



UNCHARTED WATERS

BLENDING VALUE AND VALUES FOR
SOCIAL IMPACT THROUGH THE SDGS



Deloitte.



*Empowered lives.
Resilient nations.*

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Foreword



The 2030 Agenda for Sustainable Development calls on businesses ranging from microenterprises to multinational corporations, “to apply their creativity and innovation to solve sustainable development challenges”. There is a growing recognition that the SDGs are creating real opportunities for businesses to engage. Some companies are moving beyond the concept of ‘social responsibility’ towards core business models focused on improving people’s lives, while of course generating returns. These companies are finding ways to address today’s most pressing challenges through business ventures that integrate poor and vulnerable people all along their value chains, empowering them to participate in and benefit from sustainable development, including them in market mechanisms and widening the concept of affordability.

As the United Nations’ development arm, UNDP has a key role to play in helping countries eradicate poverty,

significantly reduce inequalities and exclusion, and safeguard the environment. With its Istanbul Global Policy Center on Private Sector in Development, and the Business Call to Action, UNDP offers a platform of engagement for corporations and SMEs to contribute to the achievement of the SDGs. These historic goals reflect the growing acknowledgement that many global issues are too vast for governments, the United Nations or the private sector to tackle alone. Solid partnerships are needed.

Meanwhile, consumers and other stakeholders are voicing their expectations for companies to deliver social, environmental as well as economic value. This report demonstrates how the SDGs can help businesses operate sustainably in various contexts, from establishing a market niche in tomorrow’s middle and working class to attracting top talent committed to creating social capital. But individual businesses cannot do it alone, just like Government won’t manage by itself.

Low-income markets are mostly untapped potential for economic growth. The purchasing power of the lowest income brackets of our society cannot be ignored. New technologies such as mobile-money platforms are enabling poor communities to access products and services that greatly improve their lives. Beyond a focus on consumers, companies can leverage the SDGs by building inclusive supply chains that make the most of natural and human resources in underserved areas.

As a joint collaboration between UNDP and Deloitte, this report is intended to

aid private sector leaders in pursuing inclusive business as a key to advancing the SDGs. It explains the business opportunities, offers an assessment of existing inclusive business maturity and provides considerations for how to design, measure, communicate and scale impact in line with the SDGs. The report aims to illustrate how the SDGs can be leveraged by private-sector companies to select and develop inclusive business programmes and how companies can measure, evaluate and communicate the impact of inclusive business on the SDGs. It is complemented by a web-based toolkit. The toolkit can be used as a self-instructive learning platform for companies to assess their maturity level and identify opportunities for generating inclusive business that impact on the SDGs.

Development means business. Sustainable development is smart economics. The ambition of this report is to offer practical assistance to businesses in aligning their core strategies with the SDGs, and contribute to stability, the reduction of inequalities and environmental sustainability.

Magdy Martínez-Solimán
UN Assistant Secretary General
UNDP Director for Policy and
Programme Support

Foreword



As business leaders, we recognize that the private sector will have trouble succeeding if it turns a blind eye toward the world's most complex problems. As global leaders approach the Sustainable Development Goals (SDGs), businesses too must reconcile the creation of value with the fundamental tenets that shape our global community and, significantly, our humanity. It is clear not only that global challenges impact business, but also that business has a fundamental role to play in tackling those challenges.

Social and economic progress in developing countries—the frontier market for many businesses—is undoubtedly critical to the private sector. Still, a large number of private sector stakeholders have expressed

uncertainty about their role in making an impact on the SDGs and request answers to a number of critical questions: How much do the SDGs really matter to business? What are the best mechanisms through which the private sector can engage in the goals without taking on inordinate risk? And how can companies create value consistent with the SDGs?

The challenge of answering these questions is rendered more urgent by the existing gap in financing. Overall, \$30-45 trillion are required to successfully deliver on each of the 17 SDGs.¹ Traditional funding streams are grievously insufficient to meet this monumental demand. Consider, for example, just last year official development assistance (ODA) trickled in at \$131 billion.² Over the course of the SDG agenda's 15-year timeline, this form of public sector support amounts to \$2 trillion—equivalent to only one year of the SDGs financing needs and just over 4 percent of the funds required to adequately reach each target by 2030. The maths are simple and the conclusion clear; filling this multi-trillion dollar gap will require robust support from the private sector.

Recognising both the urgency and the unique role that businesses can play in achieving the SDGs, this paper aims to demonstrate that SDG

engagement can be a critical driver of business model innovation and revenue generation. In fact, this report suggests employing an innovative, but tested and decade-old concept for driving both SDG alignment and company growth: inclusive business. Inclusive businesses functionally aim to achieve the same ends as any other company, with a focus on driving revenue growth, creating value, and accelerating business expansion. Critically, however, inclusive businesses provide access to employment opportunities—and their associated social and economic benefits—to underserved populations. “Base of the pyramid” populations can be integrated into inclusive businesses as suppliers, distributors, retailers, consumers, and employees, which can improve company growth while providing for higher incomes and sustainable livelihoods.

Trends in the marketplace highlight the scale of potential business development. Take China and India alone; two-thirds of global middle class population growth will come from just these two countries.³ Their rising, but still relatively low, incomes point not only to increased consumption, but also to the notion that goods, services, and prices must be tailored to the unique needs of this customer segment. In fact, businesses now sit at the cusp of opportunity, able to impact the tastes and

1 Orbeth, Gemma. “Financing the Global Goals: Why the Global Fund Replenishment Matters for the SDGs”. 2015. http://www.aidspace.org/gfo_article/financing-global-goals-why-global-fund-replenishment-matters-sdgs

2 One. The 2016 Data Report: A Bolder Response for a Changing World. 2016. <https://www.one.org/us/policy/data-report-2016/>

3 Kharas, Homi and Geoffrey Gertz. “The New Global Middle Class: A Cross-Over from West to East.” 2010. https://www.brookings.edu/wp-content/uploads/2016/06/03_china_middle_class_kharas.pdf

purchasing decisions of the consumers of the future. The inclusive business model activates this opportunity. In fact, this powerful, integrated paradigm represents the frontier of catalytic private sector engagement with a growing market, new consumers, and, inherently, the SDGs.

“Uncharted Waters: Blending Value and Values for Social Impact through the SDGs”—a joint collaboration between UNDP, the Istanbul International Center for Private Sector in Development, Business Call to Action, and Deloitte US—is intended to help private sector leaders pursue inclusive business in order to realize progress toward the SDGs. The report includes a diagnostic for companies to assess their inclusive business maturity, providing for a range of readiness levels, from those without prior knowledge about inclusive business to those on the cusp of inclusive business growth. This framework is supplemented by tailored and tangible steps to initiate, refine, and optimize inclusive business efforts. Further, the document offers

extensive detail about five sectors with substantial opportunity for both inclusive business development and SDG progress, namely food and beverage, infrastructure, healthcare, education, and financial services.

By laying out provocative questions and providing practical guidance for its users, this guide aims to highlight the potency of private sector action and the role of inclusive business in driving growth. Significantly, it demonstrates how inclusive business is steeped at every stage in a particular duality: growing company bottom lines through innovation and business model adaptation, while simultaneously—and inherently—stimulating progress toward the SDGs. This can be seen across a company’s value chain. In a new global economy and particularly in emerging markets, rethinking supply chain management, expanding distribution channels, and developing new customer segments necessarily involves identifying local suppliers, engaging underserved entrepreneurs, and responding to new consumer needs.

Thus, inclusive business is a critical and forward-looking component of both private sector growth and making an impact on the SDGs. Over the years Deloitte and its associates have found numerous points of intersection between supercharged growth and improved social outcomes, as seen in DTTL’s recently published reports including “License to Innovate: Breakthrough Strategies for Social Impact” and “Driving Corporate Growth through Social Impact”. This report and its findings are the next step on the extended path to private sector engagement with the SDGs. It is our hope that this document spurs healthy dialogue that can provide more robust answers to questions in service of both businesses themselves and the global community in which they reside.



David Cruickshank
Global Chairman
Deloitte

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Introduction

We live in an era of unprecedented transformation: from the Internet of Things to the sharing economy, accelerating urbanization to shifting consumer demand, this socio-economic transformation is profoundly impacting the way we coexist. In business, disruptive innovation from the likes of Uber, Netflix and Bitcoin have upended mainstream industries, pushed companies outside of their traditional silos and accelerated the need for resilience and differentiation. In the development context, a combination of traditional aid and market-based solutions, in many instances led by the private sector, has contributed to an acute reduction in poverty among the world's 4.5 billion poor people over the last decade. But despite these improvements, inequality remains a major challenge, putting at risk much of the progress made to date. The historic response envisioned through the Sustainable Development Goals (SDGs) and the commitments made as a result of the Climate Summit in Paris offer a unique, once-in-a-generation opportunity to seize on the convergence of intent across sectors that can set the world on a path of global sustainability and inclusive growth. What then should be the role of the private sector in pursuing social impact? Is it the role of business to lead? And if so, how?

Businesses previously relegated the pursuit of social impact to distinct philanthropic or corporate responsibility efforts. Over the last few years however, the private sector has come to recognize that contributing to the pace and pattern of growth, and playing an active role in society is the shared responsibility of the public, private and social sectors. More importantly, the understanding that this contribution should be integrated into companies' core business and should be an inherent part of their creation of value is helping businesses to succeed in today's markets. Recognition, of course, is merely the first step on the journey toward social impact.

This paper and accompanying toolkit were designed as a practical reference for businesses to understand why and how they can embrace this journey in the context of the SDGs, and why inclusive businesses – core business models that integrate underserved markets into companies' value chains

– can accelerate both business growth and social impact. This document recognizes that business represents just one of the multitude of important stakeholder groups in the global development marketplace that must interact with other sectors to achieve and sustain impact at scale. Because this is intended to be the first in a series addressing how different actors might effectively engage with and support the SDG agenda, the scope of this paper is confined to four business-centered themes:

- Why the SDGs should matter to business;
- How the pursuit of the SDGs through inclusive business can increase growth and competitiveness;
- The degree to which your business might be ready to develop into an inclusive business; and
- Once the degree of readiness has been established, how to start, develop, refine and optimize your inclusive business.

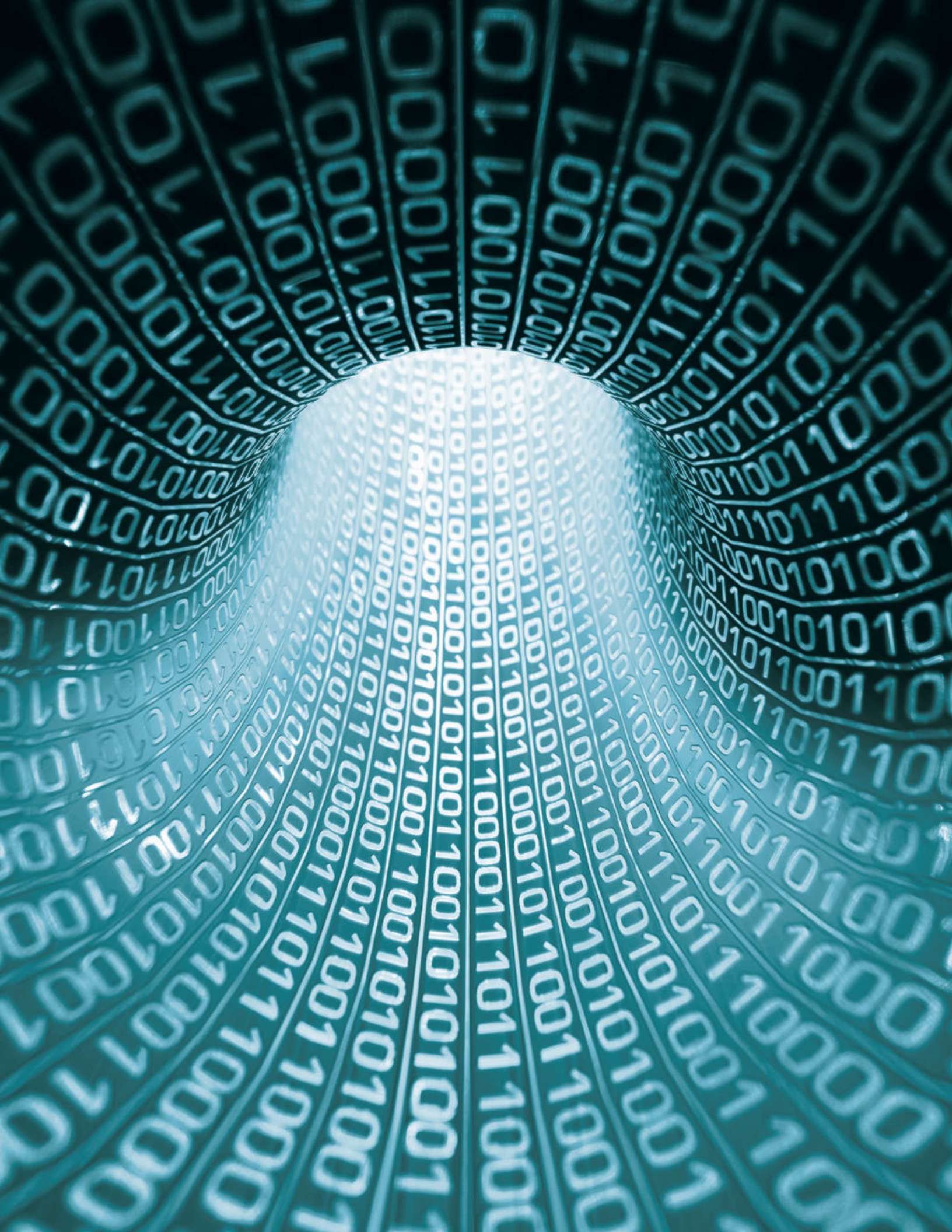
We recognize that inclusive business is not a panacea. The last decade has borne witness to hundreds of inclusive business ventures with varying degrees of success. As many of these examples have been catalogued and analyzed, we have noted relevant case studies and discussed examples of successful models and experiences, critical factors for success and potential pitfalls.

Our hope is that this guide will serve as a conversation starter for businesses that seek to align with the SDGs and are keen to initiate, develop or scale their efforts through inclusive business. In an increasingly complex world challenged by political and economic instability, the growing needs of a rapidly growing middle class, rising inequality, evolving consumer preferences, changing investor perspectives and most importantly, a confluence of values and value, businesses need to ask themselves whether they are ready to seek a more intentional pathway toward purpose. As Unilever CEO Paul Polman said, "We do not have to win at the expense of others to be successful. Winning alone is not enough, it's about winning with purpose."⁴

4 The Guardian, "Paul Polman: The Power in the hands of the consumers." November 21, 2011, <http://www.theguardian.com/sustainable-business/unilever-ceo-paul-polman-interview>

Contents

Business and the SDGs: Why It Matters	1
Five ways the SDGs can help Business Generate Value	1
Three Notable Trends Enhancing Value Creation	4
The Role Inclusive Business can play in Driving SDG Alignment	5
Aligning with the SDGs is Good for Business	5
Inclusive Business Outlook: Five Promising Sectors	7
Financial Returns in the Five Sectors	7
Demonstrated Models in the Five Sectors	7
Potential SDG Impact	7
Are You Ready for Inclusive Business?	19
Understanding your Inclusive Business Maturity	19
The Six Levels of Inclusive Business Maturity: From Bystander to Champion	19
The Inclusive Business Maturity Diagnostic	21
Charting a Course through Inclusive Business	25
The Inclusive Business Process	25
The Inclusive Business Guide	28
Inclusive Business in Practice	43
Novartis	43
Juan Valdez	44
Top Ten Inclusive Business Critical Success Factors	45
Conclusion	47
Appendix 1: The Sustainable Development Goals	48
Appendix 2: World Bank’s Global Consumption Database	50
Appendix 3: Inclusive Business Briefs	52
Appendix 4: Contributions to the SDGs by Engagement Type	54
Contact	65



Business and the SDGs: Why It Matters

In an increasingly interconnected, complex and turbulent world, business is navigating uncharted waters. Amidst this uncertainty, the global community came together in a global call to action to guide all stakeholders – including business – in building a more sustainable, equitable and inclusive society. While the SDGs (see Appendix 1) were designed for and approved by governments, they also constitute a global framework for measuring business contributions to society – how companies can ‘win with purpose’. According to a recent survey, more than two thirds of participating companies said they were already planning to engage with the SDGs, but less than half plan to embed them into their business strategy in the next five years.⁵ As the UN Global Compact 2016 CEO Survey notes, only 59 percent of companies report that their company is able to accurately quantify the business value of their sustainability initiatives.⁶ Therefore, the central question is: Should the SDGs really matter to business?

Five ways the SDGs can help Business Generate Value

In short: Yes – the SDGs are more than just an aspirational framework for governments. They are a roadmap for business opportunity. There are a number of compelling reasons for businesses to pursue social impact and engage with the

SDGs. Beyond the need to heed society’s call for greater transparency and accountability, blending purpose with profit can generate a unique competitive advantage well-suited to discerning consumers and investors. **Five distinct drivers of financial value** compel companies to make both social impact and SDG alignment part of their core business in order to:

- **GENERATE NEW REVENUE** by creating new opportunities for market differentiation and growth;
- **RECRUIT AND RETAIN TALENT** by optimizing your workforce;
- **INCREASE SUPPLY CHAIN RESILIENCE** by enhancing supply chain sustainability and operational efficiency;
- **SPAWN INVESTOR INTEREST** by increasing attractiveness to a wider range of investors; and
- **ASSURE LICENSE TO OPERATE** by addressing regulatory compliance and managing risks.

Generate New Revenue

In our global economy, the emergence of a new global middle class, dramatic shifts in consumer preferences toward ‘responsible’ products and frugal innovation are creating new markets poised for growth.

What are the Sustainable Development Goals?

In September 2015, world leaders adopted the 2030 Agenda for Sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs) to end poverty, fight inequality and injustice, and tackle climate change by 2030. The SDGs build on the Millennium Development Goals (MDGs), eight anti-poverty targets that the world committed to achieving by 2015. The new SDGs go much further than the MDGs, connecting developmental, environmental and economic concerns under a transformative framework.

To learn more about the SDGs, see **Appendix 1**.



5 Make it your Business: Engaging with the Sustainable Development Goals, PWC 2015.

6 Agenda 2016: A Window of Opportunity, UN Global Compact—Accenture Strategy CEO Study 2016.

2 UNCHARTED WATERS: BLENDING VALUE AND VALUES FOR SOCIAL IMPACT THROUGH THE SDGS

- According to the Organisation for Economic Co-operation and Development (OECD), the global middle class is expected to expand by 3 billion people by 2030. By then, 59 percent of middle-class spending will occur in Asia; today Asia only accounts for 29 percent.⁷ This emerging market middle class will represent 3 billion new consumers by 2030 and 70 percent of global consumption.⁸
- With unprecedented global demand for goods and services, accessing new markets can be highly lucrative – including those with a growing middle class and traditionally underserved markets. According to a recent study, this segment currently generates over US\$2.5 trillion in annual income and is growing at a rate of over 8 percent per year. As their annual income increases, so too does their discretionary spending on food and other essentials.⁹

Beyond the potential for growth associated with a rapidly emerging and diverse consumer base, consumer preferences have also been shifting dramatically:

- On average, 71 percent of global consumers say they would be willing to pay more for a socially or environmentally responsible products.¹⁰
- According to the 2015 Cone Communications/Ebiquity Global CSR Study, 91 percent of global consumers “unequivocally believe companies must operate responsibly to address social and environmental issues”; 90 percent would “like to see more responsible products and services offered from companies”; and 90 percent are likely to switch brands to one affiliated with a good cause if quality and price are similar.¹¹
- Finally, 70 percent of millennials would make personal sacrifices to make an impact on issues they care about, including paying more for a product, sharing a product rather than buying it or even taking lower pay to work for a responsible company.¹²

Recruit and Retain Talent

Beyond the generation of new revenue and growth, diversity and inclusion are increasingly tied to improvements in company performance and are accelerating competition for

talent. Businesses now competes globally for progressively scarce technical and professional skills. Corporate citizenship is emerging as an important criterion in the talent market. This has led to more socially conscious companies to gain an edge in attracting, engaging and retaining top employees. There is growing belief – and evidence – that better and more diverse talent produces better results. For example:

- Seventy percent of millennials say a company’s commitment to its local community would influence their decision to work there.¹³
- With increasing transparency in company operations, all generations of workers – millennials, baby boomers, retirees and generation Xers – are making employment decisions based on the type of impact companies are having on the world.¹⁴
- A 2012 research report from Deloitte Australia entitled ‘Waiter, is that inclusion in my soup?’ identified an 80 percent improvement in business performance when diversity and inclusion were high. And according to the American Sociological Association, for every 1 percent rise in the rate of gender and ethnic diversity in the workforce, there is between a 3 percent and 9 percent rise in sales revenue.¹⁵
- The Center for Talent Innovation in New York found that publicly traded companies that embraced diversity were 45 percent more likely to have expanded their market share in the past year and 70 percent more likely to have captured a new market.¹⁶

Increase Supply Chain Resilience

Optimizing supply chains for resilience can lower transaction costs and increase operational efficiency. Beyond revenue increases via growth and new market opportunities, engagement in social impact can help to manage costs and optimize efficiency. For example, supply chain sustainability is increasingly understood to be a core generator of business value while providing meaningful contributions to companies’ reputation and brand. In the growing retailer-driven supply chain environment, suppliers are looking for opportunities to differentiate themselves by not only reducing costs, but by

7 Kharas, Homi. The Emerging Middle Class in Developing Countries, OECD Working Paper 285, 2010.

8 Ibid.

9 Hitting the Sweet Spot: The Growth of the Middle Class in Emerging Markets. Ernst and Young, 2013.

10 The Checkout Research Study, The Good Scout Group, 2015.

11 2013 Cone Communications Social Impact Study, Cone Communications and Ebiquity, 2013.

