate in a new value chain.
- ▶ The opportunity to create a new economic activity as a source of income focused on gathering and transporting fruit and extracting nuts.
- ▶ An increase in the monthly income of families participating in the pilot project, who previously had no steady form of employment, on average, they went from earning between US\$16 and 32 per month to US\$80, an amount that is expected to increase.
- ▶ Greater levels of safety, participation in training processes, and access to new technologies.
- ▶ In addition to the other benefits of the Inclusive Business mentioned, the communities have access to the leaves of the palm trees, which are traditionally used to build roofs for their homes.



5. As of March 2008.

Why is this an Inclusive Business?

- ▶ *Because it strengthens the core business of the company and incorporates low-income ethnic communities, that have few productive opportunities, into its value chain. These communities live in the native forests of the Honduran coast, rich in the promising species, Cohune Palm, whose harvest, extraction, and transformation is carried out in a sustainable manner and permits access to differentiated markets.*

Lessons learned

Success factors

- ▶ Buy-in was crucial on the part of the owners and top management of DINANT to develop business initiatives with populations with limited economic resources.
- ▶ The beneficiary population's interest in the Inclusive Business.
- ▶ Active participation of local authorities and community, social, and environmental organizations.
- ▶ The large areas of forest that contain the Cohune Palm not previously exploited.
- ▶ The possibility of applying sustainable management practices to this resource.

Key points

- ▶ The high cost of the nut extraction process and present prices of oil derivatives make the production of biodiesel from the Cohune Nut oil economically unviable.
- ▶ The high quality of Cohune Nut oil makes it marketable at competitive prices to the food, pharmaceutical, and cosmetics industries, thus making it a profitable business.
- ▶ Development of technologies is paramount to improving productivity in fruit gathering and transport, and in the nut extraction processes, in order to make this activity profitable for the company and the families.
- ▶ The possibility of using Cohune Nut biomass to generate energy is very important for the families that extract nuts, in order to generate additional income for a product that until now has lacked commercial value.
- ▶ Programs focused on training, negotiation, and sustainable use of resources should be carried out under a framework of respect for the cultures of each of the ethnic groups that participate in the Inclusive Business.
- ▶ Farmers, Garífunas, and ethnic groups have the possibility of establishing nut-extracting microenterprises.

Difficulties and barriers

- ▶ Lack of appropriate technology to extract the Cohune Nut.
- ▶ Fluctuations in fossil fuel prices.
- ▶ Price instability of oils in the international market.
- ▶ Difficult access to fruit gathering areas.

The future

On the basis of the initial results of the second phase of the pilot project, plans are being made to increase the number of families involved to 950 families who live close to the pilot project. A third phase will expand coverage to the entire Atlantic coast of Honduras to include over 10,000 rural families.



Banana producers from the Chira Valley in Northern Peru compete in international markets

Dole Peru



Summary

From the Chira Valley in northern Peru to premium markets such as the United States, Japan, and Europe, small-scale Peruvian producers are learning to work competitively in organic markets. From this valley, Dole Peru exports organic bananas under a model that involves small-scale producers in its value chain as suppliers of high-value agricultural products.

The strategic proposal of this Inclusive Business is to strengthen the capacities and optimize the efficiency of producers in order to enable them to enter the international market; at the same time the company is able to improve its competitiveness, enhance export process efficiency, and increase sales. Today, the Inclusive Business includes some 1,600 small producers who expect to increase their income by 20% over two years. The proposed business model should yield benefits for both the company and the producers.

Background

Established in Hawaii in 1851, the Dole Food Company Inc. is an international corporation dedicated to the sale of fruits and vegetables, whose principal markets are the United States, the European Union, and Japan, where it sells bananas with organic certification. In 2007 the company reported an income of US\$6,900 million and a presence in 90 countries, making it the world's largest producer and seller of fresh fruits and vegetables. Dole also markets a growing line of frozen and canned foods.

In 1998, the Ministry of Agriculture of Peru in collaboration with the Dole Company and International Network for the Improvement of the Banana and Plantain (INIBAP), implemented the Organic Banana Program in the Chira. Through this program, incentives were given to producers to encourage the use of "guano"—sea bird excrement—as organic fertilizer. At the same time, private companies were encouraged to seek and invest in organic certification. Banana producers were able to enter and take advantage of the benefits yielded by markets for organic certified produce. The first exports of organic bananas were made from Peru in June 2000.

Over the last ten years, exports of organic bananas from Peru have grown; in 2008 Peru became one of the world's main exporters of the fruit, with sales of 80,000 metric tons for a total FOB value of approximately US\$45 million. Some 60% of these sales were directed at the European Union, followed by the United States with 31%, and Japan with 9%.

Until 2001, Dole operated in Peru through local companies that sold to Dole on an FOB basis. However, in that year the company began buying directly through the Peruvian Banana Development Corporation (COPDEBAN S.A.C.), an export company that is the top banana exporting company in Peru with a market share of 45% in 2008.

Other banana exporting companies include Biocosta with a market share of 19%, the Hualtaco Group with 12%, Inkabana with 7%, Pronatur with 6%, and Organia and Cepibo with 4% each.



Company: Dole
Country: Peru
Industry: agriculture
Population involved:
1,600 organic banana
producers from the
Chira Valley



“By exporting a product of excellent quality and achieving enormous social impact by including small-scale producers in our value chain, we continue to be a leading company in the world market for organic bananas.”

COPDEBAN

Calor Alberto Santos
General Manager



Current situation

During the last decade, the sustained increase in international demand for organic products, has opened an important market opportunity for banana exports from Peru: these markets were expected to grow at an average rate of between 1.5 and 3.3% in 2010, a context that offered the Dominican Republic, Ecuador, and Peru an opportunity to become the principal suppliers of this fruit.

Banana production in Peru is concentrated in the Chira Valley—75% of production comes from this region—which is part of the province of Sullana in the department of Piura, located in the north of the country. Market conditions have favored this region. However, despite the region’s importance as a hub for organic production, low levels of humidity and high light emittance, a significant number of factors have limited the region’s capacity to take full advantage of this opportunity. First, the area is characterized by the presence of small land holdings of less than one hectare, making it difficult to achieve economies of scale, since most of the region’s farmers practice subsistence farming. Added to this, low levels of productivity, efficiency, and sustainability in banana production limit the capacity needed to satisfy growing international demand.

Producers in this area face difficult conditions that have affected their capacity to access markets, and therefore, their capacity to improve their income. The lack of financial resources to obtain organic certification is one limiting factor confining producers to local markets, in which demand for organic bananas is almost insignificant. As a result of this, banana producers have been obliged to negotiate individually with middlemen thereby earning as little as one-third of what they can earn from the export market for organic bananas.

The net profit for a producer in this region is estimated at US\$1,400 per year, which places them in the low-income segment; approximately 27% of families in the Valley have a daily per capita income of less than US\$2.

Finally, the absence of technical capacity to efficiently pack fruit for export makes it difficult for producers to gain access to and participate in international markets, in a competitive and sustained manner.

Banana producers from the Chira Valley in Northern Peru compete in International markets

Some traditional crops directed towards the national market, such as rice, constitute one of the main alternatives available to producers in the valley to generate additional income. However, because of their low negotiating power, the prices they receive for these products have traditionally been unfavorable. In addition, the irrigation system and the amount of water used to maintain these crops have negative effects on future soil productivity and the efficient use of water resources.

Experience has shown that profits generated by producers in this area improve as productivity indices increase and as producers acquire management capacities. These allow them to create value in the banana production chain and in turn make it possible for them to better take advantage of the international market. At the outset of this project, achieving sustainability and efficiency in banana production was a challenge. Similarly, banana growers lacked the capacity and leadership necessary to create producers' associations that would have helped improve efficiency in packaging the bananas and maintaining sufficiently high produce quality to give them access to the international market.

The Inclusive Business model

The challenge: To change the relationship with banana producers; to migrate from a model in which the company buys the fruit off the tree individually from each producer, to a model in which associations of producers sell the packaged product.

Design: Under this Inclusive Business model a series of activities were developed aimed at transitioning from the individual purchase of fruit on the tree to the purchase of the packed fruit. Investments made by Dole focused on improving efficiency and quality control in the export process. By implementing this, Dole reduced the risk to its core business by assuring that production and control processes operated according to international standards requirements. The company has invested in technical training, packing processes, and promotion of an organizational culture among producers in order to assist them to come together to form associations.

The ultimate objective is for the producers' associations to take over responsibility for the organic integrity of the fruit. To this end, Dole has worked with them to transfer the organic certification. Similarly, Dole has worked to strengthen the organizational and management capacities of producers. Since June 2008, producers' associations have been responsible for fruit harvesting and packing activities.



COPDEBAN (Dole-Peru) in numbers (as of December 2008)

- ▶ 33 employees.
- ▶ US\$ 20.49 million in sales.
- ▶ 45 percent participation in total Peruvian organic banana exports.
- ▶ Over 70 customers in the United States of America, Europe, and Japan.

Why is this an Inclusive Business?

► *Under its long-term strategic vision Dole links small-scale banana producers to the company's core business through a mutually beneficial relationship that increases the efficiency of the export process by reducing waste and improving the effectiveness of the training programs for producers. The transfer of such capacities contributes to generation of sustainable incomes for the producers and improves employment conditions in an economically depressed zone that has a great potential for agricultural businesses.*

Dole also started a training program for the workers in producers' associations. The trainees are now responsible for selecting personnel and supervising their work.

As part of efforts to improve productivity indices, and with the support of SNV and the IDB-MIF, Dole is now implementing a complementary program for 750 small-scale producers to strengthen their entrepreneurial management capacity and facilitate access to certification processes. These producers mainly belong to new associations located on the left border of the Chira River, an area that presents favorable competitive conditions.

Although this group of producers has many years of experience in organic banana production and has improved its production standards and agricultural practices, there is still room to increase productivity and incorporate other certification standards that will assure more stable access to international markets.

COPDEBAN (Dole Peru) buys organic bananas from producers and supplies them to Dole, which is responsible for importing and marketing bananas in the countries of destination, and selling them in retail markets.

The DOLE Peru Foundation supports producers' associations to develop investment profiles for the community and provides advice to help the associations attract investment. Dole Peru donates US\$1 to the project for each box sold through COPDEBAN. The Foundation distributes funds for approved projects and monitors the adequate use of such funds.

Population involved: 1,600 producers grouped in 10 associations and one cooperative. These producers have, on average, one hectare of land each, elementary-level education, limited access to financial services (such as credit, savings, and insurance), and are not familiar with the technical aspects of organic crops.

Institutions involved: COPDEBAN, the operator for Dole in Peru; SNV, a social development enterprise that assists in the construction of mutually beneficial relationships between producers and COPDEBAN; the DOLE Peru Foundation, entrusted with developing programs and actions for Corporate Social Responsibility; and the MIF.

Banana producers from the Chira Valley in Northern Peru compete in International markets

Investment: Dole and MIF have invested US\$273,656 and US\$112,064 respectively in business, environment, education, and community development.

Achievements and results

For the company

- ▶ Improvement in the competitiveness of organic bananas in international markets.
- ▶ Stable provision of organic bananas that satisfy market demand and correspond to quality standards required by consumers.
- ▶ Increase in the levels of production efficiency and a reduction in banana waste, which decreased from 40 to 30%; in turn the overall efficiency of the packing process has been significantly increased.
- ▶ Reduction in costs and increase in export sales by approximately 10% in both cases.
- ▶ Creation of long-term conditions for the purchase of organic bananas leading to a reduction in operating risks. Greater synergies achieved in the value chain.

For producers

- ▶ Increase in net income by 20% over two years.
- ▶ Consolidation of technical and production capacities, that resulted in an increase in productivity of 15% per cultivated hectare.
- ▶ Access to international markets under sustainable conditions through organic certification.
- ▶ Creation of an organizational culture that allowed producers to transition from individuals working in isolation towards an associative and empowering model responsible for the packing process.
- ▶ Forward integration in the value chain.
- ▶ Considerable improvements in reducing waste products due to the fact that producers now pay for the packing services and as such are able to select, supervise, and demand good performance from the packing crews.
- ▶ Adoption of more efficient and environmentally friendly production technologies.

For the community

- ▶ Investment plans financed with the resources obtained from the Foundation.





- ▶ An increase in employment levels, as a result of the dynamic economy generated by complementary banana production-related activities.
- ▶ Creation of 108 new jobs in the packaging process that has been taken over by the producers' associations, including necessary training.
- ▶ Improvement in the labor conditions of workers participating in the banana packing operation, such as access to medical services and social benefits.
- ▶ Migration of inhabitants of the region to more urban areas has been discouraged, due to the new employment opportunities offered to the children and relatives of producers.
- ▶ Improvements in the management of solid waste enabling better control of the infections that could present a risk to the health of the community.

Lessons learned

Success factors

- ▶ Establishment of trust and credibility between the company and producers, which creates a solid foundation for a long-term business relationship.
- ▶ Interest and commitment from the company in creating conditions that establish a mutually beneficial relationship with the producers so that they can take advantage of favorable market conditions.
- ▶ High degree of empowerment and leadership levels achieved by producers, because of the development of their technical and organizational capacities and the creation of market incentives, which transformed them into active participants in the business.
- ▶ Creation of tangible benefits for producers as they developed their management capacities and changed their working relationship with the company; this has enabled them to change their participation throughout the banana value chain.

Difficulties and barriers

- ▶ Adaptation of a business model that allowed the company to reduce operating risks in an international organic market.
- ▶ Low organizational capacity of producers that hindered the progress toward a model in which the producer can advance within the organic banana value chain and the company can focus mainly on sales.

Banana producers from the Chira Valley in Northern Peru compete in International markets

- ▶ Low levels of production efficiency and scale.
- ▶ Low levels of productivity associated with high waste indices throughout the harvesting and post-harvest processes due to the learning curve.
- ▶ Absence of organically certified hectares owned by producers or producers' associations.
- ▶ Considerable production costs due to high prices of organic fertilizers.
- ▶ Low product profitability.

The future

In the long term the company plans to transfer all packing infrastructure to the producers so that each association has its own packing center, which would allow the company to avoid transporting the product over large distances with the corresponding damage to the fruit. Likewise, the transfer of other processes to the associations would be ideal. The associations could be responsible not only for production and packing, but would also take over export activities so that the product is delivered in a more timely fashion to the destination market.

It is expected that the number of producers involved in the Inclusive Business will increase to 2,500.





Inclusive business with distributors

This section describes examples of how anchor companies can use the Inclusive Business model to link low-income populations to their business activities as distributors of their products or services.

By including low-income populations in their value chains, companies are able to expand their market share and distribution to less accessible areas. In turn, the families involved benefit from job creation, knowledge transfer, improved living conditions, and a more dynamic economy.

“Well-being at Home”

An opportunity for improving income and family nutrition

A novel system for direct multi-level sales presents a great opportunity for low-income housewives to develop an interesting economic activity

Nestlé Perú

Summary

Taking advantage of its market position and in line with the Inclusive Business philosophy, Nestlé Peru teamed up with SNV to identify an opportunity of opening a new sales approach. Under this approach, housewives from low-income populations are offered training so that they can supplement their income by becoming distributors of Nestlé Peru products. In return, the company offers them training in nutrition, health, and well-being, which benefits them and their families.

“Well-being at Home” is Nestlé Peru’s first experience with a direct multi-level sales system. To kick-start the project, the company began by organizing a series of group sessions with housewives from the low-income segment to determine the feasibility and format of the business proposal, and to determine consumer profiles. These meetings were held with both the saleswomen who would distribute the products, as well as with possible consumers.



In order to implement this project, the company had to make several internal adjustments to open up a new sales channel in the food industry. These adjustments were principally related to its sales systems, the human resources team and its responsibilities, and the design of a multi-level sales system and motivational plan.

At present “Well-being at Home” benefits more than 350 housewives from low-income families, who have been trained as Well-being Advisors. They have been able to increase their monthly income through sales of Nestlé Peru products, while at the same time learning about health and wellbeing, which benefits not only these women, but also their families and customers.

Background

The Nestlé Group was originally founded in 1867 by Henri Nestlé, a chemist of German origin, who developed a food called Farine Lacté. This product was very successful in overcoming high levels of child malnutrition and mortality that were prevalent at the time. Nutrition thus became the cornerstone upon which the company is based. Nestlé has become a world leader in the food sector through a focus on the principle of ‘good food means a good life’.

Currently, the group has operations in 130 countries and is becoming a world leader in the areas of nutrition, health, and well-being. The company offers a wide variety of products, which range from dairy, coffee, and drinks, to candy, ice cream, and animal foods.

Nestlé has been in Peru since 1919, starting initially with the importation and marketing of its products and later going on to installing manufacturing plants for several of its product lines in Chiclayo, Cajamarca, and Lima.

The company is a leader in the food sector. It has over seventy brands in the Peruvian market and at present over 99.5% of urban homes in the country consumes Nestlé Peru products.¹



- ▶ Company: Nestlé Peru
- ▶ Country: Peru
- ▶ Industry: Wholesale and retail trade
- ▶ Population involved: Over 350 Wellbeing Advisors



1. Latin Panel Company.



“Nestlé Peru applies a novel system of multi-level direct sales for housewives with limited resources as its Inclusive Business model. On the one hand this generates economic and nutritional benefits for these women; while on the other hand, benefits exist for brand positioning and profits of the company.”

Nestlé Peru S.A.
Carlos Velasco
Carreón
General Manager

The company has a strong sense of corporate social responsibility. This is reflected in the creation of Creating Shared Value, which generates benefits both for stockholders and for society in general through the company's business activities and value chain. The company has three distinct components of its value chain: agriculture and supplies; environment and manufacturing; and products and consumers. In addition, it is developing different corporate principle-related initiatives to address nutrition, health, and well-being, which add value to Peruvian society.

Current situation

The food market in Peru is worth approximately US\$6 billion per year; between 30 and 35% of this market is concentrated in Lima, the capital of the country.

Between 2007 and 2008 the rate of absolute poverty in Peru was reduced by 3.1%, from 39.3 to 36.2%.² Absolute poverty refers to Peruvians who earn up to US\$86 per month of disposable income and is equivalent to the minimum needed for basic food and non-food amenities.

Additionally, there has been a 1.2% decrease since 2007 of people living in extreme poverty, which represents 12.6% of the total population whose expenditure is approximately US\$48 per month or lower. Although significant progress has been made in poverty reduction in Peru, greater efforts are needed to improve the effectiveness of public expenditures and social programs.

As far as nutrition levels are concerned, in 2007 the Pan-American Health Organization (PAHO) estimated that Peru had one of the highest levels of malnutrition in Latin America. The situation is especially critical in relation to chronic child malnutrition, which has continued unaltered during the last 10 years, in spite of an annual investment of US\$250 million dollars directed toward food assistance programs.

In this social context and within the framework of its business philosophy, Nestlé Peru identified an opportunity for developing an Inclusive Business. It saw that the company could augment its activities in some of the least favored social and economic strata of the population by offering poor families a way to increase their income while at the same time increasing their knowledge of good habits for nutrition, hygiene, and physical activity.

2. Report from the National Statistics Institute - INEI. May, 2009.

“Well-being at Home” An opportunity for improving income and family nutrition.

The Inclusive Business model

The challenge: To strengthen the company’s position in the low-income socio-economic strata. This is achieved by offering housewives the possibility to increase their family income and knowledge through multi-level direct sales of Nestlé Peru products. This fits in with the company philosophy of Shared Value Creation as well as with the company’s focus on nutrition, health, and well-being.

“Well-being at Home”, began in January 2009 and has rapidly come to be recognized as highly beneficial for those wishing to develop entrepreneurial activities. Overall it facilitates income increases and additional benefits, both for those involved in the Inclusive Business at a grass-roots level, as well as for those involved in the distribution and sales sectors of Nestlé Peru.

Design: “Well-being at Home” operates through a direct multi-level sales system (DMSS), which allows low-income housewives to get involved either as saleswomen or product distributors.

In return the saleswomen and distributors receive training in nutrition and good food habits. This enables them to offer nutritional advice to consumers, as well as relevant information regarding Nestlé Peru products and basic family shopping in general. This is a fundamental added value of the business, which aims to improve the quality of life of all those involved in the project, whether as salespersons, distributors, or consumers.

In 2009, which marked the beginning of the first phase of the project, Nestlé Peru’s new marketing scheme incorporated 350 housewives from the San Juan de Lurigancho district as Well-being Advisors (WA). The WAs sell on recommendation or from the company catalogue. As saleswomen and distributors, these women receive additional income, which is intended to cover basic needs such as clothing and education for their children, paying off debts, household expenses including food, reinvesting in their business, as well as personal expenses.

3. Latin Panel Company.

Nestlé Peru in numbers as of December 2008

- ▶ 1,619 employees
- ▶ US\$ 350 million in sales
- ▶ Approximately 20.3 million consumers at a national level³
- ▶ A leading company in the food market
- ▶ Over 100,000 points of sale
- ▶ 1,700 direct suppliers and 7,000 dairy farmers that supply raw-materials
- ▶ Processes approximately 250,000 liters of milk per day.





Efforts have been made to strengthen the marketing channels and generate an increased interest in Nestlé Peru products by including prizes and offers that benefit the saleswomen and consumers.

The women involved in the project generally have had minimal access to information on nutrition and how best to manage it. This often leads to deficient food habits and problems in family nutrition. As part of the business model, the women are given access to a sales and nutrition training plan to be able to distribute Nestlé Peru products as WAs and later on advance to being business promoters.

Many of these women previously worked outside the home in stable jobs or independently, but had set aside their work in order to care for their children or relatives. These women have had to sacrifice their personal advancement to take care of their families and dedicate themselves to being housewives: an activity that is generally not recognized as a job.



Faced with a lack of employment opportunities and the economic needs of their households, these housewives find themselves searching for some means of earning extra income. As a result of the income generated from catalogue product sales—such as the “Well-being at Home” program—or other economic alternatives that do not prevent them from fulfilling their responsibilities at home, the WAs are able to organize their time as they see fit. As independent employees they can meet their household demands, while selling products to consumers in their free time.

Population involved: Over 350 Well-being Advisers, including mothers and working women at the C2 and D socio-economic levels⁵. On average the WAs are 37 years old, with families of 3.6 members (parents and their children). The majority are housewives with a high school education or a few years of further education. The consumers are also housewives at the C2 and D social-economic levels who live in working-class neighborhoods in Lima or other regions of Peru.

5. Social-economic levels of Greater Lima – 2007”, Ipsos APOYO Opinión y Mercado S.A. Social-economic level C2: having an average monthly family income of US\$398. Social-economic level D: having an average monthly family income of US\$282.

“Well-being at Home” An opportunity for improving income and family nutrition.

Institutions involved: Nestlé Peru; the operating company that distributes Nestlé products in the geographic area that is in direct contact with the WAs; and SNV, that facilitates mutually beneficial relationships between the company and the population involved.

Investment: Nestlé Peru: US\$123,300

Other funds: US\$27,000

Achievements and results

For the company

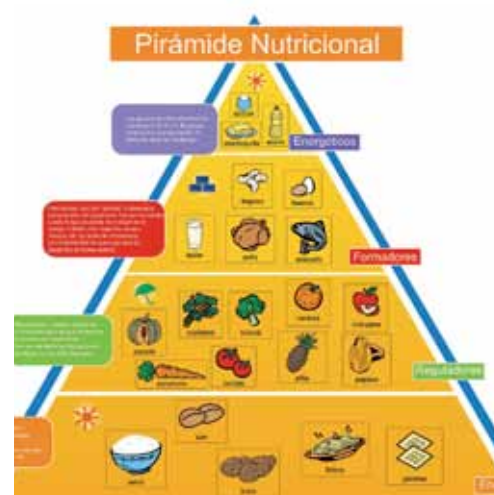
- ▶ A new marketing scheme in which growth is defined by penetration into households, and not by the number of points of sale.
- ▶ The presentation of Nestlé Peru value added products directly to the consumer, without having to compete for shelf-space with other products in stores.
- ▶ Savings in distribution chain costs, advertising and sales.
- ▶ The first multi-level sales system for mass consumption products in Peru, specifically designed for low-income populations.
- ▶ The inclusion of 350 WAs since July 2009.

For the Well-being Advisors (WAs)

- ▶ Training and greater general knowledge of nutritional and related issues.
- ▶ An average profit margin of 19%.
- ▶ An increase in monthly income.
- ▶ Strengthened credit culture, which increases the possibilities of accessing loans from the formal financial sector in the future.
- ▶ Improvements in food habits, body mass index, and the fat percentage of WAs and their children under 12 years old, resulting from the nutritional management program.
- ▶ Improved self-esteem among the WAs, who are now able to generate their own incomes.
- ▶ Personal development of the WAs, who have improved their communication capabilities, expanded their social networks, and increased their opportunities for recreational activities.

