

Policy options for inclusive business: Realizing industrial transformation and inclusive growth

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1. Inclusive business: An analytical perspective

- Inclusive business models **include poor people into value chains as producers, employees and consumers**. (UNDP 2010, *The MDGs: Everyone's Business: How Inclusive Business Models Contribute to development and who support them*. p.3)
- Inclusive business models include the poor on the demand side as **clients and customers**, and on the supply side as **employees, producers and business owners** at various points **in the value chains**. (UNDP/Growing Inclusive Markets (2008), *Creating Value for All: Strategies for Doing Business with the Poor*. p.14)

Inclusive business:

An analytical perspective (continued)

- **Business-led scaling up** at the base of the pyramid: based on the understanding that scale is not merely a desirable target for BOP business but that it **constitutes an essential condition for their success**.
- This is because BOP business are different from normal commercial business for a variety of reasons: **limited purchasing power of low-income customers; required innovative technology together with normally high levels of up-front investments; awareness and acceptance by users, difficulty of delivery** and so forth. (Kato, Hiroshi and Akio Hosono (2013) in Chandy, Hosono, Kharas and Linn (eds.) (2013), *Getting to Scale: How to Bring Development Solutions to Millions of Poor People*, Brookings Institution

Inclusive business: An analytical perspective (continued)

- Several studies based on successful experiences on One Village One Product (OVOP) initiatives confirm its effectiveness for incubating and promoting inclusive business: Kurokawa, Tembo and TeVerde (2010) *Donor Support to Private Sector Development in SubSahara Africa: Understanding the Japanese OVOP Programme*, ODI/JICA; Kurokawa, Tembo and TeVerde (2010) *Challenges of OVOP in SubSahala Africa* JICA-RI; Haraguchi (2008), “The One Village, One Product (OVOP) movement: What is, how it has been replicated, and recommendations for a UNIDO OVOP type project. UNIDO

2. Focus of this presentation

- “**Inclusive business**” perspective has been gaining influence in business and international development circles in recent years.
- This presentation focuses on both (i) inclusive business to **meet the demand of the base of the pyramid, providing goods and services to which they otherwise do not have access**, and (ii) inclusive business for people at the base of pyramid to participate in and benefit from the **production of competitive goods and services**.

Focus of this presentation (continued)

- It aims to gain clues on the “inclusive business” drawing from outstanding cases. Some **successful cases will be discussed to suggest policy options for inclusive business, which is an important pathway to realize industrial transformation and inclusive growth.**
- For the first category of inclusive business, to **produce goods at scale to make their price affordable for the poor and their delivery expedite for them is crucial.**
- For the second category of inclusive business, to create and commercialize competitive products/services based on local resources, self-reliance and creativity, and human resource development is essential. From this perspective, the **One Village One Product (OVOP) experiences will be discussed as an effective approach for incubating inclusive business.**

3. Inclusive business **for BOP**: the poor, on the demand side, **as client and customers** (also as workers for delivery)

- Comprehensive approach to address constraints of inclusive business for BOP: (1) affordable price is normally enabled by production at scale, which requires “finance for scale.” (2) Delivery at scale is essential to make available new products for BOP. (3) Partnership at scale with governments, NGOs, international organizations and other stakeholders.

Grameen Danone ■ MNC, Bangladesh

Microfinance institution Grameen and French dairy company Groupe Danone established a joint venture whereby a self-sustainable social business was set up with the objective to create a yogurt fortified with micro-nutrients to decrease malnutrition for the children of Bangladesh. The yogurt is produced with solar and bio gas energy and is served in environmentally friendly packaging. Around 25% of low-income children living around the factory are regular customers, 700 village ladies are getting an additional income by selling these yogurts door-to-door, and 370 micro-farmers around the plant sell daily to Grameen Danone, thus improving their income by approximately 40%.⁹⁷ The first plant started production in late 2006 and the 10-year plan is to establish 50+ plants, create several hundred distribution jobs and develop self-degradable packaging. In 2007 Danone launched a mutual fund, danone.communities, designed to finance the expansion of Danone's social business in Bangladesh as well as encourage the development of new social businesses that fight malnutrition and poverty in developing countries.

