

Inclusive Business Landscaping Series

Mexico



Preface

This report was written by Jenny Melo and Teresa Magdalena in January 2015 for the Inclusive Business Action Network (IBAN) to identify and describe the inclusive business landscape of Mexico. Originally it was part of a study that covered both Colombia and Mexico. This report is part of a series of several country studies that IBAN published in order to share the findings. The series is edited by Ashley Insight.

This study is part of an ‘Inclusive Business Landscaping Series’ published by the Inclusive Business Action Network. The objective of the series is to identify and describe the inclusive business landscapes and explore the potential for further inclusive business growth in selected developing countries. You can find more publications on inclusive business on www.searchinclusivebusiness.org.

The Inclusive Business Action Network (IBAN) is a multi-stakeholder network promoting inclusive business globally and supporting the scale and replication of inclusive business models. IBAN ‘connects the dots’ between the vast number of businesses, existing initiatives, networks, investors and other actors from the global inclusive business community. To enable successful business models and partnerships, IBAN creates and shares market insights as well as best practices and brings together relevant parties by offering peer-learning, networking and information spaces.
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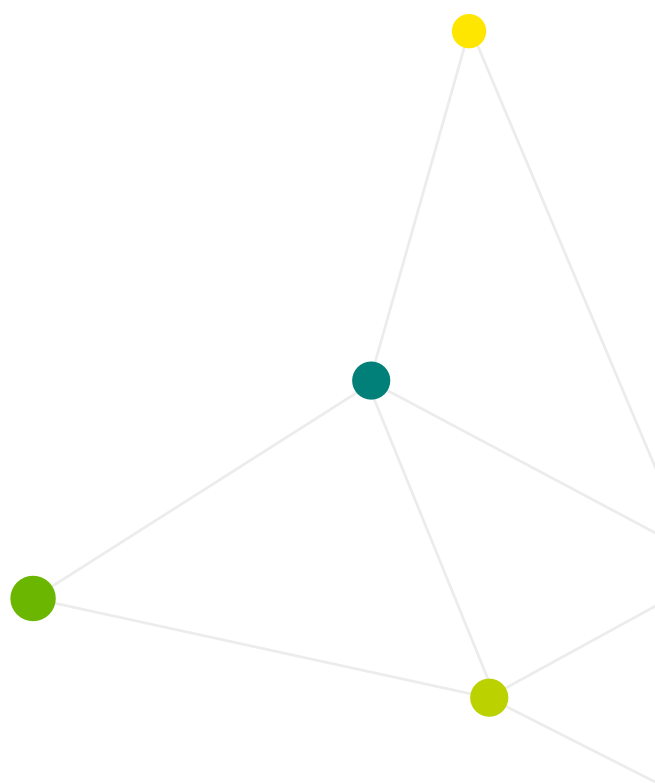


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Acronyms

CEMEFI	Mexican Philanthropy Center
CESPEDES	Commission for Private Sector Studies on Sustainable Development
CONEVAL	National Council for the Evaluation of Social Development Policy
ECLAC	Economic Commission for Latin America and the Caribbean
FEDEPALMA	National Federation of Palm Oil Producers
FMDR	Mexican Foundation for Rural Development
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IB	Inclusive Business
IBAN	Inclusive Business Action Network
IDB	Inter-American Development Bank
LIS	Low Income Sectors
MIF	Multilateral Investment Fund
PESA	Strategic Food Security Project
SAGARPA	Ministry of Agriculture, Grazing, Rural Development, Fishing and Food
SE	Ministry of the Economy
SEDATU	Ministry of Agrarian, Territorial and Urban Development
SEDESOL	Ministry of Social Development
SEKN	Social Enterprise Knowledge Network
SEP	Ministry of Public Education
SHCP	Ministry of the Treasury and Public Credit
SNV	SNV Netherlands Development Organisation
UNDP	United Nations Development Programme
WBCSD	World Business Council for Sustainable Development

Executive summary

Mexico is a country of 124 million people, of which over half are living in poverty (52.3 per cent). It is also one of the most unequal countries in the world with a GINI of 48. The multifaceted measures of poverty measured by the Mexican government show that those living in poverty lack access to social security, access to food and access to health services.

The growing levels of inequality are in spite of a boom in Mexico's economy over the past decade. In 2014 GDP grew by 2.10 per cent, while in the same year the AT Kearney FDI Confidence Index listed Mexico as the 12th most attractive destination in the world for foreign direct investment.

It is with this background that this paper asks how inequality in Mexico is caused by market inefficiencies and how it can be addressed by inclusive business models. In the face of the widespread social phenomenon of poverty, and the limited success of traditional methods for its eradication, recent years have seen the consolidation of a market-based approach in which business plays a key role.

This report is based on secondary research and a series of interviews carried out in 2014 with public, private and academic institutions. It covers all three levels at which work is done: inclusive business cases, the sector itself and the ecosystem that supports it. It shows that although there is support for inclusive business in government, the private and the third sectors, there are only 26 cases of inclusive businesses in Mexico.

Despite progress made over the last decade, the magnitude and persistence of poverty in the region has placed it at the centre of social policy priorities. However there is no specific framework for inclusive business in Mexico, despite a number of programmes that work to link the base of the pyramid (BoP) to the market.

Although initiatives associated with the movement toward inclusive business in Latin America have been around since 2006, information is scarce on the content and achievement of inclusive business ventures. There are many different inclusive business models in use including supplier development,

productive partnerships or shared value creation. They emerge from different perspectives, including corporate social responsibility (CSR), or through work of corporate foundations. This variety of terms means that it is not always easy to identify cases where the logic of inclusive business is in operation. Inclusive business can be promoted by different kinds of actors, although discussion in Mexico has tended to focus on large corporations. Corporations such as Pepsi, Nestlé, Danone and Walmart work with local suppliers in the agricultural sector, Zurich and MAPFRE have products specifically for BoP consumers in finance and Cemex runs innovative programmes for BoP customers in housing that have been held up as good practice around the world. It is only recently that the potential of small and medium enterprise has begun to be considered for this kind of business, and special efforts are being undertaken to motivate them to develop inclusive business. Out of the 26 cases found in this report 20 came from large companies. The evidence from the case studies collected in this document shows that some of the reasons why companies start inclusive businesses vary greatly but that they rarely signal proactive measures to increase potential social impact, but rather a reactive response to situations affecting the company. In the majority of cases, low-income communities play the role of supplier or client. Across all cases 61 per cent of businesses interacted with the BoP as clients and 31 per cent as suppliers.

The Mexican ecosystem is heavy with NGOs, civil society organisations (CSO) and foundations playing the roles of articulator, interface or strengthening and support. This shows them to be a key actor between low-income people and the private sector, in a role of such importance that their absence would threaten the collapse of the ecosystem. On the other hand, investors also have a strong presence in the Mexican ecosystem, financing and giving support, although it is known that most financing is focused on social enterprise. There is also an excess of uncritical perspectives that merely broadcast the concept, and show only

one side of the story, that offered by corporations. A wider range of voices must be given access to the means to tell their stories of inclusive business, foremost among them the fundamental partners, low-income communities. Academia could also fulfil this role, as they currently only play a minor role in the ecosystem.

Finally the study generates the following recommendations for the growth of inclusive business in Mexico.

- A forum for promoting the idea of inclusive business is needed for businesses of all sizes and other actors who have the potential to develop inclusive business models.
- A forum for dialogue between companies and social organisations working in inclusive business is needed to encourage joint working.
- Agendas for each sector within in the Mexican economy should be developed to connect the country's productive targets with inclusive business and poverty reduction targets.



1. Introduction

PwC forecasts that Mexico will have the world's sixth largest economy by 2050, up from 11th in 2014. But with 75 per cent of its total population of 120 million living on less than US\$ 3,000 a year, Mexico is one of the world's most unequal societies. There is a need to ensure that its future wealth benefits those at the BoP. Even though there has been economic growth over the past two decades, the World Bank states that there is no strong connection between growth and poverty reduction in the country, mainly due to a lack of jobs and no increase in wages.¹

In the face of the widespread social phenomenon of poverty, and the limited success of traditional methods for its eradication, recent years have seen the consolidation of a market-based approach in which business plays a key role. Poverty in Latin America is, as stated by ECLAC, "a structural phenomenon characteristic of Latin American reality." Despite progress made over the last decade, the magnitude and persistence of poverty in the region has placed it at the centre of social policy priorities.

Inclusive business is starting to be seen as a way of addressing these problems. Public social policy is beginning to address the issue, through the recently-established Department for Private Social Investment within the institution responsible for carrying out the strategy for overcoming poverty. This report explores this rise of inclusive business throughout Mexico- in its policy, institutions and businesses.

The purpose of inclusive business is to contribute to overcoming poverty and improving the living conditions of poor, vulnerable and marginalised communities. The challenge goes beyond simply including poor people in value chains. Inclusive business requires a broad perspective on poverty, and in particular an understanding of how it is associated with market inefficiencies. Achieving the purpose also implies a concern for human dignity and for broadening processes of participation. The mechanisms for doing this are: access to products

and services related to basic needs, and access to opportunities for income generation through participation in value chains.

1.1. Objectives of this report

This report maps the developing inclusive business landscape in Mexico. The main objectives of the report are to:

- Briefly describe the socio-economic and political context in Mexico to understand the framework within which inclusive business has to operate;
- Identify and map companies in Mexico with inclusive business models (IBMs) in order to better understand the different types of companies, the differences in IBMs across sectors, and the nature of their business models;
- Identify and map organisations/intermediaries that support the inclusive business environment in Mexico to understand the nature of this support, the services offered, and the role played in encouraging inclusive businesses.

Figure 1:

What is inclusive business?

"Inclusive business models are commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations. By adopting the models, companies build the capacity of low-income businesses and entrepreneurs; increase access to finance for businesses and consumers; create or adapt products to meet local needs and requirements; and develop innovative distribution approaches to hard-to-reach communities. Far from philanthropy-driven, these business models can be part of a successful long-term growth strategy that creates new market-based opportunities, eliminates market inefficiencies, solidifies supply chains, and builds future brand loyalty."²

For a discussion of other definitions of inclusive business see Appendix 1.

¹ Cf. PwC (2015): The world in 2050. Will the shift in global economic power continue?, <https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf>, accessed 15 June 2015

² Cf. International Finance Corporation: Inclusive Business at the IFC, http://www.ifc.org/wps/wcm/connect/f669250043e-7497caa4ba869243d457/Inclusive+Business+Models+Group_Fact+Sheet_External.pdf?MOD=AJPERES, accessed 30 July 2015

1.2. Research methodology

This document is the result of a consultancy carried out for GIZ Mexico, the purpose of which was to identify the status of inclusive businesses and their supporting ecosystems in Colombia and Mexico. The document was put together based on a review of secondary information and of 20 semi-structured interviews with relevant actors in both countries. A complete list of interviewees for each country can be found in the acknowledgements section.

The elements of methodological strategy used to identify cases and the inclusive business ecosystem are described below.

Identification of cases

A variety of activities were used to identify cases:

- review of national and international publications by business associations, multilateral organisations and the academia;
- review of cases that have received international recognition for their inclusive business model;
- review of websites specialising in topics related to inclusive business, social responsibility and creating shared value.

The inclusive business cases identified correspond to cases that have been documented at some level and for which public information is available. The list of cases is not exhaustive.

Cases include initiatives led by social enterprises, as they have developed viable business models that meet the needs of low-income communities. However, analysis of 26 inclusive business examples indicates that most inclusive business is promoted by large corporations and that the largest proportion of inclusive business involves communities participating as clients (61 per cent) and as suppliers (31 per cent). Cases are concentrated equally between agribusiness and food production (19 per cent) and housing (19 per cent), followed by financial inclusion (14 per cent).

Identification of the ecosystem

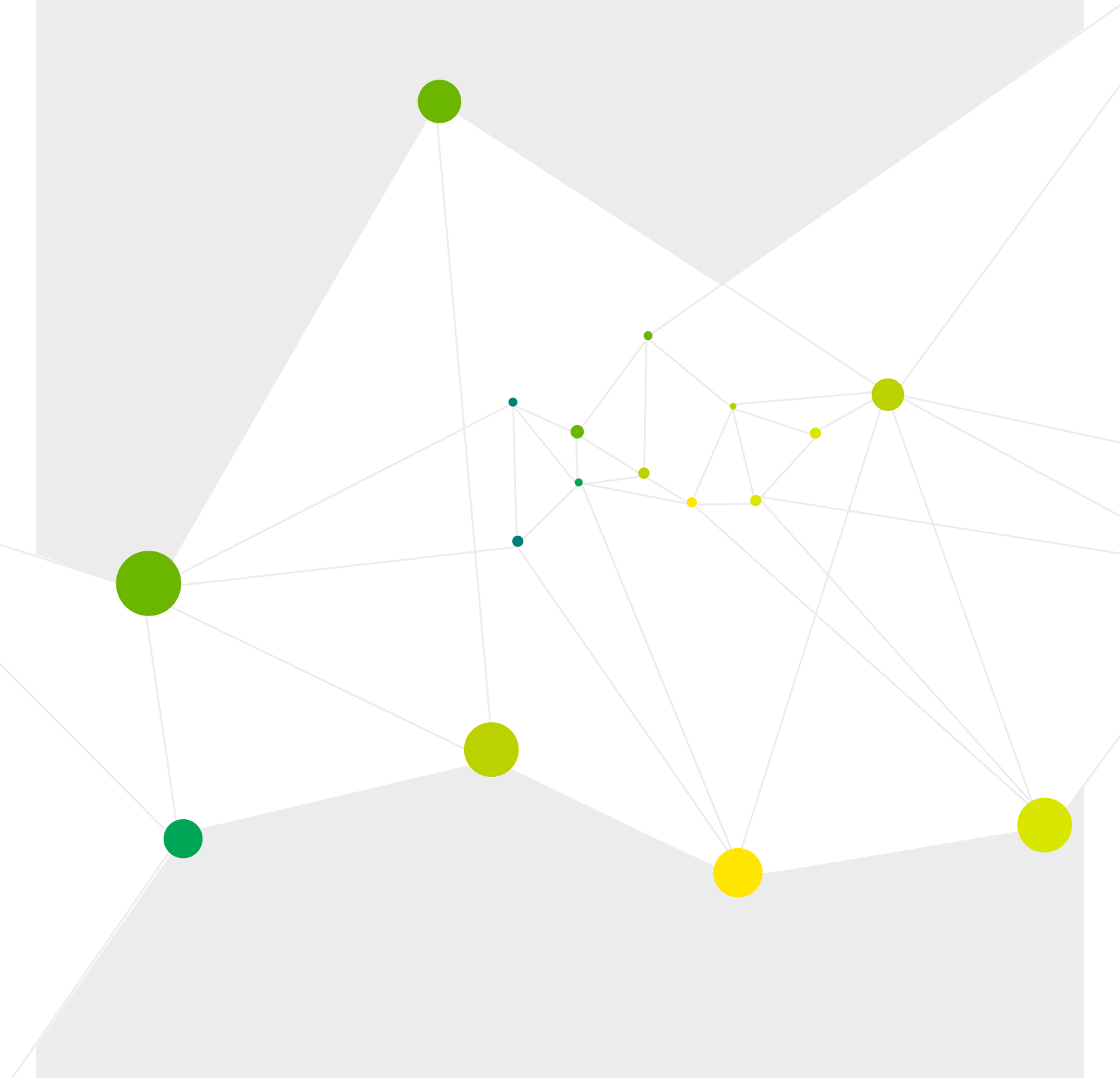
To build a framework of analysis for inclusive business ecosystems, a specialised bibliography was used in the construction of the concept and its scope. Used in conjunction with notes and reflections taken from interviews, this enabled the design of the ecosystem analysis framework used in this document. For a detailed discussion of other frameworks for understanding inclusive business ecosystems see **Appendix 3**.

This model incorporates the identification of actors and their degrees of involvement with the processes required by the ecosystem. Actors were identified using the information obtained from case studies, from the information on their institutional websites and from a media review of information related to inclusive business. The assessment of the degree of each actor's involvement in ecosystem processes was made qualitatively based on information from institutional websites and the authors' prior knowledge of the history of these organisations.

The research showed that both Colombia and Mexico have the same gaps in their inclusive business ecosystems and face similar challenges in addressing factors that are preventing inclusive business from thriving. Throughout this report, the authors have pointed out where conclusions apply to both countries surveyed.



Country context



2. Country context

Figure 2:
Map of Mexico



Source: GIZ (2015): *Negocios inclusivos en México y Colombia. Una mirada a los actores, los ecosistemas y los modelos de negocio*, p.19, https://www.dropbox.com/s/3sgp9ujfaoh7ywe/NI%20en%20COL%20y%20MX_%20v%20FINAL%20feb23.pdf?dl=0, accessed 20 July 2015

2.1. Socio-economic environment

Mexico is now the second largest economy in Latin America and was recently crowned one of the 'MINT' countries (Mexico, Indonesia, Nigeria and Turkey) as its GDP is expected to jump from US\$ 1.18 trillion to US\$ 6.95 trillion by 2050.³ But this rise in overall income has not helped the majority of those at the BoP, with approximately 50 per cent of the country living in poverty (according to the national poverty line).⁴

To identify the population living in poverty, the National Council for the Evaluation of Social Development Policy (CONEVAL) considers the areas of both social rights and economic well-being. Social rights aid in identifying the shortfalls that are experienced by the population with regard to education, health, social security, quality housing, basic housing services and food. Economic wellbeing is measured using the total basic income per capita (ICTPC) compared to the cost of a basic

³ Cf. BBC News (2014): *The Mint countries: Next economic giants?*, <http://www.bbc.com/news/magazine-25548060>, accessed 7 April 2016

⁴ Cf. World Bank: *Data: World Development Indicators*, <http://data.worldbank.org/country/mexico>, accessed 7 April 2016

food basket (Minimum Wellbeing Line) and a full basket of goods and services (Economic Wellbeing Line).

Under this concept, the official methodology in Mexico defines a person as living in poverty:

“...when he or she is not guaranteed the exercise of at least one of his or her social development rights, and his or her income is insufficient to acquire goods and services required to meet his or her needs.”⁶

In terms of shortfalls in social rights, 86.9 million people lack at least one social right and 28.1 million people lack three or more social rights. The shortfall in social rights that most contributed to the intensity of poverty in 2012 was access to social security. This was the main deprivation suffered by both the poor population as a whole and the extremely poor.⁷

Table 1: 2014 country statistics⁵

Population:

Size → 125.4 million

Growth → 1.3% p.a.

GDP:

Annual → 1294.69bn US\$

Growth rate → 2.2% p.a. (constant local currency)

Per capita → 10,326 US\$

Income level → Upper middle income

Unemployment: (modelled ILO estimate)

Total population → 4.9%

Youth → 9.9%

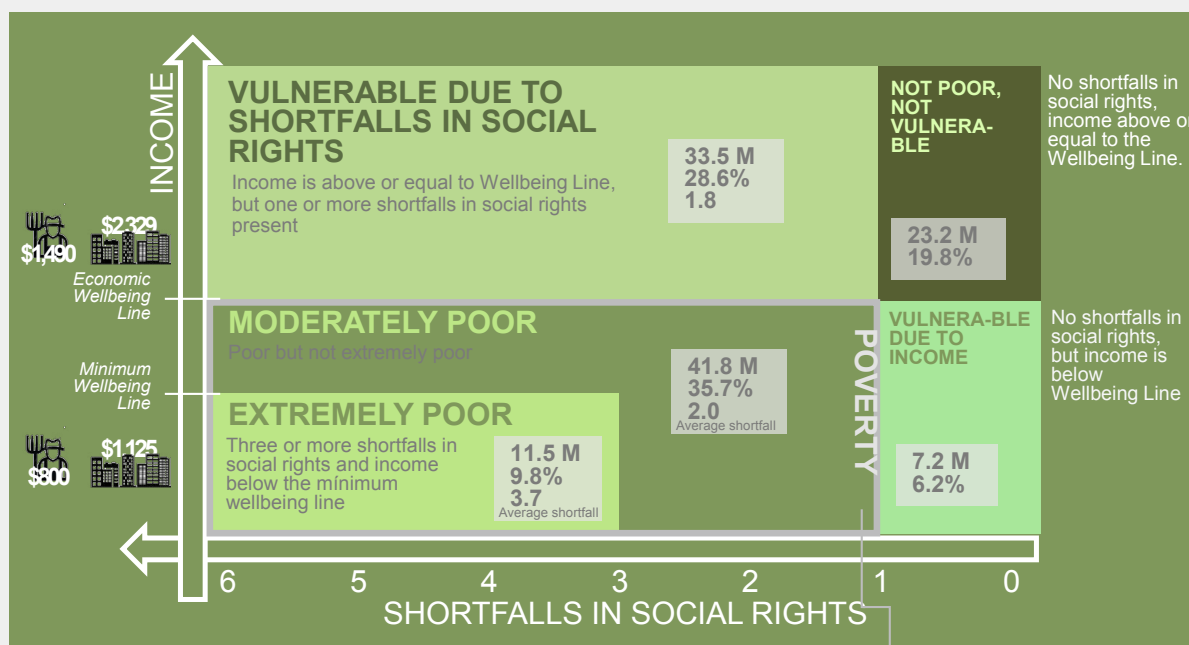
Gini Coefficient → 48.1 (2009)

Poverty headcount ratio

at national poverty lines → 53.2% (2009)

Figure 3:

Income inequality and shortfalls in social rights in Mexico



Source: CONEVAL (2010): Metodología para la medición multidimensional de la pobreza en México, <http://www.coneval.gob.mx/cmsconeval/rw/pages/medicion/multidimensional/medicionmultidimensional.es.do>, accessed 20 July 2015

⁵ Cf. World Bank: Mexico. <http://data.worldbank.org/country/mexico>, accessed 7 April 2016

⁶ Cf. CONEVAL (2010): Methodology for Multidimensional Poverty Measurement in Mexico, p.117, http://www.coneval.gob.mx/rw/resource/coneval/med_pobreza/MPMMPingles100903.pdf, accessed 20 July 2015

⁷ Those living in extreme poverty are defined by CONEVAL as having 3 or more shortfalls in social rights and income below the minimum wellbeing line.

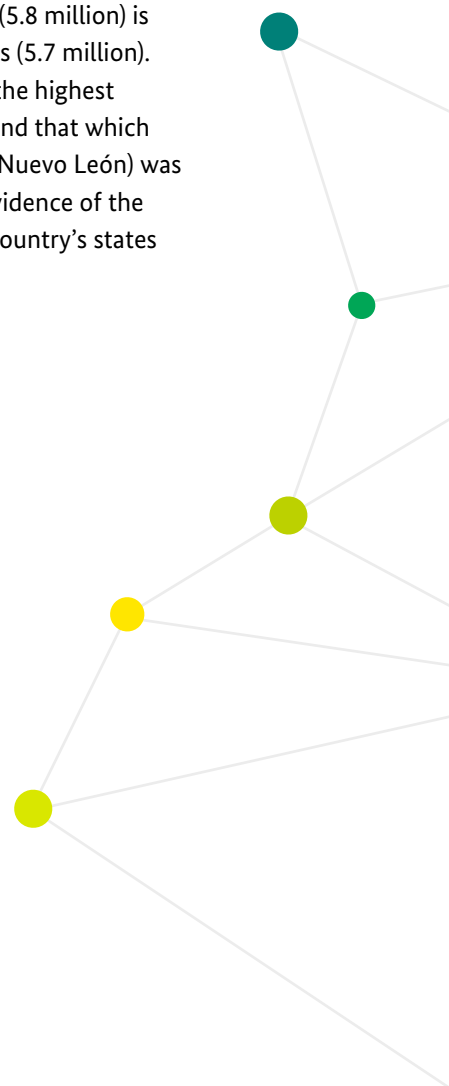
In terms of economic shortfalls, 60.6 million people (51.6 per cent) received an income below the Economic Wellbeing Line, in other words, they did not have the financial resources necessary to meet their basic needs. 23.5 million people received an income below the Minimum Wellbeing Line. This means that one out of five people received an income so low that, even if intended for such a purpose, it would not have allowed them to acquire the basic food basket, which in August 2012 was worth 1,125 Mexican Pesos per person per month in urban areas and 800 Mexican Pesos in rural areas.

The CONEVAL 2012 report divides poverty results into four groups:

- People who belong to the country's original nations (indigenous people). This group had the country's highest levels of poverty at 72.3 per cent, meaning that almost three out of every four indigenous people were poor (8.2 million people).
- People in poverty by age group. Children and adolescents recorded the highest percentages of poverty (53.7 and 53.8 per cent) and extreme poverty (14.0 and 12.1 per cent). See Appendix 2 for graph of poverty by age group.

- People with disabilities. The estimated number of people in 2012 with any disability was 6.9 million, of which 51.2 per cent were living in poverty and 12.7 per cent in extreme poverty.
- Rural populations and urban populations. In rural areas there is a 61.6 per cent poverty rate of which 21.5 per cent are in extreme poverty. As Mexico is a very urban country, 36.6 million people in urban areas were living in poverty, more than double the poor population in rural areas of 16.7 million people.

This situation implies that of the total number of the country's poor (53.3 million), just over two thirds were urban, and the remaining third rural. However, the concentration of the population in extreme poverty in rural areas (5.8 million) is slightly higher than in urban areas (5.7 million). The gap between the state with the highest proportion of poverty (Chiapas) and that which recorded the lowest proportion (Nuevo León) was 51.4 percentage points, strong evidence of the existing inequality between the country's states and regions.

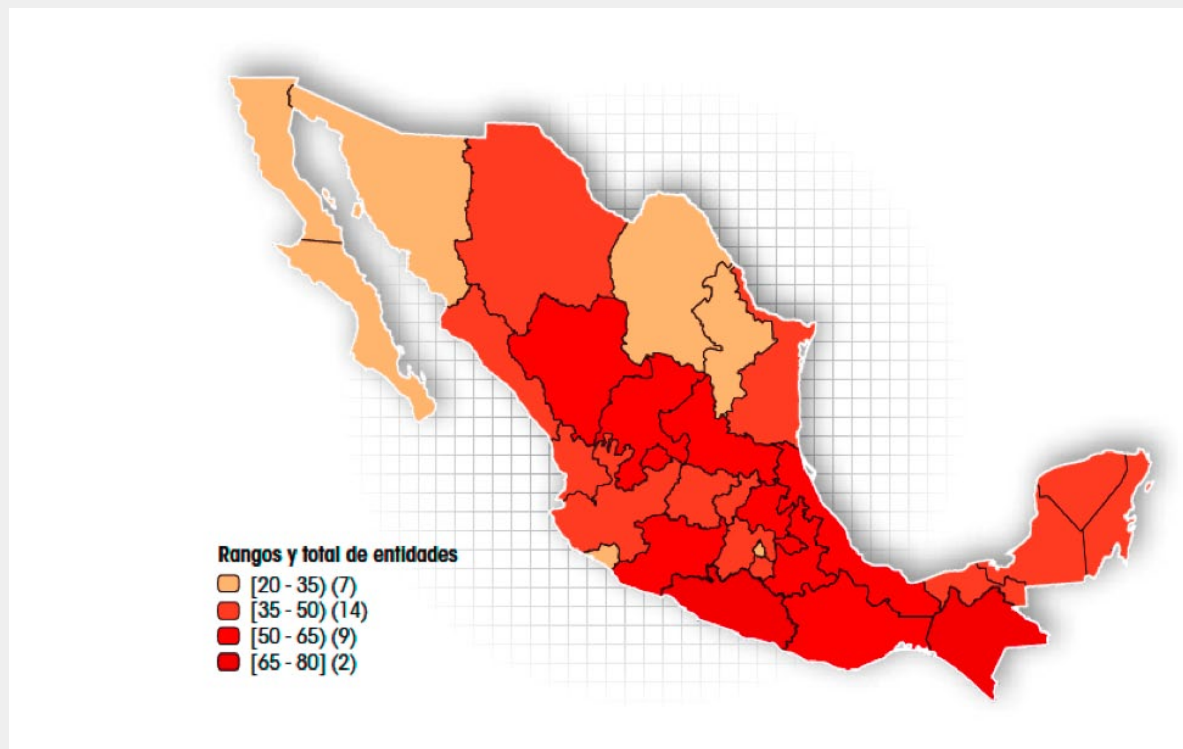


⁸ Cf. CONEVAL (2015): Medición de la pobreza en México y en las Entidades Federativas 2014, http://www.coneval.gob.mx/Medicion/Documents/Pobreza%202014_CONEVAL_web.pdf, accessed 7 April 2016

⁹ Cf. CONEVAL: Medición de la Pobreza: Resultados de pobreza en México 2012 a nivel nacional y por entidades federativas, <http://www.coneval.gob.mx/Medicion/MP/Paginas/Pobreza-2012.aspx>, accessed 7 April 2016

Figure 4:

Map of the percentage of the population living in poverty by state, 2012



Source: GIZ (2015): *Negocios inclusivos en México y Colombia. Una mirada a los actores, los ecosistemas y los modelos de negocio*, p.23, https://www.dropbox.com/s/3sgp9ujfaoh7ywe/NI%20en%20COL%20y%20MX_%20v%20FINAL%20feb23.pdf?dl=0, accessed 20 July 2015

2.2. Business environment

Mexico is currently ranked the 12th most attractive destination in the world for Foreign Direct Investment (FDI) according to the AT Kearney DFI Confidence Index.¹¹ Now sitting at 1.72 index points, the figure has leapt up from 0.8 in 2004. This may in part be due to the fact that Mexico has introduced 21 regulatory reforms since 2005. In

2013 the government started to implement structural reforms to increase business productivity and competitiveness as a part of the National Development Plan for 2013–2018, aimed at boosting Mexico’s economic growth and social development. It covers a wide range of industries including education, energy and telecommunications.

¹⁰ Cf. AT Kearney (2014): *Foreign Direct Investment Index – Ready for Takeoff*, p.1, <https://www.atkearney.com/documents/10192/4572735/Ready+for+Takeoff+-+FDICI+2014.pdf/e921968a-5bfe-4860-ac51-10ec5c396e95>, accessed 20 July 2015
 Cf. World Bank Group (2014): *Doing Business 2014 – Understanding Regulations for Small and Medium Enterprises*, p.3, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf>, accessed 20 July 2015

Cf. World Economic Forum (2014): *The Global Competitiveness Report 2014–2015*, p.13, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf, accessed 20 July 2015

¹¹ Cf. AT Kearney (2014): *Foreign Direct Investment Index – Ready for Takeoff*, <https://www.atkearney.com/documents/10192/4572735/Ready+for+Takeoff+-+FDICI+2014.pdf/e921968a-5bfe-4860-ac51-10ec5c396e95>, accessed 20 July 2015

The North American Free Trade Agreement which came into force in 1994, has had an impact on the country's economy, driving the export of manufactured goods into the US and Canada, but it has also been criticised for the effect it has had on small scale farmers.

The opening of the energy sector to foreign investment in 2013 is expected to have a positive effect on the economy as the production of oil and gas increases, but its long term effects are yet to be seen.

2.3. Policy and regulatory environment

In Mexico business development policy is disconnected from social policy. This means that the direct connection between the development of business models aimed at poor communities and processes of innovation and competitiveness is not presented clearly or visibly. There are programmes seeking to promote the logic of inclusive business within certain public institutions. In Mexico, evidence suggests that while the public sector has a number of approaches in terms of productive projects, it is not using the concept of inclusive business per se, for which reason no legal framework exists to promote or facilitate its development. There has been a departure from "handout" policies to create productive capacities, so that the second stage in the process can link low-income people to the market, mostly through the work of civil society organisations.

Business development policy

Below is a list of some public institutions and their projects which affect business development and have potential to form part of the inclusive business ecosystem.

- The Ministry of Agriculture, Grazing, Rural Development, Fishing and Food (SAGARPA),
- Ministry of Social Development (SEDESOL),
- Ministry of Agrarian, Territorial and Urban Development (SEDATU),
- Ministry of the Treasury and Public Credit (SHCP),
- National Fund for Agricultural, Rural, Forest and Fishing Development (FINRURA),

- *12th most attractive global destination for FDI in the AT Kearney FDI Confidence Index 2014.*
- *Ranked 53rd out of 189 countries in the World Bank's Ease of Doing Business indicator 2014.*
- *Rated 61st out of 144 countries by the World Economic Forum's Global Competitiveness Index for 2014.¹⁰*

- Ministry of the Economy (SE),
- National Institute for Entrepreneurship (INADEM).

The following are some of the public programmes with which connections could be made within the inclusive business framework:

- Productivity Support Programme for Women Entrepreneurs (SAGARPA)
- Youth Productivity Support Programme for Future Rural Businesses (SEDATU),
- Agriculture and Food Productivity and Competitiveness Programme (SAGARPA)
- Productive Options Programme (SEDESOL)
- National Funding Programme for Traditional Art (SEDESOL)
- Support Fund for Productive Projects in Agrarian Settings (SEDATU-SAGARPA)
- Agricultural Development Programme/ Proagro Productivo (SAGARPA)
- Access to Productive, Competitive Financing Component (SAGARPA)
- Integrated Rural Development Programme (SAGARPA)
- Programme for the Improvement of Indigenous Production and Productivity (CDI)
- Social Economic Development Programme (SE)
- Programme for the Constitution and Operation of Units, Liquid Guaranty Credit and Reduced Costs for Credit Access (FINRURAL).

This list of productive projects run by a number of federal agencies is not exhaustive, but it does show the opportunity for presenting the concept to the Mexican public sector and also for linking these projects with inclusive business projects

developed by the private sector. Similarly, it is important to identify projects conceived for the economic sector, such as the Entrepreneurial Support Network and the National Fund for entrepreneurs that can become involved in inclusive business.

This shows that there are still doors to be opened for inclusive business to be given its place and forge a link between social and economic programmes. Certain efforts are in place which can be capitalised on, such as the INADEM's provider development or the SHCP's competitiveness round tables, however these initiatives are not yet closely related to inclusive business.

Social policy

Every Mexican government has tried using social development policy to reduce poverty and the structures that lead to its existence. The National Plan for Development 2013–2018 points to a need for a change in the traditional approach that separates social policy from economic policy. Therefore, it backs a newly-developed social development strategy, comprising an approach to fighting poverty that aims for higher productive inclusion of the population, protecting the most vulnerable age groups, promoting inclusive, non-discriminatory development, activating social participation and improving institutional coordination to avoid duplicate programmes and resources.

The National Plan for Development 2013–2018¹² has a variety of special, cross-sectional and sectoral programmes where visions and ideas converge, as well as proposals and courses of action to take Mexico to its highest potential, with the National Social Development Programme at the centre, setting forth the main objectives for the fight against poverty, aligned to the national and sectoral goals and objectives. This programme has six objectives focused on the reduction of social shortfalls and improvements in income, tied to agencies from a variety of sectors to coordinate efforts and aid in enacting social rights. Within these objectives and courses of action, there is no evidence of knowledge, use or promotion of the concept of inclusive business as a tool for fighting poverty. While the National Social Development Programme includes efforts in productive projects and tries to include low-income sectors in the market, it does not specify the intention to do so through inclusive business, but rather through ties to NGOs or government bodies.¹³ To achieve poverty-reduction objectives and equal access to social rights, monetary transfers must be complemented by other strategies that constitute productive opportunities for the population, leading to the importance of the promotion of the concept of inclusive business by the public sector.

¹² Cf. Gobierno de la República: Plan Nacional de Desarrollo 2013–2018, <http://pnd.gob.mx/wp-content/uploads/2013/05/PND.pdf>, accessed 7 April 2016

¹³ The National Social Development Programme includes the following: Sectorial Social Development Programme; Sectorial Health Programme; Sectorial Education Programme; Sectorial Agrarian, Territorial and Urban Development Programme; Sectorial Livestock, Fishing and Food Development Programme; Sectorial Environmental and Natural Resources Development Programme; Sectorial Communications and Transport Programme; National Development Financing Programme.

Emergence of inclusive business in Mexico



3. Emergence of inclusive business in Mexico

Initiatives associated with the movement towards inclusive business in Latin America have been around since 2006. The terms “inclusive” and “base of the pyramid” have both been used, see Appendix 1 for a discussion of these terms.

Countries that have developed these initiatives include Mexico, Colombia, Ecuador, Bolivia and Argentina. Table 2 provides a detailed timeline of the developments related to inclusive business in Mexico.

