

UPSCALING OF INCLUSIVE BUSINESS MODELS

Lessons Learned from the Strategic Advisory Service for
Companies in the Fast Moving Consumer Goods Sector in Egypt

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EXECUTIVE SUMMARY

From March 2017 to March 2018, the Inclusive Business Action Network (iBAN), together with the Global Centre of Partnerships for Development (CAD), conducted a strategic advisory service (SAS) programme to support the scaling up of 15 inclusive business (IB) models along the fast moving consumer goods (FMCG) value chain. The programme has resulted so far in the following forms of cooperation:

- Partnerships between companies and NGOs to train smallholder farmers;
- Contracts for direct sourcing from smallholder farmers;
- Identification of potential partnerships between companies (B2B) to introduce irrigation technologies; and
- Contacts between inclusive businesses and potential investors & local support structures.

Furthermore, the following four key insights for successfully developing FMCG IB models were identified:

- 1 Lesson Learned One:**
Sourcing from the Bottom of the Pyramid (BoP) requires an understanding of their needs and enhancement of their capacity in order to engage with them effectively along the value chain.
- 2 Lesson Learned Two:**
Innovative financing schemes are necessary for IB models to succeed in Egypt.
- 3 Lesson Learned Three:**
Promoting women's participation accelerates business activities and social development.
- 4 Lesson Learned Four:**
Succeeding in inclusive business implies succeeding through distribution channels.

The programme has shown that IB companies often face similar problems when it comes to scaling their IB models. Low-income groups – acting as suppliers, distributors or consumers in the value chain of such companies – face special challenges, such as low education levels or lack of access to financial services. IB companies have to tackle these specific problems and find creative solutions, for example, by engaging in innovative partnerships or financing strategies. The companies appreciate the exchange of experiences and benefit from peer learning as this format opens new perspectives for doing business with people at the so-called base of the economic pyramid (BoP).

In order to overcome the challenges faced by Egyptian IB companies, it is highly recommended for inclusive businesses to gather information on what works and adapt the findings to their business models. For this, a helpful partner for companies can be the Egyptian-German Programme for the Promotion of Small and Medium Enterprises ► [PSME](#) that offers technical support to accelerate the growth of 20 inclusive businesses. Additionally, companies can actively get involved in the international debate on inclusive business models and benefit from first-hand information from practitioners through the iBAN knowledge platform on inclusive business ► www.inclusivebusiness.net.

A) INTRODUCTION AND CONTEXT

RETAIL MODERNISATION IN DEVELOPING AND EMERGING COUNTRIES

The number of supermarkets is on the rise in developing and emerging countries, changing the way products are distributed and sold. The modernization of the retail sector fosters the introduction of new technologies and produces gains from economies of scale, resulting in higher productivity and lower prices. This has strong implications for existing retailers and informal sellers: producers, intermediaries and the consumers in these countries have to constantly adapt to such changes.

While the fast roll-out of large foreign retail chains in countries with low productivity and traditional retail structures has the potential to threaten poor communities by destroying their traditional sources of income, it can also foster the inclusion of people at the base of the economic pyramid (BoP) in value chains and create new income opportunities for the poor. Therefore, enabling conditions need to be established on different levels.

THE FAST-MOVING CONSUMER GOODS (FMCG) SECTOR IN EGYPT

Egypt recorded a population of 104 million by the end of 2017, with a GDP growth rate of 3.6 per cent between 2016 and 2017 (CAPMAS 2017). With this overall population and income growth, Egypt offers great potential for investors, specifically in the FMCG sector, which is experiencing higher demand over time. According to the 'Packaged Food in Egypt' report by Euromonitor (2017), Egypt is considered the biggest consumer market in the MENA region and one of the largest emerging markets in the world.

Many international FMCG manufacturers such as Unilever, Nestlé, and Danone have established large production facilities in Egypt to capitalise on a very large and growing market, and also to hedge against the high import costs induced by the flotation of the Egyptian currency in July 2017. According to the Egyptian Central Bank website (2017), inflation reached 30 percent in 2017 after the devaluation of the Egyptian pound. Together with increased import costs due to devaluation and other trade restrictions, multinational companies importing food ingredients and packaged materials are facing serious price increases in their products, making packaged food products no longer affordable to many members of the population, especially those at the Base of the Pyramid. This trend is noticed even by multinational companies, which are now partnering with BoP communities and enterprises to locally source raw materials in order to lower costs.