Roots of “Grameen Lady” is “Yakult Lady”; Grameen Danone is the first social business of Danone

Hirano, Katsuhiro, Executive Director of Yakult, was invited as a Visiting Director of Danone (2004-07) by Simon Israel, Vice President of Danone in charge of the Asia-Pacific Region. During this period Hirano explained to Danone “Yakult Philosophy” and “Yakult Model”

Yakult Danone India, a joint venture, was formed in 2005

Source: Hirano, Katsuhiro (Former Director of International Department, Yakult) presentation at “Seminar of Possibilities of BOP Business and Partnership with JICA”, 2010; Sugawara, Hideyuki (2009). The Source of BOP Business: Simultaneous Achievement of Social Profits and Enterprises’ Profits by Yakult”

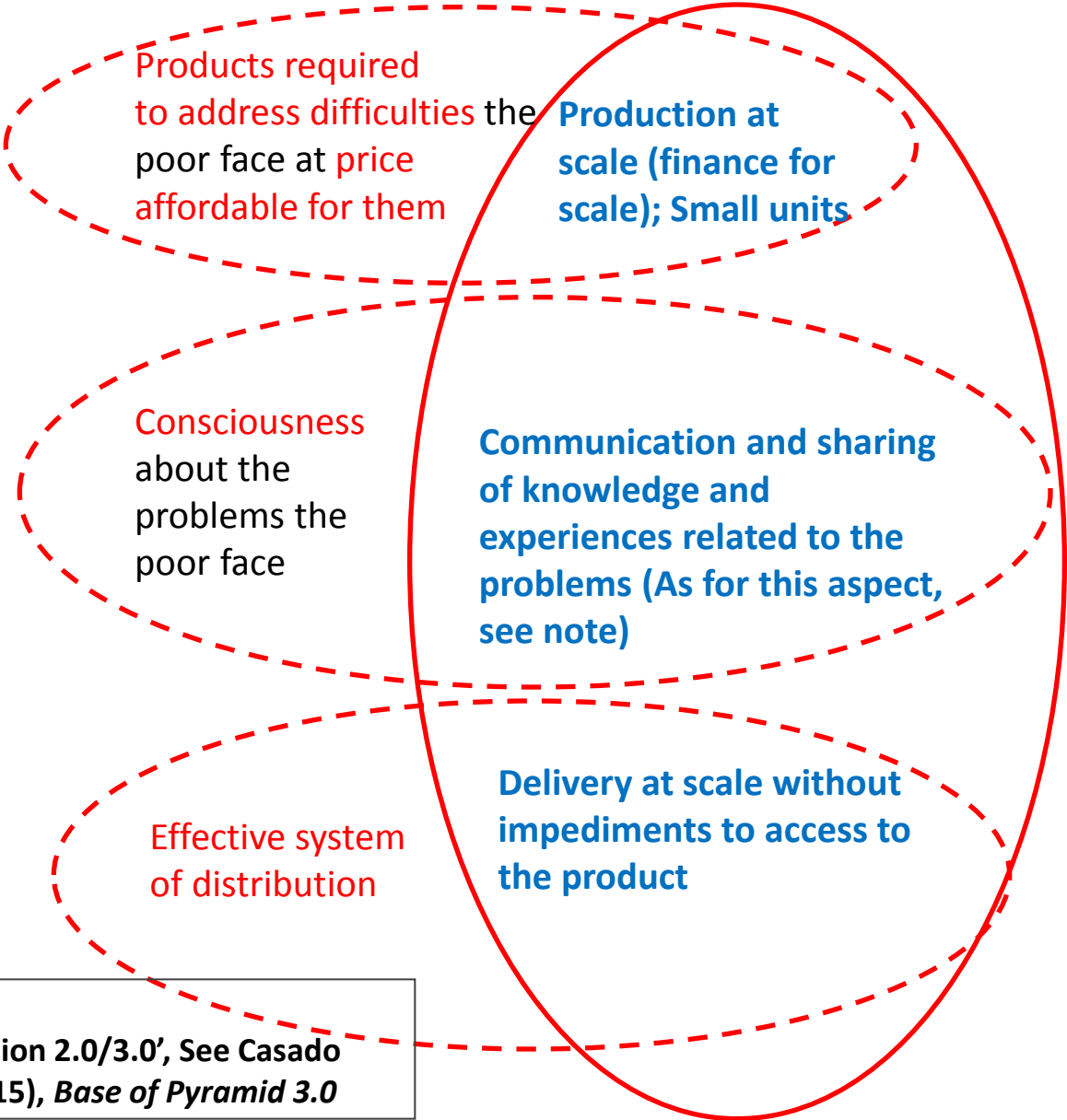
Short history of Yakult

- Dr. Minoru Shirota (Kyoto University), microbiologist, succeeded in culturing a strain of lactic acid bacteria beneficial to human health.
- Yakult is a probiotic drink, which contains Lactobacillus casei strain Shirota. and is considered an effective drink for preventive health care, especially for children, to address infectious disease and malnutrition.
- Dr. Shirota established Yakult in 1935.
- Yakult Lady system was introduced in 1963. Yakult started international business in 1964 requested by several developing countries.
- The international business continuously expanded to 32 countries as of 2013.
- 42.300 Yakult Ladies (many of them single mothers) are working today.

Yakult in Indonesia

- Yakult Indonesia started in 1990. It sold 1.100 million bottles. (3 million bottles a day)
- 5000 Yakult Ladies: they are popular and well known in the community and neighborhood. They communicate with customers (mothers) on health care of children

**Promotion of new industries
for the poor as customers**



Source: Author
Note: As for BOP, 'version 2.0/3.0', See Casado Caneque and Hart (2015), *Base of Pyramid 3.0*

Inclusive business for BOP as customers and clients

Yakult

- **Technology:** Effective for children's health (Basic and applied technologies for years of success)
- **Affordability:** small units and production at scale
- **Consciousness:** communication with Yakult Ladies and other factors
- **Delivery at scale:** Daily delivery by Yakult Ladies and at shops

Sumitomo Chemical (Olyset Consortium)

- **Technology:** Long-lasting insecticide-treated mosquito net (LLINs), wide mesh size (good air flow) and safe
- **Production at scale** in Tanzania, financial support by JBIC
- **Consciousness:** WHO, UNICEF, NGOs
- **Delivery:** Exxon Mobil sells nets through its Mobil Mart service stations

4. Inclusive business **by BOP**: the poor, on the supply side, **as employees, producers and business owners**

- Comprehensive approach to address constraints of inclusive business by BOP:
