SPOTLIGHT
on Inclusive Business

The Practitioner Hub FOR INCLUSIVE BUSINESS

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Is Inclusive Business showing results?

Progress across three portfolios supporting 160 companies

Are inclusive businesses reaching scale? What scale is that, in terms of revenue and reach? How many fail? These questions are impossible to answer because there is simply not enough comparable evidence. But buried beneath the surface, there is a wealth of monitoring data within programmes that have been supporting inclusive business, whether with grants, investment, technical support or other backing. This Spotlight draws on evidence from three portfolios, that have in total supported 160 companies, to share information on what patterns emerge from a combined data set.

The three portfolios have all supported inclusive businesses, though at different stages and with some different priorities by instrument, company type, sector and geography. The data analysed here is from:

Innovations Against Poverty (IAP), a Sida programme that provided grants to innovative start-ups, from 2011 to 2013. Companies selected were all early stage, some pre-revenue, all pre-profit.

Business Innovation Facility (BIF) (pilot), a DFID-funded programme providing technical support to inclusive businesses of any size, from 2010-2013. Size and stage were diverse, very few had reached positive cash flow.

Business Call to Action (BCtA), a multi-donor initiative profiling companies that have made a public commitment to an inclusive business initiative. It is an ongoing programme operating since 2008. Initiatives are somewhat more established, with half currently having reached break even.

In all cases, the businesses combine potential for commercial viability with a business model that engages people at the base of the pyramid (BoP). Figure 1 highlights the main distinguishing features of each portfolio and its data set.

Figure 1: The three portfolios

innovations against poverty

30 start-up social enterprises
Cash grants to 29 businesses.
2 cash flow positive
Reliant on grant finance
Data from M&E (N=28)

Business Innovation Facility

40 initiatives of start-ups, medium/large companies & MNCs
Technical assistance to 40 companies, advice to hundreds
4 cash flow positive
Several seeking finance
Data from M&E (N=36)

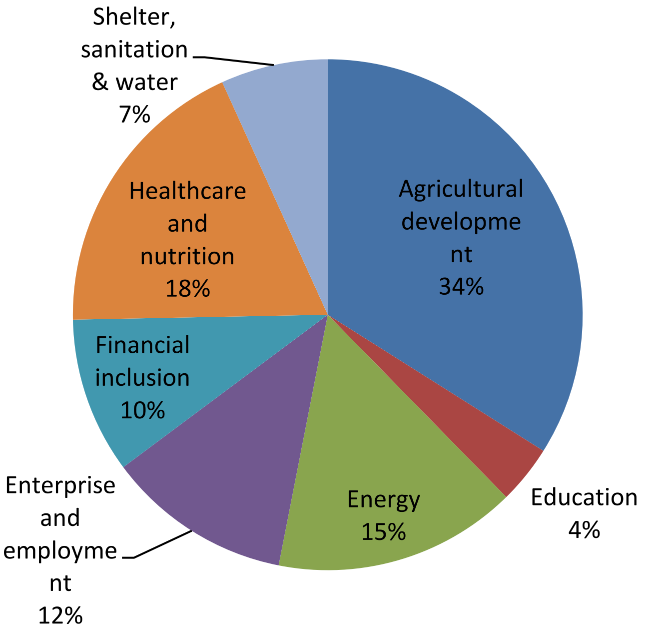
BUSINESS CALL TO ACTION

94 initiatives: 50% MNC/large, 50% SME
Profile and network support to 94 members
50% cash flow positive
Secured or seeking finance
Data from members (N=94) and survey (N = 49)

The inclusive businesses are mainly in Sub Saharan Africa (45%) and South Asia (33%) reflecting the focus of BIF and IAP in these regions, with initiatives in other regions or across regions coming from the BCTA portfolio.

The spread of the businesses across different sectors varies slightly, with more agribusiness in the BIF portfolio, more energy in the IAP portfolio, and more financial inclusion in the BCtA portfolio (the businesses have been categorised by the sector in which they have their impact, rather than the industrial classification of the parent company).

Figure 2: Sector coverage of the 3 portfolios (N=163)



The available data is slightly different for each portfolio, but nevertheless can be used to answer three questions:

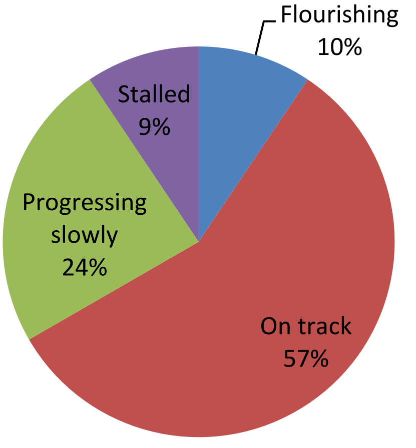
1. How common is failure, how common is success?
2. What levels of revenue are these businesses reaching after some years of operation?
3. What level of reach to people at the BoP are businesses reaching after some years of operation?

Within each portfolio, a host of other issues have been explored, including business models for different types of business, sector comparisons, drivers of viability, significance and depth of impact, and specific needs of start-ups or MNCs.

