6 COMBINE RESOURCES AND CAPABILITIES WITH OTHERS

Mexico: In collaboration with consulates and migrants' clubs, Construmex helps families in Mexico build or buy decent homes through cash-to-asset transfers from their US-based relatives.
Photo: Cemex

Like all business models, inclusive business models often succeed by engaging other businesses in mutually beneficial partnerships and collaborations. For example, CEMEX works closely with a network of more than 2,000 small and medium-sized local retailers to distribute construction materials purchased through Construmex by Mexican migrants in the United States to their families in more than 1,200 locations in Mexico. It also has an agreement with DOLEX, one of the largest remittances transfer operators in the United States, to facilitate its clients' payments at more than 800 points of sale.

For inclusive business models, a strategy as important as engaging other businesses is creating partnerships with nonbusiness partners. These partners can include churches, farmer co-operatives, microfinance institutions, nongovernmental organizations with a human development mission and public services organizations such as schools, hospitals, local municipalities and national government agencies.

Collaboration is applied frequently to tackle almost all constraints. Not visible in the matrix is that collaboration is often used in conjunction with or as an

Box 6.1. Case Study – Construmex: 'Hazla, Paisano!'

Many poor people cannot afford to plan for the future. In Mexico, however, Construmex is empowering thousands of poor people and their extended families to own permanent homes.

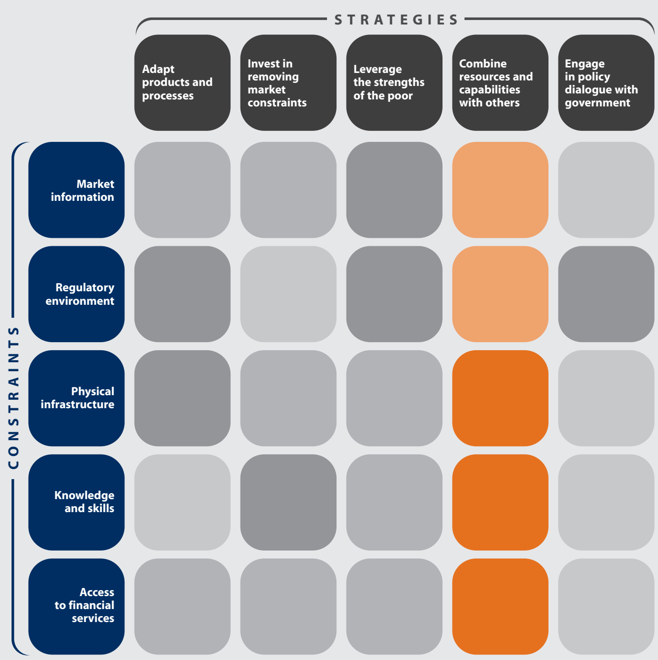
Construmex helps Mexican migrants living in the United States use cross-border income to buy, build or repair homes in their native land. In 2006, when the business was developed, billions of dollars in remittances were flowing into Mexico from expatriate Mexicans. Yet an estimated 25 million people in Mexico were living without adequate shelter. The shortage signalled a clear deficit in the country's housing market. CEMEX—one of the top three global cement producers, and by far Mexico's largest construction company—saw an opportunity.

CEMEX had a long-established market of low-income Mexican consumers. It had already succeeded with its construction microloan project, Patrimonio Hoy. As its social solutions director, Hector Ureta, observed: 'Thanks to these initiatives we engage with [low-income customers], creating value for the community, for our value chain, [and for] small and medium-sized distributors, as well as for the company.'

But meeting the demand of migrants in the United States presented complex challenges. Those migrants turned out to have much less liquid cash than the company initially believed—and a history of abuse, fraud and violent threats had made them wary of all housing remittance plans. CEMEX needed to gain the migrants' trust, in addition to learning about their needs and aspirations.

