Christina Tewes-Gradl, Alice Schmidt, Megan Leahy-Wright, Lara Sinha

Inclusive Business: **Make or Buy?**

Corporate Impact Venturing at the Base of the Pyramid

endeva

Contents

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Preface

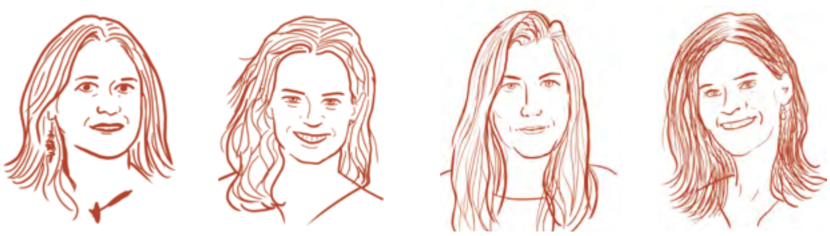
Endeva started in 2007 with the ambition to work with large companies as agents of change to fight poverty. Over the years, we have supported more than a dozen corporate initiatives at the base of the global income pyramid and analysed many more. All of them started with the best intentions, but many failed.

With this observation, we started to wonder whether large companies are not better placed to buy innovative inclusive businesses (through Corporate Impact Venturing), rather than make them in-house. We explored this approach with a first paper in 2015/16, and are grateful for the opportunity from The UK Department for International Development (DFID) to dive deeper into the approach with this paper. We expected to see some traction over these two years, but in fact not much has happened since: Corporate Impact Venturing is still in its infancy, and the few companies that experiment with it are finding their own ways across many hurdles.

As companies are building out more elaborate venturing activities in their mainstream business – such as incubators, accelerators, labs and venturing units - the capacity to venture into inclusive business is also increasing. And growing in 'frontier markets' is becoming a strategic priority for many. By focussing on the case for buying in inclusive business, which is not yet a well-established approach compared to making in-house, we hope that this paper can inform a strategic and structured approach to Corporate Impact Venturing that will improve the chances of success and increase both the return on investment and the progress on the Sustainable Development Goals.

Christina Tewes-Gradl,
Alice Schmidt,
Megan Leahy-Wright,
Lara Sinha

Endeva, Berlin, 2019



Executive summary

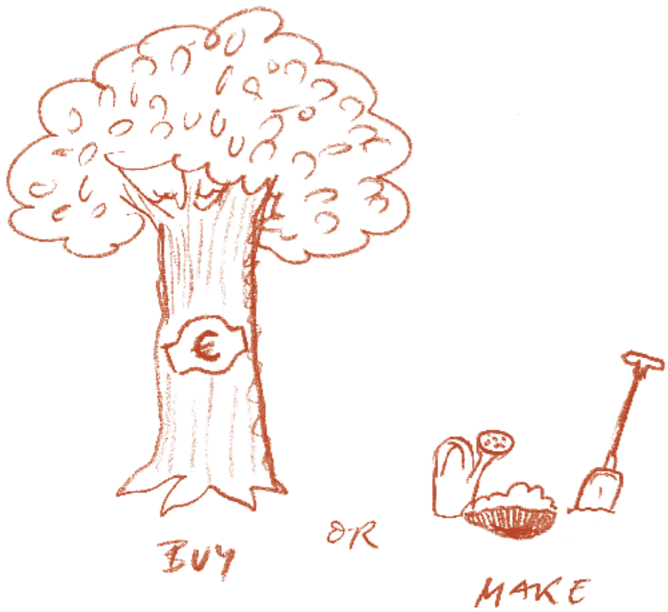
So far, large companies have mainly developed - or 'built' - new inclusive business initiatives inside their existing business. This paper explores when buying inclusive business externally - through Corporate Impact Venturing (CIV) - makes sense. It also explains how CIV can be set up, and which partners can provide support. The outlook provides recommendations on how to further facilitate investments into inclusive businesses.

Over the past two decades, large companies have started to venture into markets at the base of the global economic pyramid (BoP). They typically pursue one, or several, of the following five objectives: generate access to new markets; drive innovation; strengthen supply chains; help to recruit and retain talent and realize a company's purpose. However, large companies have often struggled to succeed with their own initiatives, due to three main barriers: lack of leadership support and conducive structures and processes; long gestation periods and low margins; and lack of talent and insight. **Buying, that is investing into inclusive businesses externally, is an alternative way to achieve these objectives that also addresses some internal constraints to scaling these initiatives.** For example, by taking equity in existing inclusive businesses that already cater to large numbers of BoP customers or suppliers, companies can expand more quickly and save the time it takes to come up with a functional model. And the acquisition comes ready with skilled staff with a deep insight into the market. Companies can decide how closely they want to integrate the inclusive business, and whether it should be on their own balance sheet. Managers in charge of developing inclusive business initiatives should, therefore, make a conscious decision whether to make or to buy them.

Just as in mainstream corporate venturing, companies are using **three basic structures** to invest in inclusive businesses: (1) direct investment; (2) self-managed funds; and (3) third-party funds. In general, the risk exposure is reduced as the portfolio grows and is more distant to company operations and control, while the ability to reap strategic benefits also diminishes with this distance.

While CIV is not yet supported by a highly specialized ecosystem as mainstream Corporate Venturing is, **a range of partners** are available to support companies along the investment process. Consultancies help to build strategy and structures, impact investors, incubators and accelerators help to source deals, and donors and impact investors can co-fund the scale-up of initiatives.

The development of a specialized 'infrastructure' will help to facilitate CIV. This can include: (1) providing information in dedicated online spaces; (2) positioning of the topic at inclusive business and Corporate Venturing conferences; (3) building CIV platforms that pool money from different players; and (4) developing specific financing mechanisms.



Introduction

Why buy?

'Make or buy' is the classic management decision. Managers need to routinely decide when to build resources internally and when to access them externally on the market. When it comes to developing new business, companies are using both approaches based on their objectives and capabilities.

Buying businesses in the market is termed 'Corporate Venturing'. In order to keep up with the global economic transformation and the constant threat of disruption, most large companies have ramped up their efforts to innovate on both sides of the company boundary, using a variety of approaches including incubators, accelerators, and venture capital units.[1] In fact, just under half of Europe's largest 100 companies are now actively investing in external ventures.[2]

Inclusive business is, for the most part, 'made in-house' today. Most inclusive business initiatives of large companies have grown organically out of Corporate Social Responsibility (CSR) projects or from the passion and initiative of individuals. This is changing: a small group of pioneers has started to look outside to invest in existing inclusive businesses. In general, as large companies formulate strategic objectives to expand their business in emerging markets and to achieve sustainability objectives in line with the Sustainable Development Goals, the approach to inclusive business is also becoming more strategic.

1 IESE 2017 Corporate Venturing: Achieving profitable Growth through Startups; Mocker, V; Bielli, S; and Hayley, C (2015). 'Winning Together: A guide to successful corporate startup collaborations'. London: Nesta. https://media.nesta.org.uk/documents/winning-_together-june-2015.pdf

2 Nesta (2017). Winning Together.

This paper supports a strategic approach by providing criteria that can inform structured decision making. It explores when 'buying' inclusive business makes sense, how to organize such 'Corporate Impact Venturing' activities, and where to find external support. The 'make' approach is only discussed to compare and contrast it with 'buying'. For readers that want to learn more about how to make inclusive businesses, Box 3 provides an overview of useful introductory publications.

The paper takes the perspective of a company interested in developing inclusive business. As an example, French utility giant Engie acquired Fenix International, when they were already reaching 900,00 people in East Africa with energy services based on solar home systems. Bruno Bensasson, CEO of ENGIE Africa, explained the rationale for the acquisition: "We believe that combining the strengths of ENGIE, a global energy player and Fenix, a successful company with very strong customer focus, high-quality products and an experienced team anchored in the heart of Sub-Saharan Africa, will enable faster deployment of solar home systems to the large African population still lacking access to electricity." Lyndsay Handler, CEO of Fenix International, added: "By joining forces with ENGIE - one of the world's largest independent utility companies with a firm commitment to a decentralized, decarbonized and digital energy revolution - we will greatly accelerate the path to our vision." The investment contributes to ENGIE's goal of providing 20 million people with access to decarbonized, decentralized energy by 2020.[5]

BOX 1

Key terms

Inclusive businesses (IB) integrate low-income people into their value chains as consumers, employees, producers or entrepreneurs for mutual benefit. The organizations behind such business models range from small enterprises to large companies and originate from both industrialized and developing countries.