12 Ibid.

13 Deloitte University Press (2015). *The purpose-driven professional: Harnessing the power of corporate social impact for talent development*, 8 September. Available from <http://dupress.com/articles/harnessing-impact-of-corporate-social-responsibility-on-talent/>

14 American Sociological Association. “Diversity Linked To Increased Sales Revenue And Profits, More Customers.” ScienceDaily. ScienceDaily, 3 April 2009. www.sciencedaily.com/releases/2009/03/090331091252.htm.

15 Ibid.

16 The Center for Talent Innovation. How Diversity Drives Innovation: A Compendium of Best Practice, February 2014.

integrating social and environmental considerations.¹⁷ Some key trends in this area include the following:

- Eighty percent of companies involved a major survey had at least one instance of supply chain disruption in the past 12 months and over 30 percent reported that disruptions are causing losses in excess of US\$250,000.¹⁸
- Recent studies have also shown that significant supply chain disruptions can cut the share price of companies by 7 percent and can have lasting consequences, especially in industries such as food, where total profits will be at risk by 2030 as a direct result of supply chain disruptions.¹⁹

Spawn Investor Interest

Socially responsible investing (SRI) has eclipsed US\$6 trillion per year – growing more than 76 percent since 2012 and meeting or exceeding market returns.²⁰ The SDGs are coming to be seen as the framework against which many sustainable investments will be assessed for social and environmental impact. Companies pursuing social impact as a part of their core business strategies are seeing increased access to financing in a diversity of forms – from philanthropic grants and impact investments to partial credit guarantees and pay for performance. This phenomenon is not new, but recent trends show that it is becoming more common:

- The socially responsible investing industry exceeded US\$6 trillion in the United States alone in 2014 and stands at US\$21.4 trillion globally, representing 30 percent of all professionally managed assets in the regions covered by the global survey.²¹
- Impact investors and development finance institutions have been leading the way in creating a new impact investing asset class that is projected to grow from US\$51 billion in 2014 to US\$400 billion in 2025. This figure is likely to continue to grow at nearly 20 percent per year.²² Impact investment's share in global financial markets is estimated at only 0.2 percent of global wealth. If this share rises to just 2 percent, it could mean over US\$2 trillion has been invested in impact-driven assets.²³

- In public markets, major money managers are expanding the practice of environment, social and corporate governance (ESG) integration – the systematic and explicit inclusion of ESG risks and opportunities into traditional financial analysis – to wider portions of their portfolios.²⁴
- Stock markets are beginning to follow suit, with seven Nasdaq Exchanges joining the global campaign for ESG disclosure – truly emphasizing the importance of socially responsible business.²⁵

Assure License to Operate

Aligning with the SDGs allows companies more options when managing risks associated with their license to operate.

An emphasis on transparency and accountability combined with environmental pressures continues to translate into increasing regulatory scrutiny. In fact, policy and regulatory risk has risen dramatically in emerging markets since the 1980s.²⁶ Companies that explicitly recognize the dynamism of the environment in which they operate can implement appropriate strategies to address it. Strong community relations, goodwill from governments and respect from locals can mitigate political and regulatory risks.²⁷

Governments are increasingly providing both positive and negative incentives to support domestic production and consumption, which can accelerate inclusive business development. A growing number of countries around the world are supporting inclusive businesses through a variety of policy instruments. These efforts are driven by the governments' desire to engage the private sector in order to accelerate the pace of addressing poverty and other social and environmental challenges. Government approaches typically focus on:

- Enabling inclusive businesses to enter and operate in low-income markets (i.e. by removing obstructive policies or making information on consumption patterns available);
- Assisting inclusive businesses in integrating the low-income market segment into their value chains (by encouraging companies to source from low-income producers); and

17 Deloitte Consulting. Supply Chain Resilience: A Risk Intelligent approach to managing global supply chains, 2012.

18 The World Economic Forum and Accenture. Building Resilience in Supply Chains, January 2013.

19 Accenture. Don't Play it Safe When it Comes to Supply Chain Risk Management, 2014.

20 USSIF. The Impact of Sustainable and Responsible Investment, June 2016.

21 Ibid.

22 https://www.jpmorgan.com/cm/BlobServer/giin_2015.pdf?blobkey=id&blobwhere=1320674289058&blobheader=application/pdf&blobheadername1=Cache-Control&blobheadervalue1=private&blobcol=urldata&blobtable=MungoBlobs

23 https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf

24 US SIF (2014). *Report on US Sustainable, Responsible and Impact Investing Trends 2014*. Available from http://www.ussif.org/files/publications/sif_trends_14.f.es.pdf

25 <http://www.sseinitiative.org/home-slider/seven-nasdaq-exchanges-join-global-campaign-for-esg-disclosure/>

26 Harvard Business Review (2010). "The Hidden Risks in Emerging Markets." Available from <https://hbr.org/2010/04/the-hidden-risks-in-emerging-markets>

27 <https://hbr.org/2010/04/the-hidden-risks-in-emerging-markets>

4 UNCHARTED WATERS: BLENDING VALUE AND VALUES FOR SOCIAL IMPACT THROUGH THE SDGS

- Empowering low-income communities to participate in inclusive business value chains (by building their capacity and by providing access to financing).

In 2015, the G20 Inclusive Business Framework identified a list of policy instruments available to governments to support inclusive business. These instruments were organized around the core challenges faced by inclusive businesses – rules and regulations, financing, information and capacity.

The five drivers of financial value clearly outline why businesses should integrate social impact into their core business strategies. Today more than ever, each of these drivers is amplified by prominent market trends, from transformative technology to responsible governance and stronger partnerships.

Three Notable Trends Enhancing Value Creation

Transformative Technology

Technology is enabling companies to reach more consumers at a lower cost than ever before – shortening the distance to reach customers, transcending historical constraints and enabling new business models. Take mobile technology: the mobile industry contributed US\$3 trillion to global GDP in 2014; today's 3.6 billion unique mobile subscribers around the world are expected to grow by an additional 1 billion by 2020²⁸ and data traffic is expected to increase tenfold in the next five years. Clearly, the business opportunity is significant. Moreover, stakeholders are using technology to become savvier consumers, employees and investors. This proliferation

of data and increased access to information is fueling the trend of conscious capitalism.

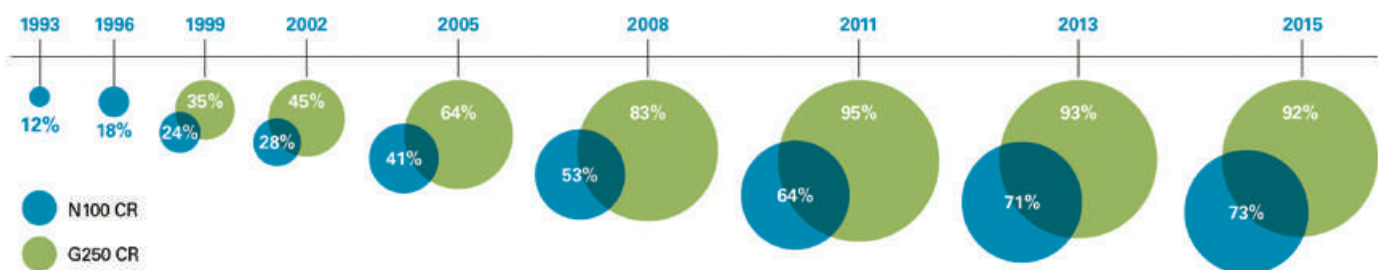
Responsible Governance

Companies are responsible to a growing set of stakeholders. As a global CEO states: "Being a CEO is no longer [just] dealing with your employees, your customers, suppliers, your investors. It is dealing with governments, NGOs, with any interested party who decides to challenge your company."²⁹ Meanwhile, shareholders themselves are helping to lower risk in business activity, reinterpreting laws around fiduciary duty and the extent to which they require a sole focus on maximizing shareholder impact. As the corporate responsibility (CR) reporting chart below suggests, the rate of CR reporting has dramatically increased over the last 30 years.

Partnerships

Today's most intractable challenges are blurring lines across sectors, with a growing acknowledgement – not only in government – that problems are too complex to tackle alone. In business as well these challenges present threats as well as opportunities, as seen in the in the recent UN Global Compact CEO survey that indicates 85 percent of businesses see cross-sector coalitions and partnerships as essential to accelerating transformation towards the implementation of the SDGs.³⁰ The SDGs themselves unite these sectors, providing a common reporting platform for impact.³¹ In addition to anecdotal evidence of an increase in public-private partnerships, there is a growing number of blended finance sources, with

Percentage of Corporate Responsibility Reporting 2015



Source: KPMG Survey of Corporate Responsibility Reporting 2015.

28 GSMA (2015). *The Mobile Economy*. Available from http://www.gsamobileeconomy.com/GSMA_Global_Mobile_Economy_Report_2015.pdf

29 <http://www.hbs.edu/faculty/Pages/item.aspx?num=41104>

30 Agenda 2016: A Window of Opportunity, UN Global Compact—Accenture Strategy CEO Study 2016.

31 <http://www.wri.org/events/2015/09/call-joint-action-achieve-sdgs-advancing-integrated>

US\$36.4 billion mobilized from the private sector between 2012 and 2014 by official development finance interventions in the form of guarantees, syndicated loans and shares in collective investment vehicles (development-related investment funds).³²

The Role Inclusive Business can play in Driving SDG Alignment

In the preceding sections, a case has been made regarding why the SDGs and the intentional pursuit of social impact should matter to business. Yet, while there is incremental understanding within the private sector that social impact in underserved markets represents a significant opportunity for growth and profitability, most investments are still focused on the consumption and services needs of middle- and high-income consumers, who compose only a fraction of the total market. The remaining 3.7 billion who represent an increasingly dynamic consumer market, diverse supplier network, source of untapped entrepreneurship and new channels for distribution, innovation and productivity, are relegated to consuming substandard goods and services or are denied access altogether. To a large extent, the perception remains that business cannot operate effectively and efficiently in low-income markets – and even less so in commercially viable ways. So how can business take advantage of this mass market opportunity? Beyond thinking of these underserved markets solely as a consumer base, what are other ways in which a company can create value consistent with the SDGs? The answer, in part, is inclusive business.

Inclusive business is just like any other business – it drives revenue growth, creates value, leverages investment, accelerates expansion and enhances the company's brand and reputation. But there is one important difference: inclusive businesses are designed to provide access to goods, services and employment opportunities to underserved populations in commercially viable ways. These populations are integrated within the inclusive business value chain as suppliers, distributors, retailers or customers.³³ They can be larger, viable businesses seeking to accelerate growth by pursuing customers in new market segments and may be focused on mitigating supply chain, labour, competitive or reputational risk by engaging underserved groups. Inclusive business contributes to a company's bottom line by increasing profits and reducing costs on the one hand, while providing income and employment opportunities, and access to previously unavailable or lower-quality goods and services on the other. Most inclusive businesses:

- Generate market returns as strictly for-profit ventures;
- Maintain social impact as a core part of their business strategies;
- Include underserved populations as suppliers, distributors, consumers and/or sources of formal or informal labour, and generate measurable social returns; and
- Are designed with scale in mind, optimizing both the route to impact and creation of company value.

Aligning with the SDGs is Good for Business

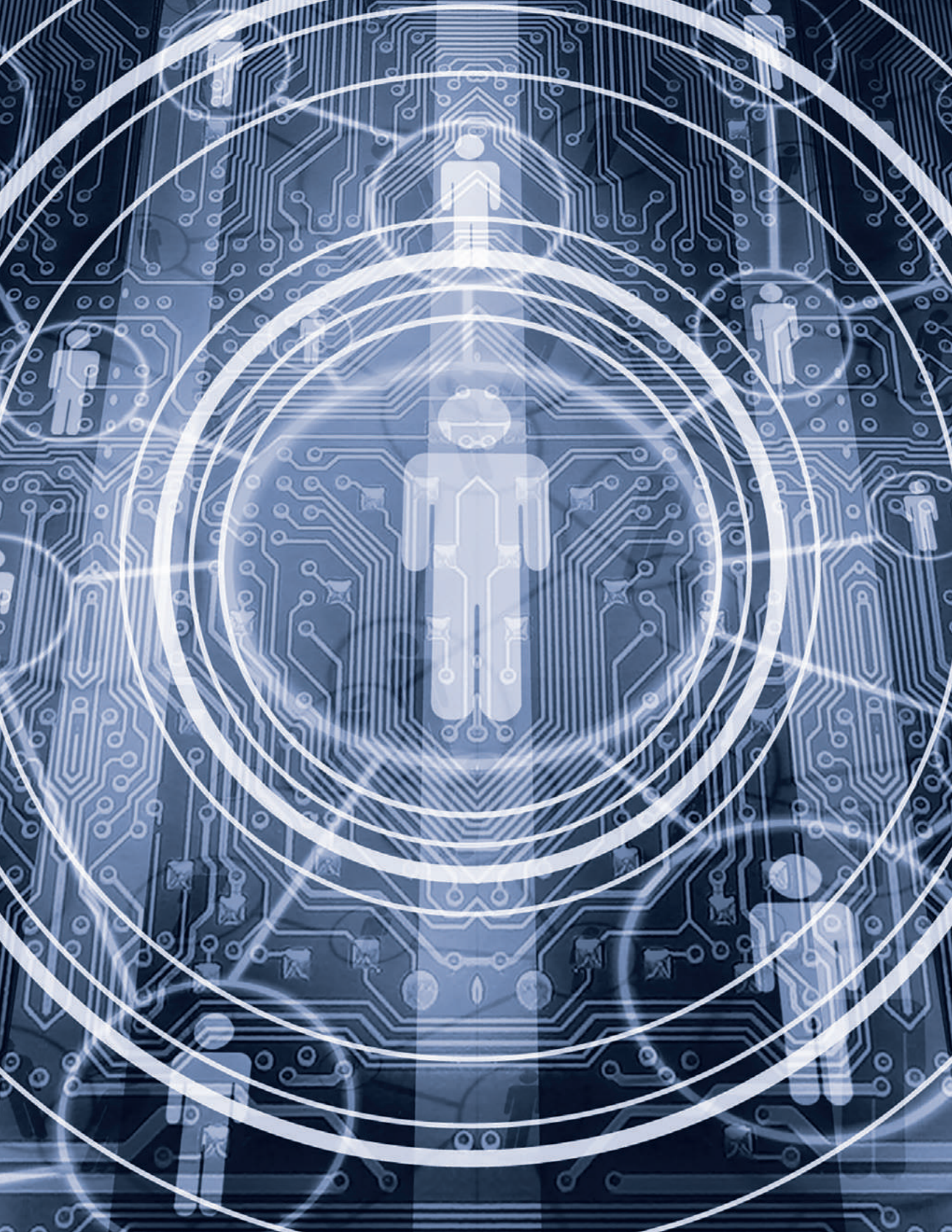
While the SDGs have created a new business imperative for social impact, over the last decade inclusive business has spawned a new generation of business models that contribute to commercial successes, transformative social returns and an important knowledge base. The convergence of the SDGs with the inclusive business experience offers a unique opportunity to leverage what has been learned, build upon what has been proven and create new pathways for innovation. With this in mind, the rest of this report is focused on elaborating three inclusive business insights:

- Five specific sectors offer the greatest opportunity for inclusive business in the context of the SDGs.
- Inclusive business readiness or maturity can provide clarity as to *how* a business should move forward given its current state.
- Understanding the entire inclusive business process can allow for a comprehensive approach, avoid pitfalls, mitigate risks and develop a pathway toward success.

Many companies pursue inclusive business as an economic opportunity or out of economic necessity. They specifically identify a market opening and develop a business model through which the unmet needs of poor people can be combined with their willingness and ability to pay. These models often rely on first understanding the real costs and trade-offs poor people face in order to receive what is often a substandard good or service, and then creating a more cost-effective alternative. Beyond seeking out poor people as consumers within a wide 'whole pyramid' marketing strategy, supplier-centered inclusive business models focus on expanding a company's supply chain to keep pace with market demand and diversify into new products when traditional supply channels are exhausted.

32 Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans and shares in collective investment vehicles. OECD Development Cooperation Working Paper, 2016.

33 G20 (2015). *G20 Inclusive Business Framework*. Available from <http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf>



Inclusive Business Outlook: Five Promising Sectors

In less than fifteen years, it is likely that global demand for food will increase by 35 percent, for water by 40 percent and for energy by 50 percent.³⁴ These dramatic shifts in consumption represent a considerable opportunity for investors and businesses, particularly inclusive businesses, as visualized in the charts below. At the same time, while inclusive business opportunities exist for a broad range of companies in a variety of industries, how a company goes about accessing those opportunities often differs by industry. In this section, we spotlight five sectors that show substantial opportunity given current consumption patterns, market need, social challenges and opportunities for social impact. For each of these five sectors, we explore examples of prominent inclusive business models as well as the SDGs they impact. The five sectors are food and beverage, infrastructure, health, education and financial services.

Financial Returns in the Five Sectors

There are significant unmet needs in each identified sector, offering businesses an opportunity to meet demand. For simplicity, we employed a consumption view to demonstrate financial returns; however, it is important to recognize that financial returns are also generated through supply risk mitigation, effective distribution networks, stronger relationships with governments (e.g. reducing ad hoc fines) and a strengthened corporate reputation.

In terms of consumption, consumers in both the growing middle class in emerging markets and in underserved populations are critical to development. An analysis of the World Bank's Global Consumption database reveals that the base of the pyramid (we found the most common models appear to focus) alone³⁵ represents a significant percentage of the market in each of these five sectors. While primarily driven by volume, not margins, businesses that only focus on middle- and high-income consumers miss out on 62 percent of the food and beverage market; 50 percent of the infrastructure, health and education markets; and more than 20 percent of the financial services market. Additionally, from a share of consumption perspective, the BOP is investing 75 percent of its annual income in these five sectors. While

the margins are small, the market size for each sector is large (See Appendix 2 for details on this consumption data).

Demonstrated Models in the Five Sectors

Demonstrated models (detailed by sector in the tables below) indicate that inclusive business strategies are possible and profitable. Our business model analysis primarily draws on extensive research by Monitor Inclusive Markets and the Business Call to Action across hundreds of market-based solutions. The analysis also incorporates models identified by the International Finance Corporation. Business leaders may develop inclusive businesses in alignment with one identified model, incorporate elements from multiple models or create entirely new models. The research shows that the most common models appear to focus on adapting components for the sake of affordability (e.g. pay as you go), mobile technology (e.g. mobile-enabled services) and local distribution (e.g. a local dedicated direct sales force).

Potential SDG Impact

Each featured sector plays an integral role in the daily lives of people at the BOP in terms of SDG impact. These sectors offer significant potential for job creation (SDG 8: Decent Work and Economic Growth) as well as improved productivity and earning power (SDG 10: Reduced Inequalities). Inclusive businesses in these sectors also contribute to greater wellbeing and empower BOP households to lift themselves out of poverty (SDG 1: No Poverty).

The following pages highlight business opportunities, viable business models, successful company examples and opportunities for impacting the SDGs in each of these sectors. Note that the selection of these five sectors does not mean that successful inclusive businesses cannot be developed in other sectors. In fact, inclusive businesses have been successful across industries, as is seen in the pages that follow. It is also important to note that country context (e.g. local partners, governments, local laws and country stability) can make an enormous difference in the success of inclusive businesses in each of these sectors.

34 World Resources Institute, "4 Grand Challenges to Energy, Food, and Water." <http://www.wri.org/blog/2013/01/4-grand-challenges-energy-food-and-water>

35 The BOP is considered the lowest of low-income segments, living on less than US\$8.44 per day in purchasing power parity.

Food and Beverage

Engage the BOP as suppliers of agricultural products or as customers for agricultural goods and services

The Opportunity

Food production must increase 50 percent by 2030 to **meet the needs of the world's growing population**.³⁶ Dramatically accelerating global food requirements offer companies an opportunity to meet this demand.

Increases in food production must come primarily from emerging economies given that **industrialized nations have little ability to dedicate more land to agricultural production**, or to further improve agricultural productivity.³⁷ Engaging smallholder farmers will enable companies meet growing food demand.

Almost 70 percent of all food consumed worldwide is produced by 2.5 billion smallholder farmers and their families on 60 percent of the planet's arable land.³⁸

Globally, **795 million people are undernourished**.³⁹ Addressing the need for increased quantity and quality of accessible food offers businesses an opportunity to engage nearly 1 billion individuals.

More than one third of **global consumers consider sustainably sourced ingredients as very important** in their purchasing decisions.⁴⁰ Particularly in developed economies, consumers are increasingly interested in the sustainability of the food they purchase. Making investments in sustainable food and beverage sourcing is a useful way of building a company's brand.