AGRICULTURE AND FMCG

The main upstream industry for the FMCG sector in Egypt is the agriculture sector, which is one of the main sectors creating employment opportunities for the BoP. According to World Bank Data, employment in agriculture represented 25 per cent of the total employment in Egypt, and the combined contribution of the sectors of agriculture, forestry and fishing accounted for 11.5 per cent to the country's GDP in 2017. According to a FAO report from 2017, the Egyptian government's agriculture strategy for 2030 aspires for food security by domestically cultivating strategic crops, reducing imports of food, and increasing the reclamation of agricultural lands for higher yields. This denotes a strong opportunity for companies working in packaged food in Egypt, where value chain partnerships with BoP farmers may assist in stabilizing prices and hence induce business growth in Egypt.

With a growing population and a rapidly growing demand for agrifood products, businesses need to stabilize their supply base by harnessing the potential of small-scale producers and processors. In Egypt, incomes are low among smallholder farmers due to poor farming techniques, wasteful irrigation techniques and the widespread use of chemical fertilizers.

The need for innovation in the agricultural value chain could partly be addressed by integrating low-income groups not only as suppliers, but also as distributors who provide access to new client groups or as consumers, mainly in urban areas, who face the negative effects of the shift to a fast-food diet and could benefit from more nutritious produce.

iNCLUSIVE BUSINESS MODELS

Inclusive business (IB) models offer a solution on how to incorporate the BoP into value chains. They provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the BoP making them part of the value chain of companies as suppliers, distributors, retailers, or customers (G20). Inclusive businesses are the pioneers of socially responsible companies. They tap into the economic potential of the base of the pyramid either by including them into their value chains and thereby providing income opportunities or by providing relevant and affordable goods and services to them. In targeting the poor and low-income market segments, inclusive businesses also spur innovation, strengthen value chains, build operations that are more effective, uncover new sources of profitability, and enhance long-term competitiveness.

iBAN'S ACTIVITIES IN EGYPT

In 2015, the 'Inclusive Business Action Network' (iBAN), a global initiative on behalf of the Federal Ministry for Economic Cooperation and Development and the European Commission, initiated its activities in Egypt in the FMCG sector. Since then, a baseline study on the low-income FMCG sector, a global practitioners' guide, has been published and two workshops and networking events for companies, private sector institutions, the public sector and NGOs have been organized building know-how, contacts and ownership for IB. Furthermore, the strategic advisory service (SAS) for IB, an innovative format for capacity development has been developed.

B) THE STRATEGIC ADVISORY SERVICES (SAS)

METHODOLOGY

INTRODUCTION TO THE SAS METHODOLOGY

In March 2017, the Inclusive Business Action Network (IBAN) and the Centre of Partnerships for Development (CAD) launched the SAS programme for inclusive businesses. Specifically designed for Egyptian companies in the FMCG sector, the programme closely collaborates with dedicated companies to develop and further improve their inclusive business and partnership strategy. Companies were invited to apply for remote advisory services on IB in the framework of a call for proposal based on a pre-established criteria catalogue for selection.

The objectives of the programme were the following:

- Assess the company's organizational fitness on working with low-income communities;
- Analyse the company's value chain and identify key challenges along its value chain;
- Offer potential solutions to overcome the challenges; and
- Support the company in developing a solid partnership strategy.

The SAS programme has been implemented using the following five strategic steps (see Figure 1):

Figure 1: The Five Step SAS Methodological Framework

STEP 1

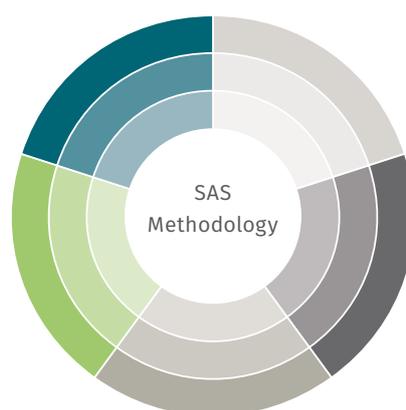
Company Diagnosis

- Design and implementation of online questionnaire
- Data gathering

STEP 2

BoP Fitness Assessment & Value Chain Analysis

- Process information from online questionnaire
- Analyze BoP fitness
- Perform value chain analysis



STEP 3

In-depth Interview Analysis

- Bilateral in-depth interview with company

STEP 5

Action Plan Implementation

- Step-by-step implementation of the action plan
- Creation of a monitoring and evaluation framework with key performance indicators
- Follow up call with company (as needed)

STEP 4

Strategic Design

- Design a strategic action plan for each company engaged
- Articulate action plan according to each company's viability

The programme consisted of consulting services including the assessment of current BoP practices, organizational needs, funding mechanisms and capacity, working on a tailored action plan for BoP inclusion, as well providing funding and institutional contacts. A total of 15 companies participated in a 1-year programme that concluded with a workshop to systematize key learnings from participating companies.

