

Understanding Inclusive Business

Inclusive business has been identified by the G20 as a powerful force for inclusion that has the potential to contribute to the Sustainable Development Goals (SDGs). Inclusive businesses improve access to affordable, quality products and services, enhance productivity, and generate new income and livelihood opportunities across the base of the pyramid (BOP).

The G20 Inclusive Business Framework, developed in collaboration with the UNDP and the World Bank Group, identifies three approaches to inclusive business: Inclusive Business Models, Inclusive Business Activities, and Social Enterprise Initiatives.

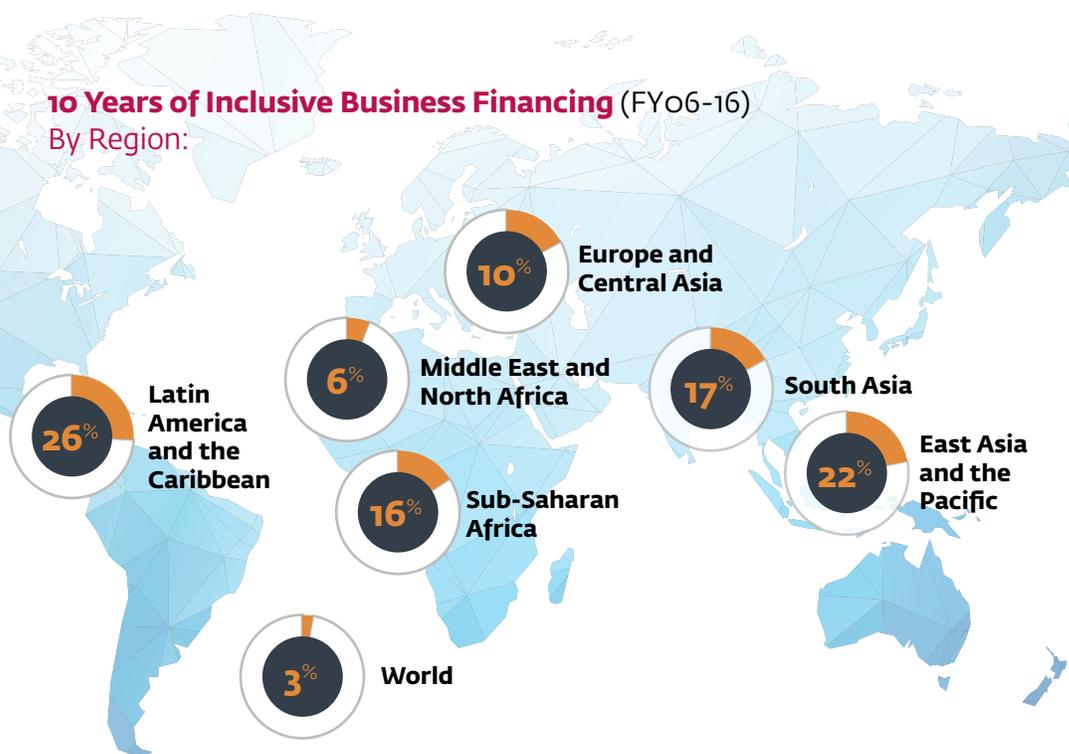
For over 10 years, IFC has been committed to financing emerging market companies with inclusive business models. It has committed over \$14 billion across a variety of regions and sectors.

Typically, inclusive business represents 10-20% of IFC's annual long-term commitments. While IFC provides a broad range of financing, including equity and guarantees, 70% of financing for inclusive business has been in the form of debt.

G20 Inclusive Business Framework Inclusive Business Approaches:

	Inclusive Business Models	Inclusive Business Activities	Social Enterprise Initiatives
BOP's Relationship to Business	Core Value Chain	Ancillary	Ancillary or Core Value Chain
Financial Return Expectations	Markets Returns	Markets Returns or Below Market Returns	Non Profit Maximizing
Primary Funding Type	Commercial	Commercial	Mixed

10 Years of Inclusive Business Financing (FY06-16) By Region:



By Sector:



Characteristics of inclusive business models

The Inclusive Business Model approach is characterized by commercial funding, market-rate return expectations, and a core value chain relationship with people at the base of the pyramid. These traits indicate a clear separation from philanthropic methods. In fact, IFC finds its own rate of return on inclusive business investments to be no different than IFC's overall portfolio. IFC analyzed its inclusive business commitments over the past three years to provide additional details on the types of companies that implement inclusive business models.¹

ROLES IN THE VALUE CHAIN

To integrate people at the base of the pyramid into their core value chain, companies with inclusive business models tap into base of the pyramid suppliers, customers, retailers, and/or distributors.