Primary Business Models Employed

(note that businesses may employ components from multiple models or entirely different models)

Contract production/contract farming: The business directly sources products from large numbers of small-scale producers or farmers, providing critical inputs, training and credit to the suppliers. In turn, the suppliers provide the business with assured quantities of a product at a guaranteed fair price.⁴¹

Deep procurement: The business bypasses middlemen to directly reach the BOP and purchase products from large networks of low-income producers or farmers. The business often provides training to enhance quality.⁴²

Distribution and sales through informal shops: The business uses (and upgrades) existing informal distribution and sales channels, typically working to access customers through multiple shops.⁴³

Mobile-enabled non-financial services: The business leverages the fact that many individuals in the low-income segment own mobile devices in order to provide essential information or transactions.⁴⁴

Smallholder farmer aggregators: The business collects crops from small-scale producers and supplies them to large, top-of-the-supply-chain buyers. Many aggregators provide farmers with credit, storage, transport and critical inputs (e.g. such as seeds) to improve agricultural yields and to guarantee a more stable supply.⁴⁵

36 GIZ (2012). *Growing Business with Smallholders: A Guide to Inclusive Agribusiness*, November 2012. Available from http://www.endeva.org/wp-content/uploads/2014/11/Guide-Growing_Business_with_Smallholders_large-2.pdf

37 Ibid.

38 http://www.huffingtonpost.com/hugh-locke/smallholder-farmers-are-t_b_7865848.html?ir=India&adsSiteOverride=in

39 FAO (2015). *The State of Food Security in the World*. Available from <http://www.fao.org/3/a4ef2d16-70a7-460a-a9ac-2a65a533269a/i4646e.pdf>

40 Nielsen (2015). *We Are What We Eat: Healthy Eating Trends Around the World*, January 2015. Available from <http://www.nielsen.com/content/dam/nielsen/global/eu/nielseninsights/pdfs/Nielsen%20Global%20Health%20and%20Wellness%20Report%20-%20January%202015.pdf>

41 Monitor Group (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*, May 2011. Available from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>

42 Ibid.

43 Ibid.

44 Ibid.

45 Ibid.

Food and Beverage

Engage the BOP as suppliers of agricultural products or as customers for agricultural goods and services

Company Examples

Juan Valdez: Sources coffee from BOP Colombian farmers, many of whom are also shareholders. The coffee is sold in more than 270 coffee shops worldwide.

Unilever: Works with suppliers to engage smallholder farmers across the world and help those farmers to grow their businesses.

For more information on each company example, see Appendix 3: Innovative Solutions.

**Key Considerations/
Risks**

The provision of credit and staff on the ground, as well as the development of trust over time, are important strategic elements for companies engaging with smallholder farmers.⁴⁶

Agronomic technical assistance can enable significantly greater production, bringing greater income gains to farmers than removing value chain inefficiency and improving market access or capturing a price premium.⁴⁷

Aggregating products from many smallholder farmers can pose challenges for businesses. Potential solutions include leveraging local ‘agricultural leaders’ who are responsible for identifying and managing smallholder farmers and central collection points.⁴⁸

Potential SDG Alignment



46 Ibid.

47 http://static1.squarespace.com/static/51bef39fe4b010d205f84a92/t/564e05e3e4b05df51b225442/1447953891584/Small+Holder+Farmers+and+Business_2015_.pdf

48 Inclusive Business – Creating Value in Latin America

Infrastructure

Engage the BOP as customers for housing, energy, communication technology or water services, considering the costs of externalities such as climate change, local pollution and biodiversity⁴⁹

The Opportunity

Individuals living on between US\$2.97 and US\$8.44 a day **invest US\$710 billion each year in infrastructure, including housing, modern energy services, communications and water.**⁵⁰ The provision of infrastructure products and services to the BOP therefore represents an immense opportunity.

UN-Habitat estimates that more than **1 billion people lack access to adequate shelter** and by 2030, approximately 40 percent of the world's population will need proper housing, access to basic infrastructure and services such as water and sanitation.⁵¹ Offering housing and utilities to the BOP addresses the unmet needs of billions of individuals.

There is a vast, unmet need for **access to modern energy services**, with 1.4 billion people lacking access to electricity and 3 billion people relying on solid fuels such as biomass and coal to meet basic needs.⁵² Creating energy solutions for the BOP enables companies to meet this demand for modern energy services.

Primary Business Models Employed

(note that businesses may employ components from multiple models or entirely different models)

Piggy-backing channels: The business uses (and/or upgrades) existing informal sales and distribution channels to access new customers.⁵³

'Last-mile' infrastructure: The business provides end-users with a fixed utility asset, establishing community-level 'last-mile' infrastructure. For example, a company establishes a water kiosk in a slum to provide customers with water at a lower cost than alternatives such as sachets or tanker supplies. Customers may pay per use to delivering better value and match their cash flows.⁵⁴

Pay per use: The business sells a single-use product or a service at lower costs for BOP consumers.⁵⁵

Off-grid utilities: The business develops small-scale purification or generation systems to provide safe, affordable utilities in places it is uneconomical to reach through the grid.⁵⁶

Value-for-money housing: The business facilitates home ownership by providing affordable properties with features that reduce the ongoing costs of ownership. The business also enables access to mortgage financing.⁵⁷

49 World Bank Group (2015). *Infrastructure Strategy Update FY2012-2015: Transformation Through Infrastructure*. Available from <http://siteresources.worldbank.org/INTINFRA/Resources/Transformationthroughinfrastructure.pdf>

50 The World Bank. Global Consumption Database: What the data tell us. Available from <http://datatopics.worldbank.org/consumption/market>

51 Business Call to Action (2014). *Breaking Through: Inclusive Business and the Business Call to Action Today: Mapping Challenges, Progress and the Way Ahead*, September 2014. Available from http://www.businesscalltoaction.org/wp-content/uploads/2014/09/BCTAImpactReport_BreakingThrough.pdf

52 Ibid.

53 Monitor Group (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*, May 2011. Available from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>

54 Ibid.

55 Ibid.

56 International Finance Corporation (2011). *Accelerating Inclusive Business Opportunities: Business Models that Make a Difference*. Available from <http://www.ifc.org/wps/wcm/connect/12216300487cbe85bbddf51e3a7223f/InclusiveBusinessReport2011.pdf?MOD=AJPERES>

57 Ibid.

Infrastructure

Engage the BOP as customers for housing, energy, communication technology or water services, considering the costs of externalities such as climate change, local pollution and biodiversity

Company Examples

Celtel: Delivers affordable mobile communications technology to BOP customers in sub-Saharan Africa through local employees.

CEMEX: Offers training, funding and technical assistance to low-income customers so they can construct their own homes more quickly and efficiently.

Manila Water: Provides safe, reliable water and wastewater services to more than 6 million people in Manila.

Simpa Networks: Provides a basic, portable solar home system to BOP customers in India who pay based on power usage.

For more information on each company example, see Appendix 3: Innovative Solutions.

Key Considerations/ Risks

Models in this sector may require significant up-front capital and recovering the initial investment may take longer given the nature of the market. Leadership support for this investment is critical.

Market-entry strategies and distribution models in this sector often require the engagement and participation of local communities; the BOP should be actively engaged in developing solutions.

Companies engaged in infrastructure initiatives with the BOP have emphasized the importance of a long-term vision and patience in getting the business model right.⁵⁸

Potential SDG Alignment



⁵⁸ Business Call to Action (2014). *Breaking Through: Inclusive Business and the Business Call to Action Today: Mapping Challenges, Progress and the Way Ahead*, September 2014. Available from http://www.businesscalltoaction.org/wp-content/uploads/2014/09/BCTAImpactReport_BreakingThrough.pdf

HealthCare

Engage the BOP as customers of healthcare services or products through affordable prices and increase access to healthcare by engaging the BOP in distribution

The Opportunity

In emerging economies, individuals making between US\$2.97 and US\$8.44 per day **invest US\$158 billion in healthcare each year**.⁵⁹ The BOP has demonstrated a willingness to pay for healthcare, spending a surprisingly high share of limited incomes on private health services.⁶⁰

At least 400 million people lack access to one or more essential health services, including prenatal care and infant vaccinations.⁶¹ Finding medicines and health-related consumer products (e.g. condoms, antimalarial bed nets) can be difficult for BOP consumers.⁶² Meeting the underserved healthcare needs of people at the BOP means reaching millions of potential new customers.

Approximately one third of all global health expenditures by 2022 will occur in emerging economies.⁶³ Demand for healthcare in developing countries is rapidly increasing as a result of a growing middle class and lengthened life expectancy, presenting a significant and growing business opportunity.⁶⁴

Primary Business Models Employed

(note that businesses may employ components from multiple models or entirely different models)

Distribution through a dedicated direct sales force: The business recruits and trains local agents as direct sales agents to reach into sales communities in order to sell and distribute goods or services.⁶⁵

Mobile-enabled non-financial services: The business leverages the high rate of ownership of mobile devices at the BOP to provide essential information or conduct transactions.⁶⁶

No frills: The business delivers a simplified service or product at a very low price to meet the needs of poor communities while generating positive cash flow and profit for the company through high volume sales. The business may use 'paraskilling' to deliver the service (see below).⁶⁷

Paraskilling: The business re-engineers complex services and processes into disaggregated simple standardized tasks that can be completed by workers without specialized qualifications. These workers then deliver no-frills service to customers.⁶⁸

Shared channels: The business bundles products and services through existing customer sales and distribution platforms.⁶⁹

59 The World Bank. Global Consumption Database: What the data tell us. Available from <http://datatopics.worldbank.org/consumption/market>

60 Monitor Group (2009). *Emerging Markets, Emerging Models: Market-Based solutions to the Challenges of Global Poverty*. Available from www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf

61 World Health Organization (2015). *Tracking Universal Health Coverage: First Global Monitoring Report*. Available from http://apps.who.int/iris/bitstream/10665/174536/1/9789241564977_eng.pdf

62 World Resources Institute (2007). *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*. Available from http://www.wri.org/sites/default/files/pdf/n4b_full_text_lowrez.pdf

63 http://www3.weforum.org/docs/WEF_HealthSystem_LeapfroggingEmergingEconomies_ProjectPaper_2014.pdf

64 International Finance Corporation (2015). IFC's Priorities in Health. Available from http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Health+and+Education/Priorities+Health/

65 Monitor Group (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*, May 2011. Available from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>

66 Ibid.

67 Ibid.

68 Ibid.

69 Ibid.

HealthCare

Engage the BOP as customers of healthcare services or products through affordable prices and increase access to healthcare by engaging the BOP in distribution

Company Examples

ClickMedix: Provides mobile-enabled healthcare services to the BOP through trained community-based health workers and the ClickMedix application.

Novartis: Offers affordable medications to the BOP through local pharmaceutical representatives in cooperation with separate local health educators.

Philips: Sells micronutrient powder to BOP customers in affordable single-dose packets (adding the powder to food improves child nutrition).

*For more information on each company example, see **Appendix 3: Innovative Solutions.***

Key Considerations/ Risks

For healthcare in particular, a cross-subsidization model can be effective, where a product is sold to the ‘whole pyramid’ and the profits from wealthier consumers subsidize a less expensive product for the BOP.⁷⁰

Healthcare’s complex value chain and multitude of actors may pose challenges. However, companies may find other actors in the ecosystem (such as governments and foundations) that are willing to defray part or all of the cost.

Potential SDG Alignment



⁷⁰ Business Call to Action (2014). *Breaking Through: Inclusive Business and the Business Call to Action Today: Mapping Challenges, Progress and the Way Ahead*, September 2014. Available from http://www.businesscalltoaction.org/wp-content/uploads/2014/09/BCTAImpactReport_BreakingThrough.pdf

Education

Engage the BOP as both suppliers and consumers of educational products and services for children, and training for adults

The Opportunity

The **BOP is willing to invest in quality education**.⁷¹ For example, in one of India's poorest states, parents are willing to spend more than 10 percent of their monthly income to send at least one child to private school.⁷² Serving BOP customers enables businesses to access new consumer segments that are eager to invest in education.

The **global market for educational products and services is growing rapidly** (by nearly 50 percent from 2012 to 2017), primarily driven by an expanding middle class in emerging economies.⁷³ A growing global education market indicates greater opportunity for business.

'Impact sourcing' – training and employing individuals at the BOP – results in a **more engaged and motivated workforce while increasing global competitiveness** and decreasing costs. This model is growing at 11 percent per year compared to 9 percent for traditional sourcing.⁷⁴ Training and employing individuals at the BOP offers a clear value proposition for businesses.

Primary Business Models Employed

(note that businesses may employ components from multiple models or entirely different models)

Demand-led training: The business acts as a third-party vendor to identify, train and place employees for job openings.⁷⁵

Distribution through dedicated direct sales force: The business recruits and trains local agents as a direct sales force to reach into communities to sell and distribute goods and services.⁷⁶

Impact sourcing: The business intentionally connects low-income individuals to available jobs, providing skills training or engaging a third party (demand-led training) to teach future employees.⁷⁷

Value-for-money degrees: The business offers a more financially accessible form of education, reducing costs by delivering programming in standardized modules and increasing value by providing course content and career services that are closely tailored to the job market.⁷⁸

Company Examples

Pearson: Invests in social enterprises including Sudiksha Knowledge Solutions in India, which trains local women as teachers and empowers them to operate branches of a low-cost preschool network.

Starbucks: Hires unemployed low-income youth in the United States as apprentices, interns and employees.

For more information on each company example, see Appendix 3: Innovative Solutions.

71 Monitor Group (2009). *Emerging Markets, Emerging Models: Market-Based solutions to the Challenges of Global Poverty*. Available from www.beyondthepioneer.org/wp-content/uploads/2014/04/emergingmarkets_full.pdf

72 Ibid.

73 Shared Value Initiative (2013). *The New Role of Business in Global Education: How companies can create shared value by improving education while driving shareholder returns*. Available from <http://sharedvalue.org/sites/default/files/resource-files/FSG-PrintReport-Final.pdf>

74 Rockefeller Foundation (2016). *Impact Sourcing: Innovative employment models with positive business and social impact*. Available from <https://www.rockefellerfoundation.org/our-work/initiatives/impact-sourcing/>

75 Monitor Group (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*, May 2011. Available from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>

76 Ibid.

77 Rockefeller Foundation (2016). *Impact Sourcing: Innovative employment models with positive business and social impact*. Available from <https://www.rockefellerfoundation.org/our-work/initiatives/impact-sourcing/>

78 International Finance Corporation (2011). *Accelerating Inclusive Business Opportunities: Business Models that Make a Difference*. Available from <http://www.ifc.org/wps/wcm/connect/12216300487cbe85bbddf51e3a7223f/InclusiveBusinessReport2011.pdf?MOD=AJPERES>

Education

Engage the BOP as both suppliers and consumers of educational products and services for children, and training for adults

Key Considerations/ Risks

For programmes focused on improving education, government support – through financial investment, market development and a favorable policy framework – can play a major role in success and scalability.

Programmes are successfully bundling education with other services such as Internet access via mobile networks to create more value at a low price point.⁷⁹

Potential SDG Alignment



⁷⁹ Business Call to Action (2014). *Breaking Through: Inclusive Business and the Business Call to Action Today: Mapping Challenges, Progress and the Way Ahead*, September 2014. Available from http://www.businesscalltoaction.org/wp-content/uploads/2014/09/BCTAImpactReport_BreakingThrough.pdf

Financial Services

Engage the BOP by offering financial products (e.g. credit, insurance) and services (e.g. banking) in small denominations at affordable prices, and leveraging the BOP in the distribution network

The Opportunity

The current US\$70 billion **microcredit industry provides services to approximately 200 million clients**,⁸⁰ The sheer size of this industry confirms the level of market demand.

More than **2.5 billion adults still lack access to basic financial services**.⁸¹ The steady growth of savings accounts among the BOP provides compelling evidence of an appetite for more services than microcredit: an estimated 1 billion low-income customers in developing economies have savings accounts.⁸²

Providing financial products to the BOP enables businesses to serve billions of customers with unmet financial needs.

Remittances are approaching an estimated US\$350 billion per year and businesses are learning how to leverage these financial flows.⁸³ The increasing monetary resources provided by remittances are expanding the number of potential BOP customers.

Primary Business Models Employed

(note that businesses may employ components from multiple models or entirely different models)

Microcredit: The business provides small amounts of credit to low-income customers unable to access loans from formal banks, often via group lending.⁸⁴

Micro-insurance: The business offers insurance products designed to meet the cash-flow needs of the BOP.⁸⁵

Micro-savings: The business gives BOP customers the ability to save small amounts of money in a deposit account with low or no minimum balance requirements, or service fees.⁸⁶

Mobile money: The business enables poor people to access and transfer cash via mobile devices or alternatives to traditional financial service channels.⁸⁷

Shared channels: The business bundles products and services through existing customer sales and distribution platforms.⁸⁸

Company Examples

Citi Mobile Collect: Enables small businesses that are typically unbanked to transfer money via mobile devices.

Mahindra Rural Finance Ltd: Provides home loans to underserved rural and semi-urban consumers in India, enabling them to afford housing.

*For more information on each company example, see **Appendix 3: Innovative Solutions.***

80 Consultative Group to Assist the Poor (2016). Financial Inclusion. Available from <http://www.cgap.org/topics/financial-inclusion>

81 Bill & Melinda Gates Foundation (2015). Financial Services for the Poor: Strategy Overview. Available from <http://www.gatesfoundation.org/What-We-Do/Global-Development/Financial-Services-for-the-Poor>

82 World Resources Institute (2007). *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*. Available from http://www.wri.org/sites/default/files/pdf/n4b_full_text_lowrez.pdf

83 Ibid.

84 Monitor Group (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*, May 2011. Available from <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>

85 Ibid.

86 Ibid.

87 Ibid.

88 Ibid.

Financial Services

Engage the BOP by offering financial products (e.g. credit, insurance) and services (e.g. banking) in small denominations at affordable prices, and leveraging the BOP in the distribution network

Key Considerations/ Risks

The lack of financial literacy at the BOP can be a challenge for companies. Initiatives have used a number of strategies to overcome this challenge, such as engaging local entrepreneurs to market and sell their services, and providing training to potential customers.

Bank employees may lack experience serving poor customers. It is crucial to recruit staff who are empathetic and respect customers.⁸⁹

Mobile-based solutions can facilitate a low-margin, high-volume business and dramatically increase a company's reach.

Similar to the infrastructure sector, financial services and financial inclusion are key enablers for further economic growth in the BOP.

Potential SDG Alignment



89 <http://www.cgap.org/blog/5-ways-improve-customer-experience-poor>



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X

Are You Ready for Inclusive Business?

Each of the five promising sectors described above showcase models of successfully developed, mature and sustainable inclusive businesses. But for companies not already experienced in inclusive business, these successes may appear difficult to emulate. Inclusive business models take time to develop. Understanding the maturity of your company's inclusive business initiatives (discussed in this section) is crucial to determining the next steps (discussed in Section 4) in order to launch or improve the inclusive business, and enable its financial sustainability.

Understanding your Inclusive Business Maturity

The concept of **inclusive business maturity** helps companies to understand the state of existing inclusive business efforts in order to recommend the next steps for establishing a commercially viable inclusive business. Inclusive business maturity is independent of sector, company size or even country of operation. Instead, it is strongly influenced by source of financing, financial expectations, positioning within a company's strategy and potential for impact.

Thanks to enabling trends such as technology disruption and changes in regulatory compliance, many companies now have a more compelling reason to move from one maturity level to another. Consider Pearson, the world's largest education company: Pearson's Vice President of Sustainability and Social Innovation receives funding to invest in business models in the form of a corporate social responsibility (CSR) effort – a philanthropic approach.⁹⁰ The company has explored various approaches to inclusive business and social impact in the past few years and will soon launch an internal incubator to prove the long-term profitability of investing in the BOP. The Vice President's team will source internal ideas aligned with the business units' strategic plans, test them and hopefully deploy new business models for both commercial gain and social impact. Pearson's shift in strategy, rooted in commercial sustainability, is indicative of a more assertive approach to inclusive business – a tactical necessity in order to support the SDGs.⁹¹

The Six Levels of Inclusive Business Maturity: From Bystander to Champion

Table 1 on the following page summarizes the differences and similarities between maturity levels.

'The Bystander'



The absence of inclusive business:

Simply put, a company does not have an inclusive business presence if it does not engage with the BOP in an economically productive way. The company may be operating with a strategic focus on other consumer segments, a different supplier base, or have a distribution model that does not rely on underserved populations. A 'bystander' does not imply any negative intent on behalf of the company, but rather: a predisposition toward different segments of the market; minimal or well-managed supply chain risk that may not require localization; and insufficient evidence to rationalize if the company should pursue a new market opportunity with underserved populations. Notwithstanding this predisposition, a bystander's perspective can be altered if the company possesses a better understanding of inclusive business and the business opportunity it presents.

'The Accidental Tourist'









Partial or unintentional inclusive business:

Some companies engage with the BOP by virtue of where they are, but they are not aware that their activities constitute a form of inclusive business. Due to this lack of awareness, the company may miss out on the additional commercial benefits of inclusive business (e.g. improved competitive position, enhanced corporate reputation or government incentives) and additional opportunities for impact (e.g. engaging the BOP in another area of the value chain).

