



G20 DEVELOPMENT WORKING GROUP

**G20 INCLUSIVE BUSINESS
FRAMEWORK**

G20 INCLUSIVE BUSINESS FRAMEWORK

A framework that defines inclusive business, sets out recommendations to enable inclusive business, and proposes a way forward for governments, the private sector, and other stakeholders.

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1. INTRODUCTION

Rapid growth and improved standards of living in developing countries are creating demand for goods and services by low income people valued at as much as \$5 trillion a year.¹ Businesses that target these consumers, adjust product offerings or marketing strategies to meet their needs, and establish local sources of supply can take advantage of this expanding demand. Most importantly, as they pursue these business opportunities, “inclusive businesses” as they are called, can bring people out of poverty by connecting poor segments of the population with markets. Inclusive business complements public policies aimed at advancing development.

What is Inclusive Business?

Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP)² making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers.³ In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. Inclusive business should promote sustainable development in all its dimensions – economic, social and environmental.

As inclusive businesses deepen investments in low-income communities, they improve access to affordable quality products and services, enhance productivity, and generate new income and livelihoods opportunities across the BOP. In doing so, they enable inclusive growth and sustainable development.

In targeting low-income market segments, inclusive businesses also spur innovation, strengthen value chains, build more effective operations, uncover new sources of profitability, and enhance long-term competitiveness.

A Growing Force

Inclusive businesses are proven and growing. The world’s multilateral development banks have invested over \$15 billion in inclusive business approaches and private investors have raised \$6 billion in funds for businesses with not only commercial viability, but also with explicit social objectives.⁴

Inclusive businesses are expanding markets and helping tackle poverty, generating commercial returns, and advancing development. In Kenya, M-PESA has transformed the way 15 million people transfer money, empowering all those with access to a mobile phone. In India, Jain Irrigation Systems Ltd. has worked with over 30 million smallholder farmers to

¹ The estimated 4.5 billion new customers are located in 92 developing countries and emerging markets. Spending power in purchasing power parity (PPP) terms. Both figures per the Global Consumption Database: <http://datatopics.worldbank.org/consumption/>

² Base of the Economic Pyramid (or BOP) is used to describe men and women who are low-income or who lack access to basic goods and services. The low-income segment is commonly considered to include people earning up to \$8/day in purchasing power parity terms (PPP). Setting the maximum in PPP terms adjusts the real figure to equate the relative purchasing powers amongst different countries.

³ In 2011, the G20 adopted the following working definition of inclusive business for the G20 Challenge on Inclusive Innovation: “a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the pyramid by making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers.” This does not preclude other definitions.

⁴ European Commission (2014) A map of social enterprises and their ecosystems in Europe

train them on drip irrigation so they can grow more using less water. These inclusive businesses are having real impact in communities that need it the most.

While the potential is proven, the opportunities of inclusive business are yet to be fully captured.

Harnessing Inclusive Business for Sustainable Development and Growth

The Addis Ababa Action Agenda of the Third International Conference on Financing for Development recognized the importance of the private sector in addressing sustainable development challenges. This demands a fundamentally different engagement with the private sector going beyond corporate social responsibility and philanthropy. For private capital and innovation to flow towards advancing the Agenda 2030 and the Sustainable Development Goals (SDGs), societies will have to structure incentives that simultaneously advance business and development -- recognizing the importance of addressing the diverse needs and challenges faced by countries in special situations, in particular African countries, least developed countries, landlocked developing countries and small island developing States, as well as the specific challenges facing middle-income countries.

This is a broad agenda that speaks to how the private sector can contribute to advancing inclusive and sustainable growth. This agenda encompasses a wide range of contributions to inclusive growth and development, including inclusive workplace practices such as the hiring and skilling of people from vulnerable groups, including women and people with disabilities. Within this broad agenda, this G20 Framework on Inclusive Business focuses on business approaches that seize market opportunities that directly improve the lives of those living at the BOP.

Inclusive business has the potential to be a driving force for inclusion and sustainability and to contribute to the effective implementation of the SDGs. To harness this potential, all stakeholders – including governments, the private sector, and other actors – have a role to play. The G20 can play a critical catalyzing role by: i) enabling inclusive business through its members' policies, approaches, and good practices; and ii) helping promote and grow inclusive business through its convening, coordinating, and mobilizing power. Additionally, in applying the inclusive business framework to their domestic and development policies, G20 members can lead by example on policy implementation.

