Primer on the Role of Government in Inclusive Business

How the Public Sector can collaborate with the Private Sector to achieve sustainable development objectives

All African governments have voiced their commitment to implementing the continental African Union Agenda 2063, as well as the global Sustainable Development Goals (SDGs). To achieve these two mutually-reinforcing commitments, governments increasingly partner with and leverage the contributions of the private sector. For Africa, promoting inclusive economic growth, rapid social and environmentally sustainable development will require innovative and transformative business models.

1. Inclusive businesses improve the lives of millions of people in Africa

Inclusive businesses include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive businesses go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment.[1] Drawing on a market-based approach, hundreds of inclusive businesses across Africa already create opportunities for low-income people. Because inclusive businesses are financed primarily through revenues, they can be sustainable and scalable.

Inclusive businesses can directly contribute to achieving the SDGs. Many inclusive businesses provide goods and services to low-income people as customers and clients. Improved access to education, health care, clean water and energy, as well as communication and financial services improves customers' well-being and productivity. Other inclusive businesses create jobs and income by working with low-income people as producers, suppliers, employees and entrepreneurs. Table 1 provides examples of how inclusive businesses can contribute to achieving the SDGs. Enabling and pro-actively supporting disadvantaged women and young entrepreneurs to run successful profitable ventures is also a key thread of inclusive business. These examples illustrate the wealth of innovation that enables inclusive businesses to create value where other firms' "business as usual" approach has been less successful.

1 UNDP (2008) Creating Value for All

Table 1: Examples for how inclusive businesses contribute to the SDGs

3 GOOD HEALTH AND WELL-BEING	Tunza is a health franchise network that improves the quality of health care services across Kenya. Its 316 clinics and maternity homes and 300 community outreach workers handle some 5,000 visits each day.
4 QUALITY EDUCATION	Omega Schools in Ghana provide primary and secondary education to over 20,000 students in 38 schools across the country. For an affordable price of about US$113 per year, children receive a hot meal per day, two uniforms, a school bag and workbooks in addition to classroom teaching. Learning outcomes are significantly better than in schools in similar contexts.
7 AFFORDABLE AND CLEAN ENERGY	Mobisol has installed more than 16,900 solar home systems in Tanzania and Rwanda since 2010 at an average rate of 3,000 per month. Systems are made affordable through a mobile-based pay-as-you-go system. Families benefit from clean air and an improved quality of lighting while an estimated 8,300 tons of CO_2 have been averted.
8 DECENT WORK AND ECONOMIC GROWTH	Tiviski is a dairy company in Mauritania. It collects camel, cow and goat milk from hundreds of pastoralists around Nouakchott. The company creates a reliable source of income for these herders, and supports them through veterinary services and advice.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	M-PESA is Safaricom's mobile money service in Kenya. Mobile users can, for a small fee, receive, transfer, and cash out money throughout the country. Even in slums and rural villages, where people have previously depended entirely on cash, users can now safely and easily save, pay bills, and send and receive remittances. Twenty million users are registered for the service in Kenya. M-PESA has spread to other countries, and has led the way for more mobile money services around the globe.

2. Inclusive businesses struggle with challenging conditions

Doing business in Africa often remains challenging, but market-enabling environments are improving in many places, thanks to public reforms and investment. Like others, inclusive businesses may struggle with red tape and high interest rates for lending. In addition, they face specific challenges not encountered by "traditional" businesses. Inclusive businesses require a conducive ecosystem, including positive incentives, relevant information, adequate investment and practical implementation support (see Figure 1).

Because inclusive businesses operate in informal settlements and rural villages, they struggle with the difficult conditions in these markets. Low-income people rely mainly on informal rules and norms, making it complicated for businesses to close and enforce contracts. They usually conduct all business in cash, have low and irregular incomes, and have little access to credit, which makes larger expenses hard to finance and transfers expensive. People in these contexts are often illiterate or have not benefited from extended education and training, which complicates both marketing and employment efforts. Villages in particular can be hard to reach, with poor roads that may be closed during certain times of the year. Little information is available about the needs, preferences, incomes and spending patterns of those people living at the "base of the economic pyramid" (BoP).[2] Overall, the dense network of service providers – from market research to logistics and advertisement – that makes business buzz in high-end markets, is largely absent at the lower end of markets.