⁹⁰ Interview with Amanda Gardiner, 2 February 2016.

⁹¹ Ibid.

Table 1: Inclusive business maturity levels

	 <p>The Bystander Non-existent inclusive business</p>	 <p>The Accidental Tourist Partial or unintentional inclusive business</p>	 <p>The Responsible Citizen Corporate responsibility with the BOP</p>	 <p>The Explorer Exploratory inclusive business</p>	 <p>The Builder Established inclusive business</p>	 <p>The Champion Inclusive Business poised for growth</p>
Definition	No knowledge or experience working in inclusive business	Experimenting in inclusive business without explicitly recognizing it	Actively serving or engage the BOP through a CSR initiative	Inclusive business is immature but intentional and crafted to generate revenue	Inclusive business is part of the company's core business (or at least of a business unit), and is commercially viable	Inclusive business operates in multiple regions or countries, depending on the scale required to reach profitability
BOP's Relationship to Business	N/A	Adjacent or core to the business strategy	Outside of core business strategy	Adjacent to core to the business strategy	Core business strategy	Core business strategy
Internal Company Knowledge and Support	Company not knowledgeable about inclusive business	No leadership intent to explore inclusive business; company not knowledgeable	No leadership intent to explore inclusive business for financial gain; limited company knowledge	Leadership intent to explore the opportunity and invest; company has some familiarity with inclusive business	Leadership actively supports inclusive business; company has growing familiarity with inclusive business	Leadership actively supports inclusive business; company has a well-integrated inclusive business model
Principal Funding Approach	N/A	Commercial	Philanthropic	Commercial	Commercial	Commercial
Inclusive Business Scale & Impact	N/A	Low to moderate impact	Moderate impact	Low impact	Moderate impact	Strong and growing impact

‘The Responsible Citizen’



Corporate responsibility with the BOP:

Many companies engage with the BOP either through corporate responsibility efforts or by depending on development or government aid. Advantages of the CSR model include valuable social impact, learning how to operate in new

markets and reputational benefits. The main disadvantage of operating at this level of inclusive business maturity is the lack of commercial viability, which is detrimental to the inclusive business model over the long-term. With CSR, commercial benefits are limited, the ability to replicate or scale the model is minimal and – worst of all – the programme may cease to exist if CSR or development funds are no longer available.

‘The Explorer’



Exploratory inclusive business:

A company piloting a programme with the intention of long-term commercial viability is in the ‘exploratory’ phase of inclusive business maturity. While the inclusive business itself may be immature, the company understands the business opportunity and the inclusive business model is supported by company leadership.

the company understands the business opportunity and the inclusive business model is supported by company leadership.

‘The Builder’



Established inclusive business:

A company is considered to have an established inclusive business if its inclusive business model is core to the business, sustainable, long-term and generates market returns. At this level of inclusive business maturity: the BOP is likely engaged in multiple areas

of the value chain; the risks of doing business in the market are largely mitigated; and the company has likely started to measure social impact. However, the inclusive business has not yet achieved scale, either because the model is highly dependent on regional attitudes (e.g. needs of the local population’s, existing infrastructure, government incentives) or the time horizon (e.g. the model has not had time to be replicated or piloted elsewhere).

‘The Champion’



Inclusive business poised for growth:

Companies with an inclusive business poised for growth are commercially viable and on a clear path to achieving scale. At this stage, inclusive business is well-integrated into company culture and is a core part of the firm’s strategy in

one or many lines of business. Companies with this level of inclusive business maturity are often already communicating their social impact and are looking to enhance their reporting efforts. As they continue to grow their inclusive businesses, these companies will seek to maximize both financial success and social impact.

The Inclusive Business Maturity Diagnostic

The following **inclusive business maturity diagnostic** aims to assess the maturity of inclusive businesses. Although a simple diagnostic, it helps companies to understand the state of their existing inclusive business efforts in order to better navigate the guide that follows in this report. This guide outlines next steps for companies interested in moving from their current stage toward the ‘champion’ stage.

The inclusive business maturity diagnostic is...

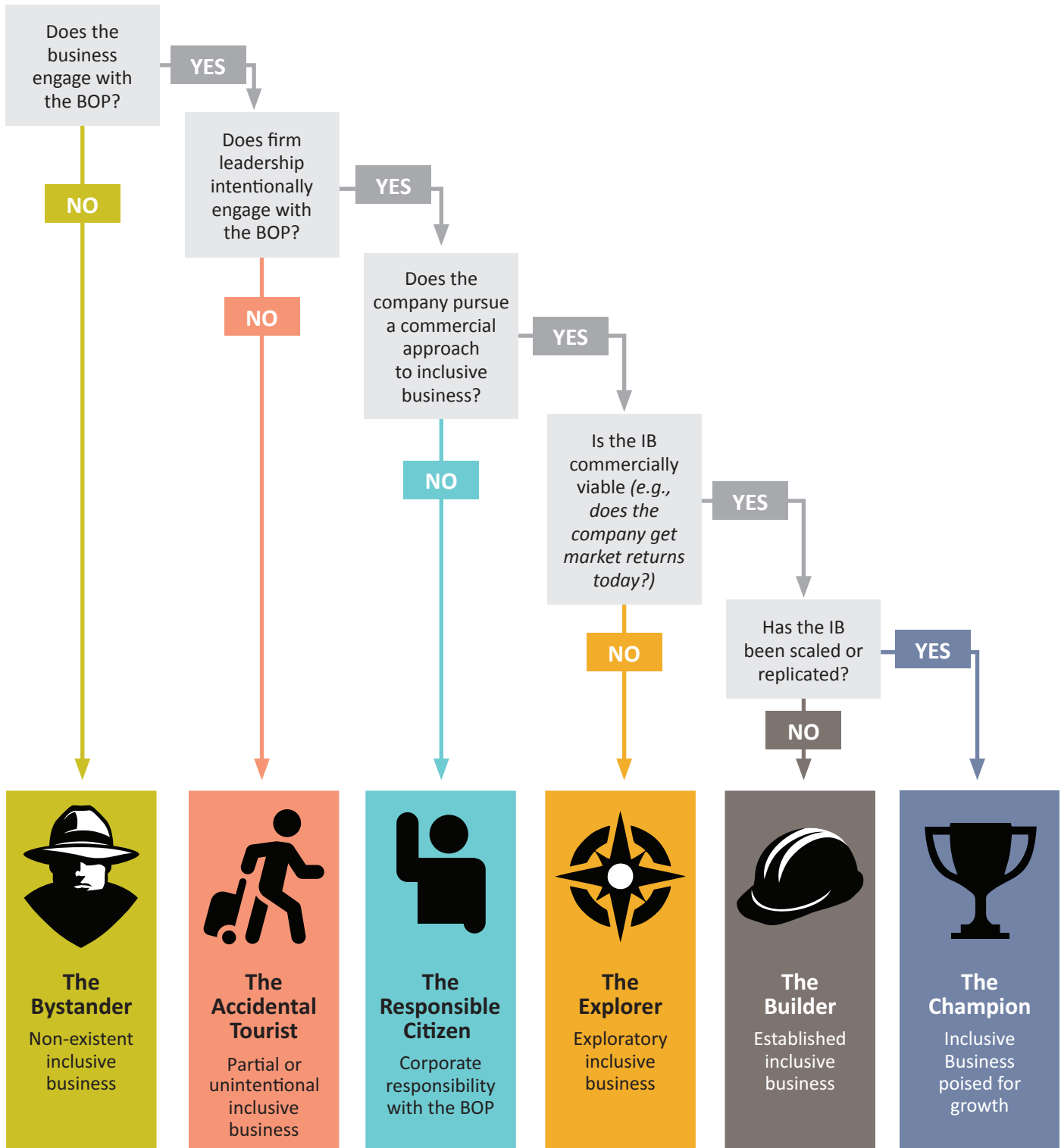
- Solely focused on understanding the maturity level of the inclusive businesses; and
- Used to inform businesses’ thinking about next steps with the end goal of creating a sustainable, commercially viable and scalable inclusive business.

The inclusive business maturity diagnostic is not...

- Dependent on sector or industry;
- Related to the size or scale of the entire company – in fact, these may have little bearing on inclusive business maturity; or
- A spectrum or sequence of maturity – companies can jump from one maturity level to another depending on their strategies and intentions.

To understand the company’s level of inclusive business maturity, it is helpful to ask the questions articulated below and noted in the diagnostic assessment that follows.

Figure 1: The Inclusive business maturity diagnostic



- Does the business engage with the BOP? *Does the business have any relationship with the BOP, either as recipients of goods or services, suppliers, producers, distributors, employees, consumers or shareholders?*
- Does the firm's leadership intentionally engage with the BOP? *Does the business have an explicit strategy around engaging with the BOP? If not, is it engaging as a result of its geographic location, without acknowledging that inclusive business is occurring organically?*
- Does the company pursue a commercial approach to inclusive business? *Does the principal source of funding come from a commercial business, in the anticipation that the model will operate as a self-sustaining business? The alternative to this tends to be a philanthropic approach, which is pursued by companies through corporate responsibility or with support from development agencies.*
- Is the inclusive business commercially viable? *Is the inclusive business demonstrating the characteristics of a for-profit business venture that has the potential for long-term sustainability?*
- Has the inclusive business been scaled up or replicated? *To what extent has the commercially viable inclusive business grown beyond the initial product or service, either to include an adjacent offering, or an offering in a different geography?*

Understanding a company's inclusive business maturity is critical to identifying the next steps toward developing a successful inclusive business. The following section of the report details the inclusive business process and suggests next steps based on current inclusive business maturity.



Charting a Course through Inclusive Business

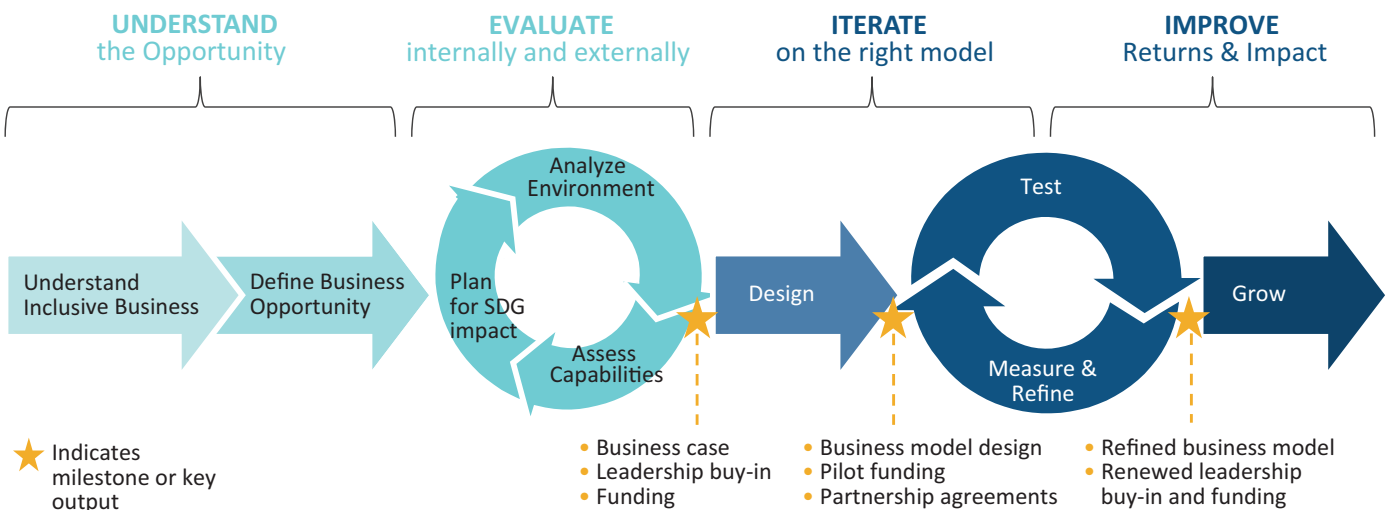
The road to an establishing a sustainable inclusive business is challenging. Once companies understand the business opportunity behind inclusive business, they must build internal capacity, evaluate their external environment, understand how they can contribute toward the SDGs, create or adapt products or services that meet local needs, and test these offerings. This section begins by describing this journey through what we call the **inclusive business process**. Later in this section, the **inclusive business guide** provides detailed considerations for each step of the process.

The Inclusive Business Process

The inclusive business process represents the journey that a company undertakes as it moves from a non-existent programme to a sustainable inclusive business. The overall process is illustrated in Figure 2.

To provide more detail on each step in the inclusive business process, we have developed a guide to help companies make strategic inclusive business decisions, effectively execute those decisions and understand the relationship between their decisions and the SDGs.

Figure 2: Inclusive business process



Each step in this process is summarized in Figure 3.

Figure 3: Inclusive business process definitions

Note that companies enter the inclusive business process at different stages based on their maturity levels. Table 2 specifies which next steps are appropriate for each inclusive business maturity level.

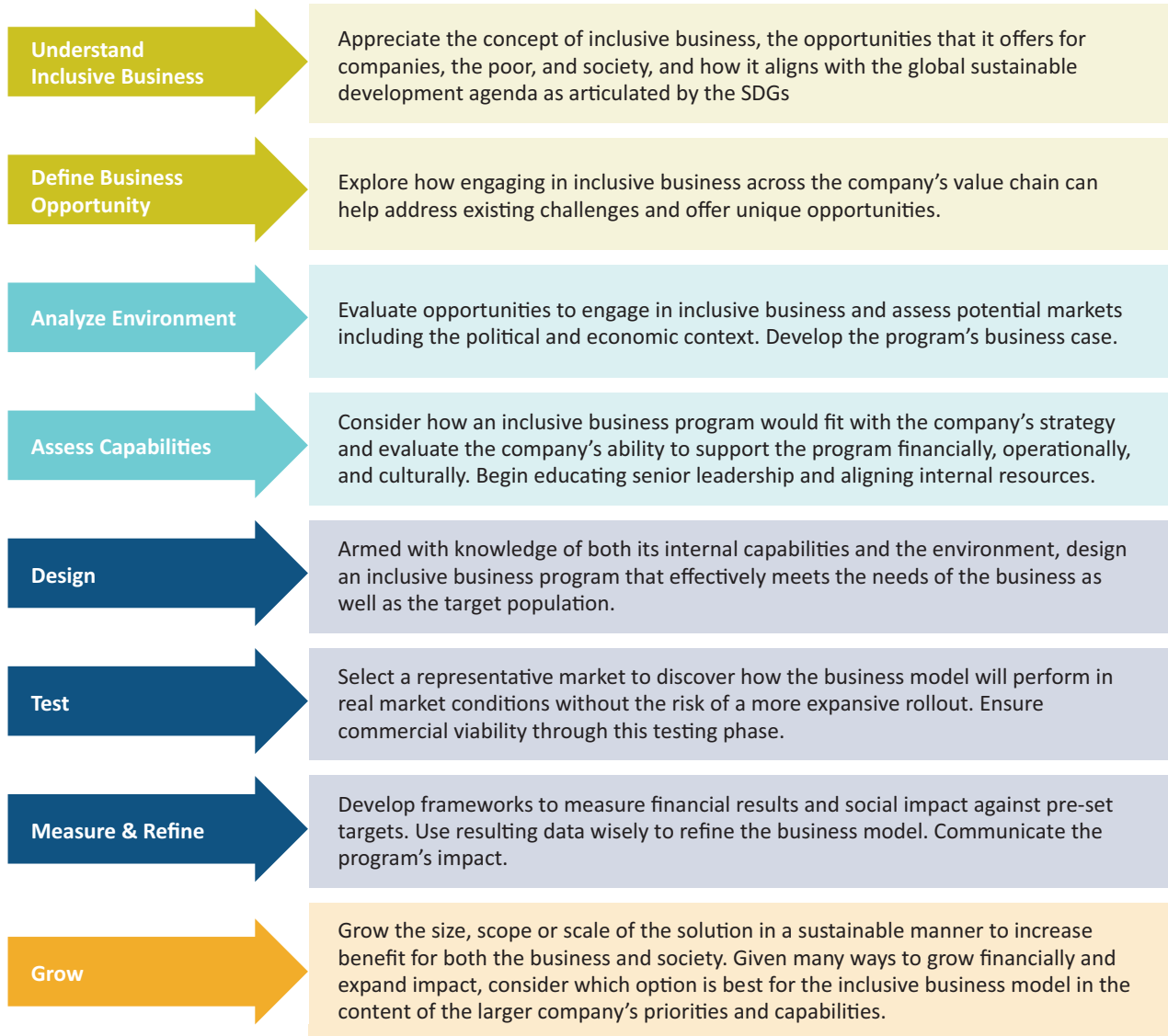


Table 2: Next steps based on inclusive business maturity

	Passive Approach			Active Approach		
	The Bystander Non-existent Inclusive Business	The Accidental Tourist Partial or Unintentional Inclusive Business	The Responsible Citizen Corporate Responsibility with the BOP	The Explorer Exploratory Inclusive Business	The Builder Established Inclusive Business	The Champion Inclusive Business poised for Growth
Understand Inclusive Business	Educate company leaders on inclusive business	Educate company leaders on inclusive business	Educate company leaders on how inclusive business differs from CSR efforts	<i>N/A: Inclusive business is understood given engagement in inclusive business</i>		
Define Business Opportunity	Educate company leaders on the IB opportunity	Educate company leaders on the IB opportunity	Educate company leaders on how changes to existing programs can create sustainable and profitable IB models	<i>N/A: Business opportunity has likely been defined given engagement in inclusive business – but could be worth revisiting for future justification</i>		
Analyze Environment	Consider the market in which an IB model could be feasible	<i>N/A: Likely already operating in emerging market or BOP environment</i>	<i>N/A: Likely already operating in emerging market or BOP environment through CSR</i>	<i>N/A: Business has already completed this step when exploring inclusive business</i>	<i>N/A: Business has already completed this step when running and sustaining inclusive business</i>	Consider new markets or regions for IB expansion
Assess Capabilities	Begin assessing internal company capabilities, culture, and potential for leadership support	Assess extent to which current activities constitute inclusive business; understand what's missing to engage more fully with the BOP	Understand the business appetite to engage the BOP in a commercially viable way, and internal capabilities to do so	<i>N/A: Company has already launched an inclusive business</i>	<i>N/A: While not a top priority for established inclusive businesses, it can be a consideration for future growth</i>	<i>N/A: While this step is not a top priority for Champions, it can be useful to consider for future growth efforts in core or adjacent inclusive businesses</i>
Plan SDG Impact	Begin understanding what SDGs should be targeted	Assess whether any SDGs are currently targeted	Determine which SDG(s) is/are currently targeted	Determine which SDG(s) is/are currently targeted and set goals	Determine which SDG(s) is/are currently targeted and set goals	Determine which SDG(s) is/are currently targeted and set goals
Design	Begin initial considerations into how the business could lend itself to inclusive business	Refine existing model and test	Integrate more strongly with the core business by developing a commercially viable program, leveraging existing assets or tweaking existing model	<i>N/A: Company has already launched an inclusive business, but will revisit design considerations when testing and refining</i>	<i>N/A: Company has already established a successful inclusive business</i>	<i>N/A: Company has already launched an inclusive business</i>
Test	<i>N/A: Any inclusive business is still far from a testing phase</i>	<i>N/A: Any new or refined inclusive business is still far from testing</i>	Test commercial viability of new model in the market	Test the business model	<i>N/A: Inclusive business is already established</i>	<i>N/A: Inclusive business is already established</i>
Measure & Refine	<i>N/A: Any inclusive business is still far from requiring measurement</i>	<i>N/A: Efforts are best spent understanding inclusive business and the opportunity before measuring impact of existing or new practices</i>	<i>N/A: Company likely measures or at least reports on CSR efforts today; rather than focus on measurement, company should aim to understand inclusive business and the opportunity as a next step</i>	Establish measurement practices to understand what works / what doesn't, and subsequently refine	Increase rigor of measurement; enhance reporting to reap reputational benefits; refine business model based on data	Increase measurement practices, perhaps using SDG indicators to communicate impact; refine business model to optimize BOP engagement while maximizing profit
Grow	<i>N/A: Any inclusive business is far from considering sustainable growth or</i>	<i>N/A: The business should prioritize understanding IB and tweaking existing model before considering</i>	<i>N/A: Any inclusive business is far from considering sustainable growth or scale</i>	<i>N/A: Inclusive businesses should be concerned with testing and refinement, not scale</i>	Grow or scale the inclusive business to ultimately increase impact and revenue	Investigate hidden assets that may enable the launch of another inclusive business

The Inclusive Business Guide

Using this guide, companies can begin to think about their action plans on the road to establishing a sustainable inclusive business. The following pages profile each step of the

inclusive business process and detail key considerations for companies exploring each phase. This guide is most valuable when employed by companies that already have completed the **inclusive business maturity diagnostic** and are seeking to better understand the next steps illustrated in Table 2.

UNDERSTAND INCLUSIVE BUSINESS

Appreciate the concept of inclusive business and understand its value – but realize it can be difficult!

Inclusive business builds bridges between businesses and poor people for mutual benefit.⁹² Practically speaking, a company engages in inclusive business by providing goods, services or livelihoods on a commercially viable basis to people living at the BoP, incorporating these individuals into companies' value chains as suppliers, distributors, customers, employees and shareholders (see Figure 4).

