Promoting inclusive business models for sustainable development

Experiences of German development cooperation

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INTRODUCTION

Kick-starting innovation – reducing poverty

Three billion people live on less than USD 2 per day, and a further billion survive on less than USD 8. Together, these people represent the ‘base of the global income pyramid’. For them most commodities, such as electricity, clean drinking water and telecommunications, are unaffordable. The majority of their income is spent on food, clothing and fuel, leaving very little for anything else. Because they only buy in small quantities, have little experience as customers and are rarely able to choose between providers, they pay particularly high prices – a situation referred to as the ‘poverty penalty’.

These four billion people have an estimated combined purchasing power of USD 5 billion per year.¹ They have therefore become increasingly interesting for many companies in recent years, as there is still huge untapped market potential at the base of the pyramid. Where sustainable economic development is being promoted by international cooperation, people’s wealth is growing and so too is their purchasing power. This gives businesses the opportunity to position themselves in these growing markets at an early stage.

This opens up opportunities for businesses – and also the possibility of contributing to poverty reduction through specially tailored offerings. But anyone who invests in developing countries and emerging economies is also running risks. There are many possible hurdles to be overcome when entering the market, such as:

• unstable political conditions,
• a poor investment climate,
• a low level of legal certainty and enforcement of property rights,
• the scope, quality and availability of production factors and structures, such as labour, capital and land/resources,
• regulatory challenges (competition and pricing),
• low levels of innovation and productivity in potential supplier companies,
• the unequal distribution of wealth in societies,
• poor performance capacity and efficiency in public and private institutions,
• a lack of data on purchasing and consumer behaviour,
• a poor infrastructure,
• a lack of networks in the country concerned.

German development cooperation has extensive experience and a wide range of tried and tested tools to help businesses minimise risks, exploit potential and therefore contribute to broad-based economic development.

¹ „The Next Four Billion“. International Finance Corporation / World Resources Institute 2007: http://www.wri.org/publication/the-next-4-billion
In international discussions, many different terms are used to describe business solutions for reducing poverty. In recent years, a veritable competition has arisen between these terms. BMZ and its implementing organisations support many of the concepts that underpin these terms, which they collectively refer to as approaches for promoting ‘broad-impact business models for sustainable development’. The following overview presents the key terms and explains their different emphases.
'Base of the Pyramid' (BoP) – The American economists C.K. Prahalad and Stuart Hart developed this concept at the end of the 1990s. In his book entitled *The Fortune at the Bottom of the Pyramid – Eradicating Poverty through Profits* (2004), Prahalad examines this approach in more depth. In this context, BoP represents the idea of integrating people ‘at the base of the income pyramid’ into the activities of multinational companies as consumers, thus reducing poverty. The intention is that low prices and easy access to products and services will turn the poor into autonomous consumers, helping them to increase their productivity and purchasing power. Stuart Hart and Ted London have developed this term further (BoP 2.0). They underline not only the inclusion of the poor as consumers, but also the aspect of working together with them (‘co-creation’). In their view, it is not just about tapping into BoP markets, but creating these markets in the first place (‘market creation’).

The fundamental idea behind the concept of 'inclusive business' is that of integrating poor people into the production process as consumers, producers, employees and business partners. As a concept, it is broadly similar to BoP 2.0. It is used by the United Nations Development Programme (UNDP) in the Growing Inclusive Markets Initiative and the International Finance Corporation (IFC). By 'inclusive business', the IFC refers to companies investing in business models that incorporate poor people into their value chains as consumers, producers and suppliers. This opens up new growth opportunities for businesses, while simultaneously promoting sustainable development. This concept gives low-income consumers access to a wide variety of affordable, easy-to-use products and more lifestyle choices. Small-scale producers and suppliers gain access to new markets and jobs. ‘Inclusive business’ therefore promotes self-supporting development.

In contrast to the first two terms, tapping into new markets and maximising profit are of secondary importance in ‘social business’. This concept was introduced by Muhammad Yunus, a Bangladeshi economist who has won the Nobel Peace Prize for the idea of microcredit. For him, what matters most is resolving social and environmental problems. According to this concept, businesses operate so that they at least cover their costs, with all profits being reinvested. They pay their employees at least the market rate and offer them better than average working conditions. Investors get the amount they invested repaid, and no dividends are paid out. But there are a few exceptions to this. If a ‘social business’ belongs to people from poor sections of the population, the profits can be distributed to its owners. The term ‘social business’ is sometimes also used to describe businesses that market traditional products with no special environmental or social added value, but donate the profit to charity. In this context, ‘social business’ is a tool for generating financial resources for philanthropic purposes.

‘Social entrepreneurs’ seek long-term innovative and pragmatic solutions to social problems – with any thoughts of profit being secondary. The emphasis here is on the individual entrepreneurs who support or set up suitable business enterprises or non-governmental organisations in order to fulfil their own charitable aims. They help people to help themselves, for example in education, environmental protection, poverty reduction or human...
Many terms – a single objective

Differences
The main difference between the terms is that they emphasise different aspects:
- **Base of the pyramid** describes a target group – people with low incomes in developing countries and emerging economies.
- **Inclusive business** aims to integrate the poor into markets as consumers and producers.
- **Social business** is characterised by a type of entrepreneurial activity that focuses not on profit, but on resolving social and environmental problems.
- **Social entrepreneurs** are particularly innovative people who seek solutions to social problems in business-like manner and disseminate these internationally.

Similarities
All the terms described above aim to resolve social and environmental problems through entrepreneurial actions, since this has several advantages:
- Bottom-up development, so that the poor can play an active role.
- Generating income facilitates self-supporting, pro-poor business models and makes it possible to advocate successful solutions.

