

Inclusive business can help solve the sustainability equation

Written by: Noah Beckwith, Development Finance Practitioner

Last update: 16 June 2016

Actions that address the inter-connectedness of environmental and social challenges are critical for achieving sustainable development. Governments, international organisations, development finance institutions and donors, among other actors, recognise that long-standing barriers between aid, trade, investment and natural resource management must fall, both in the developed and developing world. The twin objectives of economic growth and poverty reduction cannot be achieved without modifying entrenched commercial practices that harm or destroy environmental and social capital.

Noah Beckwith, Development Finance Practitioner



© Noah Beckwith

This is where inclusive business comes in as one of many so-called impact investment strategies. It is about investing for profit and purpose, and fighting poverty, too. In 2004, our perception of the poor was transformed from a dependent millstone to a 4 billion-strong market opportunity by the late CK Prahalad's book, *The Fortune at the Bottom of the Pyramid*. Inclusive business takes this opportunity as its point of departure. It refers both to companies whose goods or services address issues of access, affordability, or quality, enabling the poor to

meet their basic needs; and to firms which draw the poor into supply chains as producers, suppliers, distributors or employees in enduring and mutually-beneficial ways.

Since the mid-2000s, the development finance community, long aware of the correlation between poverty and unsustainable resource usage, has come to see inclusive business as a promising sustainable development strategy for two reasons. First, it enables economic growth, private sector development and poverty alleviation in a resource-neutral or positive way. And second, it allows stretched public funds to be strengthened with private-sector capital looking to combine profit with purpose. The challenge now is to move inclusive business higher up the agenda. With nearly 10% of the world population living in poverty and over 700 million people living in extreme poverty in 2015, the poor, long at the epicentre of environmental and social degradation, must be engaged as part of the solution .

the poor, long at the
epicentre of environmental
and social degradation, must
be engaged as part of the
solution 

The agriculture sector, which accounts for over 90% of economic output in some developing countries, shows how this is possible. It is beset by low yields, little value addition, fragmented supply chains and often harmful environmental practices (use of damaging fertilisers and pesticides, for example). Subsistence or small-holder farmers, lacking know-how and technology, are trapped in a vicious circle of limited output and earnings.

An inclusive business approach to agriculture addresses this as an opportunity. It invests in a range of actors along the supply chain—agro-processors, seed companies, equipment leasing companies, financial institutions creating input-financing and crop insurance schemes—so that the poor can produce less harmfully, more efficiently and sustainably. The motivation is not altruism or philanthropy, nor is it corporate social responsibility (CSR); rather, these are businesses generating financial returns and positive impacts by addressing environmental and social challenges in a “win-win” for people’s earnings and the market.

Take rice production in Thailand, for instance. Since the early 1990s, Arvind Narula, a third-generation Indian-Thai, has produced basmati rice through a contract-farming model engaging the hill tribes of north-east Thailand, an ethnic group marginalised for centuries. By converting farmers to organic production and providing training and know-how, his company, Urmatt (www.urmatt.com), which espouses inclusive business, produces superior-grade rice, which commands premium prices worldwide. Local value capture is increased through processed by-products, such as rice bran (made from rice husks, usually discarded) keenly sought by the cosmetics industry and the medical community.

In fact, preliminary research indicates that rice bran may have cancer-fighting properties.

Urmatt's strategy has created a virtuous circle whereby it is able to secure a consistent, quality supply of its products by investing in farmers and expanding their opportunities. Their incomes have increased dramatically as a result. As more products are introduced—chia seeds, organic eggs—the waiting list of farmers looking to work with Urmatt grows. Moreover, environmental degradation is averted in the process, while social capital develops as livelihoods improve and poverty falls. Inclusive business approaches such as Urmatt's show how needs can be met in ways that enhance rather than deplete environmental and social capital. It also shows that small and medium-sized enterprises, which account for over 90% of economic activity in some developing countries, are a key constituency in solving these challenges. As countries refine their implementation strategies on climate change and the Sustainable Development Goals (SDGs), they should look to the growing coalition of investors who are ready to deploy capital for financial return as well as impact. Multilateral organisations such as the OECD, by collecting data and scrutinising performance, could play a key role in promoting inclusive business, too. After all, sustainability, but also productivity, would benefit.

beckwithnb@aiif.net

World Bank (2016), *Development Goals in an Era of Demographic Change*, World Bank Group, Washington DC

Prahalad, Coimbatore Krishnarao (2004), *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing