

BUSINESS FOR DEVELOPMENT SUBMISSION TO THE WHITE PAPER ON AUSTRALIA'S FOREIGN POLICY

Business for Development (B4D)

B4D is an Australian based NGO that connects poor communities to global markets to deliver sustainable and measurable improvements in incomes and livelihoods through private sector partnerships. B4D was established in 2007 as an alliance between World Vision Australia and a group of leading Australian companies and became an independent Australian registered charity in 2008. We:

- Advocate for the development of **Inclusive Business**; profitable businesses which generate avenues from poverty;
- Design, develop and execute **Inclusive Businesses** with our clients, with a focus on the Asia Pacific and African regions.

Inclusive Business

B4D recommend that the inquiry consider the role that **Inclusive Business** can play within Australia's foreign policy, specifically within Australia's aid program in:

- Leveraging the private sector in creating economic growth and reducing poverty, and
- Maximising the program's return on Australia's development assistance investment.

The World Business Council for Sustainable Development (WBCSD) defines **Inclusive Business** as:

*An **Inclusive Business** is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words **Inclusive Business** is all about including the poor in the business process be it as producers, entrepreneurs or consumers¹*

Fundamental to this concept is the belief that commercial drivers, including expanding markets for products and services and maximising profit, can be aligned with development outcomes, including creating opportunities for the poor and disadvantaged. Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, **Inclusive Business** addresses development challenges through core business activities.

¹ <http://www.inclusivebusiness.org>, WBCSD, 2014.

Inclusive Business initiatives are different to full commercial business activities due to its key focus on poverty alleviation and achieving development outcomes. The Asian Development Bank (ADB), for example, describes **Inclusive Business** as “private sector investments specifically targeting a low-income market (less than US\$3 per day) with the dual purpose of making reasonable profit (an internal rate of return of 8-20%) and creating tangible development impact”.

Rather than seeing the poor as bystanders or even victims of the market, **Inclusive Business** models aim to include poor people in value chains as producers, employees, consumers, distributors and innovators.

*Together we can help galvanise the private sector and encourage a broader set of actors to engage in **Inclusive Business** activities...There's no better way to reduce poverty than **Inclusive Business** growth that creates jobs”*

Alistair Fernie, Head of Private Sector Department, DFID

The **Inclusive Business** approach has been taken up worldwide, and has already created an avenue from poverty for millions of families. The UN's Business Call to Action keeps a public record of many of these businesses².

Why **Inclusive Business**?

Australia's aid program utilises a range of approaches to deliver on its objectives to promote economic growth and reduce poverty. These approaches include training public servants, health awareness campaigns and scholarships. It is our contention that the aid program should add catalysing **Inclusive Business** to this range of approaches. We offer six arguments in support of this contention:

1. Families exit poverty when a family member gets a job

Poverty has a range of facets from health to education and nutrition. However, at its core poverty is linked inexplicably to inadequate incomes. It is our contention that only the private sector can provide the jobs and supply contracts (at scale) to lift incomes to a sustainable level.

The rise of India and China in just one decade provides clear evidence of what is possible when the private sector engages with low income families at scale and delivers poverty alleviation outcomes.

“That economic growth is the primary driver of poverty reduction is well evidenced. On average, four fifths of poverty reduction in recent decades can be attributed to growth in average incomes.”

“By catalysing more private investment and deepening private sector links into communities we can multiply the reach of the private sector and increase the opportunities for poor people.”

The private sector and prosperity for poor people (DFID 2011)

2. The poor, when asked, want jobs

In its comprehensive study ‘Voices of the Poor’, which included interviews with some 60,000 of the World's

² See <http://www.businesscalltoaction.org/>

poor, the World Bank concluded that jobs were a key priority for poor people themselves³.

3. ***Inclusive Business*** is being adopted by leading agencies

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Sustainable Development Goals (SDG), unless businesses play a greater role as partners in development.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

Inclusive Business models have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society – to contribute directly to achieving development outcomes.

The US, UK, Swedish and German aid programs together with the IFC and ADB have adopted ***Inclusive Business*** strategies, providing evidence based models and learning for the Australian aid program. DFID and USAID have both established dedicated private sector divisions focused on facilitating the creation of ***Inclusive Business***.

The below table provides snapshot of financial contributions and numbers of ***Inclusive Businesses*** supported by key donor agencies that have specific ***Inclusive Business*** programs. The programs outlined below give an indication as to some of the lead investments being made in ***Inclusive Business*** around the world.

Organisation	Program	Period	Financial contribution (US\$)	Number of IBs supported
IFC ⁴	IFC <i>Inclusive Business</i> Models Group	Since 2005	> \$7 billion	> supported 300 clients in 80 countries through investment
ADB ⁵	Promoting Inclusive Growth through Business Development at the Base of the Pyramid	2010 - 2013	\$700,000	n/a focused on market studies, investment forums, country policy notes and development of IB Funds
ADB, Government of Sweden, Credit Suisse	<i>Inclusive Business</i> Support	2014 – 2017	\$3.6 million	- Increase by 50% of <i>Inclusive Business</i> projects in selected countries, of which at least 15 are from ADB

³<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20622514~menuPK:336998~pagePK:148956~piPK:216618~theSitePK:336992,00.html>, Voices of the Poor, 2011

⁴ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013.

⁵<http://www.adb.org/projects/41258-012/main>, ADB, 2013

				<ul style="list-style-type: none"> - Tailored advice and technical support provided to at least 20 companies - Inclusive Business impact assessments conducted for at least eight companies - 50 companies benefiting from IB training - Sector Workshops
UNDP ⁶	Facilitating & Brokering Private Sector Partnerships	Since 2004-2010	n/a	creation of 23 business linkages, brokered 75 IB partnerships
SIDA ⁷	Innovations Against Poverty	Since 2011	€5,420,265	66 organisations received grant funding
DFID ⁸	Business Innovation Facility	2010 – 2013	n/a	> 300 IB's supported across five countries through technical assistance

4. Business is increasingly ready to partner

The calls of leading business leaders such as Prahalad and Porter are being heard by business. Executives from a range of companies are seeing the role that trading with the world's poor can play in helping them realise their growth aspirations. Three prominent examples are:

- **Nestlé's creating shared value program** under which the company sold 167 billion fortified products in 2013 and trained 300,000 farmers⁹.
- **Vodafone's mobile money programs**, which are offering basic financial services to millions of previously unbanked families in Kenya, Fiji and India¹⁰.
- **Syngenta's Good Growth Plan**, which will see the company train some 20m farmers globally¹¹.

"Employing one person changes the lives of 15 to 20 others."

Terry Davis, Group Managing Director, Coca-Cola Amatil

These leading companies have already moved beyond the limits of CSR and have built profitable **Inclusive Businesses** that provide poverty alleviation at scale. They, together with hundreds of other companies worldwide are positioned to partner with DFAT to establish an **Inclusive**

Business.

⁶ <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>, UNDP, 2013.

⁷ <http://www.sida.se/English/Partners/Private-sector/Frequently-asked-questions/>, SIDA, 2013.

⁸ <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>, BIF, 2013.

⁹ <http://www.nestle.com/csv>

¹⁰ http://www.vodafone.com/content/index/about/about-us/money_transfer.html

¹¹ <http://www.syngenta.com/country/au/en/news/releases/Pages/Syngenta-launches-The-Good-Growth-Plan.aspx>, 2014

In 2012 our research showed that ninety-three percent Australian executives believed that business can play an important role in alleviating poverty¹².

5. ***Inclusive Business*** provides leverage and scale

The challenge of poverty is extensive. In Indonesia alone 32 million people live in poverty, earning less than \$264 a year¹³. Doubling their income requires a total of \$8.5bn of new wealth, some 16 times the value of Australian aid to the country. To see this challenge met requires the Australian aid program to act as a catalyst for others to co-invest. B4D believes that the missing actor is business, and that ***Inclusive Business*** is a key framework under which businesses can work with the aid program to see this challenge met.

6. ***Inclusive Business*** maximises Australia's return on investment from aid

Australian businesses must consolidate their foothold in emerging Asian markets. Many of these companies recognise the business opportunity that exists in these markets at the Base of the Economic Pyramid (BoP). BoP refers to the world's poorest socio-economic group; the 4 billion people who live on less than US\$2.50 per day. BOP has emerged as focus of business strategy researchers and practitioners¹⁴, who believe that tremendous benefits exist for companies that choose to serve BOP markets and are responsive to their development needs. It is our view that ***Inclusive Business*** can meet part of the need for Australian companies to engage in the BoP markets. By catalysing ***Inclusive Business*** (with Australian corporate partners), DFAT can therefore provide a return on investment to Australia.

"One of the better ways to poverty alleviation is by creating jobs, improving education and leaving a lasting impression. It is much more powerful than corporate social responsibility alone."

Phil Craig, Executive General
Manager - Corporate Affairs, Origin

How can DFAT catalyse ***Inclusive Business***?

It is important to note that as a government agency it is not DFAT's role to initiate ***Inclusive Business***. Rather, the department can act as an influencer; inspiring, resourcing and motivating business to act. This approach is already modelled through Austrade, which acts as a catalyst for Australian businesses¹⁵.

We acknowledge the DFAT Business Partnerships Program as providing support to ***Inclusive Business***. This program acknowledges and leverages the private sectors role in development.

¹²Business in Development Study, B4D & Accenture Development Partnerships, 2014

¹³<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/0,,contentMDK:23191612~pagePK:146736~piPK:146830~theSitePK:226301,00.html>, World Bank, 2014

¹⁴ Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

¹⁵ See Austrade Export Assistance: <http://www.austrade.gov.au/Assistance>

We propose that DFAT extend approaches to catalyse ***Inclusive Business*** to include:

Supporting *Inclusive Business* events and conferences to inspire corporate Australia

Events and conferences provide an important opportunity for company executives to hear first-hand accounts of the opportunities and challenges of ***Inclusive Business*** from leading companies and thought leaders. These events have proven successful in inspiring companies to further explore ***Inclusive Business*** opportunities relevant to their business and progress to the early development of an ***Inclusive Business*** concept.

Exploratory and validation missions to inspire companies to act

Exploratory and validation missions have proven a key source of inspiration for companies considering launching an ***Inclusive Business***. Missions allow companies to see business conditions and development challenges first-hand, and have proven critical in building awareness of the challenges and opportunities BoP markets.

"Engaging the private sector is not about how we feel about business; it's about how high our aspirations are for poor people. If we rely only upon foreign aid, then our aspirations are far too low"

World Bank President - Jim Kim

Build the capabilities of *Inclusive Business* brokers to guide and educate companies

At this early stage in the evolution of the ***Inclusive Business*** concept, many companies lack the experience necessary to identify opportunities in the market and overcome the challenges of operating in bottom of the pyramid markets. Globally ***Inclusive Business*** brokers have been shown to play a critical role in guiding and educating companies through the early phases of IB development.

Support *Inclusive Business* alliances

Inclusive Business alliances could represent collaboration between governments, business, NGOs and multilateral organisations focused on the scale up of ***Inclusive Business***. Specifically, the alliance could act as a catalyst to accelerate ***Inclusive Business*** activity in the region by creating synergies between key stakeholders, with a view to delivering long-term and sustainable alleviation of poverty.

In 2014 B4D submitted our ***Inclusive Business*** Landscape Report to DFAT (attached as part of this submission). The report identifies six strategies that DFAT could use to play a role in catalysing ***Inclusive Businesses***, including the three listed above. The report also details the strategies used by other leading aid agencies globally, and considers the drivers and decision making processes companies' use when creating an ***Inclusive Business***.

What Policies should guide this engagement?

As the taskforce considers the future of Australia's Foreign Policy, B4D recommends four key policies to guide DFAT's future engagement in this area. These policies reflect learnings from our 2012 Business in Development Study, which included interviews and surveys of over 90 Australian corporate leaders, including CEOs of ASX companies. The report concluded that in engaging with business the Australian Government through DFAT should:

Be strategic - Different industries and indeed companies have a varying propensity to undertake business activities that alleviate poverty. The department should "Push on open doors" and target those sectors, activities and geographies that align with DFAT's priorities".

Be action oriented: Support networks and partnerships with organisations to build momentum.

Target established businesses: Focus on robust businesses that have an established track record of delivery.

Make priorities transparent: Ensure businesses understand DFAT activities and priorities in their countries of operation.

B4D commend the following reports to the committee to further the understanding of the key role **Inclusive Business** can play in poverty alleviation and economic growth:

- 2014 **Inclusive Business** Landscape Study, B4D (attached)
- 2012 Business In Development Study, B4D & Accenture Development Partnerships (attached)

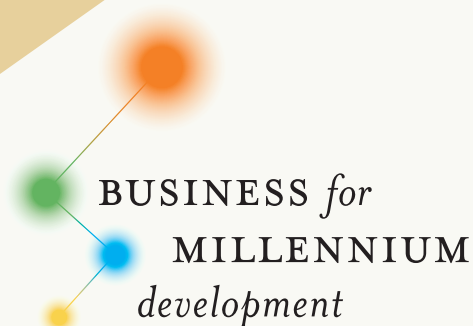
Further enquiries:

David Faulmann
GM Thought Leadership
Business for Development
T: +61 3 9008 9030
M: +61 423597927
E: david.faulmann@businessfordevelopment.org

Business for Development
10/134-136 Cambridge St, Collingwood VIC 3066 Australia
T +61 3 9008 9030
E contactus@businessfordevelopment.org
www.businessfordevelopment.org

Landscape Study

Building Inclusive Business



INCLUSIVE BUSINESS

Prepared for:



Australian Government

Department of Foreign Affairs and Trade

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EXECUTIVE SUMMARY

INTRODUCTION

The emerging research and practitioner agenda for Inclusive Business (IB) initiatives holds great promise for market-based solutions to poverty and sustainable development.

Yet the process through which IBs are initially conceived and formed is not well documented. Understanding these processes is critical if DFAT and other donors are to play a meaningful role in supporting and fostering IB opportunities, as a means to achieving development outcomes.

To address this gap in the existing research and practice, Business for Millennium Development (B4MD) proposed to undertake a landscape study of IB. The report aims to provide an evidence base to assist DFAT as to whether and how to invest in supporting the development of IB. The report describing the key steps undertaken in the creation of an IB and in so doing identifies specific roles that donors can fulfil in line with these key steps.

Drawing on B4MD's practical experience as an IB broker, together with best practice cases studies, this report maps the crucial decision making points for companies considering the creation of IB initiatives and identifies the areas where donors can engage to positively contribute to this decision making process, and thus catalyse the creation of new IB's. In this regard the report places an emphasis on both why and how donors can assist in the formation of IB's and related activities.

The report also aims to provide a foundation to assist donors in developing guidelines for working with business to promote and initiate IB. In this regard, the report concludes with a series of specific recommendations to be considered by DFAT.

REPORT STRUCTURE

The report is divided into seven chapters.

Chapter 1 provides an overview of IB, including key definitions and related concepts, and the role of different actors and how they have influenced the evolution of IB. **Chapter 2** considers the potential of IB as an effective approach to achieving development outcomes, including how the effectiveness of IB projects is typically measured, and the motivations for companies considering launching an IB.

Chapters 3-6 discuss the IB decision roadmap, including key activities, lessons learned and challenges to acceleration at each phase. **Chapter 7** provides an overview of funding mechanisms for IB and considers how donor funding can be used to catalyse IB. Finally, **Chapter 8** outlines B4MD's recommendations to DFAT to support the development of IB in Australia.

SCOPE

The report scope is limited to inclusive business initiatives; it does not comment on other types of private sector engagement including philanthropy or private sector-led aid delivery. Our analysis does not primarily seek to justify inclusive business as an aid methodology or comment on the effective design of inclusive business; rather it aims to provide an assessment of the processes used in its initial conception and creation.

As such, it is worth noting that the report does not seek to undertake a comparative analysis of different types of IB models but rather draws on the common experience and findings of a range of key IB stakeholders including practitioners, donors, companies and others.

Inclusive Business initiatives can be established by any company, be that a small to medium sized enterprise (SME) through to a large multinational national corporation (MNC). The sole focus of this work is on IB in relation to MNC's. Furthermore, B4MD acknowledges that there is greater opportunity to achieve development impact at scale through the core business operations of an MNC given the size and breadth of

these operations. Finally, impactful partnerships are resource intensive to develop and deliver – as such, both government and MNC's have the depth of resources to ensure that these partnerships are sufficiently supported in order to be mutually beneficially for companies and government alike.

The report is informed by B4MD's experience as an IB broker, as well as a series of interviews with B4MD clients, international case studies, leading international publications and the work of international organisations promoting the potential of IB.

INCLUSIVE BUSINESS OVERVIEW

Definitions

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers¹.

Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, IB addresses development challenges through core business activities.

The development of IB as a concept and practice has been influenced by a number of closely related ideas including bottom of the pyramid (BOP), shared value (CSV), and making markets work for the poor (M4P). These terms are often used interchangeably to describe enterprise-based solutions to address development challenges.

The development of IB – key actors

Private actors, multilateral agencies and bilateral agencies have all played an important role in shaping the development of IB over the past decade.

Academic institutions, business leadership forums, companies, foundations, IB brokers and international NGOs have played a role in catalysing investment and partnerships for IB and disseminating knowledge about IB best practice.

Multilateral agencies, including the UNDP, the IFC, and ADB have been important in providing finance and technical assistance to support the development of IBs, along with convening stakeholder to share best practice. A number of bilateral donor agencies, including the UK's DFID and Sweden's SIDA, are also experimenting with IB initiatives as part of a broader strategy to find enterprise-based solutions to poverty.

An understanding of the role of these different actors is an important starting point when considering the range of ways in which donors can support the development of effective IB models.

INCLUSIVE BUSINESS AN EFFECTIVE APPROACH TO DELIVERING DEVELOPMENT OUTCOMES

Why is IB seen a valid tool for achieving development outcomes?

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

¹ <http://www.inclusivebusiness.org>, WBCSD, 2014.

IB models have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society – to contribute directly to achieving development outcomes.

Firstly, IBs can replicate and scale-up successful approaches more quickly as businesses create their own revenue, are driven by market incentives, and are not dependent on donor funding and can do so in a sustainable manner. Secondly, IBs can offer resources, operational capacities and management know-how - from strategy, to marketing, to supply chain management – that can lead to new innovations in the fight against global poverty. Thirdly, due to the nature of the market system, businesses contain in-built, efficient feedback mechanisms that are often lacking from non-business approaches to development.

Measuring the effectiveness of IB

The measurement of IB effectiveness, however, is at an early stage of maturity and there is currently no widely accepted standard for reporting and measuring impact. Donors, NGOs and companies themselves are trialing a range of approaches to measurement, drawing, where applicable, on methodologies and tools developed in related fields such as monitoring and evaluation (M&E) and social impact assessment (SIA).

Characteristics of effective IBs – barriers to scale and enabling factors

Given that the IB concept is at an early phase in its evolution, the defining characteristics of effective IBs is not yet fully understood. There is, however, an emerging literature that seeks to improve understanding of both the barriers and enabling factors required to bring IB initiative to scale, achieve systemic change and create sustainable commercial returns.

Barriers to scale are both external and internal to a company. External barriers include limited knowledge and skills among the bottom of the pyramid (BOP) producers and consumers, lack of market information, ineffective regulation, inadequate information, and limited access to finance among the BOP. Internal barriers include factors such as the opportunity cost of investment for IB initiatives, strategic and operational misalignment, and capability gaps.

Enabling factors that have assisted companies to overcome these barriers include embedding a social purpose, networks and technology, adequate financing and capacity building initiatives, and collaboration with a range of market and development actors.

Sectoral focus of IB initiatives

Although systematic analysis of the characteristics of effective IBs remain elusive, based on the experience of B4MD and an assessment of recent donor studies, it is possible to draw some preliminary conclusion in regards to the sectoral focus of IB initiatives.

A review of donor-supported programs suggests that businesses from the food and agribusiness sector make up the highest proportion of companies launching IB initiatives. Other industries that have seen significant numbers of IBs emerge include financial services, energy and infrastructure, technology and telecommunications. Companies in these industries appear to have achieved the strongest alignment between commercial and development objectives; whether long-term, sustainable outcomes are achieved remains to be seen for many initiatives.

Motivations for companies engaged in IB

Research suggests a wide range of motivating factors (or drivers) for companies launching IB initiatives. Motivating factors include the potential to achieve commercial benefit, the opportunity to contribute to social outcomes, and the desire to align company actions with individual and company values.

Commercial motivations for companies include generating profits, developing new markets, driving innovation, expanding the labour pool, strengthening value chains, enhancing brand and reputation, increasing productivity, and building and enhancing social license to operate.

IB DECISION ROADMAP OVERVIEW

In deciding whether to launch an IB venture, companies typically progress through three phases of decision making. An understanding of these phases, and the key barriers and enabling factors that help companies progress, is an important starting point for considering how donors can support the development of IB. The three phases can be identified as:

1. Creating Awareness of IB
2. Early Development of an IB Concept
3. Starting an IB

The close assessment of these phases will form the second half of this report and provide the basis for recommendations to be made to DFAT in line with the findings of Chapter 1 and Chapter 2.

KEY RECOMMENDATIONS

B4MD propose seven key recommendations to DFAT to support the development of IB in Australia. These recommendations are supported by 12 specific actions, divided into two phases as part of a proposed five year IB roadmap. Specific actions are outlined in the body of this report.

1. Demonstrate clear and consistent political support for IB

The Australian government and DFAT can be a catalyst for the growth of IB in Australia by providing clear and consistent political endorsement of the role of the private sector in achieving development objectives. This political support and public advocacy is critical in setting the expectations for the Australian business community that IB is a government priority and that efforts by the corporate sector to support development objectives will be valued. Strong political support for IB has been a hallmark of leading donor countries, such as the UK, as evidenced by a recent public address by the UK Development Secretary, Justine Greening².

Political support should include regular speeches by the Minister for Foreign Affairs and Trade and senior DFAT personnel at IB events and conferences, public recognition and awards for Australian companies that are demonstrating innovative IB approaches, and an action plan to demonstrate how the government and DFAT will support the growth of IB initiatives in Australia over time.

2. Support the growth of IBs through advocacy, technical assistance and funding

The experience of donor agencies internationally, and B4MD's practical experience as a broker, suggests that IB projects require a combination of advocacy, technical assistance and funding support in order to accelerate to launch phase. Without advocacy for IB initiatives many companies would never become aware of the potential of IB; without technical assistance, many IB initiatives fail to overcome internal and external barriers and achieve commercial sustainability; and without financial support, some companies fail to access the funding necessary to validate an IB concept.

B4MD recommends that DFAT draw on all three policy instruments to support the development of IB in Australia.

3. Focus on Awareness and Early Development phases to maximise impact.

Although there is a role for donor support across the IB decision roadmap, B4MD recommends that DFAT focus its support on the Awareness and Early Development phases where donor support can benefit the greatest number of companies, and where attrition rates are highest. This may include sponsorship of IB events, grants for exploratory mission, or subsidies for IB market intelligence services.

² Business Fights Poverty blog (2014), Justine Greening, UK Development Secretary: Smart aid - Why it's all about jobs, <http://community.businessfightspovetry.org/profiles/blogs/smart-aid-why-it-s-all-about-jobs>, 27th January.

4. Establish an IB fund to accelerate development of IBs from awareness to start-up

Although B4MD believes that companies should have primary responsibility for financing IB initiatives to demonstrate commitment, there is a role for donor agencies to provide financial support for Awareness and Early Development phase activities.

B4MD recommends that DFAT establish a dedicated IB fund to support advocacy and technical assistance activities outlined in the following sections. The fund may provide small grants to cover the cost of a feasibility study, subsidise training from an experienced IB broker, or support an IB initiative indirectly by helping to finance capacity building initiatives for bottom of the pyramid producers and consumers.

5. Take a whole-of-department approach to support the development of IB initiatives

In order to be successful in launching an IB, companies require wide-ranging support, from market intelligence, to trade policy, aid policy and diplomatic relations. B4MD recommends that DFAT develop a whole-of-department approach to IB, drawing on the strengths and complementary capabilities of different DFAT sections, including aid, trade, and overseas missions.

As part of the development of this approach, DFAT could engage the Australian business community to understand priorities and to develop a communication plan outlining the ways in businesses can engage DFAT personnel.

6. Target high potential industries and countries in the Asia-Pacific

The experience of donor agency initiatives, such as the Business Call to Action (BCtA) and Business Innovation Facility (BIF), suggest that IB initiatives are more prevalent in some industries than others. Companies in the agribusiness and food manufacturing sector, in particular, appear to offer the best prospects for achieving commercial and development outcomes due the fact that company value chains often extend into developing country markets.

In line with this assessment, B4MD recommends that DFAT focus on industries where there is strong strategic alignment between Australian business interests and potential for development impact, including agribusiness and mining. With Australian company value chains increasingly expanding into countries in the Asia-Pacific, this represents a logical regional focus for DFAT's IB support activities.

7. Develop a five-year roadmap for IB in Australia, divided into two key phases

B4MD recommends that DFAT develop a five-year roadmap to support the development of IB in Australia. The roadmap should take a two-phased approach, with the first phase covering year one to two, and second phase covering year three to five.

The goal of the phase one would be to fast-track the development of flagship or pilot IB projects to demonstrate how the poor can be integrated into the value chain of leading Australian companies. Key activities in phase one would include public endorsement of IB events and conferences; support for IB brokers to fast-track the most promising Australian initiatives; and sponsorship and facilitation of in-country missions to validate early development of concepts.

The goal of phase two is to develop the next generation of IBs in Australia. Key activities in this phase would include building the capacity of DFAT to catalyse IB opportunities; sponsorship of an annual IB awards event to recognise Australian IB leaders; and the establishment of an IB centre of excellence to provide foundation training for aspiring IB leaders.

1. INTRODUCTION

WHAT IS INCLUSIVE BUSINESS (IB)

Definitions

The World Business Council for Sustainable Development (WBCSD) is widely credited for coining the term inclusive business (IB) in 2005. As such the term can be defined IB as:

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers³

Fundamental to the WBCSD conception of IB is the belief that commercial drivers, including expanding markets for products and services and maximising profit, can be aligned with development outcomes, including creating opportunities for the poor and disadvantaged. Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, IB addresses development challenges through core business activities.

IB initiatives are different to full commercial business activities due to its greater focus on poverty alleviation and achieving development outcomes. The Asian Development Bank (ADB), for example, describes IB's as "private sector investments specifically targeting a low income market (less than US\$3 per day) with the double purpose of making reasonable profit (i.e. an internal rate of return of 8-20%) and creating tangible development impact"⁴. Rather than seeing the poor as bystanders or even victims of the market, IB business models aim to include poor people in value chains as producers, employees, consumers, distributors and innovators⁵.

IB initiatives, therefore, aim to accrue benefits for both businesses and the poor. In its publication "Creating Value for All"⁶, the United Nations Development Programme (UNDP) identifies a range of opportunities for business and the poor within the scope of IB initiatives. For business, these opportunities include generating enhanced profits, developing new markets for products, driving innovation in products and processes, expanding the labour pool, and strengthening the business value chain. For the poor, opportunities include better meeting basic needs, enabling the poor to become more productive, increasing incomes, and empowerment. It is worth noting that a significant proportion of leading IB case studies directly benefit the poor through increased sustainable livelihood opportunities. The motivations and opportunities of IB are further explored in Section 2.

IB and related concepts

The development of IB as a concept and practice has been influenced by a number of closely related ideas that seek to use enterprise-based solutions to address development challenges. These ideas often hold a close correlation with the perspective of those generating the idea and or for whom the ideas are intended. These concepts are briefly introduced in **Table 1** and are further explored in later sections. An awareness of these related concepts is important to ensure effective communication and engagement with different actors on IB initiatives, and to maximise sharing of best practice knowledge across the complementary domains.

³ <http://www.inclusivebusiness.org>, WBCSD, 2014.

⁴ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁵ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008; "Spotlight on Inclusive Business", Business Innovation Facility, 2012.

⁶ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008.

Bottom of the Pyramid (BOP) – BOP refers to the world’s poorest socio-economic group; the 4 billion people who live on less than US\$2.50 per day. BOP has emerged as focus of business strategy researchers and practitioners⁷, who believe that tremendous benefits exist for companies that choose to serve BOP markets and are responsive to their development needs. The terms BOP and IB are often used interchangeable by researchers, donors, businesses and civil society.

Corporate Social Responsibility (CSR) – CSR has been comprehensively defined by ISO26000 as “the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships.”⁸ The term CSR was first popularised in the 1960’s and today is often used interchangeably with terms such as sustainability, responsible business and corporate citizenship. Formal CSR/sustainability programs are now common amongst the world’s leading companies, with varying degrees of integration with core business. For some companies, IB initiatives have been implemented as a core element within their broader CSR approach.

Creating Shared Value (CSV) – CSV is a management strategy focused on companies creating measurable business value by identifying and addressing social needs and challenges that intersect with their business⁹. CSV proponents believe that companies can achieve competitive advantage in the market by simultaneously creating business and social value through their strategy and operations¹⁰. To date, research on CSV has tended to focus on the role of multinational companies (MNC’s). The concept has gained wide appeal in the private sector in the past three years and is being applied in both the developed and developing world. For a number of leading companies, such as Nestle, CSV has superseded CSR as an overarching approach.

Making markets work for the poor (M4P) - The term M4P refers to an approach in aid and development that utilises systems analysis as a means of diagnosing and addressing the market constraints that face poor and disadvantages households and communities in accessing goods and services. M4P advocates see the strengthening of market systems, including direct engagement with companies, as a way to secure higher incomes for the poor and reduce poverty¹¹. The M4P approach has become increasingly popular with donor agencies in an effort to find market-based solutions to poverty; however, the terminology is not well-known in the private sector relative to IB, BOP, CSR and CSV.

Table 1: Inclusive business – related concepts

⁷ Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

⁸ <http://www.iso.org/iso/home/standards/iso26000.htm>, ISO26000, 2010.

⁹ <http://sharedvalue.org/about-shared-value>, Shared Value Initiative, 2013.

¹⁰ Creating Shared Value, Michael Porter and Mark Kramer, 2011.

¹¹ <http://www.m4phub.org/what-is-m4p/introduction.aspx>, M4P Hub, 2013.

HOW HAS IB DEVELOPED? KEY ACTORS AND EVENTS

A broad range of factors has driven greater interest in IB over the past decade.

This section provides an overview of some of the key actors and events that have shaped the IB landscape. An understanding of the role of these different actors is an important starting point when considering the range of ways in which DFAT could support the development of effective IB models.

This section is divided into three broad categories: private actors, multilateral agencies and bilateral agencies.

Private Actors

Academia and Research Institutes

A number of academics, academic institutions and thought leaders have been influential in defining the concepts of IB and testing and validating the effectiveness of IB initiatives.

The late C.K. Prahalad of the University of Michigan, and Stuart L. Hart of Cornell University, are widely credited with the development of the Bottom of the Pyramid (BOP) concept, which is a key underlying theory and forerunner to the concept of IB. In their ground breaking work, first published as a working paper in 1999¹², Prahalad and Hart argued that multinational enterprises (MNEs) could grow their profits and help lift billions of people out of poverty by doing business with the poor. Prahalad and Hart have since published widely on the opportunities and challenges of BOP markets for business and development, including Prahalad's 'The Fortune at the Bottom of the Pyramid', published in 2004¹³, and Hart's 'Capitalism at the Crossroads', published in 2005¹⁴.

The original BOP concept has been challenged and extended over the past decade by a range of other researchers, notably Ted London and Anil Karnani of the University of Michigan, and Erik Simanis of Cornell University, to consider the role of the poor as both producers and consumers, business partners and collaborators¹⁵.

The work of Prahalad, Hart and other BOP theorists has been inspired in part by the success of the Grameen Bank, the microfinance organisation founded in Bangladesh in 1976 by Professor Mohammed Yunus¹⁶. Yunus and the Bank won the Nobel Peace Prize in 2006 for their efforts in creating economic and social opportunities for the poor and lifting millions of people out of poverty. In 2008, Yunus published "Creating a World Without Poverty"¹⁷ in which he outlines his experiences at Grameen and the role of 'social businesses' in development – enterprises with a social purpose that reinvest their profits to maximise development impact.

Michael Porter and Mark Kramer of Harvard University and the Foundation Strategy Group (FSG) have more recently helped to build momentum for BOP and IB through the closely aligned idea creating shared value (CSV). In their seminal paper "Creating Shared Value", published in Harvard Business Review in 2011¹⁸, Porter and Kramer argue that businesses can unleash a new wave of growth by purposefully reorientating to strategies that create both economic and social value, in both developed and developing markets. Although not without its critics, the CSV concept has gained significant traction with both the corporate and NGO sectors as a way to achieve both business and development outcomes.

Harvard University's CSR Initiative and Economic Opportunity Program¹⁹, led by Director Jane Nelson, and the Overseas Development Institute's Private Sector and Markets Programme²⁰, have also made a significant contribution to the development of the IB concept and practice.

¹² Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

¹³ The Fortune at the Bottom of the Pyramid, C.K. Prahalad, 2004.

¹⁴ Capitalism at the Crossroads, Stuart E. Hart, 2005.

¹⁵ <http://www.bopglobalnetwork.org/bop-labs>, BOP Learning Lab, 2013.

¹⁶ <http://www.grameen-info.org/>, Grameen Bank, 2013.

¹⁷ Creating a World without Poverty: Social Business and the Future of Capitalism, Muhammad Yunis, 2008.

¹⁸ Creating Shared Value, Michael Porter and Mark Kramer, 2011.

¹⁹ <http://www.hks.harvard.edu/m-rcbg/CSRI/index.html>, Harvard University, 2013.

²⁰ <http://www.odi.org.uk/programmes/private-sector-markets>, ODI, 2013.

Business Leadership Forums

Business leadership forums have also played a critical role in both convening conversations with global companies and addressing IB challenges and best practice.

World Business Council for Sustainable Development (WBCSD)

Founded in 1992 and with regional affiliates in over 60 countries, the WBCSD plays a leading advocacy role on a range of sustainable development issues and provides a forum for its 200 member companies to share best practices²¹.

The WBCSD is at the forefront of catalysing investment and partnerships for IB and disseminating knowledge about IB best practice. WBCSD has strong links to a range of other IB actors and initiatives, including the UNDP 'Growing Inclusive Markets', Business Call to Action (BcTA) and DFID's Business Innovation Facility (BIF).

International Business Leaders Forum (IBLF)

The IBLF is an independent member's organisation that works with global companies on corporate social responsibility (CSR), leadership and sustainability²².

The IBLF promotes responsible leadership and IB through its Leadership Council, comprising some of the world's most prominent CEO's, as well as through a range of global leadership forums and thought leadership. IBLF supports companies on shaping their IB initiatives by running capacity building workshops and publishing reports on the theme. IBLF was a founding partner of the Business Call to Action (BcTA).

The IBLF also contributes to IB through The Partnering Initiative (TPI), a program dedicated to driving widespread and effective collaboration between civil society, government and companies²³.

Companies

Companies lie at the heart of the IB system, from local SME's in developing country markets, to large national companies and MNC's.

Although a vast range of companies of all sizes and national contexts have influenced the development of IB, a number of global companies have been particularly influential as benchmark models due to their high-profile in the market. Two of the most notable examples is Nestlé and Vodafone.

Case Study: Creating Shared Value

Nestlé has adopted Creating Shared Value (CSV) as its overarching strategic approach, believing it can deliver long-term shareholder value and benefit society²⁴. For Nestlé, CSV begins with the understanding that for the business to prosper over the long term, the communities it serves must also prosper. The company's strategy is to create shared value in three areas: nutrition, water and rural development

As part of its commitment to rural development, Nestlé claims to have provided capacity building programs to 273,808 farmers world-wide in 2012²⁵. For example, through the Nestlé Cocoa Plan, the company is helping to finance farmers' field schools to improve cocoa farming practices and yields.

²¹ <http://www.wbcd.org/about.aspx>, WBCSD, 2013.

²² <http://www.iblf.org/>, IBLF, 2013.

²³ <http://thepartneringinitiative.org/>, The Partnering Initiative, 2013.

²⁴ <http://www.nestle.com/csv>, Nestlé, 2013

²⁵ <http://www.nestle.com/csv/rural-development/farmers>, Nestlé, 2013.

Case study: M-PESA

Kenya had fewer than 2 million bank accounts serving 32 million people. To bridge the gap, Safaricom Kenya, a mobile service providers in Kenya, developed a technological solution in partnership with Vodafone. The result was M-PESA, an electronic money transfer product to make financial transactions faster, cheaper and more secure. M-PESA allows individuals and businesses to transfer money through the mobile phone's short message service (SMS). Cash withdrawals and deposits are available at registered retail outlets to pay for goods and services. After the successful launch in 2005, Safaricom plans to further recruit more financial institutions and retail outlets into the system and to expand it to other developing countries.

Adapted from the UNDP²⁶

Foundations

A number of foundations, trust and funds have been active in financing and building partnerships for IB initiatives.

The Bill & Melinda Gates Foundation, for example, aims to alleviate poverty by expanding access to digitally-based financial tools and services through its Financial Services for the Poor program. The program is delivered through a number of partnerships, including the Better Than Cash Alliance (BTCA) and the Alliance for Financial Inclusion (AFI).

In 2010, the Gates Foundation gave a USD\$4.8 million grant to Vodacom Tanzania to expand M-PESA services within the country²⁷. By 2010, M-PESA had reached over 9 million customers²⁸.

Similarly, the Clinton Global Initiative (CGI) has been active in promoting financial inclusion for the world's poor as part of its Market-Based Approaches track, as well as partnering with the UNDP's Business Call to Action (BCtA) to encourage business commitment to IB. Rather than implement projects, CGI facilitates action by helping members connect, collaborate, and make effective and measurable Commitments to Action²⁹.

IB Broker Networks

A range of IB brokers and consultants, including B4MD, have emerged to provide technical assistance to companies aiming to launch IB initiatives. Two of the more successful brokers are Technoserve, based in Washington D.C., and Endeava, based in Berlin.

Since its inception, Technoserve has worked in more than 40 countries across Africa, Latin America and Asia, assisting thousands of businesses and improving the incomes of millions of people.

In order to achieve its mission, TechnoServe operates as a catalyst and partner to strengthen market systems. The organisation's current projects include support for a women's dairy business in Kenya, smallholder cocoa farmers in Peru, disabled entrepreneurs in India, and a coffee cooperative in Ethiopia³⁰.

Endeava's mission is to inspire and support enterprise solutions to the world's most pressing problems. The organisation approach involves building, sharing and applying knowledge to develop, implement and grow inclusive business models.

Endeava work closely with partners from all sectors, including the German Federal Ministry of Economic Cooperation and Development (BMZ) and the Growing Inclusive Markets Initiative (GIM)³¹.

²⁶ http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/GIM/, UNDP, 2013.

²⁷ <http://www.gatesfoundation.org/Media-Center/Press-Releases/2010/11/Vodacom-gets-US-48-Million-to-Expand-M-Pesa-Services>, Gates Foundation, 2013.

²⁸ Mobile Payments go Viral: M-PESA in Kenya, Bill & Melinda Gates Foundation, 2013.

²⁹ <http://www.clintonglobalinitiative.org>, CGI, 2014

³⁰ <http://www.technoserve.org/>, TechnoServe, 2013.

³¹ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008.

International Development NGOs

NGOs play an important role in testing and developing new approaches to IB, leveraging their deep development experience and local, on-the-ground networks.

Oxfam International has been a leading figure in engaging with business and building understanding of the private sector's contribution to development.

In 2005, Oxfam Great Britain, in collaboration with the global food manufacturer Unilever, released the report 'Exploring the Links Between International Business and Poverty Reduction'³² that provided a comprehensive assessment of the poverty impacts of Unilever's operations in Indonesia. The study examined activities along Unilever Indonesia's entire value chain, from sourcing of raw materials to the impacts on consumers who purchase Unilever's products.

The Unilever study has subsequently provided a foundation for the development of Oxfam's Poverty Footprint³³ methodology, which has been applied in a number of other company and country contexts, including Coca-Cola/SAB Miller's operations in Zambia and El Salvador³⁴.

Multilateral Donors

United Nations Development Programme (UNDP)

UNDP has launched a range of IB initiatives as part of its broader private sector strategy and Inclusive Market Development (IMD) approach. Two of the most prominent initiatives are the Growing Inclusive Markets (GIM) and the Business Call to Action (BcTA).

Growing Inclusive Markets (GIM)

GIM is a global multi-stakeholder research and advocacy initiative that seeks to understand, enable and inspire the development of more inclusive business models and contribute to the achievement of the MDGs. The GIM initiative was conceived in 2006 after the success of "Unleashing Entrepreneurship: Making Business Work for the Poor"³⁵, released in 2004 by the UN Commission.

GIM has two broad pillars: the development and dissemination of knowledge and research tools for IB; and the provision of capacity building and localisation support through strategic partnerships to promote a South-South Knowledge Network around IB models.

GIM has been responsible for the development of two seminal reports in the IB field.

In 2008, GIM released the most comprehensive global study of IB to-date: "Creating Value for All"³⁶. The report analysed the constraints and strategies for IB initiatives, drawing on 50 case studies, predominantly from developing countries.

The report has been released in 50 countries since its release, and translated into six languages.

In 2010, GIM released a second flagship report, "The MDG's: Everyone's Business"³⁷, which aimed to show how diverse actors collaborate on IB initiatives and to indicate how different other actors, including policy makers and financial institution, can best support business in its contributions towards meeting the MDGs.

³² Exploring the Links Between International Business and Poverty Reduction: A case study of Unilever in Indonesia, Oxfam, 2005.

³³ <http://www.oxfam.org/en/policy/poverty-footprint>, Oxfam, 2009.

³⁴ Exploring the Links Between International Business and Poverty Reduction: The Coca-Cola/SABMiller value chain impacts in Zambia and El Salvador

³⁵ "Unleashing Entrepreneurship: Making Business Work for the Poor", UN Commission, 2004.

³⁶ Creating Value for All: Strategies for Doing Business with the Poor, UNDP, 2008.

³⁷ The MDG's: Everyone's Business: How Inclusive Business Models Contribute to Development and Who Supports Them", UNDP, 2010.

Business Call to Action (BcTA)

Launched in 2008 by UK Prime Minister, Gordon Brown, and the UNDP, the Business Call to Action (BcTA) aims to accelerate progress towards the MDG's by challenging companies to develop inclusive business models.

The BcTA global leadership platform is supported by DFAT and five other bilateral donors; along with UNDP, UNGC and the Clinton Global Initiative. Worldwide, 82 companies have responded to the BcTA by making commitments to IB³⁸.

The BcTA provides participating companies with the opportunity to be associated with high visibility leadership platform; share expertise and best practices for market-based approaches to development; gain initiative development advice and assistance; and build linkages with companies, donors, and other key stakeholders.

International Finance Corporation (IFC)

The IFC has been supporting IB initiatives since 2005.

Over the past eight years, IB initiatives have accounted for about 7 percent to 10 percent of IFC's annual commitments, totaling over \$7 billion during this period. The IFC has worked with over 300 inclusive business clients in more than 80 countries, reaching more than 250 million people³⁹.

The IFC has developed and released a range of studies aimed at improving the effectiveness of IB initiatives and scaling up impact. This included in 2007, the IFC released the report "The Next 4 Billion"⁴⁰, which provided for the first time a quantitative assessment and characterization of the base of the pyramid market opportunity.

Building on its early experiences with IB initiatives, in 2010 the IFC launched a dedicated Inclusive Business Models Group to create the tools, resources, and networks to support IFC clients to scale-up their inclusive business models to reach more people at the base of the pyramid⁴¹.

Asian Development Bank (ADB)

Inclusive growth is one of the three agenda items in ADB's "Strategy 2020"⁴².

The ADB launched its Inclusive Business Initiative in 2008 with the aim of stimulating IB in Asia and the Pacific through technical assistance and project financing.

The initiative is a joint effort of ADB's Private Sector Operations Department and the poverty and inclusive growth team in the Regional and Sustainable Development Department (RSDD). The initiative is being implemented in partnership with SNV and the WBCSD⁴³.

To-date the initiative has provided assistance for business ventures in 10 Asian countries. The initiative aims to perform inclusive business market studies in client countries, develop impact assessment tools for possible ADB investments, build an IB investment fund for the Mekong region, create a technical assistance facility with other donors, and promote further knowledge sharing with development partners, such as the Inter-American Development Bank's (IDB) Opportunities for the Majority Program⁴⁴. IB's are defined by the ADB as "profitable commercial enterprise where the business model balances profit making with scaled social impact", with typical turnover of \$0.5 – \$ 30 million (versus > \$10 million for mainstream business) and net profit per year of US\$0.1 – 10 million (versus \$1 – \$500 million for a mainstream business).

³⁸ Business Call to Action, <http://www.businesscalltoaction.org/>, 2013

³⁹ Being the Change: Inspiring the Next Generation of Inclusive Business Entrepreneurs Impacting the Base of the Pyramid, IFC, 2012.

⁴⁰ The Next 4 Billion: Market Size and Business Size at the Base of the Pyramid, IFC, 2007.

⁴¹ www.ifc.org, IFC, 2013.

⁴² <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁴³ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid>, ADB, 2013.

⁴⁴ Working Together in Pursuit of Inclusive Business: Sharing the Latin American and Caribbean Experience with Asia and the Pacific, ADB and IDB, November 2013.

Bilateral Agencies

A number of bilateral donor agencies have shown interest in the potential for enterprise-based solutions to poverty and are experimenting with a range of IB initiatives.

The UK Department for International Development (DFID) has advanced faster than most agencies in supporting IB initiatives. In 2010, DFID launched the Business Innovation Facility (BIF) at the UN MDG Summit in New York City.

The BIF aims to provide practical, hands-on advice and technical expertise to support companies to develop or scale up inclusive business models. The BIF pilot programme ran from July 2010 to December 2013, funded by DFID and managed by PricewaterhouseCoopers LLP and its Alliance Partners. During the pilot period, the Facility supported businesses operating in Bangladesh, India, Malawi, Nigeria and Zambia.

In 2011, the Swedish International Development Cooperation Agency (SIDA) launched the Innovations Against Poverty (IAP) initiative to stimulate and support sustainable business ventures through large and small grants for organisations based or operating in the world's poorest countries.⁴⁵ The BIF and IAP initiatives have jointly set-up a practitioner hub to allow researchers and practitioners to connect, share experiences and gain new insights to help their inclusive business ventures grow.

In the Asia-Pacific context, DFAT (formerly AusAID) recently completed a six-year pilot grant fund - the Enterprise Challenge Fund – aimed at funding innovative solutions to address market failures and stimulate long-term inclusive pro-poor economic growth in the Asia-Pacific. Over six years of the pilot, the ECF provided \$11 million funding to 21 projects operating in 8 countries across the Asia Pacific. The ECF provided jobs, increased incomes and access to vital goods and services to over 78,000 people⁴⁶. Though the ECF was not an IB Fund in that it did not seek to initiate or catalyse IB's, it is worth acknowledging that ECF funding was used towards the development of some IB initiatives. The lead example in this regard can be seen in the \$1.5 million funding provided to WING Cambodia (see case study in chapter 6)

Acknowledgement of the role of the private sector and the potential of IB initiatives received a significant boost in September 2010 with the release of a bilateral donor statement at the MDG Summit in New York pledging support for private sector partnerships for development⁴⁷.

In the statement bilateral donor agencies from Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, United States of America, United Kingdom, Sweden, and Switzerland recognise the private sector as equal partners in development and commit to fostering a more robust private sector role, through sharing the risk of investment, establishing a supportive and enabling regulatory environment, facilitating stronger partnerships and dialogue, and building capacity of local private sector partners.

⁴⁵ <http://businessinnovationfacility.org/page/about-us-about-innovations-against-poverty>, IAP, 2013.

⁴⁶ <http://www.enterprisechallengefund.org/>, ECF, 2013.

⁴⁷ Bilateral Donor's Statement in Support of Private Sector Partnerships for Development, MDG Summit, September 2010.

CURRENT STATE OF IB GLOBALLY

Given the range of definitions for IB used, and a lack of aggregated data provided by donors and other development actors, it is difficult to estimate the total number of IB initiatives and financial contributions globally.

Table 3 provides a snapshot of financial contributions and numbers of IBs supported by key donor agencies that have specific IB programs and where data is available. For the programs outlined below, though there is no aggregated data available, the table does give an indication as to some of the lead investments being made in IB around the world.

Organisation	Program	Period	Financial contribution (US\$)	Number of IBs supported
IFC ⁴⁸	IFC Inclusive Business Models Group	Since 2005	> \$7 billion	> supported 300 clients in 80 countries through investment
ADB ⁴⁹	Promoting Inclusive Growth through Business Development at the Base of the Pyramid	2010 - 2013	\$700,000	n/a focused on market studies, investment forums, country policy notes and development of IB Funds
ADB, Government of Sweden, Credit Suisse	Inclusive Business Support	2014 – 2017	\$3.6 million	<ul style="list-style-type: none"> - Increase by 50% of inclusive business projects in selected countries, of which at least 15 are from ADB - Tailored advice and technical support provided to at least 20 companies - Inclusive business impact assessments conducted for at least eight companies - 50 companies benefiting from IB training - Sector Workshops
UNDP ⁵⁰	Facilitating & Brokering Private Sector Partnerships	Since 2004-2010	n/a	creation of 23 business linkages, brokered 75 IB partnerships
SIDA ⁵¹	Innovations Against Poverty	Since 2011	€5,420,265	66 organisations received grant funding
DFID ⁵²	Business Innovation Facility	2010 – 2013	n/a	> 300 IB's supported across five countries through technical assistance

Table 3: Financial contributions and numbers of IB initiatives supported for selected donors

⁴⁸ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013.

⁴⁹ <http://www.adb.org/projects/41258-012/main>, ADB, 2013

⁵⁰ <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>, UNDP, 2013.

⁵¹ <http://www.sida.se/English/Partners/Private-sector/Frequently-asked-questions/>, SIDA, 2013.

⁵² <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>, BIF, 2013.

2. INCLUSIVE BUSINESS AS AN EFFECTIVE APPROACH TO ACHIEVING DEVELOPMENT IMPACT

This section provides an overview of the main arguments for the role of IBs in development, how the effectiveness of IBs is currently measured, the features of effective IBs, and the motivations for company involvement in IB initiatives.

WHY IS IB VIEWED AS A VALID TOOL FOR DELIVERING DEVELOPMENT OUTCOMES?

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development, beyond the “trickle down” effects of economic growth⁵³.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

Caroline Ashley⁵⁴ of ODI notes that while governments, donor agencies and civil society play a vital role in creating the enabling economic, political and social institutions for business to contribute to development outcomes, such as investments in health and education, their efforts are often limited in scale and sustainability of impact due to resources constraints and the complexity of development challenges.

Conversely, while direct foreign investment in developing country markets has been a key driver of poverty alleviation, as evidenced by the success stories of China and India among others, growth does not always go hand-in-hand with poverty reduction, given this is not an explicit goal of mainstream business strategy, and may in some instances increase inequality⁵⁵.

In contrast, IB models, where poverty alleviation is central to the firm’s purpose, have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society –to contribute directly to achieving development outcomes.

Firstly, IBs can replicate and scale-up successful approaches more quickly as businesses create their own revenue, are driven by market incentives, are not dependent on donor funding and can do so in a sustainable manner. Secondly, IBs can offer resources, operational capacities and management know-how - from strategy, to marketing, to supply chain management – that can lead to new innovations in the fight against global poverty. Thirdly, due to the nature of the market system, businesses contain in-built, efficient feedback mechanisms that are often lacking from non-business approaches to development. As an example, whenever members of a target group (producers, consumers, employees) are not satisfied with a business relationship, they can very easily make their voices heard through the immediate market - causing business to adapt accordingly⁵⁶.

Drawing on these core capabilities and responding to market incentives, IBs can potentially make an important contribution to development outcomes. In their report “Creating Value for All”, the UNDP outline four broad ways that IBs can contribute to human development and alleviate poverty:

1. *Meeting basic needs* by providing food, clean water, sanitation, electricity and health-related services.
2. *Enabling the poor to become more productive* by providing access to products and services such as electricity, mobile telephony, agricultural equipment, credit and insurance.
3. *Increasing incomes* by including poor people in value chains as customers, employees, producers and small-business owners.

⁵³ “Creating Value for All: Strategies for Doing Business with the Poor”, UNDP, 2008.

⁵⁴ Harnessing core business for development impact, Caroline Ashley, Overseas Development Institute, 2009.

⁵⁵ IBID.

⁵⁶ Meeting the MDG Challenge through Inclusive Business, A submission to the Independent Review of Aid Effectiveness by Business for Millennium Development, 2011

4. *Empowering the poor* by raising awareness, providing information and training, including marginalized groups, offering new opportunities, and conferring hope and pride⁵⁷.

Perhaps most importantly and from the perspective of a participatory development approach, a greater role for business in development is of critical importance to the poor. In the World Bank's millennium study of poverty from the perspectives of the poor, "Voices of the Poor"⁵⁸, jobs and economic opportunities are frequently cited as the most important concern for them. IB models present a potential pathway for achieving these aspirations of the poor.

HOW DO DONORS, NGOS AND OTHER DEVELOPMENT ACTORS TYPICALLY MEASURE IB'S EFFECTIVENESS?

The measurement of IB effectiveness is at an early stage of maturity and there is currently no widely accepted standard for reporting and measuring impact. Donors, NGOs and companies themselves are trialling a range of approaches to measurement, drawing, where applicable, on methodologies and tools developed in related fields such as monitoring and evaluation (M&E) and social impact assessment (SIA).

Approaches to IB measurement

DFID's BIF initiative has outlined four broad approaches that businesses use to track their impact on development:

1. *Local Livelihood Assessment* – assesses the local level impacts of a project or plant on local communities. For example, Anglo American has developed a Socio Economic Assessment Toolbox (SEAT) to assess impacts and stakeholder priorities at each of its mine sites.
2. *Poverty Footprint/ Value Chain Mapping* – identifies where a business or sector impinges on poverty and development by quantifying impacts and value generated. For example, Oxfam's developed its Poverty Footprint Methodology to systematically assess the impacts of Unilever's operations in Indonesia⁵⁹.
3. *Economic Contribution* – assesses a company's total economic impact including multipliers. For example, a number of MNCs have commissioned studies to understand their percentage contribution to national GDP.
4. *Tracking Indicators* – involves repeated monitoring of key indicators of socio-economic impact. For example, businesses supported by the BIF report progress against both social metrics and commercial key performance indicators (KPIs)⁶⁰.

To-date, assessment of IB model effectiveness has tended to focus on results at an individual firm level; rather than taking an IB systems perspective. This notion is supported by Baumüller et al who highlight that there is no broadly accepted method for measuring social value creation, necessary for comparative assessments of IB impacts on poverty reduction because it is difficult to reduce social value into a quantifiable measure⁶¹. Nevertheless the G20 Challenge on Inclusive Business demonstrates an attempt to undertake a comparison of IB initiatives based on innovation, development results, potential for growth, financial sustainability, and environmental and social sustainability.

A number of donor agencies and business leadership forums have focused on achieving greater rigour and consistency in the use of performance indicators. The BCtA, for example, has developed a standardised Results Reporting Framework Tool⁶² to guide its member companies and to facilitate learning and aggregation of results across IB initiatives. Member companies are required to report development and commercial results of their IB initiative annually across seven broad impact areas: investment, job creation, enterprise development, human capital development, income generation, goods and services provision, and infrastructure and

⁵⁷ "Creating Value for All: Strategies for Doing Business with the Poor", UNDP, 2008, p.17.

⁵⁸ Voices of the Poor, World Bank, 2000.

⁵⁹ IBID.

⁶⁰ Approaches companies use to track their social impact: A comparison of four options, BIF, 2012, p.1.

⁶¹ <http://www.enterprise-development.org/page/inclusive-business>, The Donor Committee for Enterprise Development, 2014

⁶² Measuring Value of Business Call to Action Initiatives: A Results Reporting Framework, BCtA, 2013.

sustainability⁶³. Likewise Sida have created a commercial viability and development indices matrix to measure the success of IB initiatives.

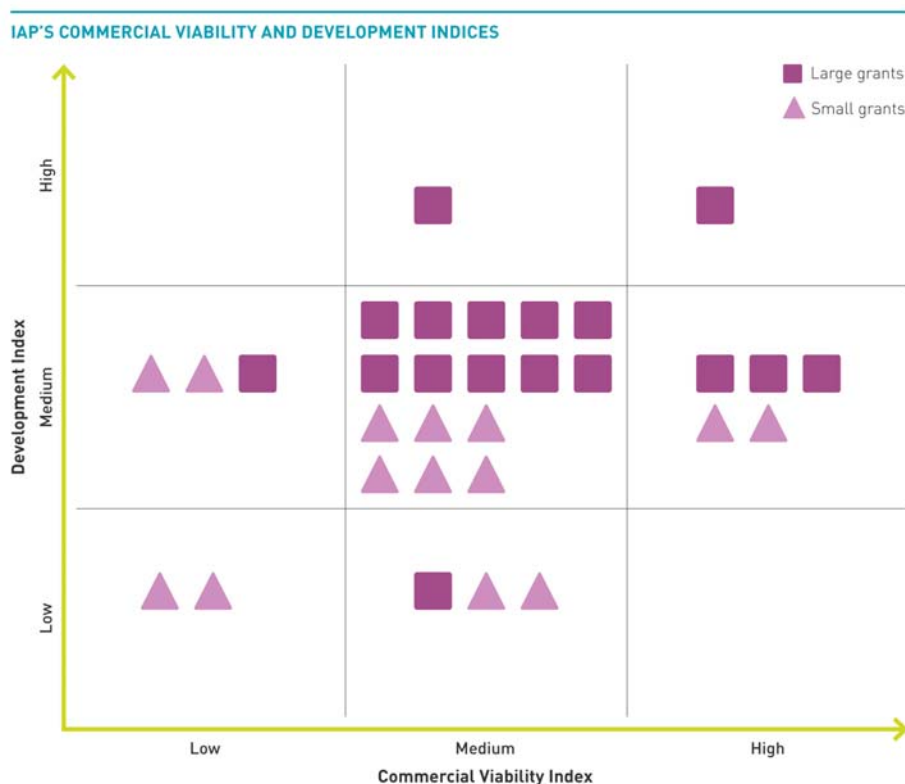


Figure 1: Sida's Innovations Against Poverty Commercial Viability and Development Indices

In a broader sense, the WBCSD has developed a series of tools for companies to measure their socio-economic impact. Of specific relevance to IB measurement is the WBCSD's MDG Scan – which estimates the number of people that a company is affecting in relation to the MDG's – and Input-Output Modelling – which enables a company to calculate the total number of jobs supported and economic value added by a company and its supply chain in nominated country⁶⁴. In addition to the WBCSD's measurement tools, the organisation highlights another five independent IB measurement and evaluation tools.

Research by USAID, however, suggests that partnerships and IBs that systematically measure development and commercial outcomes, as opposed to simply inputs and outputs, remain limited.

In a study of 70 public-private sector alliances involving USAID⁶⁵, the researchers found that the metrics used to capture alliance effectiveness typically focused on compliance requirements, and inputs and outputs relating to project execution, such as labour costs and number of training course completed; rather than development outcomes and impacts, such as quantifiable improvements in human development indicators.

The research found that fewer than half (39%) of alliances presented outcomes-based measures in their documentation. Furthermore, only about a quarter (26%) of alliances applied any form of metric to capture the value of their private sector partners, such as improved market penetration for goods and services⁶⁶.

For 'Market Model' alliances, which the study defined as those partnerships that support core business activities (representing 30% of alliances studied), the researchers found three standard outcome metrics in use:

⁶³ IBID, p.5

⁶⁴ Measuring socio-economic impact, a guide for business, WBCSD, 2014

⁶⁵ Models and Metrics for Effective Private Sector Engagement: Reflections on 70 Global Development Alliances, USAID, 2011.

⁶⁶ IBID, p.10.

1. *Income*: Percent change in program beneficiary income
2. *Access*: Number of beneficiaries with increased access to products and services through commercial channels
3. *Investment*: Value of sustaining private sector investment in local economies or public goods⁶⁷.

Lessons from CSV and M4P

Lessons on measurement of IB model effectiveness can also be drawn from the emerging fields of CSV and M4P.

In their paper 'Measuring Shared Value' (CSV), consultancy firm FSG⁶⁸ examined emerging measurement practices of 12 leading multinational companies that are pursuing CSV strategies. Similar, to the reporting frameworks developed by the BCtA and a number of donor agencies, FSG suggest that effective measurement of CSV initiatives requires consideration and integration of business outcomes and social outcomes. The table below illustrates how shared value results could be measured for different shared value models.

Shared value models	Business results	Social results
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profits	<ul style="list-style-type: none"> Increased revenue Increased market share Increased market growth Improved profitability 	<ul style="list-style-type: none"> Improved patient care Reduced carbon footprint Improved nutrition Improved education
Redefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	<ul style="list-style-type: none"> Improved productivity Reduced logistical and operating costs Secured supply Improved quality Improved profitability 	<ul style="list-style-type: none"> Reduced energy use Reduced water use Reduced raw materials Improved job skills Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	<ul style="list-style-type: none"> Reduced costs Secured supply Improved distribution infrastructure Improved workforce access Improved profitability 	<ul style="list-style-type: none"> Improved education Increased job creation Improved health Improved incomes

Table 3: Shared value – illustrative metrics (adapted from FSG⁶⁹)

FSG argue that effective shared value measurement requires companies to go beyond the assessment of individual business results and social results, and consider how the linkages between these outcomes can be leveraged to create new opportunities for value creation. Their study suggests that few companies have reached this level of measurement and strategy creation to-date.

While beyond the scope of this report, effective monitoring and evaluation has also been a focus of donor-driven private sector development initiatives, including the M4P approach. For example, the development consultancy ITAD together with DFID⁷⁰ have recently released a comprehensive study of evaluation methods and approaches used by M4P practitioners; while DFAT's recently completed Enterprise Challenge Fund applied the Donor Committee for Enterprise Development (DCED) Standard for Results Measurement to its 21 pilot projects⁷¹.

⁶⁷ IBID, p.19.

⁶⁸ Measuring Shared Value: How to Unlock Value by Linking Social and Business Results, Michael E. Porter, Greg Hills, Marc Pfitzer, Sonja Patscheke, and Elizabeth Hawkins, FSG, 2012.

⁶⁹ IBID, p.3.

⁷⁰ Review of M4P Evaluation Methods and Approaches, ITAD and UK Aid, 2013.

⁷¹ Enterprise Challenge Fund for the Pacific and South-East Asia: Project Completion Report, Coffey International Development and AusAID, 2013.

WHAT ARE THE FEATURES OF THE MOST EFFECTIVE IBS?

Given that the IB concept is at an early phase in its evolution, the defining characteristics of effective IBs is not yet fully understood. There is, however, an emerging literature that seeks to improve understanding of both the barriers and enabling factors required to bring IB initiative to scale, achieve systemic change and create sustainable commercial returns.

Barriers to scale

While IB initiatives have proliferated over the past decade and a range of success stories exist, relatively few have achieved the full potential of going to scale. For businesses, achieving scale is important to compensate for low margins in developing markets and for reaching commercial viability; for development actors, achieving scale is critical in meeting the MDGs in a sustainable way.

As such, it can be recognised that the barriers of going to scale are both internal and external to a company's operations.

Within this context, a range of studies have identified external barriers to IB effectiveness⁷². Common themes identified include lack of access to finance and technical support, insufficient market knowledge of IB, inadequate infrastructure and skills, and ineffective regulation.

Drawing on its experience supporting IB initiatives globally, the IFC has identified five overarching external challenges that companies must address in order to be effective and reach scale of impact: expanding reach; facilitating access to finance; changing mindsets and behaviors; designing appropriate products and services; pricing and payment⁷³. The IFC identifies a range of tactics that can be employed by companies to meet these challenges, depending on their particular organisational and environmental context.

In a study published in 2013, "Scaling Up Inclusive Business"⁷⁴, the WBCSD sought to understand the internal barriers to IB success. Drawing on the experiences of 12 companies and insights from independent experts, the study identifies three common internal barriers to achieving scale, along with potential solutions, listed in Figure 2.

- **Barrier 1: Opportunity cost of investment** - IB investment often have lower expected rates of return, or longer time horizons, making it difficult for corporate decision-makers to justify investment.
- **Barrier 2: Strategic and operational misalignment** - IB models are often different from a company's existing business model and, as a result, existing operating structures and processes cannot easily be leveraged.
- **Barrier 3: Capability gaps** - The extent to which capabilities need to be adapted or built from scratch is a critical factor in companies' ability to scale their IB models. When IB models differ greatly from existing business models, capability gaps are likely to emerge.

⁷² See for example: Enterprise Challenge Fund for the Pacific and South-East Asia - Project Completion Report, Coffey International Development and AusAID, 2013; From Paper to Practice: Learning from the Journeys of Inclusive Business Start-ups, SIDA, 2013.

⁷³ Inclusive Business Solutions: Expanding Access at the Base of the Pyramid, IFC, 2013.

⁷⁴ Scaling up Inclusive Business – How to Overcome Internal Barriers, WBCSD, 2013.

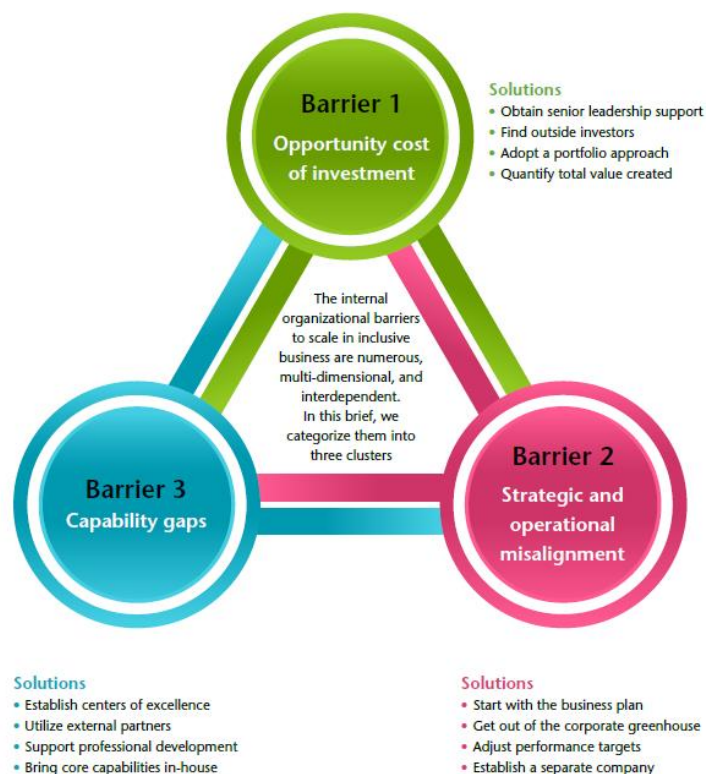


Figure 2: Barriers and solutions to scale IB initiatives (WBCSD⁷⁵)

As a result of these internal and external barriers, these studies suggest that IB initiatives can take a number of years to get off the ground and achieve development impact.

Enabling factors for IB

Alongside identifying barriers to scale, a number of studies have focused on the enabling factors for IB.

Drawing on the experiences of 30 leading companies, Marc Pfitzer, Valerrie Bockstette and Mike Stamp of FSG⁷⁶ suggest that there are five mutually reinforcing elements that are evident in successful CSV initiatives.

1. *Embedding social purpose* – leading companies see CSV as part of the their mission.
2. *Defining the social need* – leading companies invest time and resources to understand underlying social conditions and how best to change them.
3. *Measuring shared value* – leading companies monitor and evaluate the social and business value created, using this data as an evidence base for further investment.
4. *Creating the optimal innovation structure* – leading firms consider the optimal structures for investing in CSV initiatives given their business context, such as integrating with legacy business, creating semiautonomous units, obtaining philanthropic or government support, and financing external entrepreneurs.
5. *Co-creating with external stakeholders* – leading companies deeply involve stakeholders in identifying the dimensions of the problem and designing and implementing solutions.

The authors cite a range of companies that have successfully applied these principles to their CSV initiatives, including Nestle, Unilever, Danone, Coca-Cola and IBM.

⁷⁵ IBID.

⁷⁶ Innovating for Shared Value, Marc Pfitzer, Valerrie Bockstette and Mike Stamp, Harvard Business Review, 2013.

In an independent study of 14 IFC IB clients by the Harvard Kennedy School, Beth Jenkins and Eriko Ishikawa⁷⁷ suggest a number of enabling factors for scaling-up IBs, including networks and technology to reach vast number of low-income customers in an economical way; adequate financing and capacity building initiatives for consumers, distributors and suppliers that are linked to IBs; and collaboration with a range of market and development actors. The authors argue that most of the commercially viable, scalable examples of IB supported by the IFC take a ‘whole pyramid’ approach, in which higher-paying customers enable the company to cross-subsidise or to recoup the cost of up-front investments and expand service to low-paying customers at a low marginal cost⁷⁸.

Building on the theme of commercial viability, in his paper “Reality Check at the Base of the Pyramid”, Erick Simanis⁷⁹ argues that the traditional BOP model of selling high quantities at low cost to achieve profitability has proven unrealistic for most companies in developing country markets due to the high market penetration rates required to achieve long-term commercial sustainability. He instead argues for a ‘margin boosting’ model, based on pushing down variable costs and boosting the price consumers are willing to pay for a unit of product. He cites S.C. Johnson as a success story, which has launched an insecticide product in rural Ghana as part of an effort to reduce malaria infection.

A number of donor studies and IB pilot programs, including those supported by DFID and SIDA⁸⁰, have emphasised the important role that agencies, and private foundations, can play in providing finance and technical assistance in the early stages IB development, where models are unproven and market data is unreliable.

In their paper “Tackling Barriers to Scale”⁸¹, Christina Gradl and Beth Jenkins at the Harvard Kennedy School argue that to achieve scale of impact and overcome institutional barriers, businesses need to broaden their focus from developing IB models to strengthening IB ecosystems. This can be achieved, they suggest, by strategically engaging other IB actors – such as companies, governments, intermediaries, NGOs, public and private donors – that determine the overall institutional context for IB success.

Focusing on the role of donor agencies, Harvard Kennedy School’s Jane Nelson has identified five primary forms of support that can help companies address the organisational, market, and governance barriers they face doing IB⁸².

1. Building the capacity of BOP producers and consumers, e.g. via public awareness, training, business development services, and access to financing.
2. Offering financing, risk-sharing, and technical assistance to companies targeting the BOP, e.g. via challenge funds, loan guarantees, grant and in-kind support for research and development, feasibility studies, and impact assessment.
3. Convening and supporting intermediaries and platforms, including institutions that offer aggregation and capacity- building support as well as associations, forums, and events for networking, matchmaking, and knowledge-sharing.
4. Improving the policy and regulatory environment for inclusive business, e.g. by encouraging governments to improve the overall investment climate, create incentives for inclusive business, and foster legal empowerment of the poor.
5. Endorsing market-based solutions to development challenges, making the case that profit-making and poverty alleviation can go hand-in-hand—overcoming skepticism and increasing public support for inclusive business.

⁷⁷ Scaling up Inclusive Business: Advancing the Knowledge and Action Agenda, Beth Jenkins and Eriko Ishikawa, Harvard Kennedy School, 2010.

⁷⁸ IBID, p.11.

⁷⁹ Reality Check at the Bottom of the Pyramid, Erik Simanis, Harvard Business Review, 2012.

⁸⁰ IBID.

⁸¹ Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems, Christina Gradl and Beth Jenkins, Harvard Kennedy School, 2011.

⁸² Cited in Inclusive Business Solutions: Expanding Access at the Base of the Pyramid, IFC, 2010.

Sector focus

Although systematic analysis of the characteristics of effective IBs remain elusive, based on the experience of B4MD and a assessment of recent donor studies, it is possible to draw some preliminary conclusion in regards to the sectoral focus of IB initiatives.

A review of programs by BCTA⁸³, SIDA and DFAT⁸⁴, suggest that businesses from the food and agribusiness sector make up the highest proportion of companies launching IB initiatives, whether supported by donor agencies or not. Other industries that have seen significant numbers of IBs emerge include financial services, energy and infrastructure, technology and telecommunications. Companies in these industries appear to have achieved the strongest alignment between commercial and development objectives; whether long-term, sustainable outcomes are achieved remains to be seen for many initiatives.

WHAT HAS MOTIVATED THE COMPANIES BEHIND THE MORE EFFECTIVE IB'S?

Research suggests a wide range of motivating factors (or drivers) for companies launching IB initiatives. Motivating factors include the potential to achieve commercial benefit, the opportunity to contribute to social outcomes, and the desire to align company actions with individual and company values.

In its flagship publication, “Creating Value for All”⁸⁵, UNDP identifies five potential commercial drivers for IBs, summarised in Table 4.

Commercial driver	Description
1. Generating profits	<ul style="list-style-type: none"> Business with the poor can sometimes yield higher rates of return than ventures in developed markets due to the large quantities sold. For example, Smart Communications, a company providing prepaid phone services to mainly low-income consumers in the Philippines, became the most profitable of the country's 5,000 largest corporations.
2. Developing new markets	<ul style="list-style-type: none"> The 4 billion people at the BOP represents a potentially huge market of undeserved customers with combined income of approximately \$5 trillion. Business models that offer better value for money - or entirely new products and services to improve the lives of the poor – are viewed as new market opportunities.
3. Driving innovation	<ul style="list-style-type: none"> The challenge of developing IB models can lead to innovations that contribute to a company's competitiveness. For example, to meet the preferences and needs of the poor, firms must offer new combinations of price and performance. The experiences gained in BOP markets can then be leveraged in other markets contexts. As an example GE's Emerging Health Unit have developed a suite of maternal and child health technologies suited to village and remote clinic application in the developing world.
4. Expanding the labour pool	<ul style="list-style-type: none"> The poor are a large source of labour. The advantages of hiring them as employees go beyond cost savings. With adequate training and well-targeted marketing, the poor can deliver high-quality products and services. Through their local knowledge and connections, the poor also understand the needs of other poor consumers in their communities. The Coca Cola company utilises

⁸³ BCTA Annual Review 2012, BCTA.

⁸⁴ IBID.

⁸⁵ “Creating Value for All: Strategies for Doing Business with the Poor”, UNDP, 2008.

	low cost micro distribution outlets which draw on local knowledge and networks to sell their product ⁸⁶ .
5. Strengthening value chains.	<ul style="list-style-type: none"> For firms that procure locally, incorporating the poor in business value chains—as producers, suppliers, distributors, retailers and franchisees—can expand supply and lower risk, thereby reducing costs and increasing flexibility. SAB Miller India procures barley from poor farmers to be used in beer products produced in country⁸⁷.

Table 4: Commercial drivers for IBs⁸⁸

Along with the five core commercial drivers listed above, researchers have identified a number of other stated drivers or benefits of IB.

- *Enhancing brand and reputation* – Companies see IB initiatives as a means to achieve greater brand awareness in the market. Through its high-profile commitment to CSV, Nestle has managed to enhance brand perceptions in the market and among a range of stakeholders.
- *Increasing productivity* – In “Creating Shared Value”⁸⁹, Michael Porter and Mark Kramer have outlined how CSV initiatives can lead to a range of productivity improvements, such as company health and wellness programs that both improve employee and community health and lower costs due to absenteeism and ill-health.
- *Values* – For some companies, a key driver for IB initiative has been to reconnect with their firm’s underlying vision or to actively demonstrate their CSR or corporate citizenship credentials. This also has an associated benefit of increasing the ‘employer of choice’ perception of companies in engaging and retaining staff.
- *Building and maintaining social license to operate* – the term social license to operate (SLO) has been described as stakeholder perceptions regarding the legitimacy of a project, a company or an industry (separate to a regulatory license)⁹⁰. SLO is a measure of socio-political risk and the terminology is increasingly used in the resources sector. IB initiatives can assist companies to improve their SLO amongst a community through the creation of jobs and economic opportunities.

WHO USES IB MODELS?

Ultimately, companies use and implement IB models however, it must be recognised that the implementation of these models is supported by a diverse eco-system of actors including government, NGO’s, academia, brokers and thought leaders who encourage and facilitate their occurrence creating an environment within which they take place.

The businesses that create and use IB models range widely. Caroline Ashley at the Overseas Development Institute (ODI) has identified at least four different situations in which IB is applied in practice:

1. Commercial businesses selling mobile phones, banking services, health services or other products that are needed by the poor and have high development impact.
2. Large companies, both national and multinational that have a considerable footprint on poverty in the normal course of their business, and take deliberate action to expand development impacts through supply and distribution chains, or research and development.
3. Small and medium domestic enterprises that are fully commercial businesses but have local economic development as an explicit driver, because they are embedded in the local economy.

⁸⁶ Enabling Jobs and Opportunities at the Base of the Pyramid, Business Call to Action, 2010

⁸⁷ Improving Barley Supply Chains, Business Call to Action, 2008

⁸⁸ IBID, p.16.

⁸⁹ IBID, p.8

⁹⁰ <http://www.globalskm.com/Insights/Achieve-Magazine/Issue4-2011/article1.aspx>, KPMG, 2013.

4. Social enterprises, or social businesses, whose core product is of high social value, and have chosen to replace the traditional non-profit model of delivery with market mechanisms and a commercial model of delivery⁹¹.

Similarly, the Business Innovation Facility (BIF), founded by the UK Department for International Development (DFID), has identified three broad IB models being applied across businesses of all sizes and types⁹². Table 5 summarises these approaches and provides some examples of IB in practice.

IB model	IB in practice
1. Bottom of the pyramid (BOP) participation in inclusive value chains. Approach: Companies develop or adapt existing supply and distribution chains in ways that increase the participation of low-income producers, suppliers, workers, traders, distributors, or vendors.	Amul Dairy is a market leader in the Indian milk industry. To further enhance its value chain and secure its supply of milk, the company organised 2.8 million poor farmers into farmer groupings at the village level in Northern India with improved collection points, quality testing and payment processors. Together, these small holder farmer groupings now produce and sell more than 10 million litres of milk per day which is essential to their income ⁹³ .
2. Product Innovation for hard-to-reach consumers. Approach: Companies develop new, or adapt existing products and services to meet the wants and needs of low-income consumers; enabling greater access to these products and services in underserved markets in urban and rural areas.	Up to a quarter of Filipino's work and live abroad sending remittance payments to poor and disadvantaged family members to support their incomes. Smart Communications a leader of internet and mobile phone services based in the Philippines responded to the opportunity that existed by creating a mobile phone platform for fast, safe and reliable money transfers that were significantly cheaper than existing money transfer services and more inclusive of the poor ⁹⁴ .
3. Environmental sustainability. Approach: Create low carbon, climate-resilient businesses that help business and communities adapt to a changing environment.	India's largest manufacturer of paper, Ballarpur Industries Ltd has sought to increase the supply of a sustainable pulpwood into its processing centres. To do so, the company has committed to working with 5,000 small holder farmer families who will be provided with support services to farm the pulpwood through the provision of finance and training. It is expected that these families will be able to increase their income through the sale of the pulpwood back to Ballarpur ⁹⁵ .

Table 5: IB models (adapted from BIF, 2012)

⁹¹ Harnessing core business for development impact, Caroline Ashley, Overseas Development Institute, 2009.

⁹² Spotlight on Inclusive Business: What Is Inclusive Business, BIF, 2012.

⁹³ The MDG's: Everyone's Business: How Inclusive Business Models Contribute to Development and Who Supports Them", UNDP, 2010.

⁹⁴ Smart Communications: Low-cost Money Transfers for Overseas Filipino Workers, Growing Inclusive Markets, UNDP, 2008

⁹⁵ Fighting Poverty through Sustainable Tree Farming, Business Call to Action, 2010

3. IB DECISION ROADMAP

IB DECISION ROADMAP OVERVIEW

In deciding whether to launch an IB venture, companies typically progress through three phases of decision making. An understanding of these phases, and the key barriers and enabling factors that help companies progress, is an important starting point for considering how donors can support the development of IB. The three phases can be identified as:

4. Creating Awareness of IB
5. Early Development of an IB Concept
6. Starting an IB

Figure 3 provides an overview of the IB decision roadmap, drawing on B4MD's experience as an IB broker, the experiences of a selection of B4MD clients, as well as international best practice case studies and research. The roadmap includes key broker activities, lessons learned, and challenges to acceleration at each phase.

Similar to studies conducted by IB researchers globally, B4MD's experience suggests a range of factors/drivers influence the decision to engage in an IB initiative. These include the personal values of the company executive, the opportunity for revenue growth presented by fast-growing developing country markets, and the opportunity to access a low-cost, secure supply of raw materials for production.

A range of internal and external barriers, however, impact on the ability of a company executive to move from the awareness phase to starting an IB. Internal barriers include business readiness in terms of executive understanding of IB, the opportunity cost of investing in an IB initiative versus competing business priorities, and the ability to accurately quantify the opportunity and risk. Key external barriers include perceptions regarding the risk profile of developing country markets, including concerns regarding political stability and poor infrastructure, and access to markets for IB products.

B4MD have found a number of enabling factors important to address these barriers. Key factors include company success stories to inspire action; in-country missions to improve understanding of business conditions and build empathy for the poor; the ability of the IB broker to sell the value proposition of IB and to guide and educate the company from early development to starting and IB; the level of alignment between commercial objectives and the IB initiative; and government and donor agency political endorsement and support throughout the process.

Both these internal and external barriers are reflected in the IB Decision Roadmap which forms the basis of the second half of this report. A detailed description of each phase is provided in Chapters 3, 4 and 5.

Table 6 outlines B4MD's experience as a broker across the IB Decision Roadmap.



Figure 3: Overview of the IB decision roadmap

OVERVIEW OF B4MD'S ROLE ACROSS THE IB DECISION ROADMAP

Step 1: Creating Awareness		
B4MD Strategic Pillar	Example activity	Outcomes
Leadership & Innovation B4MD raises awareness and provides market insights (both geographic and industry) on inclusive business opportunities in developing countries for industry leaders through events, workshops, sharing best practice, and evidence based research.	<ul style="list-style-type: none"> In October 2013, B4MD led a session and workshop on 'Procurement with Purpose' at the 9th annual Chartered Institute of Procurement and Supply (CIPSA) Conference in Melbourne. The session aimed to demonstrate how supply chain expertise and innovation can connect BOP markets to Australian businesses. In November 2013, B4MD in partnership with UNDP hosted a Business Leaders Roundtable in Singapore to build awareness of inclusive business opportunities in Myanmar over the medium to long term. 	<ul style="list-style-type: none"> 400 senior management from the Australian Procurement and Supply Industry were made aware of IB and related opportunities in developing markets through participation in a IB keynote session. 80 people participated in an IB Design Workshop 30 senior executives from the food and agribusiness sector participated in the event. A leading global healthcare company has undertaken early development of an IB concept through participation in a B4MD led validation mission. A leading agribusiness chemical company is also exploring early phase concept development
Step 2: Early Development of an Inclusive Business Concept		
B4MD Strategic Pillar	Example activity	Outcomes
New Connections & Intelligence B4MD generates new connections and ideas for innovative commercial opportunities to reduce poverty through our network of contacts in business, government and NGO sector. B4MD also conduct business missions to the developing world.	<ul style="list-style-type: none"> In June 2013, B4MD led a business mission to Lembang (West Java) to investigate opportunities to increase incomes of poor dairy farmers through increasing farmer yields by improving feed quality and cow health. 	<ul style="list-style-type: none"> B4MD is currently in discussions with a multinational food products company regarding funding to be provided to these dairy farmers to increase yields as well as create direct linkages with the company's value chain. A well-known Australian cheese brand has in principal committed \$1M of assets to the project.
Step 3: Starting an Inclusive Business		
B4MD Strategic Pillar	Example activity	
New Project Opportunities B4MD works with companies on the development of new inclusive businesses, building project consortia, coordinating feasibility studies, and	<ul style="list-style-type: none"> B4MD worked in partnership with Mondelez International to identify how cocoa producers in Papua New Guinea can be connected into an ethical, locally beneficial supply solution that enhances yields and increases farmer incomes. 	<ul style="list-style-type: none"> B4MD brokered a partnership between Mondelez International and Morobe Mining Joint Ventures. The project was designed to impact 1,000 farmer families. Over \$60,000 of farming tools have been provided to the

facilitating business planning.	<ul style="list-style-type: none"> B4MD is working in partnership with a leading resoruces company in PNG to develop an inclusive business operation focused on the establishment of a sustainable, community owned pork industry in the Southern Highlands of Papua New Guinea aimed at creating employment and economic activity. 	<p>farming communities</p> <ul style="list-style-type: none"> A successful pilot has been completed with local staff employed and trained to administer farm operations. The next phase of the project is to scale up operations and to procure feedstock from poor women vegetable growers in the Highlands.
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Table 6: Overview of B4MD's role across the IB Decision Roadmap

4. PHASE ONE: CREATING AWARENESS OF INCLUSIVE BUSINESS

IB DOESN'T HAPPEN UNLESS THE RIGHT PEOPLE ARE AWARE OF THE OPPORTUNITY

Phase one in the IB decision roadmap involves the creation of awareness among the corporate sector. In the context of this report, awareness of IB means that a company executive recognises that there is a genuine opportunity to do business with the poor, and that IB initiatives can achieve both commercial and development outcomes.

HOW DO COMPANIES BECOME AWARE OF IB – KEY ACTIVITIES

Awareness of IB is achieved through a number of communication channels, including websites, events and summits, thought leadership, workshops, and in-country missions. The sequence by which organisations become aware of IB varies from company to company, and typically involves more than one channel.

Websites

Websites play an important role in disseminating thought leadership and best practice case studies, which companies can draw on to build support for IB internally.

For B4MD, the website provides a cost-effective tool for advocating IB to a broad audience and also acts as a channel for inviting closer engagement with companies, either through attendance at an IB event, or through one-on-one dialogue.

As an awareness-raising tool, websites also have limitations. Developing the material to broadcast requires significant time and resources, including engagement with a range of business groups and other stakeholders. As a small NGO, B4MD has limited resources to maintain the website, particularly in comparison to some larger, dedicated IB information sites, such as Business Fights Poverty (an online initiative funded by DFID), which has over 12,000 members.

Summits and Events

Summits and events play a major role in building the profile of IB and allow participants to hear insights from leading companies.

B4MD organises a number of IB summits and events each year. Attendance at an event has often been a catalyst for companies moving to the next stage in the IB decision roadmap. For example, in 2010 B4MD hosted Nobel Laureate Professor Mohammed Yunus at IB summits in Melbourne, Sydney and Canberra. One of the attendees at the summit, George Westin Foods (now AB Mauri – see case study below), attributed their decision to become a B4MD member and participate in an in-country mission after being inspired by Yunus' speech.

Events have a number of limitations for the awareness-building process. Firstly, the level of engagement possible with individual companies is limited due to the focus on presentations. Follow-up one-on-one engagement with companies is therefore critical to understand individual needs and business context. Secondly, while B4MD works hard to build networks and attract prominent speakers to events, there is a limit to what one NGO can achieve compared to the resources and convening power of larger organisations.

Case study: WorleyParsons

Hearing firsthand the experiences of leading multinational companies has been critical in shaping WorleyParsons understanding of Inclusive Business (IB).

WorleyParsons is a leading provider of professional services to the resources and energy sectors, and complex process industries. It has a global footprint that includes a presence in developing regions such as Africa, Latin America and Asia. Mindful of its global presence, WorleyParsons has a growing commitment to an active Corporate Responsibility program in the communities within which it operates and recognises the potential to engage its supply chain partners in the development of IB initiatives.

Marni Oaten, WorleyParsons' General Manager for Corporate Responsibility, first became aware of the concept of IB after reading related articles in leading business journals such as Harvard Business Review and McKinsey Quarterly. Marni's understanding of IB was further strengthened after attending a Creating Shared Value Summit hosted by B4MD in Melbourne in 2011, where high level business leaders such as former BHP Billiton CEO, Marius Kloppers, and PepsiCo Philippines Country Manager, Sunil D'Souza, talked about practical ways in which they had undertaken IB initiatives.

WorleyParsons has a long history of giving to the communities where it operates. The company's Corporate Responsibility focus in recent years has been on improved reporting of the hundreds of community facing projects each year, while establishing core programs in areas such as education, road safety and skilled volunteering, helped along by the recent addition of the WorleyParsons Foundation. Attendance at IB events has been helpful in learning best practice examples and stimulating thinking around what IB opportunities may exist for longer term, sustainable business partnerships that culturally fit with a professional service firm such as Worley Parsons.

The company is working to advance beyond an awareness of IB to early stage concept development and develop a deeper understanding of IB, including how IB initiatives can co-exist with other business priorities, in collaboration with customers. The concept of IB remains unfamiliar to many executives and is challenged by short term pressures within the consulting business model, and it can therefore be a difficult concept to communicate, says Marni.

Marni believes that DFAT and other donor agencies can be a proactive partner with businesses such as WorleyParsons by making introductions to host country governments and helping to facilitate potential IB opportunities.

Case study: Business Call to Action (BCtA)

The BCtA's Annual Summit and regional events provide a central focal point for the IB community.

Since 2008, BCtA's Annual Event, held in New York City, has played a critical role in bringing business, government and NGO leaders together to foster understanding of the opportunities and challenges of IB and to demonstrate firsthand the commitments of leading companies.

Held in advance of the 68th Session of the United Nations General Assembly, the 2013 Annual Event was presented to a diverse group of delegates from over 150 organisations. Reflecting the growth of IB activities globally and the significant opportunities for knowledge sharing that this presents, the 2013 event focused on how leading companies had overcome significant challenges in the implementation of their IB's. Speakers at the half day event included Greg Priest, Head of Sustainability Policy, IKEA Group, Mark Devadason, Group Head for Sustainability and Regions, Standard Chartered and Carlos Nomoto, Sustainability Director, Santander Brazil.

Commenting on the event, Sigrid Kaag, Assistant Secretary-General, Bureau of External Relations and Advocacy of UNDP, noted the important role that the BCtA plays in building awareness of IB. "Inclusive business is gaining momentum. When emerging market corporations from Brazil, India and Turkey stand alongside corporations from Sweden, Japan and the United States to be united in their pursuit of corporate and social impact, we know that BCtA and UNDP are at the forefront of leading change"⁹⁶.

This event has proved to be a central focal point for the IB community around the world given the close association with the United Nations Development Programme and the hosting of the event as part of the United Nations Global Compact Summit. Along with its Annual Event, the BCtA sponsors a range of activities and event throughout the calendar year to share expertise, knowledge and best practice for market based approaches to development. Since its inception, BCtA has held events in Japan, Indonesia, Singapore, India, Holland, Australia and Spain, as well as hosting a series of online educational webinars on specific IB topics.

Thought Leadership

The publication of thought leadership provides a further opportunity to build the profile on IB and disseminate best practice.

B4MD has been commissioned to undertake research on IB and related topics. For example, in 2012 B4MD in partnership with Accenture Development Partners, was commissioned by DFAT (then AusAID) to conduct a survey of Australian businesses sector to understand perceptions on the role of business in development and potential engagement between the business sector and AusAID. The publication of studies such as this helps to further build awareness of IB and provide an evidence base to inform government policy and business strategy.

⁹⁶ Business Call to Action, <http://www.businesscalltoaction.org/news-events/annual-event-2013/>, 2014

Workshops

Workshops help to build a deeper understanding of IB concepts and how it could be applied to specific business contexts.

B4MD conducts half-day design workshops with companies, government agencies and NGOs. The workshops provide participants with an opportunity to design a basic IB initiative for their own organisation. Participants come away from the workshops with the confidence and tools needed to begin the process of developing an IB.

Design workshops are sometimes attached as a stream at a major conference, or offered as a stand-alone event. For example, in November 2013, B4MD, with support from the BCtA, delivered a half-day workshop in Singapore for members of the Singapore Compact, a network of progressive businesses looking to further the CSR and IB agenda in Asia. B4MD also develops targeted full day or two-day events for individual companies.

While the workshop provides a valuable means to build understanding IB, gaining sufficient attendance at events can be a challenge due to the limited profile and resources of B4MD, and the fact that IB remains a new concept for many companies.

The ability to leverage the convening power and influence of partner organisations is critical to the success of workshops.

Exploratory Missions

Exploratory missions, similar to trade missions conducted by Austrade, provide companies with a first-hand snapshot of the opportunities and challenges of launching an IB, and help to build empathy for the poor.

B4MD leads exploratory missions to developing country markets with a genuine potential for launching IB initiatives. Missions are typically three days in length.

In 2012, for example, B4MD conducted a mission to East Java, one of Indonesia's fastest growing regions, to assess the potential for IB in the agribusiness sector. The mission was supported by the WA Department of State Development, DFAT, the Australia Indonesia Business Council and Nestle, and was hosted by the Governor of East Java Province. Approximately 20 Australian and Indonesian-owned companies participated in the mission. Australian-owned companies were engaged based on their level of interest and strategic fit, and included companies with existing trade relationships in Indonesia.

The first day of the mission involved an introduction from the Governor of East Java, who outlined the economic opportunities for companies operating in the region, helped companies to understand some of challenges, and provided his personal support for business investment.

Day two started with B4MD providing participants with an overview of the theory and practice of IB, including the presentation of case studies of successful IB initiatives. This first session set the tone for the mission and provided companies with a sense of what they would see in the field. The remainder of the day was spent meeting with farmers, producers and business cooperatives to understand the challenges they face in attempting to scale their businesses and how this impacts their ability to move out of poverty.

The final day of the mission involved a debrief to consider the specific initiatives companies could undertake, key barriers to moving forward, and proposed next steps. B4MD developed a mission report to assess whether specific objectives had been met and conducted follow-up meetings with individual companies to determine next steps.

Missions provide critical exposure for companies considering an IB initiative and feedback has generally been very positive. Although only a small proportion of companies have to-date moved to the next phase of IB decision roadmap – on average, one company per mission, B4MD's experience is that building commitment to IB takes time and that missions are a critical part of the awareness-building process.

Missions also have a number of limitations as an awareness-raising tool. Firstly, relates to the cost of organising the missions, which can be significant. Secondly, given the short time frames and broad range of participants, there is limited capacity to focus on the needs of individual companies. Thirdly, as missions are often hosted and designed by regional governments, there is a reluctance to show the worst cases of poverty due to the perception that this will reflect poorly on the hosts. While it is important for missions to be respectful of the host government, there may be a need for a greater level of independence in future missions, or to engage a local NGO to co-design the program, to ensure companies gain a full appreciation of conditions on the ground.

Case study: AB Mauri

AB Mauri invests time in understanding IB

Michael White, Australian New Zealand Director of Procurement at AB Mauri, has always had some awareness of the concept of IB. This understanding can in part be attributed to his role in a global company that procures and manufactures yeast and bakery ingredients around the world.

Michael's understanding of IB has been strengthened overtime through participation in a series of events both in Australia and internationally, where he heard the experiences of leading companies. For Michael, one of the principal learnings from these events has been that successful IB ventures require CEO-level support in order for the initiative to be adopted by the company. "IB can't be led from the bottom, it has to be led from the top. Ultimately it doesn't matter what your sales manager wants, if the CEO doesn't buy it, it doesn't work" explains Michael. Michael acknowledges that a strong motivation for companies to undertake IB is reputational – the need to meet public expectations by demonstrating the social outcomes of their projects.

With the support of AB Mauri's divisional CEO, in 2011 Michael participated in an IB mission to Papua New Guinea (PNG) to explore cocoa procurement opportunities. Meeting with government, mining companies and small holder famers, mission delegates imagined together what it would look to create a supply chain that benefits farmers and companies alike. For Michael, the biggest learning from his time in PNG was that business can make a tangible difference in the lives of poor farming communities.

Although participation in IB events and missions have enabled Michael and his colleagues to build a stronger level of awareness of IB and its potential, the company has struggled to transition to the next phase and engage in early stage project development of concept. A specific challenge for AB Mauri has been competing business and social program priorities at

the company's parent company Associated British Foods. In addition, for the specific IB opportunities explored in PNG, the business case was not strong enough for the company to progress further, in part due a lack of interest from Australian supermarkets in promoting the social impact.

LESSONS LEARNED

Key factors/drivers behind the decision

From B4MDs experience, there is a range of motivators for companies and individuals that engage in activities at the awareness phase. This includes an interest in developing countries due to existing or potential market opportunities, a personal interest in international development, the opportunity to hear from global thought leaders at an IB event, or simply wanting to get a sense of where to start.

Reputation is also a key driver at the awareness phase. Companies are strongly motivated by competitive rivalry and there is desire to be associated with the initiatives if peer companies are already involved. A number of B4MD clients that have moved to the next phase of the IB decision roadmap have done so after hearing success stories from respected (or rival) firms; company executives do not like to feel that they are lagging their competitors.

The personal values, or social DNA, of the individual is also a critical factor in determining whether an initiative moves forward to the next phase. IB requires individuals with not only a strong understanding of the business case, but also an interest in social issues, whether this is drawn from a strong underlying personal moral code, experience in developing countries, or a desire to make change happen. The activities and engagement in the awareness phase provides an early opportunity for B4MD to identify leaders with both the personal values and seniority to drive a project forward.

The role of outside influencers/stakeholders on the decision making process

As identified in Chapter 1, a range of stakeholders determines the overall institutional context for IB and influence decision of companies whether to move to the next phase of the IB decision roadmap.

Peer companies play an important role in the awareness phase. Leading global companies that have thrown their support behind the IB/shared value concept and spoken at events, such as Nestle, have inspired other companies to reexamine their own mission and the opportunities of IB. In the Australian context, however, there remain very few examples of companies taking the lead in developing IB initiatives, which makes it difficult to build the profile of IB in Australia.

Government and donor agencies can play a key role in supporting the growth in awareness of IB by speaking out and endorsing the role of business in development; by providing financial and marketing support for IB summits and events, and facilitating the participation of Ministerial and senior departmental speakers; by convening and supporting multilateral initiatives such as the BCtA that galvanise business attention; by providing funding for research and thought leadership to disseminate best practice; and by sponsoring exploratory mission and facilitating meetings with host government representatives, similar the role played by Austrade.

Internationally, the UK government and DFID have played a leading role in fostering business interest in IB and development through consistent political leadership and funding support for initiatives. In Australia, DFAT have provided funding support for IB research and some business missions, however, there has not been the level of political support from government seen in some other donor countries.

In the NGO sector, B4MD has been the primary voice for IB in Australia. Globally, NGOs such as Oxfam have played an important role in shining the light on company value chains and their development impacts, such as the 2012 Behind the Brands campaign, which has been influential in the food industry. In Australia, World Vision and Save the Children have appointed managers responsible for building deeper relationships with the corporate sector, however, engagement initiatives are at a very early stage.

Academic institutions have a key role in educating the next generation of business leaders in IB. Some institutions, such as the Centre for Social Impact, have begun to incorporate IB/shared value concepts into their business curriculum, while others such as the University of New South Wales, have hosted forums on IB.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

While peer companies, donor agencies and NGOs all play an important role in building company awareness of IB, specific challenges need to be addressed in order for a company to take the next step in its IB journey.

Studies by IB researchers suggest that both internal barriers, such as capability gaps and the opportunity cost of investment, and external barriers, such as perceptions regarding political stability in developing country markets, need to be addressed for an IB decision to move forward. Conversely key enabling factors have been identified, such as alignment with social purpose and partnerships with external stakeholders, which have proven to be decisive in the most successful IB initiatives.

Internal barriers

For companies at the awareness phase, a key internal barrier is whether the IB initiatives aligns with business priorities. Unless there is a pressing, urgent need for an IB initiative that is linked to core business activity, it will get pushed down the priority list and is unlikely to move to the early stage development phase. If the IB initiative addresses a critical business need, such as securing a low-cost, reliable supply of raw materials, the project is likely to move to the next phase quickly.

A related internal challenge for the Australian operations of multinational companies, such as AB Mauri, is that they often don't have the authority to make the decision to launch an IB initiative in a developing country market. These decisions are ultimately made in global headquarters, which can seriously slow the decision-making process of the company, as well as curtail the influence of an IB broker in Australia. Advocacy of IB initiatives, therefore, needs to consider the global context in which a business operates.

For a broker such as B4MD with limited resources for business development activities, it is important to quickly assess the maturity of companies in term of their understanding of IB, alignment with business priorities and the capabilities and commitment of key managers, and to identify and focus energies on companies ready to move forward to the next phase.

External barriers

A key external barrier for Australian companies relate to perceived risk of investing in developing country markets. Australian companies, in general, have been slow to respond to the market opportunities presented by IB compared to European companies in particular, which have a long history and operational footprint in developing country markets.

From B4MD's experience, there tends to be a perception from Australian companies that there is too greater risk in developing country markets, whether that risk relates to political stability, protection of property rights, or the capacity of rural producers to deliver reliable supply of materials. A key role for brokers such as B4MD and donor agencies is therefore to educate companies on the realities of working on the ground and risk mitigation strategies. B4MD's business missions have played an important educational role by allowing companies hear from local voices and businesses with experience on the ground.

Enabling factors

A key enabling factor for IB at the awareness phase, as well as later phases, is whether the company representative involved has both an emotional connection with the issue, and a compelling business case for action. As a broker of IB initiatives, it is vital that B4MD has the capability to connect with a company on both a commercial and emotional level in order to move a project forward. This is key difference from mainstream business initiatives. An opportunity exists for donor agencies to facilitate the development of the next generation of business leaders with a social DNA to drive growth of IB in the Asia-Pacific. These individuals will have the experience and confidence to sell the value of IB to different audience, including business, government and civil society. In Australia there is currently a lack of IB leaders who can set the agenda.

Political support and leadership from government and donor agencies is another enabling factor at the awareness phases. As outlined in the previous section, this support can take a number of forms, however, the most important element is that there is consistent, authentic statements of support for IB so that it becomes a norm and an expectation of companies. These statements of support then need to be backed up with a clear plan of action.

The most powerful advocates for IB, nonetheless, will remain business to business. Globally renowned speakers, such as Professor Mohammed Yunus, have proven a great success in motivating companies to move to the next phase, however, it is difficult to bring speakers of this calibre to Australia every year. There is a potential role for DFAT to leverage its global networks and relationships with other donor agencies, such as DFID and USAID, to bring high quality speakers to Australia.

5. PHASE TWO: EARLY DEVELOPMENT OF AN IB CONCEPT

At the early development phase, companies have moved beyond basic awareness of IB and its potential to achieve commercial and development outcomes, and a specific idea has formed in the minds of the executive. For the project to move forward there must be a specific need in the business linked to core business activities.

HOW DOES B4MD AS A BROKER DEVELOP A BUSINESS CONCEPT WITH A COMPANY – KEY ACTIVITIES

Globally brokers have been shown to play an important role in the early stage development of an IB concept.

B4MD aims in the first instance to build a relationship at the right level in the company. We leverage our network and try to gain access to a c-level executive. From experience, if we start with the CSR manager or the procurement team, it can be very hard to move forward as they do not necessarily have influence with the CEO or the capability to build the business case. The key is finding the right internal champion – the person who has the credibility and passion to drive the IB initiative. If we don't have that person, or they are not at the right level of seniority, then things will not move forward quickly.

The early development phase involves the creation of concept notes; meetings and workshops to test and refine the idea; and validation missions to explore the realities of the proposed IB venture in the field.

Concept Notes

A concept note outlines the basic idea for an IB, including its commercial feasibility and potential development impact. The concept note provides the discussion point between the company and broker.

The initial concept for an IB can originate from a specific need identified by the company, or from B4MD as a broker drawing on our research and experience. For example, the concept may be to launch a low cost ultrasound scanner to improve maternal health outcomes in a specific developing country.

At this stage the IB concept is high level, and the idea tends to get sold more on hope and vision, rather than a clearly defined business case, which comes later. From B4MDs experience, the connection at this early stage is values based - it is very much about connecting to people's personal drivers. The relational skills of the broker at this point - the ability to paint a powerful picture of change - is very important.

Meetings and Workshops

B4MD meets with multiple people in the company to test and refine the concept, including representatives from CSR, procurement, strategy, and marketing departments.

Workshops provide an opportunity to bring a range of stakeholders together to build buy-in and co-design the concept. The workshop is where the executives really starts to own the initiative, rather than it being seen as the idea of outsiders.

Case study: Business Innovation Facility (BIF)

How the BIF is supporting the early stage development of IB ventures

The Business Innovation Facility (BIF) supports the growth of IB ventures by providing IB practitioners with an online space to connect and gain new practical knowledge. With funding provided by the UK Department for International Development (DFID), the BIF provides insights around the implementation of IB ventures through technical expertise, advisory services, knowledge exchange and project facilitation⁹⁷. The BIF ran as a three year pilot from 2010–2013 and was managed by PricewaterhouseCoopers (PwC). BIF is currently entering a second phase, with new projects in Myanmar and Malawi, and additional countries being added in 2014.

Central to the functioning of the BIF has been the dissemination of “insight” publications that deal with specific issues or areas of interest in the formation of IB enterprises. This knowledge exchange is primarily delivered through the Practitioners Hub, an online resource specifically designed for IB practitioners and includes resources such as tool kits, discussion forums and articles. Though much of the online resources can be applied across all IB contexts, the Facility also provides specific project support for companies developing IB opportunities in five target countries: Bangladesh, India, Malawi, Nigeria and Zambia.

In line with these advisory support and facilitation services, the BIF has worked with companies around their early stage IB concept development (known as “Short” projects – up to 20 days per project) in areas such as understanding market constraints and opportunities, mapping target markets and industries and facilitating workshops. Being a donor funded body, the BIF has been able to provide these services to client companies at no or minimal cost. As a result, the BIF has provided these support services to 68 companies at an estimated value of \$759,817⁹⁸. Sectors to benefit from these short project services include financial services, agribusiness, tourism, dairy and telecommunications. Interestingly, the majority of Short projects have been producer focused with 32 of these projects being from the agriculture and food sector. As a result of BIF’s efforts, 69% of all BIF workshop participants and 94% of all one-to-one supported individual provided a tangible example of something they had done differently through engagement with the BIF.

⁹⁷ <https://www.gov.uk/business-innovation-facility-bif>, GOV.UK, 2014

⁹⁸ Review of the Business Innovation Facility Portfolio, Business Innovation Facility, 2013

Validation Missions

Validation missions are where an IB initiative comes alive for companies - where initial concepts are validated and potential partners are identified. What seemed like a nice idea on a concept note can suddenly become a must do.

The missions are vital to understand the culture and challenges for a specific IB initiative (see case studies below). Until this stage, the IB concept has largely been discussed in theory and it is not until the in-country missions begin that practical realities can really be understood. The missions also provide an important opportunity for B4MD as the broker to solidify its relationship with the company.

Missions typically last for one week and cost over \$10 thousand to finance. Companies need to fund the missions, so developing a business case internally is a key hurdle at this stage.

The missions include meetings with a range of potential partners, including government representatives, businesses and NGOs, as well as project beneficiaries. Due to the challenges of working in a developing country market, it is difficult for companies to launch an IB initiative without strong partnerships.

Gaining the endorsement and support of host governments as part of the missions is very important for most companies to assuage concerns regarding sovereign risk. Companies also often look to government for co-financing in the form of grants to reduce start-up costs.

Connections built with other businesses operating in-country are also vital. The business-to-business connections are often the easiest to make as they speak the same language (the language of business) and have on-the-ground knowledge of business conditions. The importance of forming these business partnerships has been a key learning for B4MD. In many cases partnerships have been formed with mining companies given their established presence within many countries in the Asia-Pacific.

Missions typically end on a high, with company representatives feeling inspired to move forward and with some firm ideas on paper.

At the end of the mission, B4MD develops a mission report assessing whether objectives have been met. Over the following weeks, B4MD and the company sit down to discuss next steps. For some companies, there is very strong alignment with current business priorities and they are keen to move forward. For other companies, although they may see the potential for the IB initiative, the conditions or timing is just not right given other priorities in the business.

The seniority of the company representatives involved in the mission is critical. If they need to convince more senior people in the company, then B4MD will work out a plan to support them.

At this point, the company may wish to proceed alone, if they feel they have sufficient internal capability.

Case study: Fast Moving Consumer Goods (FMCG) Company

Large FMCG Company explores the development of an IB supply chain in East Java, Indonesia.

For this FMCG company, meeting growing customer demand was the driving force behind early stage concept development of an IB venture that would procure a specific tropical commodity from poor farmers in East Java, Indonesia. At the time of concept development, the company was already sourcing this commodity from within the Asia region however, the company saw the need to source supplementary supply that was counter seasonal. In doing so the company would be able to meet year- round demand for this product in the region, as well as position itself to supply product into growth markets.

Due to the company's established ethical sourcing policy, the company was well aware of the opportunity to enhance the livelihoods of the East Java farmers. A key consideration for the company was the design of a model that ensured that farmers were actually paid for their produce. In order to ascertain the viability of the IB opportunity, the company undertook a series of steps that began with an exploratory mission to East Java. According to a senior manager from the company, participation in the mission was critical in being able to gain a full appreciation of how the supply chain could work, including seeing first-hand how tropical commodities are transported from the farm to the market and talking to farmers and government officials. The manager acknowledges that it would have been difficult for the company to gain this knowledge and to enter the market without utilising the services of an external broker.

Having presented their findings to the company's executive team, the manager and his colleagues were requested to undertake further exploratory work to test the quality of this specific commodity from East Java in comparison to other countries, as well as undertaking further assessment of the potential supply chain operation. It was at this point of early stage concept development that it was decided not to progress past this phase, as it was identified that the time from harvesting to packing the commodity for integration with the company's Asia -based supply chain was very tight and represented an unacceptable risk to the business.

Though the concept did not proceed to the startup phase, it was acknowledged by the company that a potential role for DFAT for this and similar projects could be in relation to good governance; ensuring that farmers are being paid and assisting companies in this process. Support for navigating local in-country business challenges would also be of assistance in establishing an IB in Indonesia.

A large FMCG company was interviewed for this case study. Due to commercial sensitivities, the company has not been referred to by name in the case study.

Case study: Multinational Grain Business

How a multinational grain business moved from Early Stage Concept Development toward starting an IB.

With the need to develop a secure supply chain network across Asia Pacific to support its regional growth objectives, it was critical for this household name grain business to develop local supply of their key agricultural commodities for their supply chain. With no existing direct relationship with farmers, it was of equal importance to identify where and from whom the company could reliably source key agricultural commodities within the Asia-Pacific region in a way that supported the company's sustainability objectives.

Within this context, the company identified Myanmar as a high potential location from which to source a number of these key agricultural commodities, however, the company recognised that it had a limited understanding of the local market and operating environment. The company understood that working directly with small holder farmers in partnership with NGO's to increase yields and livelihoods is now a normal part of doing business in developing countries and is an essential element of an effective supply chain.

In order to assist the company in its understanding of the market and to create direct linkages with farmers, the company engaged the services of B4MD to coordinate an exploratory mission. Reflecting on the mission, the Director of Agronomy and Agribusiness in Asia Pacific and Africa for the company noted the important role that a broker can play "Groups like B4MD can help facilitate relationships between the company and local partners, and assist with developing baseline data and forming a profile of the country."

Following on from its participation in the mission, the company has decided to undertake a more detailed investigation into the agricultural industry in Myanmar in 2014. This may include small-scale activity at the farm or research level on a number of crops. However, the company acknowledges that a significant amount of work needs to be done to develop the supply chain in Myanmar, including countering risks such as inconsistent supply of electricity in rural areas, poor road infrastructure, outdated seeding technologies and crop protection issues.

Going forward the company sees a clear role for an external broker to provide assistance around government relations as well as the provision of extension services with farmer groups.

As an American owned business, the company has a long history of engagement with USAID. With a regional office in Australia, the Australian division would be very interested in engaging with DFAT if communication channels were opened. In particular, the company sees an opportunity for support around infrastructure and finance to set up a viable business, and would be interested in discussing opportunities across South East Asia.

A large multinational grain based food manufacturer was interviewed for this case study. Due to commercial sensitivities, the company has not been referred to by name in the case study

KEY LEARNING'S

Key factors/drivers behind the decision

For companies entering the early stage development, there has to be a specific need or business driver. As the case studies have demonstrated, this may include growing customer demand for a product and the opportunity this presents for revenue growth; the need to secure a reliable, low-cost source of raw materials that will strengthen business margins; or the opportunity to gain business experience in a growth market. Without a strong commercial imperative, the IB initiative is likely to stall.

As discussed in previous sections, the emotional and social connections to the project are also of vital importance. Companies at this stage are motivated as much by the potential development outcomes of the project as the commercials. This balance begins to shift in favour of commercial drivers in the next phase, as we will discuss in chapter 6.

The role of outside influencers/stakeholders on the decision making process

The IB broker plays an important role in guiding and educating the company through the early stage development process. The broker need to remain close to the senior people in the company at all times and be flexible in terms of the process and outcomes; it is during the phase that some ideas are dismissed and new ideas come to the fore. It is very unlikely that the broker will achieve 100% of the proposed goals outlined at project inception.

The broker must have credibility with the senior managers in the company. This means having the necessary seniority and delivery experience, and investing in relationship building over a long period of time. The IB concept is very new to most businesses and success is not well defined. The ability of the broker to sell the value proposition to companies is critical.

Meetings with NGOs and potential business partners located in the host country are vital in the early stage development phase in order for the company to get a realistic understanding of local culture and business context. Introductions made in this phase will ideally set the foundations for future partnerships.

As outlined in chapter 1, donor agencies and governments can play an important role in the early stage development process by providing financial and technical support for new concept development (such as the DFID funded Business Innovation Facility); by sponsoring business missions and design workshops; by providing market intelligence and facilitating introductions to host country governments and local businesses; by lobbying host government to improve business conditions, such as through investment in infrastructure, health and education; and by agreeing to share some of risk of business investment through the provision of grants. In the Philippines for instance, the ADB is working with the government to develop an accreditation system for IB that would require all multinational companies to invest in such initiatives. While DFAT has provided support in a number of areas, there is an opportunity to expand support at this phase of the IB decision roadmap.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

It generally takes 12-18 months for an IB concept to move from early stage development to the starting an IB phase. The process is slow and attrition rates are high, with only a small percentage moving forward to the next phase.

Internal barriers

A key internal barrier to moving beyond this phase relates to the opportunity cost of the IB initiative. In some cases the perceived benefits of investment just don't add-up versus other potential business opportunities, whether due to the greater perceived level of risk or the size of the market opportunity. These are normal business considerations for any company.

For some companies there is a perception that IB projects will not achieve the rate of return of pure commercial projects, or that the returns will accrue over a much greater length of time. There can also be a natural bias against IB initiatives, with a deeply ingrained belief that companies should give money to social causes, not make money from them. This is a heavy weight to carry for an internal champion trying to make the business case. IB initiatives also require a significant financial commitment, which can be a difficult thing to sell upfront.

IB brokers and internal champions need the experience and the confidence to sell both the social and business value of an initiative. For most people, this comes from many years of experience working in the corporate world, as well as exposure to development issues. The CEOs of leading global companies, such as Unilever, Nestle and SAB Miller, are passionate advocates for IB and the potential to achieve both business and development outcomes. Australia does not yet have a large pool of IB leaders or success stories to draw on for inspiration.

The overall health of the business, and the extent to which the IB initiative is aligned with current and future business priorities, plays a major part in determining whether an IB initiative moves forward to the next phase. B4MD have had instances where the CEO has been ready to move forward with an initiative, but has failed to gain support from the board due to the overall poor performance of the business. In other instances, a key executive that supported the IB initiatives has left in a restructure and B4MD has lost an internal champion.

External barriers

In some instances external barriers prove too great for an IB initiative to move forward. A proposed IB initiative with a major Australian agribusiness to launch a chicken industry in the highlands of Papua New Guinea failed to gain support due to its isolation from the market and logistical challenges of reaching farmers. As a result the initiative was adapted and moved to the coastal region near Port Moresby, where it was closer to the market and a major potential buyer (need to confirm this).

Concerns regarding sovereign risk are a major barrier for companies considering launching an IB. Companies generally have a low risk tolerance and short-term orientation. IB initiatives are typically launched in countries with a high-risk profile, including political instability, lack of basic infrastructure and limited workforce capabilities. In this climate, companies question why they should start at all, or would prefer other companies to take the lead. Companies are also reluctant to put their name to initiatives in the early stages due to the fear that it may come back to harm them if issues, such as community concerns regarding land acquisitions, spark public NGO campaigns.