2. UNDERSTANDING INCLUSIVE BUSINESS

Inclusive Business Approaches

Organizations differ as to how they approach inclusive business, with three distinct categories emerging: *Inclusive Business Models*, *Inclusive Business Activities*, and *Social Enterprise Initiatives*.

Figure 1: Inclusive Business Approaches

	INCLUSIVE BUSINESS MODELS	INCLUSIVE BUSINESS ACTIVITIES	SOCIAL ENTERPRISE INITIATIVES
BOP's Relationship to Business	Core Value Chain	Ancillary	Ancillary or Core Value Chain
Financial Return Expectations	Market Returns	Market Returns or Below Market Returns	Not Profit Maximizing
Primary Funding Type	Commercial	Commercial	Mixed

Companies with an *inclusive business model* integrate the BOP into their core business operations. Commercial viability of the business model is at the forefront for companies in this category as they rely primarily on commercial sources of financing for their business operations and look to realize market returns. This marks a sharp distinction from development approaches that are dependent on direct public funding.

Inclusive business activities also include people at the BOP into companies' value chains. However, these activities are not central to the commercial viability of the company nor do the BOP make up a significant part of the base of customers, suppliers or business partners. Notwithstanding, these activities contribute to the overall aims of inclusive business. The activities are usually financed by companies' internal resources, often complemented by support from commercial funds, concessional funding, or grants.

Social enterprise initiatives have the mission to improve individuals' and communities' economic and social well-being and institutionalize the pursuit of explicit social objectives.⁵ A distinct feature of social enterprises is that they are not structured to maximize their profits for redistribution. Generally, most profits are reinvested back into the enterprise in order to fulfil and strengthen its social mission. Not all social enterprises are financially viable, especially those that are small, and they rely on a mix of external financial resources.

Cooperatives may be involved across the spectrum of inclusive businesses, either by using an inclusive business model, operating inclusive business activities, or functioning as a social enterprise initiative. Cooperatives may also be a part of the value chain of a larger inclusive business company.

For further detail on the three approaches to inclusive business, see Annex I.

National and international frameworks and instruments play an important role in setting the context for inclusive business. Inclusive businesses, like other companies, should adhere to relevant national laws on labor, social, and environmental standards, many of which, in turn, are informed by relevant international frameworks and standards.⁶

⁵ Based on OECD and EU definitions: OECD (1999) Social enterprises, OECD Publishing; COM (2011) 682 Communication on "Social Business Initiative - Creating a favorable climate for social enterprises, key stakeholders in the social economy and innovation", Brussels, 25.10.2011

⁶ The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is the principle normative instrument guiding company behavior on labor and employment issues. It incorporates the ILO Declaration of Fundamental Principles and Rights at Work (FPRW) and calls upon all actors to contribute to the realization of these FPRW. Further detail is available in Annex X.

Inclusive businesses tend to be most active in sectors where the BOP are engaged, such as agriculture, or in sectors that supply the BOP with basic services such as health, education, communications, energy, housing, financial services, and water/sanitation (see Figure 2). These are also sectors where government policy plays a particularly important role. For case studies of inclusive businesses in each of these sectors, see Annex II.

Figure 2: Illustrative Approaches by Sector

Agribusiness	<i>Procuring from smallholder farmers Selling to smallholder farmers</i>
Education	<i>Affordable education and/or vocational training</i>
Health	<i>Affordable healthcare services Nutritional products</i>
Housing	<i>Affordable housing and housing finance</i>
Financial Services	<i>Mobile money Microfinance and Microinsurance</i>
Utilities	<i>Last mile delivery of water/energy</i>

Challenges

Many inclusive businesses face external and internal constraints, both at the BOP market level and at the company level. Challenges differ in degree and type from those typically encountered by businesses in developing and emerging economies and may also differ depending on the company's approach to inclusive business. Constraints at both the market and company levels have been identified along four broad dimensions: information, rules and regulations, financial resources, and capacity. Where these can be reduced, inclusive businesses can grow and achieve greater impact.

Rules and regulations: Innovative inclusive business solutions are often limited by existing regulation, or because legal foundations are missing; this was initially the case for microfinance and mobile money. Moreover, as BOP markets are mainly informal, companies find it difficult to establish and enforce contracts. At the company level, corporate rules and structures can limit their ability to innovate in BOP markets. Corporate business development processes, for example, often do not allow for longer-term investment or high levels of uncertainty. In addition, in many countries, non-profit organisations (NPOs) can be limited in regards to their earned income strategy.