At what point in the value chain companies engage the base of the pyramid varies based on the company's sector and business model.

In some sectors, IFC clients engage the base of the pyramid almost exclusively as customers. This is typically the case in education, financial services, health, housing, ICT, and infrastructure. Between FY14-FY16, 91% of IFC's new inclusive business clients engaged base of the pyramid customers. 86% of IFC's inclusive business commitments in the last three fiscal years were directed to these sectors.

The 12% of IFC's new inclusive business clients that work with base of the pyramid suppliers are exclusively found in the agribusiness sector.² These are companies that source products from smallholder farmers. The agribusiness sector represented 11% of IFC's commitments to inclusive businesses in the last three fiscal years.

¹ Methodology note: Between FY14 and FY16, IFC committed financing to 193 inclusive businesses. Portions of this analysis are centered on these companies, which are referred to as "new inclusive business clients" in the text. For certain variables, such as company age and geographic scope, the analysis was conducted at the parent-level by grouping subsidiaries together where relevant, in order to reflect the nature of the company's operations more accurately. This results in a sample of 156 companies for selected variables. All data is based on information available at the time of IFC's commitment. Analysis of the past three years may not be representative of IFC's overall inclusive business portfolio. The analysis is intended to provide a description of the sample of clients and comparisons between groups are not necessarily statistically significant.

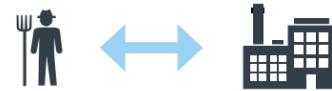
² Percentages do not add up to 100% as companies may engage the base of the pyramid in multiple roles.

A small number of IFC's new inclusive business clients engage the base of the pyramid as retailers. These are companies that distribute food and beverage products through a network of informal vendors and small shops.

Within sectors, companies may employ different inclusive business models. Some IFC clients combine aspects from multiple models to have multiple touch points with the base of the pyramid. Over the past three years, 5% of new inclusive business clients work both with base of the pyramid suppliers (farmers) and customers. 1% work both with base of the pyramid retailers and customers.

For example:

- Selling agricultural inputs to smallholder farmers and later buying the farmers' production.



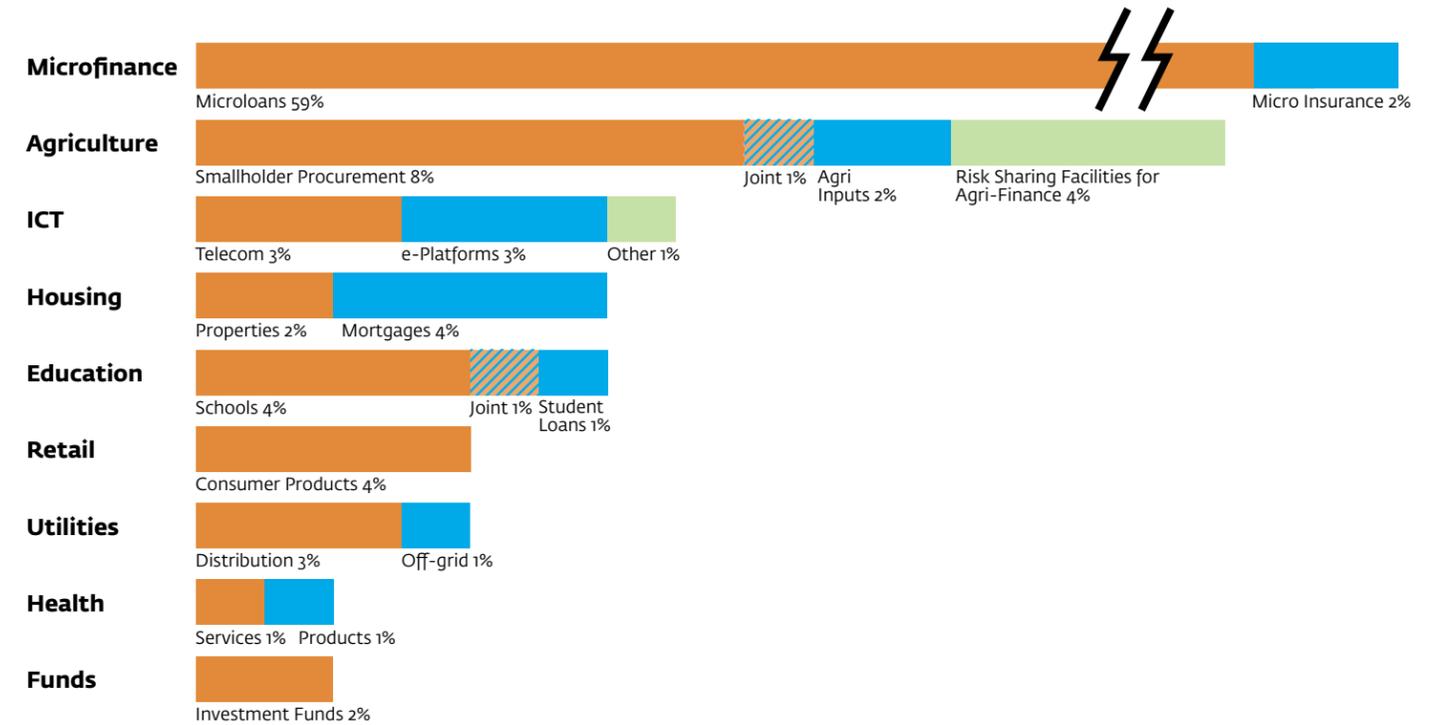
- Buying produce from smallholder farmers, processing it, and selling the final product to base of the pyramid customers.



