

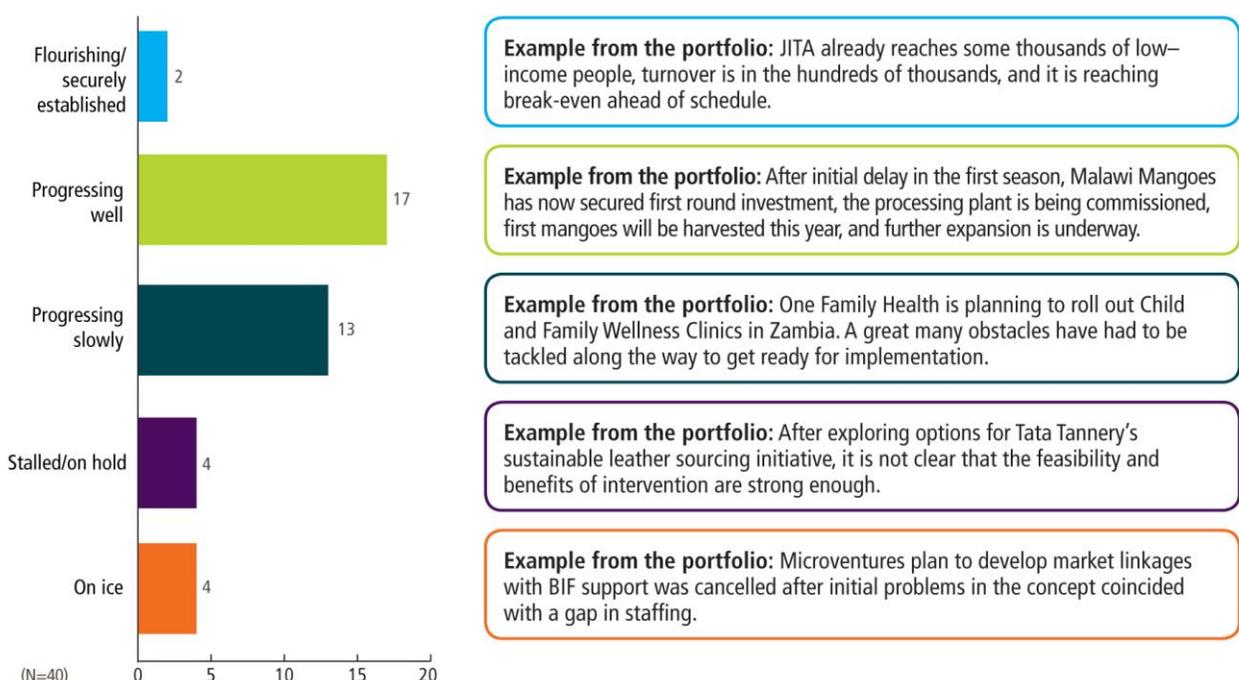
Review of the Business Innovation Facility Project Portfolio

Results and trajectories of inclusive businesses at the end of a three year pilot

Since early 2010, the Business Innovation Facility (BIF) has supported over 300 hundred inclusive businesses across five countries – Bangladesh, India, Malawi, Nigeria and Zambia - with technical advisory support. One hundred of these received direct one-to-one advisory input. For the forty of these that had more intensive support and monitoring, we now have a wealth of information on their challenges, drivers, progress, projections, commercial results and reach to the base of the pyramid (BoP).

As is to be expected from any portfolio of highly innovative businesses, at the end of a three year pilot some are flourishing commercially while others are doing less well. As of September 2013, based on our portfolio of 40 'long projects', around 80 per cent of the inclusive businesses we worked with are making progress. Of these, two companies are 'flourishing' and just under half are assessed as 'progressing well'. The remaining 20 per cent of companies have currently stalled (potentially to resume) or are 'on ice'.

Figure 1: Business progress from 'flourishing' to 'on ice' (BIF Team Assessment September 2013)



This Review

This review summarises our findings on progress, results and the value of technical support across the BIF portfolio. It covers facts, figures and evaluations based on various data sources (company data, consultant feedback and BIF team knowledge and insights) both quantitative and qualitative. Our analysis focuses mainly on the 40 'long projects' which received technical support for between three and 24 months, and for which we also obtained more monitoring and evaluation data. It builds on previous analysis done over the lifetime of the BIF pilot and compares data over time where possible. All details of this review are available in the full version.

