18-September 2016

Inclusive business strategies in Africa: Interim Policy Reflections

This project explores how Dutch and local businesses in six east African countries (Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Mozambique) can achieve inclusiveness with the involvement of non-market actors such as national governments, NGOs and local stakeholders. This progress report provides interim reflections for policy makers on the basis of two techniques.

[1] Survey results

Three parallel and partly overlapping surveys were executed. They all checked five relevant dimensions of the inclusive business challenge; (i) motivations for inclusiveness; (ii) business model components; (iii) societal impact and financial outcomes and; (iv) internal and external constraints faced by inclusive businesses, (v) country specific processes of trust and institution building. Intermediary versions of the first two surveys have been used as input for the stakeholder meetings. Policy findings include:

- The motivations for inclusiveness include both intrinsic and extrinsic elements.
- Notable differences were observed between foreign and domestic organizations.
- Most valued partners for inclusiveness are members of value chains, local government agencies, and educational institutes.
- Most binding internal constraints are shortage of financial resources, limited organizational capacity, shortage of skilled workers, and limited managerial knowhow.
- 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.

[2] Stakeholder meetings

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: (a) trust gap/institutional voids, and (b) the potential to fill that with cross-sector partnerships and inclusive business strategies. For these stakeholder meetings we developed (1) country context profiles (with special policy development). We zoomed in on three topics in particular: (a) inclusive finance, (b) food security and (c) partnering. Two meetings have been held (Kenya, Tanzania), two meetings to go (Rwanda and Ethiopia). We highlight some salient results:

[a] Inclusive finance:

- 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 remain indispensable for some projects.
- Inclusive businesses take up risky business ventures because of their aspiration to make societal contribution. Social businesses should be given a special legal status that is different from purely profit driven businesses.
- Development banks should 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.

[b] Food security and inclusive business

Food security problems are not caused by lacking production, but primarily by malfunctioning value chains – both local and international. The need for better market information was stressed. 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. In particular at the storage phase of food chains, partnerships could produce new institutional forms that could enhance food security.

[c] Occupying partnering space

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. As a consequence a number of policy areas are stressed:

- 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.
- The importance of individuals in organisations to make the partnership a success. They were considered the 'game changers' or 'gate keepers'.
- Management of expectations proofs important. It creates a shared vision and accounts for different timeframes, (especially between government and business).
- Specific segmentation of partnerships: B2B, B2G, B2C (not Business-to-Consumer, but as Business-to-Community).

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RSM Erasmus University

Inclusive business strategies in Africa: extended version of the interim results

The research project 'How can inclusive business strategies contribute to inclusive development in Sub-Saharan Africa?' explores how Dutch and local businesses in six east African countries (Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Mozambique) can achieve inclusiveness with the involvement of non-market actors such as national governments, NGOs and local stakeholders. This progress report provides a timely account of the activities undertaken in 2016: further literature studies (annex 1), surveys, case studies and stakeholder meetings with – finally – some reflections for policy makers.

1. Continued literature research

1.a Business models for societal value creation (Paper 1)

In one of our studies, we investigate how new business models can create societal value by analysing the business model of mobile based money systems in East Africa (M-Pesa). This research highlights how expanding access to mobile phones can be leveraged to create novel business models that have the capacity to achieve significant societal change (in this case financial inclusion). Through an in-depth study of primary interview data and secondary material, we identify a number of business model elements that drive societal value creation. We find that technology enables businesses to create simple and novel value propositions, and to implement them effectively through boundary spanning activity systems. The research also highlighted the importance of the lead firm to direct, guide and fund the creation of a new business model, and the significance of alignment of interests between the lead firm and its partners. Based on our findings, we build a new framework for business models that enables deeper understanding of the multifaceted impact of businesses on diverse societal stakeholders.