Why is this an Inclusive Business?

- ▶ “Well-being at Home” is a new sales system that forms part of Nestlé Peru’s core strategy to achieve greater penetration in the low-income market segment. In doing so, it generates value for the families involved, improves their level of income, expands their knowledge of nutrition, and strengthens their entrepreneurial vision.





- ▶ An acknowledgement of the WAs for the work they are doing.
- ▶ Motivation to increase their knowledge about nutrition, used to benefit their family and social environment.
- ▶ WAs' acceptance of their new roles as female entrepreneurs.

Lessons learned

Success factors

- ▶ Extensive knowledge of the needs, motivations, and profiles of the target consumer and distributors, both of whom belong to low-income populations.
- ▶ Adapting the company's internal operations to work with the new market.
- ▶ Training programs developed by people and institutions that have experience in the necessary topics, as well as experience in working with low-income populations and the ability to use appropriate language and methodologies.
- ▶ Creating an exemplary Inclusive Business in the food sector involving low-income distributors and consumers, developed through an alliance between Nestlé Peru and SNV. This has allowed Nestlé Peru to become the first company of mass food consumption that uses this type of marketing channel and has allowed SNV to strengthen its knowledge and positioning as an institution specialized in the development of Inclusive Businesses.

Key points

- ▶ The importance of matching the responsibilities and expectations of the different sectors of the company involved in the Inclusive Business. It is essential to take advantage of the expertise of each company sector/division and to coordinate the actions of the entire team in order to succeed with the business model.

Consumer knowledge gained by the WAs involved in the program can be used to make improvements to the business.

“Wellbeing at Home” An opportunity for improving income and family nutrition.

- ▶ It is essential to have a good selection process for the distributors involved in the business.
- ▶ The priority for the WAs was to start a business where they could generate an income through sales in the short-term; this was achieved by the development of a system with effective, yet short-term, preparatory procedures.

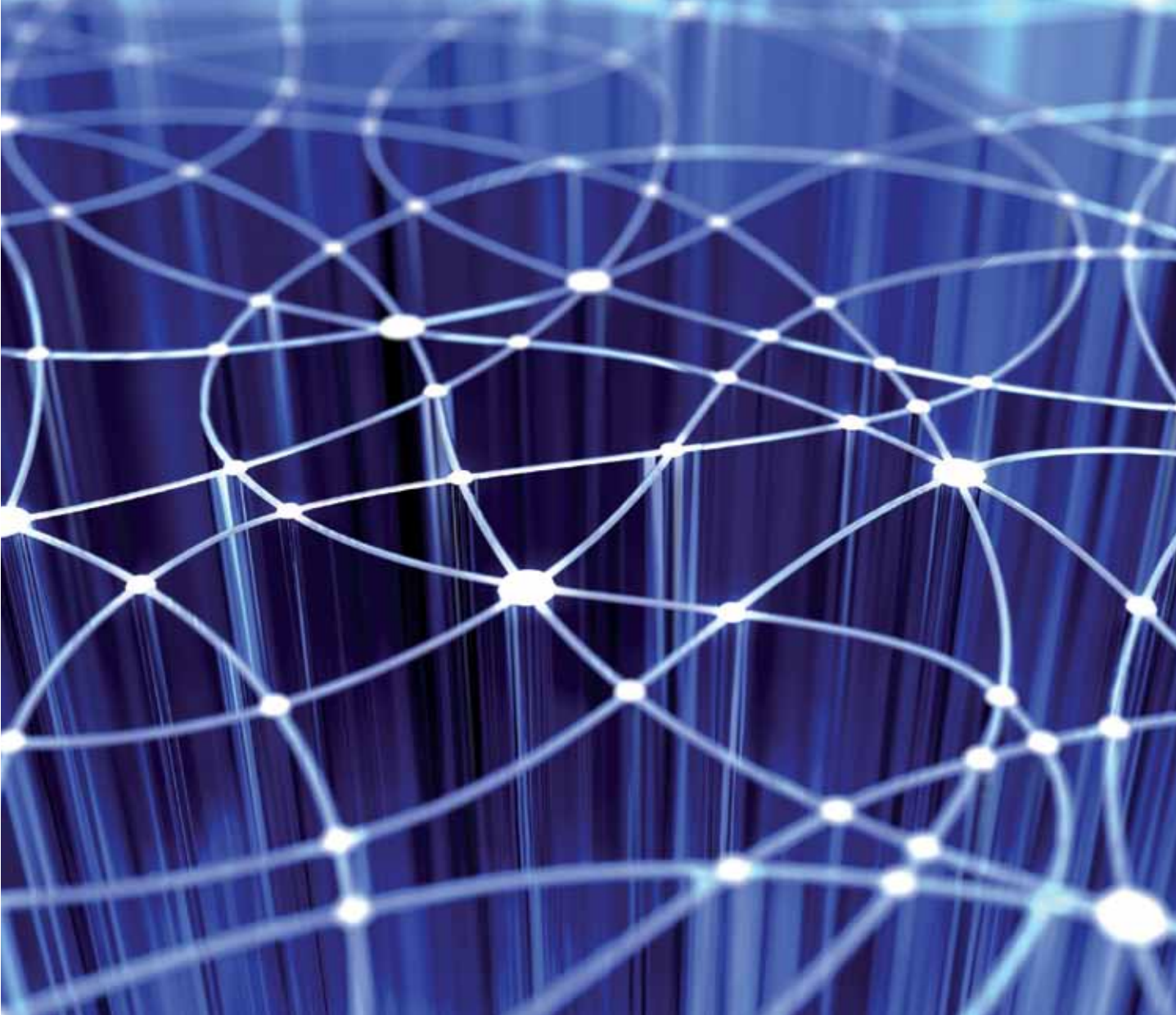
Difficulties and barriers

- ▶ The logistical adaptations necessary to facilitate the distribution of products to the WAs.
- ▶ The lack of a financial culture within the consumer and distributor populations.

The future

During the first year of the project Nestlé Peru sought to incorporate 1,500 Well-being Advisors in its new distribution system by expanding the “Well-being at Home” program to other districts of Lima; in the medium and long-term the company plans to expand the program to other provinces in Peru.





New platforms for Inclusive Business

The following two examples showcase projects where new platforms have been leveraged to facilitate the participation of low-income populations in Inclusive Businesses, and thereby help bring include them into the formal sector.

The first case is an example of how communications technologies have been used to enable participants in Inclusive Business projects to gain access to the information needed to make business decisions. The platform also allows monetary transactions to be made in a dynamic manner, thereby simplifying and reducing the logistical processes that can slow the growth of Inclusive Businesses.

The second case demonstrates how the creation of meeting spaces for public entities and private corporations with micro, small, and medium-sized enterprises has been used to facilitate negotiations for all stakeholders. This generates a dynamic business environment for sharing experiences and establishing favorable conditions for all participants.

Technological efficiency in Inclusive Businesses: E-connecting

Summary

The multinational company E-connecting allows all those involved in the development of Inclusive Businesses to access new technologies, share information and make financial transactions at a low cost. E-connecting specializes in the integral management of connecting and communications projects for different stakeholders in the value chain, with the objective to increase their productivity and competitiveness.



E-connecting offers a technological and communications platform that allows users to exchange data, money, and information through cell and conventional phones, the Internet, and automatic teller machines, among others. Thanks to this platform companies can increase their efficiency, reduce their investments in new technologies, and create added value for their production chains. This frees them up to concentrate their efforts and resources on their core products and services. Furthermore, the services that these companies offer are key to improving the quality of life of low-income consumers, giving them access to emerging technologies and the use of low-cost multiple electronic transaction channels.

Background

E-connecting is a multinational company established in 2008. It currently has a presence in Bolivia, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru. It was founded by parent company Síntesis S.A. as a small Bolivian enterprise for online transactions. In 1996, one year after the establishment of Síntesis S.A., the company had seventy thousand users. By 2000 Síntesis S.A. had a presence throughout the region and was able to direct its growth toward the development of world-class technologies. It is currently the largest financial transactions company in the region, with two million users and hundreds of millions of transactions every year. Síntesis S.A. is the principal shareholder of E-connecting.

Current situation

In March 2007 the WBCSD–SNV Alliance decided to work with Síntesis S.A. The goal was to establish an Inclusive Business directed at developing innovative technological instruments, which would allow small financial transactions to be made at a low cost.

The Alliance identified a great opportunity for providing this service through mass distribution channels integrating existing technological infrastructure with various service points in cities and remote rural areas. Today, the Alliance has more than 70 Inclusive Businesses in eight countries throughout Latin America. Its work with Síntesis has demonstrated that it is possible to facilitate transactions in all businesses throughout the region.

Based on experience already acquired by Síntesis, a proposal was conceived to create a service for small transactions at a low cost and with a wide coverage. The proposal sought to integrate different micro-finance entities through a single administrator. This service was to be aimed at low-income populations, whose needs generally are not covered by the traditional financial sector.

Thus E-connecting was formed: a company that offers a specialized platform to comprehensively manage the Inclusive Businesses promoted by the Alliance, connecting and integrating the various stakeholders in the value chain. The service it offers is tailor-made, low-cost, and seeks to increase the productivity and competitiveness of each Inclusive Business, using the most basic to the most advanced technology. Additionally, its presence in different Latin American countries offers the possibility of developing regional Inclusive Businesses.



- ▶ **Company:** E-connecting
- ▶ **Countries:** Bolivia, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru
- ▶ **Industry:** Technology and communications services
- ▶ **Population involved:** Over two million users



“Information and communication technologies (ICTs) are a great ally in the development and facilitation of Inclusive Businesses, since they efficiently integrate, at low cost and with relatively few geographic limitations, various participants in the value chain, allowing low-income populations to benefit from new sources of employment and to improve their quality of life.”

E-connecting

Jorge Kuljis

Executive President

One of the most important discoveries of this platform was that the majority of development projects do not have a budget or plan for investing in new technologies. However, they do have the capacity to outsource certain services to third parties, and thus could take on the transaction costs charged by E-connecting.

The platform model for Inclusive Businesses

What is E-connecting?

E-connecting is a company that uses technological platforms to facilitate mass transactions of information and money at a low cost, while promoting economically inclusive projects in a timely, safe, and pioneering manner.

The services offered include the exchange of data, money, and information among very large numbers of participants in Inclusive Businesses, such as companies, financial and public entities, farmers, and low-income producers and consumers.

How do E-connecting services operate?

E-connecting allows companies to focus all of their investment and attention on their production areas and to leave other business processes to an external provider who focuses on improving performance. The platform also allows the safe execution of a high number of transactions. In addition, it enables users to access various alternatives, so that their customer is able to access registration, payments and collection processes online. The alternatives include traditional ATMs, the Internet, computers, PDAs, fixed and mobile sales outlets, automatic tellers, and cell and fixed telephones. E-connecting charges for its services based on the number of transactions made or a minimum monthly fee.

Benefits offered by E-connecting include a more efficient service for the consumer, greater integration of all actors in the value chain, increased efficiency of Inclusive Businesses, decreased costs as a result of shared economies of scale, and a positive cost-benefit relationship.



How is E-connecting applied in practice?

E-connecting offers four distinct services: electronic integration of the value chain, traceability, virtual checking accounts with multiple channels, and safe transactions using biometrics.

Electronic integration in value chains

The platform offers specific solutions for each direct or indirect stakeholder who participates in the production or distribution chains, by integrating the general and financial information of all those participating in the Inclusive Business.

Information flows electronically from the first link in the production or distribution chain to the final consumer. For example, a company that buys and exports bananas can consolidate the information generated throughout its entire chain, ranging from technical assistance services, production levels, delivery of inputs, and commercial data to information related to the processes for organic or fair trade certification. In this manner, the company makes its processes much more agile and makes tracking each link of its value chain much easier.

Traceability

The platform permits online consultations of the history of a specific production process. This is done by consolidating the transactions specific to each crop, such as certifications, quality, and volumes of production, as well as other processes, such as product handling in collection centers, classification of product batches, and the processing, packaging, and the logistics of delivery to the client. Fixed and mobile terminals, coupled with low-cost technologies, are used throughout this process.