Enabling factors

The key enabler at this phase is the extent to which there is alignment between commercial objectives, personal KPIs and the IB initiative. Ultimately profitability is number one for companies, and the ability of the internal champion to demonstrate the alignment with core business drivers is fundamental in progressing to the start-up phase. As an IB broker, B4MD plays an important enabling role by building the capabilities of internal champions to make the business case and build internal commitment.

The endorsement of host governments in the early stage development phase is an important enabling factor for most companies to address concerns regarding sovereign risk. The identification of NGO and businesses partners with deep knowledge of the local culture and business conditions is also a key factor for moving forward to the start-up phase.

As outlined in the previous section, donor governments and agencies can play an important enabling role during the early stage development phase through the provision of financial and technical support, by facilitating partnerships, and by using their influence to improve the business investment climate for IB in host countries.

6. PHASE THREE: STARTING AN INCLUSIVE BUSINESS

The final phase of the IB Decision Roadmap is the actual starting or launching of an IB initiative. During this stage, a company has agreed to move beyond early concept development and transition into the preparatory stages of an IB, reflected in either a pilot or full capital allocation and formal launch of the IB initiative. Commercialisation of the venture is the end goal for the company during this stage.

HOW DO COMPANIES START AN INCLUSIVE BUSINESS – KEY ACTIVITIES

There are a number of key steps in the start-up process, including the development of a formal business plan, the creation of the new entity and organisational governance, building partnerships and gaining external funding. The time from preparation to actual launch of an IB can be 12-24 months. This phase can be particularly slow to progress recognising that there are a range of internal and external barriers to overcome before concepts can proceed to implementation including risk assessments, legal approval and the commitment of funding for the venture. During this phase, approval from the Board of the relevant company is often required for the initiative to proceed and therefore a range of assurances need to be provided at Board level.

Business plan

The link between progressing from the IB concept phase to start-up is typically the authoring of a feasibility study and business plan. Ultimately, the purpose of the feasibility study and business plan is to outline the case for the capital allocation decision.

The business plan would typically include elements such as the projected costs, rate of return, project risks, production estimates, timelines and governance. The business plan may also include estimates of social outcomes, such as contributions to the MDGs. For larger projects, there may first be a feasibility study presented to senior management for approval, followed by a more detailed business plan with detailed budget and program governance.

The risks of an IB initiative, for the entity, corporation and beneficiaries, need to be carefully considered in the business plan. There is much greater risk than a normal business venture due to the potential impacts on the poor and the risk of being seen to exploit the poor if the project fails.

Final sign-off of the business plan, and capital allocation by the company, signals the beginning of the implementation phase for the project.

Establishing the IB entity and governance

A new IB initiative typically involves the establishment of a new legal entity to operate the business. The entity may be for-profit, or not-for-profit in structure, depending on local laws and the particular preference of the business.

Once the entity has been established, the executive management team and board are appointed. As a broker, B4MD encourage companies to appoint business representatives with a strong interest in development issues to ensure that the project remains true to its mission. We also encourage community and producer representation on the board to provide a voice for beneficiaries. In instances where the company wishes to maintain close control over the board, a separate multi-

stakeholder advisory committee is established to advise the board on development issues. B4MD encourage companies to report to the board on progress against both commercial and social objectives.

Case study: Oil and Gas Exploration and Development Company

Leading the way with the development of an IB enterprise in Papua New Guinea (PNG)

Having operated in PNG for a significant period of time, this company has a long history of community engagement and investment. This commitment is best reflected through the company's Foundation that contributes to the health and wellbeing of PNG.

In line with its commitment to community development in the areas in which it operates, the company has had an interest in IB since 2008, having attended a range of IB events and hosted IB validation missions. However, until recently the company has not been able to identify the right opportunity to start an IB.

According to a sustainability manager at the company, the idea of establishing a local piggery enterprise resonated strongly with the company's executives when the concept was presented by B4MD. "Pigs are a mainstay of this society. There is a huge depth of knowledge and traditional husbandry, so the project is building on a foundation of existing knowledge".

Now at the completion of a successful trial period, the manager recognises that the ability to attract investment in the company is now critical in order to scale up the IB venture. While funding for the pilot has been provided by the oil and gas exploration and development company, local land owner companies have been identified as the most likely source of venture capital moving forward.

Looking ahead, the company aims to ensure that an appropriate governance structure is established with local ownership and shareholding privileges to be held by the farming communities engaged with the piggery enterprise – the intended beneficiaries. It is also hoped that provincial government support for the project would be received through the provision of land.

In considering a potential role for donors, the sustainability manager suggests that the World Bank provides a good model. The Bank provides loan or equity funding for programs, which at a future point the Bank can sell down when the initiative becomes sustainable.

A large oil and gas exploration and development company as interviewed for this case study.

Partnerships

As discussed in previous chapters, building local partnerships is critical to the success of an IB initiative.

Throughout the start-up phase, the company needs to continue to develop these partnerships. This includes engaging with host government representatives, business partners, producer representatives and relevant NGOs. As the IB broker, B4MD can play a critical role in facilitating these relationships.

Funding

An IB initiative requires adequate finance to meet projected start-up costs.

While the company may choose to raise capital internally, in some instances the company may seek co-financing arrangements from the host government, donor agencies or private foundations. Co-financing enables a company to share some of the financial risk involved in starting an IB, a topic we return to in chapter 7.

B4MD works with the leadership in the company to acquire external funding if required. For example, B4MD has worked with a food manufacturing client to access grant funding through the Livelihoods and Food Security Trust Fund (LIFT), a multi-donor fund established in Myanmar in 2009 and managed by the United Nations Office for Project Services. The donors to LIFT include Australia, Denmark, the European Union, France, Ireland, Italy, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom and the United States of America.

Case Study – Barefoot Power

How Barefoot Power is helping the poor through a sales-based IB model

Barefoot Power is a provider of low-cost solar lighting and micro power generation, entirely focused on developing country markets. Unlike many IB ventures that are procurement orientated, the company has a unique model of selling solar lighting to poor communities at the bottom of the pyramid. Globally there are two billion people who do not have grid electricity. According to Barefoot Power CEO Rick Hooper, the company has penetrated approximately 0.8% of that total potential market.

Founded by two entrepreneurs, dedicated to building both profitable business and providing off-grid electricity solutions to impoverished communities, Barefoot found it impossible to attract institutional investors in Australia that would back their IB venture. “Our original investors were angel investors from Australia and the IFC. The rest of the investors were offshore,” says Hooper.

Financial constraints also impact Barefoot’s distribution model in-country. “The biggest challenge is that consumer credit is very difficult to come by and it is a big strain on disposable income for individuals to buy their first product,” says Hooper. The company works with a microfinance organisation to provide customer credit.

Measuring the social impact of the venture is of utmost importance to Barefoot given the social focus of the company. The company, however, takes a unique approach by measuring its impact through sales. “For every product we sell, we improve the living standards of five people, which is the average household,” says Hooper. Impact is also measured by looking at the number of people employed through supply and distribution channels, as well as flow-through employment created and income generated for micro entrepreneurs. Hooper believes that there is a potential role for DFAT to act as a coordinator by bringing together companies that are active in the IB to share insights and experiences.

Case study: WING Cambodia

WING Cambodia demonstrates how donor funding can expand reach and impact of financial services in rural communities

WING is a provider of mobile phone payment services that enables customers to transfer, store and cash-out their money using a mobile phone in Cambodia. The direct benefit of this business is the reduced remittance fees for customers and greater accessibility to funds, which is of great importance for poor users.

IB ventures offer the greatest potential for contributing to development outcomes when taken to scale. However, often companies find it difficult to expand their operations due to commercial constraints. This was the challenge facing WING Cambodia as it sought to expand its services into rural areas.

WING was able to overcome these constraints by receiving a A\$1,500,000 grant through DFAT's Enterprise Challenge Fund (ECF), which contributed to funding costs of the roll out to rural areas, training of rural agents and financial awareness campaigns. As a result of funding provided to WING that enabled this expansion, 82% of WING customers are now from rural areas outside of Phnom Penh. A far greater proportion of the Cambodian population now receive the cost saving benefit of using WING. Moreover, the funding has enabled WING to overcome gaps in payroll services for rural communities and has supported the company's effort to target and engage the unbanked.

Added to this, WING is able to meet a specific market demand in that many Cambodians live in rural areas and rely on money being transmitted home from family working in urban areas. In fact, roughly 80% of Cambodian's live in rural areas, with 35% living below the poverty line.

Without ECF funding it unlikely that WING would have focused on a rural engagement strategy in the early stages of the initiatives development.

KEY LEARNING'S

Key factors/drivers behind the decision

The factors/drivers behind the decision to move to the starting of an IB are similar to the previous phase and include perceived business benefits, such as the need to secure a supply of low cost raw materials to meet growing consumer demand, the opportunity to launch a new product into a developing country market and generate a new revenue stream, or a need to meet government requirements regarding local procurement of supplies.

While the social emphasis of the project remains important throughout the start-up phase, the focus on commercial factors tends to intensify as the company moves closer to a capital allocation decision.

The role of outside influencers/stakeholders on the decision making process

The role of the IB broker remains important throughout the start-up phase to facilitate partnership development and ensure that the initiative remains true to its social mission.

From B4MD's experience, the further an IB initiative progresses, the greater the pressure from the company to focus on the commercial, rather than development objectives. As broker we try to hold companies to their commitments and advocate for the interests of producers and the poor. We use the levers of transparency and reputational risk to hold businesses accountable. Without this pressure there is very real risk of mission drift.

B4MD have found that the role of a broker can be challenged during this phase. B4MD's business model is to engage and contract with companies early in the IB development process and work with them throughout the journey. As a result of this contractual relationship, there is a power imbalance inherent in B4MD's relationship with the company.

This imbalance could be addressed if donor funds were used to incubate ideas at an early stage until a concept is proven. The concept could then be taken to the market and a company chosen to drive the project forward; however, it would be on the donor's terms. The Gates Foundation, for example, working in partnership with the broker Technoserve, has used this model successfully on a range of projects.

While the potential roles for donor agencies are more limited in the starting an IB, where the details of the business case become the focus, an important role for donor agencies to consider is the co-financing of project start-up costs. Bilateral and multilateral finance facilities, such as the LIFT facility managed by UNOPS in Myanmar, allow companies to offset some of the risk of investment by, for example, providing grants to local NGOs to provide rural extension services to target producers. To-date, DFAT and the Australian government have provided limited support for these funding arrangements relative to other multilateral and bilateral donors.

Relationships developed with host government representatives, businesses and NGO partners in the early development phase should continue to evolve during the start-up phase and provide important inputs and endorsement of the business plan.

CHALLENGES FOR IB ACCELERATION BEYOND THIS PHASE – BARRIERS AND ENABLING FACTORS

Internal barriers

It is at the starting of an IB where the business fundamentals of an initiative are going to be tested. The key internal barrier at this stage is the availability of capital. Like mainstream business projects, the IB initiative will be judged on the strength of the business case and its alignment with business priorities.

At this stage, IB projects need to stand on their own two feet, rather than require substantial

external capital investment to proceed. In general, companies do not want to proceed with projects that require substantial external support as it can send the wrong message internally that b-grade projects will get supported. B4MD believes it is better for companies and brokers to focus on supporting the strongest IB initiatives. B4MD aims to provide economic modelling at an early stage in the process to test assumptions with the company and ensure we are supporting the initiatives with the greatest potential.

The ability of Australian companies to accurately quantify IB risks and opportunities in developing country markets is a potential barrier to moving forward. Based on B4MDs experience, there is tendency for companies, if they don't have the experience, to assume much bigger risk margins than actually exist, which reduces the likelihood of a project proceeding. There is steep learning curve for many Australian companies if they have not had significant exposure to developing country markets. B4MD works with companies to develop the necessary skills; however, there is potential opportunity for donor agencies to support education initiatives in this area.

Another internal barrier that has been identified is that there is rarely one person driving an IB initiative with overall accountability to deliver on the project. Unlike the CSR function or procurement team, IB departments do not exist in most companies. As a result, IB initiatives tend to be messy and ad-hoc, with many people involved and rarely one person that sees the full picture.

External barriers

Similar to the early stage development phase, there are any number of external barriers that can impact on the feasibility of an IB project in this phase, including a changing regulatory climate in host countries, political instability, and high profile campaigns from NGOs on issues such as landholder rights, which could raise the risk profile for a project.

Enabling factors

As noted in the previous section, an IB broker can play a key enabling role in this phase by guiding companies through the business plan process, by balancing the needs of multiple stakeholders, by helping to build partnerships, and by ensuring that the project remains true to its mission. As such, brokers need very experienced and capable business people who can be advocates for IB and liaise between different stakeholder groups.

The support and endorsement of the business plan from host governments, as well as business and NGO partners, is critical for ensuring a project gains final board approval.

7. FUNDING INCLUSIVE BUSINESS

This section focuses on funding mechanisms for IB initiatives as related to the role of the donor. In particular, the chapter focuses in detail on how donor funding can be used to catalyse IB ventures as well as asking the question: “Why do for profit companies require donor funding?”

The Business Innovation Facility (BIF) identifies three primary types of funding for IB ventures: equity, debt and donor income. Whereas equity and debt funding typically engage traditional financial institutions including banks and private investors that are seeking a commercial return, donor income has an emphasis on achieving social outcomes. Nevertheless donor income can also include types of debt and equity funding models⁹⁹. The below table provides an overview of key considerations in relation to the primary funding options for IB's as outlined by BIF¹⁰⁰.

Finance Type	Upside	Downside	Considerations
Equity	<ul style="list-style-type: none"> No financial cost until the business is profitable 	<ul style="list-style-type: none"> Reduces your ownership stake in the business 	<ul style="list-style-type: none"> The amount of equity you give up and at what cost will normally be up for negotiation Look for investors that come with an ‘added value’, such as expertise, industry contacts or other technical support
Debt	<ul style="list-style-type: none"> Does not dilute your ownership stake Payments are fixed, and will not rise with profits 	<ul style="list-style-type: none"> Repayments of interest and capital is required even when the business is not profitable 	<ul style="list-style-type: none"> Debt providers will likely require business or owner assets to collateralise the loan
Donor Income	<ul style="list-style-type: none"> Effectively free equity 	<ul style="list-style-type: none"> May come with other burdens, such as reporting on ethical impacts 	<ul style="list-style-type: none"> Understand what positive social/environmental impacts your proposed venture plans to deliver Be clear on what responsibilities come with donor support before investing time in applying for it

Table 7: Types of funding for IB

A range of stakeholders provide funding for IB initiatives including development finance institutions, private foundations, private wealth managers, large-scale financial institutions, companies, governments¹⁰¹, philanthropic funders, donors and aid agencies amongst others.

⁹⁹ “Spotlight on Inclusive Business, Inclusive business looking for finance, What is available and how to target your best solution”, Business Innovation Facility, 2012.

¹⁰⁰ *ibid*

¹⁰¹ “Inclusive Business Finance Field Guide 2012: A Handbook on Mobilizing Finance and Investments for MSME's in Africa, UNDP African Facility for Inclusive Markets”, 2012

HOW CAN DONOR FUNDING BE USED TO EFFECTIVELY TO CATALYSE IB?

Donor funding can play an important role in facilitating the growth of IB initiatives if it is used strategically and in parallel with other policy tools, including political leadership and advocacy.

Funding options available to donor agencies range from sponsorship of IB awareness-raising activities, such as events, thought leadership and exploratory missions; to financial support for early development of an IB concept, such as grants; to a broad range of potential co-financing arrangements at the starting an IB phase.

A key example of donor agencies taking a leading role in committing to funding that will benefit the growth of IB initiatives can be seen in the Bilateral Donor's Statement in Support of Private Sector Partnerships for Development. Authored in 2010 by the governments and or aid agencies of Austria, Denmark, Finland, Germany, Japan, Norway, the UK, Switzerland, USA and Sweden, the statement reflects the commitment of these donors to create an enabling environment that assists companies move to IB models. In relation to funding, these donors committed themselves to:

Share the risk of investment to spur and leverage the creative investments of private capital through the use of catalytic and innovative financing, including matching grants, loans, equity and guarantees, and develop new partnership mechanisms which improve collaboration between private sector and donor agencies.

In a study of IB policy options¹⁰², Endeavor outline four broad forms of financial support available to governments and donor agencies.

1. *Subsidies or tax relief programmes* – can provide incentives for companies to invest in IB initiatives in a specific country, region or industry. For example, a government may offer tax relief for companies launching IB initiatives in regions with high levels of poverty and unemployment; or a donor agency may subsidise the cost of feasibility studies to encourage companies to consider launching an IB initiative.
In this regard, the Philippines Board of Investment is currently considering providing preferential grants and incentives to companies considering the establishment of IB initiatives in country¹⁰³.
2. *Grants* – can serve to attract investment to IB by providing critical start-up capital and support for operational expenses. For example, the Australian Enterprise Challenge Fund was used by ANZ to provide support for the expansion of its operations in Cambodia, while the UNOPS LIFT facility provides grants to support rural producers and food security objectives in Myanmar.
3. *Impact investing funds* – have been used as a vehicle to provide preferential loans for the purpose of developing an IB. Within the Asia Pacific region, the ADB has focused on directing impact investment through IB's within its member countries¹⁰⁴.
4. *Guarantees* – enable lenders to grant credit to customers without a financial history or collateral. For example, a host government-owned bank may offer to guarantee the lending of microfinance organisations to encourage investment in new IB initiatives; or a donor agency, may agree to guarantee the earnings of producers involved in IB initiatives for a set number of years to facilitate engagement with companies. In Ethiopia, for example, the IFC in partnership with NIB International Bank is providing up to \$10 million in working capital

¹⁰² Inclusive Business Policies: How Government can Engage Companies in Meeting Development Goals (2013), Christina Tewes-Gradi, Anna Peters, Karin Vohla, Lena Lutjens-Schilling, Endeavor and BMZ.

¹⁰³ <http://www.philstar.com/business/2014/01/13/1278096/boi-wants-include-inclusive-business-model-ipp>, The Philippine Star, 2014

¹⁰⁴ <http://www.adb.org/themes/poverty/impact-investing>, ADB, 2014

for 62 cooperatives working with small holder impoverished farmers in an effort to double their incomes¹⁰⁵.

An additional option for donor agencies is to take an equity stake in an IB initiative. For example, the IFC has taken an equity stake in pilot IB initiatives – see IFC case study below.

Above and beyond the policy options presented by Endeava, the UNDP's Inclusive Business Finance Field Guide 2012¹⁰⁶ study highlights a range of financing options for IB initiatives. Of specific relevance to the role that donor funding can play in catalysing IB is Value Chain Finance and Innovative Finance. Value Chain Finance is described as finance provided to a series of actors within a specific value chain in order to get specific products or goods to market. The flow of finance within this value chain and directed to its related actors contributes to both the growth and competitiveness of the value chain. As a result, all actors across the value chain benefit including low income earners.

The UNDP identifies Innovative Finance as non-traditional structures utilised to fund both enterprises and low-income commercial actors. The model also includes the establishment of challenge funds to catalyse support in targeted communities¹⁰⁷. This model of finance is in line with Endeava's identification of grant financial support for IB. As an example of this type of funding, the Swedish International Development Cooperation Agency's (Sida) launched the Innovations Against Poverty (IAP) initiative in 2011 to fund IB initiatives in the absence of investor capital. Specifically established to catalyse projects, share risk and provide investment during the early IB development phase, the fund was targeted towards ventures that were developing new products, services and business models. During the first two years of the IAP program, 66 organisations received a total of €5,420,265 in grant funding. As part of Sida's commitment to the IAP initiative, the donor agency also supported the Business Innovation Facility's Practitioner Hub as featured in Chapter 5 of this report. Figure 4 demonstrates the IAP logic of supporting inclusive business.

In their Knowledge Exchange Report¹⁰⁸, Sida highlights that donors need to be prepared to accept long timeframes and an element of risk before there is significant reach of IB initiatives into the base of the economic pyramid. As such, it can be assumed that there may also be long timeframes before there is considerable impact against the MDG's. Sida also suggests that for donors, traditional monitoring and evaluation models cannot be used and therefore need to be adapted in order to be relevant to the uniqueness of IB initiatives and their longer timeframes.

¹⁰⁵ <http://www.technoserve.org/blog/technoserve-featured-in-ifc-case-study>, TechnoServe, 2014

¹⁰⁶ "Inclusive Business Finance Field Guide 2012: A Handbook on Mobilizing Finance and Investments for MSME's in Africa, UNDP African Facility for Inclusive Markets", 2012.

¹⁰⁷ *ibid*

¹⁰⁸ "Innovations Against Poverty 2013 Knowledge Exchange Report, From Paper to Practice: Learning from the journeys of inclusive business start-ups", Sida, 2013

THE LOGIC OF IAP SUPPORT TO INCLUSIVE BUSINESS

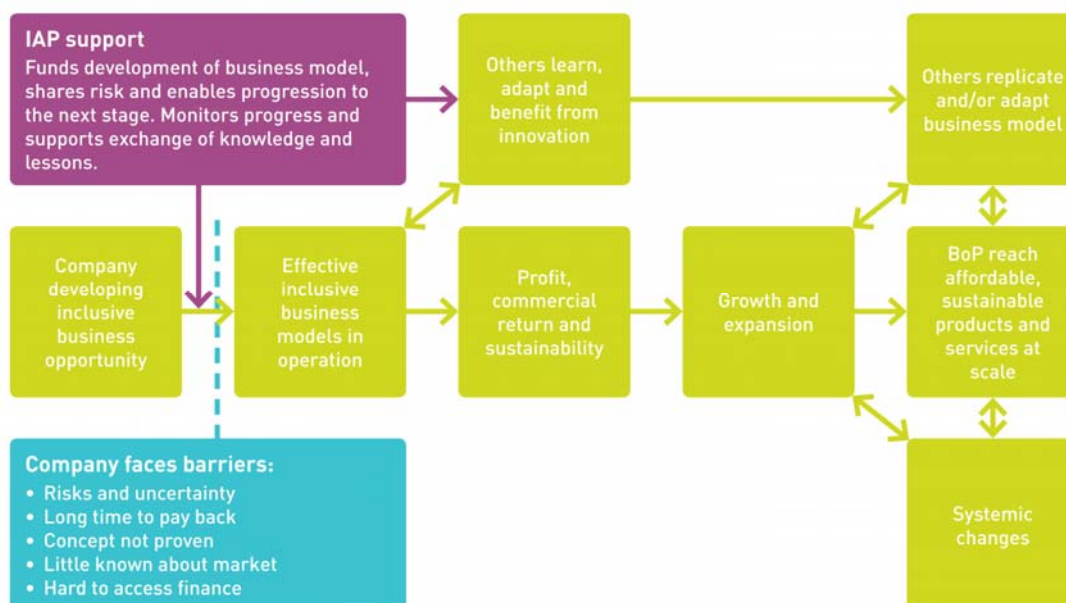


Figure 4: Logic of IAP support to IB

Case Study: ADB Technical Assistance

ADB takes a lead role in the development of IB in the Asia Pacific Region

As a donor, the Asian Development Bank has been an early adopter and contributor to the funding of IB initiatives. As early as 2008, ADB approved the establishment of its Inclusive Business Initiative and since this time has seen an increase in investments in IB companies. Of the Bank's 16 private sector projects approved in 2013, five were identified as IB's. This commitment to IB is reflected not only in the ADB's direct funding and investment mechanisms but is also apparent across a range of IB related activities, including the promotion of business development at the BoP, partnerships, knowledge sharing, and impact assessment¹⁰⁹.

At the forefront of this activity is ADB's IB Technical Assistance Project (TA), launched in 2010 to foster IB growth in the Asia-Pacific¹¹⁰. To date, \$700,000 has been spent on the project with the following outputs:

1. BoP development effectiveness study and ex-ante poverty and inclusive growth impact analysis methodology
2. 6 country studies and various feasibility studies
3. 6 national investment fora (1 each in each participating DMC).
4. At least 3-5 business agreements made per country.
5. One regional investors Forum Facilitation of business cooperation through participation of domestic and international financial institutions in the national investment fora.
6. Study on BoP Fund in ADB, and facilitating ADB non-sovereign investment in BoP BOP

¹⁰⁹ <http://www.adb.org/themes/poverty/inclusive-business-base-pyramid/concept-and-project-description>, ADB, 2014

¹¹⁰ <http://www.adb.org/projects/41258-012/details>, ADB, 2014

website in ADB Paper on the Role of BoP for Inclusive Growth (BoP InfoKit)

7. Country Policy Notes Recommendation Paper and Seminar for ADB to Promote BoP

Following on from the success of this first TA, in December 2013 ADB adopted a new TA that will promote the implementation of the findings of the preceding TA by facilitating financing in inclusive business projects supported by ADB, and promoting policy work with selected governments¹¹¹. The anticipated cost of this TA is \$3.6 million dollars which will be made up of a funding mix between ADB (\$400,000), the Government of Sweden (\$3.1 million) and Credit Suisse (\$100,000).

Case Study: IFC Inclusive Models Group

IFC – an early adopter and a lead financier of IB

When it comes to donors, the IFC has invested significantly in the development of IB on a global scale, impacting 250 million people and investing \$7 billion since 2005¹¹². Central to this commitment and investment framework is an IB program that demonstrates the success of IB initiatives, provides a platform for private sector actors to work together as well as analyzing IB models. This program known as the Inclusive Models Group works to create these resources in order to equip IFC investment and advisory staff develop new ways to support clients in scaling up their IB ventures¹¹³. In 2012 IB clients of IFC offered 284,000 jobs to low income earners.

One example of how the IFC is directly financing IB clients in India:

Accessing housing financing for low and low – middle income earners in India can be difficult due to a range of constraints including a lack of identity, lack of income statements, irregular cash flow and land title issues. In an attempt to overcome these constraints and extend the opportunity for home ownership to these communities, India's fourth largest housing finance corporation entered into a joint venture with the IFC in 2011 to form Aadhar Housing Finance Pvt. Ltd (AHFL) to serve the housing needs of the poor. Prioritising the needs of these lower income households earning between \$100 - \$400 a month, AHFL spent the first five years of operation focused on low income states in India including Orissa and Uttar Pradesh. The company's business model provides finance for either the purchase of a house, purchasing land and construction of a house and or extension of an existing house in a way that is affordable, accessible and relevant to the income challenges of poor Indian families.

As a donor, IFC has an equity investment of \$4.5 million dollars in AHFL. This equity investment will enable AHFL to gain access to broader sources of debt funding and reduced rates as well as help secure private sector equity in the venture. In addition to the direct financial benefit, IFC is providing the company with services in relation to the formation of education modules for first time home borrowers as well as corporate governance and responsible finance practices.

Not only has AHFL benefited through the investment of IFC but it has also benefited through the Indian Government and Reserve Bank of India providing interest rate subsidies and tax benefits for the provision of housing finance to low income earners.

¹¹¹ <http://www.adb.org/sites/default/files/projdocs/2013/46240-001-tar.pdf>, ADB, 2014

¹¹² http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business, IFC, 2013

¹¹³ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business/Overview/, IFC, 2014

In line with its commitment to provide affordable housing, in 2011, the company's first year of operation, AHFL approved 50% of its 1,613 loan applications for customers with monthly incomes less than \$400¹¹⁴. For its second year of operation in 2012, the company planned to disburse \$12 million in loans to poor families, an increase of over \$3 million from year one.

WHY DO FOR PROFIT COMPANIES REQUIRE DONOR FUNDING?

Companies may require funding support for IB for a number of reasons and at different phases of the IB decision roadmap.

At the awareness phase, a key challenge is building executive understanding of IB and its potential to achieve commercial and development objectives. As the value proposition for an IB venture may not yet be clear, a company executive may require donor funding, in the form of a sponsorship or subsidy, to attend an exploratory mission. Without this support the executive may be less likely to attend a mission, significantly reducing the likelihood of an IB initiative moving forward.

At the early development phase, a key barrier for a company executive may be the high-risk profile of a developing country market, such as concerns regarding political stability, transport infrastructure and local producer capacity. Donor funding at this point may include sponsorship of a validation mission to assuage perceived risks; the promise of grants to support capacity building initiatives with local producers; the funding of an IB broker to guide and educate companies on risk mitigation strategies; or the subsidising of IB market intelligence services by Austrade.

At the starting IB phase, a key barrier for a company executive may be accessing necessary funding for a feasibility study or pilot program, which may hit resistance internally due to perceived lower rates of return for IB initiatives. Donor funding at this point may take the form of a grant from a challenge fund to co-finance a pilot IB initiative with the aim of validating a concept. The results of the pilot would then provide a key input to the business plan and increase the likelihood of capital allocation from the company. This type of funding is critical for companies during the starting phase of an IB initiative. As described by Greenway, an Indian company prototyping thermoelectric generators that convert waste heat to electricity in the Sida IAP report,

commercial funding is not provided for undertaking market research and testing prototypes for such social ventures, as such projects carry huge commercial risk. So it is through foundations and other organisational funding and grants that the project can be executed and progress¹¹⁵

Although donor funding can play an important role in catalysing IB initiatives at each phase in the IB decision roadmap, ultimately companies need to take primary ownership for financing IB initiatives if they are to become commercially sustainable and achieve large-scale development impact. As discussed in Chapter 6, once an IB initiative moves into the start-up phase, the project needs to compete for investment capital based on the strength of the business case; rather than being supported by substantial levels of external funding.

¹¹⁴

http://www.ifc.org/wps/wcm/connect/92e39f004e254fe9a528ad7a9dd66321/AHFL+CaseStudy_AUG2012.pdf?MOD=AJPERES, ADB, 2014

¹¹⁵ "Innovations Against Poverty 2013 Knowledge Exchange Report, From Paper to Practice: Learning from the journeys of inclusive business start-ups", Sida, 2013

Based on B4MDs experience as an IB broker, a potential role for donor's lies in the awareness and early development phases, where attrition rates are the highest and donor funding could assist in supporting a greater number of companies as reflected in Chapters 1 and 4 of this report. Potential funding options for these phases are outlined in Chapter 8: Recommendations.

RECOMMENDATIONS

Inclusive business (IB) initiatives have the potential to make a significant contribution to poverty alleviation in the developing world. IB also represents a huge opportunity for Australian businesses seeking to expand into new markets across the Asia-Pacific.

Yet as this report has identified, IB initiatives face major challenges in moving to the launch phase, both internal and external to the company. Without external support, these challenges have proven too great for many companies.

To assist in addressing these challenges, this section outlines B4MD's recommendations to DFAT regarding potential donor support for the development of IB in Australia and globally. The recommendations build on the analysis presented in Chapters 1-7.

In the following section, B4MD outlines **seven key recommendations** for DFAT. These recommendations are supported by **12 specific actions, divided into two phases as part of a proposed five year IB roadmap**.

Seven Key Recommendations

1. *Demonstrate clear and consistent political support for IB*

The Australian government and DFAT can be a catalyst for the growth of IB in Australia by providing clear and consistent political endorsement of the role of the private sector in achieving development objectives. This political support and public advocacy is critical in setting the expectations for the Australian business community that IB is a government priority and that efforts by the corporate sector to support development objectives will be valued. Strong political support for IB has been a hallmark of leading donor countries, such as the UK, as evidenced by a recent public address by the UK Development Secretary, Justine Greening¹¹⁶.

Political support should include regular speeches by the Minister for Foreign Affairs and Trade and senior DFAT personnel at IB events and conferences, public recognition and awards for Australian companies that are demonstrating innovative IB approaches, and an action plan to demonstrate how the government and DFAT will support the growth of IB initiatives in Australia over time. Specific actions are discussed in detail below.

2. *Support the growth of IBs through advocacy, technical assistance and funding*

The experience of donor agencies internationally, and B4MD's practical experience as a broker, suggests that IB projects require a combination of advocacy, technical assistance and funding support in order to accelerate to launch phase. Without advocacy for IB initiatives many companies would never become aware of the potential of IB; without technical assistance, many IB initiatives fail to overcome internal and external barriers and achieve commercial sustainability; and without financial support, some companies fail to access the funding necessary to validate an IB concept.

B4MD recommends that DFAT draw on all three policy instruments to support the development of IB in Australia.

¹¹⁶ Business Fights Poverty blog (2014), Justine Greening, UK Development Secretary: Smart aid - Why it's all about jobs, <http://community.businessfightspoverty.org/profiles/blogs/smart-aid-why-it-s-all-about-jobs>, 27th January.

3. Focus on Awareness and Early Development phases to maximise impact.

Although there is a role for donor support across the IB decision roadmap, B4MD recommends that DFAT focus its support on the Awareness and Early Development phases where donor support can benefit the greatest number of companies, and where attrition rates are highest. This may include sponsorship of IB events, grants for exploratory mission, or subsidies for IB market intelligence services.

4. Establish an IB fund to accelerate development of IBs from awareness to start-up

Although B4MD believes that companies should have primary responsibility for financing IB initiatives to demonstrate commitment, there is a role for donor agencies to provide financial support for Awareness and Early Development phase activities.

B4MD recommends that DFAT establish a dedicated IB fund to support advocacy and technical assistance activities outlined in the following sections. The fund may provide small grants to cover the cost of a feasibility study, subsidies training from an experienced IB broker, or support an IB initiative indirectly by helping to financing capacity building initiatives for bottom of the pyramid producers and consumers.

5. Take a whole-of-department approach to support the development of IB initiatives

In order to be successful in launching an IB, companies require wide-ranging support, from market intelligence, to trade policy, aid policy and diplomatic relations. B4MD recommends that DFAT develop a whole-of-department approach to IB, drawing on the strengths and complementary capabilities of different DFAT sections, including aid, trade, and overseas missions.

As part of the development of this approach, DFAT should engage the Australian business community to understand priorities and to develop a communication plan outlining the ways in businesses can engage DFAT personnel.

6. Target high potential industries and countries in the Asia-Pacific

The experience of donor agency initiatives, such as the Business Call to Action (BCtA) and Business Innovation Facility (BIF), suggest that IB initiatives are more prevalent in some industries than others. Companies in the agribusiness and food manufacturing sector, in particular, appear to offer the best prospects for achieving commercial and development outcomes due the fact that company value chains often extend into developing country markets.

In line with this assessment, B4MD recommends that DFAT focus on industries where there is strong strategic alignment between Australian business interests and potential for development impact, including agribusiness and mining. With Australian company value chains increasingly expanding into countries in the Asia-Pacific, this represents a logical regional focus for DFAT's IB support activities.

7. Develop a five-year roadmap for IB in Australia, divided into two key phases

B4MD recommends that DFAT develop a five-year roadmap to support the development of IB in Australia. The roadmap should take a two-phased approach, with the first phase covering year one to two, and second phase covering year three to five.

The goal of the phase one would be to fast-track the development of flagship or pilot IB projects to demonstrate how the poor can be integrated into the value chain of leading Australian companies.

Key activities in phase one would include public endorsement of IB events and conferences; support for IB brokers to fast-track the most promising Australian initiatives; and sponsorship and facilitation of in-country missions to validate early development of concepts.

The goal of phase two is to develop the next generation of IBs in Australia. Key activities in this phase would include building the capacity of DFAT to catalyse IB opportunities; sponsorship of an annual IB awards event to recognise Australian IB leaders; and the establishment of an IB centre of excellence to provide foundation training for aspiring IB leaders.

The following recommended actions have been divided into the two proposed phases.

Recommended Actions – Phase One (year 1-2)

Creating awareness of IB

1. Leverage the power of IB events and conferences to inspire corporate Australia

Events and conferences provide an important opportunity for company executives to hear first-hand accounts of the opportunities and challenges of IB from leading companies and thought leaders. These events have proven successful in inspiring companies to further explore IB opportunities relevant to their business and progress to the early development of a concept.

DFAT could support growth in attendance at IB events and conferences by facilitating ministerial and senior departmental speakers, by enhancing event credibility through co-sponsorship and co-branding, by using the department's convening power to encourage companies to attend, and by using the department's network and influence to attract renowned global speakers, such as Unilever CEO, Paul Polman, and Harvard University's Professor Michael Porter.

2. Fund research and thought leadership to disseminate best practice

Although the IB research agenda is accelerating at a rapid pace, there remains a lack of systematic analysis of the long-term impact of IB initiatives and the factors that enable initiatives to scale.

There is an opportunity for DFAT to build the evidence base for IB in Australia by funding focused research on key IB opportunities and challenges in the Asia-Pacific region. B4MD recommends engaging the business sector, academia, research institutes and NGOs to develop a plan of action. Similar collaboration already exists in support of the Aid for Trade (A4T) agenda, such as DFAT and the CSRIO's collaboration on the Food Security Initiative.

Early development of an IB concept

3. Support exploratory and validation missions to inspire companies to act

Exploratory and validation missions have proven a key source of inspiration for companies considering launching an IB. Missions allow companies to see business conditions and development challenges first-hand, and have proven critical in building awareness of the challenges and opportunities of bottom of the pyramid markets.

DFAT can support brokers to undertake exploratory mission by drawing on the department's market intelligence capabilities to identify opportunities and risks, similar to services offered through

Austrade's Export Market Trade Services Program; by sponsoring missions; and by leveraging the influence and networks of diplomatic staff to open doors with host country governments and local business and NGO partners.

4. Build the capabilities of IB brokers to guide and educate companies

At this early stage in the evolution of the IB concept, many companies lack the experience necessary to identify opportunities in the market and overcome the challenges of operating in bottom of the pyramid markets. Globally IB brokers have been shown to play a critical role in guiding and educating companies through the early phases of IB development.

DFAT can facilitate the development of IB initiatives by supporting the professional development of IB brokers. This support could take the form of subsidies for training and education programs that develop the core skills of IB brokers, including cross-sector partnership development, workshop facilitation, leadership capabilities, business data modeling, monitoring & evaluation, and social impact assessments. Funds for these activities could be drawn from the aforementioned IB fund.

5. Establish an annual IB company roundtable event to share lessons learned

Ultimately the most important advocates for IB are business to business. One-on-one meetings and workshops involving a range of companies can be a powerful way to motivate other companies to action and share best practice knowledge.

We recommend that DFAT sponsor an annual company roundtable event for Australian companies at an early development phase or that have started an IB. The roundtable would provide companies with an opportunity to share challenges and test and refine ideas. Similar events are regularly held internationally, such as the Bottom of the Pyramid Learning Lab forums noted in Chapter 1.

6. Build the capacity of bottom of the pyramid producers and consumers to engage with companies

Global studies by IB researchers, outlined in Chapter 1, consistently point to the limited information, skills and financial resources available to bottom of the pyramid producers and consumers as key barriers to the growth of IB initiatives. Without adequate technical and financial support, the poor cannot engage effectively with companies on IB initiatives.

DFAT should consider increasingly support for initiatives, such as the UNOPS administered Livelihoods and Food Security Trust Fund (LIFT) in Myanmar and the DFAT/GRM administered Promoting Rural Income through Support for Markets in Agriculture (PRISMA) program in Indonesia, which are aligned with high potential IB markets and build the capacity of the poor to engage with Australian businesses.