So CEMEX, in putting together a business model for Construmex, obtained help by collaborating with existing organizations. Construmex engaged Mexican consulates in several US cities to learn more about customers' priorities and their satisfaction with its products. Partnering with migrant clubs in

enabler for other strategies, such as when businesses work with community development organizations to engage the poor or organize collective action to engage in policy dialogue.



Inclusive business models engage organizations in two ways. The first is to combine complementary capabilities. Every business seeks to configure a set of capabilities into a 'core competency' that will enable it to compete profitably, while other necessary capabilities can be sourced externally.[1] Such engagements range from the loose links between suppliers and vendors to the deep involvement of strategic business partnerships.

A second way to engage other businesses or organizations is to pool resources. Intended to gain scale or to promote common goals, this practice is less common, because businesses risk losing competitive advantage to 'free riders'. Still, successful examples exist—from smaller collective initiatives that achieve specific goals (regional companies joining to provide training programmes or employee services) to much larger collaborations (pharmaceuticals firms pooling resources for research and development).

several Mexican states, it implemented community-improvement initiatives to build trust—and its brand—with its core market. It also benefited from a matching-funds initiative from the country's Ministry for Social Development for donations in support of community infrastructure. These win-win collaborations, in equipping the firm to effectively deal with its target market and meet its needs, helped make Construmex viable as an enterprise and enabled a host of accompanying benefits to development.

Construmex's slogan, 'Hazla, paisano!' translates to 'You can do it, compatriot!' The company has followed through on that assurance. Through the simple act of allowing poor people fair access to stable and safe homes, Construmex is building not only houses but also self-esteem, security and hope for the future. By the end of 2006 Construmex had received more than 18,000 orders for the delivery of construction materials. Women made up 23% of its clientele. Construmex clients will be better able to save money in the future because their houses will not need as much work. And the initiative's community-development efforts are strengthening the fibre of the places where it works.

Construmex is on the verge of becoming sustainably profitable. In its first four years, it saw $12.2 million from sales of its construction materials, and that number is poised to rise as its reach spreads. 'Our social initiatives allow us to establish a missing link: a direct relation with our low-income clients', says Ureta.

COMBINE COMPLEMENTARY CAPABILITIES

The York Institute for Research and Innovation in Sustainability's case studies show that in developing countries sustainable enterprises thrive in a dense network of organizations—including for-profit businesses and not-for-profit organizations and development agencies.[2] Inclusive business models can succeed by engaging all these organizations and benefiting from their capabilities, in particular to:

- Acquire market information.
- Leverage existing logistics networks.
- Impart knowledge.
- Promote training in needed skills.
- Make sales and provide services.
- Facilitate access to financial products and services.

Acquire market information. Where no data are published to help a business understand its target market and evaluate its potential, organizations already working with the target group will have qualitative knowledge about its skills, preferences and other characteristics. They may also have valuable quantitative data. Public administrations, development banks and other donor organizations can sometimes provide relevant statistical information or industry studies. CEMEX partnered with Mexican consulates in major US cities to carry out market research among Mexican migrants (box 6.1).

Businesses and civil society organizations can provide information about the competitive landscape, in particular about potential partners and allies. In 1997, Bangladeshi

Box 6.2. How to find a partner—without a partner?

Below is a brief overview of some existing brokering initiatives and institutions. This list is not nearly exhaustive, and many more partnership brokers exist, especially on the national, regional and local levels.