For example, a company purchasing cocoa can establish geographic references for farmers' fields and monitor weather conditions, soils, and production to calculate the correlation between the quality of the cocoa and the region in which it is produced. This information is of vital importance for specialized markets such as those for organic and fair trade products.

Virtual checking accounts

E-connecting permits people without access to banking services to have access to low-cost, virtual checking accounts to carry out multiple business transactions. This service uses various devices as platforms for access, including cell phones, personal computers, and points of sale, among others.





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For example, a company that buys coffee could use E-connecting services to pay its suppliers. When the company receives the coffee, it credits each supplier with the corresponding amount of money in a micro-finance account, which automatically registers in their cell phones. Once the money has been credited to the account, the supplier may carry out purchases in places that have a point of sale, such as gas stations and supermarkets. The producer is also able to request cash advances. The producer's cell phone becomes a debit card and ATM.



A further benefit of the virtual checking account service is the decrease in the risk of assaults and robberies suffered by users. Transactions are made electronically, which removes the need to carry around large sums of cash.

Transactional biometrics

Through this service, E-connecting enables its clients to confirm the exact place and time in which a transaction was made or a specific service was provided. This service initially arose from the need of an agro-industrial company to manage a technical assistance service it provided to its suppliers.

This company found that in 80% of cases the consultants hired to provide such assistance did not go to the field, as specified in their contracts, but provided their advisory services from their offices. Not surprisingly, this resulted in very low impacts on the performance of their suppliers at harvest time. Now, with the new biometric technologies⁶ provided by E-connecting, the company can achieve a high level of quality control over the training provided to consultants.

6. Biometrics is the study of automatic methods to recognize a human being on the basis of physical characteristics or intrinsic behaviors. In this case this was done using fingerprints.

Now, when the consultants go to the field they carry a device with them that reads the fingerprint of the producer and connects to a cell phone which provides a geographic position by means of a global positioning system (GPS). After the training session, the producer once again places a finger on the device, which allows the company to be certain that the consultant did indeed go to the indicated place and meet with the producer for the specified time.

This service also allows the company to keep a record of how much time each instructor spends with different producers in different training sessions. The company can then analyze the efficiency of the training and learning processes, based on the harvest results obtained. This service allows the company and producers to focus on their principal activity and maintain control of other activities with E-connecting services, provided at a minimum cost.

Likewise, this service may be used to prove the identity of producers entitled to specific payments, thereby minimizing the risk of fraud.

These four examples illustrate the multitude of functions offered by E-connecting technological and communications platforms. There is great potential to develop new services, particularly because E-connecting is a flexible and agile platform that enables the creation of tailor-made solutions for each customer, based on the particular needs that appear during the development of each Inclusive Business.

The electronic services provided by E-connecting facilitate the development of Inclusive Businesses and optimize their profitability. Whether applied to production and supply activities or activities relating to the final consumer, this system creates value for all participants in the different value chains. This service focuses on improving the quality of life of low-income communities by providing access to new and innovative technologies and offering many different options for completing electronic transactions.

Achievements and results

For the company

- ▶ Development of the E-connecting technological platform.
- ▶ Adaptability of the platform design, enabling the implementation of new business operations in large volumes and with a high impact.

Why is this a platform for Inclusive Businesses?

- ▶ The innovative aspect of E-connecting facilitates access to new technologies for all participants in Inclusive Businesses.

This platform permits companies to achieve greater efficiency, reduce investments in new technologies, and create added value in their production chains, which allows them to focus on their core business activities.

- ▶ The services offered contribute to improving the quality of life of low-income users, due to the efficiency and safety of the transactions. The services permit easy and timely access to information, which allows users to make better decisions, save time, and receive personalized technical assistance from the “anchor” company.

- ▶ Two programs are currently in operation: an Inclusive Business in Peru in the fruit production sector and another in the dairy sector.
- ▶ The company employs 90 people of whom 75% have studied at the graduate level.
- ▶ Investment of over US\$1 million to date.

Lessons learned

Success factors

- ▶ The global leadership of the SNV-WBCSD Alliance, which provides consistent advisory services, and dedication on the part of SNV, active in eight countries.
- ▶ The conceptual approach to Inclusive Business, which is a special market niche that must receive attention in order to unleash the potential of the 70 initiatives currently being developed.
- ▶ The presence of different value chains formed around Inclusive Businesses, which allows the identification of potential opportunities and the formulation of service agreements in line with the specific requirements of each one.
- ▶ The use of innovative technologies that permit low-cost transactions.
- ▶ The development of mobile applications.
- ▶ The integration of transactional biometrics to guarantee user security, such as the use of fingerprinting.
- ▶ The creation of added value to businesses through the adaption of different technologies, from the simplest to the most sophisticated.

Difficulties and barriers

- ▶ The limited capacity of companies to access information and communications systems.
- ▶ The complexity of services offered and customers' difficulty when trying to understand them.
- ▶ Limitations encountered by the company when seeking to scale up the model to the regional level.

The future

E-connecting hopes to become a leading company in Latin America in the development of technological platforms focused on providing services to the Inclusive Business market niche.

By moving forward and basing its services on new technologies that permit the company to scale up its operations, E-connecting hopes to provide support for new processes of economic inclusion, while at the same time expanding its services to Asian and African markets.

Reverse Trade Fairs: a platform for economic inclusion

The Reverse Trade Fair Foundation

Summary

The Reverse Trade Fair Foundation (Fundación Feria a la Inversa) has developed an innovative tool to promote economic inclusion in Bolivia. This tool facilitates links between large public and private buyers and micro, small, and medium-sized enterprises (MSMEs). Through this tool, buyers use exhibitions to publicly advertise their requirements for goods and services; MSMEs in turn use the platform to advertise their services and products, thereby growing their network of contacts and opening up the possibility of securing more contracts.

Reverse Trade Fairs help strengthen the Bolivian productive sector by fostering cooperation within industrial sectors and promoting strategic business alliances. At the same time they facilitate the inclusion of MSMEs from rural areas and cities in the value chains of large companies and public entities in Bolivia. These fairs also contribute to the expansion and creation of new markets.

Background

The idea of the Reverse Trade Fair was conceived by Flavia Giménez, a Bolivian industrial expert. It was developed as part of efforts to overcome a general trend that excluded MSMEs from the procurement processes of private companies and public entities in Bolivia. Private companies in Bolivia on the whole tend to use closed and unilateral procurement processes, while public sector procurement processes tend to lack transparency. In 2001 the Reverse Trade Fair concept received a prize in the Innovative Initiatives Contest sponsored by the IDB's Multilateral Investment Fund.



Since February 2004, 71 successful Reverse Trade Fairs have taken place in eight of the nine departments of Bolivia, in capital cities as well as in provincial municipalities. Of these, 67 were organized in collaboration with public entities and three with private companies. More recently, a private fair was organized for Minera San Cristóbal, Bolivia's largest mining company and the third largest global exporter of silver and zinc. At the fair, the company was able to advertise its procurement requirements to a large audience and hundreds of bidders were able to secure contracts.

The trade fairs fall into two categories: Public Reverse Trade Fairs and Business Reverse Trade Fairs. In the former, members of the public sector organize the event and set up stands exhibits to announce their procurement requirements and call for bids. They accept and analyze the bids on their stands. Contracts for successful bidders are awarded in public meetings; they must comply with national norms and existing purchasing regulations.

The latter, Business Reverse Trade Fair, is organized by private companies and is directed at large and medium-size companies. Private companies host stands and exhibits on which they announce their sales targets and issue calls for bids. The bidders in turn tender their offers. The calls for bids and the tenders are centralized in an information system that then compares the calls for bids with the tenders. As a result of these fairs, participating companies have adapted their policies and procedures to favor micro-entrepreneurs and ultimately signed business contracts and agreements with them. The first Business Reverse Trade Fair took place in 2004.

The Reverse Trade Fair model

The challenge: To enhance opportunities for Inclusive Business by creating a platform to promote free access to information about public and private procurement processes; to expand and develop new markets for micro, small, and medium-size entrepreneurs; and establish business agreements.



- ▶ **Institution:** Reverse Trade Fair Foundation
- ▶ **Country:** Bolivia
- ▶ **Industry:** Fairs for public and private procurement and tender
- ▶ **Population involved:** More than 35,000 micro, small, and medium-sized entrepreneurs



The Reverse Trade Fair Foundation, Bolivia

“The Reverse Trade Fair is a tool that facilitates access to competitive and inclusive market information. It exhibits public and private requirements in a didactic manner. Visitors can see, measure, and touch samples, learn about the quantity and quality required, the dates and manner of contracting, receive training, submit proposals that will be qualified in public sessions, and gain access to working capital, financing, and technical assistance, if needed.”

Reverse Trade Fair

Flavia Giménez Turba

*National Director of the
Reverse Trade Fair Founda-
tion*

*Creator of the Reverse Trade
Fairs*

*Mauricio Antezana Villegas
Board Member*

Participants in traditional fairs are usually suppliers who offer products or services, while visitors tend in the main to be purchasers interested in buying. In a Reverse Trade Fair, exhibitors announce their procurement requirements and provide detailed explanations of their policies and conditions. The visitors are mainly rural and urban entrepreneurs working in different economic and productive sectors, as well as individual professionals offering products and services that meet the exhibitors' requirements.

Design: The Foundation has developed a “technological package” with all the information on the different phases necessary for the organization of a trade fair. The package provides detailed information to guide the planning and implementation of each stage in the organization of the trade fair.

During the first phase, also known as the Pre-fair phase, training sessions are organized to explain the concept of the Reverse Trade Fair. The Reverse Trade Fair Foundation defines the strategy for micro, small, and medium-sized entrepreneurs who will participate as suppliers, as well as the processes for assistance and technical support for the public and private entities participating as buyers. This phase includes dissemination and promotion activities for the fair.

In the second phase, called Execution, the structure and operation of the fair are decided, including details for the assembly of stands and other exhibition infrastructure. Information systems are also established and the personnel that will work at the fair selected and trained. The Reverse Trade Fair then takes place.

During the third and last phase, called Post-fair, information gathered during the event is systematized and comparisons are made between the calls for bids and the tenders. Finally, a Working Capital Fund provides technical, legal, and financial advisory support to the micro-entrepreneurs who have secured concrete business agreements and signed contracts with the requesting entities.

The Working Capital Fund is made up of private contributions from national and international agencies. It is a non-traditional financing fund with different and more flexible conditions than those offered by traditional banking systems. The Fund has exclusive access to fair participants who have won contracts or have been able to close business deals. The Fund provides working capital for those participants, according to the principle of shared risk, along with technical advice and assistance focused on contract compliance or delivery of the work.

Population involved: More than 35,000 micro, small, and medium-size entrepreneurs have received training to participate in the different versions of the Reverse Trade Fair.

Institutions involved: The entrepreneurial fairs have been supported through working capital funds from the Netherlands Embassy, the Andean Development Corporation, national cooperation entities, departmental chambers, independent chambers such as the Foundation for Production (FUNDAPRO), the Procal Foundation, and the Bolivian Association for Rural Development (PRORURAL). Since 2004 the fairs have been actively supported by CEDES (the Bolivian Chapter of WBCSD), which participates on the Board of Directors of the Foundation, and by SNV.

Public fairs have been supported by different institutions, such as the IDB's MIF, the United States Agency for International Development (USAID), the Netherlands Embassy, and Swisscontact, among others.

Investment: To date, the Reverse Trade Fairs have generated US\$56.8 million in signed contracts.

Achievements and results

For the Foundation

Seventy-two Reverse Trade Fairs have taken place since 2004.

Participation by 292 leading companies in Bolivia in the business fairs, and 98% have expressed interest in continued participation.

Satisfaction rate for participating businesses was 100%, with regard to the quantity, quality, and price of the products and services offered.

An ever-growing trust in the Reverse Trade Fairs was expressed by participating businesses. This was reflected in a 300% increase in the requests submitted, which grew from an average of 80 per company in 2004, to 240 in 2009.

An increase in the effectiveness of the business-sector Reverse Trade Fairs, demonstrated by the number of meetings organized during which contracts were signed. Interviews increased from 1,200 interviews per day during 2004 to 1,711 interviews in 2009, reaching 213 interviews per hour.

An increase of 40% in the participation of MSMEs between the first and second business fairs was followed by a growth of 200% at the third fair. This last increase was in part due to the fact that the fair was held in the industrial city of El Alto.



Why is this a platform for Inclusive Businesses?