Financial Resources: Conventional finance providers are not always equipped to finance inclusive businesses, and often consider risk-adjusted returns too low to merit credit or investment. Financial products are often not adapted to the needs of inclusive business. Despite the growth of the microfinance and SME industry, access to credit and other financial resources for the BOP are still scarce and are usually limited to small sums. Equity finance is also difficult to access. For example, smallholder farmers aiming to invest in equipment or distributors with a need for working capital must often rely on their own resources.

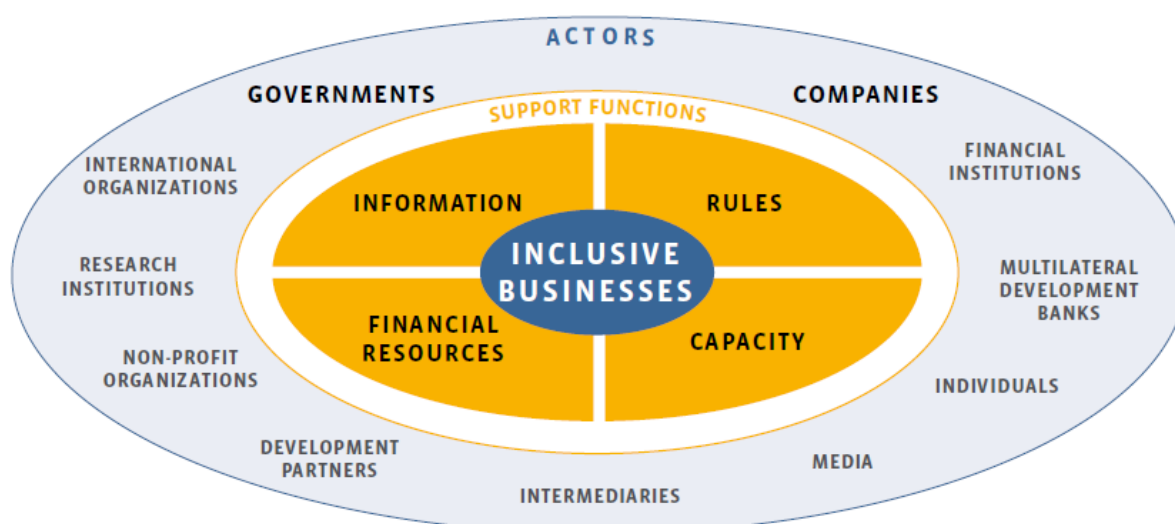
Information: At the market-level, information about BOP consumers' needs, preferences, and consumption patterns is often not available to potential investors or business partners. The same is true for BOP suppliers, as information about the production capacity of smallholder farmers, or of market prices, is often lacking. Information services, including market research, are also in short supply, especially at the local level. Companies that want to pursue a BOP market opportunity often encounter difficulties finding enough data to build an inclusive business model.

Capacity: Infrastructure in BOP markets, including roads, energy, and communication networks, is often lacking, increasing transaction costs on the “last mile.” Companies face high costs when buying from producers and selling to consumers in remote, rural locations where functional logistics and distribution systems may be absent. Other service providers, including education and health care providers, may be limited or of poor quality. Companies often face high costs to raise customer awareness and train producers, distributors, and retailers at the BOP.

3. ENABLING INCLUSIVE BUSINESS

Inclusive businesses require a conducive context to grow and achieve broad-based impact. A variety of stakeholders have a role to play, but the key players are governments and companies.

Figure 3: Inclusive Business Ecosystem



Governments: Governments play a key role to enabling companies to pursue inclusive business models and integrate the BOP into their core business operations. A conducive enabling environment and a well-functioning financial infrastructure can help other stakeholders to effectively serve inclusive businesses.

Inclusive business policies directly enable and encourage private sector companies to include the BOP as part of their value chain and empower the BOP to participate in companies' value chains. Inclusive business policies exist at all levels, from overarching policy frameworks -- where a clear and compelling overarching vision is established -- to practical administrative decisions. These policies go beyond creating a general conducive business environment; they focus explicitly on facilitating the relationship between inclusive businesses and the BOP. These policies cut across government, often requiring engagement by a broad range of ministries. A coordinating or lead government body can help to create coherence across government ministries and stakeholders.