Multilateral development agencies

- IFC's Business Linkages programme and Grassroots Business Initiative
- Local Global Compact networks
- UNCTAD's Business Linkages programme
- UNDP's Growing Sustainable Business Initiative
- UNIDO's Industrial Subcontracting & Partnership eXchange Programme (SPX)

Bilateral development agencies

- DFID's Business Linkages Challenge Fund
- GTZ's Public-Private Partnership programme
- Netherlands Development Organization (SNV) and WBCSD's Inclusive Business Alliance
- USAID's Global Development Alliance

Nongovernmental organizations

- Ashoka
- Enablis
- Endeavor
- Strategic Business Partnerships for Growth in Africa
- Thailand Business Initiative in Rural Development
- TechnoServe
- Youth Business International

Business associations or networks

- IBLF and Overseas Development Institute's Partnership Brokers Accreditation Scheme (PBAS)
- Global, regional and national chambers of commerce (such as the Confederation of Indian Industry, Trade Information Network)
- National Business Initiative in South Africa
- Philippines Business for Social Progress (PBSP)
- WBCSD's regional Business Councils for Sustainable Development
- World Economic Forum's Business Alliance Against Chronic Hunger

National public entities and public-private partnerships

- Business Trust (South Africa)
- National initiatives for economic and sustainable development (such as the South Africa National Economic Development and Labour Council)
- Water & Sanitation for the Urban Poor (WSUP)

Source: Adapted from Nelson 2007.

microfinance institution Grameen Bank and Norwegian telecommunications firm Telenor entered a joint venture—GrameenPhone—to provide people in Bangladesh with telecommunications and new income sources. Grameen had the local infrastructure, operations and reputation; Telenor brought technical expertise and investment capacity. Their idea was to build a microfranchise system whereby Grameen customers could buy telephones and then rent them out to neighbours. Among its microcredit clients, Grameen identified 100,000 'village phone ladies', who as microfranchisees now account for 10% of GrameenPhone's revenue.[3] As Nicholas Sullivan writes, mobile phones became the 'new cows', rivalling the productive asset in which most women had invested their loans.[4]

It is not always easy to find a good partner for a new business model, especially in markets where information is scarce. 'Partnership brokers' can perform an important intermediary role: they pool information about organizations from different sectors that are open for collaboration, help find the right partner for specific projects and provide guidance on how to design and manage collaborations (box 6.2).

Leverage existing logistics networks.

Where physical infrastructure is inadequate, collecting and distributing products require logistics solutions. An inclusive business model can leverage other organizations' existing logistics networks. Where the for-profit sector is largely absent, nongovernmental organizations and public services often have such networks.

More than logistics challenges can be met, for example, through the health sector. Doctors Without Borders is a nongovernmental organization with an extensive network in Sub-Saharan Africa that brings emergency aid to people affected by epidemics, armed conflict and other natural or human-caused disasters. Pharmaceutical firm Sanofi-aventis collaborated with Doctors Without Borders to distribute its drugs against sleeping sickness.

Mexico
Photo: Inter-American Development Bank

Their capabilities were complementary: Sanofi-aventis provided drugs and financial backing, and Doctors Without Borders used its medical and logistics capabilities to administer the drugs in remote locations. The collaboration has helped 14 million patients in 36 countries.

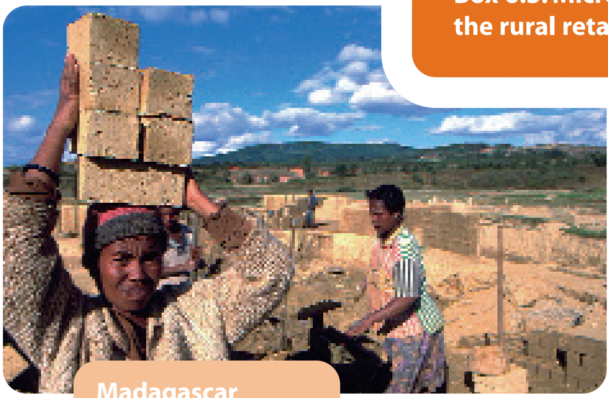
Impart knowledge. Collaborating with other organizations opens communication channels, especially where media density and literacy rates are low. Organizations with this capability include schools and universities, health services and public administration.

