

## 7 ENGAGE IN POLICY DIALOGUE WITH GOVERNMENTS

**The Philippines:** Smart and the Filipino authorities are engaged in a dialogue to adapt the regulation on mobile banking for the benefit of millions of Filipinos.  
Photo: Smart



**The story of CocoTech shows** that public policy support, whatever form it takes—here research and a presidential order—can make a big difference to the success of inclusive business models (box 7.1). In other case studies, policy development, reform and support are still critically needed. In Mexico, for example, Amanco's pilot project selling small-scale irrigation equipment to smallholder farmers has relied on the farmers' ability to obtain public subsidies; Amanco has relied on social entrepreneurs to negotiate the subsidies on the farmers' behalf, case by case. In Ghana, it is difficult and risky for Barclays Bank to increase the number of collectors it works with to offer microcredit services, since today's regulations cover only Susu collectors who belong to the official Ghanaian Susu Collectors Association.

Regulatory constraints are clearly within the purview of government. Although all the market constraints described in chapter 2 might be considered government responsibilities, many businesses profiled in this report have found creative ways to work around and remove the constraints through private

**Box 7.1. Case study - CocoTech:  
reviving an ailing coconut industry**

Dr. Justino Arboleda (in the Philippines, everyone knows him as “Bo”) is the founder and president of CocoTech, a company that produces geotextiles from waste coconut

husks. Bo embodies the local entrepreneur who designs from scratch and, by force of conviction, a successful inclusive business model.

After completing doctoral studies in science and agricultural engineering abroad, Bo returned to his native region, Bicol, where coconut farming is the main industry. He was struck by the worsening plight of the coconut farmers there. Regular flooding and landslides posed recurrent threats to crops and farmland. Bo also saw that the 6 billion kilograms of coconut husks produced each year in the Philippines—the world’s second largest coconut producer—were a major source of waste and greenhouse gas emissions.

As an agriculturist, Bo knew that farming and the environment go hand-in-hand. And he thought that he saw an opportunity to increase the farmers’ income, while reducing natural disaster risks, by finding a use for the coconut husks—though he did not yet know just what could be done to add value to them.

Challenges stood in the way to developing productive uses for the coconut waste. Government research and development activities focused mainly on rice and corn, with little attention to other agricultural products. The government’s failure to provide initial capital or help identify markets left farming co-operatives less than enthusiastic about Bo’s project.

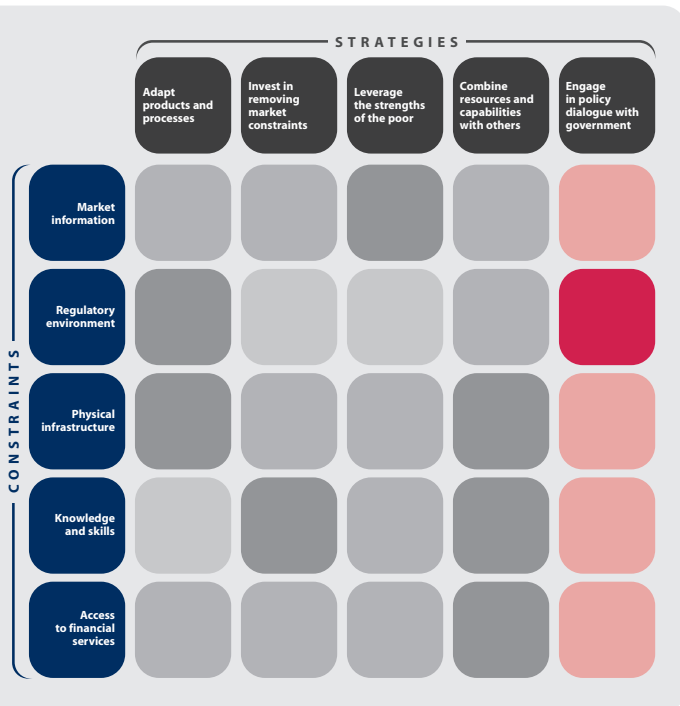
Bo’s solution was to persuade the government’s principal research and development arm (after several months of efforts) to conduct a study on the husks’ possible uses. The study revealed that cocofibre

initiatives—for example, by adapting products to run on solar power, by investing in education and training to raise the skill level of the workforce, by leveraging social networks to enforce contracts and by joining with other companies in self-regulation. But

for some businesses, it is possible to work around and remove market constraints only on a small scale. For others, it is not possible at all. The best strategy for these businesses is to engage in a policy dialogue to overcome the constraints they face.