Rights, and seek to propagate their initiatives at international level. Bill Drayton coined the term ‘social entrepreneur’ in the 1980s. He founded Ashoka, the largest international non-governmental organisation that supports social entrepreneurs. Originally focused on developing countries and emerging economies, Ashoka now also operates in industrialised countries.
Businesses need reliable local frameworks and networks to successfully establish themselves in a developing country or emerging economy. This is where public development cooperation can contribute. Development cooperation supports partner countries in setting up structures and developing capacities for good governance and stable economic policy, involving all stakeholders. It promotes transparency, democratic decision-making processes, the rule of law, the elimination of corruption and, last but not least, efficient public financial systems.
**How does German development cooperation promote inclusive business models for sustainable development?**

To support inclusive business models for sustainable development, German development cooperation adopts a broad-based approach. This includes improving the general framework for entrepreneurial involvement, rectifying structural deficiencies in private sector development, and direct cooperation with businesses. Examples include:

**Strengthening framework conditions**

German development cooperation implementing organisations advise ministries, central banks and regulatory authorities in partner countries on economic and regulatory issues and on subjects relating to the development of financial systems, vocational training and private sector development. In this way, they create the conditions needed for business activity – including the legal framework required to give people with low incomes access to secure and affordable financial services, to enforce property rights and to foster innovation capacity.

**Fostering dialogue**

BMZ and its implementing organisations initiate, support and moderate dialogue between state actors, the private sector and civil society throughout the world. The BoP sector dialogue format has been developed to help businesses design inclusive business models. As part of this dialogue, interested businesses are introduced to opportunities offered by markets at the lower end of the income pyramid, and can discuss and analyse in detail the challenges posed by specific industries. Other dialogue formats are...
being designed too, of course. For example, in October 2011, BMZ organised a conference on the role of development policy in shaping the inclusiveness of business relations between agricultural smallholders and businesses.

**Funding development**
Together with other bilateral and multilateral donors, BMZ supports investment funds that increase access to financial services, thus contributing to establishing and expanding financial markets, e.g. in the field of microinsurance. BMZ co-finances investment in inclusive business models for sustainable development through the develoPPP.de programme, the Africa Facility and through integrated development partnerships with the private sector.

**Empowering stakeholders**
The implementing organisations of German development cooperation share their specific technical, business and organisational knowledge so that banks, microfinance institutions, cooperatives and non-governmental organisations can offer products and services to poor people and micro-enterprises. Training institutions and business associations can be supported in the same way.

**Creating synergies**
BMZ, bilateral donors and multilateral institutions jointly develop mechanisms to support business approaches aimed at reducing poverty, and feed these approaches into international processes, e.g. the group of the world’s twenty most important industrialised and developing economies (G20). They set up topic-specific forums enabling institutions to exchange their experiences and create synergies through collaboration.

**BMZ’s contribution to advancing the international debate**
BMZ early recognised the potential that inclusive business models for sustainable development could have for development cooperation, and is campaigning internationally to improve the framework conditions for these models. BMZ organises international dialogue platforms to enable consultation between donors and communication with experts. BMZ feeds the recommendations generated in these forums into international policy processes.

**‘Innovative Business Models as a Stimulus for Development’ Conference (2008)**
This conference organised by GIZ on behalf of BMZ provided an overview of the current state of research and the criteria for assessing business models from which poor people can actually benefit. The conference advocated striving for long-term cooperation with local partners and emphasised the importance of local production. The key role played by microfinance in many business models, e.g. information and communication technology, insurance and the consumer goods industry, was highlighted and the highly reliable nature of micro-
borrowers acknowledged. At the same time, it was recommended that private investments in BoP markets be accompanied by supporting measures from official development cooperation to promote structure-forming impacts and innovative solutions. It was acknowledged that the business world’s growing interest in markets for the poor provides opportunities for innovative partnerships between governmental and non-governmental organisations.

**Discourse paper ‘Geschäfte für Entwicklung – Bewertung des BoP-Ansatzes aus entwicklungspolitischer Sicht’ (2009)**

Based on the results of the conference, BMZ published the discourse paper *Geschäfte für Entwicklung – Bewertung des BoP-Ansatzes aus entwicklungspolitischer Sicht* (Business for development – an evaluation of the BoP approach from a development policy point of view) in 2009.³ It analyses the relevance of the BoP approach for businesses and development cooperation, identifies success factors and derives proposals for action.

**UN Private Sector Forum (2010)**

At the UN Private Sector Forum in New York in September 2010, eleven donor states, including Germany, adopted the Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development.⁴ It emphasises the importance of the private sector as an engine for poverty reduction, broad-based growth, sustainable development and innovation. The donors recognise the private sector as an equal partner and emphasise that development partnerships with local and international businesses are necessary to achieve the Millennium Development Goals (MDGs). The donors also reaffirmed their commitment to increasing the effectiveness of development cooperation, as detailed in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. In particular, they acknowledged the contribution that cooperation with the private sector can make in achieving these goals.

**Study ‘Fast Growth and Big Impacts: How Emerging Market Multinationals are advancing Sustainable Development’ (2011)**

New actors are participating in the development debate, that have so far not been on the radar of development organisations – multinational companies from developing countries and emerging economies (emerging market multinationals). To examine the role these companies play in sustainable development, BMZ commissioned a study that analysed the potential of cooperation with developing institutions. Case studies featuring businesses from Egypt, Brazil, China, India, Mexico and South Africa were researched.⁵ These companies play a special role in the development discussion because of their operations in developing countries. Their customers and suppliers often come from the poorer sections of the population – the BoP. Emerging market multinationals are also increasingly investing in the poorest developing countries and are therefore operating in markets that trans-

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⁵ ‘Fast Growth and Big Impacts: How Emerging Market Multinationals are advancing Sustainable Development’, GIZ 2011; www.giz.de/EMM
national businesses from industrialised countries scarcely even consider. The rapidly growing numbers of emerging-market multinationals also make them attractive partners in the development debate. According to the United Nations, there are currently more than 20,000 multinational companies based in developing countries and emerging economies. The number of companies from Brazil, China, India and Russia increased four-fold between 2006 and 2008. The study also provides information on the possible risks and challenges posed by development organisations working together with emerging market multinationals.