1.Making Progress

It is common knowledge that a share of failures must be expected when backing innovation. If 100% of businesses succeeded in a portfolio, it probably implies that there was little risk taking to back real innovation. In all three portfolios, fairly similar patterns were found: that a small minority count as flourishing or failed, a large majority are 'progressing' after several years, with a good share of those 'progressing slowly.' The average split is shown in Figure 3.

Figure 3: Status of the initiatives (N=117)

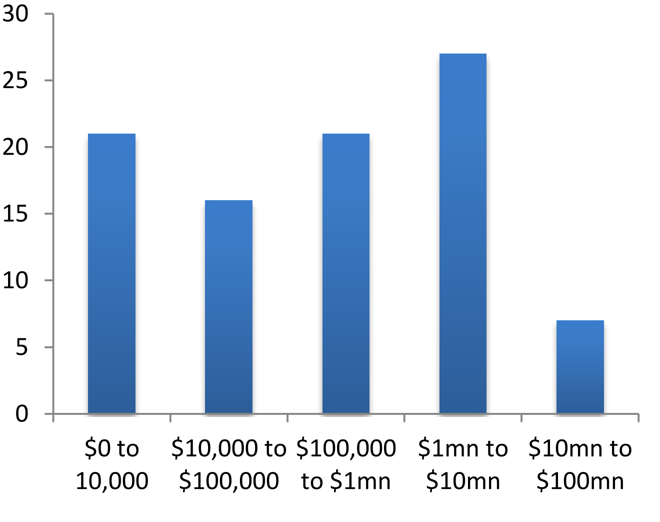


These judgements represent a moment in time: the majority have neither failed nor 'made it' yet. Looking forward another five years, we would expect the flourishing and the failed both to increase in their share.

2. What level of revenue is reached?

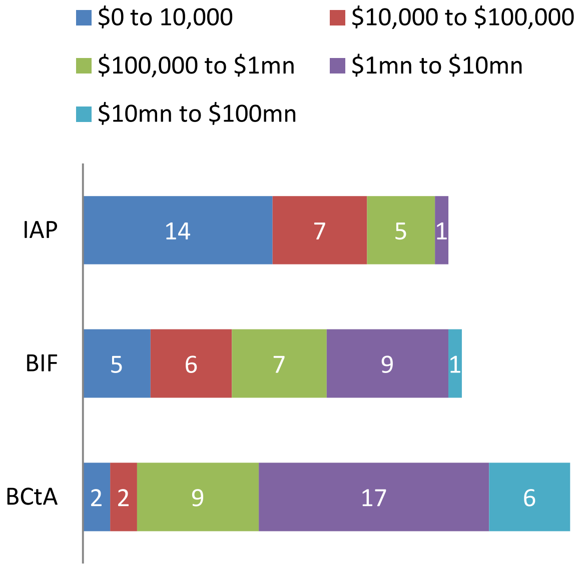
As expected, annual revenue is highly divergent. The revenue relates to the IB initiative – which may be the entire company (of a social enterprise) or may be just one project of a medium, large or national company (which account for 50% of the BCTA portfolio and 60% of the BIF portfolio). As figure 4 shows, the most common category of revenue is $1mn to $10 mn per year, and the second largest category is $0-10,000 per year.

Figure 4: Revenue of the initiatives (N=91)



It is good to see that the data 'makes sense' in that there is a correlation between maturity of the IB initiative and revenue per annum. Revenue among companies in the IAP programme, supporting start-ups, is typically much lower than that in the BCtA portfolio, where half have reached breakeven. In IAP, half the businesses were still at or near zero revenue at the end of their support, as they were still emerging from the design phase. In the BIF portfolio, annual revenue figures diverged widely reflecting the diversity of the portfolio. For those that have two data points based on actual turnover from the first to second year of BIF support, the increase was 62%. The BCtA portfolio, with relatively more established businesses, is the one that clearly places $1-$10 mn as the 'typical size' for inclusive businesses that are established but still seeking growth.

Figure 5: Business revenue, by programme (N=91)



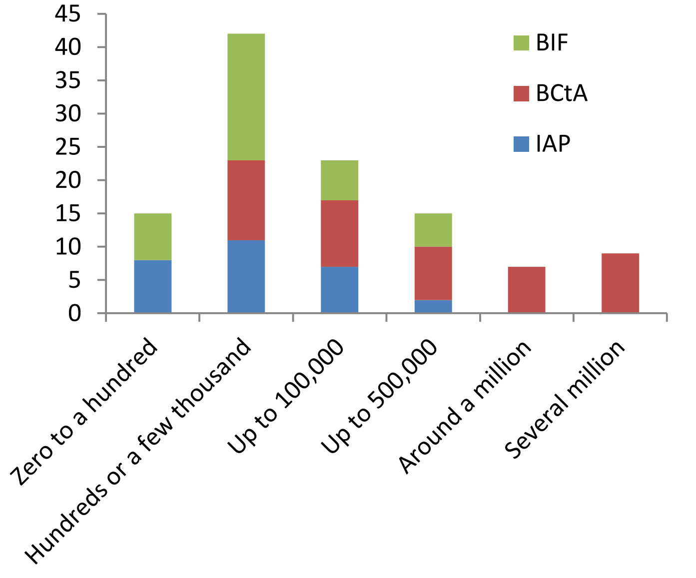
3. Reach to the BoP?