Among the 15 selected companies were (see Figure 2):

- Producers and exporters of processed food and vegetables, some of them specialized in organic food, that is sourced from smallholder farmers;
- A company offering solar pumps for irrigation to these farmers;
- A producer of organic fertilizers;
- A producer of high-end body care products (soaps, creams, scrubs) with natural ingredients; and
- A distributor of a wide range of fast-moving consumers working with a distribution network of women from low-income communities all over Egypt, among others.

The size of the companies varied from six to 5,000 employees allowing to analyse the challenges of companies located in different parts of the value chain and review the possibility of creating new linkages and partnerships between different types of companies (see Figure 3).

Figure 2: Annual turnover and employees of companies engaged on SAS Methodology (by number of companies)



C) LESSONS LEARNED FROM THE SAS

After having implemented the SAS methodological framework with the 15 companies engaged, the following lessons learned have been identified:

1 LESSON LEARNED ONE:

Sourcing from the BoP requires an understanding of their needs and enhancement of their capacities to engage them effectively along the value chain

The SAS included an in-depth diagnosis of the organizations considering different areas of action related to the value chain and the core priorities of the organizations' management.

The diagnosis revealed that the relationship with the BoP smallholder farmers as suppliers or consumers, was in most cases tense and challenging due to the traditional difficulties smallholder farmers are facing in Egypt: low yields resulting from poor farming techniques and low quality seeds, as well as lack of knowledge regarding quality issues and lack of access to finance.

From the buyer's perspective, side selling and lack of loyalty were additional problems. Similar challenges were faced by a company who buys consumer goods from small manufacturers and needs to make sure that quality standards are met.

It was therefore not surprising that the areas that companies expressed that they had incorporated less in their business management were the following:

- Producing services that respond to BoP needs;
- An organizational culture that embraces innovation at the BoP;
- The capacity to work across teams and departments to make it happen; and
- Design systems that are able to monitor results of inclusive business activity.

To raise awareness of BoP needs in order to make them reliable partners and high quality suppliers, the companies were advised to do an in-depth needs analysis and to promote capacity development programmes to engage them fully in their value chains.

The example of Wadi Food:

Capacity building and introduction of new technologies to smallholder farmers

Wadi Food is one of the leading producers of pickles and olive oil in Egypt, and it has doubled its sales volume over the past five years.¹ Rising demand for its products obliged the company to look for additional suppliers. Instead of purchasing the goods from traders who have high prices and are not always able to guarantee the high quality standards required by Wadi Food, the company decided to source directly from smallholder farmers.

Based on the partnership strategy elaborated through the SAS, Wadi launched a contract farming programme as a pilot in collaboration with Bashaier (NGO) for one of its products, "Sun Dried Tomato." Bashaier will finance the project with local smallholder farmers (around 20 farmers) in one of Aswan's rural areas. Wadi Food quality controllers will continuously and

¹ According to the website of Wadi Food ([Link](#)).

closely follow up with them in the field, and they have signed a contract with the farmers to accept the total volume of the season's crops. The company is examining the possibility of expanding the pilot to other portfolio business lines.

Furthermore, Wadi Food is also assessing the possibility of collaborating with Sun City, another SAS participant company, a producer of solar pumps for irrigation, in order to raise crop yields through the introduction of technologies that would not be affordable for individual smallholder farmers without an innovative financing model. This Business to Business (B2B) collaboration aims to design a financing model that allows smallholder farmers to have access to sustainable irrigation technologies in order to optimize the use of water, meet quality standards, and provide the produce needed by Wadi to satisfy a growing demand.

The example of Reshrimp:
Organic fertilizer for smallholder farmers

Reshrimp is an emerging biotechnology company that aims to become the leading force in the research and development of innovative applications of marine-based chitin and chitosan. The company is currently focused on developing innovative organic products for the agricultural industry.

The company wants to encourage more organic farming by making organic high-performance chitosan locally available through affordable prices. Reshrimp buys shrimp shells, a waste product from shrimp peeling, from local fishing communities at an oasis in the North Upper Egypt region. They process shrimp shells into an organic fertilizer and sell it to agricultural companies and smallholder farmers (B2B). Based on a diagnosis of the company's capacities, an action plan was designed aimed at three areas of the value chain: developing a supplier engagement strategy, consolidating the company's B2B business and diversifying markets towards small and medium-sized agribusinesses and farmers.