**International policy forum ‘Inclusive Business and Effective Partnerships’ (2011)**

In September 2011, BMZ held an international policy forum on ‘Inclusive Business and Effective Partnerships’. Over 80 international participants from the fields of politics, academia, civil society and business discussed inclusive business models for sustainable development and the role of the private sector in increasing aid effectiveness. The forum drew on the ‘Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development’.

Hans-Jürgen Beerfeltz, BMZ State Secretary, stressed the importance of the private sector in shaping sustainable development processes in the partner countries of German development cooperation. He explained that the private sector could involve low-income groups in developing countries and emerging economies in value chains as producers and consumers, thus giving them access to essential services, products and employment.

In the first part of the conference, participants discussed the challenges of cooperation between donors and the private sector, and also the role of development cooperation in establishing frameworks for inclusive business models for sustainable development. Workshops were held to discuss subjects such as funding, the skills required for cross-sector cooperation, and ‘matchmaking’ approaches. Participants called upon donors to provide more information on existing initiatives and to increase communication between donors to help them learn more from each other about successful approaches and tools.

The second part of the conference covered the question of how systematically involving the private sector can increase the effectiveness of development cooperation – and the significance of inclusive business models and development partnerships in this context. Supporting the private sector in BMZ partner countries provides an opportunity to mobilise national resources, create employment and income, and exploit private sector innovation potential, expertise and capital in order to reduce poverty and advance development. Elizabeth Sandor, Senior Policy Advisor for the Organisation for Economic Cooperation and Development – Development Assistance Committee (OECD DAC), presented the findings of an informal working group that intends to make a joint contribution to the fourth High Level Forum on Aid Effectiveness from 29 November to 1 December 2011 in Busan (South Korea). The statement is the result of a wide-ranging consultation of representatives from the public and private sector. It underlines the importance of partnerships for sustainable development and defines spe-
cific areas of responsibility for the public and private sector. In the subsequent discussion, a request was made to take greater account of previous experiences when managing programmes that involve both the private sector and development cooperation. Conference participants were asked to comment on the draft of the joint declaration. They emphasised the importance of local partners – businesses and national governments – in achieving sustainable results in development partnerships.

The results of the conference are being incorporated into the fourth High Level Forum on Aid Effectiveness in Busan. Together with other donors, BMZ agreed to organise several events at this conference on the role played by the private sector with regard to aid effectiveness. In this context, the role of public-private partnerships (PPPs) in promoting inclusive business models will be discussed together with the question of how they can be designed more effectively in the future. Further discussions will touch on upscaling and the inclusion of new business sectors. The joint statement by representatives from government and the private sector highlights principles of effective cooperation, and the role of inclusive business models within the framework of PPPs.6 The final document published by the High Level Forum highlights the role the private sector plays in development cooperation’s new architecture.

BMZ is also co-chairing the G20 ‘development pillar’ on private investment and employment, and intends to use this opportunity to promote innovative and inclusive business models at an international level. A challenge on the subject of ‘inclusive business innovation’ was launched at the G20 summit in Cannes in November 2011, in order to identify scalable and replicable models. Policy recommendations on promoting inclusive business approaches are also being drawn up for the 2012 G20 summit in Mexico, where the winner of the competition will receive an award.

Development partnerships with the private sector - experiences gained from the develoPPP.de programme

One German development policy tool used in cooperation with German and European companies is that of development partnerships, which BMZ supports via the develoPPP.de programme.7 In these development partnerships, companies plan, finance and implement projects jointly with German development cooperation. These development partnerships combine the innovative power of business with the knowledge and experience of development policy, and are supported by the Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and sequa.

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6 Joint Statement for endorsement by representatives from the public and the private sector at the Fourth High-Level Forum on Aid Effectiveness, ‘Expanding and Enhancing Public and Private Co-Operation for Broad-Based, Inclusive and Sustainable Growth’.

7 Further information on the programme, including participation criteria, can be found on the internet at www.develoPPP.de
Between 1999 and 2010, BMZ initiated more than 1,300 development partnerships with the private sector in over 70 countries as part of the developPPP.de programme. These partnerships have demonstrated that business and development policy objectives can complement each other and are better achieved in unison. The development partnerships that DEG, GIZ and sequa have carried out cover a wide spectrum, with 253 projects specifically focusing on broad-impact business models.
When, how many and what level of investment?
192 development partnerships with inclusive business models have already been successfully completed, with 61 currently in progress. The participating companies and German development cooperation have invested over EUR 120 million through devloPPP.de, with EUR 50 million coming from the public sector.

Which sectors?
By far the greatest number of development partnerships for promoting inclusive business models – 89 projects – have been implemented in the food industry. This equates to 35 percent of all partnerships. 48 projects, or 19 percent, are in the consumer goods industry (e.g. clothing, shoes, electronics and household goods). Industrial goods such as packaging, machinery and renewable energy are the focal point of 30 projects (12 percent). 20 projects (8 percent) centre on the pharmaceutical and health care industry. Ten projects (4 percent) relate to financial services and insurance.

Inclusive business development partnerships by industry

The largest number of development partnerships for promoting broad-impact business models were initiated in the food industry.
**Which regions?**

With 99 projects (39 percent of all development partnerships advancing the BoP approach), Africa is the continent on which the most inclusive business models are being supported. It is followed by Asia with 78 projects (31 percent). Latin America is home to 66 projects (26 percent), with five projects (2 percent) being based in Eastern Europe or supraregional.

**Inclusive business development partnerships by region**

Africa leads the field: a particularly large number of projects have taken place on the continent with the greatest poverty

**Who has been supported?**

195 of the 253 development partnerships for promoting inclusive business models are supporting poor people in their role as producers. This is more than three-quarters of all projects. Almost a quarter of projects are involved in developing innovative products and services tailored to meet the needs of poor segments of the population – primarily in the consumer goods sector (19 percent), but also in pharmaceuticals and health care (17 percent) and in finance and insurance (12 percent).

