Report

Stakeholder Dialogues Nairobi, Arusha, Kigali and Addis Ababa

12 to 23 September 2016

Fig. 1: Group photo, Stakeholder Dialogues, Nairobi 13 September 2016.

Following the success of previous executive trainings that we organized in Arusha, Kampala and Rotterdam in 2015, a new series of stakeholder dialogues took place in Nairobi, Arusha, Kigali and Addis Ababa from September 12-23, 2016. We explored the importance of the specific country context, by organising four country meetings informing the participants of the interim results of the surveys, validated these results, introduced some case study material and specified what the country context implied in terms of: trust gap/institutional voids, and the potential to fill that with cross-sector partnerships and inclusive business strategies. For these stakeholder meetings we developed country context profiles (with special policy development). We zoomed in on three topics in particular: inclusive finance, food security and partnering. We highlight some salient results:

Inclusive finance:

An important challenge for the private sector in Africa is lack of sufficient external financing to fund new projects. External financing is especially likely to be scarce for inclusive businesses that also take up social issues, and thus appear to be relatively more risky. Inclusive businesses may take longer to become profitable and, therefore, have long-term investment horizons, which could discourage private investors that pursue immediate financial returns. While the current financial system relies on short term quarterly profits, what inclusive businesses need is patient capital that focusses on returns in the long term. Increasingly, however, new and innovative financing schemes are emerging that aspire to support the development of inclusive businesses. A rising number of impact investors are finding ways to mobilize resources for societal change, with an investment value projected to reach 500 billion USD by 2020. The following points were raised during the stakeholder dialogues on inclusive financing.

- With the shift of emphasis towards sustainable financing and revolving funds, there is diminishing attention to grant-based financing and subsidies for inclusive businesses. However, grants are indispensable because not all societally relevant projects are capable of financing themselves. For example, grants can be used to stimulate the development of new and risky initiatives that have great potential for societal impact. A good example of this is DFID’s investment on seed money that led to the development of M-Pesa.

- Financing for inclusive businesses can be offered in the form of micro-loans, soft (low interest) loans, grants and long-tenure loans. Since loans are often given without collateral and without equity ownership, investors face the challenge of effectively managing the risk from outside. As a result, they rely on complicated reporting requirements, which can be too expensive and demanding for borrowers.
- Inclusiveness practices are difficult to replicate because the strategies are locally embedded and context specific. There is thus limited ability to transplant operations to new locations. But he also pointed out this could be seen as an opportunity. Information communication and other technologies can be used to empower inclusive businesses but businesses should start with the problem or the outcome they want to achieve.

- Inclusive businesses take up risky business ventures because of their aspiration to make societal contribution. As such they are addressing societal issues which are traditionally the responsibilities of the government. However, social businesses are treated as regular businesses and have to pay the same amounts of tax. Participants suggested that social businesses should be given a special legal status that is different from purely profit driven businesses. This would enable inclusive businesses to get tax advantages in the same way that CSOs get tax exemptions.

- Participants emphasized the importance of development banks to provide tenured solutions targeting inclusive businesses. Traditionally such banks focus on major projects and SME support, but the same priority must be accorded to inclusive businesses.

- It was pointed out that becoming inclusive is in a way an investment. In the short run it will cost money to change into a business model that benefits local communities. But in the long run it will have positive returns. The customers will be your sales agent, so you will build strong trust and lower your marketing expenditures.

- Participants pointed out that there is still large market potential in Rwanda. There is also government support for businesses that promote access to financial services.

- Participants indicated that original and innovative inclusive businesses are too risky, which calls for special venture capital.

- Ethiopia has huge unexploited market in mobile money and more generally impact investment. The telecom operator has tens of millions of mobile users who do not have access to bank accounts and other financial services. Participants indicated that this holds great opportunity for future entrepreneurs.

- There is a government support for value adding activities for the export sector. Businesses can benefit in terms of financial access and other benefits by starting inclusive projects that add value on local raw materials.

- In terms of challenges, there is very limited access to equity and investment funds since there are no venture capital or investment banks in Ethiopia. There is also lack of financial innovation due to the poor competitiveness and lack of expedited access to new technologies.

Food security and inclusive business

Food Security exists *"when all people, at all times, have physical and economic access to sufficient safe and nutritious food to meet their dietary needs and food preferences for a healthy and active life"* (Rome Declaration on World Food Security, 1996). This notion of Food Security incorporates many facets of the problem including division and access of foods, the nutritious value of food, food preferences as well as the notion of stability. Three characteristics are usually considered vital for the food security position of a country: the affordability, the availability and the quality and safety of food.