Base of the Pyramid (BoP) markets are defined as the lowest segment of the global economic income pyramid: 4.5 billion people globally who live on less than US$9 a day. Three billion of them make do with US$3 or less. Together, they spend US$5 trillion annually.[3]

Corporate Impact Venturing (CIV) is the practice of taking equity in impact ventures with the prospect of generating financial, strategic, social and/or environmental returns.[4] This report focuses exclusively on inclusive business ventures. Companies acquire inclusive businesses to achieve social impact as well as business objectives. With a portfolio of investments, companies can hedge. While some investments are fully integrated into the core business, others remain at a distance, often to strengthen the ecosystem of the corporate parent. While selling the investment is always a possibility, it is typically not the motivation to invest and, indeed, no such external exits have been identified.

Source: Endeva (2016) Capturing BoP Markets; UNDP (2008) Creating Value for All. IFC Global Consumption Database for Inclusive Business. Data is provided in 2005 purchasing power parity dollars.

BOX 2

Methodology

This research is based on concepts initially developed in Endeva's paper 'Capturing BoP markets'. The paper draws on insights gathered from 24 interviews conducted with eleven companies, four investees and nine experts (for a full list, see annex).

3 IFC BoP Consumer Database

4 Read more about corporate venturing for impact in the 2014 Volans report. Feldman, A. et al (2014) 'Investing in Breakthrough Corporate Venture Capital' London: Volan Ventures Ltd. www.globalcorporateventuring.com/data/files/1568_volans_IIB_20_lo-res.pdf

5 https://www.engie.com/en/journalists/press-releases/fenix-africa-solar-home-system-market/

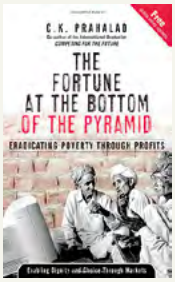
1 — Rationale

To buy, or not to buy

'Make or buy' is a strategic decision based on a clear set of criteria. On the one hand, companies need to define concrete objectives of their engagement, on the other hand, they need to be conscious of their capabilities and related constraints. Companies objectives and constraints with respect to inclusive business have been described in depth in a number of publications over the past decade, and box 3 highlights some key resources. Here, we draw on these insights as well as on interviews we conducted for this paper. We focus on the differences of a 'make or buy' approach on these dimensions.

BOX 3

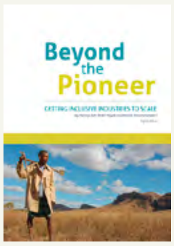
Useful resources on business at the BoP



Fortune at the Bottom of the Pyramid (2004): This seminal book by inclusive business visionaries C.K Prahalad and Stuart Hart was the first to discuss the tremendous opportunities for doing business at the base of the pyramid.

Inclusive Business Guide (2010): A step-by-step guide by Endeva to build business in BoP markets, including methodologies and resources for each step, country and sector profiles and case studies.

The Next 4 Billion (2007): This IFC publication draws on extensive income and expenditure data to offer a first comprehensive look at the market opportunity represented by four billion individuals who make up the base of the pyramid. Updated data is available in IFC's Global Consumption Database



Beyond the Pioneer (2014): This Monitor Group report provides an in-depth study on the issue of market based solutions, reviewing when they do and don't achieve scale; why more market-based models are not achieving scale; and what barriers to scale exist.

Creating Value for All (2008): This UNDP report uses 50 case studies from around the world to highlight common constraints for inclusive business models and shows how successful businesses have managed to overcome these.

Capturing BoP Markets (2016): Endeva's first publication on Corporate Impact Venturing introduces the concept and explores the benefits for both large companies and inclusive businesses.

Achieving five main objectives

Companies venture into BoP markets for five main reasons: they aim to access new markets; drive innovation; strengthen supply chains; recruit and retain talent; and realize their purpose.

Table 1: **Benefits of 'make and buy' strategies by objective**

OBJECTIVE		MAKE WHEN...	BUY WHEN YOU WANT TO ...
	**Access new markets**	→ you have an existing footprint in the market, ideally reaching into BoP markets → you have an existing inclusive business model that can be replicated in a new market	→ venture into entirely new markets, both on a national level and with regard to the BoP segment → enlarge your presence in the BoP market quickly
	**Drive innovation to get future-fit**	→ you have solutions (products, services, business models) that can be adjusted to BoP markets → you want to build an innovation culture and develop talent in-house	→ get your hands on promising technological or business model innovations already out there → bring excellent innovators and innovation culture into the company from outside
	**Strengthen supply chain and wider ecosystem**	→ you have good access to last-mile suppliers (such as small farmers) and capacities to strengthen them directly	→ tie suppliers more closely to the company to gain strategic benefits, such as exclusive access, specific quality, or brand → strengthen the ecosystem of the company by supporting key players
	**Recruit and retain talent**	→ you want to create space for intrapreneurs and build internal talent	→ create opportunities for employees to get outside business as usual and apply and develop their skills in new contexts
	**Realize company purpose**	→ you want to engage employees in a process to reinvigorate the company purpose	→ revive and update the company purpose with new solutions

Access new markets

The BoP market is large and growing. As developed markets become increasingly saturated, large companies compete to get a foothold in underserved markets. In these markets, billions of people still lack access to basic goods and services. One billion people are without electricity, 700 million people do not have access to clean water, and millions of people die prematurely due to preventable diseases.[6] At the same time, both the population and the average per capita income is continuously increasing in low- and middle-income countries, making them attractive growth markets.

Buying inclusive business can be a quicker way to gain traction in BoP markets than building in-house. While large companies may have a representation in low-income countries, they typically do not reach the 'last mile'. Distribution or sourcing networks are rarely in place in the slums and villages where low-income people live. Building this structure is a major effort that can take years and usually requires other types of partnerships, such as with non-governmental organizations. Alternatively, companies can identify and take equity in inclusive businesses that have already achieved a significant reach. Examples now exist in all sectors. dLight has sold over 19 million low-cost solar lighting products in developing markets, impacting more than 80 million people;[7] Bridge International Academies provides low-cost schooling to over 100,000 students in Africa and Asia[8]; and Ziqitza Healthcare serves over 13 million people in India with its emergency medical response services, to name just a few.

CASE STUDY: **Engie, Uganda**

Improving access to energy at the BoP through CIV

When Engie started its BoP engagement in 2011, it aimed to fulfil its mission of "clean and sustainable Energy for All". For this purpose, the company set up Rassembleurs d'Energie, its own impact investment fund that invests in promising energy startups.

The fund launched with a total investment capacity of €10 million which was raised to €50 million at a later stage. It has invested equity (minority shares) and quasi equity in 20 companies so far. Engie employees can volunteer to provide technical assistance to its investees.

Photo credit: Mera Gao Power

Mera Gao Power's customers live in isolated rural hamlets with less than 100 homes, where monthly income is around $50-$80 per family and there is no hope of a main grid connection.

The primary objective of Rassembleurs d'Energies is social impact through access to energy for the BoP. The fund also helps ENGIE discover innovative social businesses or technologies in new areas. New business models could be mainstreamed in the future, like pay-as-you-go with mobile money was.

Jessica Souriau, *Investment Manager, Rassembleurs d'Energie, Engie*

6 https://sustainabledevelopment.un.org

7 http://www.dlight.com/files/4015/2394/4632/d.light_raises_50_million_in_debt_financing.pdf

8 http://www.bridgeinternationalacademies.com/approach/reach/

Drive innovation to get future-fit

The slums and villages of the developing world are fraught with challenges, ranging from lack of infrastructure to limited education and skills to lack of financial services. Companies venturing into these markets need new products, services and business models to fit these conditions, thereby creating solutions and insight that allow companies to stay ahead of the competition. Technology is an enabler of many successful innovations in this context, be it mobile money, tablet-based teaching, digital farmer information and market access platforms, or remote diagnosis.

A valid reason for companies to develop inclusive business in-house could be that the process of adjusting their own solution to the needs of BoP markets may drive more radical innovation than would otherwise emerge. Buying inclusive business makes more sense when companies want to get their hands on the latest technologies and business models already 'out there', thus expanding their solutions portfolio. Both approaches contribute to developing an innovation culture and talent, and some companies use a combination of approaches to make full use of the options.

CASE STUDY: **Airbus BizLab, Sub-Saharan Africa**

Co-creating drone solutions for last mile delivery

Photo: istock

Many places in Sub-Saharan Africa cannot be reached by road. Drones can provide a new solution to reaching remote areas.

Airbus BizLab is partnering with a social enterprise to develop a last mile delivery system to remote rural areas. This, and other projects of the Airbus BizLab, explore opportunities for using its drone technology for social innovations, while building a new market in the process. Innovation in the 'air traffic control' of drones is valuable to pioneer in Sub-Saharan Africa where there is a lot of demand for new solutions to existing transportation constraints. The project is supported through a matching grant by DFID and expertise by Endeva. Airbus BizLab has not taken equity in the social enterprise. Rather, the aim of Bizlab is to accelerate the implementation of innovative concepts in the field of aerospace, leveraging its existing knowledge and competencies.

Strengthen the supply chain and wider ecosystem

Companies sourcing from BoP markets are stepping up their efforts to enhance reliability and transparency, especially in the apparel and food sectors. Large companies work closely with hundreds, and sometime thousands, of suppliers, ensuring they live up to the standards required by the company. This is achieved through audits but also through capacity building, and sometimes even finance. An acquisition can make sense where the supplier is unique and critical to the company's offering, as in the case of the Body Shop and Divine Chocolate (see page 22), or when the acquisition promises attractive returns and a good match with the company strategy. A more arms-length approach can make sense to build capacities that are missing in the ecosystem, as in the case of the Danone Ecosystem Fund.

CASE STUDY: **Danone Ecosystem Fund , Ghana**

Funding a fertile business ecosystem

The Danone Ecosystem Fund was created in 2009 to "strengthen and develop the activities of the partners who make up Danone's ecosystem: farmers, caregivers, micro-distributors, street vendors and waste pickers." This €100 million endowment fund supports projects that are co-created by Danone country offices and local partners. In 2017, the fund had supported 67 projects involving 46 subsidiaries and 56 non-profit organizations, generated €139 million in investment, created 4,650 jobs, and led to the professional empowerment of 40,912 people. In terms of CIV strategy, the Ecosystem Fund represents a hybrid model between 'make' and 'buy', as projects are co-created with external partners and funding is mainly in the form of grants, without taking equity in the projects, which are often run by non-governmental organizations (NGOs).

One project from the portfolio is 'Pick-it', an inclusive recycling project in Ghana. Fan Milk Ltd, a Danone subsidiary and leading ice cream and yoghurt producer in West Africa, collaborated with local NGOs and funding partners to set up a waste pickers collective in 2017. By building skills and professionalizing management, the cooperative increases plastics collection rates and improves waste pickers' livelihoods. The project builds on experiences of Danone Ecosystem projects in Brazil and India.

In July 2018, Fan-Milk and Pick-it inaugurated a plastic waste sorting facility. It is expected that by end of 2019 the sorting center will be collecting and recovering at least 25 tons of plastics per month, which is equivalent to 30% of total volume of packaging generated by Fan Milk Ghana. By the end of year 2022, Fan Milk Limited aims to become 'waste positive", recycling more plastic than it uses. This investment builds waste management capacities in a context where they are virtually nonexistent, allowing Danone to pursue it's mission to develop a circular economy around all its products.

Photo: Danone

The waste recycling cooperative "Pick-it" was created with support from the Danone Ecosystem Fund . Danone aims to make its value chains "waste positive".

Source: http://www.fanmilk-gh.com/news.php; http://ecosysteme.danone.com/history-and-mission/

Recruit and retain talent

Skilled employees are increasingly looking for purpose in their work. The search for meaning is one of the defining factors especially of younger generations of talents, often termed Generation Y and Z. As loyalty is increasingly traded for flexibility in the workplace, those companies that offer opportunities to do something meaningful and innovative hold a competitive advantage.

Possibly the main reason for 'making' inclusive business is the opportunity it provides for staff to engage in business with purpose and be creative and entrepreneurial. Internal idea competitions and incubators, in particular, offer a broader process of engagement that ties in with the company's mission. External engagement can also offer opportunities for talent development. By providing opportunities to staff to support existing inclusive businesses as mentors or through secondments, companies enable employees to go outside their comfort zone and experience a completely new environment, while applying and further developing their technical and leadership skills.

Being part of the Technical Assistance provision to investees gives employees a chance to get out of their day-day work and have great experiences. This has a positive effect on the organization as a whole as it broadens the scope of people when they go out in the field and get involved in social impact work.

Christophe Poline, *Sustainable Investment Director, Schneider Electric*

CASE STUDY: **Boehringer Ingelheim**

Making More Health

Since 2010, Boehringer Ingelheim collaborates with Ashoka in the Making More Health initiative. Employees of the pharmaceutical company support social entrepreneurs from the Ashoka network with their skills, experience, and network. Boehringer Ingelheim learns about innovations in the health care industry, while Ashoka Fellows can advance their organizations. One of the four main objectives of Making More Health for Boehringer Ingelheim is talent development. Allowing corporate managers to work with social entrepreneurs in low-income markets leads to greater job satisfaction and promotes innovation. The programme includes Leadership Weeks that bring several Fellows together with company managers. While Boehringer Ingelheim does not take equity in the businesses it supports, the initiative can serve as an inspiration of how to explore CIV opportunities in a light-touch way.

Photo: Manuela Pastore

Managers from Boehringer Ingelheim provide a communication training to a self-help group in India as part of the leadership week.

Making More Health benefits Boehringer Ingelheim in four ways: it strengthens our reputation as a responsible company; it attracts new talent; it helps us identify new business models; and it builds leadership capacities.

Manuela Pastore, *Global Manager, Making More Health Initiative*

Realise the company purpose

Inclusive business initiatives exemplify the positive impact a company can have. Every company has a mission and value statement, but this "corporate identity" is often not very tangible for employees, customers and partners. Working for a clear social objective can reinvigorate these core elements and thus the company as a whole. Creating 'shared value' is now an important element in many corporate strategies, as companies realize that solving social problems can create tangible business value.[9] 'Profit with purpose' is also becoming more important for investors and customers. For seven of the eleven companies we interviewed, this element of external credibility was a key driver for their inclusive business activities.

Defining the purpose of the company starts from the top. The company leadership then needs to define how this mission can be achieved most effectively. Again, both internal and external approaches can make sense here. Where achieving the company's purpose requires new solutions, buying them is a good option. Investing in inclusive businesses can be part of a learning journey to understand new ways of addressing the challenge. This can be especially the case for companies with a well-established business model, such as utilities.

Customers and employees are starting to expect MNCs to have real purpose. Companies can no longer hide behind good branding. What you do is what you get judged on.

Maarten van Herpen, *former Head of the Africa Innovation Hub, Philips*

CASE STUDY: **Schneider Electric**

"Electric Access to Energy" Fund

Schneider Electric is a French multinational provider of energy solutions. Their engagement at the BoP was driven by the top management with the aim of making a contribution to the challenge of increasing access to energy. Through three different funds, the company invests in inclusive businesses that provide access to clean energy. The funds are managed out of the sustainable development department, which tries to involve as many people in the company as possible in the selection process and by providing technical assistance. Benefits from the engagement include market opportunities and positive external and internal communication. However, the main benefit is the positioning of the company as a social actor, linking its work to a goal that is larger than itself.

The main benefit has been enabling the company to be an actor in social issues such as access to energy. It has helped the company to get out of just being a corporation and enlarging the possibilities. It broadens the company beyond just business as usual.

Christophe Poline, *Director, Sustainable Investments*

Le Chênelet, one of Schneider Electrics social investments in France, helps long-term unemployed people get back into the job market, for example through hospitality training in its chalets.

9 The Shared Value Initiative (2018). Online. http://www.sharedvalue.org/about-shared-value

Because buying inclusive business can be an interesting alternative to making in-house, **the benefits for the potential acquisition target also matter**. Inclusive business startups usually take a number of years to develop a solid model that achieves social impact and financial returns. Once they have reached a stage where they can scale up, they find a large market around them and often the opportunity to replicate in other countries. Finding a large company as an investor can help them to scale up, not just by bringing in fresh cash, but also by leveraging existing company structures and networks and learning from its professional management systems and technical knowledge. Most large companies in our research support their investees through mentoring and other forms of capacity building. Finally, investees can leverage the corporate investment and attract other funders, including public and private donors who provide grants for the less commercial aspects of the model.

Addressing widespread barriers

Once companies are clear on the objectives they aim to achieve with inclusive business, they need to define how best to go about it given their capacities. Implementing inclusive business requires capacities in three areas: structure and leadership; finance; and information and skills.[10]

Large companies often struggle with building successful inclusive businesses because they are not well set up to develop innovative solutions in the challenging conditions of a BoP market. While encouraging examples exist, many good initiatives have not gone further, often due to internal challenges. Buying inclusive business externally can help overcome these barriers.

Table 2: **Benefits of 'make and buy' strategies by barrier**

CAPACITY	MAKE WHEN...	BUY WHEN ...
Structure and leadership	→ BoP markets are a priority for top leadership → safe spaces can be created internally	→ engagement is more experimental → you prefer an arms' length relationship
Finance	→ you have the flexibility in terms of time and resources to let inclusive business grow internally	→ you prefer to reduce risk by taking a stake in an established business → you prefer to keep your own balance sheet free of low-margin business
Information and skills	→ you have a solid understanding of BoP markets → you have the right talent in-house to build inclusive business	→ you want to learn more about BoP markets → you want to acquire existing inclusive business expertise and talent

10 WBCSD (2013) Scaling up inclusive business . Solutions to overcome internal barriers.

Structure and leadership

Inclusive businesses need flexible structures to get started. Large companies are typically organized around standard products and procedures to achieve economies of scale. While this is a major competitive advantage in the core business, it often becomes a challenge for inclusive business initiatives. They happen in unfamiliar environments, require new business solutions and non-traditional partners, and often span various departments. Hierarchical structures and bureaucratic procedures are often good for companies that want to produce large volumes of high quality goods and services economically, but can slow them down when they need to be dynamic and adjust fast, as is needed when innovating in a BoP market.

Top management needs to support inclusive business along the way. Inclusive business initiatives often do not fit squarely into one department and do not have a natural home inside a corporate, so changes in the approach or the internal environment can quickly bring them to an end before they have proven their value. Not surprisingly, those initiatives that are protected by top management commitment have a better chance of success.

Buying inclusive business can ease the internal organizational requirements. First, more established businesses already fit better with the logic and procedures of large companies than those in their startup phase. Secondly, investments can be managed at arm's length, such as by setting up a fund or even having a fund managed by a third party. Here, the company leadership needs to define only the objectives and provide the resources, while the management is outsourced to experts.

CASE STUDY: **Engro Foundation, Pakistan**

Strengthening the parent company's value chain

Photos: Engro Foundation

Engro Foundation supports dairy farmers through training and veterinary services. The project is desiged as a social enterprise.

Engro is a large company in Pakistan in the food and energy business. The corporation has set up Engro Foundation with the mission to include the under-privileged in Engro's value chains and enhance the lives of people in related communities. Engro Foundation aims to achieve its mission through own project development as well as by investing in existing inclusive businesses. Based on an analysis of the main gaps and leverage points, the Foundation team decides whether external collaboration is viable or whether a new organization has to be created. Through its work the Foundation contributes to the effectiveness and sustainability of Engro's core business. As a separate entity, it receives high-level guidance from the corporation's leadership, which makes up the Foundation's board, but pursues its agenda with its own dedicated structure.

Finance

Making inclusive business requires long time horizons and usually delivers low profit margins. The Danone Ecosystems Fund has estimated that it can take up to a year and a half to get CIV projects off the ground, and that it takes approximately eight years for them to become financially sustainable. With priorities shifting and people changing constantly within the company during that period, it is very difficult to maintain support for such projects. For the Novartis social business programmes, questions arise on why resources should be spent on initiatives that have quite low margins compared to the rest of the business. In developed markets, pharmaceutical companies follow a margin-based model whereas at the BoP, it has to be a volume-based model. Measuring payback on other dimensions, such as market access, innovation, or employee retention, is more difficult. Inclusive business activities span a range of these objectives and hence corporate departments and budgets, which makes the business case hard to realize, even if it makes sense overall.

We've had questions from colleagues on why we should put money into less profitable business lines. They share the social impact intent but tend to think this should be done through philanthropy or be left to the government.

Michael Fuerst, *Strategy and Innovation, Global Health and Corporate Responsibility, Novartis*

Buying existing inclusive businesses skips the long and risky development process. With a CIV approach, large companies become involved in an initiative at the point when their advantages come in to play, and they can help the inclusive business to improve efficiency and effectiveness, scale up and replicate to new geographies. Depending on how the investment is structured, it also keeps low margins off the companies' main balance sheet and allows the inclusive business to pursue a volume-based strategy without corporate pressures. In addition, inclusive business funds open up the opportunity to attract other funding partners, thus sharing resources and risks.

CASE STUDY: **Pearson Affordable Learning Fund, Ghana**

Increasing the quality of education through patient capital

Since 2012, the Pearson Affordable Learning Fund (PALF) has been investing 'patient capital' in independently run, for-profit, education startups using innovative approaches to improving learning outcomes and increasing access, at scale. By investing in new educational ventures, Pearson helps to increase the quality of education for millions of learners and identify what's next in education. To date, PALF has invested over $20 million in nine education startups across the globe.

In 2013, PALF invested in the Delhi-based startup Avanti Learning Centres. The enterprise helps to prepare students from low-income backgrounds for college entrance exams to study engineering and medicine. Students spend up to 18 hours a week at a centre and are charged only $20 per month. Avanti used the investment to improve its service and content and to build new centres. By taking a CIV approach, Pearson could participate in a solution that already has significant scale, while keeping the low-margins natural for a social enterprise off its balance sheet.

Photo: Avanti

Avanti prepares students for entry tests to study engineering and medicine.

Source: www.pearson.com

Information and skills

Doing inclusive business successfully requires deep insights into BoP markets and a specific skill set. Even when companies have subsidiaries and market links in emerging countries, these typically focus on a middle-income segment. Supply chains and customers in urban slums and rural villages have different challenges, and companies usually lack staff that have both experience with BoP markets and entrepreneurial talent. Internal incubation processes particularly struggle with this skill gap as they seek to transform ideas into real business opportunities. Many employees at Novartis apply to be part of the company's inclusive business initiatives, but the skills needed are very different from those in core business.

When buying inclusive businesses, the company also acquires a skilled and experienced team, in addition to a proven concept in a specific BoP market. Yet, the buying process itself requires specific skills around evaluating investees and processing the acquisition. Where these are not available internally, for example when they are part of an existing venture capital unit, specialized service providers can fill this gap (see chapter 4).[11]

CASE STUDY: **Danone**

Danone spins off a fund management team

In 2008, Danone set up the Danone Fund for Nature to enable companies to co-design projects that deliver strong social and economic impacts in addition to high-quality carbon credits. In 2011, the fund evolved into an independent entity, rebranded as the Livelihoods Carbon Fund. Danone's Senior Advisor on Sustainability and its Environmental Director left the company to manage the fund. Today, the company is called "Livelihoods Funds" and manages two main funds. The team at Livelihoods Funds includes 15 people with specialist backgrounds from development and business. Making the fund external has thus enabled Danone not just to leverage its own contribution with partners, but also to have a strong specialized team to manage investments.