Empowered to use policy tools such as legislation, regulation and taxation, governments exert unique authority across market systems. They have the mandate to use tax revenues to provide public goods, organizing the provision of collective services such as education and health care. And to eliminate market constraints over the long term—so that system-wide inclusive business models can proliferate on a large scale—public policy innovation and government action are needed.

But government policymakers are not always aware of the market dynamics and constraints that inclusive business models face, especially when dealing with new market actors (such as indigenous women) or new products and services (such as coconut husk nets or mobile transactions). In addition, complexity and uncertainty make it extremely difficult to get policy



could be made into nets, and, moreover, that it was biodegradable, helped vegetation settle in the soil to prevent soil erosion, and was much cheaper than the imported synthetic materials commonly used in public works. Bo introduced these benefits of cocofibre nets to local government units, which eventually helped to organize community partners and became Bo's first clients.

Once CocoTech was able to produce the cocofibre nets, another challenge was to create a market for them. Although a large and unmet international demand for cocofibre nets existed, low prices and high transportation costs limited their profitability. A domestic market was needed. Thinking that a solution would be government endorsement of products from coconut husks (based on the positive results of its study), Bo wrote and advocated for a presidential memorandum, which was eventually signed, mandating the use of cocofibre products in all government infrastructure projects.

CocoTech grew from a small community-based project, with an initial capitalization of \$7,000 and 5 employees in 1993, into a medium-sized enterprise with 25 employees and revenues of more than \$300,000 in 2006. Members of more than 6,000 families, mostly women, were then involved in manufacturing the products. In 2005, Bo won the World Challenge competition. Bo says: 'What was more meaningful to me was the idea that through the award, it will be much easier to promote cocofibre products throughout the world, which will

help reduce poverty in coconut-producing countries because more jobs would be created.'



**The Philippines:** CocoTech is transforming waste coconut husks into biodegradable nets that are able to prevent soil erosion.

involvement in policymaking can be fraught with perceptions of corruption and

responses right. And those responses remain right only until they stop working, or until the market undergoes some change. Policymakers continually depend on good information: specific, contextual, comprehensive, real-time information that suggests a decision's likely results and inevitable tradeoffs. Harvard economist Dani Rodrik has called for 'strategic cooperation between the private and public sectors, which, on the one hand, serves to elicit information on business opportunities and constraints and, on the other hand, generates policy initiatives in response.'<sup>1</sup> Good policymaking, in Rodrik's words, is a process of discovery.<sup>2</sup>

Businesses can play a role in this discovery, helping governments to identify bottlenecks and improve the market context for inclusive business models. Business

rent-seeking—and, in some cases, with more than just the perception of those negative externalities. Nevertheless, even at the risk of creating controversy, business must join in policy debates along with all other relevant stakeholders. That is because the entrepreneurs and managers who develop inclusive business models are arguably the most effective sources of information about which policies or policy tools will help or harm.

The entrepreneurs and managers who develop inclusive business models are best placed to see the constraints their businesses face in the markets of the poor. The same entrepreneurs and managers have compelling incentives to provide policymakers with detailed information on the dynamics and effects of the constraints. Although businesses can sometimes act on their own to remove market constraints in the short term,



**Peru:** Legislators and policymakers have a role to play in reducing market constraints. Photo: Inter-American Development Bank



improvements in policy are needed to complement, scale up and even replace such investments in the longer term. Finally, the entrepreneurs and managers who develop inclusive business models can also suggest specific changes that would facilitate those models—and they can calculate the positive effects of such changes on their customers, employees, suppliers and other business partners.