**Percentage of inclusive business development partnerships that include people with low-income as consumers or producers**

Supporting poor people as producers and consumers: 77 percent of all development partnerships involving inclusive business models are helping small farmers, cooperatives and small businesses to enhance their added value.
BoP sector dialogues - developing business models for BoP markets

Companies often face obstacles when entering markets at the base of the income pyramid. Depending on the product or service, the challenges relating e.g. to design, distribution channels and customer care can vary considerably. To discuss these challenges in a sector-specific manner, BMZ has initiated an event series of ‘BoP sector dialogues’.

The sector dialogues provide an impetus and make recommendations on how to enter markets at the base of the income pyramid. The dialogues are aimed at companies with business ideas that involve poor people as consumers, producers, employees or business partners. A two-day workshop provides an opportunity to examine practical examples and the companies’ inclusive business models in depth. The discussion at each event is launched with a study that examines the problems facing the particular sector, and comes up with specific advice and recommendations for companies. Interactive, innovative forms of dialogue are used to share knowledge and encourage the actors to network with each other. The sector dialogues consequently provide an initial insight into these markets and their potential, frameworks and risks. Since the focus is on a single sector, company representatives are able to discuss the opportunities and challenges of their business models in detail.

Two sector dialogues were developed and held several times in 2010 and 2011. At the sector dialogue with energy companies the participants discussed poor people’s access to environmentally friendly and affordable technologies. In the context of this sector dialogue, an industry-specific guide was created to help companies to develop their own business model. At the end of the workshop, the BMZ-funded develoPPP.de programme for development partnerships with the private sector was presented. Upon request the entrepreneurs could receive advice on the possibility of financial and technical support for their projects. The participants of the second sector dialogue looked at micro-insurance – an offering that low-income households in developing countries and emerging economies can use to protect themselves against crop failures resulting from drought or flooding, for example. The participants agreed unanimously that micro-insurance could only make a partial contribution to social security, and that cooperation between development policy and business would therefore still be required in the future.

The next sector dialogue will be devoted to the pharmaceutical industry, on the subject of access to medicines for poorer population groups. Further events are being planned to cover sectors such as agrobusiness.

What ideas did companies come up with when they began operating in BoP markets? What have they achieved, what challenges have they overcome? How can better enabling environments be created to improve market access for the poor? In this chapter, we present a selection of projects chosen from the wealth of experience that DEG, GIZ, KfW and sequa have acquired in the course of their collaboration with companies on behalf of BMZ. The projects are in different phases of implementation and reflect the broad spectrum of advisory and support services that German development cooperation’s implementing organisations cover.

BoP projects in practice
Developing markets, providing capital, creating enabling environments
Biogas electricity from waste
Development partnership between Envitec and GIZ, India and the Philippines

Both India and the Philippines are highly dependent on fossil fuels for their energy supply. Increasing the share of renewable sources of energy in the supply – either to feed into the national grid or as a decentralised solution – would be a self-reliant and sustainable alternative.

The electricity supply is particularly inadequate in rural areas: it is often unreliable or available only for very restricted time periods. That forces the population to resort to sometimes expensive alternatives such as kerosene or traditional biomass. Biogas facilities are a good option for guaranteeing an electricity supply based on inexpensive, climate-friendly energy. They also provide the rural population with an opportunity to earn extra income by supplying agricultural residues to the biogas facilities and using or selling the residues from the biogas generation process as organic fertiliser.

EnviTec Biogas AG, one of the leading manufacturers of biogas facilities in Germany, working with the Indian partner Malavalli Power Plant Pvt. Ltd. (MPPL) and GIZ as part of the development partnership between Envitec and GIZ, is advancing the construction of biogas plants in India and the Philippines together with Malavalli Power Plant Pvt. Ltd. (MPPL) and GIZ.
BoP PROJECTS IN PRACTICE

Solar electricity for rural regions
Development partnership between Phaesun and DEG, Mozambique

After sunset most people in Mozambique sit in the dark. Only two percent of the population in rural regions of this East African country have access to the electricity grid. At home, people burn kerosene lamps or candles in the evening and communal facilities rely on diesel generators. This type of electricity supply is expensive and causes high CO₂ emissions. In four or five years’ time, private households, small businesses and public facilities across the country will be able to use small-scale solar power systems that even people with low incomes will be able to afford.

Biogas systems need a reliable supply of animal and plant residues such as cow and chicken manure and waste products from manioc processing. As part of the development partnership, the rural population is being included in this supply system at the project locations, enabling them to boost their income. Farmers’ groups are receiving training in silage methods that can be used to conserve plant residues such as maize leaves. The end product can then be marketed as feedstock for biogas systems or used as a high-energy, high-nutrient feed for livestock. This means that a good supply is also possible during the dry seasons and the milk yield rises in the long term. Another objective of the project is using the residues from the biogas generation process as organic fertiliser, which is a sustainable and environment-friendly alternative to the chemical fertilisers currently in widespread use.

Information campaigns and dialogue events with policy-makers and scientists are helping to raise awareness about the technology of biogas facilities and their benefits. In this way, the ground is being prepared in India and the Philippines for the legislative framework needed to promote renewable sources of energy and regulate grid feed-in, thus supporting the establishment of a sustainable energy supply.

of a strategic alliance, is looking to expand its involvement in India and the Philippines. From 2007 to 2009, the partners carried out a joint project to build biogas facilities in India.
This is the goal of Phaesun, a medium-sized enterprise from Memmingen in the German state of Bavaria, who are experts in off-grid solar electricity. They are being supported in their Mozambique project by DEG. The idea is that the project should not only be profitable but should also help to improve people’s living conditions: private households will have electric light, health centres will be able to keep their medication and vaccines refrigerated, companies with access to electricity will be more productive, which in turn will enable them to create new jobs.