- Engaging base of the pyramid retailers in order to reach base of the pyramid customers.



Common Types of Inclusive Business Models (FY14-FY16, n=193)

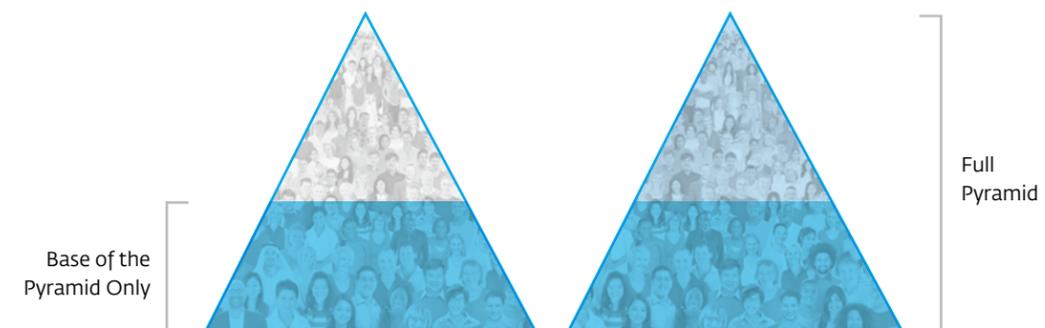


FULL PYRAMID vs. BASE OF THE PYRAMID

Companies with an inclusive business model incorporate the base of the pyramid into their core business operations. They could either:

1. Focus primarily on the base of pyramid.
2. Focus on the full economic pyramid—targeting multiple income brackets, one of which is the base of the pyramid.

While there is a common perception that most inclusive businesses only target the base of the pyramid, IFC finds the 'full pyramid' approach to be more common among its clients. This finding is consistent across sectors—over the past three years, 15%-20% of new inclusive business clients in each sector focus predominately on the base of the pyramid. With 33%, the agribusiness sector has the highest share of new clients that focus only on the base of the pyramid.



79% of new inclusive business clients use the full pyramid approach

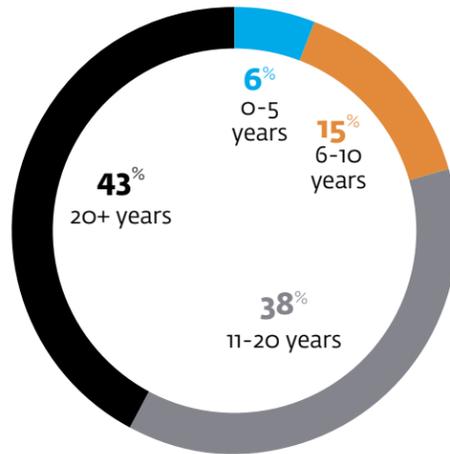
Analysis of IFC's new inclusive business clients

(FY14-FY16)