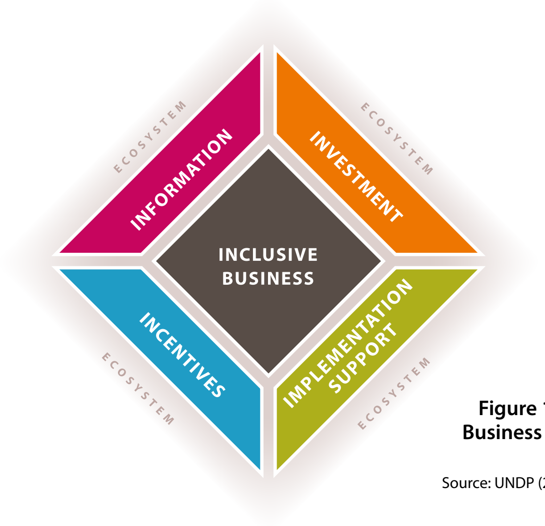


Figure 1: Inclusive Business Ecosystem Diamond

Source: UNDP (2013) Realizing Africa's Wealth

In addition, inclusive businesses often operate with a hybrid model. In other words, they are guided by a mission and are willing to sacrifice some financial profits for greater impact. As a result, they do not fit squarely into the established legal parameters of a company or NGO. They often fall through the cracks between grant and commercial funding, and do not match collaboration forms established between government and the for-profit and not-for-profit sectors.

Due to these constraints, many inclusive businesses remain small and below their potential. Even though they have established a sustainable business solution, inclusive businesses face high barriers to scaling up and replication that are generated by the overall business environment, the special conditions found in BoP markets and the nature of hybrid organisations. These barriers cannot be addressed by companies alone, since they are too pervasive and require significant effort on the part of all stakeholders, including the political institutions that determine how market processes work.

2 The BoP is the largest, but poorest socio-economic group of the population

3. Governments can enable inclusive businesses to scale

Governments have a mandate to support inclusive business. Creating a conducive business environment is a public good and therefore falls within the mandate of government. Governments also have the mandate to ensure a decent quality of life for all citizens. Leveraging the private sector in these efforts can help close the service delivery gap more quickly and efficiently. Government bodies at all levels, including Regional Economic Communities and Development Finance Institution (DFIs), have a role to play in scaling up inclusive business solutions.

Box 1: The role of DFIs

Through their lending and investment operations, DFIs can ease the funding gaps that inclusive businesses often encounter. For example, since 2007, the Inter-American Development Bank (IDB) in Latin America has invested US$250 million and provided technical assistance to over 45 projects, which have leveraged an additional US$1 billion in funding and contributed to creating 41,000 new jobs, increasing income for 300,000 poor and vulnerable families and extending credit to more than 220,000 micro entrepreneurs. In addition, the Asian Development Bank's (ADB) Private Sector Department has invested a total of US$360 million in 14 inclusive businesses since 2013. In Africa, there are discussions of developing a DFI-led inclusive business impact investment vehicle, which would integrate technical assistance and field facilitation work.

Governments can directly facilitate mutually beneficial business between companies and low-income people.[3] They can act on each of the Inclusive Business Ecosystem Diamond's four aspects: incentives, investment, information and implementation support (see examples in Table 2)

Good examples of how governments support inclusive businesses already exist across Africa.

- In Tanzania, supportive renewable energy policies such as simplified licencing processes, no import duties on solar panels and tax incentives have enabled the growth of off-grid renewable energy solutions.
- In Kenya, the Reproductive Health Output-Based Aid Voucher Program allowed consumers to purchase vouchers at a low cost. Providers could then use the voucher to receive reimbursement for the cost of treatment.
- In Kenya, municipalities enter into long-term contracts with the NGO Ecotact to build sanitation facilities on public land. Ecotact covers the cost of constructing the facilities on municipal land, runs them on a commercial basis for five years to recover the investment, and then turns the facilities over to the municipal council to run or leases them back to a private-sector partner.
- Central banks and ministries collaborate with FinScope in a dozen African countries to conduct national household surveys that measure the state of financial inclusion.
- The case of mobile finance as illustrated in Box 2 shows how supportive regulation can enable the quick scale-up of inclusive business solutions.