As discussed in **Section 1**, the benefits for business go beyond increasing profit margins and include driving innovations, building markets, strengthening value chains and enhancing long-term competitiveness. When companies seek synergies between development goals and their core operations, and deepen investments in low-income or underserved communities, they create immense value.

Society – especially poor people – also benefits from inclusive business. Benefits for poor people include access to essential goods and services, higher productivity, sustainable earnings and greater empowerment.⁹³ For wider society, inclusive business promotes progress toward the SDGs and the

economic, social and environmental conditions for sustainable development.

For business leaders, inclusive business is a rare opportunity to create value for all stakeholders, including increased profits for shareholders, improved livelihoods for suppliers, meaningful work for employees and greater wellbeing and economic growth for the communities in which the business operates.

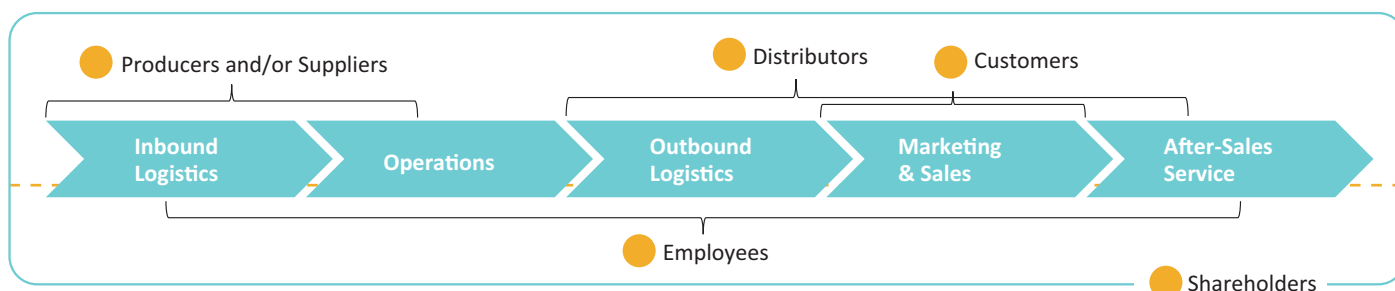


RESOURCES

Other resources for understanding inclusive business include:

1. *Creating Value for All: Strategies for Doing Business with the Poor*
2. *G20 Inclusive Business Framework*
3. *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*
4. *When Things Don't Go to Plan*
5. *The Practitioner Hub for Inclusive Business*

Figure 4: BOP Involvement in the value chain



92 United Nations Development Programme (2008). *Creating Value for All: Strategies for Doing Business with the Poor: Strategies for Doing Business with the Poor*. New York: UNDP. Available from http://growinginclusivemarkets.org/wp3/en/wordpress/wp-content/uploads/2010/04/gim-report_executive-summary_English.pdf

93 Ibid.

DEFINE BUSINESS OPPORTUNITY

Explore how inclusive business can address challenges and benefit the company.

Current challenge questions	Inclusive business opportunities
<i>Facing increasing risk of supply chain disruption?</i>	Mitigate supply chain risks and capitalize on growth opportunities by engaging BOP suppliers.
<i>Encountering supply challenges, including supply scarcity, inconsistent quality or concerns around future supply sustainability?</i>	Incorporate smallholder farmers or producers into sourcing models and exert greater influence on supply volume and quality in order to ensure sustainable access to future supply. This is an innovative way of dealing with increasing demand for key commodities as traditional sources of supply become saturated. ⁹⁴ If there are seasonal disruptions, consider seeking suppliers in opposite hemispheres.
<i>Insufficient supply yield from existing BOP sources?</i>	Enable smallholder farmers to improve product quality or yields by providing them with higher-quality inputs, innovative technology, access to credit or training in more sustainable and effective practices.
<i>Facing new or increasing competition with the rise of certified products?</i>	Work with BOP suppliers and certification organizations to adhere to higher standards of product traceability and sustainability through certification (e.g. Rainforest Alliance, Fair Trade), resulting in a higher price premium and appealing to a different customer segment. ⁹⁵
<i>Trouble keeping up with shifting consumer preferences toward ‘social good’?</i>	Source materials from BOP suppliers to create entirely new product lines, appealing to the broad base of consumers looking for products that contribute to social good.
<i>Expensive or ineffective distribution network? Innovation required to reach last-mile consumers?</i>	Engage the BOP as distributors to access hard-to-reach consumers for the first time, or existing consumers for a lower cost. BOP distribution networks can be both lower-cost and equally (or more) effective, given their grounding in the local community and culture.
<i>Difficulty selling to remote emerging-market customers?</i>	Engage a local distributor or salesperson who knows how to overcome culturally based misunderstandings about the products with potential consumers, thereby enabling higher sales.
<i>Lagging sales in certain distribution networks?</i>	Empower the distributors as micro-entrepreneurs, aligning their incentives with the business by offering a commission.
<i>Operating in markets where saturation or other factors makes it difficult to differentiate? Do new revenue targets require business model innovation or customer base diversification?</i>	Diversify the consumer base through new or adapted products and services by engaging the BOP as customers. Enter new markets and reach into the BOP to gain access to new geographies. ⁹⁶ To be successful, adapt existing offerings or create innovative products that are affordable and appealing to the BOP.

94 Monitor Institute (2014). *Growth for Good or Good for Growth?: How Sustainable and Inclusive Activities are Changing Business and Why Companies Aren't Changing Enough*. Available from http://www.monitorinstitute.com/downloads/what-we-think/growth-for-good/Growth_for_Good_or_Good_for_Growth.pdf

95 Ibid.

96 Haub, Carl (2002). "How Many People Have Ever Lived on Earth?" Available from <http://www.prb.org/Publications/Articles/2002/HowManyPeopleHaveEverLivedonEarth.aspx>

Current challenge questions	Inclusive business opportunities
Experiencing high operating costs ?	Investigate the cost savings of outsourcing to BOP service providers or developing an employee base in BOP labour markets. Confine your search to options that involve fair labour practices and weigh the community impacts of a move on your current labour force (and the potential damage that layoffs might do to your brand) against potential gains.
Suffering unanticipated regulatory challenges ?	Improve relationships with local or national governments by reducing or eliminating any negative impacts of your operations and rebuild trust with the local community. Coupled together, these will ultimately strengthen your license to operate.
Seeing social unrest as a result of the company's local presence? Is the company viewed negatively by the local community ?	Find alternative business models that directly contribute to residents' economic standing and reduce or eliminate the negative impacts of your operations, ultimately strengthening your license to operate.



RESOURCES

Other resources to consult for defining the business opportunity include:

1. *Business Call to Action*
2. *Growth for Good or Good for Growth?*
3. *Driving Corporate Growth through Social Impact*
4. *SDG Compass*

ANALYZE ENVIRONMENT

Identify inclusive business opportunities and analyze the market.

Key assessment questions	Suggested considerations
Who is the target population ? How might engaging with the population as suppliers, distributors or customers provide a competitive advantage and make the inclusive business sustainable?	Companies should understand their target population and their fit within the value chain of the product or service. It is important to understand how suppliers and distributors currently make a living and how a specific inclusive business model could compel them to participate. For consumers, considerations may include household purchasing power and willingness to pay, along with any alternatives in the market.
What is the target geography ? What considerations determine locations of operation?	The company should understand the region's existing infrastructure so it can design a business model accordingly. For instance, underserved markets are often found in rural areas given that they are harder to reach. In this case, population density is a significant consideration that can impact distribution to customers or collection from suppliers.
What is the political and economic environment of the target region?	The company should understand how its operations will fit into the local political and economic context. There may be financial or regulatory incentives to engage in inclusive business in the selected location. Alternatively, restrictive regulations or politics may hamper the business case. Ultimately, an analysis of the external environment should enable the company to select a discount rate appropriate for the perceived level of risk in the chosen region or country in order to develop an initial business case.

Key assessment questions	Suggested considerations
What existing relationships might the company leverage for market entry?	The company should consider how its existing relationships in the selected environment may help market entry. Partners who have experience in the selected area or work with BOP constituents can bridge gaps in understanding and offer invaluable support (for more details, see the <i>Design</i> step.)
What is the existing competitive landscape in the target area?	The company should carefully evaluate any existing competitors, not only in terms of their captured market share, but in order to borrow from or improve upon existing engagement strategies with suppliers and distributors.
Who are the necessary stakeholders to engage?	The target population and BOP service providers are the primary stakeholders. But beyond them, who are the key actors who shape and support the market? Who are the stakeholders in government and what are their interests? What prominent companies or NGOs have footprints in the market, and what relationship should the company have with them? It is imperative to understand who needs to be on board with the company's inclusive business – the 'minimum viable ecosystem' – before entering a new market.



RESOURCES

Other resources to consult when analyzing the environment include:

1. *Accelerating Inclusive Business Opportunities: Business Models that Make a Difference*
2. *Oxfam Poverty Footprint*
3. *Breaking Through: Inclusive Business and the Business Call to Action Today*

ASSESS CAPABILITIES

Evaluate the firm's competencies, determine its readiness for the challenge and cultivate leadership support.

Key readiness questions	Suggested considerations
Is inclusive business aligned with the company's current strategy ?	Examine how an inclusive business would fit with the company's current strategy. It may be helpful to begin by considering how the company lines up against the 'archetypes' discussed in <i>Driving Corporate Growth through Social Impact</i> , which describes the four ways that companies are currently integrating social impact. For example, 'social innovators', companies that include social impact as an intrinsic part of their business strategies, may already have a strong understanding of how inclusive business will fit within the company. Other companies may find that inclusive business supports their long-term vision by enabling sustainable growth.
Does the company have internal talent capacity ?	The company should determine what internal talent it is prepared to dedicate to the inclusive business and whether these individuals have the necessary skills and experience to realize success.
What technical capabilities might the company leverage in an inclusive business?	As is necessary with any new market entry, the company should also consider its available technological resources and capabilities. Management needs to understand what platforms can be utilized for products or services, and evaluate existing measurement capacities.

Key readiness questions	Suggested considerations
<p>What is the company's track record in developing new offerings or entering new markets?</p>	<p>The company should evaluate its 'adaptiveness', or the extent to which it has a track record of adaptation and an existing capacity for adapting to change. This includes a firm's past experience developing new offerings or entering new markets, its ability to adjust products to suit new customers and an openness to changing existing processes. If internal capacity is deemed low, the company should consider different means of engaging in innovation, such as investing in external solutions, engaging a network, accelerating externally or even sandboxing solutions.⁹⁷</p>
<p>Is the company ready to make an investment in line with the financial requirements of starting an inclusive business?</p>	<p>The company should be willing to commit the necessary capital to finance the new programme's launch. Partnerships and innovative sources of funding may offer solutions to reduce the financial burden. To understand its financial requirements, a company can start by assessing a conservative preliminary business case for the inclusive business. In conversations about financial requirements, it is important to understand the company's investment horizon and expectations for returns.</p>
<p>Is the company culture suitable for making inclusive business a priority? How risk tolerant is the company?</p>	<p>'Culture' refers to the set of collective beliefs, values and attitudes of staff regarding the business's responsibility to deliver social impact. Recent studies show that employees value a culture that promotes long-term sustainability and experience more job satisfaction if they believe their companies share that vision.⁹⁸ However, this may not be true for every company. Additionally, it is important to consider whether the culture encourages risk and innovation, or steers away from them. An inclusive business can be risky; thus, it is important to educate staff about the rationale for inclusive business before engaging, especially if the firm is risk averse.</p>
<p>Is the company's governance structure conducive to innovation? For the required access to leadership, where should the inclusive business be incubated or monitored?</p>	<p>'Governance' includes the placement – both laterally and vertically within the organization's structure – of individuals executing the firm's social impact strategy and system of rules, practices and processes. While the programme is nascent, the business may consider housing it in the innovation department, or at least allowing it to develop without the pressure of short-term financial constraints.⁹⁹ In the long term, it is important to evaluate whether the company's governance reflects the programme's expectations for return on investment. If a company wants its inclusive business initiative to be commercially viable and sustainable in the long term, it should reside within a business unit rather than with a CSR executive.</p>
<p>Does the idea of inclusive business have leadership support?</p>	<p>Once you have a good understanding of the company's capabilities, ensure that the programme has the internal support it needs from employees, management and particularly senior leadership. Getting different executives to champion the work is critical to gaining investment, ensuring freedom from standard short-term performance targets and building the internal capacity to make wide-ranging operational changes.¹⁰⁰</p>
<p>What internal gaps in the company should be supplemented by a partnership? What existing relationships does the company have that could turn into valuable partnerships?</p>	<p>A company may want to consider supplementing any gaps in its internal capabilities (e.g. leadership support, staff experience or willingness to invest) by considering different strategies for innovating or developing new business models. It may be helpful to use the approach provided in <i>License to Innovate: Breakthrough Strategies for Social Impact</i>, which includes a brief assessment to use when finding the company's 'best fit' strategy for social impact. Then, consider engaging an external partner to assist in the innovation process.</p>

97 Deloitte (2016). *License to innovate: breakthrough strategies for social impact*. Available from <http://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-ops-innovating-for-social-impact-summary.pdf>

98 Deloitte (2016). *The 2016 Deloitte Millennial Survey*. Available from <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-millennial-survey-2016-exec-summary.pdf>

99 Business Call to Action. "4 Steps to Start an Inclusive Business Effort from Within." Available from <http://www.theguardian.com/sustainable-business/4-steps-start-inclusive-business-effort-within>

100 Interview with Amanda Gardiner, 2 February 2016.

For ‘The Accidental Tourist’ Only

Evaluate the extent to which current activities constitute inclusive business. Examine the company’s value chain to assess its current level of engagement with the BOP and understand opportunities to engage more fully in inclusive business. Ask: does the definition of inclusive business described earlier in this report describe the company’s current activities? If so, investigate how the company can make inclusive business more impactful to reap its benefits.

Educate senior leadership and management: ensure that company’s leadership understands the concept of inclusive business and its connection to the international sustainable development agenda articulated in the SDGs. Recognizing the company’s activities as inclusive business may help leadership

to pursue additional opportunities including interested partners, greater publicity and available government incentives.

 **RESOURCES**

Other resources to consult in order to assess capabilities include:

1. *Growth for Good or Good for Growth?*
2. *License to Innovate: Breakthrough Strategies for Social Impact*
3. *“Is your company adequately prepared to develop an inclusive business model that will succeed?”*



Evaluate the potential for impact across the Sustainable Development Goals.


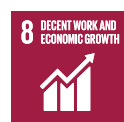

While the firm completes its external and internal evaluation, it is also important to consider how the company can contribute to the realization of the SDGs. To support companies in aligning their strategies to the SDGs, the Global Reporting Initiative, the UN Global Compact, and the World Business Council for Sustainable Development developed The SDG Compass. This tool provides a detailed process to assist companies in maximizing their contribution to the SDGs and is a helpful resource as business leaders plan the SDG impact of the inclusive business.¹⁰¹ While the below content touches on a few external and internal factors to consider when determining potential SDG impact, The SDG Compass is a more in depth guide supporting companies in aligning strategies to SDGs and in measuring their impact. However, The SDG Compass is not specific to inclusive business.

Consider external factors when determining potential SDG impact

Recognize how the company’s sector can position it for SDG impact. The comprehensive scope of the SDGs means that companies operating in every industry impact at least one goal (either positively or negatively). However, the sector(s) in which a company operates may enable it to naturally engage with particular SDGs. The company should seek to align an inclusive business with SDGs that integrate with the company’s vision and core business strategy. Recognizing that opportunities vary by industry, see Section 2: Promising Sectors for examples of potential SDG alignment by sector.

Evaluate the company’s value chain to determine opportunities to impact the SDGs. The company should consider its interactions with stakeholders across the value chain to identify areas with a high likelihood of either positive or negative impacts on issues represented within the SDGs.¹⁰²

For example:

-  A company may engage with BOP **suppliers** and provide them with training and tools to reduce water consumption, effectively minimizing its negative impact on SDG 6 (Clean water and sanitation).
-  A company may employ local BOP **distributors** and pay them a living wage, increasing its positive impact on SDG 8 (Decent work and economic growth).
-  A company may engage with the BOP as **customers** by supplying healthcare services to underserved communities and helping end preventable deaths and combat disease, advancing SDG 3 (Good health and wellbeing).

As a company considers engaging in inclusive business, the engagement type it chooses – suppliers, distributors, or customers – will enable the company to impact distinct SDGs (See **Appendix 4: Contributions to the SDGs by Engagement Type.**)

101 <http://sdgcompass.org/>

102 Ibid.

Assess internal possibilities for SDG alignment

Consider ‘hidden assets’. A company may have unused intellectual property or insights that can be leveraged to create both a successful business opportunity and positive impact on the SDGs. For example, Promigas, a natural gas provider in Colombia, realized that – through the course of its normal operations to track customer payments for natural gas – it had accumulated what amounted to a credit history database. The company used that database to develop a consumer financing programme offering loans to its BOP customers to help them acquire household appliances that could improve their livelihoods. The result was both a valuable business venture and positive impact on SDG 10: Reduced inequalities.¹⁰³

Align goals with the SDGs. Plan to manage and measure the inclusive business’s impact in relation to the realization of the SDGs. Consider selecting specific SDG indicators from the SDG Compass or the Business Call to Action to measure and communicate impact. Please see the ‘Measure and refine’ step for further considerations on assessing impact.

 **RESOURCES**

Other resources to consult to plan for SDG impact include:

1. *The SDG Compass*
2. *The SDG Industry Matrix*
3. *Business Call to Action’s Results Reporting Framework*



Whether the firm is designing the business model in-house, investing in one externally or engaging in a partnership to develop one, certain basic considerations should remain top of mind, as summarized below in the **Inclusive Business Model Analysis Framework**. This framework, shown in

Figure 5, allows a company to quickly consider the core elements that should be incorporated into an inclusive business, how they might work together to generate value for customers and companies and how a donor or partner can accelerate value creation.

Figure 5: Inclusive business model analysis framework



103 Inclusive Business – Accelerating Value in Latin America

Customer value proposition

- What is unique about this product or service? How does the product or service deliver value for the end consumer? Why would a customer choose this particular product or service?
- How does the product or service generate customer loyalty and retention?
- How might the product or service be affordably priced for customers, but remain financially sustainable for the company?¹⁰⁴

Finance

- What is the projected initial investment required?
- How will the initial investment to develop or enhance the product or service be financed? Through company investments? External or development funding? What repercussions does this have on the inclusive business model?
- How aligned is this product or service to the company's core business or existing strategy?¹⁰⁵
- What are the financial return expectations on this product or service? What is the tolerance for risk?¹⁰⁶
- What is the business case for this product or service? What are the financial projections?

Operations

- How does this business model accelerate model effectiveness and/or impact (i.e., deliver additionality) of traditional products or services?
- How might this product or service reduce risks like those of market entry, operational viability, or business stability?

- How might this model leverage external partnerships and actors for long-term success?¹⁰⁷
- How does this product or service avoid creating social or environmental negative externalities?
- How might the inclusive business engage the BOP as suppliers or employees in ways that both contribute to the business model's profitability and achieve a high standard of fair treatment?¹⁰⁸
- How might technology be employed to reduce operations costs or increase the model's scalability?

Go to market

- How will the company market this product or service?
- What level of consumer education is required?
- How might the inclusive business leverage the BOP as distributors and assure a product is efficiently and effectively delivered? How might distributors be incentivized?
- What channels should be used to provide the product or service?
- Is there after-sales service required? How might this be provided?
- How might this product or service deliver improved branding? Improved license to operate?

SDG impact

- Based on the sector(s) that the company operates, which SDG(s) are a natural fit for the existing business?
- Does it make sense to focus on a specific SDG to drive greater and deeper impact? Or should the model work more broadly to target multiple SDGs?

104 The programme must be financially sustainable or be the recipient of funds that would accept below-market returns. However, it is important that the program is profitable. As Omidyar's Mike Kubzansky notes, "the goal is always to be profitable, not breakeven, because if you're not profitable, you can't invest in growth." One approach to financial sustainability is targeting the "whole pyramid" instead of only the BOP. That is, when a product is sold to all consumers but at different price points, the profit made from wealthier consumers subsidizes a less expensive product for the BOP. This strategy enables the company to maintain financial sustainability, while also offering a product at a price point the BOP can afford.

105 From an internal perspective, the company should align the programme with the company's overarching goals. As Senior Associate Dean of International Business & Finance at Tufts University insists, "the programme's business case has to dovetail into the overall strategy or the portfolio of projects" If the company creates this alignment successfully, then all of the company's existing processes and support structures, designed to support its overarching goals, will also support the inclusive business programme.

106 To lower risk, companies should analyze existing 'hidden assets'. A company may have valuable intellectual property or insights, which are not currently being used, but could be leveraged to create a successful business opportunity. For example, Promigas, a natural gas provider in Colombia, realized that it had accumulated a credit history database through its normal operations – providing BOP customers with natural gas and tracking their payments. Based on this knowledge, the company developed a consumer finance programme, offering loans to its BOP customers to help them acquire household appliances that could help improve their livelihood.