In Madagascar, Bionexx cultivates *artemisia annua,* a medicinal plant used in malaria treatments. The company finds it difficult to increase production because farmers see no value in growing the plant. To raise awareness of the plant's benefits and to overcome farmers' reluctance, Bionexx has partnered with a local religious radio station to spread information.[5]

Engaging governments through collaborative public awareness-raising campaigns not only provides information but can also increase the credibility of a business. In Poland, Danone built on the government's unique capability to communicate the benefits to children's nutrition from its product Milk Start, which targets low-income families. It launched social activities to raise awareness about child health with partners, including media, schools and government representatives, who drafted 12 clear and simple principles for healthy nutrition. In one initiative, the 12 principles were adopted for the 'We Are Growing Up Healthy' programme of the Office of the Governor of Swietokrzyskie region. Teachers in the region used special educational packs, including a sample of Milk Start, during meetings with parents and children.

Promote training in needed skills. Organizations able to provide training to people in rural villages or urban slums are typically nongovernmental organiations or public programmes, with missions such as rural development, health and hygiene, family planning, or literacy and other capacity building. Collaborating with established organizations can help to build trust in trainees.

Box 6.3. Microfinance institutions—the rural retail agents?



Madagascar
Photo: Adam Rogers/UNCDF

In many countries, microfinance institutions are among the organizations with the most extensive networks. Credit and savings groups assemble even in remote villages. This capability has not gone unnoticed by other businesses.

In India, for example, microfinance institution BASIX offers not only credit and savings services, but also crop, health and livestock insurance; other financial services such as remittances transfers and agricultural and business development services; and institutional development services such as facilitating policy dialogue. Among its clients are the rural and urban poor, including many women.[1]

Working with a microfinance institution as a logistics channel has the advantage that financial services can be provided together with the collection or delivery of other products or services. An example is the collaboration between BASIX and Pepsico for Frito Lay's chip-grade potato farming. In 2006–07, more than 1,100 farmers participated in this venture, which brought significant increases in crop yields, access to credit and crop insurance and quality planting material to fields. BASIX is expected to manage Frito Lay's procurement process of 4,000 tons of potatoes in 2008.

1. BASIX 2007.

Amanco, for example, works with local nongovernmental organizations in Guatemala and Mexico to teach farmers about its irrigation systems. The organizations demonstrate the use and benefits of the systems. Farmers who adopt the systems are then trained in using them. Since the farmers are already familiar with the nongovernmental organizations' extension services, they welcome the demonstration and accept the information provided. The model has helped Amanco succeed—with net Latin American and Caribbean sales reaching $688 million in 2005—while benefiting farmers, local microenterprises and the environment.

In Fiji, which has a large population that lacks access to formal banking, ANZ Bank and UNDP are collaborating to improve access to finance. ANZ Bank is establishing a rural banking service, with six mobile banks that travel regularly to 250 villages. UNDP provides the necessary training services: it has developed a Financial Literacy Programme for rural communities; trained key intermediary organizations, including local authorities, nongovernmental organizations and community representatives; and provided training and technical advice to ANZ staff. The partnership is a success, with 54,000 rural accounts opened in the first 18 months and 400 microloans approved within a year. It is currently being replicated in other Pacific Island countries.[6]

Make sales and provide services.

The quality of sales and service provision depends largely on availability. Building on other organizations' existing networks is often more efficient than building a new one (box 6.3).

In Ghana, Barclays Bank found a way to work with the Ghana Susu Collectors Association that benefited both partners. Susu is a traditional system in many African countries whereby collectors regularly pick up savings from households, which pay a small fee. They also offer small, short-term loans. Ghana has about 4,000 Susu collectors who serve between 200 and 850 clients a day. The collectors can now store money safely at Barclays branches, where it benefits them and their clients by earning interest. The bank trains them in financial management, enabling them to provide this service to their customers. Barclays in turn receives access to the collectors' existing clients. The bank benefits from collectors' good relationships with clients and knowledge about them. The programme increases the bank's cash flow without having to expand its own network. And the bank sells other services, such as small business credit, through the collectors.