Partner governments also play an important role in facilitating inclusive business through their development agenda, both via direct support to inclusive businesses and via support to developing or emerging economy governments.

Multilateral development banks (MDBs), regional and bilateral development banks, and development finance institutions are also important drivers to improve access to finance for inclusive businesses. (See Annex IV for the MDBs' current work supporting inclusive business.)

Companies: Evidence shows that companies can create new markets at the BOP, create information, provide training and raise awareness, and offer financing to actors in their value chain. Private sector actors innovate and develop new business models to fill gaps in the ecosystem, for example through technology-enabled platforms.

Local financial institutions of all levels, such as microfinance institutions, cooperatives, and banks, play a crucial role in bridging the finance gap for inclusive businesses. Fair and transparent financial services, such as loans, equity, money transfers, microfinance, and insurance schemes, adapted to the needs of inclusive businesses are needed for these businesses to develop. Private investors, asset managers, and angel investors, as well as innovative crowd-investing methods, are also key, especially in the early stage of an inclusive business.

3.1 Establishing conducive rules and regulations

Rules define the framework and thus the incentives for inclusive business. Government rules can create the legal basis for action at the sector level, improve access for the BOP to markets, and incentivize the special contribution of inclusive businesses. Corporate certifications and strategies can also encourage the expansion of inclusive business.

The Role of Governments

Review existing regulations that limit BOP participation in market activities. Companies face challenges when they want to do business with BOP suppliers or service providers, or, for instance, provide financial or utility services to customers without proper documentation. For example, in Mexico, the government has adapted “know your customer” requirements for banks in cases of small accounts. As a result, low-income customers can now open bank accounts even if they lack formal ID cards. In other instances, sector regulation may be missing or too restrictive to allow for innovative solutions to serve the BOP in vital areas like energy, education, and health. (See Annex III for additional information and examples on the role of governments, as described throughout this section.)

Embed pro-poor targets into government contracts. Public Private Partnerships (PPPs) and concessions can embed pro-poor targets by defining a certain level of inclusion of BOP producers or consumers. The Government of Manila, for example, granted Manila Water Company a concession for water and wastewater services under the condition of meeting service targets to cover previously excluded slum populations.

Where necessary, introduce appropriate regulations for inclusive business companies. Inclusive businesses – especially social enterprise initiatives -- often struggle with existing legal forms. Governments can create new legal structures that enable enterprises to pursue social objectives and that can also provide them with certain benefits. In the

European Union, 20 Member States have already established specific legal forms or statutes for social enterprises.⁷

The Role of Companies

Encourage inclusive business in their corporate strategy. Companies can establish their own corporate objectives and strategies to integrate low-income communities into their operations. In Afghanistan, telecommunications provider Roshan built its strategy off of its vision to provide all Afghans with access to mobile telephony and to play a key role in the country's reconstruction and economic development.

Establish certification programs. Internal company certifications can assist companies to move towards technical, social, and environmental standards, and can enhance visibility and trust for consumers and/or investors. Certifications can be used to reward inclusive production processes and signal quality to consumers. In India, Jain Irrigation developed a Jain GAP certification for its smallholder farmer suppliers from whom the company purchases vegetables. This has helped the company meet its buyers' concerns for quality without significantly increasing costs for BOP farmers.

3.2 Enhancing access to financial resources and providing financial incentives

Access to finance throughout the value chain and financial incentives are important to strengthen the BOP market at multiple levels.

The Role of Governments

Improve access to finance for the BOP. Improving the BOP's access to finance is key. This includes a range of financial services, such as loans, savings, insurance and money transfers. While the need for BOP financing appears at every stage of a company's value chain -- whether the BOP are engaged as suppliers, retailers, distributors, or customers -- they often do not qualify for financing because they lack a formal credit history or proof of income. For example, a smallholder farmer may require financing to pay for inputs, transportation, or to enhance productivity. A BOP customer may need financing to make larger purchases may need to transfer money, or save in a formal account. It is important that governmental agencies, including the central bank, regulators, and other supervisory bodies, when creating a robust regulatory environment and secure supervision of the financial sector, also consider how to ensure that the regulatory and supervisory framework fosters financial inclusion, stability, and transparency.