Table 2: Timeline of developments relevant to inclusive business in Mexico

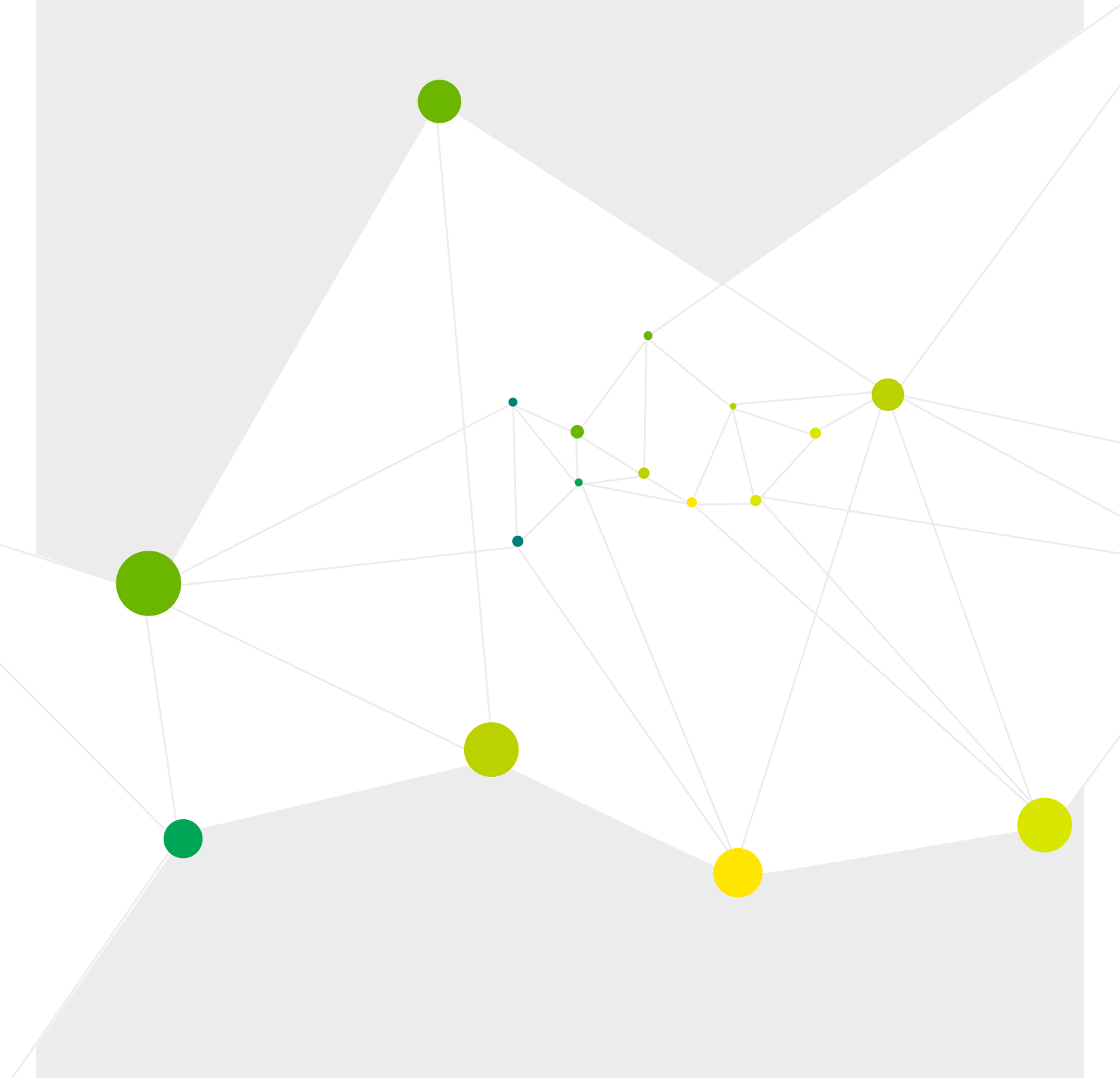
2006	<p><i>Founding of the Alliance for Inclusive Business, led by the WBCSD and SNV</i></p> <p><i>The UNDP launches the Growing Inclusive Markets initiative</i></p> <p><i>Start of the pilot Development Programme for New Base-of-Pyramid Market Opportunities. An initiative of the Coordinating Council for Business via CESPEDES and the MIF. 2006–2010</i></p>
2007	<p><i>The IDB creates the Opportunities for the Majority (OMJ) initiative</i></p>
2009	<p><i>Launch of the Latin America version of NextBillion.net, a website specializing in inclusive business</i></p>
2010	<p><i>Launch of the Regional Initiative for Inclusive Recycling, led by the MIF and the Water and Sanitation Division of the IDB, the Avina Foundation, the Latin American Network of Recyclers (Red-LACRE) and Coca-Cola Latin America.</i></p> <p><i>Launch of the National Programme for Rural Inclusive Business, “PRONERI,” a programme of the Ecuadorian Ministry for Agriculture, Grazing and Fishing</i></p> <p><i>Launch of the Inclusive Business Space at the Universidad Torcuato Di Tella, Argentina</i></p> <p><i>Launch of the book “Inclusive Business: Creating Value in Latin America” reviewing 11 cases in Latin America. Authors: WBCSD and SNV</i></p> <p><i>Launch of the book “Socially Inclusive Business: Engaging the Poor through Market Initiatives in Iberoamerica” reviewing 33 Iberoamerican cases. Authors: SEKN Network</i></p>
2011	<p><i>Launch of the Corporate Inclusive Business Network website RENI-WBCSD. Organised by: WBCSD</i></p> <p><i>First Forum for the Development of the Base of the Pyramid in Latin America and the Caribbean (BASE I) – June 2011, São Paulo, Brazil. Organised by Opportunities for the Majority, IDB</i></p>
2012	<p><i>Seven companies from Latin America (Colombia, Mexico, Guatemala, Brazil and Ecuador) win the G20 Challenge on Inclusive Business Innovation organised by the IFC - International Finance Corporation.</i></p>
	<p>↓</p>

- 2013** *Second Forum for the Development of the Base of the Pyramid in Latin America and the Caribbean (BASE II) – June 2013, Medellín, Colombia. Organised by: Opportunities for the Majority, IDB*
- First Conference for Leaders as Agents of Change – “ELAC” in Spanish – bringing together the business, social, academic and government sectors seeking to start a new movement of businesses with a purpose. Organised by: Ashoka Mexico, CEMEX and FUNDEMEX*
- Launch of the Leaders as Agents of Change Initiative, with a mission to support, inspire and connect entrepreneurs, intrapreneurs and agents of change wishing to promote new leadership and business models with a purpose. Organised by: Ashoka Mexico, CEMEX and FUNDEMEX.*
-
- 2014** *Publication of the Report: “Scaling up Inclusive Business: Solutions to Overcome Internal Barriers”. Author: WBCSD*
- Publication of the report: Many Paths to a Home: Emerging Business Models for Latin America and the Caribbean’s Base of the Pyramid. Author: Opportunities for the Majority, IDB*
- Second Conference for Leaders as Agents of Change (ELAC). Organised by: Ashoka Mexico, CEMEX and FUNDEMEX.*
-

The promise inherent in the concept of inclusive business is that it can provide improvement in the living conditions of marginalised communities through business development. The promotion of the concept in Mexico, and also Colombia, has always been presented to the company as a series of benefits to be gained by engaging in inclusive business. According to the Alliance for Inclusive Business that was promoted for several years by SNV and WBCSD, the benefits of doing inclusive business include – when low-income communities are in the roles of partners, suppliers and distributors – security of supply, traceability and quality control of raw materials, lower transaction costs,

access to local knowledge and networks, better relationships with government and positioning in new markets based on fair trade. When communities are in the role of clients, benefits include access to new markets, increased income from transfers of product innovations into existing markets with increased value and brand positioning to attract future markets. However, the evidence from the case studies collected in this document (and in the Colombian Case) shows that some of these motivations carry more weight than others, and that they do not signal proactive measures to increase potential social impact, but rather a reactive response to situations affecting the company.

Existing inclusive business models



4. Existing inclusive business models

In the research carried out for this report, 26 inclusive business cases were found in Mexico. These are modest numbers in relation to the communication and promotion of the concept over recent years. The research carried out for this report included a review of inclusive business models in both Colombia and Mexico and it was found that across both countries there were two reasons which may explain the low numbers of inclusive businesses found:

Conditions for the development of lasting inclusive business

Many elements are at stake when putting the concept of inclusive business into practice, related to companies, low-income communities and the conditions surrounding the conception and implementation of the business.

With regard to the company, corporate vision is required on the potential of these markets and these ventures, the capacity to take risks, the willingness to change organisational dynamics to incorporate other logics and other ways to measure success. Low-income communities require a willingness to participate, market orientation, installed capacity and relational capital. These necessary characteristics need to be accompanied

by a real possibility of scale potential, favourable social, economic and political conditions within the territory, the financial disposition to make some initial investments and organisations in the ecosystem that support conditions of possibility, among others.

Finding a balance between all these elements poses a challenge that does not appear to appeal to companies on a massive scale.

Different names for similar business practices

The second reason is related to the name “inclusive business” itself. There are currently a variety of business practices for productive inclusion that are being developed under the umbrella of concepts such as supplier development, productive partnerships or shared value creation; or under the auspices of the areas of corporate social responsibility, or through corporate foundations. This variety of terms means that it is not always easy to identify cases where the logic of inclusive business is in operation. It must therefore be reiterated that the list of cases presented in this document is not exhaustive.

The models and cases are explored further in the following section. Icons explain their categorisation, as outlined in Figure 5.

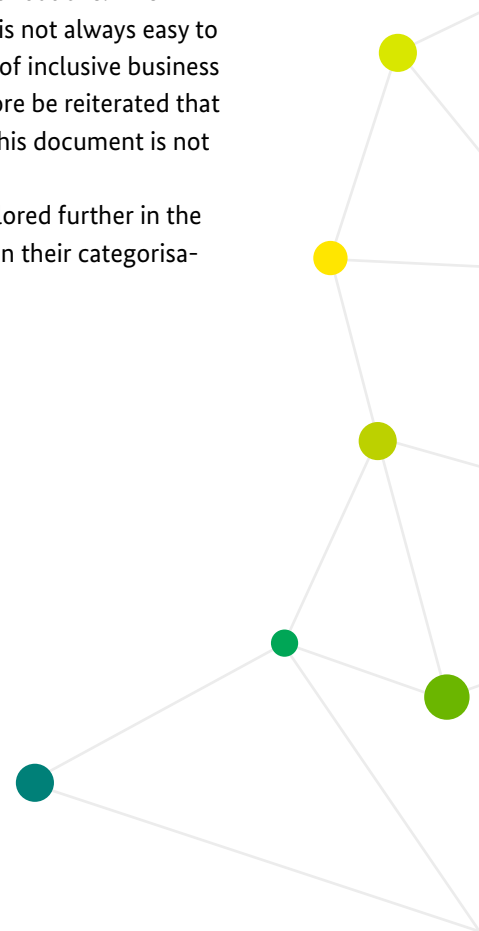
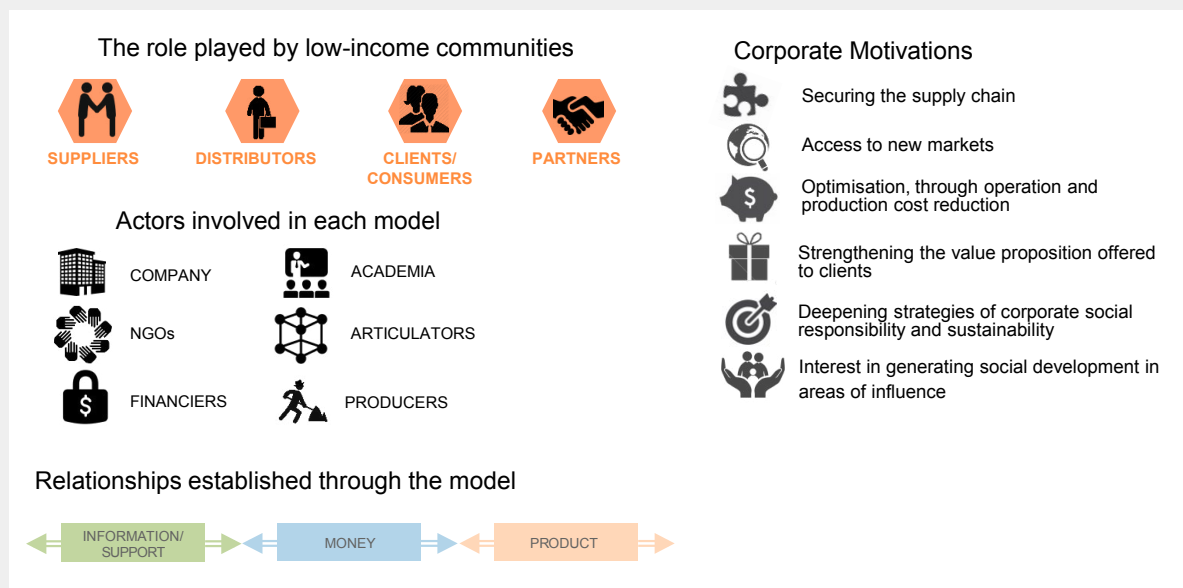


Figure 5:
Iconography for inclusive business models



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p.96

4.1. Inclusive business models¹⁴

The traditional perspective on inclusive business suggests that large corporations are the principal and only actors in value chains. This is based on the idea that the scale required by inclusive business is mainly possible through corporations with multinational reach and a very robust value chain. While this idea may be supported by some very high-profile cases of inclusive business developed by large corporations, it is also true that companies of this size face internal barriers such as organisational inertia, the opportunity cost of investment, risk management and discrepancies between strategic and operational areas, all of which reduce the impact of the scope achieved by inclusive business.¹⁵

A range of experiences in Latin America give evidence that there is also potential in the value chains of small and medium businesses.¹⁶ Similarly, business models that seek to aid poor communities through market mechanisms can be found in initiatives led by civil society organisations or social enterprise. On this point, it must be noted that inclusive business is just one shade on a wide spectrum of initiatives combining a business focus with a social one. For this reason, in practice the boundaries between social enterprise and inclusive business are often blurred.

¹⁴ The framework described here is also used in the report on Inclusive Business in Colombia.

¹⁵ In November 2013 the World Business Council for Sustainable Development (WBCSD) published the report “Scaling up Inclusive Business: Solutions to overcome internal barriers”. According to its authors, “The objective of this brief is to kick off greater dialogue on the internal barriers companies face along the pathway to scale in inclusive business and how to overcome them.”

¹⁶ See Inclusive Business in Colombia report, for example Minka-Dev.

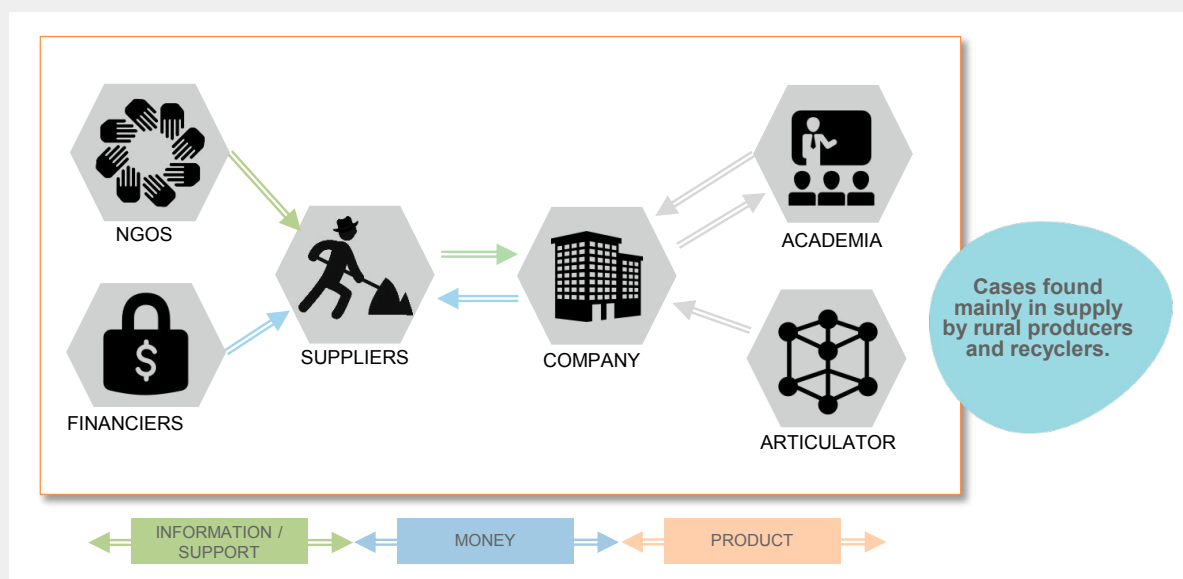
The work of the Social Enterprise Knowledge Network (SEKN), which studied 33 cases of inclusive business in Iberoamerica, considered initiatives that found business opportunities in low-income sectors and which formed part of the main activities of multi-national, small and medium businesses, civil society organisations and social enterprise. From this perspective, when talking about inclusive business, the spotlight is directed at business models which are efficient in connecting low-income communities with formal, conventional markets, “with potential and hope for significant improvements in their living conditions”.¹⁷ In the 26 cases identified by the research carried out for this report, poor communities participated in the following three roles: as clients, as suppliers and as distributors. Participation in each one of

these roles configures a different business model, in terms of relationships, exchanges and processes which must be carried out in order for the business model to work. The largest proportion of inclusive business involves communities participating as clients (61 per cent) and as suppliers (31 per cent). Below is a list of the different models of inclusive business based on their relationship to the BoP, with the conditions for success in each.

Model 1: Suppliers

Inclusive business that includes low-income groups in the role of suppliers seeks to change commercial relationships in such a way that suppliers can access a formal market under fair, safe conditions. From the company’s perspective, it seeks to ensure its supply chain.

Figure 6:
Supplier model



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 42

¹⁷ Cf. Márquez, P. C.; Reficco, E.; Berger, G. (2010): Socially Inclusive Business: Engaging the Poor through Market Initiatives in Iberoamerica

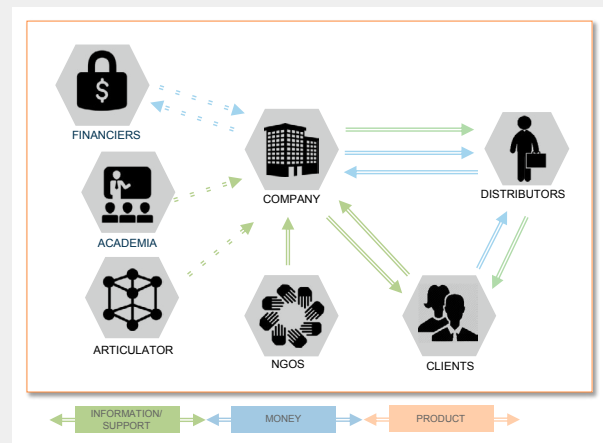
Table 3: Conditions for inclusive business in a supplier model

FOR SUPPLIERS:	FOR THE COMPANY:	FOR BUSINESS:
<ul style="list-style-type: none"> • Organisational strengthening (administrative and accounting practices) • Technical assistance (good agricultural practices, post-harvest management, good manufacturing practices, and so on) • Access to supplies • Access to financing 	<ul style="list-style-type: none"> • Understanding of the dynamics of groups that are suppliers • Understanding of inclusive business • Connection of inclusive business to the company's core business • Working group with perspective and expertise • Potential for scale and replication • Openness to creating partnerships with other actors 	<ul style="list-style-type: none"> • Guarantee of purchase under fair conditions • Products in the required conditions of quality, quantity and volume • Measures of social and economic impact • Fair negotiating conditions • Clarity in returns for both sides

Model 2: Distributors

Inclusive business that includes low-income sectors in the role of distributors seeks to leverage social and relational capital to gain access to these markets, which are new for these companies. In these cases, distributors (usually neighbourhood leaders, women and owners of businesses such as stores) and clients belong to the same territory.

Figure 7: Distributor model



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 48

Table 4: Conditions for inclusive business in a distributor model

FOR DISTRIBUTORS:

- Local capacities
- Confidence in the company and in the quality of the product/service
- Interest in developing new sources of income in the company's business

FOR THE COMPANY:

- Understanding of the social dynamics and economic flows of distributors and the end customer
- Adaptation or creation of a product or services appropriate to social dynamics and the capacity for payment
- Creation of a line of business for this model
- Development of distributor abilities and capacities
- Working group with perspective and expertise
- Potential for scale and replication

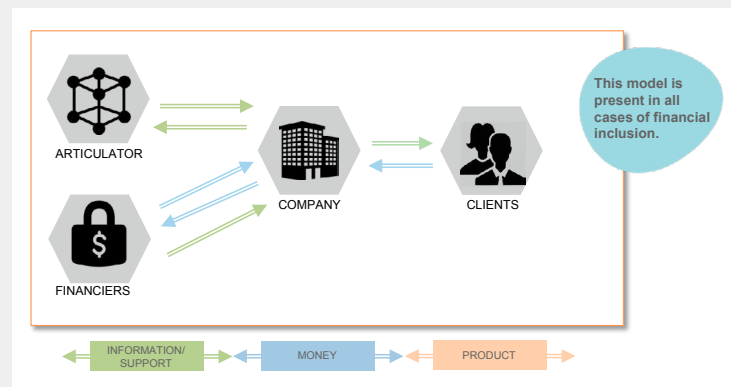
FOR BUSINESS:

- New sources of income through the sale of quality products at a low cost.

Model 3: Clients/consumers

When companies choose to enter a segment of the market made up of low-income people, they should specialise the design/adaptation of their products and services, as well as their channels of distribution. In the cases surveyed, this model is found in approaches focused on financial inclusion.

Figure 8:
Client/consumer model



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p.50

Table 5: Conditions for inclusive business in a clients/consumer model

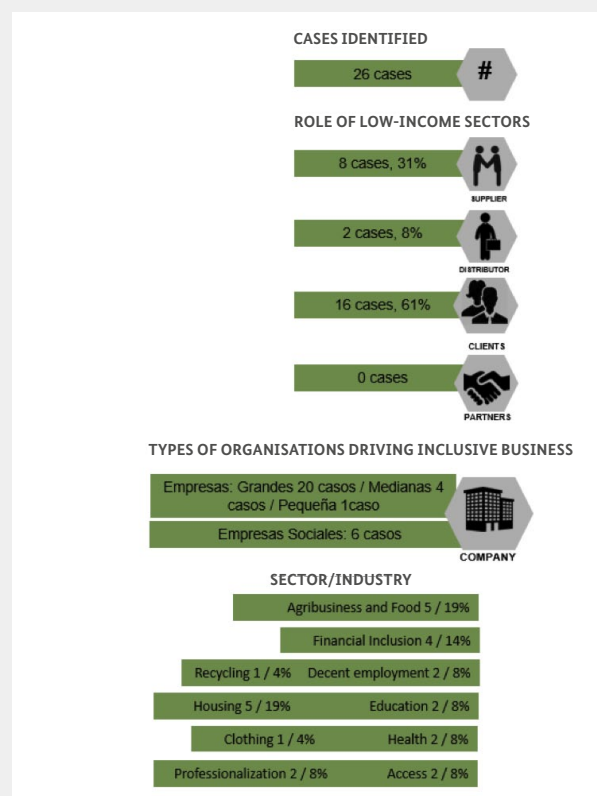
FOR CLIENTS/CUSTOMERS:	FOR THE COMPANY:	FOR BUSINESS:
<ul style="list-style-type: none"> • Openness to trusting a new product/service, and to conditions for payment • Products and services that address a need and improve quality of life. 	<ul style="list-style-type: none"> • Perspective on the potential and size of the market • Knowledge of social, cultural and purchasing dynamics in the new niche in the market • Understanding of new logics and measures of success which should be incorporated into the business • Financial leverage for the design/adaptation of new products/services 	<ul style="list-style-type: none"> • Stable regulatory and legal framework • Clarity on the viability time horizon

4.2. Overview of case studies and corporate motivations

Figure 9 provides an overview of the 26 inclusive business models identified for this report. A majority of the businesses engage the BoP as consumers or clients (61 per cent) while 31 per cent engage the BoP as suppliers. The spread across sectors is relatively even with agribusiness and housing (19 per cent) each being the highest.

Figure 9:

Case studies of inclusive business in Mexico



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p.39

Table 6 lists the inclusive business examples by sector and by the type of BoP engagement as per business models described above.

Table 6: Inclusive business examples in Mexico			
	Suppliers/ Producers	Retailers/ Distributors	Consumers/ Clients
1. Agriculture	<i>Pepsi</i> <i>Caffenio</i> <i>Nestle</i> <i>Danone</i> <i>Walmart</i>		
2. Finance			<i>Zurich</i> <i>Seguros Atlas</i> <i>Hir Seguros</i> <i>MAPFRE</i>
3. Consumer Goods & retail	<i>Toks</i> <i>Walmart</i>	<i>Danone</i> <i>Masisa</i>	<i>Mi Tienda</i>
4. Education			<i>Finae</i> <i>Laudex</i>
5. Health			<i>Clinicas de Azucar</i> <i>Sala Uno</i>
6. Recycling	<i>Bonafont & Pasa</i>		
7. Housing			<i>Echale a tu casa</i> <i>Cemex</i> <i>Contumex</i>

Corporate motivations

A number of different corporate motivations for engaging in inclusive business can be identified. For the purposes of analysis they have been categorised as follows:

- Securing the supply chain
- Access to new markets
- Optimisation through reduced operating and production costs

- Strengthening the value proposition offered to clients
- Expanding corporate social responsibility and sustainable strategies
- Interest in generating social development in areas of influence

The case studies presented below include analysis of the corporate motivations at play.

4.3. Agriculture

Engaging the BoP as suppliers

There are five companies interacting with the BoP as suppliers in Mexico, four of which are multinational corporations. Figure 10 shows the companies operating in this space and their different corporate motivations for their inclusive business models.

Figure 10:

Companies engaging the BoP as suppliers in agriculture



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 44

Walmart is one of the multinationals working with small producers to develop businesses in one of the poorest states in Mexico, Oaxaca. Case Study 1 lists the impact this has had in the region.

Case Study 1:

Walmart: development of productive capacities

- 100 small producers have seen their sales grow by 30 per cent in 2014.
- Fundación Walmart de México supports the development of over 2,100 small farmers in Oaxaca, Puebla, Michoacán, Colima, Veracruz and Coahuila and artisanal manufacturing projects in over 110 communities in Campeche, Chihuahua, Mexico City, the State of Mexico, Guanajuato, Guerrero, Hidalgo, Nuevo León, Oaxaca and Yucatán. They sell these products in Walmart stores in Mexico and Central America. The sales value has already passed 890 million Mexican pesos for the year of reporting (2014).
- In October 2014, the electronic trade platform was created, where the stories behind the items created by small producers are shared with customers, and the “Small Producer, We Are Behind You” campaign was launched, increasing sales by these producers by 1,103% in just one week.

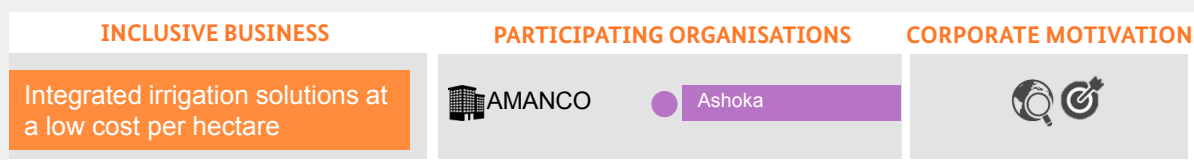
Source: Walmart Publication

Engaging the BoP as consumers

Amanco, facilitated by Ashoka¹⁸, is the only company that engages the BoP as consumers in the agriculture sector.¹⁹

Figure 11:

Companies engaging the BoP as consumers in agriculture



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 52

4.4. Finance

Engaging the BoP as consumers

Access to new markets is what is driving the below companies to engage with the BoP as consumers. Details in Figure 12.

¹⁸ Cf. Ashoka: <https://www.ashoka.org/about>, accessed 20 July 2015

¹⁹ Cf. Serrano, L. (2007): Amanco: Providing Irrigation Systems to the Rural Poor, http://growinginclusivemarkets.org/media/cases/Mexico_Amanco_2008.pdf, accessed 20 July 2015

Figure 12:

Companies engaging the BoP as consumers in financial services

INCLUSIVE BUSINESS	PARTICIPATING ORGANISATIONS	CORPORATE MOTIVATION
Cooperative network of rural microinsurance.	ZURICH RedSol AMUCCS	
Hospital liability microinsurance	SEGUROS ATLAS	
Life and savings insurance for preserving financial balance in the event of funeral expenses	HIR SEGUROS	
Sale of microinsurance	MAPFRE	

Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 51

4.5. Consumer goods & retail

Engaging the BoP as distributors

Several companies are engaging the BoP as distributors in order to tap into new markets. See Figure 13 for more information.