1.b Strategic entrepreneurship for societal value creation (Paper 2)

In another study, we conduct an in-depth case study of Safaricom to understand the process of organizational change towards inclusiveness. We find three ways in which societal orientation and commitment can enable organizations to become inclusive businesses that create value for broader society. Firstly, societal orientation harmonizes entrepreneurial processes within the organization by encouraging external orientation, experimentation, and active engagement with diverse societal actors. The focus on societal impact sharpens processes of entrepreneurial alertness and opportunity recognition, while also encouraging collaborative entrepreneurship to exploit opportunities that are risky, complex and new to the organization. Secondly, societal orientation enables successful execution of entrepreneurial opportunities by promoting entrepreneurial spirit within organizational units (internal alignment). Thirdly, societal orientation generates external social capital that can be leveraged for exploiting entrepreneurial opportunities. Our research also highlighted that top management endorsement is critical in the process of organizational transformation towards greater inclusiveness (external alignment). This research highlights the capacity of inclusive businesses to create societal wealth by filling in institutional voids through corporate entrepreneurship.

1.c Country contexts of inclusive business strategies (Paper 3)

A paper was drafted to provide a theoretical framework for documenting the macro-economic context in which inclusive businesses have to develop their strategies. The paper shows the importance of the institutional voids and trust gaps that exist, whereas delineating at the same the potential 'partnering space' that is present in countries and which are vital for developing pro-active inclusive business strategies. The paper develops an empirical checklist following five leading questions. Information for these five questions on the six countries has been collected and used as input for the stakeholder meetings.

2. Surveys

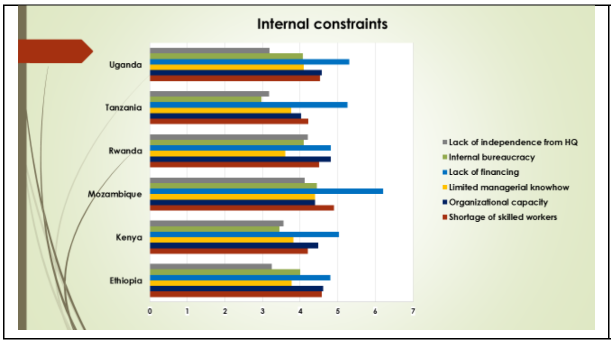
Two rounds of surveys were undertaken. Round one was to delineate the topic of 'inclusiveness' by identifying the perception of a representative sample of the consortium participants of the most important (a) topics, (b) target groups, and (c) barriers for inclusiveness. This created a list that was both stakeholder and country specific. The second round of surveys in 2016 includes three parallel tracks:

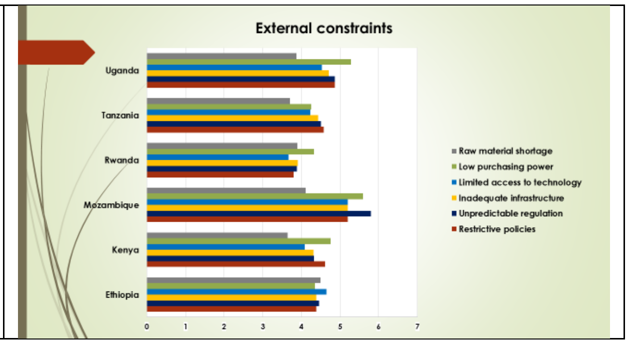
(a) In-depth survey: close to 100 businesses were surveyed through face-to-face interviews using student assistants that were trained for this purpose. This survey is still under way, but coverage for around 3 of the 6 countries has already been achieved.
(b) Web-based survey: an electronic – shorter survey – aimed at understanding the most important factors behind inclusiveness. This resulted in around 400 respondents, spread over the countries. These results were used in the stakeholder meetings in September to confront the participants with the results and engage them in a meaningful conversation. Which actually happened.
(c) executive-training survey: 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). This survey is still underway.
The surveys intentionally overlap to check five relevant dimensions of the inclusive business challenge; (i) motivations for inclusiveness; (ii) business model components; (iii) societal impact and financial outcomes and; (iv) internal and external constraints faced by inclusive businesses, (v) country specific processes of trust and institution building in relatively weak institutional contexts. Intermediary versions of the first two surveys have been used as input for the stakeholder meetings, and will be used as detailed information for the scientific papers that will be drafted after the stakeholder meetings in September. The contacts that were created through the survey will be further used to inform the wider group of stakeholders in Africa (and the Netherlands) and the research results, but will also be used to follow-up on some issues with selected survey respondents. Although a more systematic statistical analysis is yet to be done, preliminary analysis based on data from about half of the aforementioned sample confirmed the findings we reported in our first round of surveys.

- 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.