One of India's largest private sector banks, ICICI, has engaged nongovernmental microfinance organizations as service agents to build the bank's microfinance portfolio. The organizations identify potential microfinance borrowers, make credit decisions, disburse loans on the bank's behalf and monitor and service the loans. In return, they are permitted to charge borrowers a service fee. Two years after pioneering the model, ICICI now has more retail microfinance clients than the largest microfinance institution in India, which began operating 12 years ago.[7]

Facilitate access to financial products and services. In markets where access to finance still eludes the poor, businesses that require credit or insurance must facilitate access. Most rely on the capabilities of existing financial service providers to offer integrated financial solutions. Existing providers can include microfinance institutions, commercial banks and government agencies.

Brazil's Votorantim Celulose e Papel (VCP) engaged existing credit providers to give eucalyptus growers a credit option that fit the cash flow of their business. Eucalyptus can be harvested after seven years. Having financed the planting of the trees through a collaboration with ABN AMRO Real, the initial loan and interest is collected when VCP buys the lumber from the farmers—who can thus plant without prior financial reserves and without needing to use their property as collateral. Maurik Jehee, ABN AMRO Real credit analyst, explains the bank's objectives: 'Besides its environmental concerns, [the project] has an interesting social aspect and regional development potential. Moreover, it brings the potential of new clients in a region where the bank has little penetration.' By 2012, seven years into the programme, it is expected to reach a financing volume of $30 million and to have benefited 20,000–25,000 producers.

The Indian hospital group Narayana Hrudayalaya created an insurance scheme to cater to low-income patients in partnership with Biocon Foundation and financial services provider ICICI Lombard Ltd. Each month an individual must pay 15 rupees (about $3). The insurance includes three days of inpatient care for free, and outpatient services at half the standard price. Patients can receive the services in rural hospitals run by charitable organizations and by the government.

Colombia offers an interesting example of how local governments—in collaboration with the private sector—can facilitate access to financial products and services and remove constraints such as lack of information and skills. 'Cultura E' is a programme led by the city government of Medellin that develops *cedezos*, or local centres for enterprise development. Located in the poorest neighbourhoods, *cedezos* host a microcredit network comprising the government-funded Banco de las Oportunidades as well as 14 private microfinance institutions. This network directs entrepreneurs to the best-suited institution based on their needs and resources, while credit fairs provide information about the financial and nonfinancial services offered by the different institutions.

Costa Rica: Organizations provide training in such areas as literacy and computer skills. Photo: Inter-American Development Bank

Cedezos also promote an entrepreneurial culture through innovative initiatives, such as a seed capital contest. Every year, entrepreneurs from all over the city are invited to submit business plans and apply for government-funded seed capital to launch new enterprises. Entrepreneurs who lack the skills needed to complete a business plan can receive help from *cedezo* staff, alongside participating nongovernmental organizations, to fill out the user-friendly forms. New entrepreneurs also receive mentoring to incubate their business ideas in a physical space until they become independent.[8]

POOL RESOURCES

If an inclusive business model faces challenges that have been met by other businesses or by civil society or governmental organizations, collaboration can be an efficient way to acquire those actors' capabilities. But what if nobody in the space has the needed capabilities yet? What if constraints cannot simply be dealt with but need to be removed? In these cases, success hinges on filling gaps and building the required market conditions. Sometimes a company can invest privately to fill gaps in knowledge, skills, infrastructure or access to financial products and services (as discussed in chapter 4). At other times, though, the investment is too big to be shouldered by a single company, and only a number of partners, pooling their resources, can meet the challenge.

Organizing collective action to remove constraints is often challenging, since there is an incentive to 'free ride' on the investments of others. Therefore, resource pools need a governance structure to ensure that each member contributes its agreed share. That can be done through established intermediaries, such as business associations, or by creating a dedicated body.