Phaesun is working with its Mozambican partner Coseba to provide decentralised power supply in remote areas. The first step in this is to establish a network of dealers to sell small-scale solar energy systems in the provinces of Sofala and Maputo. The first five ‘solar shops’ will open in January 2012, selling solar energy systems and lamps and offering a charging service for lamps and mobile phones. Education measures are broadening the project’s reach: at Maputo University, Prof. Peter Adelmann from Ulm University of Applied Sciences gives lectures on photovoltaic technology to electrical engineering students. After the project has finished, local lecturers will continue teaching. A training room is being equipped to provide practical training for students and the solar dealers. The project partners will offer the trained solar engineers the support they need to become self-employed, including business training. Skills, setting up sales and distribution structures, marketing and
service operations – with the support of DEG, Phaesun has been able to lay the foundations needed to enable a market for solar energy systems to develop in Mozambique.

It pays off for people to purchase a small solar energy system known as a PicoPV system, which consists of a photovoltaic panel, a lamp with built-in battery and an adapter for a mobile phone charger. To date, most households have been spending up to USD 10.00 a month – a third of their income – on kerosene or other fuels. A solar energy system for household use costs around USD 100. Payback on the investment is about a year.

Organic cashew nuts
Development partnership between gebana and sequa, Burkina Faso

Almost 95 percent of the population in Burkina Faso depend on agriculture for their livelihoods, but extreme weather conditions and the spread of the Sahara are making it increasingly difficult to cultivate staple crops such as millet, maize or rice. However, cashew trees are more robust in this climate. Furthermore, the nuts are highly sought after in Europe and the USA. Demand is rising by 15 percent a year. Exporting cashew nuts would therefore generate an additional source of income for people in rural regions.

Since there are not enough processing facilities in Burkina Faso, the cashew nuts have been processed in India or Côte d’Ivoire, which means that the country has been losing earning opportunities along the value chain. However, to export the nuts, domestic processing facilities have to comply with high standards of hygiene. Since the nuts are shelled by hand, the processed cashews can easily become contaminated by bacteria. To avoid health risks for consumers, hygiene during processing is of the utmost importance.

Producing high-quality organic cashew nuts for markets in Europe is the goal of gebana AG. The company distributes organic produce from developing countries and is a pioneer in fair trade products in Switzerland. To create the conditions needed to produce high-quality cashew nuts in this West African country, sequa has been supporting the company since 2009 in a development partnership. They aim to achieve more efficient production and compliance with international quality standards by the end of 2011.

The development partnership focuses on delivering training, introducing a quality management system, and setting up model businesses for high-quality organic produce for export which meet the various certification standards. gebana AG has trained people who can act as multipliers and they have begun by providing training and ongoing advice on organic cultivation methods to 500 farmers. 800 employees in processing facilities are trained in necessary hygiene standards for processing cashews. One of the model businesses is being set up in UTAB (Unité de Transformation d’Anacarde de Bérégadougou), an agricultural cooperative comprising 2,000 small-scale farmers. The project partners have invested in a processing and packing station, built a storage facility and purchased a truck to collect the nuts from the producers. They are also equipping a laboratory to carry out food inspections.

The project demonstrates a way out of poverty that holds great promise: jobs are
created, the producers have reliable buyers for their produce and achieve better prices for their crops and therefore generate more income. The hygiene training helps meet quality standards and improve the health of the producers, the employees and their families. The project stakeholders encourage others to follow their lead, including in other sectors such as the mango value chain.

Insurance against natural disasters
Development partnership between Munich Re and GIZ, Philippines

The Philippines is situated in what is known as the typhoon belt. The archipelago is particularly affected by torrential rainfall and storms that can destroy the livelihoods of vast numbers of people in an instant. This prompted the reinsurer Munich Re and GIZ to form a strategic alliance. It offers insurance against the consequences of extreme weather events to cooperatives that provide microfinance services. In conjunction with CLIMBS, a composite insurance cooperative comprising 1,700 local cooperatives across the Philippines that acts as primary insurer, the project partners have launched the CLIMBS Catastrophe Protection Policy on the market.

This insurance product, which was designed specifically for cooperatives in the Philippines, works as follows. When a natural disaster occurs in the form of an extreme weather event, it is highly likely that many members of the cooperatives will lose their livelihoods and will, at least temporarily, not be able to service their loans. If many of their members are affected, the cooperatives can easily get into severe financial difficulties. To avoid this, they can now take out insurance through CLIMBS. They receive a fixed percentage of their loan portfolio as an insurance payout if a predetermined trigger point for wind speed or rainfall is reached. But
In a development partnership with GIZ, Munich Re insures cooperatives against the consequences of extreme weather events. This allows the cooperatives to better protect their members from financial risks related to such events.

By collaborating with GIZ, Munich Re has been able to further expand its expertise in developing countries and position itself as the first provider of index-based reinsurance for microfinance institutions.

As a result of climate change, extreme weather events are set to increase. For people in affected regions it is therefore becoming increasingly important to have some kind of security in the event of a disaster, such as insurance policies. This kind of insurance product also represents a growth market for the insurance industry.

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it is not only the cooperatives that are protected by the insurance: if a damage event occurs, affected members receive an ‘emergency loan,’ i.e. access to vital financial capital. This enables them to rebuild their houses quickly or purchase new equipment. Without this insurance, the cooperatives would have to increase the price of their financial services to minimise their risk of insolvency. That would mean that poor segments of the population, in particular, would have no access to financial services.

In addition to product development, GIZ and Munich Re are supporting CLIMBS in designing their services, in financial controlling, claims settlement, staff training and central processes such as setting up a risk management system. They are also running information campaigns to explain to the public how the product works and what benefits this kind of insurance offers.
Mobile Transactions Zambia Ltd (MTZL) has developed a software application that allows cotton farmers to transfer money using their mobile phones.

Dunavant has a stake in the start-up company Mobile Transactions Zambia Limited (MTZL), which in 2009 launched its own software for mobile financial services. Users simply need a mobile phone; they then receive their money transfer securely via text message and access it with a PIN number. MTZL has developed an interface for Dunavant, which connects mobile phones to the company’s database that stores all its supplies and payments. Dunavant has 73 cotton warehouses across the country and one employee at each location is responsible for paying out the money. The mobile payment system now allows the cotton suppliers to receive their money within a day. They can either have their wages paid out directly or use their credit to pay for seed and fertilisers, for example.