AGE OF COMPANY

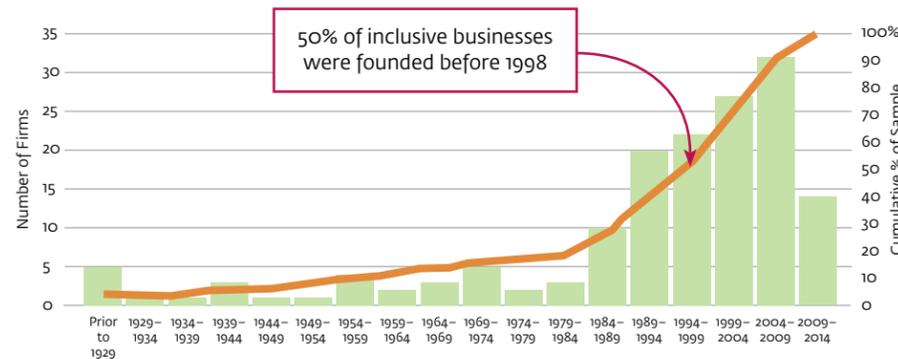
Many clients in IFC's analysis were established a long time ago, enabling them to develop their inclusive business models over time — long before the term became popular.

Sectors with a high proportion of younger inclusive businesses include health, education, and infrastructure.



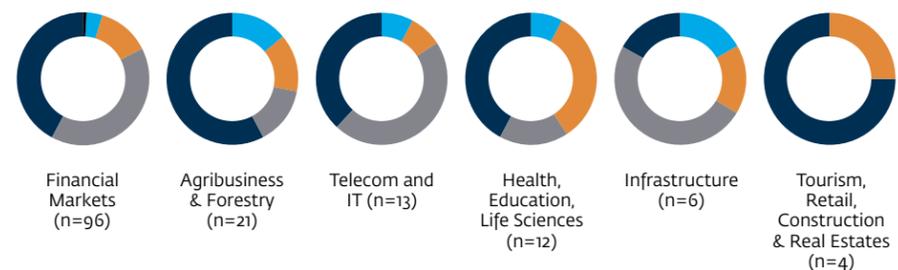
n=156

- 0-5 years
- 6-10 years
- 11-20 years
- 20+ years



By Sector

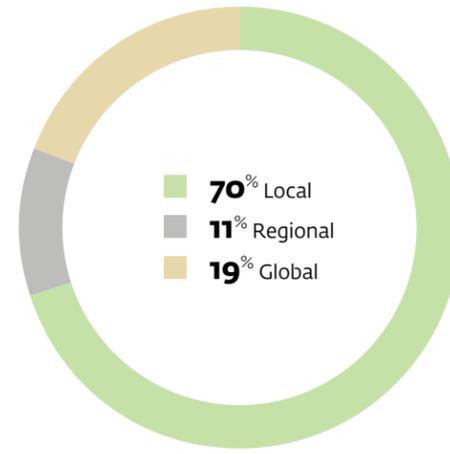
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GEOGRAPHIC SCOPE

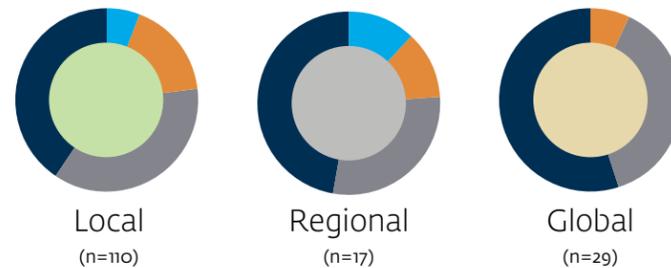
Local* companies constitute the vast majority of IFC's new inclusive business clients, even though the efforts of global companies are often more commonly recognized. Many of these local companies have been operating for several years.

Telecom and technology sectors, with operations that may be easier to replicate across borders, have a high proportion of firms with a global scope.