Recommended Actions – Phase Two (year 3-5)

Creating awareness of IB

1. Recognise Australian corporate leaders at an annual IB awards event

Government recognition of IB corporate leaders can send a strong signal to the market and motivate other companies to launch their own IB initiatives.

One way for DFAT to demonstrate political leadership is to sponsor a high-profile annual awards event to endorse the IB initiatives of leading Australian companies. Companies could submit entries for the awards event, with initiatives judged by a panel of experts and a top 10 and an overall winner selected based on both commercial success and the scale of social impact. The event would allow company executives to gain some publicity for their efforts, as well as showcase best practice. The Minister and Secretary could attend the event to signal the government's commitment to IB.

2. Build the capabilities of DFAT personnel to catalyse IB opportunities

In order to effectively engage and support companies wishing to develop IB initiatives, donor agencies need to build the necessary internal capabilities. Internationally donor agencies, such as DFID, have signaled their intention to place greater focus on capabilities that will enhance private sector development approaches.

There are a number of options available to DFAT to build the capacity of personnel to catalyse IB opportunities. Firstly, DFAT should consider recruiting personnel with private sector experience to assist in building relationships with companies. These individuals should have many years of experience in designing and launching business initiatives in developing country markets in order to provide companies with advice and support.

Secondly, DFAT should consider sending personnel to IB events, design workshops and missions to build deeper understanding of IB challenges and opportunities. Building on this experience, DFAT consulate personnel could develop the capabilities to identify and catalyse IB opportunities within developing country markets. Thirdly, DFAT should consider the establishment of a business advisory panel of leading companies to advise the department on the design of IB support programs. Finally, DFAT should consider establishing KPIs and setting specific targets for services provided and outcomes achieved in relation to IB.

3. Establish a centre of excellence to train the next generation of IB leaders

There are currently few corporate executives in Australia with both the commercial experience and understanding of development issues needed to drive the IB agenda forward. By comparison, many companies in Europe have a long history of engagement with developing country markets and have CEO's, such as Paul Bulcke of Nestle, that have been prominent advocates for IB.

DFAT should consider ways to develop the next generation of IB leaders in Australia. One way to achieve this goal would be the establishment of a centre of excellence to provide foundation training for aspiring IB leaders. The centre could provide an accredited course covering the theory of IB, practical field experience and ongoing mentoring from leading IB practitioners. Scholarships could be funded from both government and the corporate sector. Similar models have proven to be successful in related field including the Centre for Sustainable Leadership, and DFAT's Mining for Development Initiative.

Early development of an IB concept

4. Assist companies to navigate the challenges of bottom of the pyramid markets

Unlike some peer companies in Europe or North America, Australian companies do not have a long history of operations in bottom of the pyramid markets. As a result, many companies struggle to either identify the opportunities or to accurately assess and manage the risks.

There is an opportunity for DFAT to provide targeted support to companies launching IBs. Drawing on Austrade's Export Market Trade Services Program as a starting point, this support may include advisory services in relation to market opportunities; government relations; taxation, legal and regulatory environment; host country security; understanding the development context; export insurance grants; and managing risk in bottom of the pyramid markets.

As mentioned under key recommendations, B4MD recommends that DFAT consult with the business sector to develop a suite of potential service offerings that would help companies meet the challenges of launching an IB.

Starting an IB

5. Enable IB by supporting host governments to strengthen laws and institutions

For IBs to develop and flourish, donor agencies need to look beyond support for individual companies and consider how different elements of the overall IB ecosystem can be strengthened to enable IB.

As part of its overall approach to IB, DFAT should consider providing technical assistance to host governments to strengthen laws and institutions that enable IB. This may include, for instance, enacting new or strengthened laws in relation to land rights that give companies, producers and consumers the confidence to invest in IB initiatives. This may also take the form of support for new policy frameworks that encourage and embed IB. The ADB, for example, have recently collaborated with the Philippines Board of Investment to design an accreditation scheme that would make adherence to an IB model a precondition for companies applying for grants and tax incentives to invest.

6. Support the development and uptake of IB impact measurement

A number of IB impact measurement standards and tools are being trialed in Australia and internationally, such as the BCtA Reporting Framework and Social Return on Investment (SROI) Model. However, there remain challenges to the uptake of impact measurement tools, including a lack of one widely accepted standard, and resistance from companies due to the resource intensive nature of reporting.

There is a role for DFAT in collaboration with other donor agencies to promote the development and uptake of effective IB impact measurement. This may involve reviewing the effectiveness of existing standards and tools to provide a basis for recommendations to the corporate and NGO sectors; publicly endorsing the importance of IB impact measurement to the corporate sector and linking this to awards and recognition programs; and subsidising IB impact assessments to encourage greater uptake by companies.



*Business for Millennium Development
14.05, 401 Docklands Drive
Docklands, VIC, 3008 Australia
b4md.com.au
contactus@b4md.com.au*

Business in Development Study 2012

Australian business leaders provide insight into delivering business outcomes
with social benefit in developing countries



Business in Development Study 2012

Australian business leaders provide insight into delivering business outcomes
with social benefit in developing countries

Morgana Ryan
Shaun Richardson
Paul Voutier

September 2012

This study is commissioned by the Australian Agency for International Development (AusAID)
to provide a basis for informed discussion on AusAID's business engagement agenda.
It has been produced by independent analysts and does not reflect the views of AusAID nor
of the Australian Government.

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Foreword

Aid and development have traditionally been viewed as the domain of government, non-governmental organisations (NGOs) and their donors. *The Business in Development Study 2012* introduces a new perspective, asking if the business operations of Australian multinational companies are also addressing development challenges in some of the poorest parts of the globe.

The answer is an intriguing one. In pushing beyond home shores in a quest for growth, companies must deal with the same challenges the poor face, like ill health, low levels of literacy and poor roads. These challenges constrain growth. Some companies, in moving forward to solve these problems, create new future revenues streams for themselves as well as unprecedented opportunities in poor communities.

Only recently I saw this model first hand in Indonesia where I visited a dairy cooperative which is, with the support of a multinational dairy processor, using new technologies to increase farmer yields and productivity. For the multinational it's good business, increasing throughput at its plant. For the farmers, it's a critical leg up in a very difficult environment.

I trust the report is valuable to Australian Agency for International Development (AusAID), NGOs, donors and businesses as they consider the role of business as a partner in solving the big development challenges.



Simon McKeon,
Board Chair Business for
Millennium Development

The *Business in Development Study 2012* investigates important themes associated with the power of business to deliver both business and social outcomes. As the issues that impact commercial, public, and philanthropic organisations increasingly converge, challenges like poverty, inequality and health – issues once deemed **social** – have become **strategic**. Businesses are creating innovative multi-stakeholder cross-sector alliances that are transforming traditional structures and the conventional roles of actors within international development.

In this study, Accenture Development Partnerships and Business for Millennium Development (B4MD) delve into the multi-dimensional barriers, motivations, and experiences of Australian business in developing countries, creating a foundation for continued advancement. While there are no instant solutions, harnessing the transformative power of market forces to help address today's most pressing global challenges is an important step forward.

AusAID and Australian businesses have a unique opportunity to move forward and create cross-sector solutions that symbiotically overcome business and developmental hurdles. This Study proves that innovative partnerships are gaining momentum, but that the relationship potential between business and AusAID is underutilized.

My hope is that this Study will not just offer examples of innovation, but inspire readers to collaborate and participate in conversations and potential opportunities to tackle the complexities of development – that it will motivate you to *become* an example of cross-sector convergence.



A handwritten signature in dark ink, appearing to read 'Gib Bulloch'.

Gib Bulloch,
Managing Director
Accenture Development
Partnerships

Appreciation

We would like to thank the following business leaders for their insights in shaping this study. While the views expressed in this report do not reflect the totality of opinions received from all contributing executives, their participation and guidance have been critical.

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IBM

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Outsourcing

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Corporate Affairs

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Nicholas Moore, CEO

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Business Development

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Pro Bono & Community

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Fran Hernon, Corporate Affairs Manager

Newcrest Mining Limited

Stephen Creese, Executive General Manager,
Corporate Affairs

Nufarm Limited

Andrew Dunlop, Manager, Export and Contracts

Bernard Lee, Manager,
Industry and Government Affairs

Oil Search

Peter Botten, Managing Director

Origin

Phil Craig, Executive General Manager,
Corporate Affairs

PwC

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Rio Tinto

Bruce Harvey, Global Practice Leader,
Communities and Social Performance

Sanitarium Health & Wellbeing

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Telstra

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Strategy and Corporate Services



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Corporate Affairs

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Engagement, Group Sustainability & Community
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John Grill, CEO

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Executive summary

Introduction

Developing economies are important to the future success of Australia's multinational businesses. They are home to powerful mass markets and significant sources of talent, and represent the next wave of economic growth for many industries. As businesses move into new markets in developing countries, they present new opportunities to positively impact development issues and drive change.

"Macquarie has a large focus in Asia and indeed globally. We view developing countries as the growth engine of the global economy."

Nicholas Moore, CEO, Macquarie Group

Recognising the significant impact Australian businesses operating in developing countries have on poverty alleviation, and the considerable opportunity that engagement with these organisations represents in terms of achieving its goals, the Australian Agency for International Development (AusAID) commissioned the *Business in Development Study 2012* (the Study). This Study is one of the preliminary steps AusAID is taking to improve links with Australian businesses. This study was commissioned by AusAID to provide a basis for informed discussion on AusAID's business engagement agenda. It has been produced by independent analysts and does not reflect the views of AusAID nor of the Australian Government.

The Study aims to establish a body of evidence to characterise the nature of core business activities that Australian multinationals operating in developing countries undertake which contribute to poverty alleviation. The Study further aims to identify common ground that will facilitate engagement between these businesses and AusAID, to mutual benefit. The Study was conducted by Accenture Development Partnerships (Accenture) and Business for Millennium Development (B4MD) between January and May 2012 on behalf of AusAID.

The target audience for this Study is both AusAID and Australian businesses, although it is also

relevant to other business leaders, to development sector organisations and other aid agencies, and to developing country governments who are looking to attract foreign investment and build the capacity of their private sectors.

About AusAID

AusAID works as part of a global effort to reduce poverty by effectively administering the Australian government's aid program. The Australian government considers reducing poverty critical to the future of developing countries and also key to Australia's security and prosperity.

AusAID works collaboratively with other Australian government departments and agencies to deliver aid. It also works with Australian non-government organisations, academic and research institutions, members of the wider Australian community, and with the governments of partner countries to reduce poverty in developing countries.

Report structure

The first three chapters of the Study focus on understanding the 'what, where, how and why' of business activities of Australian companies in developing countries, and the extent to which these activities impact poverty alleviation. Findings include:

- Activities currently undertaken by business that contribute to poverty alleviation
- Countries where businesses undertake these activities
- Drivers that motivate businesses to have an impact
- Barriers and associated enablers related to operating in developing countries
- The extent to which businesses anticipate their operations will continue to have a poverty alleviation impact in the future.

Chapters four and five consider how Australian businesses can engage with partners, their current level of awareness of the work of AusAID,

and how they might engage with AusAID as a partner in the future.

There is growing evidence of considerable common ground between aid agencies and private sector organisations that would provide opportunity for mutually beneficial partnerships that could have scalable and sustainable impact¹. The United States Agency for International Development (USAID), the United Kingdom Department for International Development (DFID) and the Swedish International Development Agency (SIDA),² among others, have all acknowledged the value of engaging with business. Figure i provides insight from DFID on the convergence of the work of aid agencies with that of the private sector.

Study methodology

The Study comprised a literature review, a survey with responses from 56 Australian businesses active, or with potential for activities in developing countries, as well as interviews with 35 Australian business leaders.

The literature review considered over 30 articles from academics, development and business thought leaders. The review highlighted a growing trend away from ad hoc corporate social responsibility programs as a means to tackle entrenched development issues, as well as recognition that core business activities that also have a social outcome are increasingly seen as the means to achieve scalable and sustainable impact.³ This recognition formed the underlying premise of the survey and interview questions.

“That economic growth is the primary driver of poverty reduction is well evidenced. On average, four fifths of poverty reduction in recent decades can be attributed to growth in average incomes.”

“By catalysing more private investment and deepening private sector links into communities we can multiply the reach of the private sector and increase the opportunities for poor people.”

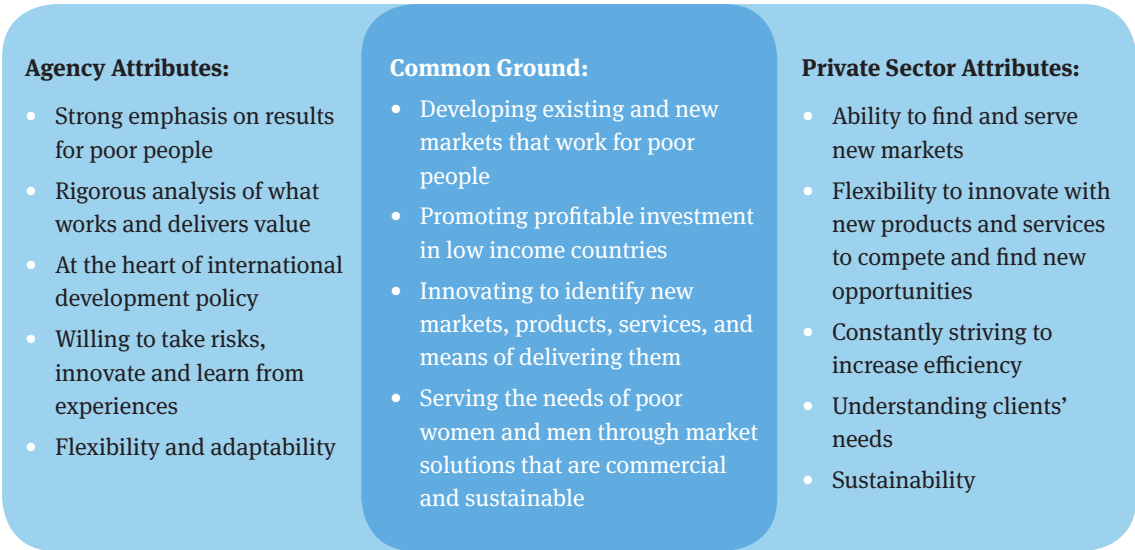
Department for International Development UK (DFID). *The private sector and prosperity for poor people. 2011.*^x

The online survey was distributed to over 180 Australian businesses, representing a significant portion of large and medium sized Australian business with activities, both operational and procurement related, in developing countries. The response rate was high, with approximately 30 percent of the companies contacted completing the survey.

In addition, interviews were conducted with 35 Australian business leaders. These interview responses provided a rich body of evidence to support and further define the findings of the survey, as well as offered greater insight into the high-level trends that emerged from survey responses. Interview responses were also critical in understanding the interest of, and potential for businesses to engage with AusAID on activities that contribute to poverty alleviation and capacity building in developing countries.

The survey respondents by sector closely match the relative focus of Australian businesses with an overseas footprint: the Mining & Energy industry was most highly represented (27 percent of respondents), followed by the Banking (14 percent), Professional &

Figure i: Common ground between aid agencies and businesses



Source: Department for International Development UK (DFID)¹

Legal Services (14 percent), Health & Life Sciences (13 percent) and Consumer Goods & Services (11 percent) sectors.

Business activities that alleviate poverty

There is increasing evidence that business activity in developing countries can have a sizeable progressive impact on poverty alleviation. Survey findings support this.

Findings – Part 1: Business in development

*Ninety-three percent of survey respondents agreed that **business can play an important role in alleviating poverty***

- **Activities:** Australian business leaders indicated that multiple activities are important both to the future of their businesses and to poverty alleviation.
- **Countries:** There is significant overlap between the countries where AusAID works and where Australian businesses believe they have the greatest impact on poverty alleviation – with particular reference to Indonesia and Papua New Guinea.
- **Drivers:** Brand, trust and reputation is the major driver for businesses to engage in activities that alleviate poverty.
- **Barriers:** There is a direct correlation between the activities businesses undertake that alleviate poverty and the barriers they face operating in developing countries.
- **Enablers:** Survey respondents selected a group of key enablers associated with good governance that correlate with the barrier of complexity of implementing in developing countries.
- A number of businesses have extended their skills and competencies to be able to meet the challenges of operating in developing countries – e.g., an Oil & Gas company running countrywide malaria programs, a Construction company running technical and further education vocational education colleges.

When asked which of their current business activities have contributed to poverty alleviation, Australian business leaders noted that creation

of employment opportunities, education, infrastructure development and health programs were all areas of impact (see Figure ii). Employment and education are often tandem areas of focus.

Interestingly, these two activities do not just directly benefit those who work for the business, they also often support education and the creation of employment opportunities for other businesses that may have supply chain interactions with the company.

“Employing one person changes the lives of 15 to 20 others.”

Terry Davis, Group Managing Director, Coca-Cola Amatil

“We can’t always offer large numbers of jobs on our sites, so we help community people become more employable in a broader economy.”

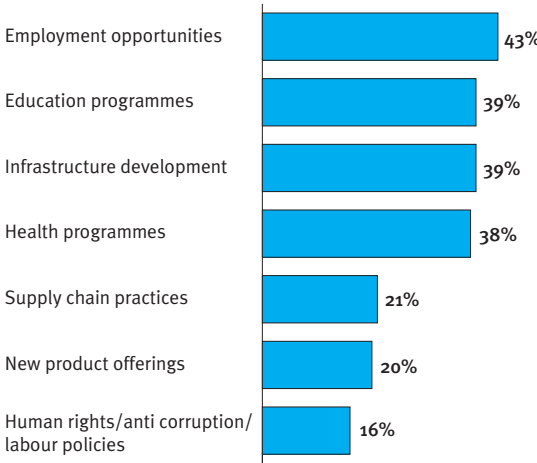
Bruce Harvey,
Global Practice Leader - Communities and Social Performance, Rio Tinto

“For every product we sell, we improve the living standards of five people, which is the [size of the] average household.”

Rick Hooper,
CEO, Barefoot Power

Figure ii: Australian business leaders see employment opportunities as the most significant poverty alleviation activity undertaken by business in developing countries

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries?
(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

The results differ by industry depending on the nature of work and priorities for each sector. For example, for Mining & Energy companies, education, employment and health activities were key to ensuring a skilled, healthy workforce and to support company staff and the broader community. For Banking, education to support access to new product offerings was the top priority that also contributed to poverty alleviation. Furthermore, in the banking sector, education is heavily focused on financial literacy for current and future bank customers – it improves business acumen but also increases demand for financial services and the addressable market for banking products.

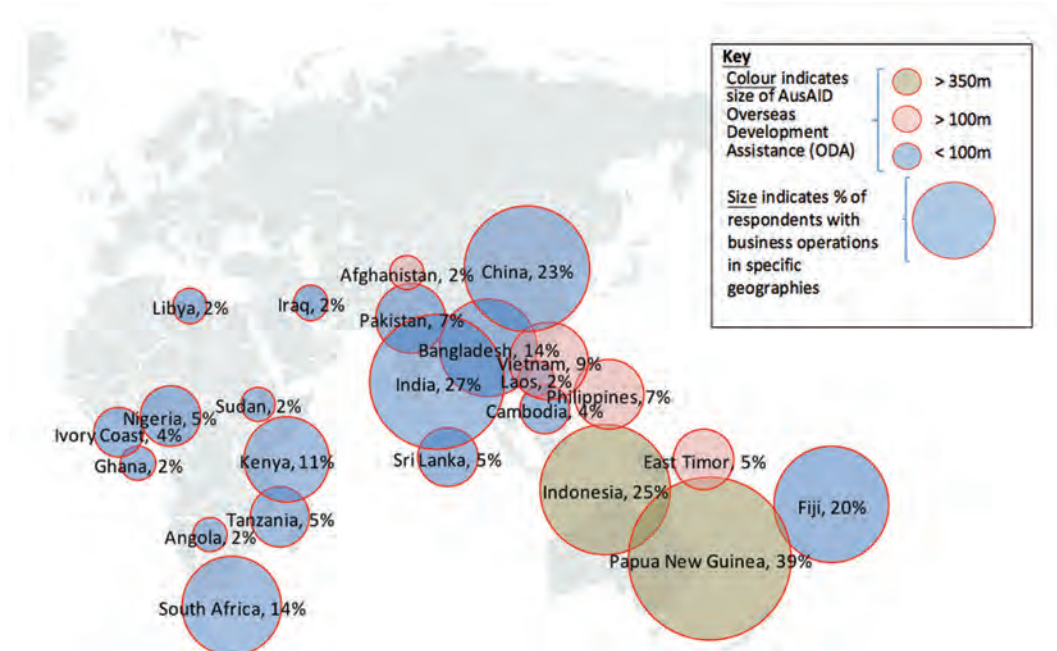
Countries of focus

The Study showed that there is a strong correlation between AusAID's focus in the Asia Pacific region and the countries where Australian businesses feel their operational and procurement activities have the greatest poverty alleviation impact. The greatest areas of overlap are in Indonesia and Papua New Guinea.

Figure iii: Areas where Australian companies and AusAID are active in poverty alleviation

In which countries do the majority of your activities that contribute to poverty alleviation take place?

[Respondents identified the top five developing countries in which their businesses operate]



The map does not represent all countries where AusAID is active, nor does it represent all countries where survey respondents have business activities.

Sources: Accenture/B4MD Business in Development Survey, 2012; Australia's International Development Assistance Program 2011-12 Budget

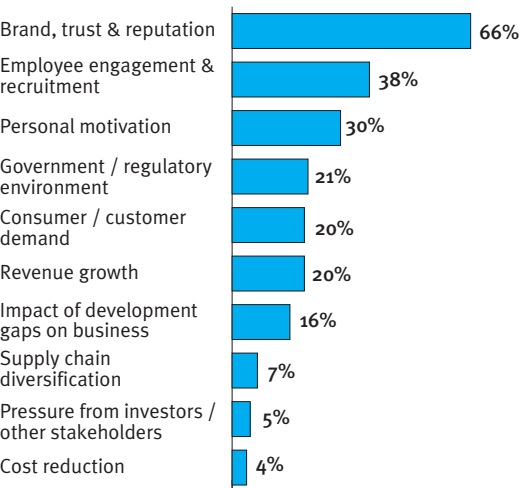
Business drivers

The Study found that the key driver for Australian businesses to undertake activities that contribute to poverty alleviation is brand, trust and reputation (see Figure iv). This is consistent with findings from a United Nations Global Compact (UNGC) global survey of CEOs in 2010, which revealed that of 766 CEOs surveyed globally, 72 percent cite brand, trust and reputation as the primary motivation in taking action on sustainability.⁵ The Banking sector identified brand, trust and reputation as the strongest driver, while respondents from Mining & Energy noted employee engagement and recruitment among the most important drivers.

Figure iv: The factors that drive business to engage in activities that alleviate poverty

What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

During the interviews, multiple business leaders referred to moral obligation. In many cases, it is business leaders who feel a strong sense of moral obligation that are most likely to identify synergies between core business activities and the potential to provide scaled and sustainable activities that alleviate poverty. Interview respondents did however clarify that there must always be a strong business driver as, without that, such activities are often seen as charity and are therefore not sustainable.

“Australian business has an obligation to get out there and do something, including transferring technical and commercial knowledge to people on the ground.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

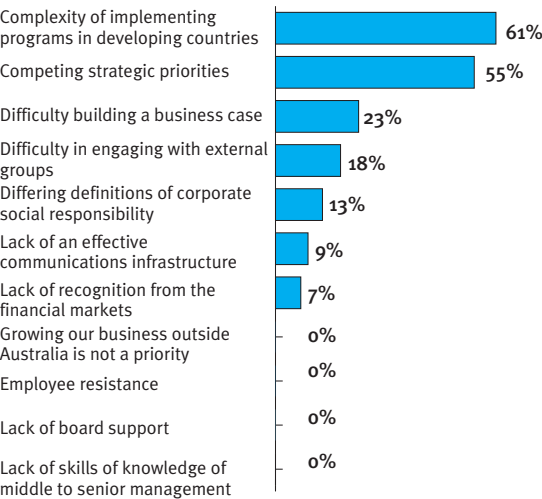
Barriers and enablers

In developing countries, businesses face a variety of barriers (see Figure v). A lack of education and health services, corruption, financial inclusion, and other socioeconomic barriers all hinder business activities. Overwhelmingly, Australian business leaders identified complexity of implementing programs (as it relates to engaging with the community and local issues, and engaging with developing country governments) and competing strategic priorities as the main challenges in undertaking such activities.

Figure v: Australian business leaders identified complexity of implementing programs and competing strategic priorities as the main challenges in undertaking activities that contribute to poverty alleviation

What barriers/challenges does your company face in undertaking activities that contribute to poverty alleviation in developing countries?

(Respondents selected their top three choices)



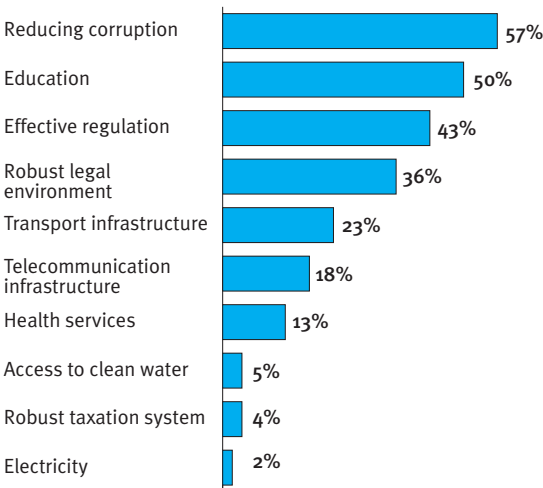
Source: Accenture/B4MD Business in Development Survey 2012

When asked to identify enablers that would make doing business easier, businesses selected a range of areas where solutions were needed to alleviate some of the complexities of implementing programs (see Figure vi). The enablers they identified included reducing corruption, effective regulation

and a robust legal environment within which to function. Education also featured highly.

Figure vi: Reducing corruption was identified as one of the main enablers for business to operate more effectively within developing countries

What enablers would help your company to operate more effectively in developing countries?
(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

“Being a local company, we want to benefit the community. If we are not confident that the national and provincial governments can fully deliver health programs and we think we can help, we will get involved.”

Peter Botten,
Managing Director, Oil Search
(which is based in Papua New Guinea)

“Construction is a people industry and a large employer for skilled, semi-skilled and low-skilled jobs. Depending on what the job is you have widely different skills required. We have a long history of running TAFE-equivalent, certified institutions within the countries we operate in to train locals using Australian expertise. We are not the only beneficiaries; it is the whole country that is benefiting from this program.”

Hamish Tyrwhitt,
CEO, Leighton Holdings

Business engagement is increasing

To be successful in developing countries, Australian businesses have had to be innovative and expand their capabilities beyond their core competencies to address challenges to business growth. The companies that are thriving are those that have built meaningful, sustainable relationships in the communities in which they operate. The creation of employment opportunities, the introduction of health and education programs, infrastructure development, the advancement of human rights and labour policies, and establishment of inclusive supply chain practices are not only key in addressing socioeconomic barriers to participation and to further developing capacity, but they are underpinned by solid business drivers.

Seventy-three percent of survey respondents significantly agreed or agreed that the activities their businesses undertake that contribute to poverty alleviation in developing countries is increasing. Respondents felt that not only would stakeholders expect this of them, but that growth in these activities will largely be driven by business imperatives – i.e., the poverty alleviating activities they undertake will be important to their future growth because they also drive desired business outcomes.

Findings – Part 2: AusAID and business

Knowledge of AusAID:

- Australian businesses have limited awareness of the activities of AusAID, only 25 percent of consider AusAID as a partner today; however, 57 percent say they would consider AusAID in the future.
- The majority of survey respondents indicated they would like to better understand AusAID's priorities in particular developing countries.

Engaging with AusAID:

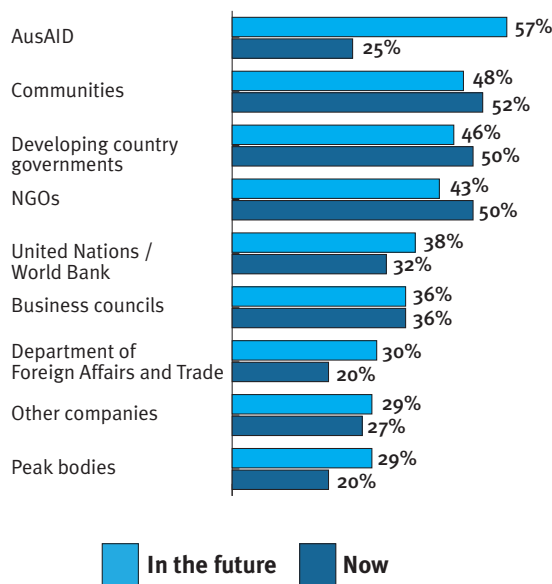
- Where businesses have engaged with AusAID to date, it has been ad hoc.
- The time is right for AusAID to engage with business — Australian businesses have a positive attitude to conducting mainstream business activities that also alleviate poverty; executives are ready and willing to engage, identify and act on areas of mutual benefit in the countries in which they operate.
- For engagement to work there must always be a strong business driver; without that, activities that alleviate poverty are seen as charity and are usually not sustainable.
- There are a number of levels at which AusAID could engage with business, from that of an observer through to joint owner of a particular program.
- AusAID can build momentum through tangible outcomes that demonstrate value to business leaders and have poverty alleviation impact.

Knowledge of AusAID

To address barriers to business growth in developing countries, businesses indicated they were willing to explore new ways of partnering. While business leaders indicated limited awareness of the activities of AusAID in the countries where they operate, the majority identified AusAID as one of the key organisations that they would seek to engage with in the future (57 percent) (see Figure vii).

Figure vii: Overall, there is a move away from the traditional partners that business would consider using

Which of the following entities does, or would your business consider as a partner for undertaking business activities in developing countries? (Respondents identified all entities that apply)



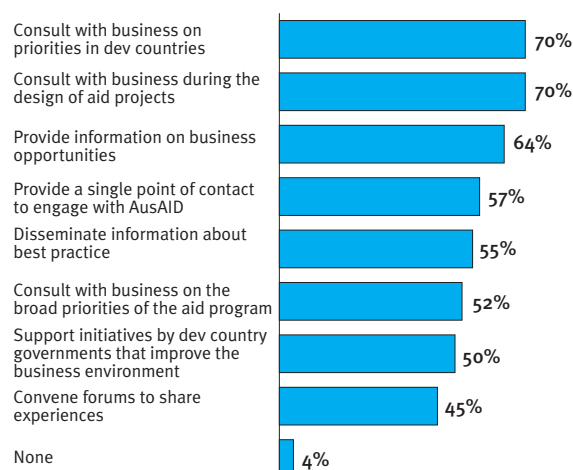
Source: Accenture/B4MD Business in Development Survey 2012

To facilitate engagement, business leaders indicated that they would like to better understand the priorities of the AusAID program and would welcome consultation by AusAID with business during the design of relevant aid projects.

Figure viii: Business leaders want to understand the priorities of the AusAID program and want AusAID to consult with business during the design of individual aid projects

What can AusAID do to make the Australian aid program more effective for business?

(Respondents selected all responses that were appropriate)



Source: Accenture/B4MD Business in Development Survey 2012

Opportunity for AusAID to engage with business

Reflecting on the drivers, barriers and enablers identified by business as central to undertaking business activities that alleviate poverty, it is

possible to identify where the opportunities might be for AusAID to engage with Australian businesses. This list aims to form a point of reference for consideration and discussion by AusAID and business. It is intended as a starting point only.

Figure ix: Potential opportunities for AusAID engagement with Australian businesses by industry sector

Industry	Business enablers	Business barriers	Poverty alleviating activities	Drivers to activity	Potential opportunities for engagement
Mining & Energy	<ul style="list-style-type: none"> Effective regulation Reduce corruption 	<ul style="list-style-type: none"> Complexity (government capacity – National, Regional, Local) Lack of infrastructure 	<ul style="list-style-type: none"> Infrastructure 	<ul style="list-style-type: none"> Brand Government & regulatory environment 	<ul style="list-style-type: none"> Government capacity building Physical infrastructure Small / medium enterprise development
	<ul style="list-style-type: none"> Education Health services Social stability 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (engagement with local communities) 	<ul style="list-style-type: none"> Education Employment Health 	<ul style="list-style-type: none"> Employee engagement & recruitment Moral obligation 	<ul style="list-style-type: none"> Secondary / tertiary education programs Health programs Small / medium enterprise development
Banking	<ul style="list-style-type: none"> Reduce corruption Legal environment Effective regulation 	<ul style="list-style-type: none"> Complexity (government capacity) Lack of business case 	<ul style="list-style-type: none"> Government capacity building / governance Financing Infrastructure 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Government capacity building (financial regulation)
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (lack of financial literacy) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Education (financial literacy) Microfinance programs
Consumer Goods & Services (Supply chain)	<ul style="list-style-type: none"> Reduce corruption (no child labour) Education (of producers) 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (implementation and management of supply chain) Competing strategic priorities 	<ul style="list-style-type: none"> Education (of producers) 	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Small / Medium enterprise development
Consumer Goods & Services (Sales)	<ul style="list-style-type: none"> Reduce corruption Build distribution chain 	<ul style="list-style-type: none"> Complexity of implementation (customers' access to finance) 	<ul style="list-style-type: none"> Education 	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Microfinance programs
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (consumer education / awareness) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Education

Six actions AusAID can take to accelerate business engagement

An important precursor to engaging with business is awareness of the needs, interests, goals and capabilities of potential partners, as well as their willingness to engage. Business leaders see the immense potential of combining efforts to achieve a shared goal – but are also aware of the practical challenges. Survey and interview respondents identified six areas that might assist AusAID in considering a strategic approach for effectively engaging with Australian businesses in order to maximise scalable and sustainable poverty alleviation outcomes in the communities in which they operate (see Figure X).

To be sustainable, business leaders emphasised that the poverty alleviation activities they undertake must be anchored to tangible business benefits, even if the business benefits only occur in the medium to long term. Finding common ground upon which to effectively engage with Australian businesses will require a strategic approach based on mutual priorities. The Business in Development Study 2012 provides a starting point for businesses and AusAID to explore ways in which they might engage to have a greater impact on poverty alleviation and sustainable development outcomes in developing communities.

“We need an overarching discussion as to what we are trying to achieve ... what are the five or six things where there is an overlap between business and AusAID? Then work in smaller groups to take it forward”.

Peter Botten,
CEO, Oil Search

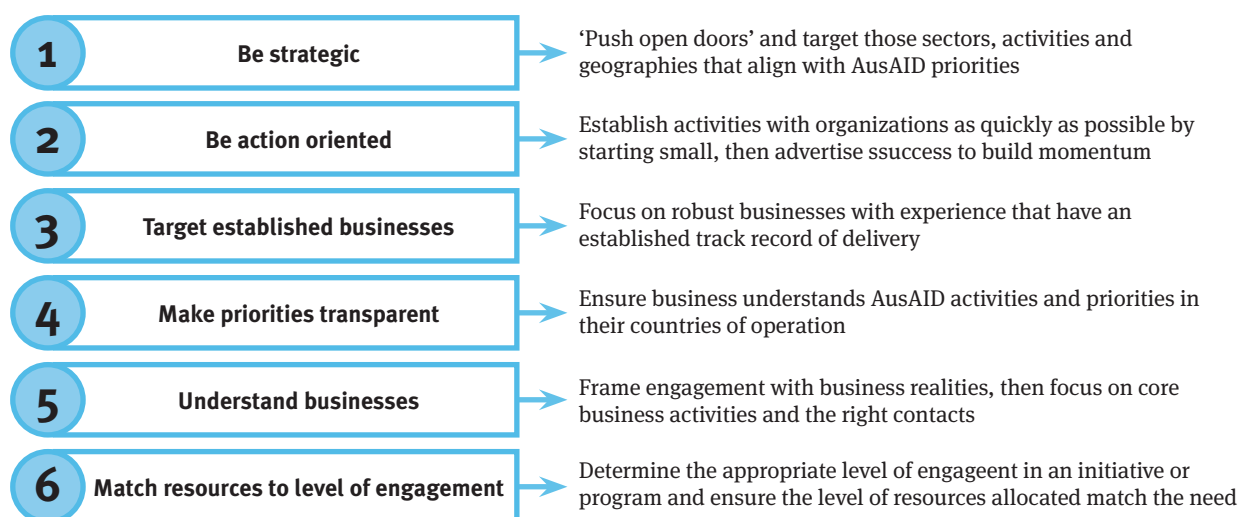
“If AusAID can be clear on what its top development challenges and opportunities are, and communicate them to us and other large businesses operating in the region, then in many cases the core capabilities of these operations could be very relevant in helping solve those challenges – as an example, in our case this could be our expertise in distribution into remote centres.”

Terry Davis,
Group Managing Director,
Coca-Cola Amatil

The message from Australia’s business leaders is clear:

Be strategic. Start small. But start.

Figure X: Six recommendations for AusAID to consider





Introduction

Business in Development Study 2012

Context

Australia is uniquely positioned among its peers in the Organisation for Economic Cooperation and Development (OECD) as eighteen of Australia's closest 20 neighbours are developing countries. This represents a challenge for the Australian Agency for International Development (AusAID) but also a significant opportunity. With mounting evidence that business activity positively contributes to moving people out of entrenched poverty, there is significant untapped value in AusAID engaging with Australian business with activities in developing countries.³

AusAID provides assistance to Non-Governmental Organisations (NGOs), government and other institutions for purposes of reducing poverty and achieving sustainable development in line with Australia's national interest. While its primary focus is provision of aid to organisations in the Asia-Pacific region, AusAID also provides aid elsewhere, most notably to the world's two most impoverished regions, South Asia and Africa, and to Afghanistan and Pakistan.

Since April 2006, the Australian Government's overseas aid program has been untied. This means that Australian aid can be delivered by international providers. The policy of untied aid represents the Australian Government's long standing commitment to openness in trade and competition, and prohibits discrimination based on foreign ownership, affiliation or location. It is widely accepted as a way of improving aid effectiveness and efficiency.

AusAID distributed approximately \$4.8 billion in aid in 2011-12 or 0.35 percent of Australia's Gross National Income (GNI), while Australian NGOs provide just under \$1 billion in assistance over the same period.² However, AusAID's long established relationships with entities traditionally associated with poverty alleviation, namely NGOs, developing

country governments, multilateral agencies and management contractors, are not the focus of this Study. Rather, it seeks to explore the role of another poverty alleviation agent, Australian businesses.

While business is not motivated first and foremost by poverty alleviation outcomes, there is increasing evidence that business activity can have a significant impact on poverty alleviation in developing countries.

"That economic growth is the primary driver of poverty reduction is well evidenced. On average, four fifths of poverty reduction in recent decades can be attributed to growth in average incomes."

"By catalysing more private investment and deepening private sector links into communities, we can multiply the reach of the private sector and increase the opportunities for poor people."