Table 2: Examples of government support to inclusive business

Incentives	Investment	Information	Implementation support
• Review existing regulations that limit BoP participation in market activities. • Embed pro-poor targets into government contracts. • Introduce appropriate regulations for inclusive business companies. • Establish or support accreditation or certification systems that clearly identify inclusive businesses.	• Increase affordability of products and services via targeted credit facilities, subsidies and insurance schemes. • Improve access to finance for inclusive businesses. • Support impact investment vehicles for inclusive business. • Invest in inclusive infrastructure projects.	• Compile and share BoP market data. • Provide information to the BoP. • Raise awareness on inclusive business.	• Align vocational training for the BoP with private-sector needs. • Implement inclusive projects in partnership with the private sector. • Support business services for inclusive businesses.

3 G20 (2015) G20 Inclusive Business Framework

Box 2: Enabling financial inclusion through supportive policy

Financial inclusion remains a major challenge across the African continent. In Kenya, only 26.4% of the adult population had access to financial services in 2006. By 2013, this share of the population increased to exceed 65%.[4] This has been made possible in part due to the evolution of mobile money, which has enabled anyone with a mobile phone to perform basic financial transactions.

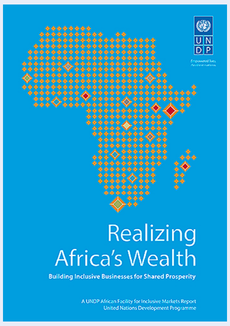
In 2007, Safaricom started offering its mobile money service M-PESA in Kenya. The Central Bank of Kenya (CBK) authorised the service. Subsequently, several other mobile operators were allowed to offer mobile money services. In 2014, the CBK issued the National Payment System (NPS) Regulations, which codified many of the regulatory practices that had evolved since the introduction of mobile money. CBK adopted an entrepreneurial regulatory approach, avoiding burdensome requirements for non-bank players to participate in the market. It thus spurred innovation and financial inclusion while also maintaining the stability and robustness of the financial sector.

4. Multi-stakeholder collaboration is the way forward

Government is a key market enabler and facilitator. It can convene all relevant actors to identify solutions jointly and take the lead in implementing these solutions. Other actors can also contribute to filling gaps in the ecosystem. Investors, including impact investors,[5] can offer financing that works for inclusive businesses, NGOs can help with technical support, research institutions can provide useful data and analysis, and companies themselves can take steps to build the market. Dialogue and collaboration are therefore the most promising way forward in enhancing ecosystems for inclusive business across Africa.

Box 3: UNDP Private Sector AFIM Unit in Africa

UNDP's Private Sector AFIM Unit, which is within the Inclusive Growth & Sustainable Development Cluster at the UNDP Regional Service Centre for Africa, provides a range of support services to governments. In 2010, the UNDP developed a handbook for governments on how to develop inclusive markets.



Subsequently, the UNDP produced the flagship report "Realizing Africa's Wealth" to introduce the concept of inclusive business ecosystems and assist with its strengthening through field interventions. It also implements Inclusive Business Ecosystem Platforms on specific issues. Through these platforms, key actors are involved in the creation of roadmaps to scale up inclusive business solutions that are based on in-depth diagnostics. Inclusive Market Ecosystems Platforms are currently being implemented for mobile money and financial inclusion in Lesotho, tourism in Uganda and solar energy in Senegal. Do you want to learn more about how to build inclusive business ecosystems? Get in touch with Tomas Sales (tomas.sales@undp.org), Special Advisor with the UNDP Private Sector AFIM Unit.

We are at the initial stages of developing government action in promoting inclusive business. Governments around the world are experimenting with new solutions. Yet, we don't have conclusive evidence about what works. Learning from each other can help to find effective interventions quicker, and improve upon experiences faster.

Box 4: The African Inclusive Markets Excellence Centre

The African Inclusive Markets Excellence Centre (AIMEC) is a new initiative of the African Union. It aspires to be a continental think and do tank which collects and shares best practices of programs and policies, acts as a collaborative platform and facilitates catalytic action in the area of inclusive business and markets in Africa. A feasibility study and other preparatory interventions for the establishment of this UNDP-supported initiative is being conducted in 2016.

4 Groupe Speciale Mobile Association. 2015. Enabling Mobile Money Policies in Kenya. London: Groupe Speciale Mobile Association. http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/02/2015_MMU_Enabling-Mobile-Money-Policies-in-Kenya.pdf

5 Impact investors invest into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. The term captures a diversity of players, including private investors, institutional investors, commercial funds, DFIs, MFIs, foundations and even NGOs. Estimates suggest that more than US$3 billion were disbursed annually in West Africa in 2011, and more than US$ 9 billion had been disbursed in Kenya by 2015. Levels of impact investment are increasing across the continent.