Governments can stimulate the supply and demand and increase affordability of financial products via targeted credit facilities, subsidies, and insurance schemes – such as those for agricultural weather insurance. For example, Agroasemex is Mexico's national insurance institution for risks in agribusiness. (See Annex III for additional information.) Over time, these often create the conditions whereby their intervention can be discontinued.

Improve access to finance for inclusive businesses and provide financial incentives. Governments can promote access to finance for inclusive businesses, which are often evaluated as riskier than conventional businesses. This can be done by encouraging

⁷ European Commission (2014) A map of social enterprises and their ecosystems in Europe

banks to adopt targeted lending programs, as well as by providing full or partial credit guarantees, factoring,⁸ finance leasing,⁹ and equity financing to inclusive businesses.

Governments can also provide financial incentives directly to companies or to investors financing inclusive businesses. Challenge funds and matching grants have emerged as possible financing mechanisms to catalyze pro-poor innovation and investment. Public procurement preferences for inclusive businesses can also provide a major incentive for companies to include the BOP.

The Role of Companies

Provide financial services to the BOP. Companies can develop targeted financial products to enhance the financial inclusion of the BOP in their value chain. Companies frequently have a close relationship with the BOP in their value chains and are thus able to provide short-term or seasonal credit that would otherwise not be available in the market. In Brazil for example, the wholesaler/distributor Grupo Martins established a financial intermediary – Tribanco – to finance small shops and provide short-term access to credit for low-income customers.

Establish investment products. A variety of new players are emerging in impact investing, complementing longstanding activities of development finance institutions. New players range from quasi-philanthropic to fully for-profit entities, which are opening new financing opportunities, combined in some cases with other non-financial services. All of them seek, beyond a financial return, a positive – and measurable – social or environmental impact. They provide debt, equity, and other financial products, such as guarantees, whereby return expectations are usually longer-term, thus allowing businesses to grow without the pressure to deliver short-term returns.

3.3 Providing information and raising awareness

Information and awareness are required at all levels of the market, among the BOP as well as within inclusive businesses. Governments and companies can often work together to provide this information and raise awareness.

The Role of Governments

Compile and share BOP market data. Governments can compile and share BOP market data, including data from household surveys or social security programs, so that companies can identify and better understand BOP markets. For example, the World Bank Group recently created the Global Consumption Database through which companies can access high-level information on BOP consumption patterns. More institutional solutions to create and share information on the BOP can enable specific markets, such as those for financial services. Credit bureaus, for example, provide information on borrowers' credit histories, sometimes including information from nonfinancial institutions, such as utilities and retailers. The information can help banks better assess the risk of inclusive business.

⁸ Factoring entails the purchase by the lender of a firm's accounts receivables at a discount and, in the case of non-recourse provisions, the collection of invoices directly from the parties that owe money.

⁹ A finance lease is a contract that allows the lessor, as owner, to retain legal ownership of an asset while transferring substantially all the risks and rewards of economic ownership to the lessee.

Provide information to the BOP. Information is also critical for the BOP to engage in broader value chains, as BOP customers and suppliers often lack important information to make informed consumption or business choices. For example, BOP customers may be unwilling to pay for clean water because they are unaware of the negative health impact of the free water they currently consume. Once informed of these benefits, they are much more likely to consider paying a nominal fee for clean water.

Raise awareness on inclusive business. Governments can also raise awareness and build insight on the inclusive business approach. Award programs, such as the G20 Challenge on Inclusive Innovation, create awareness of inclusive business and allow companies to learn from others. By selecting good practice cases, governments acknowledge and reward the contribution of these organizations. At the same time, they provide successful models and proof of concept and underline the contribution of inclusive business to a variety of social and business aims.

Beyond awards, governments can create public awareness campaigns to attract investors to the inclusive business approach and to identify promising pro-poor initiatives of the private sector. Australia, for example, funded a study on the core business activities that Australian multinationals undertake that contribute to poverty alleviation. Governments can also fund research on inclusive business as an approach to identify relevant models in and for their national contexts. Finally, governments can provide forums for peer-learning. With the support of German development cooperation, the Colombian government agency for the eradication of extreme poverty, together with the national business council for sustainable development, host a national public-private committee for inclusive business, where companies and government can share their experiences with inclusive business.