The Growing Inclusive Markets case studies reveal many entrepreneurs and managers engaging in a policy dialogue with governments, chiefly on the regulatory environment, but at times discussing other

areas. The case studies show inclusive business models engaging in policy dialogue mostly individually, through an entrepreneur’s personal government contacts, or through a company’s business contacts within government—and mostly on issues that are fairly specific to the business model’s short-term interests. But some have influenced policy through demonstration effects, simply by doing business and succeeding at it. And some inclusive business models have collaborated with others to engage governments on both specific and systemic constraints. 📍

## ENGAGE INDIVIDUALLY

Individually engaging government can be an effective strategy for an entrepreneur or company to influence policy on an occasional basis and in response to specific concerns.

Often the goal is relatively limited—for example, to encourage government to provide public goods or public services the business needs to operate in particular

locations. In Madagascar, the lychee and tropical fruits company Faly Export advocated with local and regional authorities to involve them in road maintenance, because poor road quality complicates its product distribution. In the meantime, Faly engages local communities in the maintenance: the company provides community members

with the necessary equipment and remunerates them with corn seeds.<sup>3</sup>

Governments can also support businesses by gathering and providing market information, for example, by doing household surveys or setting research priorities. And companies can inform the government's research priorities by showing the social value that can arise from market information—through better provision of goods and services or through new market opportunities. Dr. Justino Arboleda of CocoTech made a convincing case to the Philippines government that using coconut husk productively could significantly improve the livelihoods of poor coconut farmers (see box 7.1). On that basis, the government decided to research commercialization opportunities for the husks being discarded as waste. This research resulted in the development of cocofibre nets, the production of which employs dozens of families as part of CocoTech's supply chain; other cocofibre companies are in development.

Sometimes individual public policy engagement by entrepreneurs and companies can have far-reaching implications, changing market structures and in some cases opening entirely new markets. The Mauritanian camel dairy producer Tiviski has been so successful at selling its products domestically that founder Nancy Abeiderrahmane now wants to expand the business to the EU. Tiviski's camel cheese, in particular, would fetch a high price with gourmet customers in this high-income market. Today, Tiviski cannot access the EU market, even though agricultural products from least-developed countries such as Mauritania can enter duty-free. Because there is no camel dairy industry in Europe, there are no standards and quality assurance mechanisms in place for these products. As a result of Abeiderrahmane's requests, an EU delegation is now working to establish the necessary regulatory institutions, which

will open a lucrative new export market for Tiviski and other producers.

In the Democratic Republic of Congo, political instability and a general absence of laws and regulations—in the police, the judiciary, the financial sector and telecommunications—have created discouraging risks for investors. With the Lusaka Accord in 1999, Joseph Kabila's ascent to power in 2001 and the Inter-Congolese Dialogue in 2002, telecommunications company Celtel identified some signs of hope and a window for engaging the government about its policy frameworks. Celtel's corporate agenda coincided with the Kabila government's agenda to promote peace, reunification and post-war investment and growth. Celtel invested in building strong relationships with political and regulatory authorities. In 2003, a new telecommunications law was passed. Whereas under the previous law a fixed-line operator had claimed monopoly rights, the new law created a clearer framework for state concessions and for telecommunications development, fostering the competition needed to increase access and affordability. In addition, the Post, Telephones and Telecommunications Regulatory Agency was established. 🕒




**Niger:** Community members collaborate to engage the government in a dialogue about issues that affect them. Photo: Adam Rogers/UNCDF

## ENGAGE THROUGH DEMONSTRATION EFFECTS

Demonstration effects can also influence policy when regulatory frameworks or public goods and services are absent or inadequate. Such effects depend on channels that enable the government to hear about and learn from a business's experience, whether the communication is direct or mediated by a third party such as a development agency.

When Électricité de France created the Rural Energy Services Companies in Mali, the country did not regulate energy provision. The companies' success, together with the support of the World Bank, convinced the government to set up new regulations. The new legal framework enables private operators to provide electricity, either through large rural concessions, where the private operator has a monopoly of energy distribution, or through spontaneous candidacy, where an operator interested in providing electricity to a small rural area can apply for authorization from the Malian Agency for the Development of Household Energy and Rural Electrification. In 2006, when the new legal framework became operational, Mali's energy agency signed more than 50 contracts with small operators. Two or three are already operating.

