Inclusive Business Features

The Distinguishing Characteristics of Businesses that Engage the Base of the Pyramid
I. Introduction

The Sustainable Development Goals (SDGs) are the common framework for businesses, investors, and governments to embrace more sustainable, equitable, and inclusive economic models. The goals provide a viable model with opportunities for long-term growth, particularly when businesses and investors adapt and transform their strategies to deliver financial results with positive impact.

Businesses, investors, and governments are now increasingly taking the SDGs into account. From companies adjusting business models to seize market opportunities aligned with the SDGs, to governments implementing policy instruments for the SDGs, and investors reorienting their portfolios with SDG-enabling priorities.

This increased adoption of the Global Goals has led to adapt common standards and principles to support entities to adapt their operations in ways that enable them to contribute to the SDGs.

Within the world of sustainable business models, inclusive business (IB) plays a special role. Inclusive businesses are commercially viable businesses that engage base of the pyramid (BoP) populations into their value chains to achieve economic growth and social impact at scale. The term was coined in the early 2000s and achieved global recognition in 2015 when the definition and framework for inclusive business was endorsed by the G20.

What are the SDGs?

The Sustainable Development Goals, also known as the Global Goals, are a set of 17 interconnected goals adopted by the UN and world leaders in 2015 and are meant to act as a shared blueprint to end poverty and tackle climate change by 2030. Each of the 17 goals have a set of targets and indicators to help measure progress towards it.
G20’s definition of inclusive business

Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people from the base of the economic pyramid (BOP) making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers.\(^1\)

With COVID-19 severely impacting low-income populations\(^1\) and increasing the urgency of poverty reduction, it is more important than ever to support the promotion of inclusive business. The Inclusive Business Features aim to do this. Building upon the G20 definition of inclusive business and with the input of leading global organizations and leaders, this document seeks to provide a structured set of features to identify inclusive businesses more effectively and with consistency.

This represents the first time such diverse voices have come together to generate consensus on the high-level characteristics of inclusive businesses. It was led by the United Nations Development Programme, the Istanbul International Centre for Private Sector in Development, Business Call to Action and the Inclusive Business Action Network. The list of the entire working group can be found at the end of the document.

II. How to use this document and for whom

The features of inclusive business can be used by companies, investors and policymakers and be adapted by users to their specific contexts.

- **For companies:** To use as a high-level framework as they develop their inclusive business
- **For investors:** To use as a basis for criteria to evaluate potential investees
- **For policymakers:** To use as a reference to create policies that contribute towards an enabling environment for inclusive business

With each of the four features, a set of guiding questions have been provided as a self-assessment tool to allow users to better understand the parameters of each feature. The guiding questions are meant as a reference and may not always apply to every situation.

III. Introducing the Inclusive Business Features

The Inclusive Business Features will increase the awareness and understanding of inclusive business, enabling companies, investors and policymakers to recognize how IBs are a tangible answer to the opportunities presented by the SDGs and allow them to consider what it would take to better develop, support and enable such businesses.

The four features of inclusive business are:

1. Engaging the base of the economic pyramid (BoP) intentionally
2. Pursuing financial viability
3. Scaling the business model
4. Measuring and managing impact

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\(^1\) According to the UN Sustainable Development Goals Report 2021, between 119 to 124 million people have been pushed back into poverty and the equivalent of 235 million full-time jobs were lost. By 2030, COVID could drive the number of people living in extreme poverty to over 1 billion, with a quarter of a billion pushed into extreme poverty as a direct result of the pandemic. Source: Pardee Center for International Futures at the University of Denver and UNDP, December 2020.
Illa. Why the features matter

For companies:

From a company perspective inclusive business models are uniquely positioned to reach large under-served markets, catalyse meaningful engagement with BoP customers and BoP involvement across the value chain, design effective products and services targeted towards low-income populations and build sustainable brands with positive social impact. Technological advances in recent years and innovations in business models are enabling the integration of the BoP in a commercially viable manner at a previously unknown scale. With the crisis caused by COVID-19, IBs have exhibited extraordinary resilience in their local value chains and in maintaining last mile access to hard-to-reach populations. These features aim to draw attention to, and encourage, managers and entrepreneurs towards developing, implementing, and scaling IB models.