BIF support

Throughout the pilot BIF has provided support to 40 inclusive businesses through 'long projects' and to approximately 300 companies. The average BIF spend on long projects was \$70,000, matched by companies, and spend on short projects was \$17,000 on average per project. . This review focuses mainly on long projects.

A diverse portfolio

The portfolio is more or less evenly spread across five countries; it is intentionally diverse, spanning a range of sectors and company sizes, from domestic start-ups to multinationals. Medium and large companies predominate in each country. Roughly two thirds are established medium/large companies that are diversifying into inclusive business, while for the other third, business at the BoP is the core activity of the company.

The portfolio is evenly balanced between inclusive business models that engage people at the base of the pyramid as producers (who sell produce or labour), and consumers (who purchase goods and services). The business models and results are very different for these two types of engagements. Ventures are spread across many sectors, but with a heavy concentration in food and agriculture (see Figure 2). A handful of projects have a particular focus on women and/or the environment.

BIF has worked with businesses at all stages of their inclusive business journey from helping companies with their early design and business planning to helping develop strategies for moving to scale. The businesses in the portfolio engaged with BIF when they had already been developing their models for some years. Over half had been in development for three to four years, or even five to six years. Despite this considerable gestation period, the majority are still in the stages of 'early operation' or 'implementation', and we count only 10 per cent as moving to scale, as Figure 3 shows.

Figure 3 : Maturity of inclusive businesses in the BIF portfolio

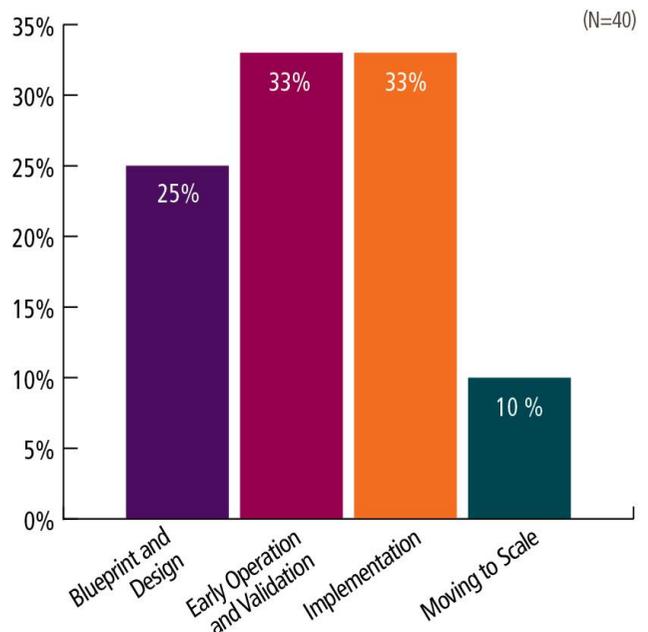
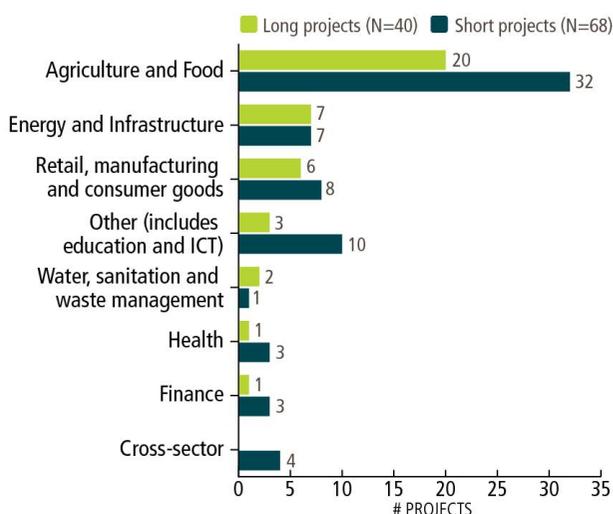


Figure 2 : Number of projects by sector of operation



Several of the businesses have ambitious plans for scale and, indeed, business models that depend on reaching scale to repay investment. They are sanguine that this will take some years.

The BIF portfolio contains many early stage businesses. In mid 2012, 48% (or 16 out of 33) had a business plan. Now, approximately one and a half years later, 78% (or 31 out of 40) do.

Despite considerable progress, challenges remain. Our standard monitoring system asked businesses to identify their challenges. The top ten challenges identified at baseline are listed in Figure 5. Based on latest data available it emerges that restrictive policy and regulatory environments and project risk in particular remain major challenges. Companies perceive BIF as having made a difference to several challenges, with the strongest impact in regards to lack of skills within the company and the lack of market information.