Demonstration effects have also led government to take action and improve access to financial services for the poor. As part of the Angola Partnership Initiative, Chevron, ProCredit Holding, the US Agency for International Development and several other donors partnered to establish NovoBanco, a commercial bank to lend to micro and small entrepreneurs and promote savings among poor people in Angola. In about three years of operation, it has issued more than \$27 million in loans to approximately 5,000 micro and small entrepreneurs in the country's two main cities. NovoBanco is already profitable and expanding in other parts of the country. According to a recent evaluation of the Angola Partnership Initiative, NovoBanco's 'success has demonstrated the potential of the micro and small enterprise sector in Angola and spurred the government and other banks to accelerate their own plans to set up small credit funds.'<sup>4</sup> The increased availability of small business finance will make it easier for Angolan businesses to develop into qualified partners for Chevron and other larger firms. 

## ENGAGE COLLABORATIVELY

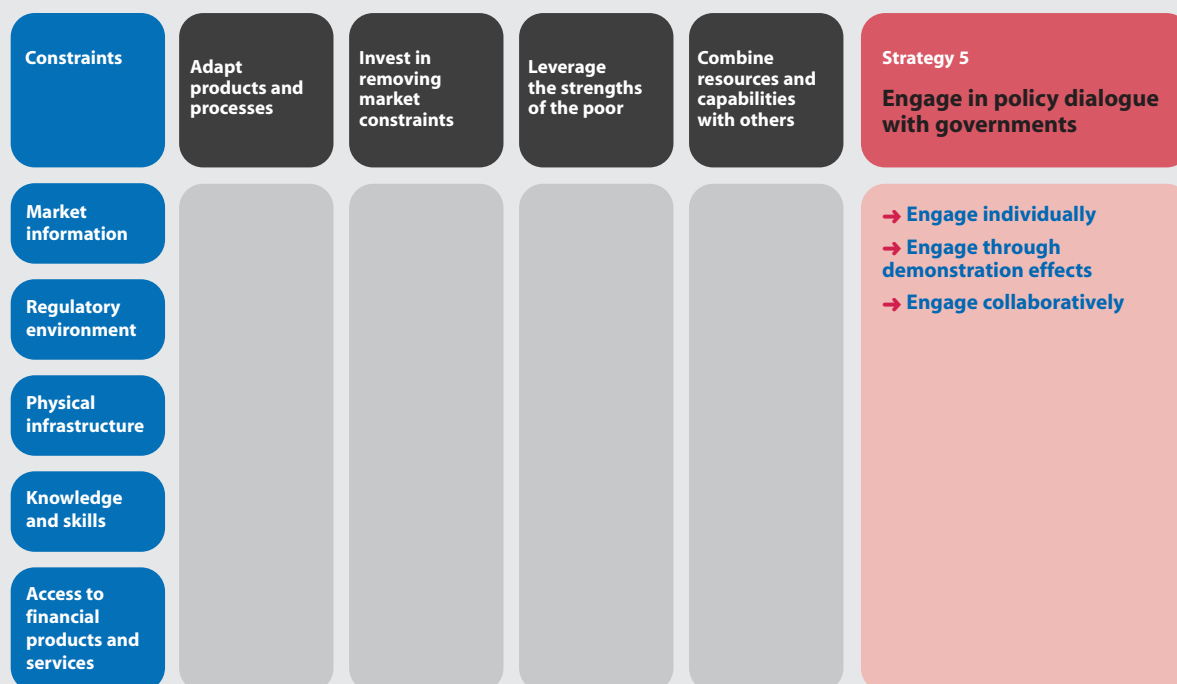
In addition to the strategies of individual engagement and demonstration effects, firms are increasingly engaging governments collectively, or in collaboration with other stakeholder groups, on specific and systemic constraints that affect the success of inclusive business models. According to the World Economic Forum, the 'sensitive nature' of engagements to influence government policy is 'particularly well suited to progress through collaboration. Companies should look for opportunities to leverage their influence alongside that of industry colleagues, those with common interests in particular issues

and others working in geographic clusters.'<sup>5</sup> The UN Department of Economic and Social Affairs and the UN Capital Development Fund add that 'policy change is most likely to occur when there is a critical mass of institutions and interests with the same concerns that are willing to act together.'<sup>6</sup>