Department for International Development UK (DFID); *The private sector and prosperity for poor people*, (2011)¹

Purpose

The purpose of the *Business in Development Study 2012* is to provide an evidence base as to the nature of Australian business activity in developing countries that contributes to poverty alleviation. The latter part of the report focuses on how business and AusAID might engage, with a view to finding common ground and building relationships that will ideally result in scalable poverty alleviation.

This Study provides an overview of what drives Australian businesses with a presence in developing countries (whether operational or procurement oriented) to engage in activities that

alleviate poverty. It also identifies the skills and competencies within these businesses that could align with those of AusAID.

The Study is intended for a cross sectoral audience. For business leaders it presents an opportunity to understand what their peers are doing. For AusAID it is a resource to inform business engagement policy. It may also be a useful resource for developing country governments and other development sector players.

This Study provides a strong evidence base that business, AusAID and other international development players can use to explore opportunities and consider ways in which to engage with business to have a greater impact on development.

Methodology

The Business in Development Study 2012 comprised three main areas of research—a literature review, a survey of Australian businesses and interviews with Australian business leaders.

In recognition of the growing body of research in the areas of business in development, a literature review of over 30 articles by academics, development and business thought leaders was conducted. The review highlighted a growing trend away from ad hoc grant based corporate social responsibility programs as a means to tackle entrenched development issues, as well as recognition that core business activities that also have a social outcome are increasingly seen as the means to achieve scalable and sustainable impact.³

Together with extensive consultation with the team that conducted the United National Global Compact CEO Sustainability 2010 study,⁴ the review served to inform the design of an online survey that was distributed to over 180 Australian business leaders whose organisations have activities, or have the potential to have activities in developing countries. The literature review also influenced interviews with business leaders, providing a framework for early discussions. However, the evidence for the findings presented in this report comes from survey responses and from in-depth interviews with business leaders.

The focus of the Business in Development Study 2012 is to establish a body of evidence that confirms and elucidates the nature of the core business activities that Australian businesses are undertaking in developing countries that also support poverty alleviation. The aim of the Study:

to identify common ground that will facilitate engagement between these businesses and AusAID, to mutual benefit.

Aid agencies increasingly engage with business²

US Agency for International Development (USAID)

Aim of USAID: “Coordinates agreements between companies, non-for-profits, and government agencies that maximise the amount benefit of aid provided to developing nations. These alliances bring significant new resources, ideas, technologies and partners to bear on problems in countries where USAID works.”

Source: <http://idea.usaid.gov/organization/gp>

Department for International Development, UK (DFID)

“Our new approach to working with the private sector is about us doing more with, and for private enterprise, extending this work in new areas, and doing it better. We want private sector thinking to become as much part of DFID’s DNA as our work with charities and governments. The new approach will deliver results for poor people: better job opportunities and incomes; more readily available and affordable finance for households and small businesses.”

Source: <http://www.dfid.gov.uk>

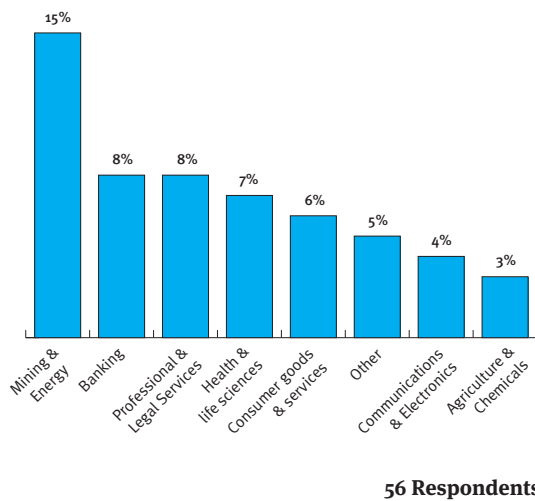
Swedish International Development Cooperation Agency (SIDA)

“Sida is developing new forms of collaboration with industry via the program Business for Development (B4D). The objective is to, together with companies, contribute to reduce poverty and environmental impact, create more and better jobs and encourage growth.”

Source: <http://www.sida.se>

The list of companies contacted for the survey represented a significant portion of the large and medium sized Australian business with activities (operational and procurement) in developing countries. The response rate was high, with approximately 30 percent of companies contacted completing the survey. The 56 Australian business leaders who responded to the survey represent a cross-section of industries (see Figure 1).

Figure 1: Business leader online survey respondents by industry



Source: Accenture/B4MD Business in Development Survey 2012

This report directly includes data from 85 percent of the questions asked in the survey. Where survey data is illustrated in the report, the actual survey question is visible above the data. Survey questions were designed to test a series of hypotheses. The hypotheses were determined from the literature review, discussions with AusAID, discussion with the United Kingdom Department for International Development (DFID), and Accenture and Business for Millennium Development's experiences working with business on development issues. The questions were premised on a focus upon core business activities that have an impact on poverty alleviation.

In addition to the survey, interviews were conducted with 35 Australian business leaders. We thank all the business leaders who made the time to meet with us during this Study. Conducting the interviews provided a rich body of information that supports and further defines the findings from the survey. In a number of places the interviews provided deeper insight into the high level trends that were evident in the survey responses. The interview information was also critical to understanding the potential for business to engage with AusAID, the results of which are detailed in chapters four and five.

The survey and interviews sought representation from all sectors. The number of participants from each sector accords with the relative focus of Australian businesses with overseas activities. There were high response rates from the Mining & Energy industry, which is where Australian businesses have a large footprint in developing countries. Other industries, such as Banking, Professional & Legal Services and Consumer Goods & Services, are steadily increasing their activities within these countries. Only a small number of companies within the Agriculture, Chemicals, Infrastructure, Automotive, Industrial Equipment and Utilities sectors responded. With the exception of companies in the Infrastructure industry, these organisations have relatively small operations within developing countries.

Respondents to this survey are an important cohort — they represent the views of Australian businesses from a broad range of sectors that operate in developing countries. What makes this Study unique is the interviews with Australian business executives with operations in developing countries that gain insight into their motivations and thinking with regards to engaging in activities that alleviate poverty. It is also documents the views of Australian business leaders on the opportunities they see for working with the Australian Government's international development agency.



Chapter 1

The nature of business engagement in development

Poverty alleviation is not the first thing business leaders consider when making decisions about their activities in developing countries but there is a strong trend evident among the business leaders surveyed and interviewed in this Study: the majority agree business can positively contribute to poverty alleviation. This may be related to the fact the activities that businesses undertake that contribute to poverty alleviation are also usually directly related to achieving business outcomes associated with business operations and procurement activities in a country. The symbiotic relationship between tackling development issues and achieving business outcomes becomes clearer when considered through an industry lens. For example, the Mining & Energy sector focuses investment on education, employment and health activities, which positively impacts its workforce, directly and indirectly. The retail banking sector is interested in education, specifically around financial literacy. In both cases there are societal outcomes that also have business benefits.

“One of the better ways to poverty alleviation is by creating jobs, improving education and leaving a lasting impression. It is much more powerful than corporate social responsibility alone.”

Phil Craig,
Executive General Manager - Corporate Affairs,
Origin

“For every product we sell, we improve the living standards of five people, which is the [size of the] average household.”

Rick Hooper,
CEO, Barefoot Power

“We’re not in the business of alleviating poverty per se. We are, however, in the business of developing long life, wealth-generating mining operations for two to five generations. We believe that significant social benefits flow when people have work.”

Bruce Harvey,
Global Practice Leader - Communities and Social
Performance, Rio Tinto

When considering geographic footprint, it is interesting to see the countries in which businesses feel their operational and/or procurement activities have the greatest poverty alleviation impact. These are not always the countries where they have their largest investment. There is a high level of correlation of focus between Australian businesses and AusAID’s target countries, specifically Indonesia and Papua New Guinea (PNG).

Business has a role to play in poverty alleviation

Business leaders agree almost unanimously that business can play an important role in alleviating poverty. Ninety-three percent of the 56 business executives responding to the Business in Development survey agree, or significantly agree, that Australian business can play an important role in contributing to poverty alleviation in developing countries (see Figure 1.1). This trend was further borne out during our interviews with 35 Australian business leaders representing different sectors and industries — ranging from those whose business models focus on poverty alleviation to

those who believe benefit derives simply from the presence and activities of large scale private sector companies.

Australian business leaders seek to ensure business activities benefit the communities and countries in which their businesses operate. Every one of the 56 business executives engaged in the survey identified business activities that alleviate poverty in some way. In order to understand the nature of business engagement in development, an understanding of the underlying business activities that impact poverty alleviation needs to be considered along with the drivers, barriers, geographies and stakeholders involved.

Industry perspectives

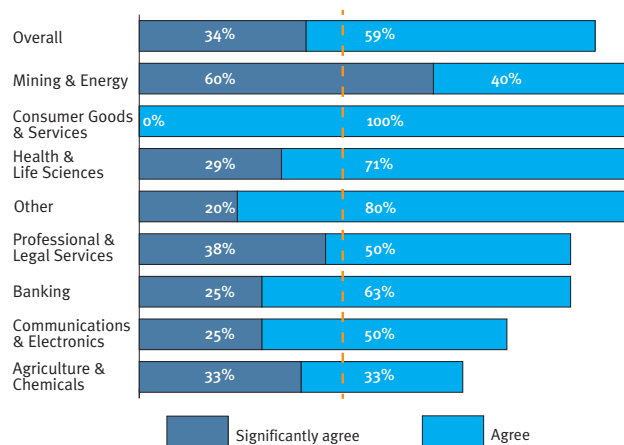
Some industries are more able to impact poverty through mainstream business operations

Across all industries surveyed there is a belief that Australian business can help alleviate poverty in developing countries. However, it is clear from both the interview feedback and survey results that not all industries are alike in their drive and propensity to undertake business activities that alleviate poverty.

All surveyed business leaders from the Mining & Energy, Consumer Goods & Services and Health & Life Sciences sectors believe they can have a significant impact on alleviating poverty. This reflects the depth of engagement of these sectors in developing countries, as well as the demands of their stakeholders that they deliver social benefit to the communities in which they operate. These sectors particularly identified opportunities to grow their businesses in developing countries and indicated recognition that these activities also alleviated poverty.

Figure 1-1: Australian business leaders believe Australian business can play an important role in contributing to poverty alleviation

Australian businesses can play an important role in contributing to poverty alleviation in developing countries.



Source: Accenture/B4MD Business in Development Survey 2012

Activities

Businesses believe their mainstream activities can have a positive impact on poverty alleviation

A view of the types of activities companies are undertaking provides greater insight into how they might have an impact on poverty alleviation. Survey respondents indicated the most common activity undertaken by business that can alleviate poverty is providing employment (43 percent).

"Employing one person changes the lives of 15 to 20 others. We employ over 9,000 people across Fiji, Indonesia and Papua New Guinea, so the difference we make to local communities is significant."

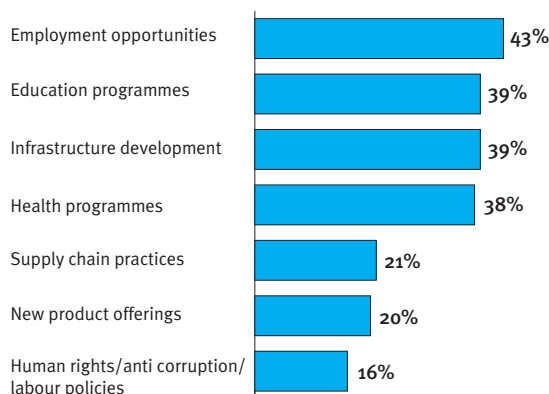
Terry Davis,
Group Managing Director,
Coca-Cola Amatil

The other significant activities undertaken by businesses are: education programs (39 percent), infrastructure development (39 percent) and health programs (38 percent) (see Figure 1-2). Below, responses are analysed by industry to show the range and mix of activities undertaken as well as the extent to which there can be alignment between core business and poverty alleviation outcomes.

Figure 1-2: Australian business leaders see employment opportunities as the most significant poverty alleviation activity undertaken by business in developing countries

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Industry perspectives

Activities that alleviate poverty support core business – but not always in predictable ways

Mining & Energy

The Mining & Energy sector is notable both for the high number of selections made per respondent and the fact that there is a strong grouping of symbiotic activities around education, employment and — to a lesser extent—health (see Figure 1-3). Of the 15 respondents, all but one selected three responses. The average for all other sectors was 1.7 selections per respondent. It is clear from the survey results and the interviews that to be successful in Mining & Energy in developing countries it is necessary to engage in education, employment and health activities that support both the company's staff and also those who are linked to staff or the geographic area.

Interviews with business leaders from the Mining & Energy industry indicated that, while employment is one of the main ways in which business activities alleviate poverty, education programs are also important. These programs allow companies to ensure local people are sufficiently educated to be employed. Consistent with this, 73 percent of Mining & Energy survey respondents indicated that they undertake education programs, the highest among all industries surveyed.

Rio Tinto offers an example of such a program.

Rio Tinto's La Granja copper project in Northern Peru has a comprehensive community engagement program with a significant focus on education. Prior to the start of the program, it was difficult for local people around La Granja to access higher-level education. Local youth who completed secondary education did not have access to professional technical training or a university and, as a consequence, the local workforce did not have the skills to meet the company's operational needs. To fill this skills gap and contribute to higher education needs in the broader region, Rio Tinto is contributing to the development and creation of a Technological Institute at Querocoto⁷.

The impact of providing employment and education opportunities goes beyond the direct employment by Mining & Energy businesses; it extends to small and medium enterprises that have business activities associated with the mines. This introduces the concept of Mining & Energy companies increasing the “employability” of people in the local area, through both direct and indirect job creation.

“We can't always offer large numbers of jobs on our sites, so we help community people become more employable in a broader economy.”

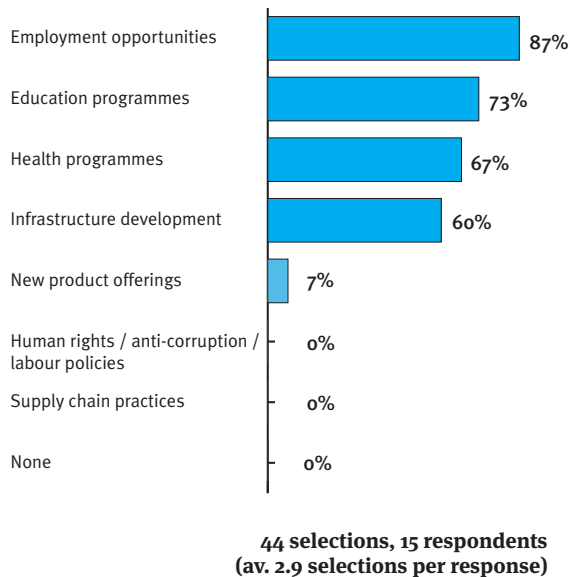
Bruce Harvey,
Global Practice Leader - Communities and
Social Performance, Rio Tinto

Health (67 percent) and infrastructure programs (60 percent) are also common activities within the Mining & Energy industry. Executives identified the health of their workforce to be one of their most important considerations. Lost time through employee or employee extended family health issues have a significant business impact. The development of a functional infrastructure within the country, meanwhile, is critical to allow businesses to undertake their mainstream operations. It also offers benefits to local residents.

Figure 1-3: Mining & Energy respondents identified employment opportunities as the most important of the mainstream business activities they undertake that also contribute to alleviation of poverty

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries? Mining & Energy Industry.

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Health & Life Sciences

Over two thirds of Health & Life Sciences industry respondents indicated they had undertaken health programs as part of their mainstream business (see Figure 1-4). Businesses in this industry aim to align core business competencies with development programs. Business leaders in the Health industry emphasised that such programs must be financially sustainable.

“This collaboration is about saving peoples’ lives but it needs to be sustainable for all parties. While we think the economic benefits are significant to Papua New Guinea, they need to share in it, rather than us trying to push it on them. They must say ‘yes, we want this and we’re going to make this a priority’, otherwise we won’t achieve anything.”

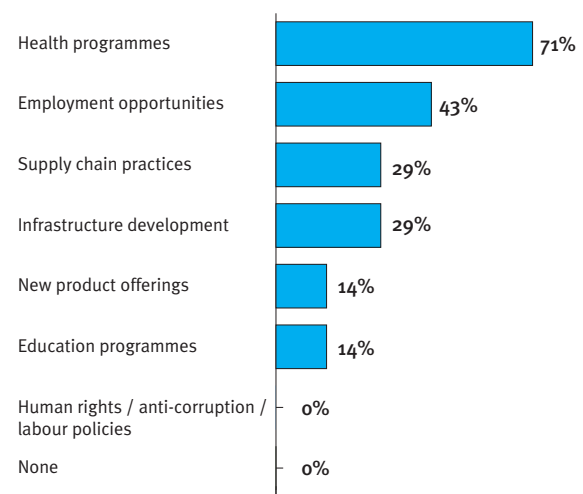
Dr Brian McNamee,
CEO, CSL Limited

“Historically our Asian business didn’t have the critical mass to think about broadening our social activities, but now it has grown we are starting to actively think about Asia in a more proactive fashion.”

Peter Osborne,
Director Asia,
Blackmores Limited

Figure 1-4: Health programs, the core business of the Health & Life Sciences industry, are also the most common poverty alleviation activities undertaken by companies in this sector

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries? Health & Life Sciences Industry.



(Respondents identified their top three choices)

**14 selections, 7 respondents
(average 2.0 selections per response)**

Source: Accenture/B4MD Business in Development Survey 2012

Consumer Goods & Services

The most commonly selected activity within the Consumer Goods & Services industry is supply chain practices (67 percent) (see Figure 1-5). Businesses are focused principally on two areas when considering their supply chain: sustainable procurement (fair pricing, education and health programs for producers in the supply chain) and risk mitigation (avoiding child labour/human rights abuses).

“Sustainable procurement operations, from within developing countries, are an increasing area of focus.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

Other executives spoke of reputational risk and their engagement with suppliers in developing countries to ensure they meet the required standards.

Another significant opportunity for the Consumer Goods & Services industry is new product offerings.

“Nestle fortifies noodles with micronutrients to try and address the problems of nutrient deficiency that we see.”

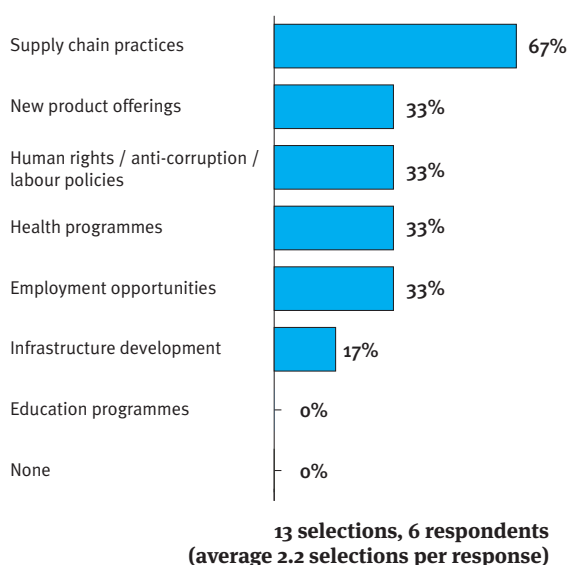
Fran Hernon,
Corporate Affairs Manager,
Nestle Australia Limited

Only a small proportion of all businesses within this industry sector focus on selling outside Australia. However, for those that do, new product development is a significant consideration as a driver to grow market share within developing countries.

Figure 1-5: Supply chain practices were the most common poverty alleviation activities undertaken by the Consumer Goods & Services industry, reflecting close alignment with core activities

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries? Consumer Goods & Services Industry.

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Banking

The majority of respondents within the banking industry identified new product offerings as the activity they conduct that contributes to poverty alleviation (75 percent) (see Figure 1-6). This was also a consistent message during interviews with

Banking leaders. Unsurprisingly, this focus on new product offerings coincides with a focus on expansion into new markets for a number of banks.

“Westpac operates in seven different countries across the Pacific ... helping to create financial solutions that meet the economic challenges our customers and the community face in their unique environments.”

Rukita Okeroa,
Program Manager - Financial Inclusion,
Sustainability, Pacific Banking,
Westpac Banking Group

More unexpectedly, education activities play an important role according to Banking respondents (50 percent). From the interviews conducted it was clear that education in a Banking sector context is heavily focused on financial literacy. Educating current and future bank customers shows good business acumen.

The Westpac Banking Group offers an interesting example of this.

The Westpac Banking Group began delivering financial literacy training within the Pacific region then adapted the program to align with AusAID’s Pacific Seasonal Worker Pilot Scheme. Since 2009, over 18,000 Pacific Islanders across the region have been trained⁴. The program has also moved beyond delivery of literacy to financial inclusion of the unbanked. In addition to financial inclusion initiatives, in 2011 Westpac Pacific Banking launched its Choice Basic transaction account. It is designed to meet the needs of customers who have low transaction volumes and want a simple transaction fee structure and do not have access to formal methods of identification. This product will have a significant impact on each participant’s ability to access banking services and manage their finances.⁸

The ANZ Banking Group provides a similar example.

The ANZ Banking Group conducts a rural banking and microfinance program in Fiji. Created in partnership with the United Nations Development Program, ANZ’s program has been running since October 2004. Six mobile banking trucks travel to remote areas acting as small branches. ANZ currently has approximately 75,000 deposit account customers, 90 percent of whom were previously unbanked. For first-time business borrowers, a loan for up to \$1000 Fiji dollars is provided. In addition to Fiji, ANZ also has smaller scale operations in the Solomon Islands, Samoa and Vanuatu.⁹

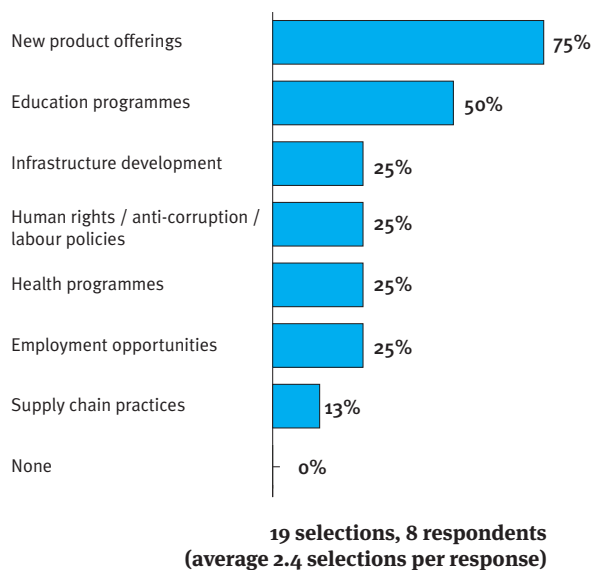
For both Westpac and ANZ, their programs have brought the benefits of increasing demand for financial services and increasing the addressable market for their products. By undertaking these programs they have also developed a far greater understanding of customers' needs and are able to design more appropriate products.

"Banks need to be 'good corporate citizens'. Supporting financial literacy, sustainability and financial inclusion is good for the community and good for the banks' brand and reputation in the region."

Libby Armstrong,
Head of Communications and Corporate Affairs,
International & Institutional Banking,
ANZ Banking Group

Figure 1-6: New product offerings are closely linked to education programs and are the most common poverty alleviation activities undertaken by the banking industry

What business activities has your company undertaken that have contributed to poverty alleviation in developing countries? Banking industry.
(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Geographic perspectives

There is significant commonality between those countries where AusAID focuses and those where Australian businesses operate

Australian businesses see developing countries as a source of future growth or supply, depending on the industry. Accordingly, business leaders indicated that building their presence in these emerging markets is part of their core strategy.

"Macquarie has a large focus in Asia and indeed globally. We view developing countries as the growth engine of the global economy."

Nicholas Moore,
CEO, Macquarie Group

"In our industry the Australian market is mature, with very little growth potential, we have a clear strategy to build our business in growth markets"

Murray Prior,
Executive Director, Marketing & Business
Development, King & Wood Mallesons

Barefoot Power is a provider of low cost solar, lighting and micro power generation and is entirely focused on emerging markets.

"We believe that energy access is one of the key building blocks of economic development and a first step to alleviating poverty. For our company, simply selling our products has significant social outcomes."

Rick Hooper,
CEO, Barefoot Power

Barefoot Power's outlook is shared by many large Australian businesses with a significant geographic footprint, yet it is only in certain countries that they feel they have a significant impact on poverty reduction as part of their business activities (see Figure 1-8).

The geographic focus of Australian businesses based on survey responses is compared to the geographic focus of AusAID in Figure 1-7. Based

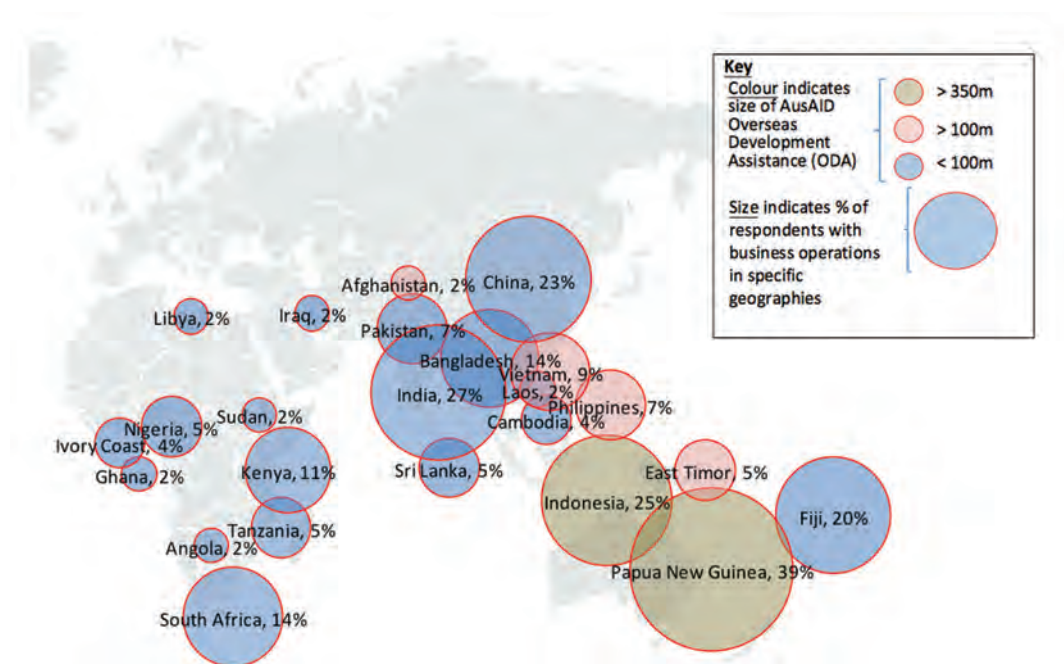
on the survey responses, the countries with the most considerable overlap are Papua New Guinea (39 percent), Indonesia (25 percent) and Fiji (20 percent). The countries where there is some business presence and also a relatively large AusAID overseas development assistance (ODA) are East Timor (5 percent), the Philippines (7 percent),

Vietnam (9 percent) and Afghanistan (2 percent). There are many other countries within the Asian, Pacific and Africa regions where overlaps exist.

Figure 1-7: Areas where Australian companies and AusAID are active in poverty alleviation

In which countries do the majority of your activities that contribute to poverty alleviation take place?

(Respondents identified the top five developing countries in which their businesses operate)



Notes This map does not represent all countries where AusAID is active, nor does it represent all countries where survey respondents have business activities.

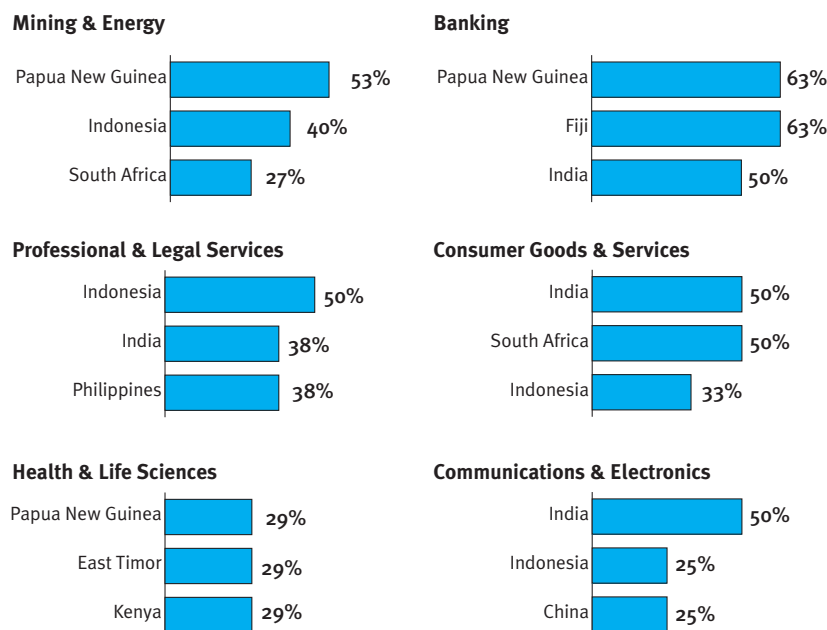
Of the 56 respondents, four selected "none" when asked about developing countries in which their businesses operate.

Sources: Accenture/B4MD Business in Development Survey, 2012; Australia's International Development Assistance Program 2011-12 Budget

Figure 1-8: Countries of focus viewed by industry sector

In which countries do the majority of your activities that contribute to poverty alleviation take place?

(Top three countries ranked by the proportion of total respondents, by sector that referred to a given country)

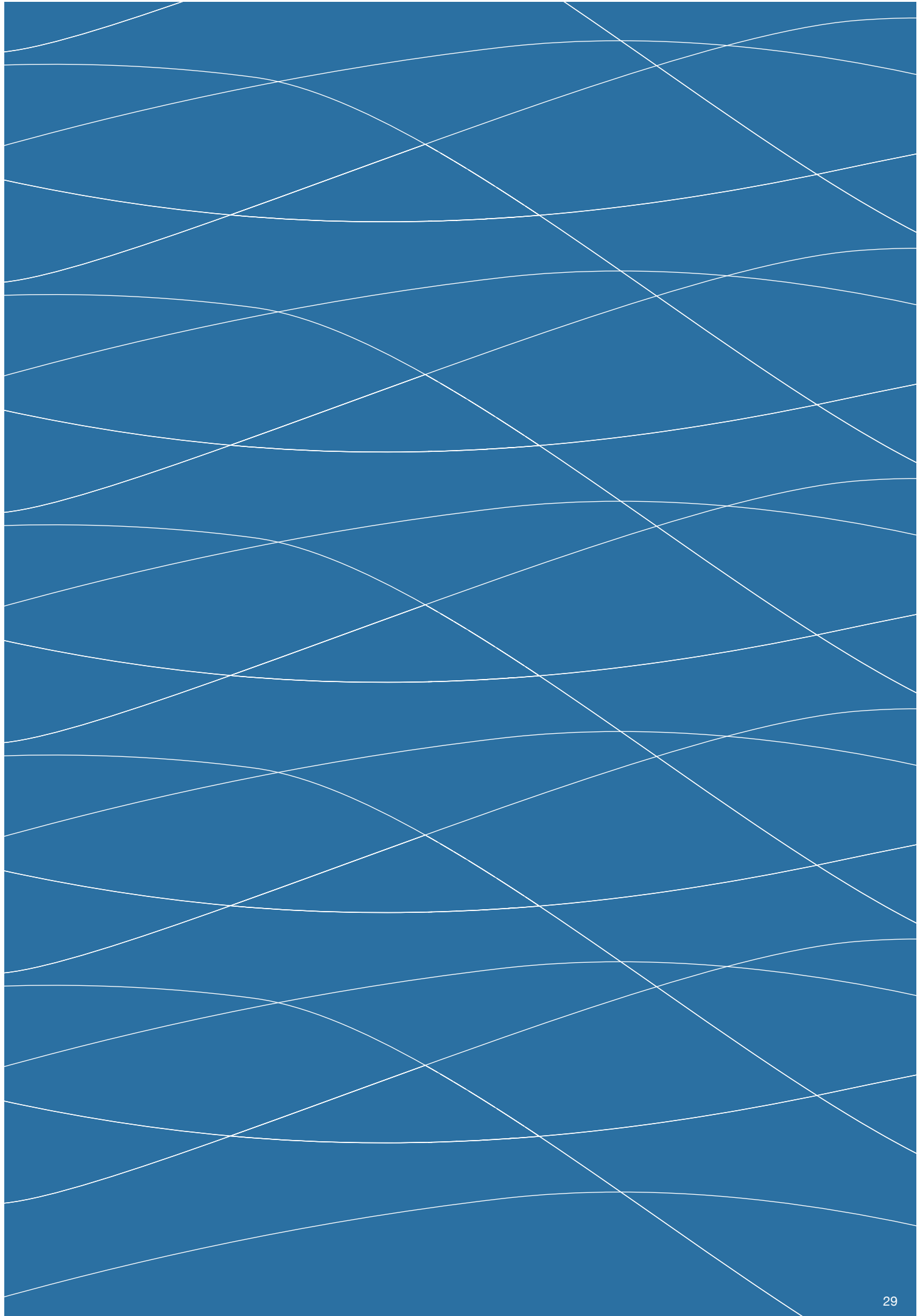


Source: Accenture/B4MD Business in Development Survey 2012

Summary

These initial findings underline and support the premise upon which this survey was undertaken: Australian businesses, in pursuit of growth or advancement of their own business interests in developing countries, are directly contributing to poverty alleviation. There is alignment between core business strategy and poverty alleviation activities—the Banking industry focusses on new product offerings and education; Health & Life Sciences on health programs; and the Consumer Goods & Services industry on supply chain practices – all of which are both core to business for these sectors and central to poverty alleviation in developing countries.

While the emphasis for business in their decision to undertake poverty alleviation programs is whether such activities are business relevant and sustainable, the impact of these activities in communities in developing countries is much wider.





Chapter 2

The drivers and barriers to business engagement in development

Having considered in Chapter 1 the types of activities businesses undertake that alleviate poverty and the geographies in which they operate, this chapter examines what motivates them, who influences them and what challenges they face in achieving their aims.

Business leaders are ultimately motivated by business drivers when engaging in activities that alleviate poverty. Growing, enhancing and mitigating risk to brand, trust and reputation was the greatest driver identified during the survey and interviews. For some retail companies in the Consumer Goods & Services sector, the focus is on risk mitigation of activities that may negatively impact their brand position. For other companies looking to expand their operations in developing countries the focus is on raising brand awareness and brand expansion strategies.

A number of barriers also hinder execution of poverty alleviation business activities in developing countries. From the survey and the interviews conducted, there is a strong correlation between the barriers that businesses face (e.g., complexity of implementation), the things they identified that enable them to operate in developing countries, such as reducing corruption and improved education, and the activities they ultimately undertake which have a poverty alleviation impact.

A number of case studies, reviewed at the end of this chapter, illustrate the extent to which businesses have had to innovate, developing new skills beyond their core competencies to address infrastructure, education, health and financial inclusion barriers to business growth.

Drivers

An important motivating factor for Australian businesses is building and maintaining brand, trust and reputation

Overwhelmingly, the greatest driver for business to undertake business activities that alleviate poverty is brand, trust and reputation (66 percent) (see Figure 2-1). This is consistent with findings from a United Nations Global Compact (UNGC) global survey of CEOs in 2010, which found that of 766 CEOs surveyed, 72 percent cite brand, trust and reputation as the primary motivation in taking action on sustainability.⁵

Executives noted that brand recognition and trust is hard to earn and quick to be eroded. The need to mitigate brand risk is often an overwhelming driver and can lead businesses to spend more on their supply chain and operations in order to avoid brand issues. This correlates with the finding that cost reduction ranked low among responses. Executives explained that where their business was driven by brand, trust and reputation, often short term cost reduction was not the main driver. Instead, they favoured investment to drive standards of conduct in their operations and their procurement activities. In a number of interviews, executives mentioned the need to manage brand risk, which often resulted in more costly investment.

Employee engagement and recruitment is also an important driver (38 percent). Depending on the industry sector, this can be motivated by the employees in developing countries or employees

in Australia. The latter is most often associated with traditional corporate social responsibility charitable activities.

“Particularly in the poorer countries where we operate, there is a real desire by our employees to show social leadership, and not be purely focused on profit.”

Mick Turnbull,
CEO, Australasia and North Asia,
Agility Logistics

Personal motivation (30 percent) is the other major driver. During the interviews, this theme was frequently expressed in terms of moral obligation.

“Australian business has an obligation to get out there and do something, including transferring technical and commercial knowledge to people on the ground.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

“Operating your business among communities in which you see people sick and dying, and not doing something is morally reprehensible.”

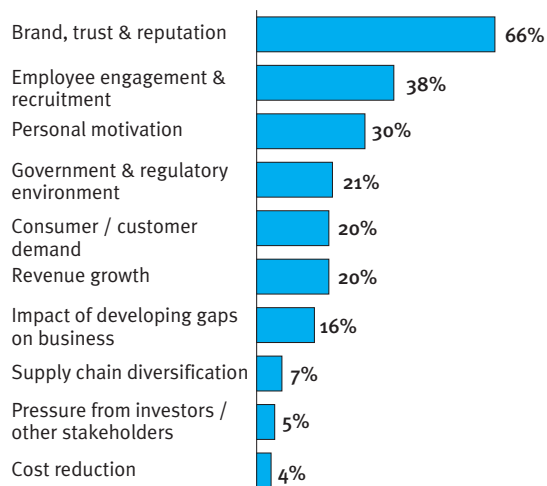
Peter Botten,
Managing Director,
Oil Search

The message is clear from Australian business leaders: conducting business activities that also alleviate poverty helps to build and maintain brand, trust and reputation, support employee engagement and differentiate the business in the race to recruit and retrain staff. It also provides a means for leaders to meet their core business obligations in a way that also meets their moral obligation.

Figure 2-1: It is critical to understand the factors that drive business to ensure successful engagement, however a summary view of drivers can be misleading. Analysing drivers by sector and business size is preferable

What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Industry perspectives

View by drivers

Brand, trust and reputation

A view of brand, trust and reputation by industry reveals the varied levels of importance and emphasis different sectors afford it. Mining companies, for instance, often seek to procure locally even when this is a more costly solution. This relationship with local small to medium-sized businesses is important to build the company's brand within the country. The upside of local procurement is the opportunity to share the benefits of mining activities beyond those directly employed by the mine site and to build local businesses. Ultimately, this is likely to result in greater social, economic and political stability. It enhances the businesses' brand, trust and reputation within countries people and government.

In the Banking sector, where all respondents (100 percent) selected brand, trust and reputation as one of their top three drivers (see Figure 2-2), there is a focus on being a good corporate citizen and upholding the bank's image to customers. For the Consumer Goods & Services sector, meanwhile,

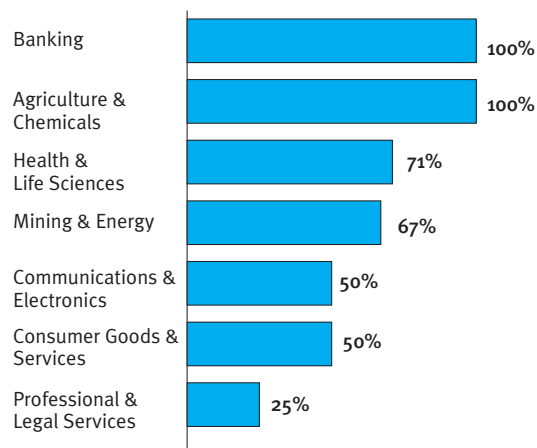
the same driver is often related to managing brand risk and reputation.