107 Partnerships may play a valuable role, and should be considered in the programme design. Partnership can be examined through the lens of four kinds of contributions – Reach, Assets, Reputation, and Capabilities. *Reach* includes opening new doors for the programme, while *Assets* means sharing resources including intangible, but valuable benefits like community insight. A company may engage a partner for its *Reputation* to augment the programme's visibility and enhance stakeholder perception or its *Capabilities* including specialized skills. The business can use the *Value Exchange Tool* to consider what a partner could contribute and if a collaboration makes sense. It is important to note that partnerships may include large multinational corporations, social enterprises, foundations, governments, or any other entity. Outside investors, who share some of the cost and risk, may be another potential partner, especially as the company moves into the initial pilot stage.

108 As discussed in the 'Understand inclusive business' section, businesses most often engage the BOP as suppliers, distributors, or customers. Each engagement model has unique considerations that should be incorporated into the business plan.

- How will the inclusive business deliver social impact? Which SDGs might the business model most clearly lend itself to? (See **Appendix 4: Contributions to the SDGs by Engagement Type** for more detail on how the way in which the BOP is engaged can directly contribute toward some SDGs more than others)
- How will the business set goals and measure impact against the SDGs?¹⁰⁹ (See the Test and Design sections.)
- How might pursuing one or several SDGs enable partnerships to supplement internal capabilities?¹¹⁰

Specific to ‘The bystander’

Start small! Begin with a design for a smaller, more manageable inclusive business. This will allow the programme to easily adapt and incorporate initial learnings. This should also demonstrate the value of inclusive business to company leadership and inspire further initiatives.

Specific to ‘The accidental tourist’

Refine existing model. With an enhanced understanding of inclusive business, incorporate insights to adapt and improve the existing business model. This may include exploring ways of creating greater financial return and intentionally including the BOP in a deeper way. It may also include using existing

relationships and brand recognition to gain greater insight into the target BOP populations.

Specific to ‘The responsible citizen’

Integrate more strongly with the core business. Develop a commercially viable programme, leverage existing assets (e.g. experience in current markets), or tweak an existing model to make it commercially viable and ultimately enhance impact. Specifically, **examine the finance model.** Study the programme’s costs and revenues to diagnose the barriers preventing profitability. Determine if these barriers can be overcome by adjusting the model and thereby enabling its financial sustainability. If not, consider using the knowledge and relations gained through this initiative to launch a new, commercially-viable model by starting at the Assess Capabilities stage.



RESOURCES

Other resources to consult as part of ‘Design’ include:

1. *The wide range of resources on traditional business model design, if that design is being done in-house*
2. *SDG Compass*
3. *The Value Exchange Tool to consider what a partner could contribute and if a collaboration makes sense*

TEST

Pilot the inclusive business for proof of concept

Testing a new business model is complicated, but the principles outlined below can help make the testing phase as indicative as possible of market viability.

Understand not only the minimum viable product – but also the minimum viable ecosystem. In creating the minimum viable product or service, the company should select a programme scale large enough for senior leadership to feel comfortable that the pilot represents a broader market, but small enough to allow for easy adjustment to the business model. Because of inclusive business’s unique considerations, developing a minimum viable product or service also requires testing its minimum viable ecosystem. What partnerships

must be in place to test the model? What kind of license to operate is necessary to begin operations in the given region or market? Launching an inclusive business will always require overcoming a variety of barriers ranging from an absence of trained human resources to weak supply chains or otherwise underdeveloped support ecosystems.¹¹¹ It is a crucial piece of the pilot phase to understand where those barriers lie and how to overcome them.

Select an external market. Choose a region or area that will welcome an inclusive business innovation, support the programme and represent the larger target market.

109 Develop a clear definition of what success might look like, articulate a path of how success may be achieved, and specify what metrics must be measured to determine whether goals have been met. Goals should be both financial (e.g. what evidence do we have of demand? Willingness to pay? Potential profit margins?) and social (e.g. are more children learning to read? Has sanitation improved?). Goals and social impact indicators are a simple way of tracking against the SDGs. The SDG compass guide provides some more information on how to select indicators. In your goals, strive for simplicity and clarity. Be realistic. But most of all, devote the time: all organizations, large and small, should devote a few hours with their senior management team brainstorming about the inclusive business’s goals and activities.

110 The SDGs can help facilitate partnerships. Deloitte’s John Mennel notes that the SDGs can provide common language and common goals, including an aligned timeline. Bhaskar adds, “Quite often the challenge [in partnerships] is that no one is quite sure who is doing what. The SDGs provide a yardstick for partnerships.”

111 The World Bank (2015). “Strengthening the Ecosystem to Mainstream Inclusive Business.” Available from <http://blogs.worldbank.org/endpovertyinsouthasia/strengthening-ecosystem-mainstream-inclusive-businesses>

Set the company’s financial and impact goals for the pilot.

The company should seek to validate both the programme’s commercial viability as well as its scalability. As part of structuring the pilot, the company should select financial and impact metrics that will properly assess the pilot’s success and its readiness to scale to a full programme. While a company will fairly easily select relevant financial metrics, impact indicators can be trickier. Guidance on selecting impact indicators is available in the *SDG Compass*. In the case of partnerships, all stakeholders – including management, funders and intermediaries – should be aligned on the goals and expectations of the testing period.

Give the pilot enough time. The company may consider giving the programme an ‘incubation period’, during which it is exempt from the standard pressures of quarterly reporting and organizational reporting.¹¹² Identify what milestones the pilot will need to meet, during what time period, and what decision criteria will be used to choose whether to continue the programme.

Run the pilot. Tactically, the company should select a team to support the pilot on the ground, allowing for real time feedback and adjustment. Throughout this phase, it’s important

for internal leadership and employees to evaluate the programme with a mindset of both *progression*, a disciplined and honest assessment of progress toward business model validation, as well as *persistence*, tenacity in refining the model and demonstrating viability.¹¹³ For more details on measurement and evaluation, see Measure & Refine below.

Be prepared to engage in an iterative process. The validation process is almost always iterative. Trials often reveal challenges and weaknesses in the original business model, leading to refinements in the product or service, technology and processes, followed by further trials. The greater the degree of model innovation involved, the more time and resources should be invested in this stage.¹¹⁴

 **RESOURCES**

Other resources to consult when testing include:

1. *From Blueprint to Scale*
2. *The 4Ps of inclusive business: How perseverance, partnerships, pilots and passion can lead to success*

MEASURE & REFINE *Track results and adjust the business model*

‘Measuring impact’ has become a buzzword in recent years, with the advent of both analytics and consumer interest in creating social change. While many social sector organizations and foundations have adopted various ways of measuring impact, the private sector (used to its easily-measured financials) has lagged behind in its outcome measurement practices. This is because impact measurement is not easy. Still, it is a necessary component in refining the business model, increasing revenue and maximizing social impact.

Integrate and measure

Select reporting metrics that suit goals. Based on the goals set during the Design and Test phases, identify social impact indicators that are specific and measurable, in addition to financial metrics. Both the *SDG Compass* and *the Business Call to Action initiative* propose a set of metrics to best understand how an inclusive business is progressing toward its goals. Including a few metrics on supplier, customer, or beneficiary feedback is a critical element of monitoring.

Include SDG indicators or other impact metrics in new or existing company dashboards. Company scorecards measure

A Helpful Resource

The **SDG Compass Guide** discusses a series of important steps for measuring impact. These include understanding the SDGs; defining priorities (conducted during the Design phase); setting goals (executed as part of the Design or Test phases); integrating; and reporting and communicating. The **SDG Compass** also focuses on defining impact according to a method called the logic model, described in further detail below under **Planning and measuring impact through a logic model**. It is important to note, however, that businesses should use this logic model as a framework by which to think about indicators, not as a replacement for traditional scorecards.

the execution of strategy against mission and end goals over time. Ideally they should be dynamic, taken seriously and used frequently as drivers of decision making. As stated by Endeavor’s Managing Director Christina Gradl, “Companies already use KPI dashboards or balanced scorecards to determine whether they are on track financially – tracking social and environmen-

112 Monitor Group (2012). *From Blueprint to Scale: the Case for Philanthropy in Impact Investing*. Available from http://acumen.org/content/uploads/2013/03/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing_Full-report.pdf Ibid.
 113 Ibid.
 114 Ibid.

tal indicators is not very different.” Integrating social impact metrics or SDG indicators in a company’s existing scorecard can ensure outputs or outcomes of an inclusive business are measured and tracked. Reacting to the social metrics can help inform business decisions, just as financial or operational metrics have done for decades.

Novozymes, a global biotechnology company, is leading the private sector in integrating the SDGs in its management efforts. In July 2015, as the SDGs

were being finalized, the company announced its intent to design an assessment and management tool to evaluate the company’s innovation pipeline during the phase where the business case is developed for a particular technology or product.¹¹⁵ *Novozymes’* head of sustainability Claus Stig Pedersen explains that the tool will help the company “understand and verify contributions to the SDG context and optimize and maximize contributions going forward.”¹¹⁶

The imperative to measure impact

The private sector has lagged behind the social sector in its outcome measurement practices. This is because the challenges in measuring social impact are numerous. First, unlike the widely accepted financial metrics that businesses are accustomed to using, there are no credible, widely-accepted measures for social impact. The field is at an earlier stage of development, with indices such as GIIRS and IRIS just emerging. Second, the time horizon required to see and measure the impact of certain interventions or programmes with social benefit can require ten or more years. Third, the infrastructure of the locale in which a company is pursuing inclusive business may be lacking in technology, human capital, or other resources, making measurement more practically challenging. And finally, measurement can be expensive. While many nonprofits, foundations and even impact investors lack dedicated monitoring and evaluation departments, they are even rarer in the private sector. As a result, impact measurement can present a steep learning curve for existing staff, or require investment in measurement activities through a third party. Together, these challenges help to explain why companies cite difficulties in measuring impact as a principal reason they have not participated in inclusive business.

Historically, these challenges have been unimportant as corporations have not had to worry about measuring their social impact. Very few, if any, company stakeholders would even attempt to distinguish between outputs, outcomes and impact, creating very little incentive for companies to publish any evaluative information. Instead, they would settle for publishing a dollar amount spent on corporate social responsibility efforts across various locations. And because most external stakeholders did not demand evaluations, managers were not incentivized to measure or work towards social impact goals, especially in large multinational corporations. These factors combine to explain why organizations have often failed to appropriately allocate budgets to measure impact well.

But impact measurement is becoming increasingly important. “There are increasing expectations of accurate and reliable reporting around the impacts of business,” said Kristen Sullivan, a Principal at Deloitte Consulting involved in reporting efforts. Reporting mechanisms range from B Corp certifications, to suggestions given by GIIRS and IRIS, to the guidelines provided by the Sustainability Accounting Standards Board in the United States. The SDGs themselves make reporting a clear expectation, with SDG 12.6 calling on governments everywhere to “encourage companies, especially large and trans-national companies...to integrate sustainability information into their reporting cycle.” The Global Reporting Initiative provides guidelines around materiality, context, completeness and inclusiveness, and other resources such as the SDG Compass provide suggestions for indicators useful for measuring results. Still, the lack of sufficient proof points in the market has yet to clear up a lingering skepticism in the minds of many business leaders: that this type of reporting has no value.

It is our perspective that it is only a matter of time until a majority of corporate actors start publicly disclosing their social impact, perhaps even using SDG indicators. With an increasing amount of capital flowing into programmes engaging the BOP, investors will increasingly desire to: (1) hold businesses accountable; and (2) know that their money is creating the social change that was promised. Perhaps most importantly, from a business perspective, multinationals are increasingly adopting clear impact agendas, making impact measurement and the communication of outcomes essential. Consumers want to be able to access impact information they can compare between companies, while governments and donors want assurance that their money is making a difference. Already 57 percent of Fortune 500 companies report on some form of environmental, social and governance impacts.¹¹⁷ We believe that few companies will want to fall behind as the bar continues to raise.

115 Saldinger, Adva (2015). “Can a new management tool help businesses align to SDGs?” Available from <https://www.devex.com/news/can-a-new-management-tool-help-businesses-align-to-sdgs-86459>

116 Ibid.

117 GA Institute, “Number of Companies in S&P 500 and Fortune 500 Reporting on Sustainability More Than Doubles from Previous Year,” <http://www.ga-institute.com/nc/issue-mas>

Ask for help. Today, managers who wish to measure the social impact of inclusive business within their organizations are hampered by the limited tools and capacity for measurement. As a result, thinking about partnerships as a way to facilitate measurement can improve performance. While imperfect, nonprofits and impact investors have developed a body of knowledge and a track record for innovating in measurement and evaluation techniques. Leaders in measuring impact in the social sector include the Acumen Fund, which offers its toolkit on *B Analytics*, and Bridges Ventures, which explains its impact clearly in an annual report. Learning from such organizations or working with them can improve a company’s ability to credibly assess the impact of their business and integrate into their existing financial reporting.¹¹⁸ Additionally, companies should take advantage of the inflow of capital to social impact efforts; grants, impact investments and other innovative financing mechanisms can be a source of additional funds to support evaluation, whether internally or through a third party.

Consider investing in evaluation. Measurement and evaluation generally are not inexpensive practices – but the rigor with which they are pursued can reduce or raise costs. Start with lower cost options (e.g. existing staff analyses existing data)

before pursuing more costly ones (e.g. employing a third party evaluator). For most companies, the more rigorous methods of evaluation, such as randomized controlled trials through third-party evaluators, are not necessary, particularly in early stages when the principal purpose is to communicate outputs and outcomes to management and manage against data.

Report and refine

Make better informed decisions and refine the business model. Social impact data can be used in addition to financial data to drive insights and make decisions – especially if tracked over time in a scorecard or dashboard. Data should enable the company to effectively adjust, refine and adapt the business model to maximize both intended social impact and long-term financial success. But, specifically, how might a business think about using data to refine its business model? One way to do it is to leverage the **Inclusive business model analysis framework** described in the Design section as a starting point. Consider the six components of the framework and whether the data indicates that any one of those components should be altered. Another framework to guide business model refinement is the value chain itself. What are the weakest links, as suggested by the data?

Planning and measuring impact through a logic model

A logic model is a common form of linking inputs with outcomes which originated in the 1960s as part of the evaluation work done at the United States Agency for International Development (USAID). It lays out the linkages according to input, activities, output, outcomes and ultimately impact. In its simplest form, a logic model has five key components:

	Inputs	Activities	Outputs	Outcomes	Impact
Definition	Resources (capital, human) invested in the activity	Concrete actions of the investee	Tangible products from the activity	Changes resulting from the activity	Broader change occurring in communities or systems resulting from the activity
Application or example indicators	\$, number of people	Development and implementation of programs, building new infrastructure, etc.	Measurable actions or conditions that assess progress against specific operational activities, e.g. Number of people reached, items sold	Measurable actions or conditions that demonstrate progress towards specific outcomes, e.g. increased access to education	Effects on broader target population, e.g. sustained drop in poverty, increase in literacy rates

Logic models have many uses in the context of inclusive business. They can first and foremost help organizations with goal-setting by establishing logical, feasible targets for outputs and outcomes. By establishing targets, the logic model is a powerful way to align incentives between partners, within an organization, or for funders and investees. The logic model can also serve as the basis for tracking and monitoring key performance indicators (KPIs), as discussed in the following section. It can also be used for external reporting since it is a straightforward mechanism for illustrating a causal path from the business activities to impact, even with audiences that may not be with familiar social impact measurement.

118 Monitor Institute (2014). *Growth for Good or Good for Growth?: How Sustainable and Inclusive Activities are Changing Business and Why Companies Aren’t Changing Enough.*

Be transparent. As discussed earlier, a key benefit to engaging in inclusive business is the way it can enhance corporate reputation and improve competitive position. External communication is necessary to achieve this; there is no better way to communicate than with facts that prove the impact the business is having. Develop a reporting timeline that makes sense given internal capacity and stay on track.

One early trend is critical to watch: some organizations are testing the ability to translate social impact into financial terms, quantifying ratios like the economic rate of return or return on investment, with the aim of expressing impact in similar terms to financial ratios widely used in business.

 **RESOURCES**

Other resources to consult in order to measure and refine include:

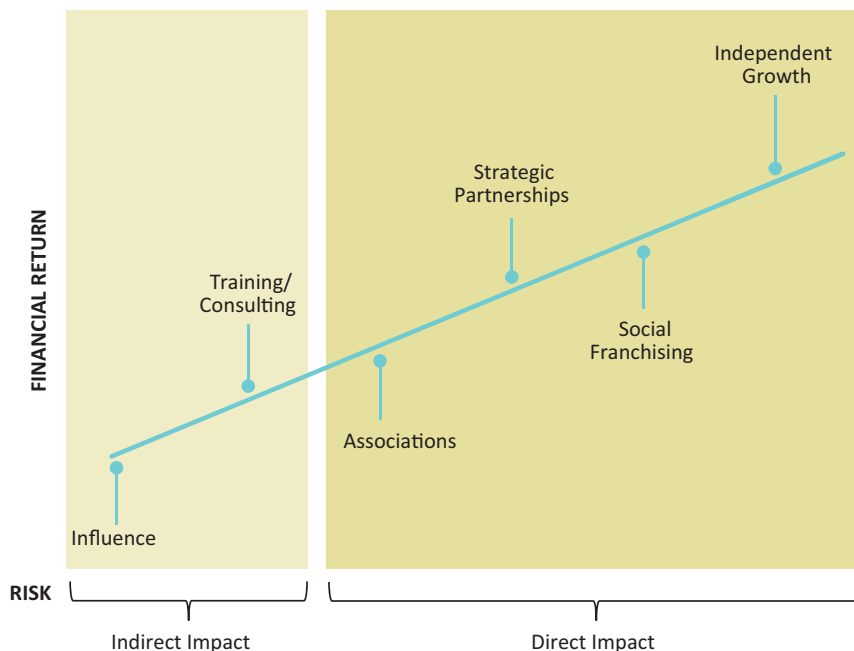
1. *SDG Compass for business indicators*
2. *Business Call to Action*
3. For more information on standards for reporting and how to think about materiality, consult the *Global Reporting Initiative*.



Determine method for growth. The company can choose the best options for growth given its priorities and capabilities. More specifically, the company may wish to evaluate options along a spectrum of risk and financial return, as shown below.^{119, 120, 121}

On the right-hand side of the spectrum, a business can pursue the greatest financial reward along with accepting increased risk. For example, independent growth requires greater resource investment (talent and money) by the company;

Approaches for Growth



Influence: Passive impact on external actors (competitors, foundations, government)

Training/Consulting: Knowledge share with external actors

Associations: Agreement with external actors to achieve a common purpose

Strategic Partnerships: Collaboration with one or more partners who share the risk and reward

Social Franchising: Packaged, proven model for franchisees

Independent Growth: Organic expansion by geography, products, customers, or otherwise

119 Ashoka Globalizer. Increasing Impact and Changing Systems by Engaging More and More Changemakers. Available from http://www.ashokaglobalizer.org/files/Ashoka-Globalizer_some%20basics_on%20scaling_social_innovation.pdf

120 Stanford Social Innovation Review (2014). *Impact Investing: On Innovators and Pinballs*, 3 September 2014. Available from http://ssir.org/articles/entry/on_innovators_and_pinballs

121 School for Social Entrepreneurs (2016). Introduction to Social Replication. Available from <https://www.the-sse.org/resources/scaling/introduction-to-social-replication/>

this is riskier because it does not share risk with franchisees or partners. On the left-hand side of the spectrum, the business risks little by influencing external actors, but there is no financial return.

Note that the degree of impact is not included in the figure above. As a third dimension, impact does not have a linear relationship with risk or financial return.¹²² For example, a company may contribute tremendous social impact through influence, by motivating policy change or catalyzing the start of a new industry.

Consider several key internal factors when determining how to grow

Align internal resources. In determining the approach to growth (Figure 6), the business should consider which option best aligns with its existing capabilities and capacity. The business should then unite leadership and sponsors behind the selected growth strategy, while aligning the capital, processes and technology needed to grow effectively.

Leverage technology. Technology can act as an important facilitator of growth, enabling the business to expand its programme at a relatively low cost. Innovative mobile technology that bypasses infrastructure investments can be particularly effective. Technology is often the foundation of business models that are highly scalable, have low marginal cost, and are therefore best positioned for growth.¹²³

Consider the programme's operations. The business should evaluate the programme to determine which components are replicable and essential for success, which components should be adapted for each new market and which components are unnecessary. For example, when Novartis sought to grow its inclusive business health programme Arogya Parivar, the company determined that the programme's success depended on the separate roles of health educators and pharmaceutical representatives. This structure was replicated across its new markets in Kenya, Indonesia and Vietnam. Novartis also determined that external relationships were needed to adapt to each new market. For example, the political structure in Vietnam necessitated closer partnership with the government than was required in other markets.¹²⁴

Plan for financial sustainability. The business should complete a rigorous financial analysis to determine how growth will impact the programme's cost structure across the cost of goods, distribution and marketing. As the programme expands through increased volume or expanded geographies,

the business should adapt its plan to maintain financial sustainability.

Consider several key external factors when determining where to grow

Select expansion markets. If the company decides to grow by expanding to new markets, it should consider the external environment of any new geography, conducting an analysis similar to what is outlined in the 'Assess environment' phase. Understanding the market's customers, regulatory context and any competitors will be essential for successful growth. The company may also seek 'industry facilitators' (e.g. government or industry organizations) to resolve scaling barriers at the levels of both the company and its wider business ecosystem.¹²⁵ Governments can act as industry facilitators – especially in the context of the SDGs – by providing supportive regulatory frameworks and inclusive business incentives.