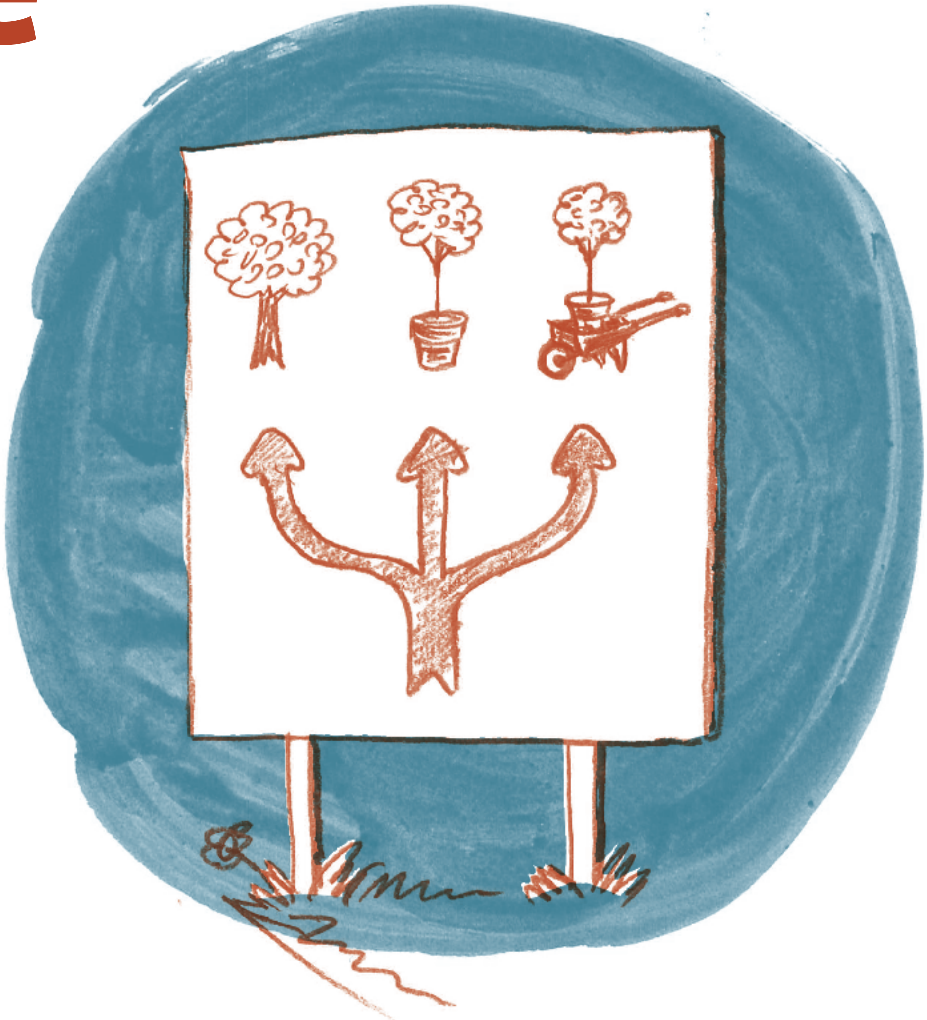
Photo: Danone Fund for Nature

5000 coconut farmers in the Philippines receive support through the Livelihoods Funds to improve their income. They deliver the coconuts directly to Franklin Baker, who sell them on to Mars for their Bounty bars.

11 Fuerst, M. (2018, May 30). Telephone interview.

2 — Structures

Three ways to buy



Corporates can employ several models to buy inclusive business. We found three main structures at work: direct investment, self-managed fund and third-party fund. These models correspond to standard Corporate Venture Capital approaches.[12] Table 3 provides a comparison of the three structures, while the detailed descriptions explore the rationale and requirements for choosing each. Generalising widely, the level of risk exposure and effort reduces as investments become more bundled or even outsourced, as does the level of control and the ability to integrate acquisitions with the core business.

12 These three models are also described in Volans (2013) Breakthrough investment as well as Tewes-Gradl et al. (2016) Corporate Impact Venturing

Table 3: **Overview of CIV structures**

Operational model	DIRECT INVESTMENT	SELF-MANAGED FUND	THIRD-PARTY FUND
Description	• Direct funding from the balance sheet for each deal; closely related to business divisions	• Captive fund • Corporate acts as general partner in the fund	• External fund • Corporate may act as limited partner
Inputs	• Capital • Internal talent and resources	• Capital • Internal talent and resources	• Capital
Examples	• Engro Foundation	• Danone Communities • Danone Ecosystem Fund • Engie Rassembleurs d'Energie • Pearson Affordable Learning Fund • Schneider Electric Energy Access Fund	• Danone Livelihoods Fund • Schneider Electric Energy Access Ventures Fund • Founders Factory Africa
Achieving objectives (more dots indicate higher chance of success)			
Access new markets	● ● ●	● ● ●	● ●
Develop innovations	●	● ● ●	● ●
Strengthen supply chain and wider ecosystem	●	● ● ●	● ● ●
Recruit and retain talent	● ●	● ● ●	● ●
Realize company purpose	● ● ●	● ● ●	● ●
Overcoming barriers (more dots indicate lower risk of failure)			
Structure and leadership	●	● ●	● ● ●
Finance	● ● ●	●	● ●
Information and skills	●	●	● ● ●

Note: This heat map shows how the three different structures relate to the main objectives of undertaking inclusive business, and the main internal barriers.

Some companies employ several models for different purposes.
The example of Danone shows how the objectives inform the setup of CIV structures.

CASE STUDY: **Danone**

Danone takes a multi-pronged approach

Photo: La Laitière du Berger

Danone Communities supports social businesses, like La Laitiere du Berger in Senegal

Danone is a global food and beverages company with an annual turnover of €24 billion and a recognized leader in sustainability and inclusive business. Its business in emerging markets has grown dramatically over the past years, now making up 60% of total revenues.

Danone is involved in three different types of funds to invest in inclusive businesses, all with a different purpose and setup: Danone Communities, the Danone Ecosystem Fund and the Livelihoods Funds.

In 2007, Danone Communities developed out of a partnership with microfinance pioneer Grameen. The €1 million fund creates access to improved nutrition and clean water in BoP markets. As a self-managed fund, Danone directly invests in social businesses as a minority shareholder, providing capital, as well as technical and managerial expertise. Danone employees support the ventures, building their own skills in the process. As of 2018, Danone Communities invests in nine inclusive businesses globally.

The Danone Ecosystem Fund (see also page 13) is a €100 million 'endowment fund' that co-creates initiatives to strengthen Danone's business partners, especially farmers, caregivers, micro-distributors, street vendors and waste pickers. The fund provides grants and Danone business units collaborate closely with NGOs to design and implement projects. Thus, Danone is often able to leverage its own money to attract contributions from other funders, such as public and private donors.

The Livelihoods Funds (see also page 19) are managed by a third party called "Livelihoods Ventures". Danone is now one of several corporate investors. Its three funds, the Livelihoods Fund for Family Farming and the two Livelihoods Carbon Funds, are investing a total of €260 million. Its focus is on developing carbon credit projects that also deliver strong social and economic impacts, often associated with the value chains of investor companies.

Danone benefits from the businesses that are created through the fund, allowing us to achieve our business objectives such as sustainable sourcing of milk. In addition, the 250 project managers that have participated in the process so far have transformed their mindset, they are more agile. Finally, the fund allowed us to generate a lot of learning, test innovations, start partnerships - it's of great value to our top managers.

Jean Christophe Laugee, *General Manager, Danone Ecosystem Fund*

Sources: ecosysteme.danone.com; www.livelihoods.eu; www.danonecommunities.com/

Direct investment

The company makes a direct equity investment into an existing inclusive business. The company then manages the investment itself, from providing support to monitoring performance. The capital may come from the business unit most closely aligned with the inclusive business and hence most interested in extracting strategic returns from the investment. Cases of direct investment are rare to date, possibly due to the complexities of integrating an inclusive business into a large corporate, especially when it comes to financial performance. More often, companies collaborate with NGOs to set up independent social enterprises that strengthen their core business. DSM, for example, has taken this approach with two external ventures: With the BoP Hub in Singapore, it set up 45rice, a social enterprise supplying fortified rice to foreign workers; with the think tank Sight and Life, it created Sizanani Mzansi, a social microfranchise business supplying nutritious food to low-income people in South Africa via microentrepreneurs.[13]

When to choose it	What you need
→ To realize a concrete opportunity that presents itself (e.g. through existing collaborations) → To test engagement in frontier markets with a pilot to develop insights and guidelines → To strengthen the core business with specific capabilities	→ Clear strategic priorities → Ability to realize synergies with the core business

BOX 4

Strategic alliances can be a first step toward a direct investment

A strategic alliance is often a first step into a deeper partnership between a large company and an inclusive business. Here, both partners collaborate closely, either by aligning core business activities or on a specific project. To implement a project jointly, partners develop a Memorandum of Understanding that specifies objectives, deliverables and resources. A strategic alliance gives partners the chance to get to know each other and test the potential for synergies. If successful, it can be formalized further, either as a joint venture, where a separate entity owned by both parties is set up, or through acquisition.