Figure 13:

Companies engaging the BoP as distributors in consumer goods & retail

INCLUSIVE BUSINESS	PARTICIPATING ORGANISATIONS	CORPORATE MOTIVATION
Semilla – Offer of decent work (door-to-door sales) in low-income urban communities	DANONE Cauce ciudadano Ashoka	
Empowerment of carpenters	MASISA FUNDES	
Access to used clothing through points of sale for re-use by Mexican families	ESTRENÓN	

Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 49, 51

Engaging the BoP as suppliers

Improving the commercialisation of artisan products and businesses is essential to helping indigenous communities increase their income. The below companies described in Figure 14 are working with the BoP as suppliers to create a market for these traditional products.

Figure 14:

Companies engaging the BoP as suppliers in consumer goods & retail



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 45

Case Study 2:

Toks: Helping to improve artisan products

- Honey – benefiting 73 families.
- Mole – 7 families.
- Granola – 7 families.
- Santa Rosa Jams – 5 partners, 8 employees.
- All the above saw their income increase to above the Wellbeing Line.



Source. Press release on EXPOK

Engaging the BoP as consumers

Mi tienda is selling basic products to the BoP as described in Figure 15.

Figure 15:

Companies engaging the BoP as consumers in consumer goods & retail

INCLUSIVE BUSINESS	PARTICIPATING ORGANISATIONS	CORPORATE MOTIVATION
Door-to-door supply of basic products in shops kept by small, low-income proprietors	 MI TIENDA	

Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 52




4.6. Education

Engaging the BoP as consumers

Access to finance is essential to gaining a good education in Mexico. Finae and Laudex are two companies providing innovative financial products to the BoP for education, as shown in Figure 16.

Figure 16:

Companies engaging the BoP as consumers in education

INCLUSIVE BUSINESS	PARTICIPATING ORGANISATIONS	CORPORATE MOTIVATION
Financing to give students access to higher education at a good quality private university.	 FINAE	
Financial flexibility to make good quality higher education available to more Mexicans.	 LAUDEX	

Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 53

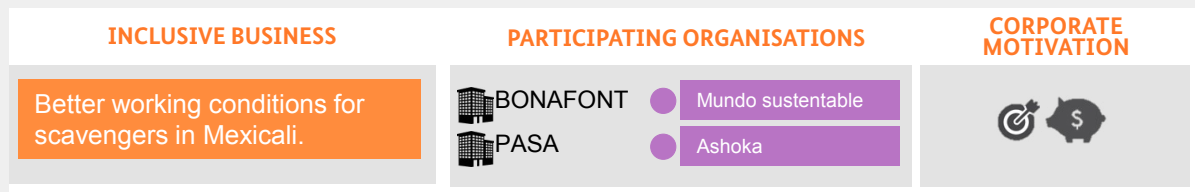
4.7. Recycling

Engaging the BoP as suppliers

Improving the working conditions of those in the recycling and waste management industry is a key theme throughout Latin America. Figure 15 shows the two companies and support organisations working in Mexico to bring these projects to life.

Figure 17:

Companies engaging the BoP as suppliers in recycling



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 45












4.8. Housing

Engaging the BoP as consumers

Figure 18 shows the many programmes run in order to provide adequate housing for Mexicans at the BoP.

Figure 18:

Companies engaging the BoP as consumers in housing

INCLUSIVE BUSINESS	PARTICIPATING ORGANISATIONS	CORPORATE MOTIVATION
Organised self-production and self-construction housing programme, using community participation	 ECHALE A TU CASA	
Patrimonio Hoy: Integrated solution to construction needs of low-income families	 CEMEX	
Integrated Assisted Self-construction Programme (“PiAC” in Spanish)	 CEMEX	
Productive Self-Employment Centre (“CPA”), in which families produce basic construction materials or expand their homes.	 CEMEX	
Programmes to help Mexican migrants build or improve their home from within the USA	 CONSTUMEX	

Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 54

The inclusive business support ecosystem



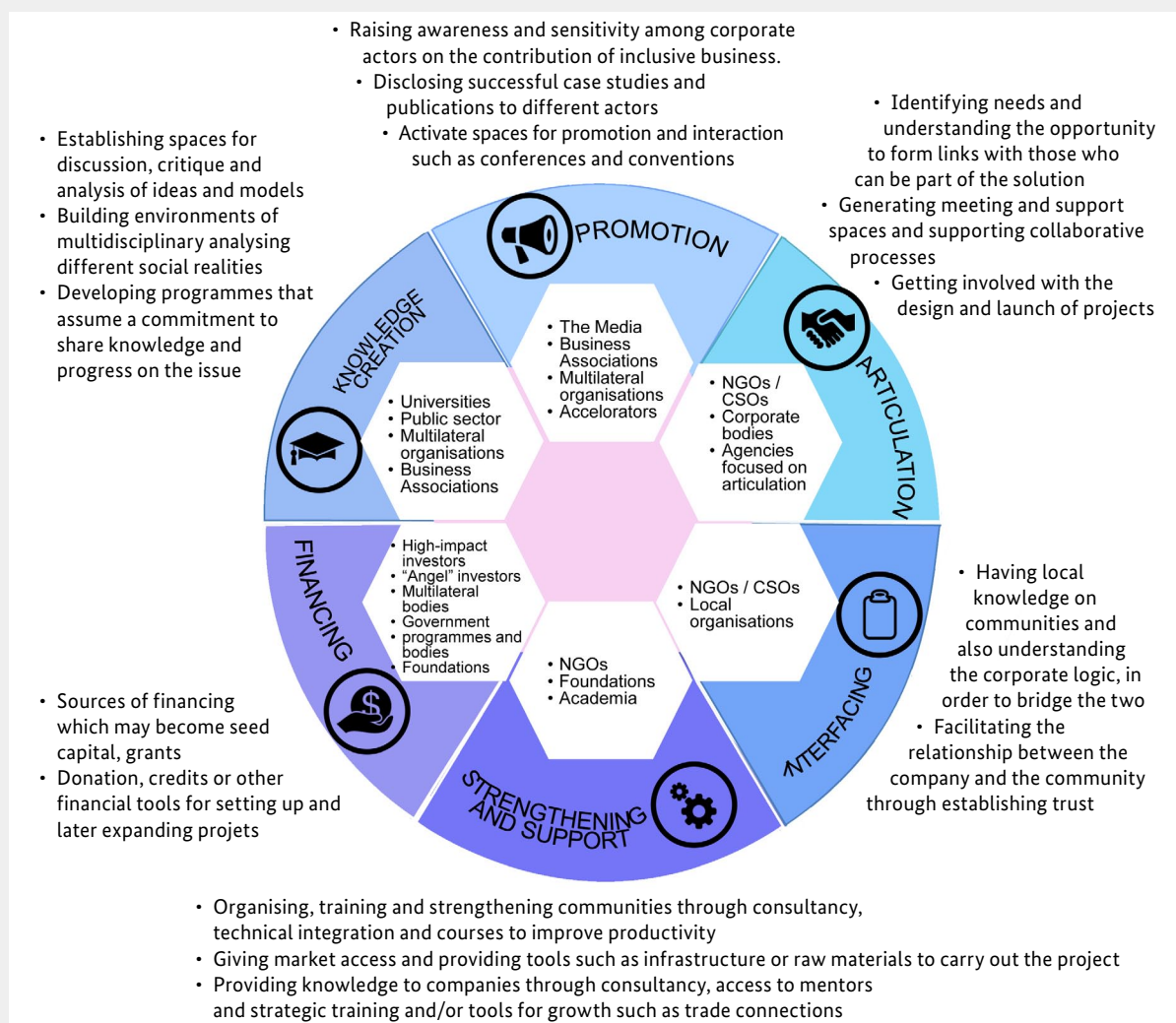
5. The inclusive business support ecosystem

In order to analyse the inclusive business ecosystem in Mexico a framework was created based on the processes that are needed for inclusive business to be promoted and put into practice, incorporating reflections from interviews carried out for this report. See Appendix 3 for a discussion of alternative frameworks and definitions. Figure 19 outlines this framework, including the six processes that were identified as key compo-

nents in an inclusive business ecosystem and the types of actors that can be found fulfilling these essential functions. The actors and the roles they play within the inclusive business ecosystem in Mexico are then presented on the following pages and summarised in Figure 20, which visually places these actors within the framework according to the processes they fulfil.²⁰

Figure 19:

Analysis framework for the inclusive business ecosystem



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 64

²⁰ For more information about support available around the world for inclusive businesses visit the Practitioner Hub for Inclusive Business's database of support.

Business and professional associations and partnerships

Only a few business associations are aware of the concept of inclusive business, and those identified are focused mostly on CSR. While a project was launched in 2006 to help companies develop inclusive business, it did not come to fruition, giving evidence that the concept still needs more promotion. These associations include **CESPEDES**, **CEMEFI** and **RedeAmerica**.

Government

There is a certain difficulty in seeing the public sector as an ally due to the lack of a long-term outlook, although the role of the government identified in the cases analysed for this report is in providing access to institutional government funds or the delivery of material and infrastructure. Agencies related to social development have no active projects in inclusive business. Government departments with a role in promotion of inclusive business include **SEDESOL** and **INADEM**.

Multilateral organisations

Multilateral organisations take the roles of promotion, financing and knowledge creation. They include the **IDB (Opportunities for the Majority)**, **CAF Development Bank of America** and **UNDP**.

Universities and centres

Within academia there are professors willing to work with the topic of inclusive business, however the evidence suggests that there are no formal spaces for the study of inclusive business. The work being done today is much more focused on social enterprise and corporate social responsibility. Universities working in the space include **Anahuac-Clares**, **Anahuac- Idearse** and **Tec de Monterrey**.

The media

While it is true that some digital publications exist that make reference to the topic and highlight successful cases, no media outlet was found with a focus on the promotion, monitoring and discussion of inclusive business. Here, the approach

takes the form of CSR, giving evidence of the lack of promotion from the business side. Media organisations with a limited role in the promotion of inclusive business include **Ser Responsable**, **Responsabilidad Social**, **Ganar-Ganar**, **Suplemento ESR**, **Expok News** and **Mexico Corresponsables**.

Foundations, NGOs/articulators

The third sector is highly involved in inclusive business, occupying several roles depending on the challenge or objectives. Three forms of participation in the ecosystem were identified.

- Those focused on promoting the concept, articulating and generating knowledge gained through experience.
- Those with a focus on interfacing between a company and low-income sectors, capitalising on proximity to the communities to strengthen and support them.
- Those playing many more roles in the maintenance of inclusive business, strengthening and giving support to low-income sectors, acting as an interface and articulating with the private sector.

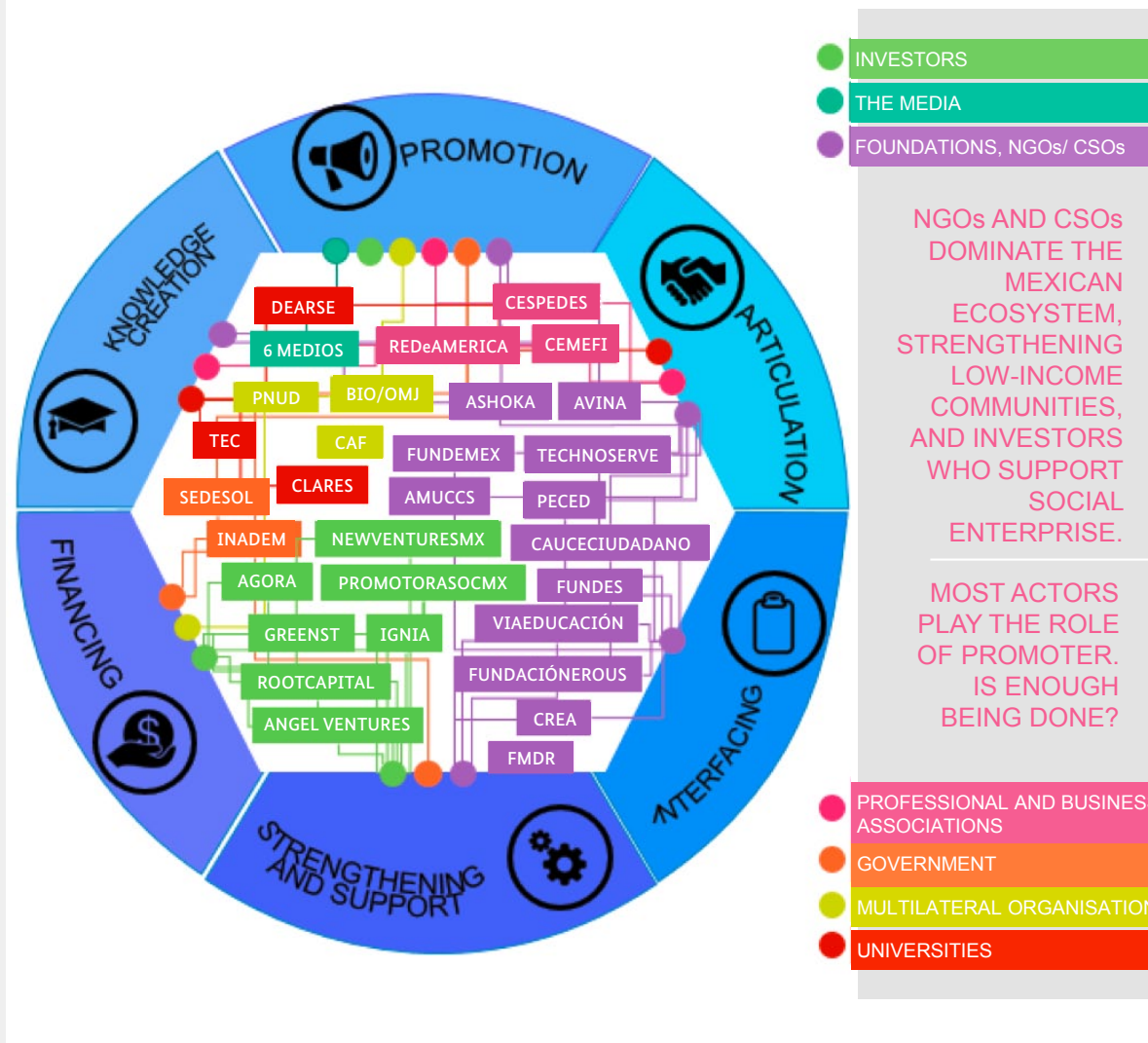
NGOs and foundations operating in Mexico include **Avina**, **Fundemex**, **AMUCCS**, **Via Educaion**, **Ashoka**, **Funacion Ercus**, **Technoserve**, **Crea**, **Peced**, **Cauce Ciudadano**, **Fundes** and **FMDR**.