- (1) learning, sharing experiences and knowledge, identifying and using local resources
- (2) Improvement of skills, quality of products, packaging, and branding through *kaizen* and other approaches.
- (3) Business matching, test marketing, trade fairs, etc.
- (4) Related policies, administrative system, improved access to finance, formation of associations, promotion of local brands, etc.

**Promotion of new industries and their exports
(including inclusive business such as OVOP) (1)**



Source: Author

**Promotion of new industries and their exports
(including inclusive business such as OVOP) (1)**



Malawi: The OVOP pioneer in Africa

- Malawi is one of the first countries in Africa to implement the "One Village, One Product" movement, which was originally pioneered in Oita Prefecture in Japan. The idea behind the concept is that each municipality should have at least one competitive product that is distinctively its own to offer to the market. Since 2003, Malawi has promoted the initiative as part of its official government programs for economic development in cooperation with JICA.
- In 10 years, number of participants in OVOP in Malawi increased to 28 000 (more than 100 groups)
- Source: JICA, *Featuring Africa* (2013, May 2) and other publications

Some outstanding cases

- One of the most popular items to come out of Malawi's "One Village, One Product" initiative is *moringa powder*. Made from the **leaves of the highly nutritious moringa tree, the powder is said to contain twice as much protein as yogurt, vitamin C levels seven times the amount of oranges, and four times as much calcium as milk**. The powder can be boiled and then applied to the body as a medicine, drunk as tea, or added to food.
- Another Malawian product is the 100% *natural mapanga honey*, which comes from the nectar of mango flowers in the south of the country.
- Another noteworthy example is the growing lineup of products made from the baobab tree. In Malawi, **oil extracted from the fruit of the baobab tree is commonly used as a cooking ingredient**. In Japan, the vitamin-rich oil is popularly used as a moisturizing ingredient in cosmetics. A sweet-and-sour jam made from the fruit is also popular.
- Source: JICA, *Focus on African Development* (Press release at TICAD V)
- http://www.jica.go.jp/english/news/focus_on/ticad_v/articles/article19.html



Cooperative members are selling OVOP products at an international trade fair. (2012) Source: JICA
<http://www.jica.go.jp/oda/project/1000677/field.html>



An antenna shop (pilot shop) of OVOP products in the capital of Malawi. Shopper is giving a detailed information of products. Source: JICA
<http://www.jica.go.jp/oda/project/1000677/field.html>



OVOP products at an antenna shop (Malawi).