Figure 5: Top ten challenges at baseline

Commercial drivers showing early signs of delivery

Over the course of BIF engagement it has become increasingly clear that companies have clear, long-term strategic reasons to invest in inclusive business. Only three models are driven by CSR departments and even these are clearly incubating a business model for the core business, not administering philanthropy. As Figure 4 shows, the top commercial drivers differ between producer-focused and consumer-focused models.

Figure 4: Top commercial drivers for inclusive business

Identified by consumer-focused models:	Identified by producer-focused models:
1. Get first mover advantage	1. Increase profitability and productivity
2. Access new markets (geographic, product, segment)	2. Increase/guarantee security and sustainability of the supply chain
3. Increase profitability and productivity	3. Get first mover advantage
4. Develop competitive advantage and differentiation from competitors	4. Increase market share of business model

Some companies say that they can perceive some strategic advantage already. For producer-focused businesses, the companies have reported some progress on their top four drivers in around 40-50 per cent of cases. For consumer-focused inclusive businesses results are slightly higher, with top drivers ranked as being already in evidence by 60-80 per cent of relevant respondents.

Top ten challenges identified at baseline:

1. Lack of market information
2. Insufficient internal resources/finance
3. Need for partnerships with government
4. Need for access to appropriate finance
5. Low return on investment
6. Lack of skills within company
7. Need for new or better partnerships
8. Restrictive policy and regulatory environment
9. High risk project
10. Lack of information about similar work elsewhere

Commercial and development results delivered so far

Across our portfolio there are clear signs of progress towards commercial return, development impacts on households at the BoP, and even wider influence on other players in the market. However progress is slower than projected. Results vary enormously between businesses but, with few exceptions, are signposts of what may yet be achieved.

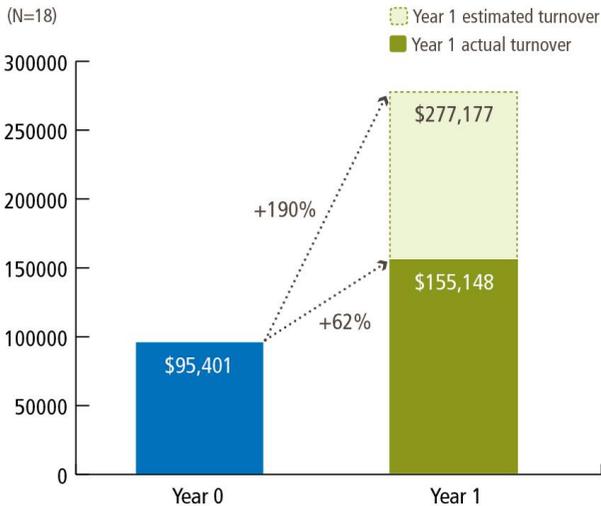
Commercial results

Despite some gaps and outliers² in the turnover and profit data, clear trends appear. Within the BIF portfolio, as of September 2013, there were some inclusive businesses with turnover of zero and some with several millions. Looking at how these progressed within the period of BIF support is instructive. At the start of BIF support, 19 (almost half) had zero turnover. One year after their BIF baseline, 14 companies still report or anticipate zero turnover for the inclusive business. This reflects their early stage of maturity.

² Data on commercial performance is of variable quality. To the extent possible, it refers only to the inclusive business, not the entire company if the initiative is one part of the business. Even so, a couple of companies operate at such a large scale that their size outweighs the entire portfolio, and have been left out. Defining Year 0 as the time of BIF baseline, most companies are currently in Year 2, though a handful are now in Year 3. Nevertheless, due to reporting cycles, even some Year 1 data is still based on estimates. While baseline data is available for all 40 businesses, more recently updated data is not available for all, so N varies when making comparisons over time.