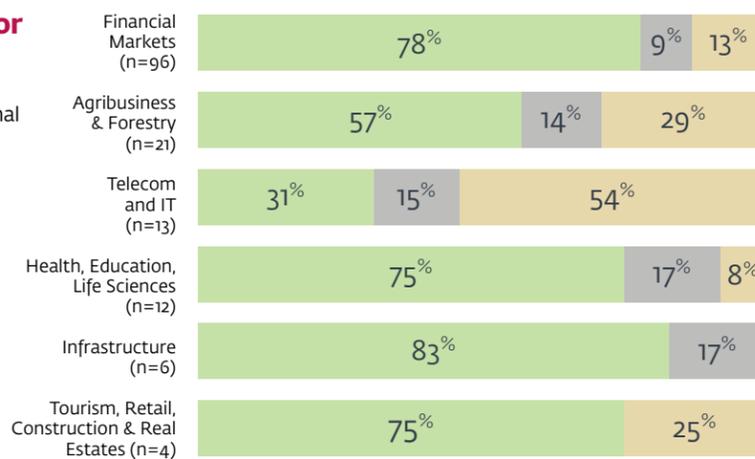
By Age

- 0-5 years
- 6-10 years
- 11-20 years
- 20+ years



By Sector

- Local
- Regional
- Global



*Local companies are considered to be those that operate in one country of a single region, regional companies in multiple countries of a single region, and global companies in two or more regions.

FOUNDER/FAMILY INVOLVEMENT

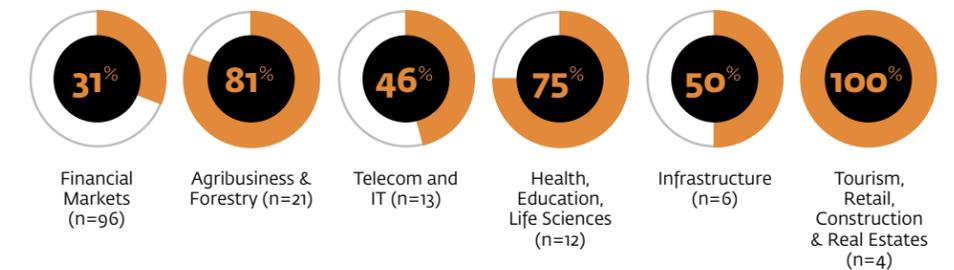
A significant share of IFC's new inclusive business clients still have the company's founder or the founder's family involved, either as a senior-level decision-maker or with an ownership stake. This is particularly evident in agribusiness, health, education, and housing.

A high percentage of clients in agribusiness have founder or family involvement despite being older companies.

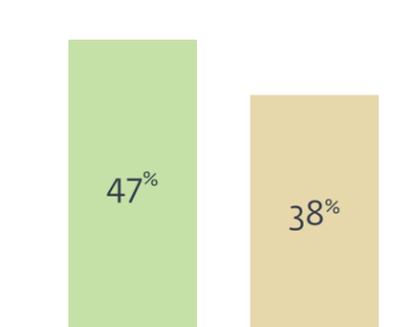
From FY14-16, **46%** of clients had the involvement of a founder or a family-member.

By Sector

- Founder/Family involvement
- No involvement

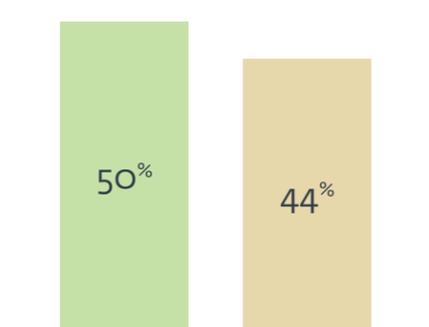


By Geographic Scope



47% of local and regional clients have founder or family involvement... compared to 38% of global.

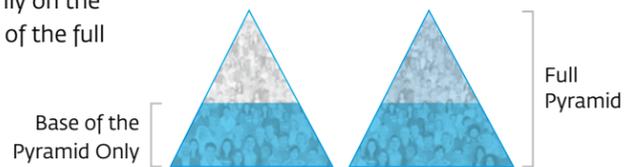
By Company Age



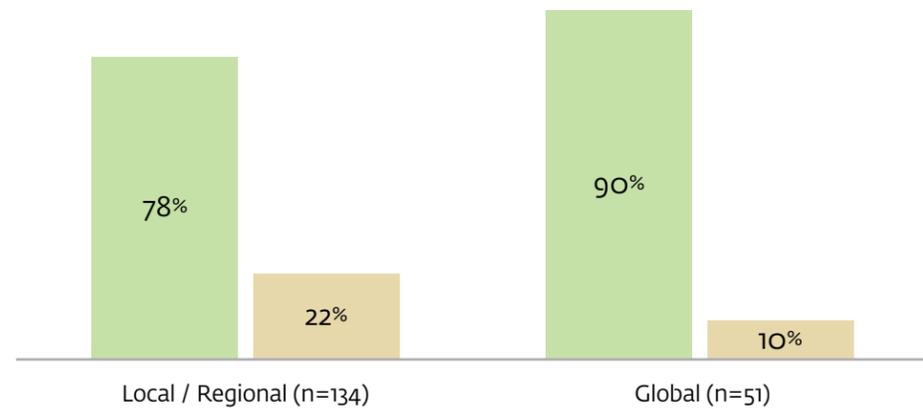
50% of clients 10 years or younger have founder or family involvement... compared to 44% of older companies