- ▶ *The Reverse Trade Fair is an innovative mechanism that facilitates market access to micro-entrepreneurs and enables purchasing entities, both public and private, to identify new and more efficient suppliers of inputs and services. The business contacts established are the starting point from which long-term and mutually beneficial relations between public and private entities and micro-entrepreneurs are developed. In this sense the Reverse Trade Fair is a powerful platform to identify and develop Inclusive Business opportunities.*

The Reverse Trade Fair Foundation, Bolivia



- ▶ Greater transparency and information that favors a more equitable business relationship between buyers and sellers.
- ▶ Structuring of Inclusive Businesses that promote the development of new value chains, associative processes, long-term strategic alliances, and mutual benefits.
- ▶ The creation of new opportunities for employment and business for micro entrepreneurs and the low-income population.
- ▶ The incorporation of this economic inclusion mechanism into the corporate business culture.
- ▶ The development of tailor-made services for MSMEs, with new applications to promote competitiveness and participation in fairs.

For companies

- ▶ To date, four Entrepreneurial Reverse Trade Fairs have been held, one of which addressed the purchasing needs of a large company.
- ▶ The identification of, on average, 50 new potential suppliers.
- ▶ Companies' needs were effectively met 97% of the time. In the third fair, for each call for bids, 1.3 offers were tendered.
- ▶ Favorable cost-benefit relationships were established with the suppliers with whom business agreements were made.
- ▶ The potential to significantly increase the network of possible producers for leading companies.
- ▶ Prices of services and products offered negotiated on competitive terms.
- ▶ Benefits for the company are reflected in a 10 to 15% reduction in contracting costs, and this despite the investment required for participation in fairs—costs of stands, personnel, and communications materials, among others.

For public institutions

- ▶ To date, 67 Public Reverse Trade Fairs have been held.
- ▶ US\$ 8.27 million was saved in contracts, representing more than 15% of total costs.
- ▶ 10,824 contracts signed with MSMEs.
- ▶ US\$ 54.5 million in contracts signed.

For the MSMEs

- ▶ Business opportunities in excess of US\$72 million in public fairs and over 10,000 contracts signed for an amount of US\$54.5 million.

- ▶ Access to opportunities in excess of US\$1 billion during business fairs, more than 15,000 meetings and US\$2.8 million in business deals.
- ▶ Training was provided to 35,000 micro-entrepreneurs, assistance with presentation skills for over 37,000 proposals, and 1,000 successful bidders offered assistance with the execution of contracts.

Lessons learned

Success factors

- ▶ The presence of an executing entity with the necessary experience and a network of high-level political and business relationships.
- ▶ Building of strategic alliances that help achieve desired results.
- ▶ Putting in place organizational logistics processes that are agile and results-oriented.
- ▶ A computerized system that matches supply and demand and qualifies proposals in accordance with the purchasing policies of public entities and private enterprises.
- ▶ A service package that provides technical assistance and training in line with participants' needs and conditions of each fair.
- ▶ A results-monitoring system with concrete and verifiable indicators.
- ▶ An effective promotion and dissemination campaign for the results obtained.

The future

Thanks to a solid network of alliances with public entities, the private sector, and international cooperation organizations, the Reverse Trade Fair Foundation continues its activities in Bolivia. The foundation has started a process to develop pilot programs with bodies in countries that have expressed an interest in the platform.

This international strategy started in 2010 with expansion to six Latin American countries. The Foundation is currently visiting and holding official interviews with governments and representatives of productive sectors in order to develop agreements that will expand its activities. This process is being supported by the IDB's MIF, the Andean Development Corporation, SNV, and CEDES Bolivia, which will facilitate the development of necessary alliances.





Inclusive business with consumers

The following case studies have been developed by “anchor” companies and independent of the SNV-WBCSD Alliance for Inclusive Business. They have been included in this report as examples of the medium and long-term potential of Inclusive Business.

These case studies are all examples of the different ways in which “anchor” companies have integrated low-income populations as consumers of their products or services. They are representative of Inclusive Business models where the company facilitates access to products and services that meet the needs of poorest populations. Since these three examples have been up and running for longer than those presented above, they tend to show greater levels of impact.

Access to finance through a gas distribution service

Promigas, Gases del Caribe, Gases de Occidente, Surtigas



Summary

The Promigas entrepreneurial group and its distributors have drawn on over 30 years' experience in connecting low-income customers to the natural gas network and supplying them with natural gas to diversify the services they offer and provide credit facilities to this same demographic. The result is a new line of business aimed at financing domestic gas appliances and other consumer goods, which has improved the quality of life of low-income consumers and has considerably increased profits for the company and its shareholders—a micro-credit business.

Background

Established in 1974, Promigas is one of the oldest private companies providing public services in the energy sector in Latin America. At present, the group consists of 18 companies dedicated to gas distribution and transport, as well as telecommunication services. It is active in Colombia, Peru, and Panama.

The company supplies natural gas consumed in the thermo-electric plants, cement, petrochemical, and mining industries. Through its distribution companies (Gases del Caribe, Gases de Occidente, and Surtigas) it distributes gas to 160 municipalities and to more than two million homes, 85% of which belong to the lowest economic strata.¹ By doing so it makes an important contribution to the development of natural gas and its mass consumption in the country.

One of the company's strengths is the well-conceived management of its economic resources and the identification of investment opportunities to diversify its portfolio. These advantages allow it to offer high levels of profitability to its stockholders, assure its leadership in the sector, achieve sustained growth, and contribute to the social development of the region.

Current situation

The provision of natural gas generates significant benefits for low-income families in Colombia. Gas has a number of advantages when compared to other options for domestic fuel, including reduced risk of burns and respiratory diseases (especially in children), low costs, and reduced environmental impacts.

Despite being much more accessible than other services, the cost of connecting and installing natural gas is a limiting factor for its use. Installation costs are almost US\$500 per home, which is almost three times as much as the average income of many low-income families. As a result, these families tend to depend on lower cost energy sources that are less safe and more inefficient.

By way of response to this situation, gas distribution companies have developed a way to finance access to natural gas service for low-income families. Some 98% of customers use these micro-credit financing services. Instead of paying the full amount for the installation and connection of natural gas up front, low-income consumers pay in monthly installments. In the end, Promigas recovers an average of 98% of the total amount, which demonstrates the sound payment habits of the families.

1. The population of Colombia is classified into six economic levels that indicate differences in living conditions among households: 1 (low-low), 2 (low), 3 (medium-low), 4 (medium), 5 (medium-high) and 6 (high).



Company: Promigas, Gases del Caribe, Gases de Occidente, Surtigas

Country: Colombia

Industry: Energy-financial

Population involved: 328,000 families



"We want to offer credit to all prompt-paying customers, by providing them with an opportunity to improve the quality of their living conditions".

Promigas
Antonio Celia
President



In 2005, after 30 years of providing financing and a sound strategic planning process, Promigas and its distributors discovered a hidden asset resulting from timely payments from consumers. The company determined, after some detailed follow-up, that once customers finished paying for home connection of natural gas, they had extra income – from US\$10 to 15, the equivalent of the monthly charge for financing the connection – that could be used for other purposes.

Based on this knowledge, the company developed a micro-finance (credit) business through which it could extend loans to families to improve their quality of life. This initiative creates profit for the company while enabling it to provide financial services to populations for whom conventional financial services are generally beyond reach.²

The Inclusive Business model

The challenge: Create additional value for Promigas customers and distributors through “The Shine Program”, a credit program that facilitates access to natural gas-related goods and services that improve the quality of life of low-income populations (economic strata 1, 2, and 3).

Promigas carried out an in-depth market study based on data compiled over almost 40 years and information on the repayment habits of its customers that relied on external financing for their connection to gas service. After surveying 2,000 customers with good payment records, the company identified the principle needs of the families.

Of the people surveyed, 86% showed an interest in a credit system. Of these, 47% stated they would use the credit to improve their homes, with flooring improvements being a priority for many; 26% to establish their own business; 13% to gain access to education; 7% to acquire electric or gas powered home appliances; and 7% to take care of family emergencies.

2. Banking Report. Asobancaria. Bogota. 2008. “In Colombia 15.6 million people over 21 years of age have access to at least one financial product, which represents a banking level of 55.5%.”

Using this information, Promigas designed a new financial service intended to improve the quality of life of customers while also creating a profitable business for the company.

In December 2006, Promigas launched its pilot projects in Cali and Cartagena, followed by Barranquilla – where it financed electric and gas-powered appliances – in March 2007. In April it expanded the program to include building materials, and the Shine brand was formally introduced to the market in December 2007.

An additional advantage of the program is the benefit to suppliers, who see their sales increase due to the expansion of their market to include lower-income customers.

Design: To be eligible for credit from The Shine Program, customers must have a gas connection in their name, their service must not have been suspended at any time during the previous two years, and they must have completed the payments for the gas connection.

The credit conditions include: terms ranging from 1 to 60 months, prior approval of the amount to be financed without guarantee or collateral, no down-payment, the maximum interest rate allowed for current interest and interest charge for late payment, average monthly payments between US\$15 and US\$30, and monthly gas invoices.

The documents required to be eligible for credit include: a photocopy of the citizen's ID, two gas payment receipts, a signed contract and promissory note, acceptance in writing of the letter of instructions, and the purchase of a life insurance policy that covers the debt being financed.

Population involved: Over 328,000 families in all the municipalities of the departments of Atlántico, Magdalena, Cesar, Bolívar, Sucre, Córdoba, and the Valle del Cauca where natural gas distributors operate.

Institutions involved: Promigas; natural gas distributors Surtigas, Gases del Caribe, Gases de la Guajira, and Gases de Occidente; sales contractors; and product suppliers.

Investment: A total of US\$469,000 was invested in investigations and processes, followed by US\$79,000,000 in loans to customers, funded through a combination of the company's and local banks' resources.

Promigas in numbers

- ▶ Annual sales totaling US\$ 101.2 million in 2009
- ▶ 383 employees
- ▶ 271 companies in the suppliers' register
- ▶ 14 distributing, industrial, and thermal generation companies that receive direct attention
- ▶ Over two million natural gas customers



Why is this an Inclusive Business?

- ▶ *The Shine Program is a new business strategy that allows Promigas to use its resources to generate value for families with low purchasing power while also developing a new commercial enterprise that is profitable for shareholders.*



Achievements and results (December 2006 to December 2009)

For the company

- ▶ Loan approvals by Promigas and its three distributors totaling US\$115 million.
- ▶ Net profit of US\$1.5 million during the first year, US\$4.9 million during the second year, and US\$6.5 million during the third year of the Shine Program.
- ▶ Net profit projected of US\$7.8 million for 2010.

For consumers

- ▶ Over 328,000 families of the Caribbean Coast and the southwest of the country were able to obtain loans averaging US\$337 through a previously approved credit line, with favorable terms and interest rates.
- ▶ Access to building materials and household appliances.
- ▶ Improvements in the quality of life of families involved in the program.

For suppliers

- ▶ 80 suppliers incorporated into the Shine Program.
- ▶ Approximately 1,000 new permanent jobs created.
- ▶ Increase in sales.
- ▶ Cash sales, which decreases portfolio risk.

For the community

- ▶ Creation of approximately 1,000 jobs, including new contractors, suppliers, and internal positions.

Lessons learned

Success factors

- ▶ Identifying hidden assets of the company to profitably satisfy customer needs.
- ▶ Having knowledge about customers that facilitates the adaptation and expansion of services to meet the needs of low-income consumers.
- ▶ Creating new value for customers and growth for investors.
- ▶ Incorporating this new service as part of corporate strategy.

Financing through a gas distribution service

- ▶ Opening new opportunities in a mass market and promoting economic development.

Key points

- ▶ It is important to analyze the repayment capacity of customers in order to establish a good commercial strategy.
- ▶ Development of creative solutions that involve educating the consumer in optimum use of financial services and continuously investigating a heterogeneous and complex market.
- ▶ Rapid adaptation to satisfying the needs of the population belonging to the lower economic strata of society (1, 2, and 3).
- ▶ Identifying opportunities in the mass market by offering access to credit and, as a result, other goods and services, to a population with low purchasing power.
- ▶ Identifying opportunities to contribute to the economic development of the country through the Shine Program.

Difficulties and barriers

- ▶ The permanent need to adapt financial services to changing circumstances and demands of customers, and in doing so being able to contribute to improving their quality of life.
- ▶ The logistical difficulty in providing customer service to consumers in all the locations where distributors operate.
- ▶ The lack of financial culture, in which potential customers are not familiar with formal credit and express a fear of getting into debt.