“Shareholders have a strong view on brand value and it is not something they want to see jeopardised.”

Armineh Mardirossian,
Group Manager, Corporate Responsibility,
Woolworths Limited

Figure 2-2: A sector-based view of the brand, trust and reputation option as a driver for undertaking poverty alleviating activities; all Banking respondents identify it as a driver

Brand, trust and reputation: What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?
(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Employee engagement

Employee engagement (Figure 2-3) is a much more important driver for those businesses that have a direct operational footprint in developing countries, such as Mining & Energy (73 percent) and Banking (63 percent) companies.

“Employees are typically very positive about [development related activities]; there is a real desire, [an] undercurrent among employees, to see Agility engaged in education, health programs, gender equality and local organisation support.”

Mick Turnbull,
CEO - Australasia and North Asia,
Agility Logistics

For the mining sector, the social license to operate in developing countries often manifests, in part, through maximisation of the number of local people employed.

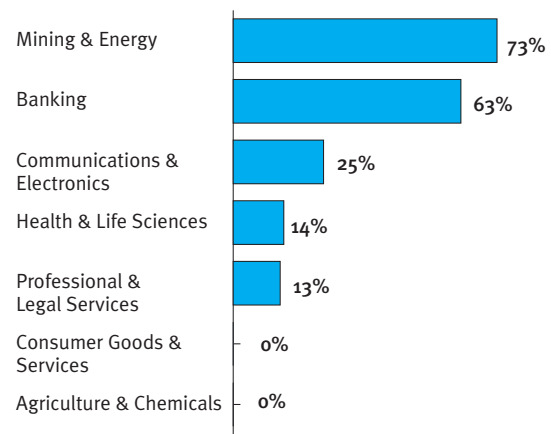
In the Banking sector there were examples of financial literacy programs that engage bank staff as trainers to run programs in the local community.

“We are a large employer and have a strategy to localize our business. The more localised the company is, the more the business is accepted in that geography.”

John Grill,
CEO, WorleyParsons

Figure 2-3: A sector-based view of the employee engagement and recruitment option highlights a variety of responses

Employee engagement and recruitment: What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?
(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Personal motivation / Moral obligation

Personal motivation was highlighted by respondents from multiple industries. It was within Health & Life Sciences, however, that the highest percentage of industry respondents cited it as one of the top three drivers of poverty-alleviating activity (57 percent) (see Figure 2-4).

Moral obligation: an important, yet overlooked driver?

When interviewing senior business leaders, it became very clear that a key driver for undertaking poverty alleviating activities was moral obligation. Some business leaders feel a strong sense of moral obligation, which consequently permeates the business as a whole.

In many cases, it is businesses whose leaders feel a strong sense of moral obligation that are most likely to identify synergies between core business activities and the potential to provide scaled and sustainable activities that alleviate poverty. However, in the interviews it was clear that there must

always be a strong business driver: without that, activities that alleviate poverty are seen as charity and are usually not sustainable.

This view was reiterated multiple times as a number of interviewees commented on moral obligation as a driving force from the boardroom down.

"If you are generating millions of dollars you have to put something back."

Peter Botten,
Managing Director, Oil Search

"Currently our commercial business is not driven by delivering product into developing countries, however, we feel that our shareholders accept we have a significant corporate responsibility to leverage our skills to do good."

Dr Brian McNamee,
CEO, CSL

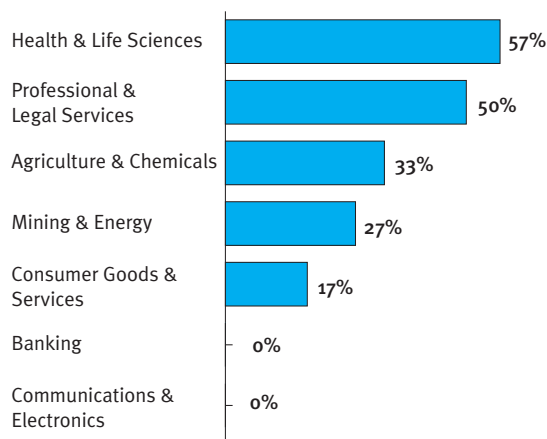
"Agility, as an organisation, believes that [it] has a responsibility to give back to those countries in which it operates. It's a philosophy of our global board which is pushed down into different areas."

Mick Turnbull,
CEO - Australasia and North Asia,
Agility Logistics

Figure 2-4: Personal motivation: Overall, fewer respondents selected personal motivation but, consistent with our interview discussions, organisations in Health & Life Sciences see it as an important driver

Personal motivation: What are the factors that have driven your company to undertake those activities that contribute to poverty alleviation in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Government / regulatory environment

Industries where a notable proportion of respondents selected Government and regulatory environment within their top three motivating factors for undertaking activities that contribute to poverty alleviation were Mining & Energy (40 percent), Professional & Legal Services (38 percent) and Banking (25 percent). These industries are highly regulated and as such must adhere to strict operating and licensing conditions defined by local governments to continue operating in a country. However, this driver is twofold.

On the one hand, the need to meet criteria and terms defined by government drives businesses to undertake certain activities. On the other hand, it emerged from interviews that many businesses find that gaps in policy, infrastructure and government capacity drive them to undertake activities that will assist them to meet their internal or home country policies and standards.

Revenue growth

One of the most striking findings of the survey related to the revenue growth driver. Communications & Electronics (75 percent), along with Consumer Goods & Services (50 percent), see business opportunities within developing countries. This is strong evidence that Australian business leaders are looking increasingly to

developing countries to grow their businesses.

Coca-Cola Amatil (CCA), one of Australia's largest beverage manufacturers, offers a good example.

CCA's business activities supporting revenue growth also contribute to poverty alleviation. It employs over 9,000 employees across Indonesia, Fiji and Papua New Guinea within manufacturing, sales and distribution. To grow its network and overcome barriers like access to capital, CCA provides micro-finance to customers, suppliers, distributors and local communities, as well as training and business workshops through its entrepreneurship program, the Indonesia Micro Economic Development (MED) Program.¹¹

Stakeholders

Local communities and employees are most likely to influence Australian businesses to conduct business activities that also alleviate poverty

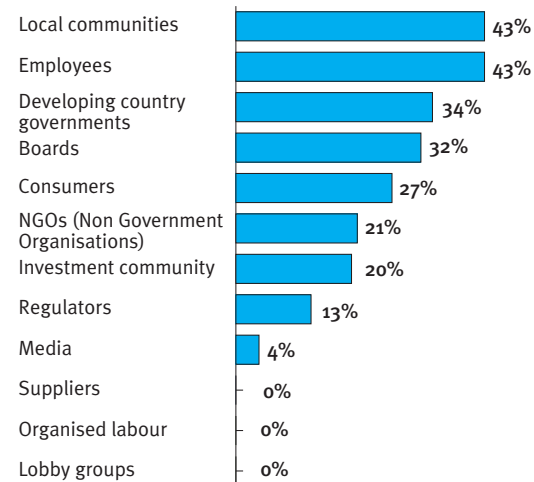
Local communities (43 percent of respondents), employees (43 percent) and developing country governments (34 percent) are the key stakeholders that influence businesses to undertake activities that alleviate poverty (see Figure 2-5). These are the stakeholders that have the most to gain from such activities. Interestingly, NGOs are seen to exert relatively less influence on businesses (21 percent). Boards, on the other hand, exert relatively high levels of influence (32 percent), which may be closely related to the driver around brand, trust and reputation. In a number of interviews it was clear that boards were concerned with brand risk, and taking necessary mitigating steps. This often resulted in activities in developing countries that alleviate poverty (e.g., supply chain practices, community engagement).

The employee stakeholder group is also interesting because in some cases it is the Australian based employees who apply pressure to business to undertake activities that have a societal impact in developing countries. Yet there were also many examples where the employee pressure was coming from those employed locally by the business in the developing country. As with activities and drivers, the types of stakeholders engaged varies by industry.

Figure 2-5: Stakeholders within developing countries are the most common influencers of business activities that also alleviate poverty

Which stakeholder groups have the greatest influence on your business activities that contribute to poverty alleviation?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

A view of *stakeholders by industry* reveals a similar pattern to the view of drivers by industry. For instance, Mining & Energy industry business leaders noted that they were influenced significantly by local communities (73 percent) and developing country governments (60 percent). This reflects the proximity of this industry's operations to the communities in which it operates and the need for a "licence to operate". In the interviews it was very clear that Consumer Goods & Services businesses are typically primarily focused on risk mitigation driven by their boards and investors.

"We review labour conditions in suppliers' factories outside Australia regularly. High standards support our strong reputation which is of critical importance to Wesfarmers."

Cameron Schuster,
Sustainability Manager, Corporate Affairs,
Wesfarmers Limited

Barriers

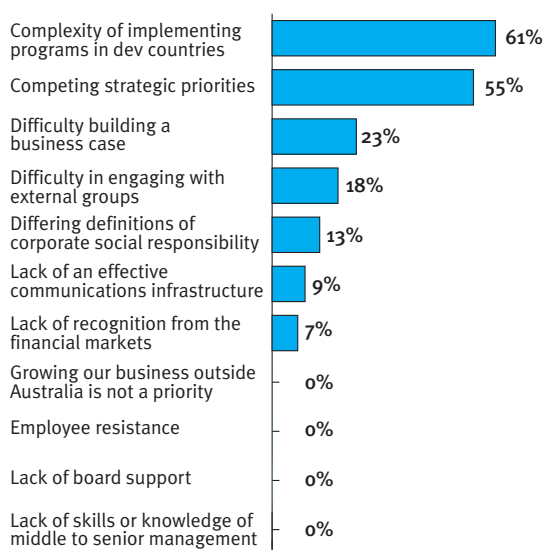
Australian businesses are evolving core competencies in response to the barriers and challenges they face when operating in developing countries.

Australian business leaders identified two key barriers to undertaking activities that contribute to poverty alleviation in developing countries (see Figure 2-6). The interviews provided the insight that complexity of implementing programs (61 percent of survey respondents) had two broad themes: community complexity and government complexity. The second most important barrier identified was competing strategic priorities (55 percent).

Figure 2-6: Overwhelmingly, Australian business leaders identified complexity of implementing programs and competing strategic priorities as the main challenges in undertaking activities that contribute to poverty alleviation

What barriers/challenges does your company face in undertaking activities that contribute to poverty alleviation in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Complexity

Complexity can be viewed through two lenses: first, engagement with local communities; and second, engagement with developing country governments.

First, it is critical to understand the community in which the company is operating to be able to operate effectively.

“You need to start your community engagement well before your geologist first sets foot on the ground.”

Stephen Creese,
Executive General Manager, Corporate Affairs,
Newcrest Mining Limited

Community and local issues can dramatically increase the complexity of implementation. Although these issues are surmountable, it takes additional time and resources to overcome them. It is imperative that resources be allocated effectively.

The second area of complexity highlighted by business leaders was government in developing countries. As anywhere, government in these geographies tend to be multi-tiered, with national, provincial and local government structures. These different levels of government can have different or even conflicting priorities and differing levels of capacity.

“The reality is that once you step outside the key centres of influence of government, both national and provincial, the level of government services is often very limited. This poses challenges for companies.”

Peter Botten,
Managing Director,
Oil Search

Most respondents from the Mining & Energy industry (73 percent) indicated complexity of implementing programs as one of their choices. Many of these organisations are heavily reliant on the approval of developing country governments to allow them to undertake their operations. All Health & Life Sciences businesses (100 percent) selected complexity of implementing programs as a barrier.

Competing strategic priorities

The second most common barrier, competing strategic priorities, creates significant challenges for businesses. Many business leaders are unwilling to invest in developing countries. Australian business leaders reiterated that conducting business within developing countries is about supporting core business and there must be a viable business case.

“The main barrier to doing more is balancing between running a commercial enterprise and a pure social enterprise. At the end of the day the prime objective is to provide a return to shareholders, so we need to ensure we are not detracting from that.”

Mick Turnbull,
CEO - Australasia and North Asia,
Agility Logistics

There is another angle to competing strategy priorities. Some organisations are undergoing a significant amount of change, or their core business is under significant financial or other pressures. In these situations, while an appetite may exist to become further involved in activities that alleviate poverty, undertaking such activities is not possible until the short term issues are resolved.

For other organisations, the fundamentals of their business limit the activities they conduct within developing countries. Consumer Goods & Services is a good example. Sixty-seven percent of respondents from this industry cited competing strategic priorities as a barrier.

“Most of our purchases are made in Australia and where we do purchase overseas, mainly in China and a range of other Asian and sub continental countries, we deal with factories supplying multiple customers. This limits our ability to become involved in local communities, apart from the work we do with the supplier in relation to social issues, safety and working conditions for staff.”

Cameron Schuster,
Sustainability Manager, Corporate Affairs,
Wesfarmers Limited

For these organisations, stretching beyond business fundamentals will take a considered and dedicated approach.

Enablers

Businesses identified enablers that will support their activities in developing countries

When asked about potential enablers that would help leaders to run their business activities more effectively in developing countries, survey responses indicated a strong correlation of activities associated with good governance and also education. Reducing corruption is seen as the most important enabler to support businesses in conducting activities in developing countries (57 percent of respondents). Education (50 percent), effective regulation (43 percent) and a robust legal environment (36 percent) are also deemed very important (see Figure 2-7). Based on interview responses, it is clear that reducing corruption, effective regulation and a robust legal environment are very closely linked and are often associated with developing country government capacity challenges.

While companies identify these factors as important, they acknowledge they have a part to play in helping countries develop them.

“Banks can help establish a more robust regulatory environment. There is an opportunity for banks in new markets to use their expertise to help the local regulator to establish and manage the sector better.”

Libby Armstrong,
Head of Communications and Corporate Affairs,
International & Institutional Banking,
ANZ Banking Group

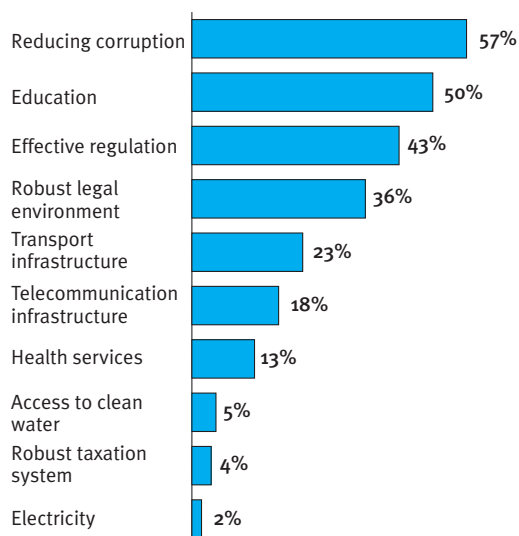
“Being a local company, we want to benefit the community. If we are not confident that the national and provincial governments can fully deliver health programs and we think we can help, we will get involved.”

Peter Botten,
Managing Director,
Oil Search

Figure 2-7: Reducing corruption is identified as one of the main enablers for business to operate more effectively within developing countries

What enablers would help your company to operate more effectively in developing countries?

(Respondents selected their top three choices)



Source: Accenture/B4MD Business in Development Survey 2012

Summary of the current nature of Business in Development

The mainstream activities that businesses undertake that contribute to alleviation of poverty are often a response to the barriers they face in developing countries

The survey results and interviews identify an emerging trend: businesses are evolving core competencies in response to the barriers and challenges they face operating in developing countries. The survey results show a clear picture of these barriers, the enablers necessary to overcome them and the activities businesses often undertake in direct response.

We are seeing Australian businesses expand their capabilities, developing skills and expertise in areas that empower them to overcome challenges they face when working in developing countries. The really exciting finding is that these skills and competencies, while business relevant, also directly impact poverty alleviation.

Below are three case studies which highlight this point; a mining company that has expertise in implementing health programs, a beverage company that provides business training and a professional services company that runs tertiary education colleges. Figure 2-8 explores this concept in more detail.

Oil Search – Oil Search Health Foundation

Oil Search, a company that operates Oil & Gas fields in Papua New Guinea (PNG), has recently taken responsibility for delivering a \$70million health program that focuses on the alleviation of AIDS and Tuberculosis across PNG¹². Oil Search was administering health programs on a smaller scale to employees and their families.

“This is clearly not where a corporate would go and it would be challenging if we didn’t already have comprehensive programs and experts in this area. We are using the recently formed Oil Search Health Foundation to partner with the Papua New Guinea (PNG) National Department of Health and locally based NGOs, supported by agencies such as The Global Fund, AusAID and the Asian Development Bank, to deliver world class community health programs across PNG, in what is a new model for Public-Private Partnerships. The Health Foundation has become a primary recipient on behalf of a number of Global Fund projects in PNG and is responsible for delivery, monitoring and administering these programs, combining the expertise and experience of the private and public sectors to deliver predictable and efficient activities. We see this as a new way forward in terms of collaboration between government, private companies and donors.”

Peter Botten,
Managing Director,
Oil Search

Coca-Cola Amatil – Indonesia Micro Economic Development (MED) Program

CCA Indonesia (CCAI) has created a Micro Economic Development Program across Indonesia to provide sound and rewarding business opportunities and benefits for customers, suppliers, distributors and local communities. Under the program, it focuses on empowering small and medium enterprises by providing business training and education. In 2010 alone, CCAI conducted over 13,000 training and business workshops across Indonesia.

Coca-Cola Amatil undertook this program because it was facing a barrier in growing its distribution network, namely a lack of start-up capital for small

shop owners. There are significant challenges in distributing its product throughout Indonesia, largely due to the dispersed geographical nature of the country and poor physical infrastructure. Developing non-core competencies has enabled CCA to turn a barrier into a source of competitive advantage.

Leighton Holdings – tertiary education

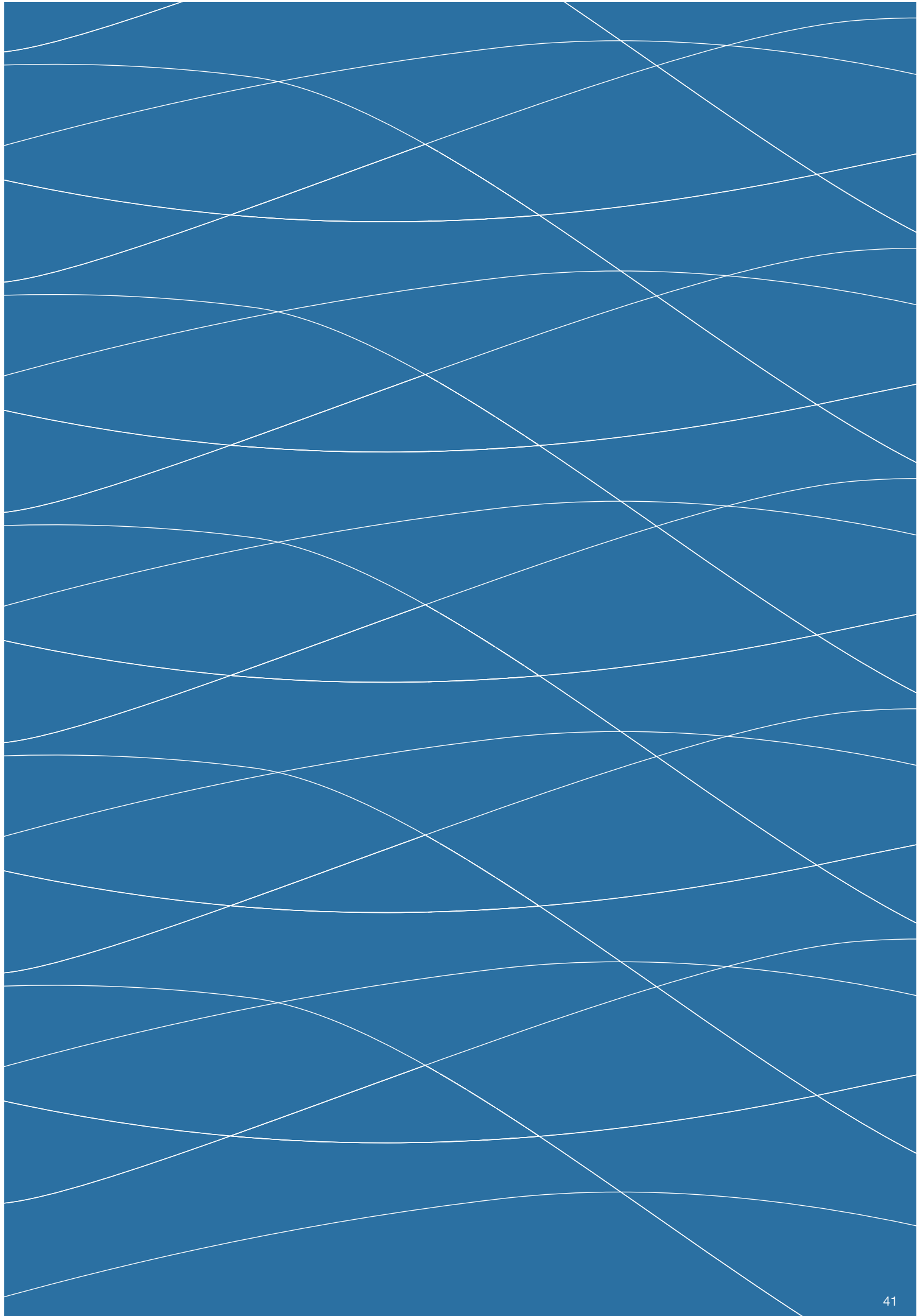
Leighton Holdings actively seeks to build human capacity and opportunity as an integral part of its businesses in developing countries. Leighton’s has four training centres in Indonesia, India, Mongolia and the Philippines. These attract locals with little or no training and provides them with a four-year apprenticeship program. Four to five thousand people graduate from these centres each year. These programs include Australian expertise in vocational training and often directly employ people from Australian Institutes — i.e., the Technical and Further Education vocational education colleges (TAFEs). Graduates of these programs are free to be employed in any business, but many choose to stay within the Leighton Group.

“Construction is a people industry and a large employer for skilled, semi-skilled and low-skilled jobs. Depending on what the job is you have widely different skills required. We have a long history of running TAFE equivalent, certified institutions within the countries we operate to train locals using Australian expertise. We are not the only beneficiaries; it is the whole country that is benefiting from this program.”

Hamish Tyrwhitt,
CEO, Leighton Holdings

Figure 2-8: Industries conduct activities within developing countries that address the barriers preventing them from conducting their core business. This often requires them to evolve their activities well beyond their ordinary operations.

Industry	Business enablers	Business barriers	Poverty alleviating activities	Drivers to activity	Influential stakeholders
Mining & Energy	<ul style="list-style-type: none"> Effective regulation Reduce corruption 	<ul style="list-style-type: none"> Complexity (government capacity – National, Regional, Local) Lack of infrastructure 	<ul style="list-style-type: none"> Infrastructure 	<ul style="list-style-type: none"> Brand Government & regulatory environment 	<ul style="list-style-type: none"> Government Community Employees
	<ul style="list-style-type: none"> Education Health services Social stability 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (engagement with local communities) 	<ul style="list-style-type: none"> Education Employment Health 	<ul style="list-style-type: none"> Employee engagement & recruitment Moral obligation 	<ul style="list-style-type: none"> Community Employees NGOs
Banking	<ul style="list-style-type: none"> Reduce corruption Legal environment Effective regulation 	<ul style="list-style-type: none"> Complexity (government capacity) Lack of business case 	<ul style="list-style-type: none"> Government capacity building/ governance Financing Infrastructure 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Board Investors
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (lack of financial literacy) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Consumer Employees
Consumer Goods & Services (Supply chain)	<ul style="list-style-type: none"> Reduce corruption (no child labour) Education (of producers) 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (implementation and management of supply chain) Competing strategic priorities 	<ul style="list-style-type: none"> Education (of producers) 	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Board Investors Consumers (Australia)
Consumer Goods & Services (Sales)	<ul style="list-style-type: none"> Reduce corruption Build distribution chain 	<ul style="list-style-type: none"> Complexity of implementation (consumers' access to finance) 	<ul style="list-style-type: none"> Education 	<ul style="list-style-type: none"> Brand Revenue Growth 	<ul style="list-style-type: none"> Board Consumers (Developing Country)
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (consumer education / awareness) Complexity (new product design and approval) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Consumers (Developing Country)





Chapter 3

The future of business engagement in development

Having assessed the drivers, the relative influence of various stakeholders, the barriers and enablers, Chapter 3 gauges the outlook of Australian businesses and business leaders with regard to the future role of business in development. Most respondents feel that business will continue to contribute to poverty alleviation and that stakeholders will expect them to do so, but that growth in these activities will largely be driven by business imperatives. As businesses continue to develop expertise and skills that support their operations in developing countries, new opportunities are appearing to add value to communities and to collaborate with organisations across sectors to mutual advantage.

Increasing contributions to poverty alleviation

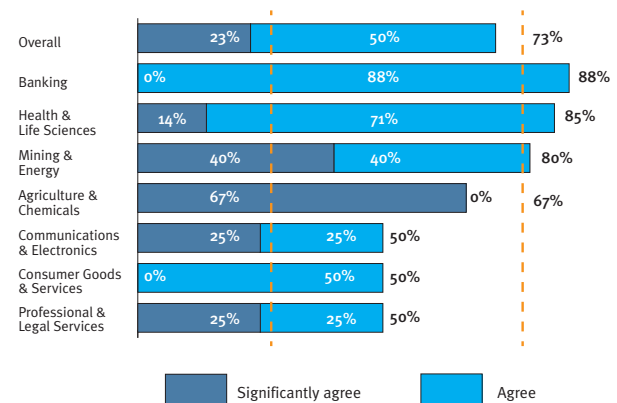
Australian business leaders believe that business engagement in development is increasing and is set to continue to do so. Seventy-three percent of business leaders who responded to the Business in Development Survey significantly agree, or agree that the activities their businesses undertake that contribute to poverty alleviation in developing countries is increasing (see Figure 3-1).

“There is a drive to further bring social and environmental focus into the heart of the business in a way that creates more value to the business and shareholders.”

Tim O’Leary,
Chief Sustainability Officer,
Telstra

Figure 3-1: Australian business leaders believe that activities that contribute to poverty alleviation are increasing

The activities that your company undertakes that contribute to poverty alleviation in developing countries is increasing.



Source: Accenture/B4MD Business in Development Survey 2012

Industry perspectives

Industries that have established operations in developing countries are more likely to perceive that their poverty alleviation impact is increasing

Respondents from Banking (88 percent), along with Mining & Energy (80 percent) hold some of the strongest views that they will be expected to conduct business activities that also alleviate poverty (see Figure 3-1). This is likely because they have operations and customers in developing

countries. These activities are increasing because there is a business imperative for them to do so.

“Australian industry really needs to embrace emerging markets if [it] want[s] to participate in growing markets, and developing countries are where the growing markets are. Depending on the year, we are growing from 150 to 300 percent a year, mainly in Africa.”

Rick Hooper,
CEO, Barefoot Power

“We are focused on providing solutions to economic challenges to help our customers achieve sustainable futures. Financial education helps drive financial inclusion in these markets, which in time will have a flow-on effect for the community and our business.”

Rukita Okeroa,
Program Manager - Financial Inclusion,
Sustainability, Pacific Banking,
Westpac Banking Group

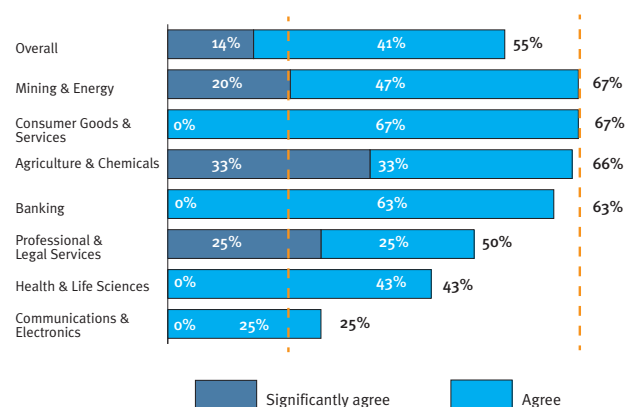
The majority of business leaders (55 percent) also perceive there is an expectation among stakeholders that businesses operating in developing countries will conduct activities that contribute to alleviating poverty (see Figure 3-2). This view varies by industry, with around two-thirds of leaders from the Mining & Energy, Banking and Consumer Goods & Services industries indicating this. This expectation underpins companies' behaviour.

“You cannot operate mines — islands of wealth generation in a sea of poverty — without inviting social unrest. It is in our interest to engender long-run economic development as a way of underpinning societal stability.”

Bruce Harvey,
Global Practice Leader - Communities and
Social Performance, Rio Tinto

Figure 3-2: The majority of business leaders perceive that business activities that contribute to poverty alleviation will be expected of businesses that operate in developing countries

Conducting activities that simultaneously generate business benefits and contribute to poverty alleviation will be expected of all businesses that operate in developing countries.



Source: Accenture/B4MD Business in Development Survey 2012

Looking to the future

Australian business leaders indicated there are multiple activities that are both important to the future of their businesses and contribute to poverty alleviation (see Figure 3-3). More importantly, businesses understand what enablers they need to have in place to succeed in the developing countries in which they operate. As outlined in the previous chapter, these companies have developed capabilities beyond their core business. These capabilities would not ordinarily be expected of them. Oil Search, for instance, employs experts to help deliver health programs and Leighton Holdings employs Australian technical education experts to roll out trade education programs. Australian business leaders, when asked to select the one business activity that contributes to poverty alleviation that is most important to the future of their business, indicated infrastructure development is most important (27 percent) (see Figure 3-3). This is followed by education programs (14 percent) and employment (13 percent); human rights, anti-corruption and labour policy development (11 percent); along with health programs (11 percent).

“Education and infrastructure are the two key opportunities for AusAID in the Asia Pacific region to engage with business.”

Hamish Tyrwhitt,
CEO, Leighton Holdings

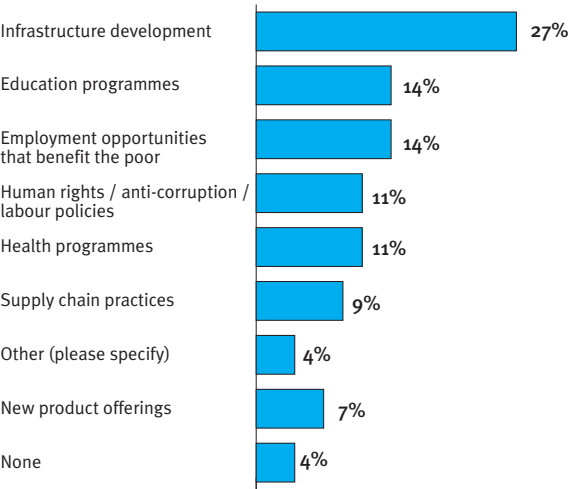
“Infrastructure and education are key goals for business within developing countries.”

Louise Davis,
Executive, Corporate Citizenship and
Corporate Affairs Growth Markets,
IBM Australia

Figure 3-3: Infrastructure development is one of the main activities that is important to the future of business within developing countries

Which business activity that contributes to poverty alleviation is most important to the future of your business?

(Respondents selected one response)



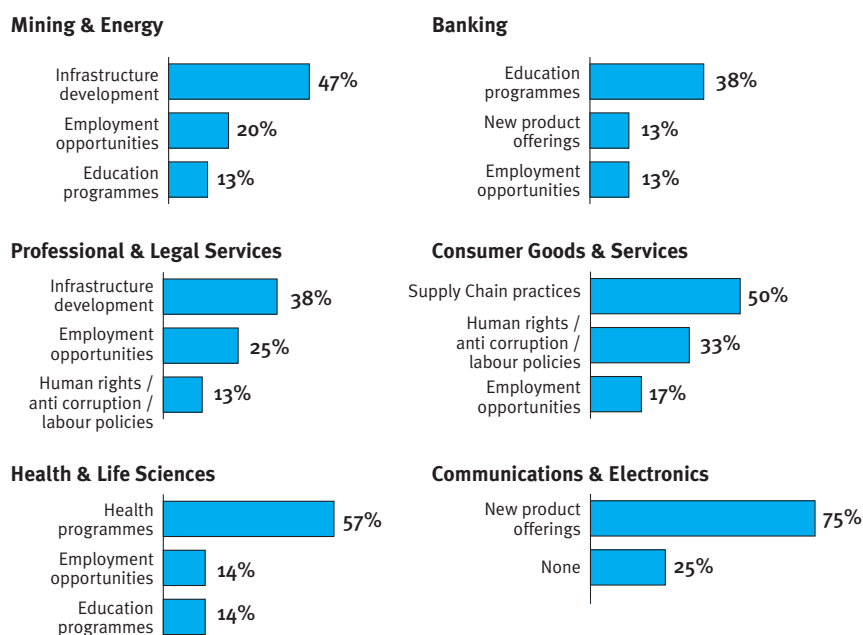
Source: Accenture/B4MD Business in Development Survey 2012

The result is interesting in that Mining & Energy is the only sector that, in responding to this question, deviated from its “top three” list of current poverty alleviating business activities, namely creation of employment opportunities, education and health programs (see Figure 1-3 and Figure 3-4). The sector has a long and established record of successfully creating employment opportunities, and implementing education and health activities. Infrastructure development is a more complex and costly activity and correlates with the key barrier to poverty alleviating activities indicated by this sector, that is, complexity of implementation.

Figure 3-4: Results from the survey identify the main poverty alleviating activities, by sector, that are most important to the future of businesses in these sectors

Which business activity that contributes to poverty alleviation is most important to the future of your business?

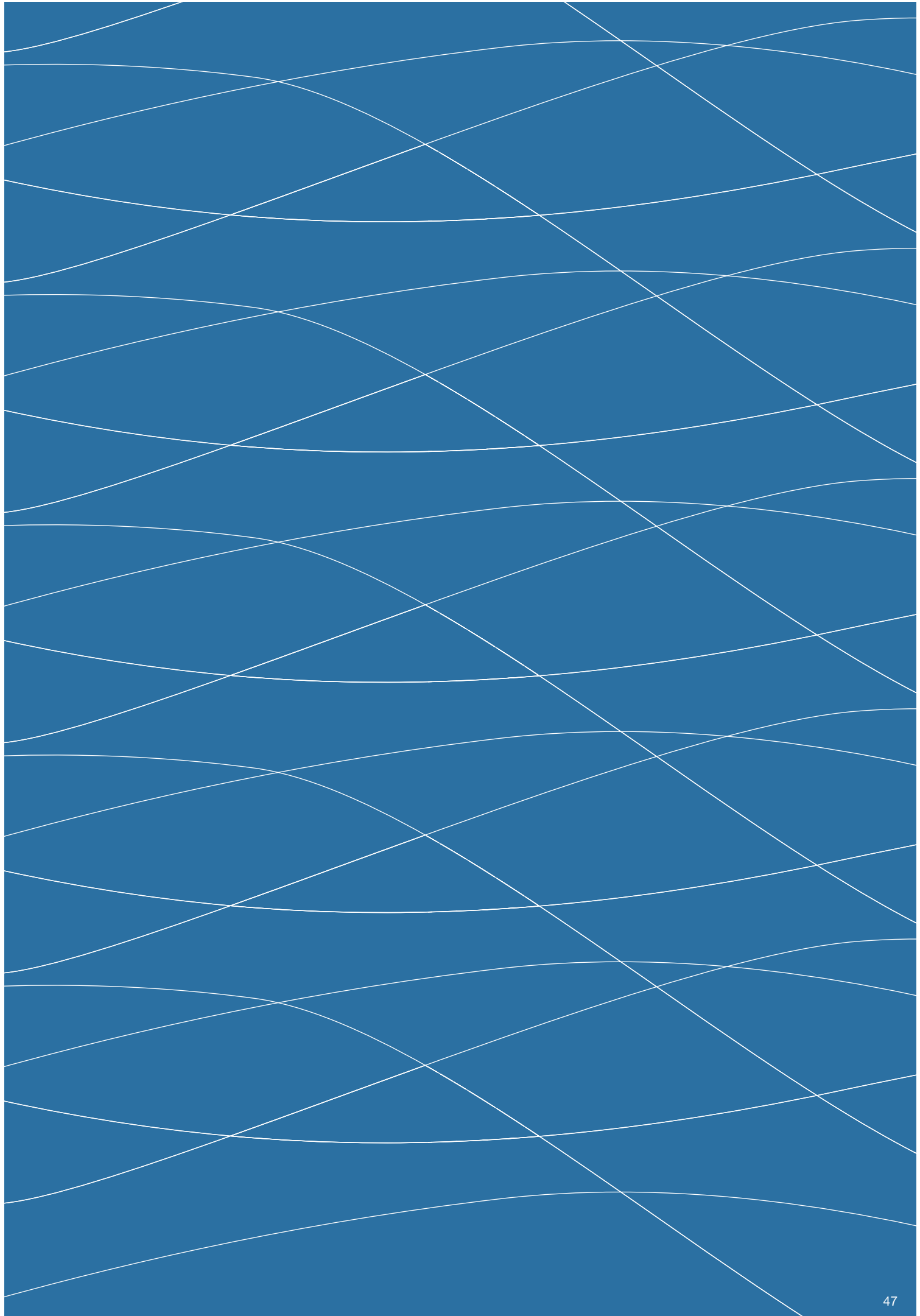
(Respondents selected one response. Data on the top three responses are shown by industry as a percentage of that industry's respondents)



Summary

From responses reviewed in this chapter, it is clear that companies entering or active in developing countries want to contribute to poverty alleviation and they believe their stakeholders will increasingly expect it of them. What's more, many of the poverty alleviating activities undertaken by business are vital to their future growth. For aid organisations, NGOs and other development sector organisations these identified areas are key pointers in terms of where and with whom mutually beneficial partnerships may be struck. Could more sustainable solutions to development

challenges that deliver greater impact be on the horizon? Perhaps the answer lies in understanding the frameworks organisations within the various sectors have put in place to assess the viability of activities or programs, and to measure impact and success. Already businesses are indicating that they are willing to depart from traditional development sector relationships to explore new partnerships with organisations they have not previously considered.





Chapter 4

Partnering for business and development success

Australian business leaders have acknowledged that their businesses — in conducting business activities in developing countries — have a significant role to play in the alleviation of poverty. In fact, the majority of business leaders already factor poverty alleviation into business decisions regarding operations in developing countries. And despite the significant barriers they identify as preventing them from doing more, executives believe activities that alleviate poverty will continue to increase.