All of the businesses aim to engage people at the Base of the Pyramid, as consumers or suppliers (as their primary beneficiary) and sometimes also as entrepreneurs/distributors and employees too (as secondary beneficiary). Counting the number of primary beneficiaries reached is certainly not an adequate measure of social impact – it ignores depth of impact and relevance to poverty reduction, reach into lower-income quintiles, and other dynamic results of innovation or demonstration. But counting BoP beneficiaries is one essential step forward to building the evidence base.

The data for the three combined portfolios shows that 'hundreds or thousands' of BoP beneficiaries is the most common category. Most of the businesses in this category are either:

- still at early pilot or post-pilot stage;
- engaging the BoP as suppliers (usually farmers supplying produce), where a business may expect to reach thousands, but not the many millions that consumer-focused businesses reach.

Figure 6: Beneficiaries reached, by programme (N=90)



However, there is striking news at the other end of the scale. If we multiply by household size (and that is a big IF, but an unavoidable one when making comparisons, as some companies in the portfolio have done so), then 13% of the businesses are reaching a million, or even millions, of BoP consumers. These businesses are in the BCtA portfolio, and are mainly providing financial inclusion, off-grid energy and health-related services.

Confirming or challenging our assumptions?

This data set has no claim to be representative of the global universe of inclusive business initiatives. It is important to note its spread from start-up to MNC, and sector diversity. Detailed disaggregation has limited validity, as samples quickly get too small.

But despite the caveats, there is important learning to be had from looking at the progress of so many companies over several years of support.

The most important picture to emerge is of a long slow journey. The final report from the BIF Pilot, the 4Ps of inclusive business, estimated that concept to scale takes around a decade. Looking now at this bigger data set, there is nothing to challenge that assumption. If anything, a decade was optimistic. After one to two years of IAP support, most start-ups were only just registering in revenue and reach though a few are now scaling with commercial finance. In the more mature BCtA portfolio, many of the SMEs are at 'breakthrough stage' just securing their series A, B or C financing round, and reaching faster growth. But they expect to be on a steep growth line for several years.

Expectations are one thing and actuals another. In all three portfolios we can see actual growth, but also that actual growth is almost invariably well below the projected annual growth rate or social impact targets that are committed at the start. There are a few cases of companies exceeding their targets, but they are the minority.

On the positive side, if we already knew the journey was long, the data also provides some early evidence that companies are breaking through. Not many in the BIF and IAP portfolio were earning millions of dollars or reaching millions of people but we made estimates that a decent share would do so within a few years. Performance of this wider sample seems to validate that.

In terms of reach to the BoP, businesses that are recently established emerging and maturing companies are outperforming the inclusive business initiatives of the large and multinational companies. The two groups are performing comparably in terms of revenue generated.

When we started BIF, there was an assumption that small companies are good for innovation, and MNCs are best to get to scale. So far, there is nothing to prove this and, if anything, plenty to challenge it.

A tantalising set of differences between sectors starts to emerge from this data. But given the diversity, the data set is too small. Reflections on the BIF portfolio found the agribusinesses struggling to deal with the challenges of smallholder agriculture. Reflections on the BCtA portfolio found financial inclusion flourishing, and energy enjoying both a larger share of failures and of breakthroughs than other more 'steady' sectors. This is one of many areas where more evidence is needed. If more donor funded programmes would pool and share their M&E data, we would no doubt have a lot more assumptions to check and findings to share.

The data shared here is just a fraction of what is available from the rich analysis of all three portfolios. Further information can be found in reports and blogs on the Practitioner Hub:

Key Reports

BCtA - Breaking Through: Inclusive Business and the Business Call to Action today

BIF - The 4Ps of Inclusive Business: How perseverance, partnerships, pilots and passion can lead to success

IAP - From Paper to Practice: Learning from the journeys of inclusive business start-ups

Key Blogs

Sector comparison of the inclusive businesses in the BCtA portfolio
Two types of inclusive businesses: it's not just size that matters
Time to start challenging our assumptions that start-ups can't reach scale
What drives inclusive business and what gets in the way?

For other inclusive business publications including the BIF and IAP portfolio reviews, visit the KEY REPORTS page on the Hub.

This Snapshot was written by Caroline Ashley, Editor of the Practitioner Hub.

The data is based on the M&E systems of the Business Innovation Facility and of Innovations Against Poverty up to December 2013, and on data garnered for BCtA's portfolio report, *Breaking Through*, in mid 2014. Caroline was previously the Results Director on the Business Innovation Facility (pilot) and Strategic Lead on M&E for IAP, and she co-authored *Breaking Through* together with the BCtA team. We are grateful to partners for permissions to use data for this analysis integrating data from Business Call to Action (data owned by UNDP), Innovations Against Poverty (data owned by Sida) and Business Innovation Facility (data owned by PwC).

For more information and resources on Inclusive Business, visit www.inclusivebusinesshub.org