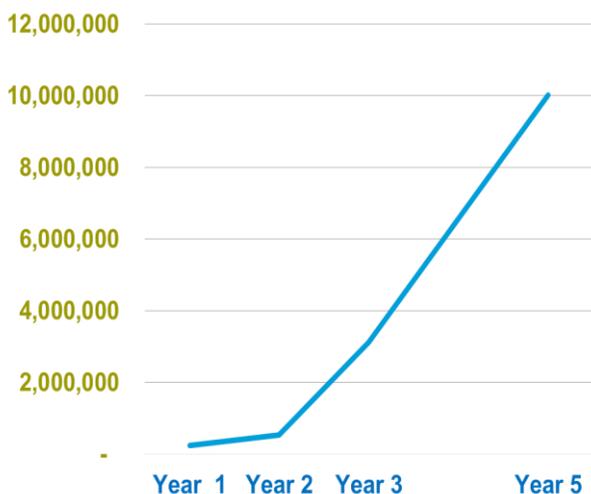
From the data we have on turnover from 18 companies (see Figure 6) we can see that there has been a 62 per cent increase in average turnover for these inclusive businesses from Year 0 to Year 1 (Year 0 is the time of BIF baseline). However, this is much less than the 190 per cent that the companies involved had estimated when BIF support began.

Figure 6: Growth in turnover per business, Years 0-1



Year 1 results for the period of BIF support are insignificant compared to the substantial increases in turnover that are projected for future years. Looking ahead to Years 3 to 5, following the start of BIF support, the estimates that the companies provided to us are ambitious, if still highly variable. Figure 7 shows average turnover, so masks extreme variance.

Figure 7: Turnover projections, average per project, \$¹



Trend lines of expected growth in turnover are sharp, with average annual business turnover \$3 million expected at the end of Year 3 and over \$10 million in Year 5. However, we should note that these averages hide a wide spread: just over half the businesses expect turnover of under \$2 million, whereas the largest five are anticipating turnover of \$13 million to \$85 million.

Among the 'long projects' supported by BIF, increases in profit lag significantly behind those seen in turnover. At baseline, almost three quarters of all inclusive business ventures reported zero or negative profits, and so far we have seen little change.

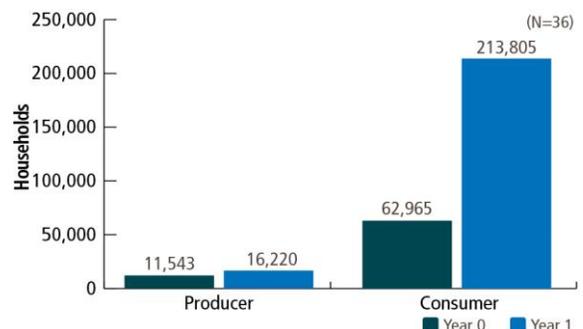
Across the portfolio, companies have invested over \$100 million into these inclusive businesses, with five having invested over \$5 million, and the highest known investment to date at around \$23 million. Going forward, a further \$70 million of planned investment has been reported.

Benefits to people at the BoP

Impacts at the BoP are moderate so far, potentially high for the future and certainly variable. Overall, the inclusive businesses are reaching under 100,000 households at the BoP in their first year of engagement with BIF, but expect much greater increases in the future. BoP reach per inclusive business is massively variable. Producer-focused inclusive businesses aim to reach some thousands of smallholder suppliers, while consumer-focused inclusive businesses aim to reach tens and hundreds of thousands, or in a couple of cases a few million (see Figure 8).

As with commercial results reported by companies, when actual results are reported, they are generally lower than the earlier projections. This is partly due to natural optimism – even in successful businesses, things take longer than hoped. It is also due to the mixed progress of businesses across the portfolio, recognising that some are not progressing.

Figure 8: Aggregate portfolio BoP reach in Year 0 and Year 1 (based on estimates)



¹ Data in this slide is made of estimated turnover projections up to 5 years from the beginning of BIF support. Estimated data is likely to be inflated by optimism. The sample used is also fairly small compared to the overall portfolio. All figures should, as a consequence, be used as an indication. The overall trend of high growth is, however, representative of most inclusive businesses



Stanbic aims to scale up its Smallholder Insurance scheme from 1,860 Nigerian farmers to some millions. Across the entire portfolio we expect businesses to reach 3.6 million people within a few years.

The BIF team has calculated a ‘revised for realism’ estimate of the number of people at the BoP that the portfolio might reach. This process gives us ball-park figures:

- Twenty companies (half the portfolio) estimate they will reach 5.7 million people at the BoP by Year 4 or 5, post the BIF baseline.
- Company estimates have been revised downwards by 30 per cent to account for optimism across the board, then revised down again (by factors ranging from 0 – 100 per cent) based on the progress status of each business (details in the full portfolio review).
- Our ‘revised for realism’ estimates for all 32 companies that are currently making progress (i.e. not classified as stalled or on ice) shows that by Year 4/5 over 3.6 million households could realistically be reached.