Figure 1 Inhibiting factors for inclusiveness (2016; N=254)

Internal constraints for inclusiveness	**External constraints for inclusiveness**





3. Stakeholder meetings

In year one already a number of stakeholder meetings were held. They were intended to collect central information and validate the most important parts of the conceptual and theoretical frameworks introduced for this research. In particular micro-level elaborations were discussed and further fine-tuned with relevant participants in the Netherlands and Africa: (1) CANVAS model on inclusiveness (with a long list of functional areas of management along a transition model in which we focussed in particular on innovation/R&D, HRM and finance), (2) validation of the selection of priority themes for inclusiveness (based on the first survey); (3) discussion points for further research on inclusiveness. In a second round we have explored the importance of the country context, by organising four country meetings in which we informed 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: (a) trust gap and institutional voids, and (b) the potential to fill that with cross-sector partnerships and inclusive business strategies. For these stakeholder meetings we developed (1) country context profiles (with special policy development). We zoomed in on three topics in particular: (a) inclusive finance, (b) food security and (c) partnering. The first two topics came out the previous rounds as benchmarks for success for the link between individual inclusive business strategies and the relationship with the macro-economic context. The last topic was introduced to get the participant's take on what was needed as enabling environment for partnering. The technique used in these meetings was to solicit spontaneous – but semi-structured – remarks and solutions on specific topics following a more general discussion on the general country context. This formula was intended to validate and prioritize a number of areas of attention that we could already extract from the literature (on inclusiveness, BOP, entrepreneurship and partnering) and the surveys. Two meetings have been held (Kenya, Tanzania), two meetings to go (Rwanda and Ethiopia). The resulting policy advices are listed below, but cannot claim yet to be representative of the four or six countries.

4. Case studies

Two big corporations have been targeted for more in-depth field research: Safaricom and Philips. Safaricom is subsidiary of Vodafone and introduces the MPesa system in inclusive banking and telecom were coupled. Philips build on its competencies in lightning and health to start inclusive initiatives around Community Life Centres. Both initiatives are developed in Kenya, but face the issue of scaling or reproduction inside the same multinational for the whole region. Vodafone has introduced MPesa also in Tanzania and Rwanda. Philips is still in its start-up phase but with clear ambitions to scale and internationalise. We have gotten access to the these two companies and are in process of detailed conversation with senior staff and also other organisations (in particular in the Philips case) with which they collaborate to enhance the inclusiveness of their business model.

5. Policy relevance: Interim results of the survey and of the stakeholder meetings

The surveys were intended to understand whether companies would make the transition to higher degrees of inclusiveness on the basis of intrinsic or extrinsic motives. We found that a combination of both motives create the change. The focus on extrinsic motives reveals area of policy relevance. In the stakeholder meetings we further validated and deepened these findings by engaging in roundtable discussions around a number of key topics. In all six countries varying forms of trust-gaps (or institutional voids) relate to the operations of civil society, firms and governments. Sustainable/inclusive development in our theoretical frameworks requires 'balanced' development, which involves participation of all sectors of society. In the recent stakeholder meetings in two east African countries we confronted the participants (majority from local business) with these findings and asked them to consider the consequences of this institutional environment for private sector-led initiatives in three areas:

finance, food security and partnering. This effort created a rich source of narratives and country-specific observations. But there were also some non-country specific findings which we focus on in this report.

[a] inclusive finance

- 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 (in Kenya, spread also to Tanzania).
- 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.
- 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 in Tanzania in particular 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 debated on the type and level of tax privileges that are appropriate for inclusive businesses with little agreement.
- Participants in Tanzania indicated that the government could engage in partnerships to support the development of inclusive businesses. Two reasons were mentioned for this. First, the government can thus provide additional resources and enhance the capabilities of inclusive businesses. Secondly, engaging in partnerships for beneficiaries of inclusive financing can give the government a direct say on the way they are run. This leads to better management of financial risks associated with special loan arrangements that are given for inclusive businesses.
- 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.

[b] Food security and inclusive business

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.

[c] Occupying partnering space

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 in particular in the area of inclusion. The participants identified the following bottlenecks. Most of these bottlenecks are know from literature, some of them are specific for inclusiveness partnerships. 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)
- Co-creation was deemed necessary, both on the strategic level and operational level.