Strategic alliances of this kind are often supported by donors and other partners. For example, Airbus collaborates with Lifebank, a Nigerian startup, to develop a drone-based blood delivery system. DFID has provided funding for the pilot, and Endeva supports the implementation through project management and inclusive business expertise.

CASE STUDY: **The Body Shop**

The Body Shop and Divine Chocolate

In the early 1990s, a group of farmers took advantage of the newly liberalized cocoa market in Ghana and set up their own cooperative, Kuapa Kokoo, to trade their cocoa. The cooperative quickly grew in membership, as it treats its members fairly and distributes profits. In 1997, members decided to launch a chocolate bar of their own in the UK market. They set up the Day Chocolate Company with support from fair trade organization Twin, The Body Shop, Christian Aid and Comic Relief and brought the Divine Fairtrade chocolate bar to supermarket shelves by December 1998. The Body Shop's equity investment was equal to 14% of shares, which the company decided to donate to the cooperative in 2006. The Body Shop also sourced raw cocoa from Kuapa Kokoo for its cosmetics products.

Photo: Divine Chocolate

The Divine Chocolate company is now owned by Kuapa Kokoo, a cooperative.

Source: http://www.divinechocolate.com/uk/about-us/research-resources/divine-story

13 sightandlife.org/blog/insight-into-social-franchising; www.arofiin.org/News/tid/47/Fortifying-Meals-for-Social-Good

Self-managed fund

The company sets up and runs an investment company or creates a captive fund, which is a fund funded entirely by the corporate. The corporate exercises control by holding a position on the fund's board and/or by appointing the management team. The fund acquires an equity stake in ventures at various stages of growth. Investees often receive technical assistance including from the corporate investors. Typically, this support is provided by employees of the investor, as a corporate volunteering or leadership development activity. Some companies use existing Corporate Venture Capital funds to invest in inclusive businesses. Intel Capital, one of the oldest and most active corporate venture capital funds, has invested over US$11 billion in more than 1,400 companies since 1991. One of them is India-based Duron Energy, which produces and distributes affordable off-grid solar energy products.[14]

When to choose it	What you need
To build a portfolio of inclusive businesses that ➔ can realize strategic objectives of the core business ➔ significantly increases the footprint in BoP markets ➔ build insight and efficiency through having their own dedicated staff ➔ create opportunities for employees to invest and engage as mentors or secondments ➔ share risks across investments	➔ Significant funds (>10Million EUR) ➔ Clear strategy for how to realize strategic targets ➔ Staff to manage the fund and to capture strategic potential

CASE STUDY: **Schneider Electric Energy Access**

Schneider Electric Access to Energy Fund

Energy giant Schneider Electric set up its own impact investment fund in 2009 to invest in ventures that are improving access to energy in developing countries and tackling energy poverty in Europe. It is a self-managed fund with its own legal structure that is run by a dedicated team of three investment managers and an investment committee comprising eight people. The fund makes equity or quasi-equity investments in social enterprises. It also provides technical assistance to its investees by leveraging the expertise of the company's employees. For them, providing support to inclusive businesses is an opportunity to step out of the comfort zone of their day jobs and broaden the scope of their experience. This employee engagement allows Schneider Electric to bring insights from the investments back into the core business, while at the same time building leadership and entrepreneurship capabilities with its staff. Employees are also able to invest in the Fund through their savings plan (see Box 5).

Okra, one of the investees in the Access to Energy Fund, provides plug-and-play microgrids that work with off-the shelf panels and batteries .

While the Sustainable Development department manages the impact investment funds, we try to involve as many people as possible from different departments. The investment committee has representatives from different parts of the company. We also engage employees locally to provide technical assistance to investees.

Christophe Poline, *Director, Sustainable Investments*

14 Volans (2013)

CASE STUDY: **Schneider Electric**

Pooling public and private funding for energy access

Photo: SunCulture

SunCulture provides solar-powered irrigiation systems to farmers in East Africa.

Building on its experience with an in-house impact investing fund to support innovative energy access solutions, the global energy management specialist Schneider Electric has also invested in the externally-managed Energy Access Ventures Fund, which aims to provide access to electricity for a million people by 2020. Schneider Electric employees provide business development and technical assistance support to portfolio companies, adding up to 1,000 person days per year. As with the self-managed fund, this engagement allows Schneider Electric to generate insights from their investments for the core business, while at the same time motivating staff and building leadership skills. The €75 million fund is also backed by CDC, the French Facility for Global Environment, the OPEC Fund for International Development, the European Investment Bank, the Dutch Development Bank FMO and PROPARCO, the French Development Finance institution.

We set up the Energy Access Venture Fund because we realized while managing the first fund that we were too small and we needed a dedicated team to run a larger fund. This fund has €75 million to invest, and a team of four full time managers based in Nairobi.

Christophe Poline, *Director, Sustainable Investments*

Third-party fund

Corporations also invest in inclusive businesses through third-party funds as limited partners. In most third-party funds, the corporate is one of several investors in the limited partnership. General partners in the third-party fund make final investment decisions, although the corporate may exert some authority depending on the investment strategy of the fund, its governance structures, and whether or not the corporate initiated the fund. Companies can still reap strategic and HR benefits if they are represented on the board and can interact with portfolio companies directly.

Third-party funds use fund managers to select and manage investments, so little internal expertise is required. For corporations starting out in CIV, using a third-party fund may help them 'learn the ropes' before they start a self-managed fund or make direct investments and partnerships. Third-party funds may also be an economical and effective way for smaller firms to engage in CIV. Finally, a third-party fund makes it easier to attract less commercial funds from public and private donors, which can hedge private funders' risks and provide grant finance for those activities that have no direct financial return.

When to choose it	What you need
→ To explore BoP markets with a limited risk exposure → When the focus is more on financial returns (strategic returns are harder to capture) → To bring other partners on board and leverage own funding → To take a wider approach in collaboration with others to strengthen a whole sector or ecosystem	→ A general partner to set up and manage the fund → Staff time to represent company objectives on the board

BOX 5

French policy encourages employees to invest savings for social impact

A regulatory framework that espouses the principles of a social economy has meant that large companies in France have to invest a proportion of their employees' savings in social enterprises. The law dictates that all for-profit companies with more than 50 employees must share some of their profits with their employees. Employees can either directly receive this extra remuneration in addition to their taxable income or place it in corporate savings funds and thereby benefit from a tax exemption on the investment. These funds are called Social Company Mutual Investment Funds. These Funds, otherwise known as 90/10 Solidarity Funds, have to invest 5%-10% of total assets in social enterprises. The remaining 90%-95% is invested in traditional investments following Socially Responsible Investment principles.

Both French companies we interviewed for this paper, Engie and Schneider Electric, cited this law as an important lever for setting up their CIV funds and a key motivator for employees to engage more deeply in their CIV activities.

3 — Partners

Stand b(u)y me

Since the 1990s, Corporate Venture Capital has emerged as an industry, complete with a whole ecosystem of service providers. These service providers support companies along the process, from building strategy and structures to identifying investees to managing financial transactions and financing scale up. While such a specialized ecosystem is only beginning to emerge for Corporate Impact Venturing, companies can build on the capacities of existing players in the inclusive business space for support.

Table 4 provides an overview of the main types of actors and where they are most relevant.

Table 4: **How key external actors support CIV**

ACTOR / AREA OF SUPPORT	DONORS	IMPACT INVESTORS	SPECIALIZED CONSULTANCIES	ACCELERATORS
 Building strategy and structures		● ●	● ●	
 Identifying investees		● ●	●	●
 Financing scale up	● ●	● ●		

Building strategy and structures

Corporate Impact Venturing requires specific skills and expertise. Companies often lack internal experience in setting up and structuring inclusive business ventures and in collaborating with investees in these markets. Building or bringing this expertise in-house can be a costly and time-consuming endeavour. In the process, there is a high risk of reinventing the wheel and stumbling into known pitfalls.

Specialized consultancies can provide know-how for engaging with inclusive businesses. Consultancies experienced in BoP markets can support companies in translating their corporate needs into a strategy and designing an appropriate model.[15] As they work with both large companies and inclusive businesses, they can translate between both worlds. They also have links to local service providers and global partners such as donors or impact investors if needed, and can provide necessary services and insights, including an understanding of the local market, due diligence procedures, and monitoring and evaluation frameworks. Engie received support from a specialized consultancy to set up its fund Rassembleurs d'Energies.