The future

Promigas expects that in five years the Shine Program will be a strong and profitable business unit, with over one million customers, a portfolio of US\$100 million, operational revenues of US\$25 million, and a net profit of US\$10 million.

3. Colombia occupies the seventh place in the world. Source: www.promigas.com.

The Colombian natural gas sector in numbers

- ▶ 29 distributing companies
- ▶ 5,385,871 customers in 541 municipalities of the country
- ▶ 83% of customers belong to the lower economic strata of society (1, 2, and 3)
- ▶ 7,000 kilometers of infrastructure for natural gas transportation
- ▶ 302,000 vehicles have been converted to natural gas in the country³
- ▶ 601 service stations



Providing natural gas to low-income neighborhoods

Gas Natural BAN S.A.

Summary

Gas Natural BAN S.A. has developed a business model with an emphasis on responsible behavior that continues to expand and grow stronger.

Natural gas has been made available to neighborhoods on the periphery of Buenos Aires thanks to the willingness of the Gas Natural BAN Company to work with civil society organizations to offer this service to homes with low economic resources. A formal program was initiated in 2003 when the Cuartel V neighborhood was incorporated into the natural gas distribution network. This created the impetus for a new management model that allowed geographic zones generally overlooked by companies to gain access to public services.

This new model involves improving the quality of service provided, assisting access to natural gas for greater numbers of people, and strengthening professional and personal development of employees. It also involves improvements in health and safety throughout the entire value chain by incorporating social aspects in supplier relationships through a Code of Conduct and a commission established to resolve issues of lack of compliance using the Code of Conduct. The model generates economic value for shareholders, supports the social and economic development of communities, and contributes to saving the environment.



Background

In 1992, the government of Argentina granted a license to Gas Natural BAN S.A. to distribute natural gas through its networks in the northern and western zones of the Greater Buenos Aires. The license was granted for 35 years, with the option of an extension for a further ten years.

Gas Natural BAN is the second largest distributor of natural gas services in Argentina, based on customer volume, with a market share of 17.3% of the total residential and commercial markets. The company has some 1.4 million customers, spread over an area of 15,000 km² and 30 districts or municipalities of the Province of Buenos Aires. The province is one of the most densely populated areas of the country and home to many important industrial parks.

Gas Natural BAN is part of the Gas Natural of Spain Group, which is the majority shareholder. The Gas Natural of Spain Group is a multinational corporation that provides energy services and focuses on providing, distributing, and marketing natural gas. It is the leader in the sector in both Spain and Latin America and, based on the volume of gas transported, is number four in the world.

Current situation

Cuartel V is a district in Greater Buenos Aires, located in the municipality of Moreno some 45 kilometers from the center of Buenos Aires. Until recently it lacked networks for gas distribution, drinking water services, and sewage services. At the end of 2002 65% of the population lived below the poverty line. Families in this neighborhood relied on stoves, liquid gas, firewood, and kerosene, which they used for heating and hot water. These are among the most expensive sources of energy in addition to being inefficient, dangerous, dirty, and at times very difficult to obtain.

As part of efforts to implement its strategy, Gas Natural BAN teamed up with the Foundation for Social Housing (Fundación Pro Vivienda Social) a prestigious entity dedicated to improving housing and infrastructure standards of low-income communities. For the last 10 years, the Foundation for Social Housing has been providing micro-credit averaging US\$130 to families in the district. The company has been able to foster close, personal relationships with families.



- ▶ **Company:** Gas Natural BAN S.A.
- ▶ **Country:** Argentina
- ▶ **Industry:** Energy services
- ▶ **Population involved:** 20,000 people of the lower-middle to low social-economic sectors



“As a result of our interest in increasing the quality of service, we created a business model aimed at connecting natural gas networks to the lowest income neighborhoods, making it possible for the neediest families to have access to a service that allows them to progressively decrease their monthly energy expenses, thereby freeing up resources to cover other basic needs”.

“These actions were possible thanks to the efforts of our employees who, together with social organizations and imbued with a great commitment to the community, enabled us to walk a path of continuous, sustainable improvement while allowing us to continue working to meet future challenges.”

Gas Natural BAN S.A.

*Horacio Cristiani
President*

Through this experience the company and the Foundation have been able to identify inefficiencies in existing energy sources used by the population, and measure the willingness of families to make financial payments.

The Inclusive Business model

The challenge: Propose a new commercial and operative paradigm through which natural gas services could be provided to low-income populations.

Based on the sound credit history of inhabitants and the potential to offer natural gas services in a region that had been neglected, the Foundation for Social Housing proposed to Gas Natural BAN that it extend its operations to the Cuartel V community. The proposal was well-received by the company owing to the level of penetration of its network, which covered some 80% of homes in its geographic areas of operation, including some of the districts that are home to members of the lower social and economic strata of society. However, the company’s penetration in the geographic area that includes Cuartel V was less than 55%.

In order to make the necessary investments to extend the gas distribution network to these potential new customers, Gas Natural BAN needed the collective commitment of the community and for community members as a group to present their request for the work that needed to be done in the neighborhood. Gas Natural BAN and the Foundation therefore began the task of disseminating information about the expansion of the gas distribution network to various social groups in the area using community spaces, such as churches and schools. At the same time, the company and the Foundation also set up an umbrella group, called Organized Community, to incorporate most of the social groups in the neighborhood.

Once the community was organized, Gas Natural BAN carried out a technical analysis of Cuartel V to estimate costs and other requirements for installing the distribution network. Meanwhile, the Foundation carried out a market analysis using a community survey to establish project feasibility, as well as the perceptions and interest that families had for the new service. Based on this economic evaluation, funding needed to be obtained for the project, as well as a way to bill for the service so that families could take advantage of it. The project launched in September 2003.

Provision of natural gas to low-income neighborhoods

Design: The social management model proposed for the project is based on the participation of organized families who become involved in its design and development through a novel system of collective guarantee to pay for work. Through the network of organizations that came together in Organized Community, a Common Cause Networks Trust (Fideicomiso de Redes Solidarias) was established with the participation of the families and managed by the Foundation for Social Housing.

The Trust is the legal instrument used to link the various participants in the project. All have a common objective: to obtain the financing necessary to expand the gas distribution network to homes. The Trust also seeks to establish a collection of other resources, such as machinery, land, buildings, tools, etc., whose use is earmarked for specific purposes.

Internal connections can be made individually, which allows each consumer to either hire a certified technician by making the connection themselves, or requesting assistance from the Foundation for Social Housing. The latter offers the service through an outsourced company and finances it by means of a micro-loan from the Trust.

This project has achieved a positive change in Gas Natural BAN's business outlook, and has resulted in a much closer relationship with its customers. It has demanded more physical, and above all, human resources because its core business is no longer limited to gas distribution. The new business model has required the establishment of ethical relations with customers, training, advice, and, most importantly, adaptation to the conditions of families with economic difficulties. For the professional employees of Gas Natural BAN, this new project has required a change in business mentality, since their ability to put themselves in of their customers' shoes and to offer adequate solutions are key to succeed in such projects.

Because stakeholders and conditions are different in each community, each gas distribution project requires a unique design for each neighborhood. Consequently, it was necessary to review company procedures in the areas of marketing, customer service, systems, and finance. For example billing was normally done every two months, but had to be changed to a monthly basis for Cuartel V so that customers could make their payments to the trust fund on time and control their consumption, thereby avoiding costly increases.

In addition, given that the families in Cuartel V generally lacked telephones, a telephone was installed in the neighborhood that offered direct communication with customer service personnel.



Gas Natural BAN S.A. in numbers (as of December 2008)

- ▶ €133 million invoiced
- ▶ €34.3 million EBITDA
- ▶ €18.8 million net profit
- ▶ €323.6 million of investment in assets since the start of operations
- ▶ 1.8672 billion m3 of gas sold
- ▶ 4.4094 billion m3 of gas transport marketed
- ▶ 22,300 km of total network extensions
- ▶ 557 employees
- ▶ 1,393,401 customers

Why is this an Inclusive Business?

▶ *The company made a significant economic investment to provide services to low-income neighborhoods with no access to natural gas. This resulted in increased risk in its operations and structural changes in its organization.*

However, what initially appeared to be a challenge has transformed into a model where all parties win: the company developed a business model that permits it to have access to new customers and shows great potential for growth; communities obtain the facilities enabling them to change from bottled gas to natural gas, which results in significant economic savings since the price of bottled gas seven times higher; and consumers benefit from improved quality of life by using a service that generates less environmental impact.

In addition to making natural gas available to low-income communities, the initiative required extensive cooperation among neighbors, social organizations, and the company.

In addition, given that the families in Cuartel V generally lacked telephones, a telephone was installed in the neighborhood that offered direct communication with customer service personnel.

Population involved: A population estimated at 20,000 people in the medium-low to low socio-economic bracket, of which 65% live below the poverty line. They inhabit approximately 4,000 dwellings, with the majority working in the informal sector and lacking any technical or professional training. The neighborhood has electricity but its streets are not paved and there is no water distribution network in place.

Institutions involved: The principal partners of Gas Natural BAN in this project are civil society organizations, such as the Foundation for Social Housing (Fundación Pro Vivienda Social), Organized Community (Comunidad Organizada), The Colmenar Mutual Association (Asociación Mutual El Colmenar), Neighbors Union (Unión por los Vecinos), Better Life (Mejor Vivir), and Neighbors in Action Association (Unión Vecinos en Acción). From the private sector, the Inter-American Development Bank and the World Bank were important in providing funding for the project. Public entities, such as the Ministry for Public Works and Infrastructure of the Province of Buenos Aires, the Social Capital Fund of the Ministry for Social Development, and the Municipality of Moreno, also participated.

Investment: Approximately US\$1.7 million to extend the natural gas distribution network by 78,000 meters. Residential gas connections cost approximately US\$655 each and are paid for by consumers using micro-loans provided by the Trust Fund.

Achievements and results (As of December 2008)

For the company

- ▶ Construction of 78,000 meters of pipes for the distribution network.
- ▶ 2,262 families joined the Trust Fund and got connected to gas service. This corresponds to approximately 11,000 people who have benefited from the service, representing over half of the population of the neighborhood.

Provision of natural gas to low-income neighborhoods

- ▶ Extension of the natural gas service to other neighborhoods: during 2008 a total of 5,552 meters of networks were built in the San Carlos neighborhood and in the Moreno district, which, added to the 1,557 meters built in 2007, totaling 7,109 meters. The neighborhoods represent connections to an additional 95 families.
- ▶ Identification and development of various funding alternatives contributed to continuous and accelerated project developments.

For the consumers of the Cuartel V neighborhood

- ▶ Significant reductions in expenditure on energy services, from 13.8% to 3%.¹
- ▶ Access to a source of energy for heating systems that is more economical and safer to use.
- ▶ Increase in the value of housing in the area.
- ▶ Development and strengthening of civil organizations in the neighborhood, which has permitted the development of a cooperative model as a development tool. Increase in the possibilities for new and diverse economic enterprises.
- ▶ Entry of other public service entities into the area.
- ▶ Improvements in the quality of life of families that now have access to the new service.

Lessons learned

Success factors

- ▶ Fundamental change in the way Gas Natural carries out its economic activities.
- ▶ An ability to create strong bonds with the community and to better understand its needs through working with contracting companies, middlemen, or municipalities to establish initial direct contact with community members, civic organizations, companies, and municipalities.
- ▶ Transition away from working with individual clients to working with the neighborhood as a whole. This contributes to the active organization and participation by civic organizations and community members, which in turn provides the leverage required for service extension projects.



1. *Business Solutions for the global poor*. Harvard Business School Editors; p. 120.

- ▶ Development of the concept of fuel substitution and training of new users in consumption control, reading of invoices, and home safety. This includes explaining to customers how natural gas can be used as a substitute for bottled gas, and how this change can have a positive impact on their domestic budget.
- ▶ Development and training of customers in the same neighborhood, which permits lower costs for home installations and greater quality control by the community.
- ▶ Change in the payment system to include a personalized follow-up through gas invoices that helps to avoid difficulties that families may encounter.