Consider partnerships. As the programme expands, partnerships may offer a solution for any gaps in internal capabilities, local understanding, or funding. Partnerships are most critical for the strategic partnership approach to scaling (see Figure 6). In this approach, partners invest financial resources, political and social capital and time alongside one another, sharing in the both the program's risk and reward. In the case of Novartis, to enter the Kenyan market, the company partnered with NGOs to address challenges of access to local villages.

Understand and communicate impact. As the programme grows, the company should be aware of both its direct and indirect impacts, as described in Figure 6. Direct impacts can be evaluated as described in the 'Measure and refine' phase. The company should effectively communicate its increased direct impacts to ensure it fully reaps the business benefits of greater social impact (e.g. consumer interest in developing markets, talent recruitment and talent retention). The business should also consider integrating indirect impacts in its annual reporting to communicate the greater societal benefits generated by the company.

RESOURCES

Other resources to consult in order to grow include:

1. *From Blueprint to Scale*
2. *Scaling Up Inclusive Business*
3. *Breaking Through: Inclusive Business and the Business Call to Action Today*

122 Interview with Tony Siesfeld, 6 January 2016.

123 Interview with Kurt Dassel, 6 January 2016.

124 Interview with Charlie Hough, 9 February 2016.

125 Deloitte (2014). *Beyond the Pioneer: Getting Inclusive Industries to Scale*. Available from <https://assets.rockefellerfoundation.org/app/uploads/20140508153451/Beyond-the-Pioneer-Report.pdf>


**SUSTAINABLE
DEVELOPMENT
GOALS**

1 NO POVERTY 	2 ZERO HUNGER 
3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 
5 GENDER EQUALITY 	6 CLEAN WATER AND SANITATION 
7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	10 REDUCED INEQUALITIES 
11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 
13 CLIMATE ACTION 	14 LIFE BELOW WATER 
15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 
 SUSTAINABLE DEVELOPMENT GOALS	 SUSTAINABLE DEVELOPMENT GOALS



Inclusive Business in Practice

The previous section described the road to sustainable inclusive business, starting from understanding inclusive business as a concept, continuing with articulating the business opportunity and finally addressing considerations of the design, testing, measurement, and scaling of an inclusive business initiative. Reading about how companies have navigated a similar process can ground these ideas in tangible detail. Below we share two successful cases of inclusive business in the context of the SDGs: Novartis' journey with Arogya Parivar and the multinational coffee brand Juan Valdez.

Novartis

When Novartis began exploring inclusive business in 2005, the company could not have anticipated the success it would have by opening its business to the BOP. Novartis' leaders at the time did have an inclination that the BOP had strong demand for healthcare services and decided to make this market a priority. The result was that in the five years, from 2010 to 2015, Novartis' inclusive business efforts would bring health education to more than 20 million people.¹²⁶ In 2015, it met its goal for the year to provide health education to 12 million people through at least 300,000 community education meetings in rural communities across Kenya, India, Indonesia and Vietnam by 2016.¹²⁷ All of this social impact was achieved while simultaneously returning a profit to the company.

Preparing the organization

After a visit from C.K. Prahalad, Novartis leadership made its initial investment in exploring inclusive business. Company leaders assigned a sponsor to take charge of a core business unit, run with the initiative and successfully design an effective business model.

To this day, Novartis' inclusive business efforts reside primarily within the core business because, "that's where the expertise is," in the words of Charlie Hough, Vice President and Global Head of Strategy for Corporate Responsibility at Novartis. Business unit leaders have found that housing these

pioneer programmes within the business causes employees to think more creatively about adapting solutions and generating a profit.¹²⁸

Assessing the external environment

When considering a target market for the launch of its first social venture, Novartis focused on volume: the company wanted to identify a target population that had both ample demand for its healthcare services and reached beyond Novartis' existing footprint. Of course, substantial demand not only contributes to a greater volume of consumers, but also to a larger social impact. Novartis ultimately selected India, where 830 million people live in rural areas and an estimated 65 percent of the total population lacks access to healthcare.¹²⁹ Population density played a critical role too: while rural areas were viable, Novartis had to ensure that the programme could impact enough villages, villagers, doctor's offices and pharmacies to make financial sense.

Novartis settled on focusing its initial efforts in two Indian states, with the ultimate goal of expanding as broadly as it could after proving that the pilot model worked.

Designing a solution

In order to ground the new solution in on-the-ground understanding, Novartis deployed a team member to live in rural India for six months to understand *how* Novartis could expand its business to the BOP. First, Novartis tried to understand how it might sell no-frills or generic medicines to the BOP at an affordable price. "What we found out is that for most of the products we had available – whether they were essential medicines or non-essential – there was a real lack of health-seeking behavior from people living in these villages," recounts Hough. "So there was a real need for health education and sanitation in these regions."¹³⁰

This gave Novartis its key insight: it needed to tackle wellness before offering medicines. That concept is what led it to launch Arogya Parivar – (meaning 'Healthy Family') in India

126 Interview with Charlie Hough, 9 February 2016.

127 Novartis (2015). Corporate Responsibility Targets: Expanding Access to Healthcare. Available from <https://www.novartis.com/sites/www.novartis.com/files/cr-targets-results-2015.pdf>

128 Interview with Charlie Hough, 9 February 2016.

129 Novartis, "Expanding Access to Healthcare," <https://www.novartis.com/about-us/corporate-responsibility/expanding-access-healthcare/novartissocial-ventures>.

130 Interview with Charlie Hough, 9 February 2016.

– in 2007. This health education initiative targets consumers who earn between US\$2 and US\$10 per day. It uses a **para-skilling business model** by recruiting and training locals in remote villages to become health educators who help inform communities about health, disease prevention and the benefits of seeking timely treatment.¹³¹ Local teams work with doctors to organize health camps in remote villages – mobile clinics that provide access to screening, diagnosis and therapy. Providing health education could be monetized over the long-term by expanding health seeking behavior and thereby eventually increasing demand for medicines and providing benefits to Novartis over time. In this way, the company is employing another prominent inclusive business model: distribution through a dedicated direct sales force.

The last design question for Novartis to address was around goal-setting. At the start, it settled on the number of people who have received health education. Now, they plan to expand their measurement practices through work with Boston University.

Launching Arogya Parivar and realizing benefits

While the initial goal was for Arogya Parivar to be profit positive within three years, it took only slightly over two to be profitable. Demand for Novartis' health educators was strong and the initiative's success was positive not only for the company's bottom line, but also for its public reputation. As news of its financial sustainability spread, Novartis drew interest from a wide range of academics and business peers.

Scaling and growing

Even as a financial success, Arogya Parivar could never be profitable as Novartis' other core businesses. As a result, while the programme was widely viewed as a success within the company, Hough found that, "When new leaders would come into the firm, there was always that question. So we retell the story, re-make the case, of how not only are we expanding our business in a profitable way through Arogya Parivar, but we expand patient reach."

Novartis has since grown the Arogya Parivar model. Using a similar process to its initial external assessment, the company has now replicated the programme in Kenya, Vietnam and most recently, Indonesia. In each case, the programme took its replicable elements – the pairing of a health educator with a traditional sales person – and adapted the rest to local market conditions and disease prevalence in each country. For exam-

ple, in Vietnam, Novartis engages in a private-public partnership with the Health Services, whereas in Kenya, the company works with locals, NGOs and outreach workers to address challenges of access and availability of medicines and doctors.

Looking beyond...

The success of Arogya Parivar in four different markets gave Novartis leadership the confidence to launch into another endeavor in 2015. Given the company's expertise in non-communicable diseases (NCDs) and the new SDGs' recognition of NCDs as a major development challenge, Novartis' CEO asked the company's Access to Medicine Team to design a new inclusive business initiative. The team came back with a proposal to include 15 medicines in a low-priced portfolio to be offered to governments and development institutions. The company launched the programme – Novartis Access – in conjunction with the SDGs in early fall 2015 in Kenya, Ethiopia and Vietnam.

Based on desk research and an interview with Charlie Hough, Novartis VP & Global Head of Strategy for Corporate Responsibility.

Juan Valdez

Juan Valdez is an international coffee house chain that has grown into one of the best examples of inclusive business. The company engages all segments of the income pyramid in its home country of Colombia and increasingly in its operations abroad.

Designing the inclusive business

The story of Juan Valdez begins with the National Federation of Coffee Growers of Colombia, an NGO founded in 1927 that represents more than 500,000 Colombian coffee-growing families.¹³² The Federation is made up almost entirely of small-scale coffee growers who operate coffee plantations of less than five hectares.¹³³ Its members are about a quarter of the estimated two million inhabitants in coffee-growing regions of Colombia who directly depend on coffee production for their livelihoods.

While the Federation was successful in organizing and providing income to these BOP coffee suppliers for decades, in the early 2000s the organization developed the idea of creating a direct sales channel as a means of increasing the growers' profits. To do this, in 2002 it created a parent company called Colombian Coffee Promotion (Procafecol) and the Juan Valdez brand.¹³⁴

131 Novartis (2015). Corporate Responsibility Targets: Expanding Access to Healthcare. Available from <https://www.novartis.com/sites/www.novartis.com/files/cr-targets-results-2015.pdf>

132 Colombian Coffee Growers Federation (2014). About Us. Available from www.federaciondecafeteros.org/particulares/en/quienes_somos

133 Growing Inclusive Markets. Juan Valdez Coffee Shops: Fair Trade as an Inclusive and Sustainable Business. Available from http://growinginclusivemarkets.org/media/cases/Colombia_JValdez_Summary.pdf

134 Ibid.

What makes the Juan Valdez interesting as an example of inclusive business are two key elements of its business model. First, it uses a **deep procurement** model to source the coffee beans: The Federation's farmers provide the coffee and the Federation handled the distribution to Juan Valdez. Second, Juan Valdez not only **pays the Federation a premium** on the coffee itself but also **pays royalties** based on its sales. As a result, the coffee grower-owned Federation reaps benefits directly proportional to Juan Valdez's success. "As our company grows and as our profits grow, we have around 18,500 coffee growers who are indirectly shareholders for the company. Their shares have appreciated in value tremendously and we are proud of this," explained Dr. Hernán Méndez, President of Juan Valdez.

Structuring the company such that the coffee growers themselves are shareholders means that the company never needs to trade off profit for impact, because the profits directly benefit members of the BOP. As a result, Juan Valdez has built a nearly unassailable level of brand loyalty, since its Colombian customers appreciate that the profits go directly to the farmers.

Growing the brand and scaling

After establishing a foothold in its home market, Juan Valdez launched in Chile and Ecuador through private partners using a franchising model. Countries in close proximity to Colombia were the initial geographic focus because of: (i) the strong cultural value of quality coffee; and (ii) the ease of doing business in Spanish-language countries. As Juan Valdez has expanded globally over the last several years to non-Spanish-speaking countries, the parent company continues to focus on understanding the culture of each country and the role of coffee in that society.

Recognizing its success

As of 2014, slightly over a decade after launching Juan Valdez, the company generated more than US\$20.3 million for the Federation in brand royalties and paid US\$2.5 million in premiums to Colombian coffee growers.¹³⁵ In 2015, Juan Valdez had more than 320 stores worldwide, in countries including the United States and Spain.¹³⁶ Its success made it possible to pay growers 25 percent more than the standard

Colombian market price, contributing significantly to the growers' incomes.¹³⁷

Last year, Juan Valdez engaged in conversations about going public – a risky proposition for inclusive businesses (consider for example, the outcome of the Andhra Pradesh microfinance crisis).¹³⁸ Conceptually, the Federation will remain the main shareholder and hold an IPO in order to finance more rapid expansion than it could support on its own. Méndez hopes that Colombians will buy shares in the company because of its social and economic contributions to the country, and anticipates the Juan Valdez may be ready to take this next step in 2018.

Advice for companies

Juan Valdez advertises its products as "100 percent Colombian coffee," emphasizing the product's quality and taste without promoting the social benefit of its ownership structure. Méndez sees this as a shortcoming in the current market and notes that a shift is underway as part of the company's 2020 strategy. His advice to others: do the same in today's world, where creating social value is increasingly valuable to driving sales.

Based on desk research and an interview with Dr. Hernán Méndez, President of Juan Valdez.

Top Ten Inclusive Business Critical Success Factors

While this Guide advocates for inclusive business as a strategic pathway to address the SDGs, it does not suggest that this model alone is a panacea. Like any business, inclusive business is context dependent, requires navigating through a number of strategic and operational blind spots, and ultimately delivers value to its target customer efficiently and effectively. The following critical success factors summarize some the important elements to consider when designing and implementing an inclusive business:

- 1. Understand the business model and business model maturity:** The degree to which an inclusive business will be successful depends heavily on their degree of readiness/maturity and the definition of the business

135 http://www.federaciondecafeteros.org/particulares/en/sala_de_prensa/detalle/steady_growth_in_procafecol_s.as_financial_indicators_during_the_first_quar/

136 https://www.federaciondecafeteros.org/algrano-fnc-es/index.php/comments/juan_valdez_supero_100_tiendas_en_el_exterior/

137 Growing Inclusive Markets. Juan Valdez Coffee Shops: Fair Trade as an Inclusive and Sustainable Business. Available from http://growinginclusivemarkets.org/media/cases/Colombia_JValdez_Summary.pdf

138 Consultative Group to Assist the Poor (2010). *Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance*, November 2010. Available from <https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Andhra-Pradesh-2010-Global-Implications-of-the-Crisis-in-Indian-Microfinance-Nov-2010.pdf>

model itself. Model design and diagnostics are often required to assure the business is ready to execute and attain success.

2. **Assure a minimum viable ecosystem:** Given the usual market failures in the inclusive business ecosystem, it is not unusual for these business models to face a number of dependencies, interdependencies and blind spots. Understanding who the critical stakeholders are and how they should be engaged is an essential precondition for inclusive business success.
3. **Access the right types of finance:** Given the risks normally associated with inclusive business design and implementation, traditional financing streams may not be available at different stages in the inclusive business lifecycle. Rather than “force” the wrong type of capital at the incorrect development stage, inclusive businesses should be savvy as to how to explore and exploit blended finance opportunities.
4. **Identify, leverage and monetize ‘hidden assets’:** While inclusive business is predicated on the notion that it should be a core business, there are numerous examples of companies developing an adjacent business that leverages their hidden assets (for example, leveraging access to consumer data to launch a different product or service, or leveraging a distribution network to advance a new product). Hidden assets are often uncovered as part of a social innovation process a company may elect to undertake.
5. **Assure appropriate customization and segmentation:** Understanding the localized needs of the BOP consumer segment allows for the development of sales, distribution and product-development strategies unique to this mass-market opportunity. This requires contemplation on not only critical elements like quality and affordability, but also how purchasing decisions are made and by whom, as well as how the models developed can be replicated.
6. **Mitigate logistics and infrastructure gaps:** In many underserved environments, logistics and infrastructure may be poor, if available at all. Inclusive businesses may require strategic logistics partnerships, ‘cooperative’ models, or distribution innovation in order to effectively and efficiently source or distribute the product or service from this segment. While a challenge, many inclusive businesses are able to find alternatives that are not cost prohibitive and still allow the product or service to remain competitive in the market.
7. **Collective access and individual ownership:** For example, poor people spend US\$37 billion on poor quality energy solutions to meet their lighting and cooking needs.¹³⁹ Community-owned ‘mini-utilities’ can offer energy solutions for both household and productive use at a lower cost (through ‘radical affordability’).
8. **Frugal innovation:** Related to ethnographic research, inclusive business often requires the development of ‘no frills’ goods and services with unique pricing structures and models to realize success.
9. **Begin with the end consumers:** Underserved populations interact with goods and services differently, demonstrating unique consumer behavior that does not fit into traditionally understood consumer preferences. As such, using ethnographic research allows companies to observe the end-consumer in context and make determinations about how a product or service should be designed, how the end consumer will interact with it and what critical success factors are to ensure viability and sustainability.
10. **Design for scale:** Given both the internal business pressure to demonstrate financial returns with this consumer segment and the importance of social impact, the business model and strategy should be designed with scale in mind from the outset. How will the model grow? How will it be replicated? What might be the barriers to scale and how should these be overcome? Answering these important questions will be critical to ensuring the long-term success of the inclusive business.

139 133 IFC, “From Gap to Opportunity: Business Models for Scaling Up Energy Access,” 2012.

Conclusion

This report was designed as a practical reference for business leaders as they seek to best position their companies for future success in the context of the SDGs. With considerations tailored to each company's level of experience with inclusive business, the content is broadly applicable across the private sector. It also offers implications for actors seeking to design a more inclusive global ecosystem. Governments and social sector organizations can use this content to support business leaders in developing inclusive businesses.

As a new era of purposeful business dawns, the strategies discussed here are not solely intended to foster inclusive business for advancing the SDGs, but to advise companies on a path forward that is socially and environmentally sustainable, and profitable. Finding these two paths is increasingly important for companies in today's rapidly-changing world, where the value of business is being actively redefined. "We the peoples" – the celebrated opening words of the UN charter – are demanding greater respect for human quality of life through their purchasing and employment decisions. Millennials are now the largest generation in the workforce and more than 90 percent of them believe that the success of a business should be measured in terms of more than just its financial performance.^{140, 141}

Many business leaders have already recognized and acted on this transformative redefinition of value: this report features many companies who are tackling the world's greatest challenges in a way that also makes financial sense. Commerce was originally founded on the principle of providing a product or service that meets a societal need – today those needs are being defined in terms of inclusive and sustainable development.¹⁴² Many businesses will need to redefine the value they provide or risk irrelevance.

We hope for a future in which the inclusive business maturity model becomes obsolete. In that world, all companies will become 'Champions' that do not designate parts of their operations as 'inclusive business', but rather integrate it into their identities and core strategies.

In the SDGs, the 193 UN Member States – governments representing more than 6 billion people – have articulated the world's priorities in accordance with millions of additional voices from the private sector and civil society. As is stated in the SDGs, "The future of humanity and of our planet lies in our hands... We have mapped the road." The question is: Can business leaders learn how to drive?

140 Pew Research (2015) "Millennials surpass Gen Xers as the largest generation in the U.S. labor force." Available from <http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>

141 Deloitte (2016). *The 2016 Deloitte Millennial Survey: Winning over the next generation of leaders*. Available from <http://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html>

142 Paul Polman, CEO Unilever

Appendix 1: The Sustainable Development Goals



This appendix provides additional information on the 2030 Sustainable Development Agenda and the 17 SDGs that it encompasses.

At the United Nations Sustainable Development Summit on 25 September 2015, world leaders adopted the 2030 Agenda for Sustainable Development, which includes a set of 17 SDGs to end poverty, fight inequality and injustice, and tackle climate change by 2030.

What are the Sustainable Development Goals (SDGs) and how are they different from MDGs?

The SDGs, also known as the Global Goals, build on the Millennium Development Goals (MDGs) – eight anti-poverty targets that the world committed to achieving by 2015. The MDGs aimed at an array of issues that included slashing poverty, hunger, disease, gender inequality and access to

water and sanitation. Enormous progress has been made on the MDGs, showing the value of a unifying agenda guiding global and national development priorities. Despite the aggregated success, progress within and across countries has been uneven.

The new SDGs go much further than the MDGs, connecting developmental, environmental and economic concerns under a transformative framework. The new development agenda was built in consultation with the private sector and, therefore, envisions a much broader engagement of business, alongside governments and other stakeholders, in achieving the SDGs. Finally, the SDGs are universal, encompassing both the developed and developing world. This brings the set of goals home to every global company that strives to maintain competitive advantage in a world of environmental challenges, new consumer trends and market volatilities.

Measuring Progress towards the SDGs

Measurement and reporting is a pivotal aspect of the 2030 Development Agenda. Monitoring the development goals at national and global levels, measuring progress, informing policy and ensuring accountability of all stakeholders contributing to the SDGs requires a robust framework of indicators and statistical data.

The set of 230 global indicators for measuring the 169 targets proposed by the Inter-Agency and Expert Group on SDG indicators (IAEG-SDGs) is a framework intended for follow-up and review of progress at the global level towards achieving the 17 SDGs. In March 2016, the framework was endorsed by the 47th Session of the United Nations Statistical Commission. Since July, the UN High-Level Political Forum on Sustainable Development has been overseeing national and thematic reviews of the implementation of the 2030 Agenda. The Forum's mandate is to provide political leadership, guidance, and recommendations on the Agenda's implementation and follow-up, with tasks including reviewing of the SDG implementation on the national level; keeping track of progress; spurring coherent policies informed by evidence, science, and country experiences; and addressing new and emerging issues.

For the private sector, this presents a formidable opportunity to align corporate reporting with the emergent UN SDG indicator framework. The timing is opportune as all stakeholders, including national governments, strive for a greater alignment and harmonization of measurement and reporting systems with the SDG targets.

UNDP Support to implementation of the 2030 Agenda for Sustainable Development

Having a large country network in more than 170 countries and territories; a principal coordination role within the UN Development System; the proven ability in supporting efforts to reduce poverty, inequality, and exclusion; and an integrated approach to supporting progress across the multiple goals, the United Nations Development Programme (UNDP) is uniquely placed to support countries in realizing 2030 Development Agenda.