Investors

Investors in the inclusive business ecosystem are much more present in terms of high-impact investments to support social business with growth potential. They include **Agora**, **Promotora Soc Mexico**, **New ventures Mexico**, **Ignia**, **Root capital**, **Green Street** and **Angel Ventures**.

Figure 20:
The inclusive business ecosystem in Mexico

The actors who participate in each role within the inclusive business ecosystem are presented below.



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 66

The ecosystem in Mexico is still in its infancy with the participation of few actors. Based on the actors and their roles above the below are the key elements of the Mexican ecosystem:

Backing a multiplicity of roles – Mexico is still at an early stage in its inclusive business development. Every actor in Mexico has an area of opportunity to carry out more roles, in order to extend and strengthen the ecosystem. This may be one way of broadening the concept and bringing more actors in.

NGOs: Essential to the ecosystem – The Mexican ecosystem is heavy with NGOs, CSOs and Foundations playing the roles of Articulator, Interface or Strengthening and Support. This shows them to be a key actor between low-income people and the private sector, in a role of such importance that their absence would threaten the collapse of the ecosystem. On the other hand, investors also have a strong presence in the Mexican ecosystem although it is known that most financing is focused on social enterprise.

Promotion: beyond simply broadcasting an empty concept – Another relevant indicated is the high concentration of actors playing the role of promoter – however, the quality and depth of this promotion must be questioned. There is an excess of uncritical perspectives that merely broadcast the concept, showing only one side of the story, that offered by corporations. A wider range of voices must be given access to the means to tell their stories of inclusive business, foremost among them the fundamental partners, low-income communities.

The call to the academia: an unfinished task – Universities show up only as minor actors within the ecosystem. Evidence of this can be seen in the scarcity of articles and books written on the topic. A review of administrative and managerial challenges implied by the development of inclusive business depending on its origin (large, medium or small company, or social organisation), as well as the conditions needed for replication, is a task that remains to be done.

Gaps in the ecosystem

The gaps and challenges faced by inclusive business are points of reflection between the different actors who make up the global ecosystem. In November of 2014, within the framework of the first Latin American conference of the **Inclusive Business Action Network**, 28 participants from 20 different organisations were given a space for conversation on the challenges and difficulties within the ecosystem. This conference took as its starting point the gaps and challenges revealed in the bibliography, and proposed actions to address the most urgent issues. In both Mexico and Colombia, these issues were identified as:

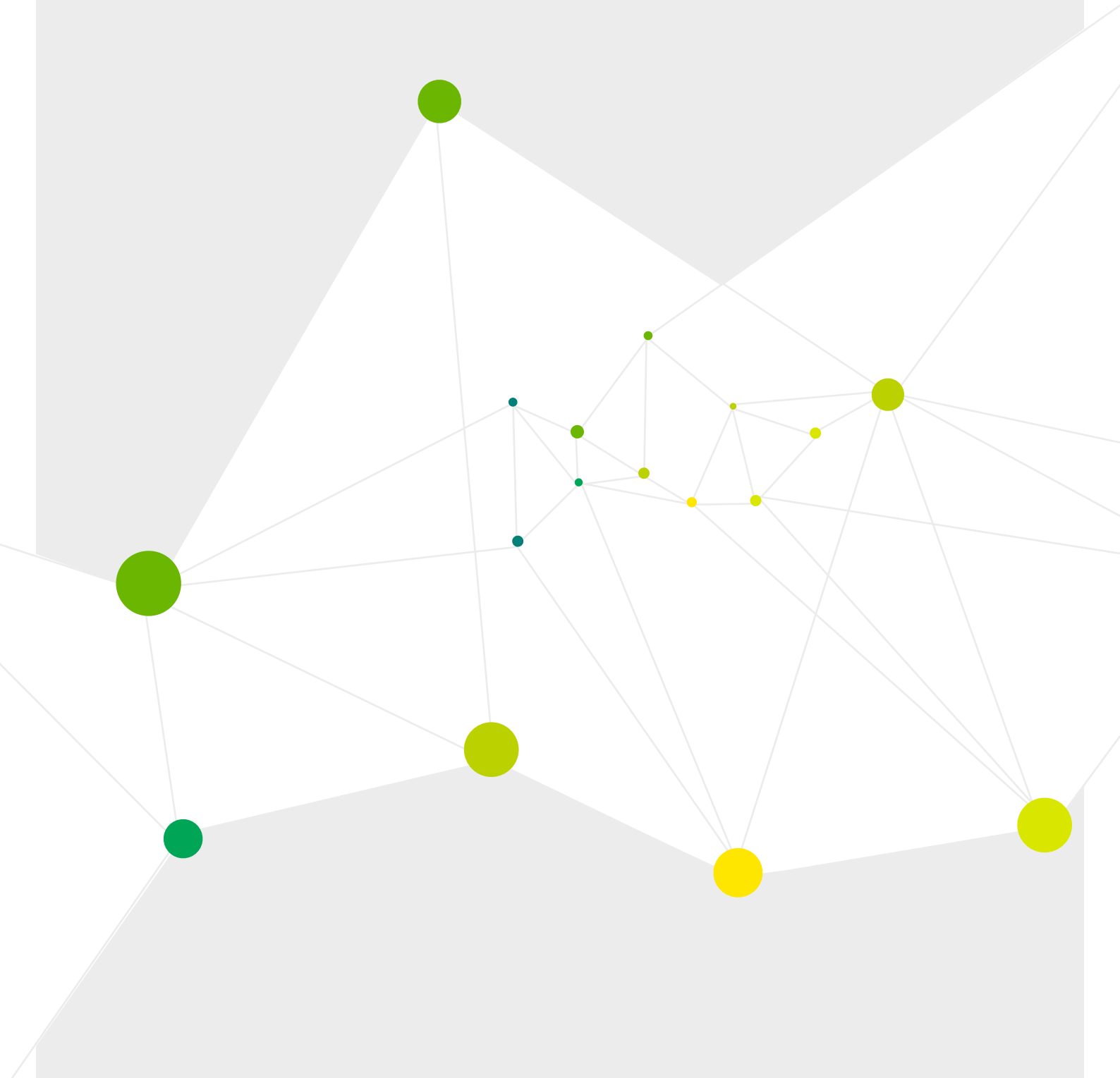
- Information and knowledge: weak communication of best practices and lessons learned, as well as a lack of high-impact measuring tools.
- Financing: lack of information and limited conversation on financing for inclusive business.
- People and partners: Difficulty in finding people with business knowledge and understanding of low-income sectors, and difficulty in identifying strategic allies and consolidating alliances.
- Rules of play and public policy: Lack of public policies and fiscal incentives to promote the development of inclusive business.
- Structure and capacity: Gaps in areas of intra-organisational capacity.

The proposals that were co-created for each dimension centred on the promotion of exercises of articulation and the creation of resources, tools and methodologies to enable the consolidation of the ecosystem.²¹

The issues identified show that inclusive business in Latin America is still in its early stages, and that foundations have not yet been laid for large scale growth. How can inclusive business become “business as usual?” How can it be presented as more than just a passing trend? These are the big questions surrounding the ecosystem, which do not yet appear to have concrete answers.

²¹ Cf. Ashoka Globalizer: <http://www.ashokaglobalizer.org/economic-inclusion-LA2>, accessed 20 July 2015

Conclusion



6. Conclusion

How can inclusive business become business as usual? How can it be presented as more than just a passing trend? These are big questions surrounding the inclusive business ecosystem, which do not yet appear to have definite answers. The panorama described in this report gives evidence that inclusive business is a promising field. However, in both countries surveyed, there is not yet enough information to know with certainty whether inclusive business really does contribute to overcoming poverty. Only better and more detailed information, and a greater number of case studies, will make it possible to obtain clues regarding the answer to this fundamental question.

6.1. The state of the inclusive business landscape in Mexico

Below are the conclusions we can draw about the inclusive business landscape in both Mexico and Colombia based on the research in this report:

Large corporations in the role of protagonists; new actors are emerging

In Mexico, most inclusive business is promoted by large corporations. This situation is derived from the widespread idea that large corporations, due to size, capital availability and geographical coverage, are in the best position to promote this kind of business. It is only recently that the potential of small and medium enterprise has begun to be considered for this kind of business, and special efforts are being undertaken to motivate them to develop inclusive business. The heterogeneity among those promoting these businesses will, in the short term, require a differentiated analysis of the kinds of challenges and gaps they face.

Motivations are diverse, ranging from the search for efficiency to an interest in corporate social responsibility

Companies engage in inclusive business for a variety of reasons which often overlap and reinforce one another. In the cases surveyed here, we found motivations associated with business efficiency (optimisation through reductions in

operating and production costs), the creation of conditions for long-term survival (securing the supply chain, strengthening the value proposition offered to clients and access to new markets) and strategies of corporate social responsibility (improving sustainability and interest in generating development in areas of influence).

Communities are included mainly as suppliers or clients

In the majority of cases, low-income communities play the role of supplier or client. The former scenario involves articulations to improve the corporate supply chain in the agribusiness and food sectors, but does not show processes of innovation or deepening of the possible range of articulation. On the other hand, in a client situation, there is evidence of a greater degree of innovation, due to the process of development implied by these models.

New perspectives on inclusive business, beyond the current needs of the value chain

Business that is not primarily driven by corporate needs gives evidence that there are more paths toward the development of inclusive business beyond the existing value chains, and that it is possible to design and implement market initiatives that respond to the needs of vulnerable communities.

Few cases, compared to the promotion of the concept

The number of inclusive business cases that could be identified does not correlate to the wide promotion of the concept, nor to the magnitude of the poverty phenomenon in Latin America. While it is true that some cases of inclusive business are presented under other names, it is clear that engaging in inclusive business implies a significant level of complexity, one which not all companies are willing to take on.

Little historical, systemic information is available on existing cases

At the same time, information is scarce on the content and achievement of inclusive business ventures. Making the situation even more difficult is the fact that many of these cases have been described anecdotally, centring on the social need addressed over the market potential of the proposed business solution. This results in an inability to connect the development of inclusive business with processes of innovation and transformation. Tied to the above is the evidence that many initiatives were in their pilot phase, and little is known years later as to whether they achieved their balance point and, more importantly, if they have made it out of the pilot stage. This situation makes it difficult to address the field of inclusive business as a widespread corporate practice, and suggests that it should still be treated as an “uncommon phenomenon.”

6.2. Recommendations for a stronger inclusive business sector

Three basic elements are needed to do inclusive business: the promotion of the concept, to create interest and the desire to experience new ways of doing business; articulation, to generate interactions which otherwise would not occur; and the investment necessary to carry it out. Based on the information analysed for this document and also the Colombia analysis, the challenges are classified according to these three elements.

Promotion of the concept

- **CONCEPT** – Today a plurality of concepts exists surrounding the relationship between businesses and the fight against poverty. This implies a certain amount of confusion, considering that these concepts are mutually distinct and separate, which can lead to a lack of interest or outright apathy, as well as inclusive business practices that go unrecognised.
- **INFORMATION** – The information communicated is fundamentally centred on the meaning of inclusive business and its benefits. Very little information is available on the processes and methodologies that can be used in its execution. A large amount of

the information available is anecdotal and focused on the sentimental aspect of social development, rather than on the corporate or business dimensions, such as challenges, barriers and/or business models.