The company was able to improve its business activities on the supply and sales level. On the sales level, the company has established training for small farmers in Upper Egypt on how to use the peeled shrimps' nutrients in agriculture. More farmers became customers as they noticed increased productivity and quality of their produce, specifically beans and corn. On the supplier level, the company has established close partnerships with groups of poor women to buy the peels, which are otherwise wasted and thrown away.

2 LESSON LEARNED TWO:

Innovative financing schemes are needed for IB models in Egypt

Linkages between financial institutions and BoP markets in Egypt are complex and often do not meet the needs of the inclusive businesses, which require a long term perspective and risk assessments that value the inclusivity of their business model as a positive asset.

Most of the companies reported that they had difficulties with accessing finance in order to engage in partnerships and networks, deploy trainings to the BoP or acquire knowledge and technology. Experiences with equity investors and public start-up funds provided by the government through the Social Fund for Development (SFD) turned out to be unsatisfactory.

The example of Reefy:

A prototype as a pre-condition for accessing capital

The company has developed a cereal bar made of organic fruits and cereals. Reefy is self-financed after graduating from an Egyptian incubator and receiving a small grant as support. The company wasn't able to access finance from Social Fund for Development (SFD) nor from other investors. Consequently, Reefy partnered with big companies such as SEKEM to use its manufacturing facilities to create the prototype. In addition, it started to work on a business plan to be submitted to one of the NGOs that supports start-ups in Egypt with flexible debt financing.

The example of Brimore:

Short-term finance models may endanger the business?

Brimore is a tech-based platform for FMCG products using direct selling as an alternative trade channel. They sell a large range of products through direct selling using a consumer based distribution network of local housewives.

The company closed after the withdrawal of equity investors who expected a return after only three months of operation. The company tried to access start-up funds provided by the government through the SFD but failed as the SFD only finances tangible assets, but not the creation of a non-tangible asset such as the distribution network required by Brimore.

Brimore decided to self-finance the first quarter of operations in November 2017 through partners' money and private savings. Currently, the business is managing a successful prototype with 17 staff members and business activities in 22 governorates. By providing a success story, the company is now able to approach angel investors, business accelerators and the European Bank for Development for longer term finance according to the needs of the inclusive business model.

The example of Wadi Food:

No credits for farmers without cooperative

The company applied for finance for its supplier development programme with olive farmers but financial institutions were not willing to provide loans to farmers unless they were organized into cooperatives, even if the buyer, in this case Wadi Food, was able to offer the required collateral. As Wadi Food couldn't identify a trustworthy cooperative, the company set up a partnership with Bashair (previously a USAID funded programme) to oversee an agricultural cooperative and finance micro-farmers that were willing to follow Wadi Food's techniques for olive cultivation.

2 You can access the full interview with the founders of Brimore following [this link](#).

3 LESSON LEARNED THREE:

Promoting women's participation accelerates business activities and social development

One of the additional lessons learned was that enhancing women's participation through economic activities and participation in the value chain accelerates business activities and improves business efficiency. Developing a gender inclusive hiring strategy, both through the sourcing and production supply chain, as well as through a more representative workforce, tends to improve quality and the reputation of the company within the community.

Therefore, women's engagement in the workforce enhances economic development as well as economic growth. Studies from the World Bank (2017) have proven, for example, that female participation in councils, groups and businesses leads to increased efficiency.

Gender inclusive engagement is not only good for business; creating a much better balance between genders has proved to enhance innovation while creating better services and products. It also has proven to be good for families, communities and the wellbeing of countries overall, contributing to the achievement of the United Nations Sustainable Development Goals (SDGs).

In the case of Egypt, the working environment for women is challenging. Cultural patterns may prevent women from leaving the house and pursuing a profession. For this reason, many women do not have an independent source of income and rely on their husbands to cover their needs. They lack social recognition and opportunities for self-development. Hence, to include more women in the workforce, cultural aspects need to be taken into consideration and business models and/or the work environment need to be adjusted.

The example of Daltex³:

Proactively engaging women in the workforce

Daltex, one of Egypt's leading agribusiness firms in Upper Egypt, has repositioned itself as a model in gender-balanced workplace policies. The company promotes inclusive work environments that address sexual harassment, equal job opportunities and equal wages for work of equal value. They provide incentives for employees' retention resulting in a low rate of absenteeism, particularly for women.