We also tried to assess how many BoP beneficiaries reached could be plausibly linked to BIF support, based on the degree of additionality (added value) of BIF support to the business. We estimate that so far in the last year 6,000 net additional households at the BoP have been reached by 16 businesses and can reasonably be linked to BIF support.

Looking ahead to Years 3 and 5, and adding in estimates for other companies that are progressing, we estimate that reach to BoP households by 32 companies that can be linked to BIF support is on track to reach almost 0.5 million households in Year 3 and 1.5 million households in Year 5.

Numbers do not capture the significance of how lives are being touched. In most cases benefits seem substantive for families, whether they are gaining access to lighting, information, or a market for their crop. We have not tried to capture human stories from the portfolio here, but these can be seen in the BIF ‘deep dive’ case studies and final reports.

The value of technical support

Technical support provided by BIF to the 40 long projects has, in the majority of cases, focused on business planning and financial modelling. In many cases, there was one primary type of input (see Figure 10) plus one or two other areas of support.

Figure 10: Types of primary BIF input

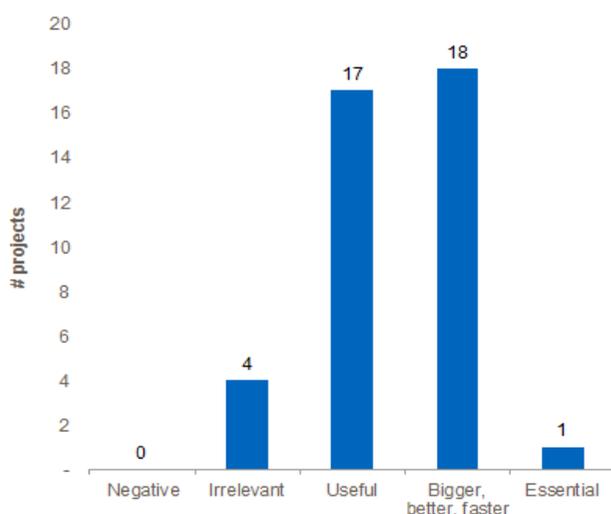


Although technical support provided by BIF was diverse, the core focus was on helping the company to design, test or implement a more robust and sustainable inclusive business model. It is difficult to measure the value of this support and there may not be a clear counter-factual. Figure 11 below shows that almost half of the businesses supported consider BIF support has resulted in ‘bigger, better or faster’ development of their inclusive business venture.

This analysis is based on BIF asking companies which statement best fit their views of the support received by BIF:

1. Without BIF support the project would have not progressed at all (**Essential**)
2. Due to BIF support, the inclusive business project is better designed, or proceeding more quickly, or bigger than it would have been (**Bigger, better, faster**)
3. BIF support was useful to us and made it easier to progress the project, although it has not resulted in specific identifiable change compared to what would have happened (**Useful**)
4. BIF support made no difference (**Irrelevant**)
5. BIF support had net negative results (**Negative**)

Figure 11: Businesses' view on the impact of BIF's support (N=40)



Taking into consideration the perceptions of BIF country managers in addition to company scoring on the question above and some other questions relating to BIF support, we conclude that in 50 per cent of 'long projects', the added value or 'additionality' of technical assistance to the business scores as 'high.' In the projects scored as 'high' added value, companies say that due to BIF support, their inclusive business development was bigger, better or faster. For example:

“The value chain analysis highlighted that there were going to be challenges that we had not anticipated when preparing the business plan. To a large extent the content of the report helped us mitigate some of the risks involved or else the project would have had serious problems to attain commercial viability.”

Established agricultural company (Malawi)

“A key component of BIF support was to fund an in-depth supply chain study, which identified key farmer clusters and market dynamics within the different chosen crop value chains. This study has been the backbone of [our] local supply chain strategy.”

Agro-processing and food company (Nigeria)

The full portfolio review - a detailed slide deck - provides more details on the data and analysis presented above. The BIF Spotlight [‘Ingredients and results of inclusive business’](#) builds on the portfolio findings to draw wider lessons from the BIF pilot for inclusive business development.

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For further information on the Business Innovation Facility projects and to access other publications go to: The Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

The detailed 2013 Portfolio Review can be found at: bit.ly/Portfolioreview2013

Other final outputs from the BIF pilot: bit.ly/BIFfindings

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