A structure that facilitates such co-operation is the Big Business Working Group of South Africa's Business Trust, which brings business leaders in an advisory capacity together with government ministers for discussions chaired by the President, Thabo Mbeki. The structure is meant to foster



Figure 7.1. Summary: Approaches to engaging in policy dialogue with governments



relationships of trust and frank dialogue on issues facing the country and appropriate responses by both sides. Topics covered range from fiscal discipline to small and medium-sized enterprises to jobs and skills gaps.

An example of an inclusive business alliance is the WBCSD-SNV Alliance, which engaged the government of Ecuador in 2007 and created a powerful advocacy network with presidential advisers to put economic inclusion on the social development agenda. The national implementation strategy revolved around four sorts of inclusive business models: inclusive trade fairs, a nutrition development programme, a threading development programme and models that made agricultural value chains a priority. Overall the government set aside credit lines totalling \$87 million for four years, with the aim to create some 250,000 direct and indirect jobs.<sup>7</sup>

An example of a collaborative effort driven by the private sector is the Development Strategy Group of India's ICICI Bank. Recognizing the close links between its

market development and the economic development of the Indian people, ICICI complements its inclusive business models with a dedicated approach to informing public policy and action. In each of its districts, the group places one skilled professional who is charged with identifying gaps in large-scale market infrastructure. To fill those gaps, the professional convenes partnerships among local self-governments, district and state governments and other companies.

The Small Enterprise Assistance Fund in Colombia and Peru, together with the US Agency for International Development and international financial institutions, engaged the governments of Colombia and Peru to amend regulations prohibiting public pension funds and insurance companies from investing in private equity. Collaborating with pension funds and regulators, the alliance identified regulatory barriers and pressed for various modifications. Small and medium-sized enterprises can now access formerly unavailable sources of regulated capital.<sup>8</sup>

In the Philippines, public and private actors are innovatively collaborating to adapt the regulations that now govern mobile banking. Questions of telecommunications regulation, competition, payment systems, customer due diligence, consumer protection, deposit taking, electronic commerce, anti-money laundering and combating the financing of terrorism demand complex trade-offs between access and rule. As *The Economist* reports, 'Rather than trying to work out the best rules in advance ... the regulator is working closely with the banks and operators behind the country's two m-banking schemes.'<sup>9</sup> That allows policymakers to see what is going on and feed the experience into the evolving regulatory regime.<sup>10</sup> So far, policymakers have expanded regulation and enforcement to combat money laundering and the financing of terrorism, enabled customer due diligence to be conducted by retail agents and allowed

banks to regard prepaid card accounts as accounts payable (rather than deposits).<sup>11</sup> These measures have created a more effective, lower-cost regulatory regime, increasing the ability of operators such as Smart and Globe to expand access to the poor.

In the global arena, Visa International helped convene financial services firms, regulators and international donors to discuss global credit scoring and mobile banking. Participants pooled their research, expertise and voice to clarify policy and regulatory needs for this rapidly evolving space.<sup>12</sup> Mobile telecommunications operators and equipment providers have a similar interest: Vodafone, Nokia and Nokia Siemens Networks are conducting research and public dialogues with policymakers about how policies and regulations could enable innovative ways of providing financial transactions through mobile telephony. 

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1 Rodrik 2004, p. 38.

2 Rodrik 2004, p. 38.

3 UNDP Madagascar 2007.

4 Chevron's Angola Partnership Initiative: A Case Study. p. 9.

5 World Economic Forum 2008, p. 16.

6 United Nations Department of Economic and Social Affairs and UN Capital Development Fund 2006, p. 158.

7 World Business Council for Sustainable Development and SNV Netherlands Development Alliance 2007.

8 Hoff and Hussels 2007.

9 *The Economist* 2007.

10 *The Economist* 2007.

11 Lyman and Porteous 2008.

12 Jenkins 2007.