However, hiring women in the company's value chain is not an easy process. Daltex therefore aims to create a balanced environment by providing women-friendly workplaces through:

- offering fulltime and full-year instead of seasonal work;
- providing training on soft skills, e.g. communication skills;
- increasing the feeling of security by hiring supervisors from the same village as the women;
- electing women labour representatives;
- providing transportation from the village to the fields, as well as life and health insurance; and
- providing designated rest and changing facilities.

3 Daltex did not take part in the SAS programme, but participated and shared experiences in the final workshop of the SAS programme.

The example of Brimore:
Empowering female distributors through training

Brimore has established a distribution channel based on housewives of low and middle income classes and their strong connection with each other through informal networks. Direct selling is practiced all over the world, but in Egypt it is relatively new. Initially, Brimore collaborated with two women. These two women brought about 20,000 registrations of women willing to work with Brimore across 14 Egyptian cities. Out of the 20,000 registrations, Brimore chose 1,000 to test their business model and are adding 300 to 400 women to their sales force every month. Capacity building is offered to the women in four areas: sales and team building, e-commerce, financial literacy, and negotiation and other soft skills. According to Brimore, the extremely high attendance rate (95 %) of the saleswomen participating in the trainings has led to a dramatically improved sales performance.

4 LESSON LEARNED FOUR:

Succeeding in inclusive business implies succeeding through distribution channels

One of the challenges that companies expressed was their difficulty getting their products to their customers and clients. To address this challenge, several strategies were put into place, such as tailoring the distribution and retail strategy to the local environment; broadening the distribution channels through win-win partnerships with local organizations (e.g. NGOs, cooperatives, local SMEs and local social enterprises); or strengthening the skills of distributors and retailers to improve sales and deepen their relationship with the distribution and retail networks.

The capacity development processes included the provision of product positioning advice to retailers, training on the product's short and long-term benefits to door-to-door sales agents, as well as management, negotiation, or sales skills. As demonstrated through the implementation process of the SAS, the cost and effort of training small-scale distributors and retailers is often underestimated, and can be a major challenge when trying to achieve scale and develop a successful distribution network.

The example of Habiba Organic:
Broadening distribution channels

Habiba Organic Farm is a producer of organic fruits and vegetables located in the South Sinai, far away from the big consumer centres and established distribution channels, a situation which leads to high distribution costs. The company's managers concluded that they had to expand their distribution strategy in order to broaden the client base. This led them to work with more retailers in Egypt, enabling them to distribute their products more easily and reduce the distribution costs, and providing better and more reliable outlets for larger quantities of produce. As consumers in Egypt are now more aware of natural products and organic agriculture, Habiba Organic is able to partner with broader distribution networks, such as hypermarkets, supermarkets and even restaurants and hotels.

D) CONCLUSION

Challenges for inclusive businesses in Egypt are very similar to those articulated by company representatives in other parts of the world. Nevertheless, there seems to be a large information gap concerning inclusive business models and good practices on how to overcome challenges in the BoP markets. Judging from the SAS experience, Egyptian companies of the FMCG sector are actually very interested in learning from their peers and engaging in new partnerships. Given the size of the Egyptian market and the need for sustainable solutions to satisfy the demand of a growing population, inclusive businesses should engage in concrete activities to gather information on what works and adapt the findings to their business models. Even in a difficult business environment like the Egyptian market with its low level of public support for IB and its low availability of non-traditional financing services, new approaches can be tested and business models improved, as illustrated by the cases of the companies participating in the SAS programme.

To build on these encouraging experiences, additional opportunities for these and other inclusive businesses are needed. The Egyptian-German Programme for the Promotion of Small and Medium Enterprises ► [PSME](#) has developed a business accelerator for inclusive businesses offering technical support to accelerate the growth of 20 inclusive businesses. Additionally, on a global level, iBAN addresses the IB ecosystem via the largest online knowledge platform on inclusive business (► www.inclusivebusiness.net). It provides access to curated expert knowledge and inspiring practical examples in an innovative and user-friendly way. The platform integrates the only global inclusive business database that contains about 2,000 publications developed over the past decade. Inclusive businesses from Egypt could use the platform to get actively involved in the international debate on inclusive business models and benefit from the first-hand experience of practitioners.

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ENABLING CHANGE

ABOUT iBAN

The Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. Through its strategic pillars iBAN blue and iBAN weave, iBAN manages an innovative online knowledge platform on inclusive business and offers a focused Capacity Development Programme for selected companies and policymakers in developing and emerging countries. iBAN creates a space where evidence-based knowledge transforms into learning and new partnerships. With its focus on promoting the upscale of inclusive business models and consequently improving the lives of the poor, iBAN is actively contributing to the achievement of the United Nations Sustainable Development Goals. iBAN is funded by the Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

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