To make mobile financial services available to as many cotton farmers in Zambia as possible, Dunavant and MTZL, in conjunction with DEG, set up a development partnership from 2009 to 2010. The aim was to develop a nationwide distribution network with reliable, well-trained agents to run the mobile money transfer system. In making this investment, Dunavant lowered banking costs and strengthened farmers’ loyalty, while also improving their living conditions. The first step MTZL took was to appoint a partner to train 15 sales trainers.

Mobile bank accounts for cotton farmers
Development partnership between Dunavant and DEG, Zambia

80 percent of people in Zambia do not have a bank account. Banking services are expensive and there are scarcely more than 200 branches of banks in the entire country. People mostly pay in cash. Transferring money is complicated and people have to travel for hours to make a payment or wait for a week for their wages to be paid. Companies also suffer from this situation.

Dunavant Zambia buys raw cotton from small-scale Zambian farmers and processes it. 70,000 farmers across the country supply this company. Before Dunavant introduced a mobile payment system in 2010, it would often take over two weeks for the farmers to actually receive their money. This meant that Dunavant risked losing its suppliers if, despite existing contracts, the farmers sold their crops to other purchasers.
Now over 200 agents have been recruited and trained in selling the mobile banking services. Since 70 percent of Zambia’s population does not own a mobile phone, customers can withdraw or transfer money through an agent authorised by MTZL. Customers who do have their own mobile phone will soon be able to use their mobile banking facility to open savings accounts. To date, the project has given 20,000 people access to financial services. 80,000 small farmers use electronic vouchers to access food and other goods from aid organisations such as the World Food Programme. Since March 2009, over 170,000 money transfers, amounting to about USD 10 million, have been made.

**Biomaterials from crop residues**  
*Development partnership between Tecnaro and sequa, Brazil*

Sometimes products have to be developed and markets created to generate new income sources for poor people. Plant fibres and plant residues such as lignin can be used to make environment-friendly materials that combine the properties of wood and plastic. The materials are supplied as granules, which at a temperature of 180 degrees Celsius can be moulded to make products such as furniture, toys, musical instruments, instrument panels, engine components or household articles. The German company Tecnaro GmbH, which is a spin-off from the Fraunhofer Gesellschaft, invented these materials and has received several awards for them.
Each year, the sugar industry in Brazil produces 150 million tonnes of bagasse, the fibrous residue that remains after the sugar has been extracted from the cane. A large proportion of it is incinerated, producing greenhouse gases that are harmful to the climate. In a development partnership with sequa, Tecnaro and SENAI-CIMATEC, a Brazilian training organisation, have developed a thermoplastic material that contains bagasse fibres. The idea is to make plastic products for the Brazilian market in the future. Employees at SENAI were trained to take on a multiplier role; they work independently on developing products based on bagasse and pass their knowledge on to students, designers, suppliers and users. Brazilian companies can use the cheap material to develop inexpensive products. At SENAI-CIMATEC, students collaborated on the development of the material and the construction of a pilot facility to manufacture mouldings.

Following the completion of the first project, SENAI continued to conduct research and test materials made from sisal and wood fibres. The successful transfer of knowledge is also demonstrated by the following facts. 30 partnerships with companies dedicated to research and development of products made from natural fibres have now been formed. If developments continue at this dynamic pace, the technology transfer project could have a direct poverty reduction effect in rural regions of Brazil. If a market for these biomaterials develops, small farmers will be able to capitalise on the commercial value of their production waste.

In a second development partnership, scheduled to run until 2012, sequa and Tecnaro are working in several Brazilian states: bio-based and compostable materials are being adapted to local circumstances and raw materials. The project partners are running numerous training courses on how to process the materials and develop products so as to ensure their widespread and diverse use.

In Brazil, Tecnaro GmbH is using bagasse, the fibrous waste product from the sugar extraction process, to make an eco-friendly thermoplastic material.
Sanitation in slums

GIZ provides scientific support for sanitation solutions, Bangladesh

The sanitation crisis in informal settlements around the world remains a huge challenge. The complex structure of urban slums limits the ability of conventional infrastructure-based sanitation systems to quickly address the pressing sanitation needs of inhabitants. Where building a fixed latrine is not possible because of land ownership issues, lack of space and limited financial resources, most households are unable to build a toilet or latrine. The very few available shared toilets are poorly managed, and disputes arise over maintenance. Political and social dimensions are also a factor as they restrict access to certain residents. The Swedish architect, social entrepreneur and Ashoka fellow Anders Wilhelmson came up with an innovative idea. He launched a personal single use toilet, called ‘Peepoo’ for urban slum dwellers in the developing world. The Peepoo is a biodegradable plastic bag with an inner gauze, which sanitisises human excreta shortly after defecation, preventing the faeces from contaminating the immediate and larger environment. Once used, the bag can be closed with a knot, stored for a day with no smell and then buried. The trick of these mobile toilets is that they contain urea powder which kills off disease-producing pathogens found in human faeces within a few weeks. The filled bag finally breaks down into valuable and safe compost.

In a feasibility study conducted in early 2009, GIZ Bangladesh and the GIZ-assisted ‘Sustainable sanitation – ecosan’ programme looked at the applicability of this product as a short-term sanitation solution in urban slums. The study found that most users were satisfied with the product. Peepoos not only save people from having to travel long distances to access sanitation, they also enable women and children in particular more privacy and security.
GIZ sees the mobile toilets as an important interim solution that provides humane sanitation for people living in poverty. They do not, however, replace the need for other, more permanently sustainable sanitation infrastructure. In the meantime, however, such innovative solutions can be combined with social entrepreneurship initiatives to meet the basic needs of many people living in developing countries in the short term, and improve their living conditions.

Wilhelmson’s solution is also not just about the toilet itself but also about creating business opportunities around it. Each Peepoo is designed to be sold for about EUR 0.03 and bought back for EUR 0.01 once it is filled. The fertiliser obtained from the mobile toilets can then be sold by traders, generating a self-sustaining, profitable cycle. In Kiberia, a slum in the Kenyan capital of Nairobi, the Swedish manufacturer is currently testing a franchising model that will serve about 4,000 people every day. By 2012, manufacturing of Peepoo toilets is to be increased to 500,000 units every day.