Key points

- ▶ Contributions by technical, economic, and social feasibility tools adapted to problems of each neighborhood helped overcome challenges inherent to integration in the network.
- ▶ Training provided to new consumers to assist them to reduce their consumption, understand invoices, and implement home safety measures helps families save money from the outset and enables them pay for the projects and sustain the service.
- ▶ A change from individual advisory services to a comprehensive, proactive advisory service for hiring for projects, results in higher efficiency and important benefits for all.
- ▶ Direct contact with families and civic organizations has proven to be much more effective in the incorporation of new consumers than the development of mass marketing campaigns conducted by network companies and other existing external sales forces.
- ▶ Analysis of the cost-benefit relationship of providing natural gas service for potential customers is a determining factor in the customer's decision to connect to the gas network.

Difficulties and barriers

- ▶ Need for reformulation of business practices and design and development of internal processes in various areas such as invoicing, loan follow-up, and customer service. All of these changes required a shared effort, which, given the benefits achieved, proved to be highly worthwhile.



The future

As a result of the original experience with Cuartel V, the model to provide gas services to neighborhoods with few resources has proven to be successful. This has led to it being implemented in other municipalities and peripheral areas, thereby opening doors for other public utility companies and favoring future economic developments to combat poverty.

Consequently, it is anticipated that the work will continue to expand to other neighborhoods similar to Cuartel V, such as the adjacent neighborhoods of Cuartel VII and San Carlos, the district of Moreno, and other districts within the concession area of the company.



Training as a tool to increase inclusion in business

Specialists' Circle SODIMAC

Summary

One of the most emblematic Inclusive Businesses promoted by SODIMAC is the Specialists' Circle (Círculo de Especialistas or CES) created in 2005, which brings together 186,256 partners in Chile. Partners include contractors and building specialists that do not have formal education and who have joined the initiative at SODIMAC stores throughout the country.

There are an ever-increasing number of private customers who wish to make repairs or modifications to their homes. The CES initiative began when SODIMAC realized that an important group of its customers—construction foremen, building specialists, and contractors—needed training in their trades. CES addresses this explicitly by providing quality training in the different trades required by construction foremen and building specialists.

CES was conceived and put into operation through an alliance with prestigious universities in the country that were willing to accept the innovative challenge and adapt their courses and curricula to the practical and theoretical training required. In its first five years of operation, more than 20,000 members were trained at various trade fairs, and 3,300 obtained university scholarships that enabled them to get professional training in their trade.



1. www.circulodeespecialistas.cl

The results have been impressive: over 85% of building specialists have declared that these courses have resulted in increases in both work opportunities and technical capacities. In addition, the project has created a sense of belonging, loyalty and empathy among construction foremen, building specialists, and contractors toward the SODIMAC brand. This is reinforced by the fact that CES is the first corporate program that brings together and provides leverage for this category of customer. CES has also received a warm welcome in Peru, Colombia, and Argentina, where it has a total of 109,500 members.

Background

SODIMAC began its activities in Chile in 1952 as a supply cooperative for construction companies. Following the severe economic crisis that affected the country in 1982, SODIMAC's assets were acquired by the DERSA Company, which transformed it into a corporation under the name of SODIMAC S.A.

Based on international experience, in 1988 it introduced the "SODIMAC Home Center", aimed at the home improvement, repair, and decoration market. In 1992, it launched "SODIMAC Constructor", aimed at contractors, independent builders, and small construction companies. Both formats proved a rapid success and contributed to the growth of the company.

In 1994, the company began to expand internationally and opened affiliates in Colombia, Peru, and Argentina. In 2003, SODIMAC S.A. became an affiliate of SACI Falabella one of the largest retail groups in Chile and Latin America. SODIMAC is dedicated to developing and providing solutions for its customers' building projects and to supplying their home improvement and decoration needs. Its value offer is based on service excellence, work integrity, and a strong commitment to socially responsible development. Its head office, located in Santiago, Chile, has over 16,000 workers, and operates 59 stores throughout the country. It also has 17 stores in Colombia, 13 in Peru, and four in Argentina.

Currently, SODIMAC is a leading company in Chile and Latin America. As of December 2008, it had a market share in Chile of 23.1%, while its four principal competitors had a combined share of 18.1%.



- ▶ **Company:** SODIMAC – Specialists Circle (Círculo de Especialistas)
- ▶ **Country:** Chile
- ▶ **Industry:** Wholesale and retail trade
- ▶ **Population involved:** More than 186,000 members in Chile and over 109,000 members in Peru, Colombia, and Argentina



SODIMAC®

“From the beginning, SODIMAC has endeavored to be conscientious and honest in the diverse environments in which we work. The ‘Círculo de Especialistas’ is a new paradigm in retail in which we couple the business model with a contribution to the community.”

SODIMAC Chile

*Eduardo Mizón
General Manager*

Current situation

CES and its scholarship program were established in response to a gap identified in the market for training construction foremen, building specialists, and contractors. Thanks to this program, members of the construction industry receive training, keep abreast of the latest products offered by the company, and keep their knowledge and skills up-to-date. The program also promotes good practice in the work place.

On account of this program, participants have been able to reap the benefits of their activities for self-improvement by offering a better quality of services and by so doing change the somewhat unfavorable image of workers in this trade. CES is the first loyalty program specifically directed at construction experts.

SODIMAC engaged in continuous monitoring and feedback as part of its strategy to identify its target customers.

The Inclusive Business model

The challenge: Increase the company’s sales and profits, reduce complaints, establish customer loyalty, increase social impact, strengthen bonds between the company and the community, and adopt sustainable growth strategies.

The advantages of being affiliated with CES include: access to formal and full-time courses through scholarships and free training at the SODIMAC stores; opportunities to attend training fairs and visit suppliers’ factories; opportunities to attend courses to become authorized installers of products and services; a 25% discount on tool rental; and access to the Master Guide, a publication which provides full details of the products available at the store and lists descriptions and codes to help with product selection and cost estimates.

In 2008, the CES PRO category was created to differentiate the building specialists who maintained higher levels of loyalty and commitment to the SODIMAC brand. PRO specialists have access to exclusive benefits directed at improving their labor performance, such as scholarships for specific courses, a dedicated web page, the “Contacto PRO” magazine, business centers in the stores for quotes and brochures, and a labor exchange program.



Design: To become a member of CES and have access to its different services the customer must complete a registration form, either at a store or on the web site.

The courses provided by the program are directly oriented toward improving construction foremen and building specialists' abilities and technical capabilities. In order to achieve this goal, courses are offered in electricity and plumbing (levels 1 and 2), welding and other metal work, carpentry, reading and understanding building plans and technical specifications, and woodwork.

There are also courses designed to strengthen the entrepreneurial skills of the participants, including courses in administration and planning, management, accounting and payroll, cost estimates and invoicing, and computer skills. Similarly, courses are offered on legal issues relating to labor law, subcontracting, contracts, and settlements.

Towards the end of 2008, SODIMAC developed an evaluation system to measure the impact of the CES Training Program through surveys of members who had received training. This enabled identification of the factors with the greatest impact on the 186,000-plus participants.

The program works in alliance with highly prestigious educational institutions in the country, which provide formal recognition of the training received by the building specialists. At the end of the course, each of the grant recipients receives a diploma that certifies the knowledge and skills acquired. This gives them an advantage in a modern and highly competitive market, and helps them to leverage their entrepreneurial skills.

Population involved: CES started in Chile in 2006 with the participation of over 74,000 members or affiliates; it grew to over 102,000 by 2007; and to more than 148,000 in 2008. At present it has more than 186,000 affiliates in Chile and over 109,000 partners in Peru, Colombia, and Argentina.

Institutions involved: SODIMAC, the Universities of Santo Tomás, Católica Silva Henríquez, and Las Américas, the Professional Institute and Technical Formation Center (Instituto Profesional y Centro de Formación Técnica), and the School of Civil Construction of the Pontifical Catholic University of Chile (Escuela de Construcción Civil de la Pontificia Universidad Católica de Chile).

Why is it an Inclusive Business?

- ▶ The primary motivation of the company is to increase sales and profitability, reduce complaints against SODIMAC and the building specialist foremen, provide tools for self-improvement and entrepreneurial activities to a large group of its customers, who for the most part are located at the base of the pyramid. Additional objectives of the company include achieving high levels of customer loyalty, increasing beneficial social impact, and strengthening bonds with the community by incorporating social responsibility as a central tenet of the sustainable growth strategy of the company.





Achievements and results From 2006 to December 2009

For the company

- ▶ Creation of one of the most emblematic programs of the company, with a highly positive impact on its image as a socially conscious business with respect to its customers, the community, and the trade.
- ▶ Development of a sustainable corporate model with positive impacts on the community, while also generating growth for the company.
- ▶ More than 186,000 members affiliated in Chile, exceeding the 2008 goal of 140,000.
- ▶ More than 300 members in Chile who have been certified by the supervising authority of electricity and fuels.
- ▶ University scholarships valued at US\$1,792,410 granted to 3,300 members in Chile.
- ▶ Over 40 trade fairs organized at which more than 2,000 people received training.
- ▶ Sales made by members represented 12% of the total sales of the company.
- ▶ Survey results showed that 93% of the building specialists have a positive perception of the company.
- ▶ More than 109,000 persons affiliated with the CES in Peru, Colombia, and Argentina.

For customers

A random survey of a representative sample of 377 members concluded that:

- 80% rated their courses as very good or excellent, expressing a high degree of satisfaction with the training received.
- 67% observed an increase in work opportunities.
- ▶ 93% expressed a highly positive perception toward SODIMAC.

For the community

- ▶ Considerable improvement in the entrepreneurial capacity of many building specialists, with some subsequently generating employment in their communities. For example, 55% of the specialists surveyed indicated that they had added employees to expand their enterprises.

Lessons learned

Success factors

- ▶ Incorporation of the Inclusive Business as a central part of the business model of SODIMAC.
- ▶ The program is aligned with the Corporate Social Responsibility policy of the company.
- ▶ Effective leadership at the management level of the company that involves participation in different activities of the program, including in national meetings sponsored by CES, attendance at graduation events, and signing of agreements with educational institutions.
- ▶ Advisory services provided by a consulting company (Recurso Marketing) entrusted with managing the program, as well as alliances with universities and professional institutes in the country.
- ▶ Detailed diagnosis of the perceptions and needs of the company's customers, who include construction foremen, building specialists and contractors.

Key points

- ▶ A win-win situation: Corporate social responsibility developed through properly applied Inclusive Business generates mutually beneficial relationships and yields positive impacts for the development of the country. Training for workers, home improvements, etc. improve quality of life.
- ▶ Strategic alliances are advantageous for the development of programs of this type.
- ▶ A well-designed program can be repeated in other countries.

Difficulties and barriers

- ▶ Coordinating with educational institutions to provide training to members throughout the country. These institutions have been willing to accept an innovative challenge by adapting their courses and curricular programs to respond to the practical and theoretical training needs of building specialists.
- ▶ Limitations of financial resources to replicate the program on a larger scale.

The future

The goal of SODIMAC is to retain its position as a leader in this type of program, continually improve the training offered to its members, and increase customer loyalty to the company brand. With this in mind, in 2010 SODIMAC sought to increase its membership in Chile to 210,000 building specialists.

SODIMAC in Chile as of December 2009

- ▶ 16,402 employees
- ▶ US\$2.25 billion in sales for 2008
- ▶ An 8.68% increase in sales between 2007 and 2008
- ▶ US\$140 million of EBITDA in 2008
- ▶ 59 stores with 544,000 m² of floor space
- ▶ 1,300 suppliers





4. The success factors of Inclusive Business

Since the SNV–WBCSD Alliance was launched in 2006, it has promoted over 40 Inclusive Business initiatives in different Latin American countries. The lessons learned during these years of collaboration have been numerous and fruitful. As the case studies presented demonstrate, important results have been achieved for the companies as well as for low-income communities. Companies have succeeded in improving their raw material supply—both volume and quality, reducing costs, and increasing levels of efficiency. In addition, it has enabled them to open up new marketing and distribution channels while enhancing their access to new markets.

At the same time communities have increased their production income or profit margins, improved access to banking services and loans, and strengthened their organizations. Overall it has been possible to generate mutual value, which is the essence of every truly inclusive business. The lessons learned in the practice are presented as a series of success factors that the Alliance considers crucial as the starting point of all Inclusive Businesses, and that influence the implementation, development, and future sustainability

“Considering that a large proportion of today’s economic activities take place in developing countries and that 90% of population growth takes place in these countries, companies that promote Inclusive Businesses will be the ones to achieve greater success in the coming decades.”