Impact investors can mediate and guide companies through the CIV investment deal. Multiple companies highlighted the challenge of understanding or negotiating deals through in-house experience. Impact investors provide similar services to traditional investment banks, yet their investments are made with expectations of social or environmental returns in addition to financial returns. They bring abundant experience in negotiating deals with investees operating in low-income markets. They are also experienced in valuation and tracking of inclusive businesses.

CASE STUDY: **Founders Factory Africa**

Using partners' expertise

Founders Factory Africa is a €35 million accelerator and incubator to scale up ventures in Africa. The company brings together corporates and a team of specialist talent to create and scale businesses in Africa across four sectors: finance, health, energy, and education. While the company is in charge of the process and builds on a team of experts for implementation, it also aims to tap into the structures of partner companies to support the scale up process.

With many different mechanisms and models out there, corporates are often unclear about how to approach CIV. This is where partners with specialist expertise can be really valuable.

Alina Truhina, *Founders Factory Africa*

15 Many of the specialized consultancies are members of the Global BoP Learning Lab Network.

Identifying investees

One of the most common complaints from those looking to invest in inclusive businesses is the lack of viable investees. Several players provide a remedy. Impact investors offer portfolios of vetted models, donors host challenges to identify credible investees, and accelerators feed the pipeline through their programmes.

Impact investors provide portfolios of vetted models. By the time an impact investor brings a new company into their portfolio they have already conducted extensive due diligence to verify that this business will not only generate financial, but also societal and environmental returns. Alongside the vetting process, impact investors conduct regular monitoring and reporting, and sometimes provide technical assistance for investees.

Accelerators source, train and vet potential investees. Accelerator portfolio managers spend significant time working closely with individual startups, gaining a deep level of insight into the business models, teams, and scaling potential. This information is highly valuable for companies within a specific geography or with a particular sector focus. For those companies exploring CIV opportunities, accelerators host demo days, conferences and match-making events where large companies and investors are invited for a glimpse into the pipeline of 'graduated' startups, who are now considered viable investees. Accelerators can also host tailor-made programmes on behalf of companies. This approach can also work with several companies sponsoring the same programme, as with the Make-IT Accelerator. Make-IT is engaging accelerators and links them up with corporates. The corporate partner would then enjoy preferred access to the startups throughout the duration of the programme.

CASE STUDY: **Make-IT**

Linking corporates and IBs through a network of accelerators

Make-IT connects corporates with startups in Nigeria and Kenya.

The Make-IT Accelerator creates the opportunity for companies and inclusive digital startups to meet and engage. Funded by the Federal Minsitry for Economic Cooperation and Development (BMZ) and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Make-IT in Africa empowers existing accelerators to facilitate corporate partnerships for startups in their portfolio. By joining the Make-IT Alliance, European corporations can gain preferred access to the pipeline of trained and vetted startups.

Selected startups must have proven business models, high scaling potential, digital technology for inclusion and relevance and interest in partnerships with the Make-IT Alliance corporate members. Startups receive tailored technical assistance to refine their business models and scaling plans, targeted linkages, as well as support with identifying and negotiating investment deals.

Source: https://make-it-initiative.org/africa/activities/make-it-accelerator/

Intermediaries can be highly effective for companies venturing into this space. Their knowledge of social enterprises is vast, and they already have access to the social enterprise community. Having trusted partners that can make the introductions to the right enterprises to partner with and who can help make the cut of all the enterprises out there is very useful.

Paul Ellingstad, *PTI Advisors*

Leveraging external funding

Most interviewees indicated that their CIV investments have not yet been able to generate financial returns that can compare with their company's investments in higher value markets. Distributing risk by sharing the capital investment with other partners can enable CEOs and leaders of CIV activities to gain internal buy-in and catalyse commitment of internal resources. Both impact investors and international donors can be excellent co-financing and co-investment partners.

International donors provide catalytic co-financing. Many bilateral donors, including DFID, USAID, AFD, BMZ, SIDA and ADA, offer matching grants for companies that aim to develop inclusive business solutions. These windows are generally open for large companies, and partnerships with local companies are encouraged. Companies can use donor funding to enable further development and scale up of the inclusive business they are investing in.

Support from donors often helps to garner support internally, as well. For Airbus, the DFID grant raised the profile of the project with senior management, thereby unlocking access to engineer time and airfield testing space. Innovative financing mechanisms can facilitate continued growth of the venture. Donors also co-invest in third-party funds, as in the case of the Schneider Electric-backed Energy Access Ventures Fund.

Impact investors can add funds to make CIV deals viable. Both partners bring not only financial assets, but also complementary technical expertise that can create favourable conditions to scale inclusive business ventures. Investing in collaboration with companies can improve the risk-return expectations of investors, since corporate partners can offer deep sectoral and industry expertise, provide access to their technology, business expertise and global infrastructure.

CASE STUDY: **DFID**

DFID's Business Innovation Facility

The Business Innovation Facility (BIF), which has been funded by DFID since 2010, has supported companies in a number of ways. Country programmes in Malawi, Myanmar and Nigeria have run since 2012, taking a market-level view in a diverse range of sectors. More recently BIF has also worked more directly with multi-national companies through a grant scheme, the Business Partnerships Fund, and a programme that engages multi-national companies through a combination of market-level and direct collaboration with projects in Ethiopia, Kenya and Pakistan. In Pakistan BIF has advised its private sector partners to put equity into a social enterprise that will manage the distribution of their socially-useful products to rural areas. This new company will also have a leading NGO as a shareholder in order to leverage their networks. Without DFID support through BIF these companies would not have had the resources or expertise needed to design and launch this innovative enterprise.

Source: http://www.bifprogramme.org/where-we-work

Photo: The Nation

Reckitt Benckiser and DFID have co-created the social enterprise Project Hope, where women sell hygiene products and raise awareness on cleanliness in villages in Punjab.

4 — Outlook

Building the buying space

To date, companies that want to buy inclusive business cannot build on a solid and obvious support ecosystem. Indeed, most companies we interviewed were not working with partners, and did not know who could support them and how. Those who have had positive collaborations mentioned that the partnerships came about by chance or through existing personal connections, rather than systematic facilitation. It is clear that there is still plenty of room for better coordination and development within the ecosystem. We provide four recommendations on how to improve the infrastructure for CIV.