BASE OF THE PYRAMID FOCUS

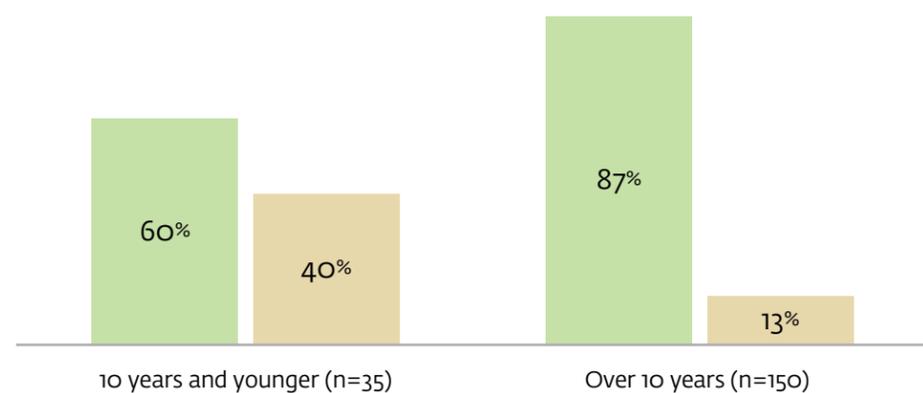
Among local and younger firms, there is a high proportion of inclusive businesses that focus primarily on the base of the pyramid, instead of the full economic pyramid.



By Geographic Scope



By Age

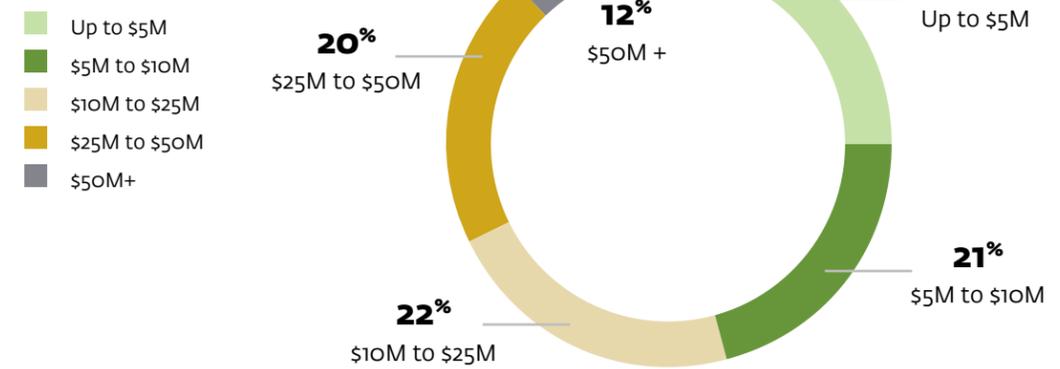


PROJECT SIZE

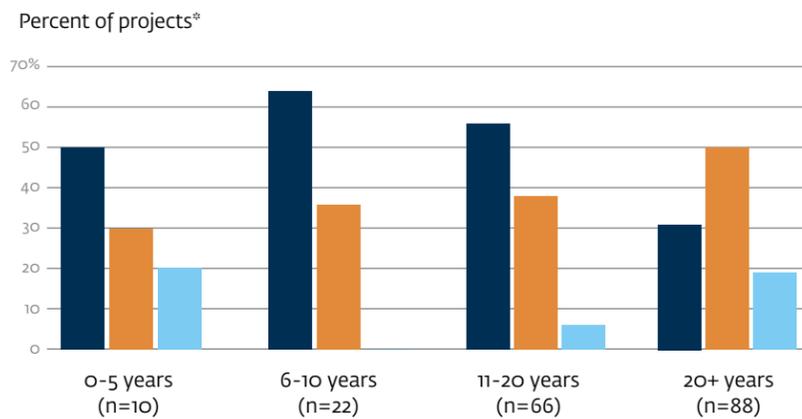
Many inclusive businesses are much larger than people think and are able to absorb large investment amounts, including firms that were established recently as well as those that are local in geographic scope.