- **KNOWLEDGE** – Most cases of inclusive business show a very basic level of innovation, with simple articulations and well-proven business models. Furthermore, many cases are still in their early stages and those that have advanced to a later stage have not yet published their results, generating uncertainty on the tangible benefits of inclusive business.

Steps that can be taken:

- Adapt tools already being used in social enterprise and innovation, business innovation, and so on, which can enable the design process of the business model to be more participative, horizontal and disruptive. This also includes translating many global resources into Spanish.
- Build a guide, questionnaires and algorithms, and share them so that every actor can identify projects or programmes that are inclusive in nature, and invite others to participate in the construction of an inclusion wiki.
- Consider the methodological development carried out by WBCSD for the systematisation of cases.
- Provide detailed, in-depth documentation of the most innovative models of articulation and share them. Generate mechanisms and concrete incentives for this documentation to be kept consistent.
- Create a platform of information that allows monitoring of the progress on new inclusive business initiatives.
- Launch more spaces for thought and innovation, inviting non-traditional actors to participate in its organisation. They must challenge the traditional view of doing inclusive business.

Actor articulation

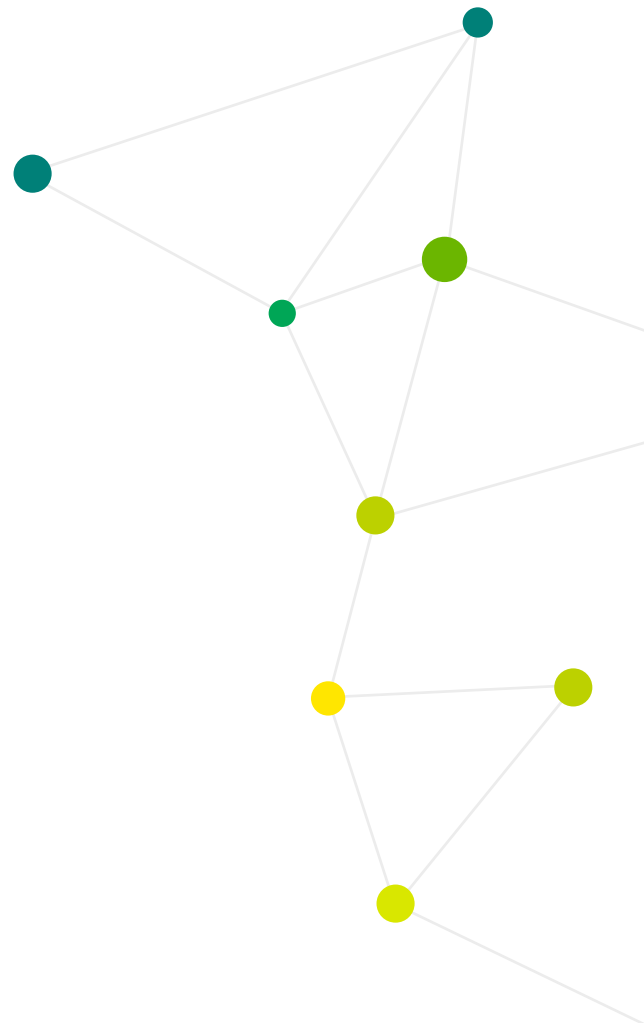
- CONTACT SPACES – Contact spaces give incentives for all actors to be present, however NGOs and the private sector continue to have the greatest presence, as they are the main driving forces behind the ecosystem.
- INTERACTION – Innovation should start from the business sector, based on the assumption that these actors are the ones closest to the topic; however, it is communities and NGOs/CSOs who best understand the social needs and challenges. Very few NGOs/CSOs understand corporate logic and are able to facilitate the relationship between a company and a community (interfacing), which creates a gap in the ability to respond to the number of opportunities to be found in social development.
- LINKAGE – When attempts are made to incorporate inclusive business into public policy, they enter through the social side rather than through the area of productive development and competitiveness.

Steps that can be taken:

- Promote the development of financial tools to co-finance pilot costs. These must be accompanied by strong support with regard to technical and market viability and their potential for systemic change.
- Generate specific programmes, with financing, that enable the connection between countries' productivity agendas and social development policy.

The steps above will require work across the ecosystem for inclusive business. To do this in a way that is effective and relevant in the Mexican context, we recommend:

- A forum for promoting the idea of inclusive business is needed for businesses of all sizes and other actors who have the potential to develop inclusive business models.
- A forum for dialogue between companies and social organisations working in inclusive business is needed to encourage joint working.
- Agendas for each sector within in the Mexican economy should be developed to connect the country's productive targets with inclusive business and poverty reduction targets.



Appendices

Appendix 1: Defining inclusive business

From the range of definitions used to explain what it means to do inclusive business*, its key elements can be recognised:

- Viable business initiatives with a twofold purpose: on one hand, to contribute to eliminating poverty and improving the quality of life of excluded communities; on the other, to create benefits for the company.
- The involvement of poor populations in businesses' value chains, in a variety of roles: as consumers, suppliers, distributors and business partners.
- Presupposes the establishment of mutually-beneficial relationships.
- By contrast, it can also be said that inclusive business:
 - is NOT about philanthropic strategies with no added value for the company;
 - does NOT mean "making business out of the poor," leading communities to become consumers of products and services which do not improve their standard of living;
 - is NOT a business strategy which loses sight of the principles of social responsibility, disregarding its social and environmental impact; and,
 - when communities are in the role of consumers, does NOT seek to drive greater consumption through increased debt.

At the heart of the inclusive business concept is the idea of creating opportunities for poor communities to have access to formal markets as active participants, thereby benefiting from access to quality goods and services which improve their standard of living at a cost they can afford. This purpose throws into relief the fact that flaws in the market do exist, which prevent certain communities from having access to the benefits of market participation.

In general terms, and from the perspective of overcoming poverty, the logic behind inclusive business can be synthesised as follows:

- **Problem:** The existence of inefficiencies in the market which prevent poor communities from gaining unrestricted, efficient access to goods, services and exchanges necessary for a life of dignity.
- **Mechanism and Actors:** If companies recognise the role of economic actors in low-income communities, and acknowledge the inefficiencies in the market that constrain them, they can develop business initiatives which address such inefficiencies.
- **Results:** These business initiatives will create inclusion for poor communities in formal economic circuits. At the same time, as the company seeks to correct these inefficiencies, a process is generated within the company of innovation, product development and market growth.

This logic is driven by the fundamental belief that there is a possibility for mutual value creation. This means that value will be created for poor communities through the development of inclusive business. Also, serving these markets is an economically viable business strategy. In this respect, inclusive business initiatives consider that corporate know-how can be used for the common good, and that the simultaneous generation of both social and corporate value is possible. There are various definitions promoted by key actors in Mexico and Colombia. The below are summaries of the most widely used.

* Telephone interview

Growing Inclusive Markets, United Nations Development Programme

Inclusive business models include the poor as clients, on the demand side, and as employees, producers and business proprietors at different points in the value chain, on the supply side. These models build bridges between companies and the poor for mutual benefit. The benefits of inclusive business models transcend immediate benefits and higher earnings. For companies, these benefits include the stimulus to innovate, the creation of new markets and the strengthening of supply chains. And, for the poor, they create greater productivity, sustainable income and heightened empowerment.

Colombian Business Council for Sustainable Development (Local Chapter of WBCSD)

Inclusive business refers to business initiatives that are economically viable, environmentally and socially responsible, that incorporate low-income communities into their value chains through the logic of mutual benefit, improving their quality of life. An inclusive business is established through the relationship between a company – an “anchor” company – and one or more local entrepreneurs or groups of consumers, seeking to maximise both social and economic value. It is here that the concept distinguishes itself from other efforts, which are also valid and important, such as philanthropic schemes, that act in areas outside the company’s main business activity and which do not necessarily seek to generate financial returns or build structures of economic sustainability over time.

The company incorporates low-income people as business partners, as suppliers of raw materials or distribution services, or as consumers when the company puts products and services on the market that meet the needs of low-income people under affordable conditions.

AVINA²²

Inclusive business refers to initiatives that are economically viable as well as environmentally and socially responsible, that use market mechanisms to improve the quality of life of low-income people, by enabling:

- Their participation in the value chain as agents adding value to goods or services, suppliers of raw materials, or salespeople/distributors of goods or services; and/or
- Their access to basic services or basic unmet needs at a higher quality or a lower price; and/or
- Their access to products or services that allow them to enter a “virtuous circle” of opportunities to do business or improve their socioeconomic situation.

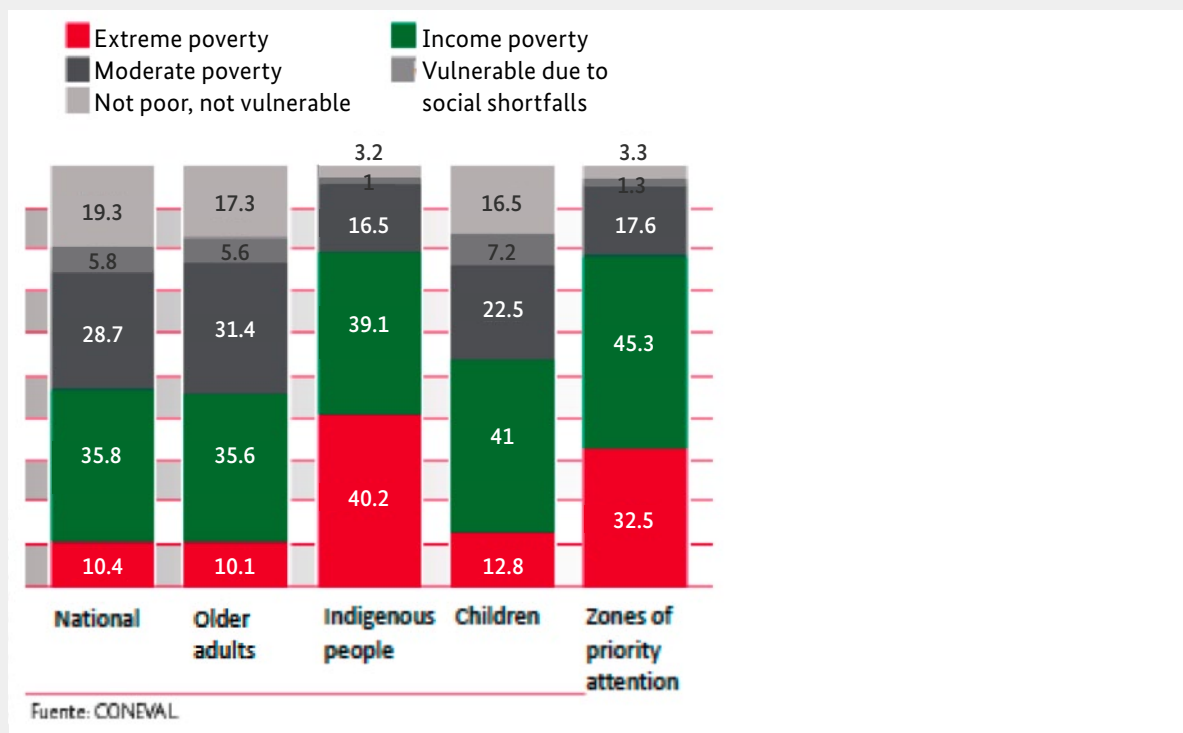
Inclusive business, which may be promoted by both the private sector and the social sector, seeks to contribute to overcoming poverty in an innovative way by incorporating low-income citizens into a value chain, with the intention of providing benefits to all parties involved: for entrepreneurs and micro-businesses by securing business and income opportunities; for the company by strengthening its supply and distribution chains and for society as a whole, because in addition to the economic impact, these initiatives seek to create social value and a positive environmental impact.

²² Cf. Avina: <http://www.avina.net/eng/>, accessed 20 July 2015

Appendix 2: Income inequality by age group

The inequality in Mexico is not only limited to those in rural areas or indigenous groups. Children and adolescents recorded the highest percentages of poverty (53.7 and 53.8 per cent) and extreme poverty (14.0 and 12.1 per cent)

Distribution of population by poverty level in Mexico (2010 in %)



Source: GIZ (2015): Inclusive Business: An Overview of Actors, Ecosystems and Business Models in Mexico and Colombia, p. 24

Appendix 3: Framework for understanding the inclusive business ecosystem

Thanks to the understanding that the business world is not static and fragmented, but rather dynamic and systemic, in recent years it has become increasingly common to hear about corporate ecosystems. In the field of inclusive business, two important references are available that aid understanding of the meaning of these ecosystems in this context.

For Christina Gradl and Beth Jenkins (2011), the inclusive business ecosystem can be understood as interdependent, interconnected communities or networks of actors, whose activities determine whether or not a company's inclusive business model will be successful.

This definition recognises eight typical actors that form part of the ecosystem: Individuals that purchase goods and services, and who invest in business; companies that develop new business, new products and new services; Governments that adopt new policies and regulations; Business Associations and other articulators, who provide information, and market access; Non-governmental organisations who raise sensitivity and awareness; Donors and collaborators; the Academia and other research institutions and finally, the Media. Alternatively, the UNDP (2013) proposes an Inclusive Business Ecosystem Diamond suggesting that there are four primary functions that are required to support inclusive business. They are: Information, Investment, Incentives and Implementation Support.

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