Participants were informed about the country specific challenges on food security as identified by the Global Food Security Index. They largely concurred with the relatively poor position of their country in (a) affordability, (b) availability and (c) quality of food. But in general this was not caused by lacking production, but primarily by malfunctioning value chains – both local and international. The participants reiterated the importance of addressing 'corruption' and the need for better market information. In Kenya a major gap in the institutional set-up of the country was considered to be public expenditure on agriculture R&D, but not as research, but primarily as the gathering of relevant information (in particular on markets). In both countries the emphasis was on the problem of waste as the result of lacking information, awareness, and limited storage capacity. Another element that was reiterated was the mixed role of governments that often intervene in markets with unintended (negative) consequences – reinforcing the general trust gap that hampers these countries. Extension services could obtain a broker function for partnerships in the private sphere, whereas in particular at the storage phase of food chains, partnerships could produce new institutional forms that could enhance food security. This applies to various chains, but with specific elaboration: Horticulture (vegetables), tomatoes, maize for instance require other interventions. The prime role of governments could be to provide 'seed money' for private storage initiatives and mediation in the provision of information. Not the set-up of public storage facilities or subsidies to companies.

Occupying partnering space – Partnerships for Inclusive Business

In order to make inclusive business successful and create an enabling environment for the company to operate in, engaging relevant stakeholders in a collaborative governance processes is key. Only through such partnerships will it be possible to summon the expertise and resources needed to achieve meaningful impact. That is why the potential contribution of inclusive business for inclusive growth critically hinges upon the presence of close and effective collaboration between governments of development partner countries, businesses and NGO's. Filling in the 'institutional void' that characterizes most low and middle income economies necessitates making effective use of the competences and expertise of diverse stakeholders.

The stakeholder meetings reinforced the relevance of the analytical framework of the project delineating institutional voids, trust gap as an environmental factor and partnering space as an accommodating factor that can define opportunities for private sector led initiatives. Most of them require a facilitating and partnering role of governments that is not yet undertaken:

- Information gap – lack of information on partnerships proved a major bottleneck. Need for more information on PPP Policies at the different levels of the Government (e.g. national, county level in Kenya). There is a need to share knowledge on Partnership capabilities.

- Relevance of the trust gap – Lack of trust, both on the side of the public partners and CSOs was identified as an important factor to take into account when creating partnerships;

- Strategies of partnership institutionalization; most participants reiterated the importance of individuals (persons) in organisations to make the partnership a success. They were considered the 'game changers' or 'gate keepers'. This points, however to another dilemma between making it formal and making it personal. In particular in the Tanzania stakeholder Dialogues the importance was stressed of formalizing a partnership (e.g. through MOUs)

- Management of expectations proofs important. It creates a shared vision and accounts for different timeframes, (especially between government and business). Another element is to make different roles of partners explicit.

- Exit strategies – Important to think about them in the beginning of the partnering cycle.

- Participants in both countries wanted to segment partnerships. Proposed important segments were: B2B, B2G, B2C; remarkably was that the B2C partnerships were not elaborated as Business-to-Consumer, but as Business-to-Community (in particular in Tanzania, which hints at the greater relevance of communities in that country)

You can find more photos of the respective stakeholder dialogues, by clicking here.