For investors:

From an investor point of view, inclusive businesses represent unique, sustainable investment opportunities combining financial returns with measurable net positive social impact. In the past, specialist impact investors aware of inclusive business were operating in this sphere, but as mainstream investors increasingly adjust their portfolios towards SDG and ESG frameworks, they too are in need of a better understanding of inclusive business. These features aim to broaden the understanding of IB among those investors who want to start addressing poverty, part of the ‘S’ criteria in ESG, through their portfolios. They aim to highlight the opportunities for investment in inclusive businesses acknowledging that ESG portfolios currently are focusing mostly on environmental impact.

For governments:

Governments are increasingly developing and implementing IB-enabling framework conditions to engage the private sector in addressing social issues, such as poverty reduction. Specific policies can contribute towards creating an enabling environment for IB, leading to its adoption and mainstreaming among the business community, allowing for inclusive growth and more (and better) job agendas. These features thus, intend to further clarify the unique potential of IB to build forward better and for private sector led systemic poverty alleviation for the low-income populations most affected by climate change as well as the COVID-19 crisis.

Segments within the BoP

To effectively engage the BoP, companies can take multiple inclusive lenses into account. Depending on the market context, the BoP may include women and gender minorities, displaced populations, people living with disabilities, and individuals with other social identities that might influence the method of engagement.

The base of the economic pyramid (BoP)

The base of the economic pyramid (BoP) refers to poor and low-income individuals who lack access to goods, services and opportunities and are broadly described as those who are income constrained.

It is generally accepted that the BoP extends beyond the extreme poor and includes those who are at the risk of slipping back into poverty.

A commonly used global income threshold for the BoP is $8 PPP per capita per day (G20/N4B). Some organizations also use the concept of the ‘bottom 40%’ of a country’s income pyramid to account for country specific contexts.

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2 Association of South East Asian Nations in 2020 adopted “The Guidelines for the Promotion of Inclusive Business in ASEAN” as a non-binding reference framework on how inclusive business can be supported at the national and regional level, and what institutional setup is required

3 Workers have been included as a BoP stakeholder given their relevance in many inclusive business models. Engagement with workers should adhere to principles related to quality jobs and decent work. The notion of net positive impact implies that hiring low-wage workers and maintaining low wages would not be sufficient for an inclusive business. Emerging practices aiming for a net positive impact on BoP workers include addressing living wages (see IDH’s The Sustainable Trade Initiative endorsed by Business for Inclusive Growth and up-skilling initiatives.)
Feature 1: Engaging the base of the economic pyramid (BoP) intentionally

An inclusive business purposefully integrates the BoP into the business by engaging them as suppliers, distributors, retailers, workers\(^3\), or customers in a manner that seeks to generate net positive social impact, such as improved livelihood opportunities, increased income or better access to relevant and affordable goods and services for the BoP.

Intentionality is explicitly mentioned in this feature because it means the business purposely set out to create positive engagement with the BoP as part of its business strategy. Whether motivated by a business opportunity or a desire for social impact or both the positive impact on low-income populations is intentional and not an indirect consequence.

Additional information:

**Net Positive Impact:** An inclusive business should seek to deliver a net positive impact to the BoP considering positive and negative externalities. Typically, positive impact manifests either in improved livelihood opportunities, increased incomes for BoP entrepreneurs or workers, or improved access to relevant goods and services for BoP customers. To effectively deliver a positive impact, inclusive businesses often must account for common challenges faced by low-income communities related to, among others, affordability, accessibility and capacity. This may require deep engagement that could include complementing services, financing, or technical assistance. To enhance impact, some inclusive businesses may even “co-create” solutions where the BoP are closely involved in the design process or in implementation. This type of close engagement can also contribute to an atmosphere of trust and strengthen the relationship between the company and its BoP stakeholders.