In a feasibility study, GIZ and the ‘Sustainable sanitation – ecosan’ programme looked at the applicability of the ‘Peepoo’ product as a short-term sanitation solution in urban slums.
Providing capital

Nurturing entrepreneurial spirit
KfW Entwicklungsbank invests in Aavishkaar II Fund, India

Since 2002, the Indian investment company Aavishkaar Venture Management Services has been investing in young companies offering innovative products and services aimed at meeting the basic needs of poor segments of the population. Aavishkaar supports businesses in the following sectors:

- health, water and hygiene
- vocational training and basic education
- agriculture
- renewable energy

KfW Entwicklungsbank is investing in the second issue of a fund (Social Entrepreneurship Fund Aavishkaar II) that aims at supporting social entrepreneurship. The fund will invest predominantly in rural regions of India, where particularly large numbers of people with low income live. In line with the fund’s social mission, Aavishkaar performs extensive due diligence – before and during each investment – not only a company’s economic viability but also what social and ecological benefits it will generate above all for low-income target groups and in terms of fair conditions for employees and suppliers. The fund supports companies in putting their mission into practice, observes and measures the social benefits they generate and publishes the findings. The fund plans to invest in 20 to 25 companies. In selecting companies to invest in, Aavishkaar focuses on business models with high growth potential and low capital requirements of up to USD 1 million for initial investments and a maximum of USD 3 to 4 million for follow-up investments. These companies would otherwise have little chance of securing venture capital because most commercial investors do not expect businesses targeting the poor to be profitable. They therefore concentrate on high capital investments of at least USD 5 million and on sectors such as information technology.

A number of examples of companies supported by the first issue of the Aavishkaar India Micro Venture Capital Fund include a manufacturer of water treatment plants for rural communities, a producer of mobile sanitary facilities and a company that develops low-cost cash machines for remote villages.

Supporting social entrepreneurship
KfW Entwicklungsbank plans a regional fund for social entrepreneurship in Asia

KfW Entwicklungsbank plans to set up a regional fund that will help provide equity for social enterprises in Asia. The fund will concentrate on early stage finance, which is the major stumbling block when it comes to developing innovative, potentially successful, business models that benefit poor segments of the population. Plans include developing a special financing framework, in which investments will be accompanied
by advisory services, and introducing a standardised method for measuring results.

The fund’s structure will be based on different tranches with different risk and yield characteristics so as to attract as broad a spectrum of potential investors as possible. Thus, it will also be possible to e.g. reach philanthropically minded investors, who wish to create the greatest possible ecological and social impact. The regional fund will improve the financing situation of social entrepreneurs who help improve basic services such as energy and water supply and health care for poor population groups and who contribute to the achievement of overarching goals such as greenhouse gas reduction, and rural development.

Protecting the livelihoods of millions of African families
KfW Entwicklungsbank participates in LeapFrog microinsurance fund

Drought, torrential rain, a plague of locusts or serious illness – any one of these disasters is enough to rob African families of their livelihoods. Poor people in Africa, who live on less than USD 2.00 per day, are usually not insured against such risks. That is why Germany is participating in the world’s first and largest investment fund that promotes microinsurance for poor people.

The fund, named LeapFrog, has been capitalised with roughly USD 140 million. This investment capital is key to giving as many poor people as possible access to insurance products. Although countries like Ghana and Uganda already offer microinsurance, there is often not enough capital to develop new products, market more insurance products and make payouts to all the affected policyholders in the event of damage.

Less than 3 percent of the poor population in Africa have signed microinsurance contracts. Yet the market is huge. According to a 2009 study by the Microinsurance Innovation Facility, 700 million Africans require protection through microinsurance. In 2008, insurance premiums paid throughout Africa amounted to USD 54.7 billion, corresponding to only 1.3 percent of global premiums. 80 percent of these insurance premium payments come from South Africa. So far, there has been no insurance industry in the other 52 countries of Africa that also covers the risks faced by poor people.
families can continue to feed their children, send them to school or provide them with medical treatment if they have microinsurance.

Together with other donors, Germany intends to expand the focus to include a larger number of countries and products by collecting private and public-sector capital around the world and thereby establishing markets for microinsurance. The KfW Entwicklungsbank investment of EUR 20 million makes Germany by far the largest individual financer of the LeapFrog fund, which is initially offering microinsurance in the African countries of Kenya, Ghana, Uganda and South Africa, as well as in Asia. LeapFrog aims to provide 7.2 million people in Africa with microinsurance by 2019.

A representative from Germany sits on the fund’s supervisory board. The fund itself delegates representatives to the supported microinsurance companies, who ensure that the fund and the companies reach their goals as swiftly as possible and that the insurance products are all fair and affordable. For example, policies to protect families in the event that fathers or mothers, who are the family breadwinners, fall seriously ill cost between USD 0.70 and USD 5.90 a year. In an emergency situation,

The first insurance companies promoted by LeapFrog are located in South Africa and Kenya. In these and other countries, like Uganda and Ghana, the finance markets are already well developed, and there are microbanks and other microfinance institutions with existing sales networks.
Creating enabling environments

Branchless banking – banking transactions via mobile phone
GIZ advises financial institutions in Indonesia

The widespread use of mobile phones has made it possible to provide people in developing countries and emerging economies with mobile financial services such as electronic payment and savings accounts. Supermarkets, petrol stations, post office branches and kiosks offer these basic financial services on behalf of payment service providers, especially in rural regions where there are no banks. Clients without a regular bank account can deposit and withdraw cash, make transfers or pay for purchases, all at low cost and even if they have no mobile phone of their own.