Fig. 2, 3, 4, 5: Another look at the stakeholder dialogues

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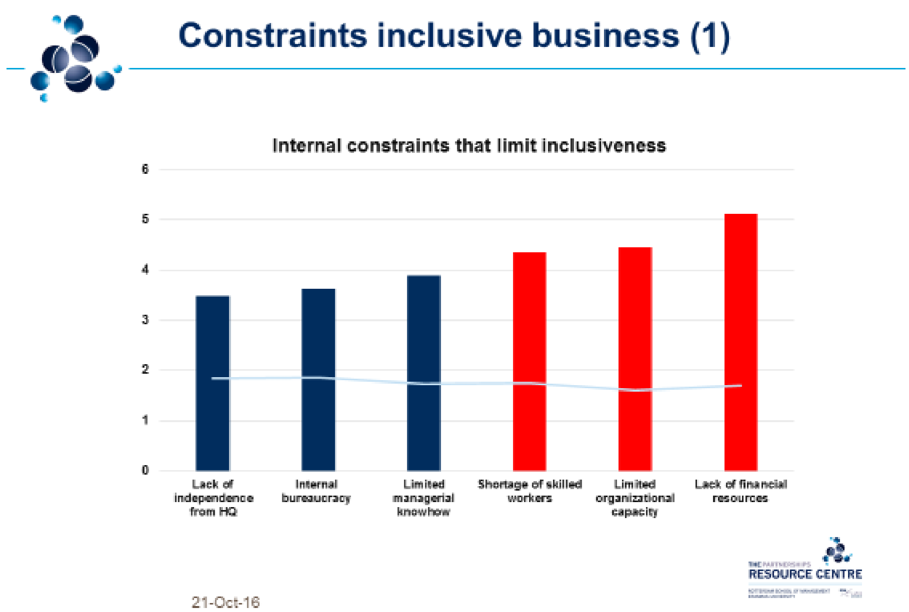
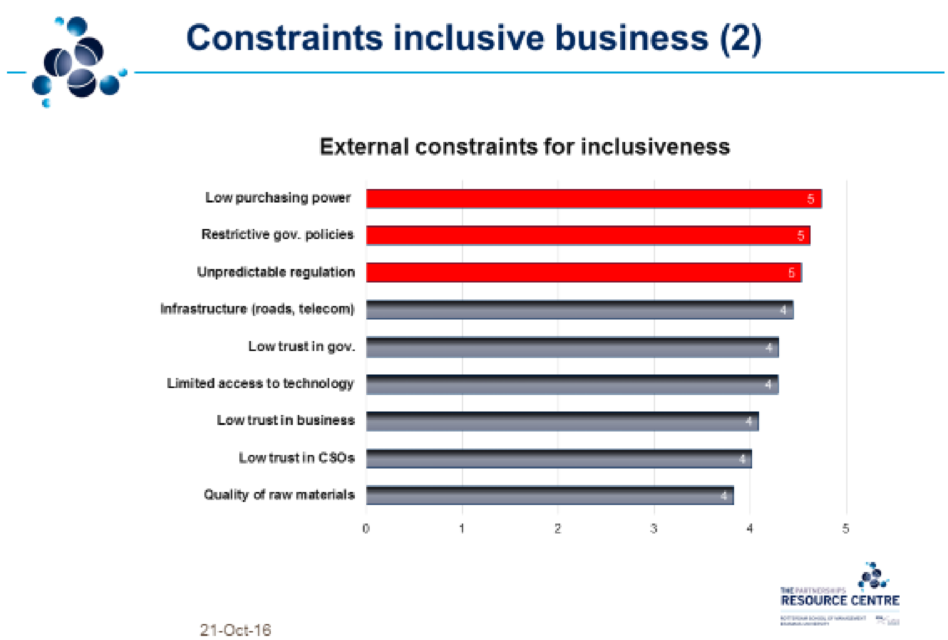
Preliminary Results 2nd Survey

Building on our insights from our first survey, we implemented in 2016 a second round of surveys on inclusiveness among Dutch and local organizations operating in the six East African countries covered by our project (Ethiopia, Kenya, Rwanda, Tanzania, Mozambique and Uganda). This extensive survey covered the following themes: (i) motivations for inclusiveness; (ii) business model components; (iii) societal impact and financial outcomes and; (iv) internal and external constraints faced by inclusive businesses. The survey was conducted by applying the same survey instrument in three different channels. About 400 organizations were covered through online surveys. Close to 100 businesses were surveyed through face-to-face interviews using student assistants that were trained for this purpose. Another set of about 100 organizations were covered by distributing our questionnaire for trainees of executive trainings organized by Eastern and Southern Africa Management Institute (ESAMI).





Some key findings:

- We find that the motivations for inclusiveness include both intrinsic and extrinsic elements. However, the data suggests that intrinsic elements for inclusiveness are slightly more important.

- There are notable differences among organizations in terms of inclusiveness performance. Differences were observed between foreign and domestic organizations, but also between organizational types (CSOs, businesses, governmental organizations and social enterprises). These differences suggest the potential for learning and for partnerships among different organizational types.

- The most important strategies used for societal change by inclusive businesses are producing reasonably priced products, innovating inclusive products, employee development and equity, value chain development, and education and skills training.
- The most important beneficiaries that are targeted by inclusive businesses are women, micro-entrepreneurs, women and the youth.

- The most valuable resources for inclusiveness are social networks, ICT and other technologies, and human resources.

- The most valued partners for inclusiveness are members of the value chain, local government agencies, and educational institutes.

- The most binding internal constraints are shortage of financial resources, limited organizational capacity, shortage of skilled workers, and limited managerial knowhow.

- The most binding external constraints are low level of purchasing power of consumers, restrictive government policies, unpredictable regulation, poor infrastructure, and lack of trust in government.