Executives see effective partnerships as one way of addressing barriers, with these alliances augmenting the skills and competencies they need to mitigate development barriers and grow their businesses in emerging markets. Australian businesses have successfully partnered with other organisations, including other businesses, NGOs, UN agencies and donors such as AusAID, generating benefits for business and contributing to poverty alleviation. These successes have, however, not been achieved without significant effort, especially with regard to aligning corporate activities with those of partnering donor agencies or NGOs.

Partnering is critical to augment skills and competencies

When considering undertaking business activities that contribute to poverty alleviation, businesses seek support and engagement from multiple organisations. In fact, executives indicated that they would consider more partnership opportunities in the future (see Figure 4-1).

“Collectively we have a moral obligation to get together and discuss how we can impact development.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

Findings show that in the future there may be a move away from the traditional partners that businesses consider when undertaking activities that alleviate poverty. Businesses are open to considering new partners. For example, business leaders have limited awareness and engagement with the activities of AusAID in the countries where they operate (see Figure 4-2 below), with 25 percent indicating they currently do consider AusAID as a partner today for activities that have a poverty alleviation impact. However, the majority identified AusAID as one of the key organisations that they would seek to engage with in the future (57 percent). Other results showed a likely decrease in the desire to work with NGOs in future, with current engagement desired by 50 percent of respondents and only 43 percent indicating likely future engagement. A similar decrease is suggested in the desire to work with developing country governments and communities in future.

Businesses understand their limitations and are seeking partners who can collaborate with them to augment or enhance their skills and competencies.

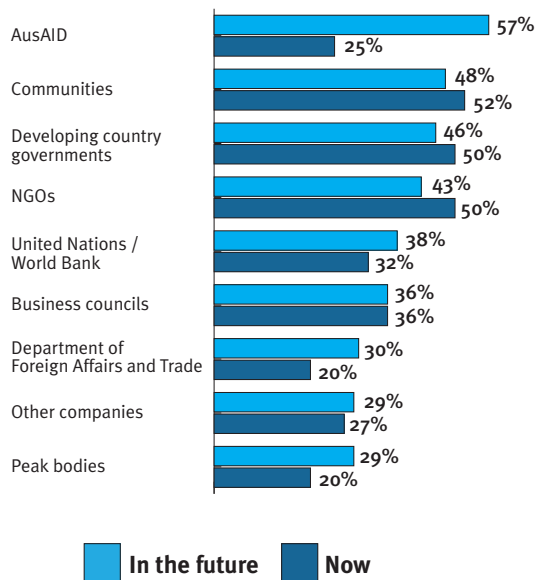
“When we are looking at partners, the partner needs to bring its skills to the party and operate in a way that recognises what business has to offer. You are really working together and need to respect what each party can deliver.”

Prof Paul E Hardisty,
Global Director, EcoNomics™ & Sustainability,
WorleyParsons

Figure 4-1: Overall, there is a move away from the traditional partners that business would consider using

Which of the following entities does, or would your business consider as a partner for undertaking business activities in developing countries?

(Respondents identified all entities that apply)



Source: Accenture/B4MD Business in Development Survey 2012

Australian business has limited awareness of the activities of AusAID in the countries in which they mutually operate

A little under half of Australian business leaders (46 percent) were aware of the activities of AusAID in the regions and industries in which their company operated (see Figure 4-2). AusAID has nonetheless built some awareness among certain Australian businesses. Some leaders interviewed had engaged with AusAID in their day-to-day activities and in some cases leaders had connections with developing government departments that were proactive in engaging with, or seeking to engage with AusAID. Professional & Legal Services have the greatest awareness of AusAID's activities (57 percent), along with the Mining & Energy industry (54 percent). Banking and Consumer Goods & Services followed with half of respondents indicating that they were aware of AusAID's activities. These industries have a higher number of operations within developing countries,

so it makes sense that these executives have engaged with AusAID.

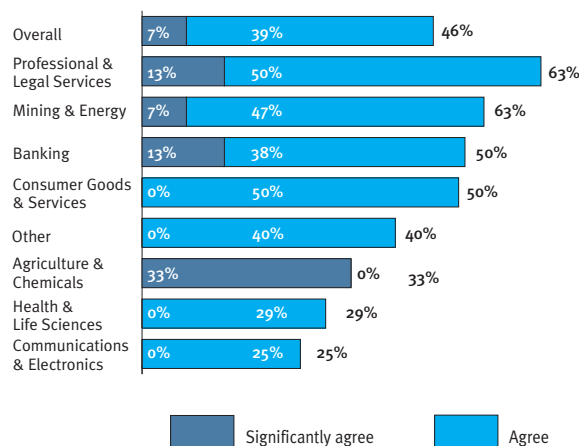
However, the relatively high number of business leaders who indicated they were unaware of AusAID's activities supports the thesis that business engagement with AusAID has been ad hoc to date.

"We would like to have a clearer understanding of AusAID's agenda and future direction in the countries where we have operations."

Terry Davis,
Managing Director,
Coca-Cola Amatil

Figure 4-2: Over half of Australian business leaders surveyed were unaware of AusAID's activities in the regions and industries in which their companies operate

Your company is aware of the activities of the Australian Government's aid program in the regions and industries in which your company operates.
(Respondents selected the most appropriate)



Source: Accenture/B4MD Business in Development Survey 2012

Partnership case studies

While awareness of AusAID's programs and activities are limited among business leaders, there are a number of examples of Australian businesses successfully partnering with AusAID to achieve poverty alleviation related outcomes. These examples demonstrate the willingness of both to engage. Two key examples that were discussed during interviews with Australian business leaders demonstrate how effective and sustainable these partnerships can be.

Carnival Australia: Infrastructure development in Vanuatu¹³

Carnival partners with AusAID to deliver infrastructure and skills to support Pacific Island growth

- Carnival currently calls at six destinations. The three chosen for upgrade were in remote locations, with least access to funding and in greatest need of basic infrastructure upgrade and enablement.
- Carnival Australia identified a demand for more than "just a day at the beach" with cultural tours rating highly in survey results. Case studies demonstrated the connection between the addition of cultural interaction in tours and overall satisfaction with the destination by improvement in comparative ranking.
- A program was designed comprising two components, infrastructure development and a local enablement program.
- Infrastructure investment was undertaken to enable the destination to be reliably and effectively used. Funds from AusAID's enterprise challenge fund were combined with Carnival Australia's own investment (for every \$2 from Carnival, AusAID gave \$1) to build all-weather floating pontoons.
- In addition, a tour vessel was purchased along with upgrades to on-shore facilities, including clean water, amenity blocks, basic signage and a barbecue facility. This was funded by Carnival Australia.

- On the local enablement side, Carnival engaged with the community on how the ship calls could be used by them as a driver for their own business. Carnival estimates that a passenger ship carrying upwards of 2,000 people can yield some \$15,000 - \$20,000 per visit as a direct cash injection into the local economy.*
- Originally the funding for the program was to be met jointly by Carnival and AusAID, from the Enterprise Challenge Fund. However to complete the committed work, Carnival Australia contributed additional funds.
- New Zealand Aid has already committed to continuation of the tourism development/enablement at one of the sites (Mystery Island) through funding of a live-in management position to develop the business in year one and transfer skills in year two. Additionally it has designed two national handicrafts development and marketing programs in Tonga and Vanuatu with Carnival Australia's support.

* Figures quoted are estimates, Carnival Australia is undertaking a project to identify the economic contribution of the cruise industry to the Pacific Islands.

Westpac Banking Group: Banking the unbanked⁸

Westpac partnered with AusAID to deliver financial literacy education in the Pacific Islands

Westpac operates in seven Pacific locations: the Cook Islands, Fiji, Papua New Guinea (PNG), Samoa, Solomon Islands, Tonga and Vanuatu.

In 2009, Westpac partnered with AusAID to deliver financial literacy and enterprise development training in PNG, Tonga and Vanuatu.

Westpac started its financial literacy program in the Pacific in 2007. In 2008, it partnered with AusAID to expand the program. In 2009, AusAID announced the Pacific Seasonal Workers Pilot Scheme and Westpac adapted its program to provide financial literacy training to the seasonal workers and their communities.

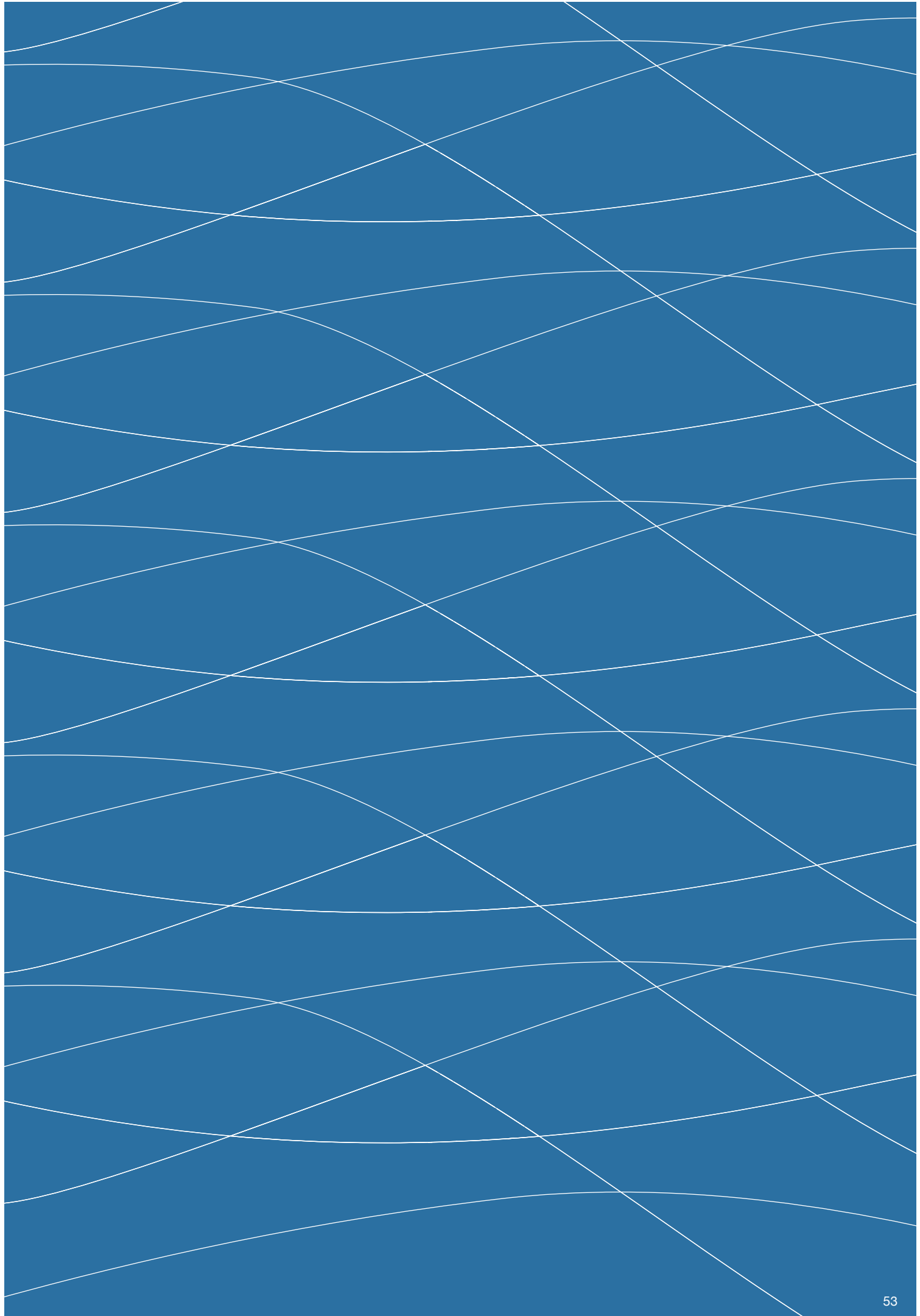
Westpac has since delivered financial literacy training to more than 18,000 Pacific Islanders. In 2010, as part of the partnership, Westpac expanded its financial education program to include business financial management workshops in Tonga, PNG and Vanuatu, providing knowledge and skills to business owners and operators.

The program was developed and operated by Westpac and supported by AusAID. The program is now a key platform of Westpac's sustainability agenda for the Pacific and continues under the auspices of the Pacific Financial Inclusion Program – with support from UN Capital Development Fund, AusAID, the European Union and the UN Development Program.

In addition to financial inclusion initiatives, Westpac Pacific Banking launched its Choice Basic transaction account in 2011. It's designed to meet the needs of customers who have low transaction volumes and want a simple transaction fee structure, and who don't have access to formal methods of identification. At the end of March 2012, more than 26,000 previously unbanked customers had a Choice Basic account. By 2013, Westpac aims to double its customer base in the Pacific, further develop its services so customers can access financial services, and continue its financial education in the region.

Summary

Effective cross-sector partnerships that simultaneously address barriers to business growth and development issues are not new. Barriers to business growth are significant and business is increasingly aware of its limitations. Through effective partnering, the risk is shared and impact potentially improved. An important precursor to partnering and a successful program is awareness of the needs, interests, goals and capabilities of potential partners, as well as a willingness to engage. Australian business, while it has had some interaction with AusAID, expresses an interest in getting to know more about the aid agency and offers some advice on how AusAID can begin exploring partnerships with business.





Chapter 5

Accelerating AusAID business engagement

Business leaders are ready and willing to engage

A growing trend over the last five years has seen international aid agencies increasingly engage with business to harness the latent power of multinational companies as agents for development. The United States Agency for International Development (USAID), The United Kingdom Department for International Development (DFID), the Swedish International Development Agency (SIDA) and others have all progressed down this path. While their approaches for engagement with business may differ, there is an emerging theme around the role of multinational companies in contributing to development outcomes.¹ The literature from early forays into business engagement indicates the way forward is not always easy and outcomes are not always to plan, but that when it is done well the results can be very positive,⁹ and can constitute a significant leveraging of aid funds.

For AusAID, there is considerable research and literature emerging from international partnering experiences that can provide guidance. At the same time, the AusAID Business in Development Study 2012 has confirmed the positive attitude of Australian businesses with regard to conducting mainstream business activities that also alleviate poverty — executives are ready and willing to engage, identify and act on areas of mutual benefit in the countries in which they operate.

The time is right for AusAID to engage with business.

“I think it is great [that] AusAID is going down this line — if you are going to leverage Australian business competencies, even in some small way, the bang for your buck will be enormous.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

“Look for the intersection between projects being done or planned and determine where there is overlap with AusAID’s objectives and activities.”

Stephen Creese,
Executive General Manager, Corporate Affairs,
Newcrest Mining Limited

Business leaders appreciate that such engagement does not come without challenges to their organisations and to AusAID. They note that such programs and partnerships take time to cultivate; they do not happen overnight. They strongly agree, however, that it is through action that engagement can be accelerated. This will best be achieved by steadily building momentum through tangible outcomes that demonstrate value to business leaders and have poverty alleviation impact.

Finding common ground for business engagement

What are the conditions and opportunities for engagement between AusAID and Australian businesses with a footprint in developing countries? How do business leaders view these opportunities? How do AusAID and Australian businesses find the common ground where there is clear mutual interest? There are multiple areas of overlap in interests (see Figure 5-1).

Figure 5-1: Common ground between aid agencies and businesses



Source: Department for International Development UK (DFID)¹

The majority of survey respondents indicated that they would like to better understand AusAID's priorities in individual developing countries (70 percent). This would assist them in considering the best ways for business leaders and AusAID to engage to have a greater impact on poverty alleviation (see Figure 5-2).

Equally, they highlighted that interaction with AusAID during the design of individual aid projects where there is common interest (70 percent) is a major area of opportunity for engagement (see Figure 5-2). This was echoed strongly by the business leaders interviewed.

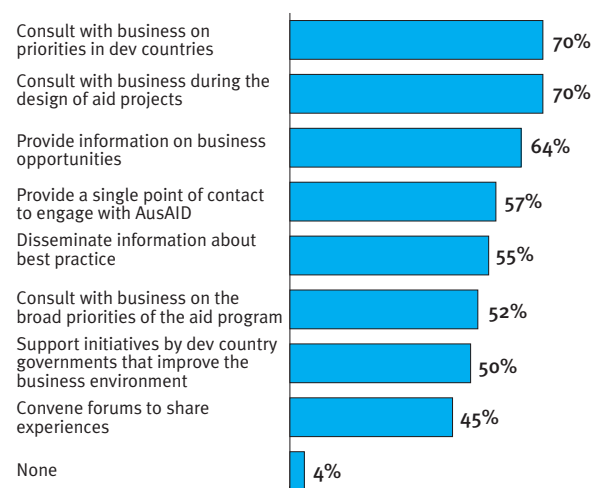
"We need an overarching discussion as to what we are trying to achieve ... what are the five or six things where there is an overlap between business and AusAID? Then work in smaller groups to take it forward."

Peter Botten,
CEO, Oil Search

Figure 5-2: Business leaders want to understand the priorities of the AusAID program and want AusAID to consult with business during the design of individual aid projects

What can AusAID do to make the Australian aid program more effective for business?

(Respondents selected all responses that were appropriate)



Source: Accenture/B4MD Business in Development Survey 2012

The engagement of Australian businesses with donors is a relatively new area for both AusAID and Australian businesses. During interviews with business leaders it was noted that there is value in starting with a contained scope in order to achieve tangible results in the first year that could form the basis of greater future engagement.

Six actions AusAID can take to accelerate business engagement

Recognising that AusAID is in the very early stages of engagement with Australian businesses and that limited resources mean AusAID needs to be selective in terms of how, and with whom it engages, business leaders offered six key action areas that will assist AusAID to effectively manage engagement with Australian businesses (see Figure 5-3). They emphasised the need for engagement to be action oriented and targeted at areas of mutual interest. The actual nature of engagement could take a number of different forms.

1. Be strategic

“Push on open doors” and target those sectors, activities and geographies that align with AusAID’s priorities

Different industries and indeed companies have a varying propensity to undertake business activities that alleviate poverty. This is driven by a number of factors, including a company’s geographic footprint, the nature of its business activities, the motivations of stakeholders and the opportunities for core business activities to also achieve social outcomes. AusAID can achieve greatest impact by focussing its limited resources. Priorities and decisions should be guided by a combination of country, industry, business and sectoral focus.

Business leaders want to work with AusAID on areas of mutual interest. In order to identify these areas of mutual interest, AusAID needs to be clear on its priorities for each country in terms of development themes and the programs it wishes to undertake. These priorities need to be available and be communicated to business leaders through direct engagement and open forums.

“It is country-specific, practical solutions that will be effective. We want to understand how to work together with AusAID to provide practical solutions within key APAC countries where we operate — Indonesia, Papua New Guinea and the Philippines.”

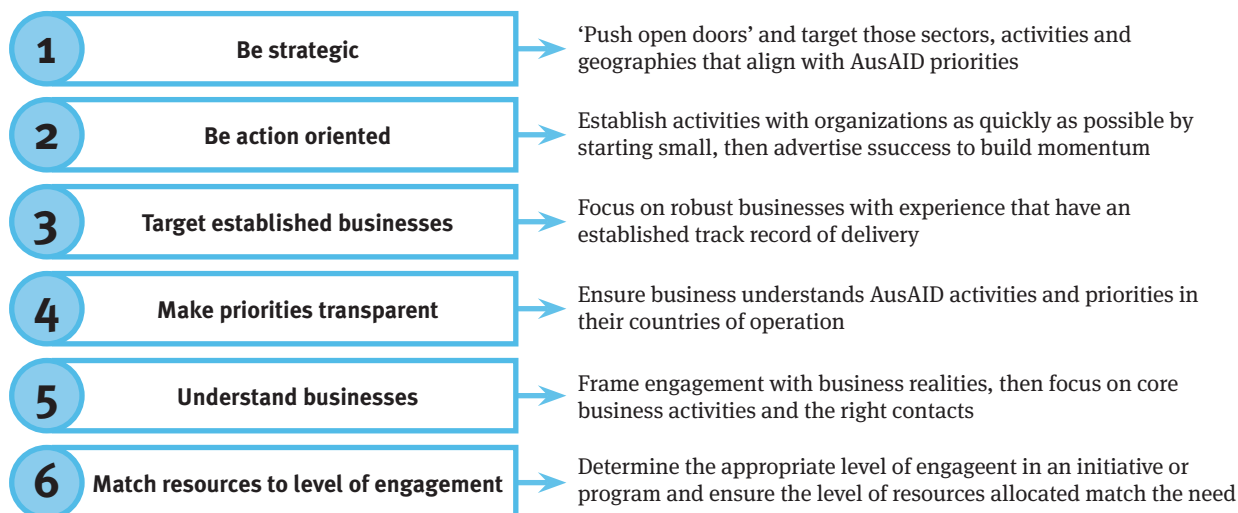
Mick Turnbull,
CEO, Australasia and North Asia,
Agility Logistics

“AusAID should look to work in regions of interest to Australian companies and identify synergies with mining or other companies.”

Ian Wood,
Vice President: Community Relations and
Sustainability, BHP Billiton

Finding common ground between industry business drivers and AusAID priorities is key to successful engagement. Figure 5-4 offers examples of areas of mutual interest by industry sector.

Figure 5-3: Business executives identified six activity areas critical for AusAID to engage successfully with business and to achieve development outcomes



“We are in contact with AusAID because they [work] in the same areas, being very much focused on basic education, basic health and improving access [for] people in rural areas.”

Marina Van der Vlies,
CEO, Digicel PNG Foundation

Specific activities:

- AusAID should make prioritisation decisions to ensure a manageable volume of work is defined.
- Focus on engagements in industries, geographies and activities where there is overlap between business and AusAID priorities, where operations overlap and where activities are of mutual interest (e.g., education and health).

2. Be action oriented

Establish activities with organisations as quickly as possible by starting small, then advertise success to build momentum

Business leaders encouraged AusAID to establish tangible activities with business as quickly as possible. This will demonstrate that AusAID has the mandate and desire to work with Australian businesses. Additionally, it will build a set of case studies (like the Carnival Australia and Westpac Banking Group case studies outlined in Chapter 4) that can be used to demonstrate how working with AusAID delivers value to both organisations as well as results in positive development outcomes.

Business leaders also voiced concern that engagement with AusAID could result in lengthy discussions without the necessary supporting actions. Don't organize a talk-fest; the emphasis must be on action, even if it is a few small activities. The time to engage with business is during the design phase of individual aid projects say 70 percent of business leaders (see Figure 5-2).

“AusAID should focus on real, tangible, concrete projects. Let's both get in there and do a project, then use it as an example. While I recognise policy and engagement are critical, let's be smart about how we do it to accelerate action as swiftly as possible.”

Prof Paul E Hardisty,
Global Director, EcoNomics™ & Sustainability,
WorleyParsons

Engagement between different organisations is driven by interpersonal relationships. Business leaders who have worked with partners, and some who have worked with AusAID in the past, emphasised the importance of ensuring clear accountability and responsibility for the relationship. This is particularly important when the relationship has extended to the point of program delivery. It is vital to have consistency in terms of participants and for responsibility to be assigned at the right level within AusAID to facilitate effective lines of communication and co-ordination between parties. This will require a level of coordination within AusAID that incorporates people at headquarters and those working in developing countries. Other business leaders encouraged flexibility and pragmatism.

“The quicker you can get to the detail and provide real deliverables and timelines, the better.”

Peter Botten,
Managing Director, Oil Search

Specific activities:

- Start small. Prioritise small, manageable engagements and programs where business and AusAID can work together and take tangible actions. The nature of the engagement can be anything from the exchange of skills and expertise to financial input.

“The key is to start small and have a project that lets us start doing something together.”

Stephen Creese,
Executive General Manager, Corporate Affairs,
Newcrest Mining Limited

- Solicit a shortlist of projects from business leaders. This aligns well with being strategic. It will allow AusAID to focus on small, executable activities with businesses that are often already undertaking similar activities to AusAID within the same geography.

“AusAID should get some quick runs on the board, with either a sector focus or country focus.”

Ian Wood,
Vice President of Sustainable Development and
Community Relations, BHP Billiton

- Assign responsibility at the right level. Be consistent – assign an AusAID person or group to consistently engage with a business contact on a particular topic or action. The AusAID

person may be from a particular business engagement unit, geography or sector relevant to the topic or action.

3. Target established businesses

Focus on robust businesses that have an established track record of delivery

To maximise development impacts, AusAID should engage with businesses that have experience in developing countries. These organisations often have a robust operations track record in developing countries that include core business activities and development programs. They have robust processes and financial management in place, a history of monitoring performance and, in many cases, a deep understanding of what it takes to be successful operating in a particular developing country. These organisations are also likely to have competencies, skills and relationships that can complement those of AusAID, creating partnerships that are greater than the sum of their parts. Business leaders suggest AusAID target these organisations first and foremost.

“Work with companies that have the runs on the board, have the infrastructure in place and have learned the lessons over the years. Companies who have the longevity in those areas understand the markets they are operating in.”

“Firstly, look at long term companies who are already operating in emerging countries. Secondly, choose companies with clear and strong governance practices. Thirdly, start small and ensure all parties are incentivised to act. Finally, keep the conversation open — it is not a perfect world and issues will come up that no one can anticipate or foresee.”

Mick Turnbull,
CEO, Australasia and North Asia,
Agility Logistics

When AusAID has further experience in the engagement of Australian businesses, there will be opportunity to leverage that knowledge to engage with less established and robust organisations.

Specific activities:

- Engage with companies that have a proven track record. Look for companies with established track records of delivery within developing countries. This will ensure AusAID engages with companies that have (i) established operations, (ii) strong governance practices and (iii) expertise and relationships to assist delivery in the developing country.

4. Make priorities transparent

Ensure businesses understand AusAID activities and priorities in their countries of operation

In the majority of discussions, business leaders explained that they were unaware of AusAID's activities and priorities in their countries of operation. To build robust engagement between AusAID and business there is a need to find common ground — areas of mutual interest where they can work together. Business leaders were keen to have visibility into AusAID's specific priorities, plans, programs and budget allocation by developing country.

This will also help to avoid situations where businesses approach AusAID with ideas which are outside AusAID's present strategic focus areas. This has been an issue in the past.

“Who you need to engage with depends on how visible your vision, your objectives, your plan and your budget is, then you can engage with how you are going to roll it out.”

Hamish Tyrwhitt,
CEO, Leighton Holdings

Often this information is readily available but has not been specifically communicated to business, or business leaders are unaware of where to obtain this information or have not thought to seek this information in a succinct form.

“If AusAID can be clear on what its top development challenges and opportunities are, and communicate them to us and other large businesses operating in the region, then in many cases the core capabilities of these operations could be very relevant in helping solve those challenges – as an example, in our case this could be our expertise in distribution into remote centres.”

Terry Davis,
Group Managing Director,
Coca-Cola Amatil

For instance, Coca-Cola Amatil is working on microfinance initiatives, but has yet to engage with AusAID to see if this is something they could work on together to evolve into a wider program. This is consistent with the results from the survey, where 64 percent of business leaders indicated they would like clear information on business opportunities available through the AusAID program (see Figure 5-2).

Specific activities:

- Publish a business oriented summary of AusAID priorities and activities by country. For each country, provide a view for business of current activities, planned activities and future priorities. This summary can be used to highlight AusAID’s objectives and drivers. The summary could be made available to business leaders in regular communications and highlighted in forums that specifically target business leaders. It is assumed that this information will be specifically targeted based on the one or more countries that AusAID decides to prioritise (reference action area 1).

5. Understand business

Frame engagement in the context of business realities, then focus on core business activities and the right contacts

Business leaders have highlighted three elements to guide AusAID when engaging with individual businesses. First, engage with those businesses that are in a position to engage. Second, understand the core business drivers and ensure the engagement is focused on delivering commercial outcomes. Third, go in through the centre to engage with the right people within the organisation.

Some companies are more able to undertake activities that alleviate poverty than others. Where an organisation is struggling under other pressures, be they financial or otherwise, they are less likely to be able to undertake these activities. Elders Limited, an agricultural company, has undergone significant change over the past two to three years.

“If we were in different circumstances, where the business was making a decent profit and capital return for shareholders, then we would be looking at expansion in developing countries.”

Malcolm Jackman,
CEO, Elders Limited

However, there are a number of businesses expanding into developing countries. These companies are extremely keen to work with AusAID. However, Marina van der Vlies, CEO of Digicel’s PNG Foundation, a telecommunications provider expanding throughout the Asia-Pacific region, cautions that it is really important that AusAID appreciate the frame of reference for those businesses they are looking to engage.

On the second point, linking activities to core business drivers will ensure they are assigned the priority and resources required to deliver.

“Significant resources can flow when projects are linked to our core business activities and have a clear pathway to generating sustainable returns.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

“People who are involved (from AusAID) need to have access to commercial experience so they know what does and what doesn’t work. They must understand commercial ventures, otherwise it makes it very difficult to succeed.”

Todd Saunders,
General Manager - Australia,
Sanitarium Health and Wellbeing

Thirdly, any engagement between organisations is driven primarily by relationships. Finding the right person or group to talk to is critical to a successful relationship. Navigating large organisations can be extremely challenging and investing time to find the right person is time well spent. Multiple business leaders advocated connecting with the organisation through the corporate centre as a means to being directed to the right person or group.

“Going in through the centre will get you talking to people. You must be speaking with people who have the direct need.”

Bruce Harvey,
Global Practice Leader,
Communities and Social Performance,
Rio Tinto

Specific activities:

- Profile target businesses. Create a profile of the business that is going to be approached to understand the business context and its core business drivers and activities in developing countries.
- Connect via the corporate centre in order to identify the right business contacts across the organisation.

6. Match resources to level of engagement

Determine the appropriate level of engagement in an initiative or program and ensure the level of resources allocated match the need

Business leaders acknowledged there are a number of ways in which AusAID can engage with business in poverty alleviation activities (see Figure 5-4). When considering the opportunities and way forward for engagement with business, there are a number of levels at which AusAID may engage, from that of observer through to joint owner of a particular program. In discussions with business, it will be important for AusAID to be clear on the level of ownership it is willing to undertake within a specific program. This will have implications for the resources AusAID has available for specific programs and initiatives, ranging from input from AusAID in-country teams to involvement in the delivery of the program, through to joint funding provided by AusAID.

Opportunities exist where it works for AusAID to undertake an observational or advisory role. However, for those initiatives where AusAID undertakes more responsibility and ownership in the initiative, an increased level of resourcing, in both people and funding, will be required. This ensures that all partners have a level of ownership in project inputs and maintain a level of responsibility throughout the delivery.

There are projects that do not have a compelling short term business case and therefore are not progressed. Often these projects are near-viable and could be sustainable in the longer term.

“From time to time we are presented with near viable projects that could have had a positive social impact. A small allocation of donor funds could have ensured viability, and a significantly leveraged social impact.”

Nicholas Moore,
CEO, Macquarie Group

This does not mean that AusAID assistance should be sought for medium to long term funding. This funding will help ensure the program is supported in the short term with a view to medium term sustainability.

“Funding can help companies where they need a ‘leg up’ to get a project into the right capital efficiency sweet spot. This should be for a limited time only”.

Malcolm Jackman,
CEO, Elders Limited

Specific activities:

- Align resources to level of ownership. Be clear up front with businesses about the level of ownership and resources that AusAID is able to provide for specific initiatives or programs.

The future

Looking forward, based on the feedback from business leaders, there are many and varied ways in which AusAID can engage with Australian business. Relationships that leverage the skills, capabilities and financial resources of AusAID and business to address areas of mutual interest have the potential to have significant development and business impact. Reflecting on the drivers, barriers and enablers reviewed in Chapter 2, it is possible to start to form some preliminary ideas about where the opportunities might be for AusAID to engage with Australian business by industry. This is by no means a complete list, nor is it likely that all suggested options will be acted on; it is merely a starting point for further consideration and potential action (see Figure 5-5).

Figure 5-4: Potential levels of AusAID engagement

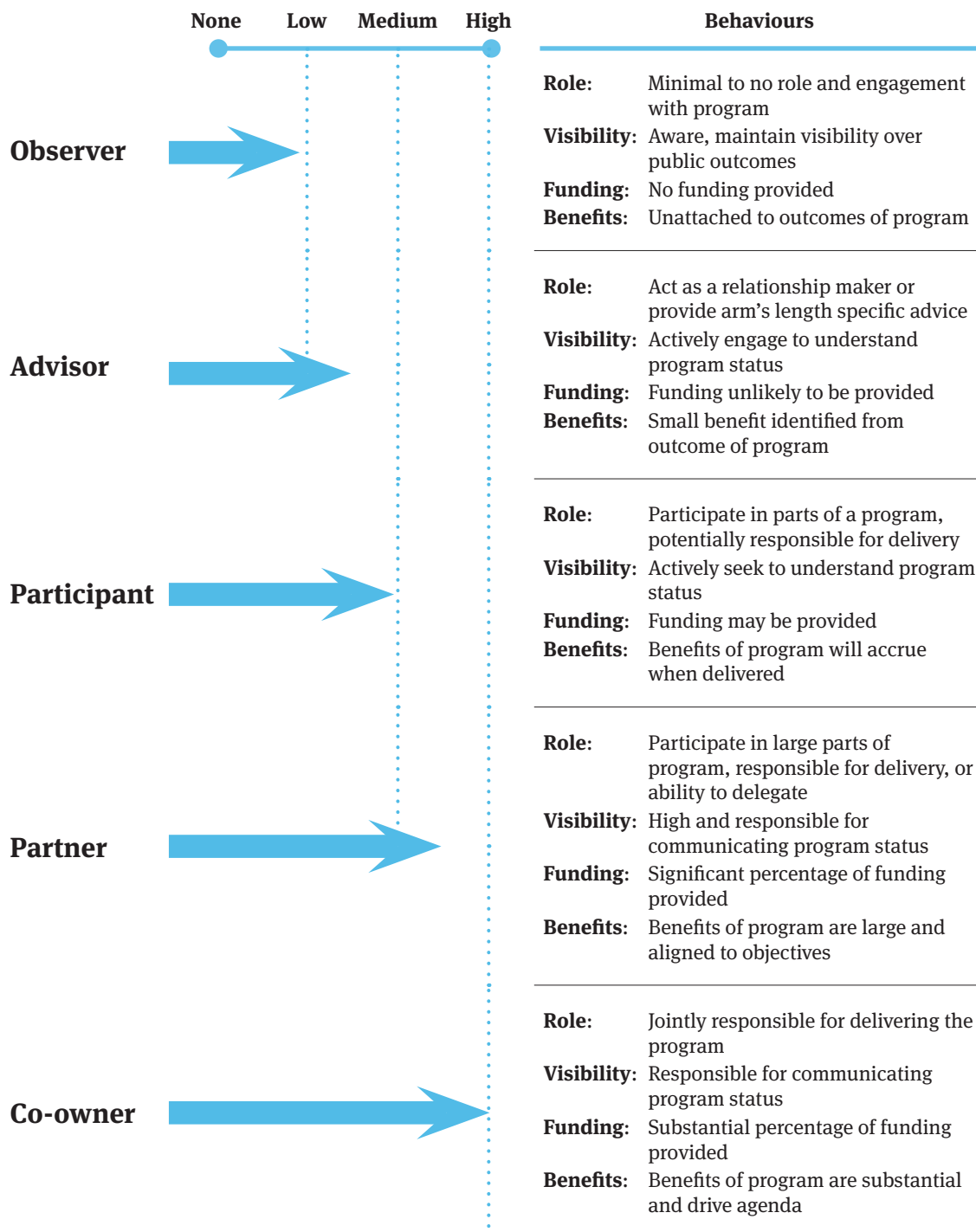


Figure 5-5: Potential opportunities for AusAID engagement with Australian business by industry sector

Industry	Business enablers	Business barriers	Poverty alleviating activities	Drivers to activity	Potential opportunities for engagement
Mining & Energy	<ul style="list-style-type: none"> Effective regulation Reduce corruption 	<ul style="list-style-type: none"> Complexity (government capacity – National, Regional, Local) Lack of infrastructure 	<ul style="list-style-type: none"> Infrastructure 	<ul style="list-style-type: none"> Brand Government & regulatory environment 	<ul style="list-style-type: none"> Government capacity building Physical infrastructure Small/medium enterprise development
	<ul style="list-style-type: none"> Education Health services Social stability 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (engagement with local communities) 	<ul style="list-style-type: none"> Education Employment Health 	<ul style="list-style-type: none"> Employee engagement & recruitment Moral obligation 	<ul style="list-style-type: none"> Secondary/tertiary education programs Health programs Small/medium enterprise development
Banking	<ul style="list-style-type: none"> Reduce corruption Legal environment Effective regulation 	<ul style="list-style-type: none"> Complexity (government capacity) Lack of business case 	<ul style="list-style-type: none"> Government capacity building/governance Financing Infrastructure 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Government capacity building (financial regulation)
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (lack of financial literacy) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Education (financial literacy) Microfinance programs
Consumer Goods & Services (Supply chain)	<ul style="list-style-type: none"> Reduce corruption (no child labour) Education (of producers) 	<ul style="list-style-type: none"> Lack of infrastructure Complexity (implementation and management of supply chain) Competing strategic priorities 	<ul style="list-style-type: none"> Education (of producers) 	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Small/Medium enterprise development
Consumer Goods & Services (Sales)	<ul style="list-style-type: none"> Reduce corruption Build distribution chain 	<ul style="list-style-type: none"> Complexity of implementation (customers' access to finance) 	<ul style="list-style-type: none"> Education 	<ul style="list-style-type: none"> Brand 	<ul style="list-style-type: none"> Microfinance programs
	<ul style="list-style-type: none"> Education (of consumers) 	<ul style="list-style-type: none"> Complexity (consumer education / awareness) 	<ul style="list-style-type: none"> New products Education 	<ul style="list-style-type: none"> Brand Revenue growth 	<ul style="list-style-type: none"> Education

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Rachel Jolly, Manager, Multilateral Policy Section

Authors

Shaun Richardson (Accenture)

Morgana Ryan (Accenture)

Paul Voutier (B4MD)

Supporting Authors

Kathryn Language (Accenture)

David Faulmann (B4MD)

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Accenture Development Partnerships collaborates with organisations working in the international development sector to help deliver innovative solutions that truly change the way people work and live. Its award winning business model enables Accenture's core capabilities – its best people and strategic business, technology and project management expertise – to be made available to clients in the international development sector on a not-for-profit basis. Accenture Development Partnerships has completed over 640 projects for 120 clients, working across 70 countries and deploying over 900 Accenture employees. Accenture Development Partnerships' home page is www.accenture.com/adp.

About Business for Millennium Development (B4MD)

The Business for Poverty Relief Alliance was formed in August 2006 when a group of leading and progressive Australian companies came together at the invitation of World Vision to consider the question: how can corporate Australia do more to address global poverty?

The alliance was launched in May 2007 to overwhelming support around Australia. In October 2007, the alliance was rebranded as the Business for Millennium Development (B4MD) to bear a more accurate reflection of its focus on the UN Millennium Development Goals.

B4MD believes that Australian businesses have the opportunity to do much more to reduce poverty while developing business within the emerging markets of the Asia Pacific region.

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