**Materiality of Engagement:** An inclusive business’s engagement with the BoP should be significant in terms of its contribution to the business, but the company does not have to be solely focused on the BoP. Many inclusive businesses serve a mix of markets to enhance the financial viability of the overall business. Specific metrics to capture the extent of engagement with the BoP vary by sector by the company’s approach, and by the role that the BoP is playing in the value chain. Often, metrics are based around share of sales or customer base, share of sourcing volumes or supplier base, share of distribution network, share of investment or loan portfolio, etc. Metrics may be applied either to the company’s overall operations or a particular product or service.

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Guiding Questions for Companies

- What is the purpose of engaging with the BoP?
- Is BoP involvement in the business model anchored in the business strategy?
- How is BoP involvement part of the operational design?
- What is the evidence for product-BoP market fit?
- Are the BoP’s inputs and views incorporated into product development?
- Is the BoP involvement considered in the business’ outsourcing model?
- What types of distribution channels or partnerships could expand engagement with the BoP?
Feature 2: Pursuing financial viability

Financial viability is the ability of an inclusive business to survive and compete over the long term in a manner that is self-sustaining — it covers its costs and meets the needs of its investors, employees, and other stakeholders. Financial viability helps to ensure that the inclusive activity is underpinned by a functioning business model designed to be sustained over the long term. It also encourages the business to treat BoP stakeholders as business partners and/or valued customers, not as beneficiaries. A financially viable business may be able to leverage multiple forms of capital to advance its work, including commercial, concessional, or purely philanthropic. It could also enable the business to reinvest profits and expand its engagement with the base of the pyramid.

Additional information:

**Timeframe**: For early-stage businesses or new activities within already established companies, the intent of the organization towards financial viability is of considerable importance in classifying it as an inclusive business. The specific timeframe for financial viability differs based on a number of factors, including the maturity of the organization, the business model, the sector and the market context. Some organizations, for example, may incubate inclusive business activities as part of corporate social responsibility efforts inside the organization, with a plan to develop it into a viable business line. Companies may demonstrate intent through a short to medium-term roadmap that outlines the path to financial viability with a clear timeframe, specific goals and targets.

**Types of Funding**: A financially viable inclusive business may leverage a variety of types of capital as it seeks to be financially self-sustaining over the long term. For instance, some businesses may tap into concessionary capital to expand or deepen their engagement with the base of the pyramid. Others may cross-subsidize internally across business lines. Still others may strategically use blended finance and catalytic capital to mobilize additional finance to overcome initial hurdles sometimes associated in working with BoP stakeholders. Blended finance solutions can be debt, equity, risk-sharing, guarantee products, or even performance-based incentive structures. Solutions depend, among other things, on the market barriers and failures being addressed.

Guiding Questions for Companies

- What is the evidence of viability (net present value, internal rate of return, payback period, financial ratio analysis, etc.)?
- What is the projected financial performance of the IB model?
- Does the projected income statement predict stable income or income growth potential with a positive net profit within the next four years?
- What funding is being allocated to the development of the IB model from internal and external sources of finance?
- What is the percentage of the IB’s revenues that comes from external donations? How sustainable is the funding stream?
- What are the IB’s working capital needs and how will these needs be addressed?
- What are the gross and margins on product/service and why are they superior or inferior to a competitor?
- What profit margins can be expected to cover costs while maintaining affordability and accessibility to BoP clients, or fair prices and payment conditions to service providers and distributors?

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5 Concessional financing is financing below market rates (or with maturity, grace period, security or rank offered on soft terms without being priced according to the market). Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects, Joint Report, December 2020.

6 Concessional finance resources administered by DFIs and provided by various sources include donor governments, philanthropic organizations, sister entities, or DFI own funds when they are explicitly identified for use in concessional activities. Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects, Joint Report, December 2020.