This section discusses how inclusive business models can partner with other businesses or civil society organizations to:

- Gather market information.
- Fill gaps in market infrastructure.
- Self-regulate.
- Build knowledge and skills.
- Increase access to financial products and services.

Gather market information. Rating agencies provide information about clients that is available to all credit institutions, reducing the cost of providing credit and enabling banks to make smaller loans and offer lower interest rates. This service, however, is rarely available for small and medium-sized enterprises in developing countries—one reason why these target groups often lack sufficient credit. To fill the gap, ICICI Bank, Standard Chartered and other national banks in India have created the Small and Medium Enterprises Rating Agency as a joint venture.[9] The agency streamlines credit institutions' requirements for small and medium-sized enterprises, offering the credit institutions reliable assessments of the creditworthiness of such enterprises.

Pooling resources can also be a successful strategy when trying to fill gaps in market information. The World Economic Forum's Business Alliance Against Chronic Hunger seeks to improve value chains—and thus increase food supplies, nutrition and incomes in hungry regions—through global-to-local, cross-industry private sector engagement with local communities and partners. The alliance pools information on potential products from the district (gathered at community level), with broader studies of local, national and regional market demand (assessed by a local expert think tank), to identify commercially viable products for investment and development in a specific pilot district. In Siaya District, Kenya, alliance partners are leading 14 pilot initiatives, several in partnership with the

Millennium Villages Project, to expand the production capacity and market opportunities for local farmers and small-scale retailers. These projects are led by local and global companies working with nongovernmental organizations, community members and local and national governments. Too often, interventions fail because they happen in isolation. By engaging multiple partners along the value chain, the alliance seeks to remove constraints and expand opportunities, increasing the likelihood of making a lasting difference.

Fill gaps in market infrastructure. Since basic physical infrastructure typically lies in the domain of government, companies often collaborate with governments to build such necessities as roads, ports or electricity networks. But businesses in the same region or industry may share a need for more specialized infrastructure: for example, cold chains, sewage treatment plants or processing and packaging facilities. To fill the gaps, they can pool resources through collective action or by guaranteeing a provider an agreed amount in sales.

In the southern Indian state of Tamil Nadu, the local government entered into a joint venture with the local export association, Tirupur Exporters Association, and a private sector financing organization, IL & FS, to create a water company—the New Tirupur Area Development Corporation—to tackle the water and sewage problems of a town with a textile-based economy and about 80,000 slum-dwellers. The programme was initiated through a multistakeholder dialogue, where local industry was represented, to identify infrastructure weaknesses and declare priorities. The government assumed a coordinating role, helping all stakeholders pool their resources. The stakeholders focused on a reliable water supply as a priority for improvement. So, the partnership included in its scope the implementation of a consistent, high-quality water supply; a sewage system with sewage treatment; and low-cost sanitation for both the industry, which paid high user fees, and the slums, which paid much smaller user fees. To carry out this infrastructure upgrade, the corporation installed (and now operates) the water and sewage system, which is financed exclusively with commercial returns. The textiles companies benefited from improved water services, and private households—particularly the rural poor—from increased coverage.

The Philippines: Manila Water provides safe water to previously unserved areas. Photo: Manila Water

Before the programme there were 43,000 household connections. The programme has now installed 8,000 new connections, with the capacity to add 17,000 more.

Self-regulate. Self-regulation can improve the regulatory environment without requiring action by policymakers. It can be effective where governments cannot help—across countries, for example, or in conflict situations.