54% of IFC's new inclusive business commitments were over \$10 million.

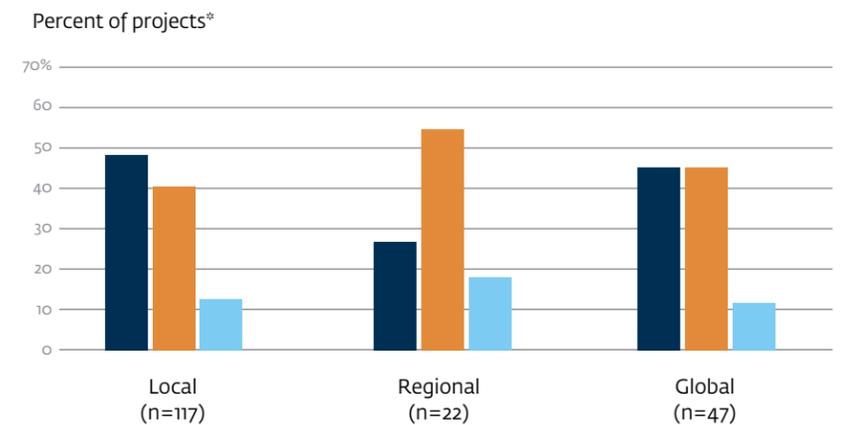
IFC Commitment Size



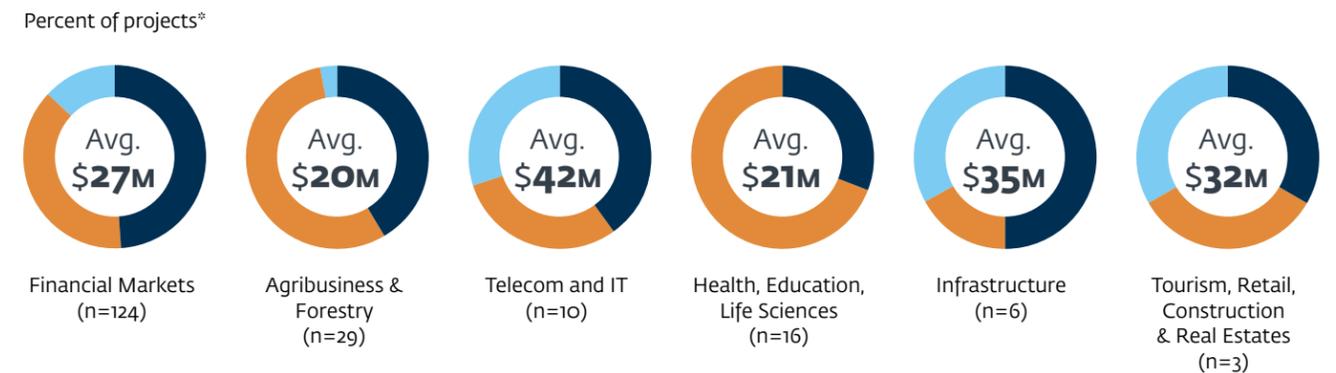
By Age



By Geographic Scope



By Sector (IFC Commitment Size)



* In some cases, one company could be engaged on multiple projects.

IFC's Inclusive Business Team

Established in 2010, IFC's inclusive business team works to drive more inclusive growth, helps companies to engage the base of the pyramid and deepen their development impact, and advances the inclusive business field globally. The team focuses on:

- **Action Leadership:** Pioneering new ways to advance inclusive business, for example by supporting IFC's Social Bond Program, by sharing base of the pyramid market data, and by developing the G20 Global Platform on Inclusive Business to support policymakers interested in inclusive business.
- **Client Solutions:** Leveraging information and insights to help companies tailor or target product and service offerings, optimize sales and distribution models, expand or improve base of the pyramid engagement, and measure performance.
- **Thought Leadership:** Defining and shaping the inclusive business field by developing an inclusive business framework, creating typologies of inclusive business models, and curating and sharing the experience of IFC clients through a library of case studies and reports. IFC also collaborates with external stakeholders including other development finance institutions and partner countries.

For more information on inclusive business at IFC:

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Creating Markets, Creating Opportunities