Feature 3: Scaling the Business

Closely linked to financial sustainability, scaling refers to the efficient growth of the business, where gains outweigh losses as the business adopts more efficient processes. Scaling is also the most effective and efficient way to increase social impact, based on the company’s operational model, to satisfy the demand for relevant products and services. Considering that the 4.5 billion people living at the base of the pyramid represent a $5 trillion global consumer market annually, the opportunity, but also the necessity to think big becomes apparent. The scaling potential of an inclusive business can also attract impact investors as they seek to maximize the development impact per dollar invested.

Scaling inclusive business models can come with certain challenges, which determine the best scaling strategy. Targeting the BoP can mean lower revenue per customer, accepting certain risks, and/or incurring higher operational costs than in more developed or higher-income markets. As a result, inclusive businesses often need to aim for scale—for example, by serving a large BoP customer base—to make it a viable business opportunity.

Additional information:

**Leveraging Technology:** Inclusive businesses frequently leverage and benefit from digital and mobile technologies and infrastructure that enable the business to efficiently scale their engagement with the BoP. Digitalization is one major driver to reach scale as it enables the business to engage the BoP in a new manner that leapfrogs a lack of traditional infrastructure—a factor which has traditionally excluded the BoP from the market—and increase visibility over the supply chain in the last mile.

**Partnerships:** Strategies to scale may entail collaboration in individual or multi-stakeholder partnerships with other companies, the government, or NGOs. Partnerships can facilitate access and enable more effective reach to under-served consumer markets and supplier bases, for example across value chains, and can also help inclusive businesses manage risk through the development of a stable ecosystem. Partnerships and effective collaboration between different sectors of society are key drivers of success for inclusive businesses, opening the discussion for re-thinking how to tackle some of the biggest challenges for the low-income communities. In fact, leveraging the strengths of other players in the market are an important element to reach scale. These strategies include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity.

**Replication:** The innovative nature of many inclusive businesses can also lead to replication by other companies, thus increasing the impact of the business beyond the scale of the individual business to the wider market. Conducive policy instruments, such as IB investment incentives in the Philippines and IB accreditation in Cambodia, implemented by governments seeking more inclusive growth can lead to the replication of inclusive business practices. Conducive policies can stimulate the development of missing regulatory provisions, for example on student financing and mobile health systems. They can also encourage growth through tax breaks and subsidies.

Guiding Questions for Companies

- What scale does the IB model require to be commercially and financially viable and attractive to impact investors?
- What scale does the IB model require to be to reach a higher number of low-income individuals?
- How can technology be leveraged to reduce costs and reach the last mile?
- Which pathway, or combination of pathways, to scale is most effective?
- Would scaling need to be done alone or in partnership?
- Which partnerships can support the scaling of the business model?
- What potential does the IB model have to be raised to a higher scale (either through deeper engagement in existing areas of operation or through expansion into new regions)?

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Feature 4: Measuring and Managing Impact on the BoP

Measuring and managing impact is key to promoting net-positive outcomes for the base of the pyramid. Impact is a change in positive or negative outcomes for people or the planet. Impact measurement is considered the quantification of changes in outcomes for the BOP while impact management is the process of mitigating the negative changes and maximizing positive changes for the BoP. Through this feature, inclusive businesses get an understanding of their impact on the base of the pyramid in order to adapt their processes and business model accordingly.

Additional information:

**Metrics:** Metrics and indicators are vital for providing evidence-based information about the positive contribution of businesses that claim to benefit society or serve specific segments as the BoP and allowing comparability on business performance and impact. Measuring impact on the base of the pyramid can be complex and is not as straightforward as measuring profit. Analysis may focus on reach (e.g., the number of BoP engaged) and depth or level of improvement (e.g., in terms of income, access, productivity or other dimensions). Inclusive businesses should integrate quantitative BoP impact indicators where feasible, but also consider qualitative dimensions where relevant as well. The metrics selected should reflect sector-specific factors, as well as specificities of the business model. For instance, the involvement of smallholder BoP farmers in the supply chain of an agricultural company would produce different metrics from a company offering off-grid energy to rural low-income populations.