In Sierra Leone, DeBeers and Rapaport joined international development organizations and governments to form the Peace Diamonds Alliance, which devises schemes for purchasing diamonds fairly and competitively from small-scale miners. The alliance helped make legal diamond exports grow from $1.5 million in 1999 to $70 million in 2003, allowing substantial revenues to flow back into Sierra Leone.[10] Funds were allocated to build schools, markets and other public structures. For the first time, the country's diamond fees and royalties were monitored, miners were informed of the value of stones, environmental degradation was addressed, and the exploitation of miners—especially children—was reduced.[11]

Self-regulation can be effective across national borders, making it particularly useful where poor people are contributing to a global value chain as producers or employees. Common standards can help an industry avoid a 'race to the bottom' in social and environmental responsibility—which might otherwise be hard to avoid, especially where pricing is fiercely competitive. The apparel industry has developed an international code and an independent control mechanism to manage social standards in the supply chain. The Worldwide Responsible Apparel Production system certifies compliance with a code of conduct that covers labour practices and customs legislation. Similarly, garment export manufacturers associations have developed codes of conduct and educational programmes for member companies in Bangladesh, El Salvador, Guatemala, Honduras and Malaysia.[12]

Build knowledge and skills. Wherever companies do similar business and do not have exclusive relationships with contributors to their value chains, they have a common interest in adding to those contributors' skills. Such shared interests are common in commodity markets with several players. In these markets, moreover, it can be against the interest of purchasers to train suppliers at their sole cost: a supplier who benefits from training provided by one purchaser can still sell to another purchaser who offers a better price. A solution for purchasers is to pool their knowledge and skills with each other—often through engaging civil society organizations.

The World Cocoa Foundation is an example. Comprising more than 50 companies including ADM, Cargill, ECOM, Hershey, Kraft, Nestlé and Starbucks, the Foundation has worked with the US Agency for International Development to help African cocoa farmers in a number of countries including Cameroon, Côte d'Ivoire, Ghana, Liberia and Nigeria through its Sustainable Tree Crops Program. The organizations are important intermediaries for their members, bringing their cocoa to market and supporting them with training, sourcing and credit. But they often suffer from a lack of trained staff. The World Cocoa Foundation is making the cocoa farmer organizations more effective and the farmers' trade relationships more profitable. The companies in the Foundation benefit from improved product quality and reliability of supply.

Increase access to financial products and services. Companies can share the cost of extending access to financial products and services in hard-to-reach areas.

South Africa's four major banks—Absa, First National Bank, Nedbank and Standard Bank—partnered with each other and with the government-owned Postbank to locate low-cost, easy-to-use banking services within 15 kilometres of all South Africans. The services include automated teller machines and savings accounts called 'Mzansi'. Although the banks now market the accounts competitively, they shared brand development costs estimated at about 15 million rand—or about $2 million.[13] The partnership served 3.3 million people from 2004 to 2006.[14]

Figure 6.1. Summary: Approaches to combining resources and capabilities with others

Constraints	Adapt products and processes	Invest in removing market constraints	Leverage the strengths of the poor	Strategy 4 **Combine resources and capabilities with others**	Engage in policy dialogue with government
Market information				→ Combine capabilities to acquire market information → Pool resources to gather market information	
Regulatory environment				→ Self-regulate	
Physical infrastructure				→ Combine capabilities to leverage existing logistics networks → Combine capabilities to make sales and provide services → Pool resources to fill gaps in market infrastructure	
Knowledge and skills				→ Combine capabilities to impart knowledge → Combine capabilities to promote training in needed skills → Pool resources to build knowledge and skills	
Access to financial products and services				→ Combine capabilities to facilitate access to financial products and services → Pool resources to increase access to financial products and services	

1 Core competency is 'an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity' (Prahalad and Hamel 1990).

2 Wheeler and others 2005.

3 Mair and Seelos 2005.

4 Sullivan 2007.

5 UNDP Madagascar 2007.

6 Liew 2005.

7 Ivatury and Abrams 2005, p. 14, cited in UNDESA/UNCDF 2006, p. 86.

8 Noguera 2008.

9 Jenkins 2007.

10 USAID 2006.

11 Lartigue and Koenen-Grant 2003.

12 Business for Social Responsibility 2004.

13 *Business Day* 2005.

14 The Banking Association, South Africa, website (www.banking.org.za).