The most successful example of mobile banking so far comes from Kenya, where mobile network operator Safaricom cooperated with Vodafone in 2007 to introduce a cashless payment system via mobile phone within the East African country. Today, the sales network consists of 23,000 agents, and 13 million clients use the M-PESA service. They have transferred over USD 350 million to date.9

German development cooperation uses a number of approaches to help create an enabling environment for such pro-poor business models. These include financing the infrastructure for mobile payment transactions, advising regulatory authorities and microfinance institutions, and providing support for setting up agent networks.

In Indonesia, the market for mobile banking is still in its infancy. Only one fifth of the island republic’s 250 million people have a bank account. But mobile phones are widespread, with 100 million users. This is a good starting point for introducing mobile financial services for people who would otherwise have no access to financial products.10 In 2008, GIZ began on behalf of BMZ to facilitate a dialogue between rural banks, the Indonesian central bank (which

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9 These figures originate from a BBC article on M-PESA dated November 2010, http://www.bbc.co.uk/news/business-11793290
10 The figures on Indonesia (population and mobile telephony users) refer to the situation in 2008. They originate from the publication Mobile Banking in Indonesia, International Finance Corporation (2010); http://www.trpc.com.hk/bank/reports/mobile_banking_100216.pdf
is also the regulatory authority) and providers of payment services on innovative financial products and initiate a pilot project. GIZ also facilitated an exchange with experienced regulators from other countries. A feasibility study helped the Indonesian central bank to assess the initial situation in the country. Finally, with GIZ support a private provider was found who is able to set up a central payment platform for the rural banks. Authorisation of this platform by Bank Indonesia is the next step in setting up mobile financial services for the broader public.

Establishing microfinance
GIZ policy advisory services, Uganda

The finance sector in Uganda has seen considerable growth in recent years: in 2010, 28 regulated banks provided financial services for the population through 488 branches. Most customers live in urban centres of population. These banks reach only a third of the people who live in the country. In particular, poor rural households, farms, and small crafts business that want to make cashless payments, save, or take out a microloan, are therefore often obliged to use non-regulated informal financial service providers, who have neither the appropriate technical facilities nor qualified staff. Furthermore, they often do not conduct their business on sustainable principles and do not tailor their products sufficiently to customers’ needs.

In 2003, legislation was introduced to supervise and regulate banks. GIZ advised Uganda’s central bank and the Ugandan Government on its development. Since then, microfinance institutions that also want to accept deposits from private savers have had to undergo
regular checks and prove that they conduct their business sustainably. Since the legislation came into effect, many microfinance institutions that used to be informal have managed to make the transition to the formal sector – and gained the trust of some 400,000 customers. A legal framework for the 2,000 or so informal savings and credit cooperatives (SACCOs), along with other microfinance institutions that are not yet regulated, is scheduled to be created by 2014. There are also plans to regulate electronic payment systems for mobile banking.

To protect deposits, Uganda’s central bank – with assistance from KfW Entwicklungsbank and GIZ – set up a deposit protection fund. To protect microfinance institutions from loan defaults, GIZ and KfW Entwicklungsbank supported the establishment of a credit rating agency, with which all regulated finance institutions are affiliated. The system makes it easier for poor customers, who are not able to put up securities, to access loans because it gives them the opportunity to build a positive credit history.

GIZ is assisting the Ugandan microfinance association AMFIU with the roll-out of a reporting system that will make it easier for customers to build a positive credit history, even if they are unable to put up any security. This also benefits cassava farmers in North Uganda.

GIZ is supporting the Ugandan association of microfinance institutions AMFIU and its 120 members in introducing a reporting system, which members can use to send their business data to AMFIU for evaluation. In the first stage, 70 SACCOs joined the system and 20 of them have already submitted reports. The system will enable SACCOs to better track, compare and analyse their services.

GIZ and KfW Entwicklungsbank are working with several international partners in this programme – the World Bank, the Danish International Development Agency (DANIDA), the International Fund for Agricultural Development (IFAD), the Alliance for Financial Inclusion (AFI) and the partnership initiative Making Finance Work for Africa (MFW4A).
**Encouraging experiences**

The use of inclusive business models for sustainable growth is still in its infancy, but experiences so far are encouraging. Over the next few years, we need to expand our knowledge, break new ground, reflect on projects and share our experiences with others – international donors, businesses and other stakeholders.

What have we learned? The examples we have presented show that projects start out under varying circumstances depending on the context. Where the frameworks for particular products are already well regulated, for example the microinsurance market in the Philippines, businesses are able to implement their business models quickly and therefore make a difference to many poor people within just a few years.

Market forerunners are important because solutions tested out in one country can often be successfully transferred elsewhere. For example, the mobile banking solution that is very successful in Kenya and is now also helping a lot of people in other countries, including Zambia. Other examples, such as the regulation of mobile financial services in Indonesia, indicate that inclusive business models are long-term propositions.

Appropriate legal frameworks do not appear overnight; they often take many years to establish. Stakeholders must enter into a dialogue and agree on their interests and ideas. People in developing countries first of all need to familiarise themselves with new products, for example in Burkina Faso, where small farmers are getting to grips with the demanding task of processing cashew nuts. The opportunities presented by cashew nuts are immense because the global market for this delicacy is constantly growing.

However, it’s often a matter of creating markets in the first place, such as that for the innovative biomaterial made from plant residues by a medium-sized German business. What’s needed here is not only a lot of research, but also public relations work and awareness-raising. Supporting these time-consuming development phases by helping stakeholders in developing countries as well as the investing companies and by initiating and maintaining dialogues is one of international development cooperation’s tasks and responsibilities.

In the future, it will be important to make successful business models, such as those presented in this publication, accessible to a far greater number of people. Only then will it be possible to maximise their effectiveness in reducing poverty. For this to happen, we need a detailed understanding of the success factors and how to create appropriate framework conditions.

German development cooperation hopes to convince more companies that this approach is worthwhile and will continue to support
two aims is to help achieve the greater goal of eradicating poverty around the globe. We are promoting inclusive business models in the interests of poor people worldwide. Through their inclusion in markets, these people become able to take their future into their own hands.

Employee of the customer call centre run by AllLife in South Africa, which provides life insurance for people with HIV and diabetes.