**Business value:** Because inclusive businesses integrate BoP stakeholders into their business model, measuring and managing the business’s impact on the base of the pyramid can inform business operations and may be closely intertwined with effective business management practices. For example, understanding the BoP might be part of a market segmentation exercise, an analysis of customer needs or loyalty, tracking product penetration, or a market gap or opportunity assessment. Or it could be integrated into analysis on the effectiveness or optimization of their supply chain or distribution network.

**Extent of impact measurement to undertake:** The extent of impact measurement will vary depending on the company. Some inclusive businesses may have more resources or capacity for measuring their impact than others. It often requires access to technology, resources for data collection and supportive infrastructure. Some businesses may conduct specific or more in-depth analysis to respond to stakeholder requirements, such as for investors, donors, governments or customer expectations. More advanced analysis might explore areas such as the duration of the impact or the importance of the impact on the lives of the BoP.

**Nuancing Impact Measurement**

Just as inclusive businesses can take multiple inclusive lenses into account to engage the BoP more effectively, such businesses can also disaggregate their impact analysis based on additional aspects of inclusion. For example, companies may disaggregate BoP metrics by gender or conduct tailored analysis specifically focused on BoP women.

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13 Impact Management Project is one of the entities committed to advance a global consensus on measuring, managing and reporting impact. The Impact Management Project identified five dimensions for understanding impact: Who, What, How Much, Contribution and Risk. These dimensions can be applied to measuring the impact of inclusive business. More resources available at https://impactmanagementproject.com/impact-management/what-is-impact/what/

Guiding Questions for Companies

• What outcome, positive or negative, does the IB model have on its stakeholders?
• How can the IB model adapt its product or service to drive a bigger change in outcomes?
• How much of the change in each outcome is caused by the IB model’s activities?
• Which changes matter and are relevant for the IB model to measure?
• Is the impact being created at the BoP a consequence of the IB’s intentionality?
• Is impact on the BoP reported at least annually to the Director or to the Board with at least one indicator?

Conclusion and Next Steps

The Inclusive Business Features should serve to clarify the unique position of IB to leave no one behind on the road towards building back better. Climate change and the COVID-19 pandemic represent monumental global challenges, especially for poor and low-income communities. The urgency for change has already greatly accelerated the development of sustainable business and financing models but much more needs to be done.

As ESG and SDG investments grow rapidly, the IB Features can direct investors who want to invest in the ‘S’ in ESG or SDGs, with an emphasis on poverty alleviation, towards companies delivering financial return and social impact at scale and provide those IBs with much needed funding.

This document is an invitation and call to action not only to further develop business models, financing, and policies, but also to invigorate the momentum on IB and how it can be promoted within the broader business and finance community, and in the policy arena.

List of working group members

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The Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. Through its strategic approach iBAN supports companies with tailormade investment readiness programmes and develops national inclusive business policy strategies with policymakers. On a global level iBAN manages the largest online knowledge platform (www.inclusivebusiness.net) on inclusive business.

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 jointly co-funded by the German Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

Launched at the United Nations in 2008, Business Call to Action (BCtA) is UNDP’s global inclusive business platform advancing core business solutions for development.

BCtA recognizes and advances inclusive businesses with a clear commitment to benefiting people in low and middle-income markets while advancing the Sustainable Development Goals.

BCtA is the world’s largest inclusive business network, with membership spanning over 280 companies with operations in 83+ countries, all of whom have made a commitment to improving the lives of low-income populations through their business models.

BCtA is supported by the Swedish International Development Cooperation Agency, the Dutch Ministry of Foreign Affairs, the Swiss Agency for Development and Cooperation and the Arab Gulf Programme for Development.

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