Include CIV in CVC events

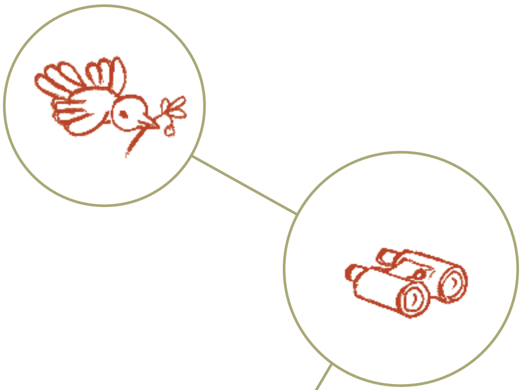
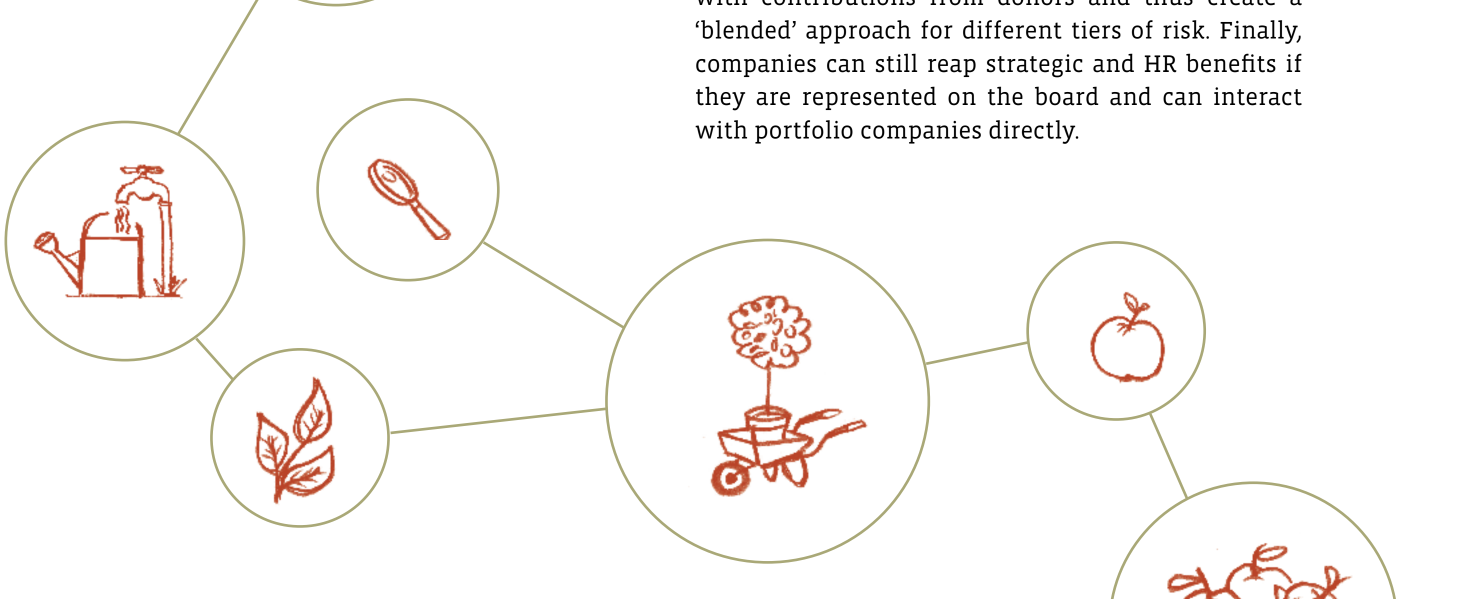
Conferences and events offer opportunities for companies and inclusive businesses to connect. To bring CIV closer to corporate agendas, it would be useful to host workshops or sessions as part of, or alongside, existing corporate events. This could include traditional corporate venture capital (CVC) conferences, such as the Global Corporate Venturing Symposium. The inclusive business domain has its own industry events, including the BoP Global Network Summit[16] and the Business Fights Poverty[17] events. These events could be used purposefully to facilitate connections between startups and corporates.

Develop targeted financing mechanisms

Many donors aim to collaborate with the private sector through public-private partnerships. Most matching fund programmes focus on establishing the proof of concept of a business idea. The rationale is that scale-up should be funded through profits. However, many inclusive business solutions survive on slim margins in a challenging environment. Innovative financing mechanisms should recognize that a hybrid approach is often required, and enable funding alongside the growth process.

Set up specialized third-party funds

Third-party funds that bring together different parties to invest in inclusive businesses can offer an easy entry point for interested companies. The success of the Danone Ecosystem Fund as well as the Livelihoods Funds shows that complementary partners are interested in such opportunities. Independent parties, such as Founders Factory Africa, can also pool resources from different sides. These third-party funds can increase the efficiency of CIV through specialized staff and partners. They can also leverage private money with contributions from donors and thus create a 'blended' approach for different tiers of risk. Finally, companies can still reap strategic and HR benefits if they are represented on the board and can interact with portfolio companies directly.


16 http://www.bopglobalnetwork.net/summit18/program-description/#session14
17 http://bfpoxford2018.pages.ontraport.net/

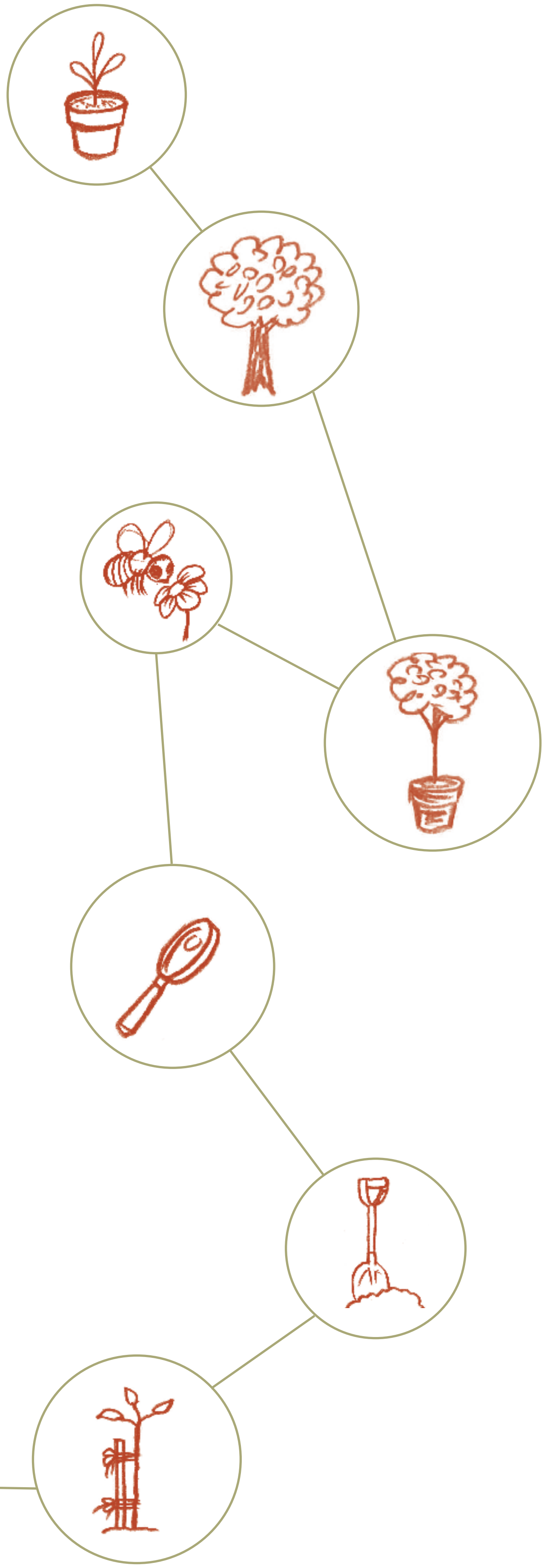
Build know-how

CIV is a new concept, and thus the option to buy externally does not even occur to most people in charge of developing BoP markets within companies. Examples are few and hard to find. More insight is needed on how to organize these investments, which challenges are to be expected in practice, and which partners can support. This could happen in existing online forums on inclusive business, such as the Inclusive Business Action Network, or ideally, in more mainstream forums related to corporate venturing. Peer learning processes among pioneers are a proven model to create insight in an emerging field.

Our research has surfaced a number of questions that deserve further exploration:

- How can Corporate Venture Capital link with inclusive business? How can inclusive businesses get on the radar screen of CVCs? And how can existing investments in low-income markets be made more inclusive?
- How can companies fuel the pipeline for investments? While there are many inclusive businesses out there, it is tricky to find the perfect match to a company's strategy in terms of geography, technology, vision, etc. How can existing intermediaries such as accelerators help to close the gap?
- How do investments in inclusive businesses influence the further development of these businesses? In particular, are there challenges to maintaining the mission and to focussing on social impact as opposed to profitability?
- How can companies reap the strategic returns from their investments? And what exit strategies are available?

Time is ripe for CIV. There are ever more investment opportunities out there, and the case for investing in BoP markets is getting clearer by the day. A better infrastructure for CIV can help to make this approach – that benefits all sides – a lot more viable and common.



Annex

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About Endeva

Endeva is a company of experts with the mission to make the global economic transformation inclusive and create opportunities for all. We create and strengthen inclusive businesses and their ecosystems through research, training, multi-party facilitation and advice. In particular, we bring large companies togeter with local and social enterprises as well as public and private donors through Corporate Impact Venturing or Public Private Partnerships.

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Doing business at the base of the global economic pyramid is becoming a strategic priority for many large companies. However, building "inclusive business" in house is challenging. This paper explores when buying inclusive business externally – through Corporate Impact Venturing (CIV) – makes sense. It also explains how CIV can be set up, and which partners can provide support. The outlook provides recommendations on how to further facilitate investments into inclusive businesses.

The paper mainly addesses those in charge of BoP markets inside companies. It is also relevant for local and social enterprises, public and private donors as well as impact investors aiming to collaborate with companies through Corporate Impact Venturing.