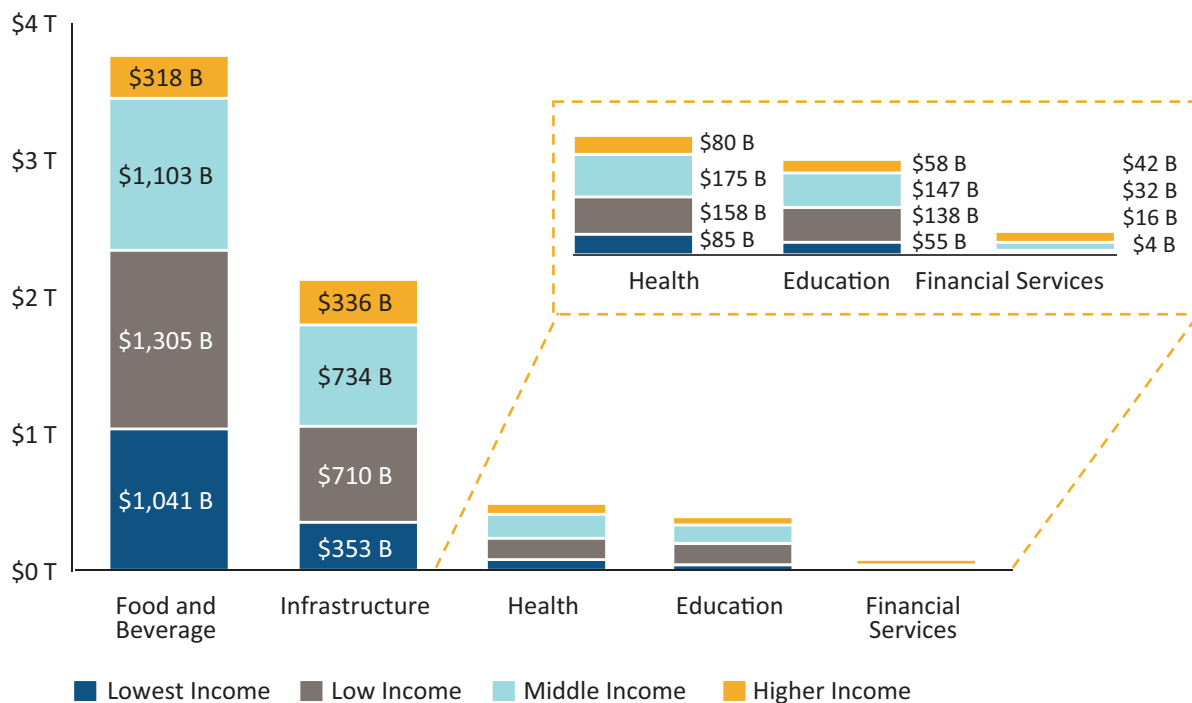
UNDP supports countries in three different ways, through the MAPS approach: mainstreaming, acceleration, and policy support.

- Providing support to governments to reflect the new global agenda in national development plans and policies. This work is already underway in many countries at national request;
- Supporting countries to accelerate progress on SDG targets. In this, we will make use of our extensive experience over the past five years with the MDG Acceleration Framework; and
- Making the UN's policy expertise on sustainable development and governance available to governments at all stages of implementation.

UNDP is deeply involved in all processes around the SDG roll out. Through our Rapid Integrated Assessment, we assist countries in mapping of SDGs goals and targets against national priorities, aligning national monitoring frameworks with the SDGs, and strengthening the use of data for analysis and implementation.

Appendix 2: World Bank’s Global Consumption Database

Figure A: Household Spending by Sector and Income Segment in Developing Countries

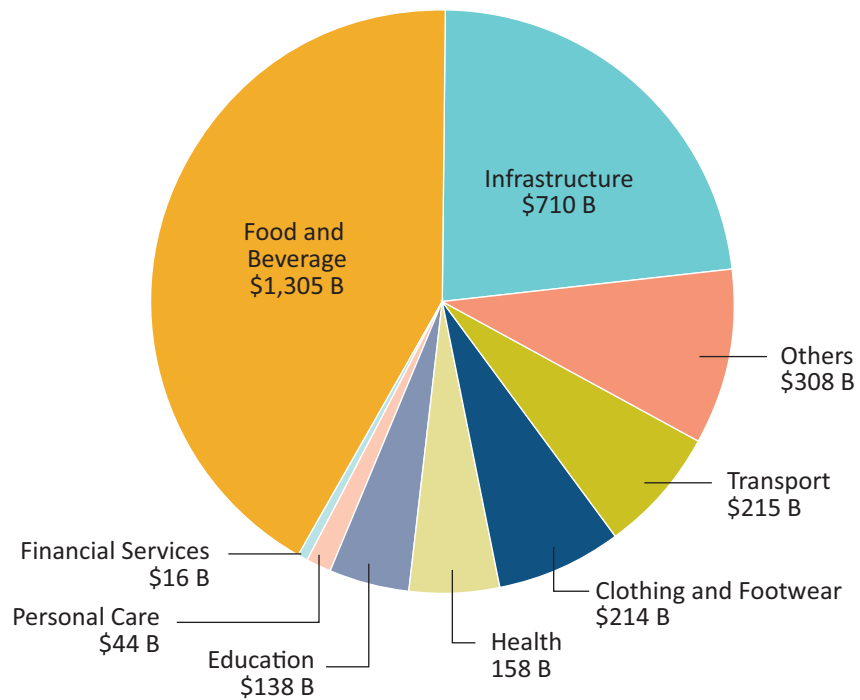


Analysis based on the World Bank’s Global Consumption Database, which aggregates consumer spending in 92 countries across four income segments: lowest income (below US\$2.97 per capita per day); low income (US\$2.97 – US\$8.44); middle income (US\$8.44 – US\$23.03); and higher income

(above US\$23.03).¹⁴³ Notably, consumers who live on less than US\$8.44 per capita per day (lowest and low segments) contribute a significant portion of the spending in each of these sectors.

143 The World Bank. Global Consumption Database: What the data tell us. Available from <http://datatopics.worldbank.org/consumption/market>

Figure B: Share of consumption by sector for low income segment in developing countries



Food and beverage, infrastructure, health, education, and financial services represent 75 percent of consumption for the low income segment – the target for many inclusive businesses.

Analysis based on the World Bank’s Global Consumption Database, with a focus on low-income consumers (US\$2.97 – US\$8.44 per capita per day). These individuals are willing to pay for products and services in these sectors. Infrastructure includes housing (US\$351 billion), energy (US\$184 billion), ICT (US\$152 billion) and water (US\$23 billion).

Appendix 3: Inclusive Business Briefs

This appendix elaborates on the examples profiled in Section 2: Opportunity Sectors.

Food and Beverage

Unilever: Unilever engages approximately 1.5 million smallholder farmers through its suppliers that act as **smallholder farmer aggregators**. Through its Enhancing Lives strategy, Unilever helps develop interventions for smallholder farmers to improve agricultural practices, business capabilities, and life skills. Unilever also promotes young agricultural entrepreneurs to make rural value chains more attractive for future generations. The company aims to continue expanding opportunities for small-scale retailers and young entrepreneurs in the distribution and retailing of its brands.¹⁴⁴

Infrastructure

CEMEX: CEMEX offers training, funding, and technical assistance to low-income families, enhancing their self-building capacities needed to construct their own homes. Part of this programme uses a **microcredit** model to enable the poor, who are typically unable to receive loans from formal banks, to access to small amounts of credit. While it normally takes families up to 15 years to build a home, this program helps its beneficiaries reduce this time to between three and six months, and saves them up to US\$460 – an amount that would take one year for the average beneficiary to save. The programme also expands CEMEX’s customer base; by 2016 they expect to reach 120,000 new customers, generating an additional US\$7 million in revenue.¹⁴⁵

Celtel: Celtel was founded in 1998 to bring mobile communications technology to sub-Saharan Africa. Celtel developed a **pay-per-use** model so BOP customers could purchase prepaid cards (or scratch cards) for just a few

dollars’ worth of the local currency to use cellular service¹⁴⁶. Celtel engaged local employees, with Africans making up about 98 percent of the company’s staff, many of whom own stock.¹⁴⁷ After growing to operate in thirteen African countries with licenses that covered more than a third of the continent’s population, Celtel was acquired for US\$3.4 billion. The company now operates as Airtel and still helps improve quality of life for millions of people.

Manila Water: Manila Water developed a **pay-per-use** model to deliver water and wastewater services to more than 6 million people in Manila.¹⁴⁸ Low-income households are willing to pay for safe, reliable water. Connecting these household to the water system enables access to new markets while also reducing costs from inefficiencies and illegal connections.¹⁴⁹ Through partnership with local governments and community-based organizations, the communities are included in the design and implementation of the water supply systems. Manila Water is a profitable, public company, benefitting millions of families.

Simpa Networks: Simpa Networks provides a basic, portable solar home system in an **off-grid utilities** model to BOP customers in India. The system includes a low-cost meter connected to a cloud based software that enables Simpa to track customer usage. Customers purchase the system with an initial down payment and then select how much energy credit to purchase. A portion of this payment covers the repayment cost of the system, while the rest goes to Simpa as profit and to cover operational costs. Once fully paid (typically within two to three years), the system unlocks permanently and continues to produce electricity for the customer for free. Simpa has installed over 15,000 solar home systems in India and is rapidly growing.¹⁴³

144 <https://www.unilever.com/sustainable-living/the-sustainable-living-plan/enhancing-livelihoods/inclusive-business/>

145 Business Call to Action. Case Study – CEMEX Patrimonio Hoy: Providing integral housing solutions for low-income families. Available from http://www.businesscalltoaction.org/wp-content/files_mf/bcta_casestudies_cemex_ph_final.pdf

146 Harvard Business Review (2012). *Celstel’s Founder on Building a Business on the World’s Poorest Continent*, October 2012. Available from <https://hbr.org/2012/10/celtels-founder-on-building-a-business-on-the-worlds-poorest-continent>

147 World Resources Institute (2007). *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*. Available from http://www.wri.org/sites/default/files/pdf/n4b_full_text_lowrez.pdf

148 Manila Water (2016). Manila Water: Care in Every Drop. Available from <http://www.manilawater.com/Pages/Home.aspx>

149 International Finance Corporation (2012). Manila Water Company: Manila Water’s Inclusive Business Model, August 2012. Available from <http://www.ifc.org/wps/wcm/connect/160ac4804d332fd589acddf81ee631cc/Manila+Water.pdf?MOD=AJPERES>

150 <http://www.adb.org/sites/default/files/publication/30383/affordable-solar-power-india-energy-poor-homes.pdf>

Healthcare

Philips Healthcare: Philips developed a micronutrient powder (MNP) for children aged 6 to 59 months that can be sprinkled onto any semi-solid food. Philips uses **distribution through dedicated direct sales force**, selling MNP through a trained sales force with the product packaged in single-dose packets at a lower cost to ensure affordability for the BOP. High distribution volume ensures economic viability. So far the initiative has reached approximately 22,550 children through the sale of nearly 40 million MNP packets, generating US\$323,645 in revenue for the company.¹⁵¹

ClickMedix: ClickMedix developed a **mobile-enabled non-financial services** model to effectively provide healthcare services to the BOP. Community-based health workers are trained and equipped with the ClickMedix application. They act as the hands and eyes of remote doctors, transmitting descriptions of symptoms, diagnostics devices, images, and video recordings of the patient through the ClickMedix platform. ClickMedix has exponential revenue growth and has reached over 700,000 underserved patients at the bottom of the economic pyramid.

Education

Pearson: Pearson is enabling innovation solutions in education through a significant investment in Sudiksha Knowledge Solutions, based in Hyderabad, India. Sudiksha is an example of **modified para-skilling**, where para-skilling is the idea of modularizing complex tasks into simple jobs to create employment opportunities, increase productivity, and keep costs to serve low. Sudiksha trains and educates local women as teachers, providing a package of timetables, guidance notes, study material, and expert support to simplify the teaching process.¹⁵² These local women are then empowered to open and run neighborhood branches of a low-cost preschool network. Ultimately, the women share the profits of these ventures.¹⁵³ The preschools are simple, with minimal resources to help reduce the cost of providing education. With over 500 million children in India below the poverty line, their students are primarily urban, poor children aged two to

six years.¹⁵⁴ Unable to afford traditional preschool education, these children would not be able to attend school if not for Sudiksha.¹⁵⁵ Sudiksha reports an impact of approximately 800 low-income families as a result of their preschool network.¹⁵⁶

Starbucks: Starbucks is leading the ‘100,000 Opportunities’ campaign with more than a dozen US-based companies to hire more opportunity employees as apprentices, interns, and part-and full-time employees. This **impact sourcing** model aims to engage at least 100,000 16 to 24 year olds across the coalition of businesses by 2018. The 100,000 Opportunities campaign targets the 5.6 million youth who are out of school and not working to fill the 3.5 million unfilled jobs in the United States that do not require a four-year degree. This programme creates mutual benefit for youths who face systemic barriers to jobs and education, as well as companies that need and depend on motivated workers.¹⁵⁷

Finance

Citi Mobile Collect: Citi uses a **mobile money** solution, enabling small businesses to transfer money via mobile devices. This service enables typically unbanked small grocery stores and other businesses to replace cash payments to their providers with mobile transactions. The payment solution was introduced in the Dominican Republic and is also available in India, China, and South Korea. Citi Mobile Collect was recognized as the Best Mobile Money Deployment in the Americas in The Mobile Money Global & Digital Payments Summit 2013.¹⁵⁸

Mahindra Rural Finance Ltd: Mahindra uses a **microcredit** and **micro-insurance** model to provide home loans to underserved rural and semi-urban consumers in India. Despite strong demand, a lack of financing typically prevents millions of rural Indians from building or bettering their homes. Mahindra designed a home loan product, coupled with life and property insurance. The company offers fixed interest rates and many repayment schedule options so BOP customers can tailor the schedule to their cash flows. Mahindra has provided over 250,000 home loans; created more than 3,000 jobs; and remained a profitable and growing business.¹⁵⁹

151 Business Call to Action. Case Study – Philips Healthcare Services: Providing micronutrients to children in Kenya. Available from http://www.businesscalltoaction.org/wp-content/files_mf/bctacastudyphslweb.pdf

152 Sudiksha. Sudiksha: Who We Are. Available from <http://www.sudiksha.in/Home.aspx>

153 Pearson (2015). Sustainable Development Goals & the World’s Largest Lesson, 2 September 2015. Available from <http://blog.pearson.com/sustainable-development-goals-the-worlds-largest-lesson/>

154 Sudiksha. Sudiksha: Who We Are. Available from <http://www.sudiksha.in/Home.aspx>

155 Pearson Affordable Learning Fund (2016). Sudiksha. Available from <https://www.affordable-learning.com/portfolio/sudiksha.html>

156 Pearson (2014). Low-cost pre-school chain taps into women entrepreneurs to provide quality education to underprivileged in India, 26 June 2014. Available from <https://www.pearson.com/news/announcements/2014/june/low-cost-pre-schoolchaintapsintowomenentrepreneurstoprovidequali.html>

157 <https://news.starbucks.com/news/top-us-based-companies-launch-100k-opportunities-initiative>

158 Citi Group (2016). “Citi Mobile Collect” Recognized as Best Mobile Money Deployment in the Americas in The Mobile Money Global & Digital Payments Summit 2013. Available from <http://www.citigroup.com/citi/news/2013/131119a.htm>

159 Business Call to Action. Case Study – Mahindra Rural Housing Finance Ltd: Making Home Loans Available to Poor People. Available from http://www.businesscalltoaction.org/wp-content/files_mf/bcta_casestudy_mahindra_web.pdf

Appendix 4: Contributions to the SDGs by Engagement Type

In inclusive business, a company may choose to engage the BOP at different points across its value chain, depending on where it makes the most sense given the external environment and internal capabilities. This appendix describes which SDGs are most likely influenced by type of engagement with the BOP (most commonly as producers or suppliers, distributors, or customers).

Producers and/or Suppliers



- Empower individuals to lift themselves out of poverty by engaging them as suppliers, providing an increased or more stable (e.g., promised) source of income



- Increase agricultural productivity of small-scale food producers by providing access to resources and training
- Instruct suppliers to produce goods more effectively and/or preserve goods longer



- Ensure suppliers have the technical and vocational skills necessary
- Instruct suppliers on sustainable production practices, providing the knowledge and skills needed to promote sustainable development
- Reduce time and effort required to produce goods, freeing up time for children to learn



- Engage women (e.g., artisans) as suppliers, enabling them to support themselves and become financially independent



- Teach producers sustainable practices to minimize the release of hazardous chemicals into the water supply and increase water-use efficiency



- Stimulate per capita economic growth in the region(s) by stimulating full and productive work for the local, engaged suppliers
- Promote safe and secure working environment for suppliers, given international spotlight on fair working conditions particularly for large companies
- Provide access to financial services (e.g., credit), enabling suppliers to grow their businesses



- Promote inclusive and sustainable industrialization by engaging suppliers in the value chain and partnering with governments to build required infrastructure



- Enable suppliers to increase their incomes, contributing to income growth in bottom 40% of the population at a rate higher than national average
- Support the “economic inclusion of all” by engaging BOP suppliers in the value chain that might not otherwise be engaged in the formal economic sector



- Train producers in the sustainable and efficient use of natural resources, enabling businesses to certify products and command a higher price
- Facilitate reduced food losses along production and supply chains



- Help suppliers plan for climate-related hazards and natural disasters
- Reduce the climate change impact of suppliers by training them in sustainable production practices



- Contribute to the sustainable use of terrestrial ecosystems by training suppliers to sustainably use their land

Distributors



- Empower individuals to lift themselves out of poverty by engaging distributors as employees or third party vendors, providing them with an increased or more stable source of income



- Train distributors on healthcare and nutrition, improving their own well-being and also enabling them to better provide the product or service; fast-moving consumer goods such as sanitation products are simple to distribute and require some frequency



- Instruct distributors, providing them the technical and vocational skills for employment, decent jobs and the possibility for entrepreneurship
- Train BOP as educators through paraskilling, enabling them to increase quality education opportunities available for their communities
- Contribute to families' increased income, better enabling them to send their children to school



- Engage women as distributors of goods (e.g., sanitation products) or services (e.g., education) enabling them to support themselves and become financially independent



- Stimulate per capita economic growth in the region(s) by engaging local distributors
- Support higher levels of economic productivity as well as full productive work for the engaged distributors



- Promote inclusive and sustainable industrialization by engaging distributors in the value chain and partnering with governments to build the required infrastructure
- Design innovative distribution methods given challenges associated particularly with rural distribution



- Enable distributors to increase their incomes, contributing to income growth in the bottom 40% of the population at a rate higher than the national average
- Support the “economic inclusion of all” by engaging BOP distributors in the value chain



- More sustainably and efficiently distribute products, preserving natural resources
- Reduce spoilage along the supply chain by employing local distributors who can better manage supply



- Help distributors plan for climate-related hazards and natural disasters
- Reduce the climate change impact of distributors by keeping the distribution networks local

Customers

Note: A company's specific contribution may vary depending on what product or service the company offers. The list below is a sample of possible contributions.

 <p>1 NO POVERTY</p>	<ul style="list-style-type: none"> • Provide customers with access to basic goods and services, appropriate technology or financial services
 <p>2 ZERO HUNGER</p>	<ul style="list-style-type: none"> • Offer food or nutritional supplements, promoting access to safe, nutritious and sufficient food all year round and contributing to the end of malnutrition
 <p>3 GOOD HEALTH AND WELL-BEING</p>	<ul style="list-style-type: none"> • Supply healthcare products or services – from vaccines to basic sanitation products — that reduce global maternal mortality, end preventable deaths, and combat disease • Improve quality of life through access to services (e.g., healthcare professionals) and goods (e.g., sanitation products)
 <p>4 QUALITY EDUCATION</p>	<ul style="list-style-type: none"> • Provide educational materials or platforms for children or adults, particularly through modularized learning programs and services
 <p>5 GENDER EQUALITY</p>	<ul style="list-style-type: none"> • Engage women as customers, offering products or services that improve their wellbeing or quality of life • Empower women through microfinance
 <p>6 CLEAN WATER AND SANITATION</p>	<ul style="list-style-type: none"> • Facilitate adequate and equitable sanitation and hygiene for all through a product or service offering
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<ul style="list-style-type: none"> • Expand affordable, reliable and modern energy services (e.g., electric grid) to reach BOP customers • Provide innovative products (e.g., clean cook stoves) for BOP customers that enable them to access affordable and clean energy • Provide products or services that increase the share of renewable energy in the global energy mix
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<ul style="list-style-type: none"> • Promote productive activities, job creation, and entrepreneurship by offering products and services to BOP customers, including access to financial services
 <p>10 REDUCED INEQUALITIES</p>	<ul style="list-style-type: none"> • Provide products (e.g., solar lamp) and services (e.g., telecom) that contribute to income growth of the bottom 40 percent of the population • Support the “economic inclusion of all” by engaging BOP customers in the value chain
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<ul style="list-style-type: none"> • Enable BOP customers to access adequate, safe and affordable housing and basic services

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