Source: Kenshiro Imamura (JICA)

<http://www.jica.go.jp/oda/project/1000677/field.html>



Members of cooperative visited a model factory of OVOP during a study tour to learn about quality control.

Source: JICA

<http://www.jica.go.jp/oda/project/1000677/field.html>



Training course for Assistant Cooperative Liaison Officers (ACLOs) of OVOP. Source: JICA
<http://www.jica.go.jp/oda/project/1000677/field.html>



Vice-President of Malawi visited a booth of of OVOP products and had a meeting with members of cooperatives. (June 2012) Source: JICA
<http://www.jica.go.jp/oda/project/1000677/field.html>



Members of Kamwendo cooking oil cooperative society. Cooking oil, a new product, developed by the society at the center of the photograph. Source: JICA
http://www.jica.go.jp/topics/news/2013/20130502_01.html

5. A possible integral approach

- Communities' and their members' learning on improvement of their livelihood will enhance their capacity to become more conscious of their needs (and challenges) and BOP products to satisfy them.
- It will enable them get involved in “**participatory platforms for inclusive products and service design**”, (Casado Caneque and Hart (2015). *Base of Pyramid 3.0*, p.8) on demand side of inclusive business.
- It will enable at the same time strengthen their capacity, on supply side, to become **employees, producers and business owners** at various points **in the value chains** participating in inclusive business.

Livelihood improvement approach

- The livelihood improvement approach, also known as the life improvement approach, is a technique developed to improve the lives of people in rural Japan, particularly in the late 1940s and 1950s before the nation entered its period of high economic growth. The technique improves lives using limited local resources rather than foreign systems and technologies. **Rather than simply imposing targets for expanded agricultural production and output, it aimed to identify problems and put the job of devising and implementing solutions in the hands of the local people. This stimulated a wider range of economic activities and improved lives.**
- Source: JICA News (April 19, 2013): “Central America and the Caribbean: 'Life Improvement Approach' Helps Farmers Increase Self-Reliance”

Consciousness about the needs of residents by themselves

- For example, in a rural village in Nicaragua, farmers didn't get enough nutrition. The farmers, with the help of extension workers, started home vegetable gardens on their idle land, which **improved their nutrition and health**. They even **made some cash by selling their surplus production, which was then used to buy seeds**.
- This learning would enable farmers strengthen their consciousness about their needs, which could be satisfied by their own efforts and by BOP products adapted to their conditions. At the same time, farmers will create a OVOP product to become suppliers in the inclusive business.
- Courses on livelihood improvement were provided to participants from 20 countries, since 2002.
- Source: same as the previous slide.



A waist-high stove is introduced to a Costa Rican village with much less trauma to hips. Source: JICA
http://www.jica.go.jp/english/news/field/2013/130419_01.html



Nicaraguan women explain an innovative, original way to make folk crafts with pine needles available in their own community

Source: JICA, http://www.jica.go.jp/english/news/field/2013/130419_01.html

Concluding remarks

- Inclusive business as defined by UNDP (2008, 2010) has very different two components
- As challenges of inclusive business is multiple, a comprehensive approach is needed, while some effective strategies to start up, keep momentum and scale-up are essential
- To strengthen capacity of people for both type of inclusive business, livelihood improvement initiatives could be an effective approach

Concluding remarks (continued)

- From the above-mentioned perspective, the One Village One Product (OVOP) experiences could be highly evaluated as an effective and comprehensive approach for incubating and promoting inclusive business. OVOP creates and commercializes competitive products/services based on local resources, self-reliance and creativity, and strengthen capacity development of local people.
- For inclusive business to address effectively the needs of the poor, on the demand side, to identify needs and to innovate products, with participation of the customers, are essential. Partnership with stakeholders at scale with liaison such as Yakult Ladies appears to be crucial.

Thank you very much for your attention

- This presentation was prepared for Session 2 of Global Development Network's 16th Annual Global Development Conference (July 11th 2015)
- This presentation is preliminary and personal