The Role of Companies

Leverage information to deepen or expand business engagement with the BOP. Through their close relationship with the BOP, inclusive businesses can amass a significant amount of information on the BOP in their value chain. This data can be leveraged to expand the scope of the company's engagement by partnering with a financial institution and using the information to reduce the risk of the BOP borrower. For example, Promigas, an energy holding company in Colombia, used the data it gathered through its operations to extend credit to over 550,000 BOP borrowers with no previous access to the financial system for home improvement materials, start-up capital, and school fees.

3.4 Strengthening the capacity of the BOP and of inclusive businesses

Capacity is often lacking within BOP markets, restricting the ability of inclusive businesses to operate and to engage the BOP. Building market capacity requires direct on-the-ground support for the implementation of inclusive businesses, both at market level and at company level. (For the role of infrastructure development as an enabler for inclusive business, see Annex VI Links to G20 DWG Work Streams.)

The Role of Governments

Align vocational training for the BOP with private sector needs. To build BOP capacity to participate in value chains, governments can align public vocational training programs with industry needs by engaging the private sector in the design and delivery of these programs. Specifically, governments can strengthen existing vocational centers, as well as programs for skills and mentoring, apprenticeships, and quality certifications.

Implement inclusiveness projects in partnership with the private sector.

Government entities can often achieve their mission more efficiently and effectively by combining their own capacities with those of the private sector. For example, the Ministry of Education in China has worked with the IT company Ericsson to develop and distribute interactive learning content via mobile phones. Despite many examples of such development partnerships, few governments provide a clear framework on when and how to engage with the private sector. Dedicated partnering facilities, like the German developPPP programme, can help with the design and implementation of partnership projects.

Support business services for inclusive businesses. Governments can encourage existing business development services to focus on inclusive businesses. For example, the Central Bank of Egypt partnered with GiroNil to develop an Automated Clearing House that allows services to be expanded into the BOP market by facilitating customer due diligence.

The Role of Companies

Develop capacity of the BOP through training and education. A lack of affordable and accessible education and nascent market dynamics both contribute to the need for training along the value chain. Companies can provide training to BOP suppliers to enable these suppliers to meet quality and service requirements. Companies targeting BOP customers, particularly companies that are first-movers into a particular market, can conduct awareness campaigns. Within the education sector in particular, companies can focus their efforts on providing BOP students with the skills that will make them employable. For example, Uniminuto, a non-for-profit tertiary institution in Colombia, offers a range of courses targeting lower-income students and emphasizes employability, affordability, and accessibility.

Provide business support services. Private sector companies are best-placed to offer business support services on a commercial basis to inclusive businesses. Companies can partner with governments to help establish such services, for example by tendering for BOP-related research projects. To partner with government entities, companies also need to develop the appropriate internal structures and capacities.

4. THE WAY FORWARD

The G20 is uniquely positioned to advance the inclusive business agenda by virtue of its membership, global leadership function, and multi-stakeholder convening power. Future priorities will avoid duplicating existing actions on inclusive business and focus on accelerating action and innovation within the public and the private sector, and on facilitating greater coordination and faster learning. The G20 will:

Send a Call to Action: A call from G20 Leaders to all relevant actors, including governments, the private sector, international organizations, international financial institutions, including multilateral development banks, and other stakeholders, to consider the potential of inclusive business to advance inclusive growth and sustainable development, globally and nationally. The G20 commits to maintain Inclusive Business on the agenda in subsequent years, also taking into account its links with the five DWG priority areas, and to advance inclusive business in our domestic agendas, including by implementing, as relevant, the policies in this Framework. Members also commit to undertake national outreach with stakeholders to promote inclusive business.

Develop the Evidence Base: Grow the evidence and analytical base around inclusive business. This will focus on the impact of inclusive businesses and of policies intended to promote them, as well as on the challenges and success factors in advancing inclusive business. Draw conclusions and share insights with relevant stakeholders, and thus accelerate innovation and learning.

Create a G20 Global Platform on Inclusive Business: Develop a platform focused on policy, learning, and implementation. Engage the private sector, governments, and other key stakeholders such as the B20 via collaborative platforms around specific issues related to inclusive business, coordinating on the national, regional, and global levels. Build upon this Framework and continue to advance inclusive business policies through ongoing peer-to-peer learning, knowledge exchange, case studies of G20 and non-G20 governments, and identification of good practices in inclusive business policies and in policy making.