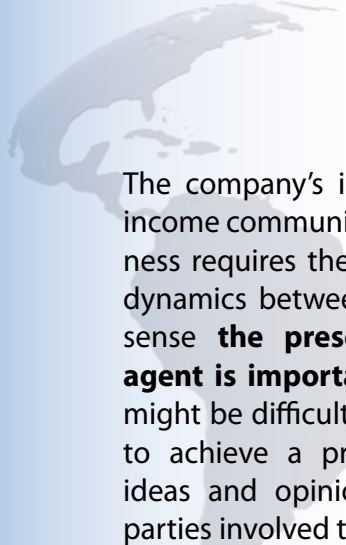
Samuel A. DiPiazza, Jr. – ex-Global CEO, PricewaterhouseCoopers and Chairman of WBCSD (2008-2009)

For companies

Reimbursable and non-reimbursable **sources of co-financing**, both in the short and long-term, are important in all the phases of the design, development, and scaling of an Inclusive Business. For example, financing the feasibility study and initial design of an Inclusive Business may motivate companies that have an interest in the initiative, but encounter barriers and perceive additional risks when compared to more conventional business models. Often the lack of economic incentives leads business owners to postpone the decision to develop an Inclusive Business. Economic incentives decrease the risks involved in an Inclusive Business, especially for medium or large companies that do not have sufficient resources to take on these types of risks or the funds necessary for the initial investment.

This financing is not a subsidy for the Inclusive Business, but rather an initial investment that, in many cases, is necessary to determine the feasibility of the proposed initiative.

The **role of the “anchor”** company within the Inclusive Business has been essential for the integration of low-income communities in value chains. With this in mind, the company must meet at least two conditions: (a) have a consolidated management capacity that guarantees the development and sustainability of the initiative, and (b) have access to markets that guarantee the economic feasibility of the Inclusive Business. This allows the Inclusive Business to be driven by a strong business dynamic in order to overcome obstacles that may arise in the design and initial phases of the Inclusive Business.



The company's involvement with low-income communities in an Inclusive Business requires the development of good dynamics between both groups. In this sense **the presence of a brokering agent is important**, considering that it might be difficult to find a neutral space to achieve a productive exchange of ideas and opinions that will lead the parties involved to define common interests. At times, this brokering agent may also facilitate conversations with governments, financial entities, and other social networks that are interested in the projects. Establishing the arrangements and defining the benefits of the Inclusive Business enables weighing the interests of the parties involved.

The provided for Inclusive Business must come from the highest level of company management. This is especially important given that the development of an Inclusive Business is reliant on a strategic decision-making process. Generally, the most successful Inclusive Businesses are those that have been driven by key players in top management who have decided to incorporate a social dimension into the central strategy of the company in order to improve its competitiveness.

When working in emerging markets and with low-income populations, the concept of innovation acquires a new dimension. From the start of an Inclusive Business up to the process of adapting new products or technologies, constant observation of behavioral patterns of the social groups involved is necessary. This allows the successful integration of these groups within the initiative and leads to the expansion of new solutions that have emerged from the Inclusive Business.

The businesses must be fully involved in the research of unexplored markets that offer companies ample opportunities for growth and at the same time offer viable alternatives for solving the problems facing vulnerable populations.

Innovations in **technology** and changes in business processes have been necessary to strengthen and scale up Inclusive Businesses. One example is the use of information and communication technology (ICT), which allows for the management of a many low-cost business transactions carried out with a large number of low-income customers. Likewise, virtual teaching or e-learning systems reduce training costs and reach a large number of people who live in isolated areas.

Numerous technological innovations are available for production processes (certified seeds, hybrid varieties, as well as the automation or mechanization of certain productive tasks), as well as new business models, such as those that use new mass payments schemes.

For low-income communities

Defining **roles and expectations** and reducing uncertainty for low-income communities promotes the investment of their time and effort in an Inclusive Business, and for further success community and company leaders should be involved in the initiative. The non-philanthropic nature of this type of enterprise and realistic expectations should be clarified and defined at the outset.

In order to penetrate low-income segments, it is necessary to have a proper understanding of the reality of the families and communities involved, with regard to economic, social, and cultural characteristics. For example, in an Inclusive Business involving raw materials suppliers, the economic objective of the families involved is not to maximize their income but rather to minimize their risks. The families will more often than not have no savings, with their only asset being a plot of land on which their income and subsistence depend.

Likewise, when developing an Inclusive Business focused on distribution, which is carried out via social networks within the community, it is also necessary to take into consideration economic, social, and cultural factors. This needs to be done in such a way that the system is not designed to merely adapt the traditional distribution channels used by the company. Additionally, when working with products designed for low-income communities it is important to first consider the real needs of the consumers, instead of attempting to adapt the company's current products.

Within these processes, quantitative instruments, such as market studies, as well as more qualitative analysis should be utilized to guarantee benefits for both parties. These tools permit a better understanding of the relationships and social fabric of low-income populations.

"The problem for poor people is not too many markets, but too few."

Robert B. Zoellick, President, The World Bank Group, 14 April 2010

Source:

<http://go.worldbank.org/MI7PLIP8U0>

Regulatory frameworks

The establishment of **inter-institutional** alliances or alliances between different companies complements the abilities and strengths of the anchor company. Additionally, once the company takes the time to understand the place in which the Inclusive Business will be implemented, it is often necessary to develop services with new and unfamiliar conditions. Generally, it is more efficient for the anchor company to sub-contract these required services or develop alliances with entities with the necessary skills or knowledge. For this, an alliance could be developed with financial entities, technical assistance institutions, organizations specialized in the use of ICT tools, insurance agencies, and raw-materials' suppliers, among others.

Inclusive Businesses develop within a specific territory. To achieve effective inclusion of communities from the territory, it is necessary (beyond the actions of the company and community) to create **incentives coupled with adequate legal frameworks and institutional conditions**. The public sector's involvement is crucial for generating these conditions and is necessary for creating dialogue and collaboration between public, private, and social stakeholders. In this sense, public scope instruments and mechanisms that maximize the benefits for all, as well as guaranteeing sustainability of the Inclusive Business, are necessary.

Some examples of this are: facilitating access to public financing resources, developing infrastructure projects that contribute to the success of the business, and streamlining administrative processes. Many governments (national and regional) have resources that can leverage private investment, especially when social and economic impact in the territory of interest is proven. Therefore, governments have an important role to play in increasing the benefits of Inclusive Businesses for the population, as well as for the company.



5. Challenges of Inclusive Business in practice



Experience gained during recent years has allowed the challenges, risks, and barriers for the development of Inclusive Businesses to be identified. An analysis of these factors will help to identify ways to overcome them and contribute to the success and expansion of Inclusive Businesses.

For companies

Many companies encounter difficulties in gaining **access to financing or investment capital sources** that permit them to design and implement an Inclusive Business. Most financial entities do not have financial products that can be adapted to the economic reality of low-income communities involved in an Inclusive Business, and few of those entities are willing to provide credit without the necessary sound guarantees.

The lack of suitable financial products is an important barrier when, for example, an Inclusive Business operates in the agriculture and livestock sector, which lacks insurance systems that cover weather-related or climate change risks. Many financial entities simply avoid these types of activities, resulting in the need for alternative investment funds for the development of Inclusive Businesses.

There is a gap between knowledge, capability, and information for low-income communities and **the market demands** faced by anchor companies, which may complicate the development of Inclusive Businesses. Anchor companies must comply with international standards governing the quality, safety, and traceability of their products. As a consequence, they must also demand these standards from their suppliers. In many cases, low-income communities do not have adequate levels of education and technical training to comply with these global market demands.

For low-income communities

Geographic dispersion and low levels of collaboration among low-income families make it difficult to rapidly achieve economies of scale. Inclusive Businesses are characterized by the involvement of large numbers of people and high numbers of small transactions, with low profit-margins that are compensated for by high transaction volumes.

One of the principal challenges that an anchor company faces is reducing transaction costs by forming associations that allow a large number of individuals to be brought together in a single entity with which the company can establish a business relationship. The process of association facilitates, among other things, negotiation, training, technology transfer, and product assembly and marketing.

Another difficulty is the coordination of the activities of an Inclusive Business with entities that offer technical assistance services and that have **methodologies and tools adapted to the cultural and social reality of small-scale suppliers**. It was clear that the level of adoption of new technologies by the producers involved in these initiatives is quite low.

Often, the speed at which communities acquire the required capabilities is slower than the accelerated pace of the development of the Inclusive Business by the company. In addition, the generally low levels of training and education of low-income communities may sometimes hinder the implementation of Inclusive Business projects.



Regulatory environment

Conventional regulatory frameworks frequently do not have impacts on the markets that serve low-income communities, since they are characterized by high levels of informality and are not linked to formally established economic and tax systems. This situation gets in the way of integrating these communities into the value chains of companies. It also prevents the communities from being able to receive benefits offered by a formal economy, such as access to economic incentives, sources of financing at regulated rates, social security systems, subsidies, and others.

Other difficulties related to the regulatory framework are issues connected with the ownership of land and with the legal value that low-income populations attach to a contract signed with an anchor company. To avoid problems, it is necessary to develop arbitration mechanisms accepted by both parties, since, in these cases, mediation procedures through official channels are too costly.



6. Value generated by an Inclusive Business

Inclusive Businesses provide evidence that companies can be a generator of positive change in low-income communities. These are initiatives that not only improve economic conditions (employment, income, profitability), but also contribute qualitative changes to the living conditions of the poor as a result of the generation of technical, social, and human capabilities that lead to an improvement in human capital. The changes within low-income suppliers, distributors, and consumers are reflected in strengthened commercial, social, and contractual relationships with the company.

To be able to fully take advantage of the great potential represented by Inclusive Business and to expand its results, there is a path to follow and risks to mitigate. The lack of systematized and accessible information regarding experiences, both those that are successful as well as fruitless, limits the learning processes of anchor companies and communities in the development of Inclusive Businesses. To overcome this lack of information, the platform www.inclusivebusiness.org was created.

Mesuring Impact Framework

Impact evaluation constitutes a fundamental element in the implementation and application of any Inclusive Business activity. This helps validate the Inclusive Business (the company “wins” and development “wins”), as well as safeguard companies’ capacity to continue evolving and anticipating change.

The WBCSD Measuring Impact Framework, launched in late 2008, was developed in collaboration with over 20 WBCSD member companies, reviewed by 15 external experts and co-branded by the International Finance Corporation. The Framework is designed to help companies understand their contribution to society and use this understanding to inform their operational and long-term investment decisions, and have better-informed conversations with stakeholders.

Further information on the WBCSD’s Measuring Impact Framework is available at:
<http://www.wbcds.org/web/measuringimpact.htm>

As reflected in the cases included in this publication, the results of an Inclusive Business are based on the creation of mutual value, both for the company and the low-income communities involved in the initiative. Behind Inclusive Business is the hypothesis that creation of greater profits for the company will generate greater benefits for the community. This is an encouraging hypothesis, even though at present it is just that: a hypothesis. Therefore, further testing is required to better understand the interactions and conditions governing relations between profits and improvements in the living conditions of low-income populations.

Until now, results obtained in low-income communities have been shown through anecdotes that illustrate the benefits generated for particular individuals. Although these stories are indicators of success, they are insufficient to be able to understand the interdependence between private sector results and the impact on poverty. Future research is needed to provide evidence that companies derive greater benefit from the Inclusive Business as a function of how much social impact is generated.

The WBCSD Inclusive Business Leaders Network

In order to maintain the momentum of Inclusive Business in Latin America, WBCSD has launched a Network of Inclusive Business Leaders, led by Roberto Salas, President, GrupoNueva & CEO, Masisa. The Network spans across industries and countries in the region, and engages WBCSD's national counterparts and their member companies. It aims at engaging executives to champion the cause of inclusive business to their peers, governments, and international organizations: promoting the concept in their own companies and value chains, sharing learning with others, and creating a common business voice advocating for framework conditions that support inclusive business practices in the region. In this context, WBCSD and its national counterparts in the region have held national meetings in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama and Peru, with the presence of some 150 executives from national and international companies.

More information: <http://www.reni-wbcd.org>

"The greatest challenge we face is creating the 'snowball effect' in the private sector. We have to move from telling interesting stories to showing examples of value creation. We also have to move from pilot projects to projects that achieve significant results."

Roberto Salas, President,
GrupoNueva & CEO,
Masisa

SNV



World Business Council for
Sustainable Development

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