



HARVARD Kennedy School

*Corporate Social
Responsibility Initiative*



Sustaining and Scaling the Impact of Enterprise Development Programmes

SABMiller's Approach to Strengthening Business Ecosystems

Beth Jenkins, Richard Gilbert, and Piya Baptista

Written by Beth Jenkins, Richard Gilbert, and Piya Baptista

Designed by Alison Beanland

Cover photographs: SABMiller

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Beth Jenkins, Richard Gilbert, and Piya Baptista

Companies have a critical role to play in driving more inclusive and sustainable models of development and, in certain cases, solving specific development challenges. At the same time, there are significant opportunities to discover profitable new business models.

Despite a shift in emphasis towards more detailed discussions on how to unlock the full potential of business, there remains a significant deficit of practical examples explaining how companies are leveraging their core capabilities and value chains for development impact. We need to build a much stronger understanding of these models to help others to replicate and scale them.

We are, therefore, pleased to have this opportunity to explore in depth the approach of one company, SABMiller, which is working to support entrepreneurs in its value chain and broader community by strengthening the wider environment in which they are embedded. A key message that this report highlights is that no one organisation can tackle the challenge of job creation and small business development alone. Companies must engage other companies, financial institutions, governments, and civil society groups to reinforce the ecosystems that affect what they can achieve.

Over several years, the Harvard Kennedy School Corporate Social Responsibility (CSR) Initiative and Business Fights Poverty have worked together to bridge theory and practice, and to connect people in the field of business and international development. This report is the latest in a series of reports on ways that companies can expand economic opportunity and choice.

We thank SABMiller for its openness to sharing its approach. We hope this report will be a useful source of real-time learning for SABMiller, its partners, other companies, donors, government and civil society groups interested in maximising the business contribution to development.



Jane Nelson
Director, CSR Initiative
Mossavar-Rahmani Center
for Business and Government
Harvard Kennedy School



Zahid Torres-Rahman
Founder and Director
Business Fights Poverty

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1 Background

Enterprise development is fundamental to poverty alleviation, job creation, economic growth, and human development.

Enterprise development is fundamental to poverty alleviation, job creation, economic growth, and human development. It can help the entrepreneur make ends meet, achieve financial security, accumulate wealth, become a leader and set an example for others; create jobs and incomes in his or her community; generate tax revenues for governments; and catalyse a range of multiplier effects, from food security to improved nutrition to better access to health care and education for future generations. In countries with support structures in place, small and medium enterprises (SMEs) can account for significant percentages of both employment and gross domestic product (GDP).¹ In high-income countries, SMEs account for more than 60% of both employment and GDP; in low-income countries, they account for nearly 80% of employment but less than 20% of GDP. As a result, whether entrepreneurs start their businesses because they cannot find jobs (“necessity entrepreneurship”) or because they see market opportunities (“opportunity entrepreneurship”), helping them grow is a development imperative.²

For large companies, enterprise development is also a business imperative. It strengthens the value chain by increasing quality, quantity, and security while potentially decreasing cost on the supply side and by increasing sales capacity on the distribution side. It expands the market by driving job creation and GDP growth. And it enhances corporate reputation by contributing to local, national, and global priorities.

Just as enterprise development is critical to large firms, large firms are critical to enterprise development. They can support entrepreneurs through corporate social investment in start-up capital, basic business skills, mentoring, and networking with peers and potential customers. However, large firms

increasingly realise that when it comes to supporting entrepreneurs, their comparative advantage is not social investment but rather demand for goods and services within their core business operations and value chains – demand that creates the business opportunities entrepreneurs need to grow. To help them take advantage of these opportunities, many large firms adjust their procurement policies and practices and provide small-scale suppliers, distributors, and retailers with information, training, technology, and other capacity-building resources.

SABMiller plc, one of the world’s largest brewers, has identified enterprise development as one of the top three ways that the company can create value for the business and for society.³ SABMiller works with thousands of micro, small and medium enterprises within its value chain and local communities.

These programmes are designed to strengthen the value chain and build more prosperous societies, both to address local development priorities such as job creation and to expand the market for beer.

Within the company’s value chain, these enterprises serve as suppliers, distributors, and retailers. They might be smallholder farmers growing cassava for local brand Impala in Mozambique, former bottling plant employees who have started their own one-truck distribution services in South Africa, or local corner stores selling beer as well as other groceries and consumer products to their neighbours in Colombia.

In its local communities, the enterprises supported by SABMiller engage in a wide variety of business pursuits, from food processing to construction equipment leasing to hairdressing to tech support. These programmes are designed to strengthen the value chain and build more prosperous societies, both to address local development priorities such as job creation and to expand the market for beer.

About SABMiller

Founded in South Africa in 1895, SABMiller is now one of the world's largest brewers, with 70,000 employees and interests and distribution agreements in 75 countries on six continents. It is also one of the world's largest bottlers of Coca-Cola products. In fiscal year 2013, SABMiller's revenues exceeded US\$34 billion, with some 72% coming from developing markets. Africa and Latin America accounted for 63% of EBITA and are two of the company's fastest-growing markets, at 5% and 9% respectively.

SABMiller has grown by acquisition and has numerous subsidiaries with strong local roots and independent operating histories and corporate cultures. In addition, beer is a relatively

local product, because it is perishable, bulky to transport, and subject to specific consumer tastes. As a result, SABMiller operates in a decentralised manner, with the managing directors of its local businesses focused on the issues and activities most material to their markets. According to the company, this allows it to take advantage of local knowledge, relationships, cost advantages, and consumer loyalty as well as global efficiencies and best practices.

To protect and grow long-term returns, SABMiller seeks "to drive economic growth and stimulate social development in [the countries where it operates], while using scarce natural resources efficiently."⁴

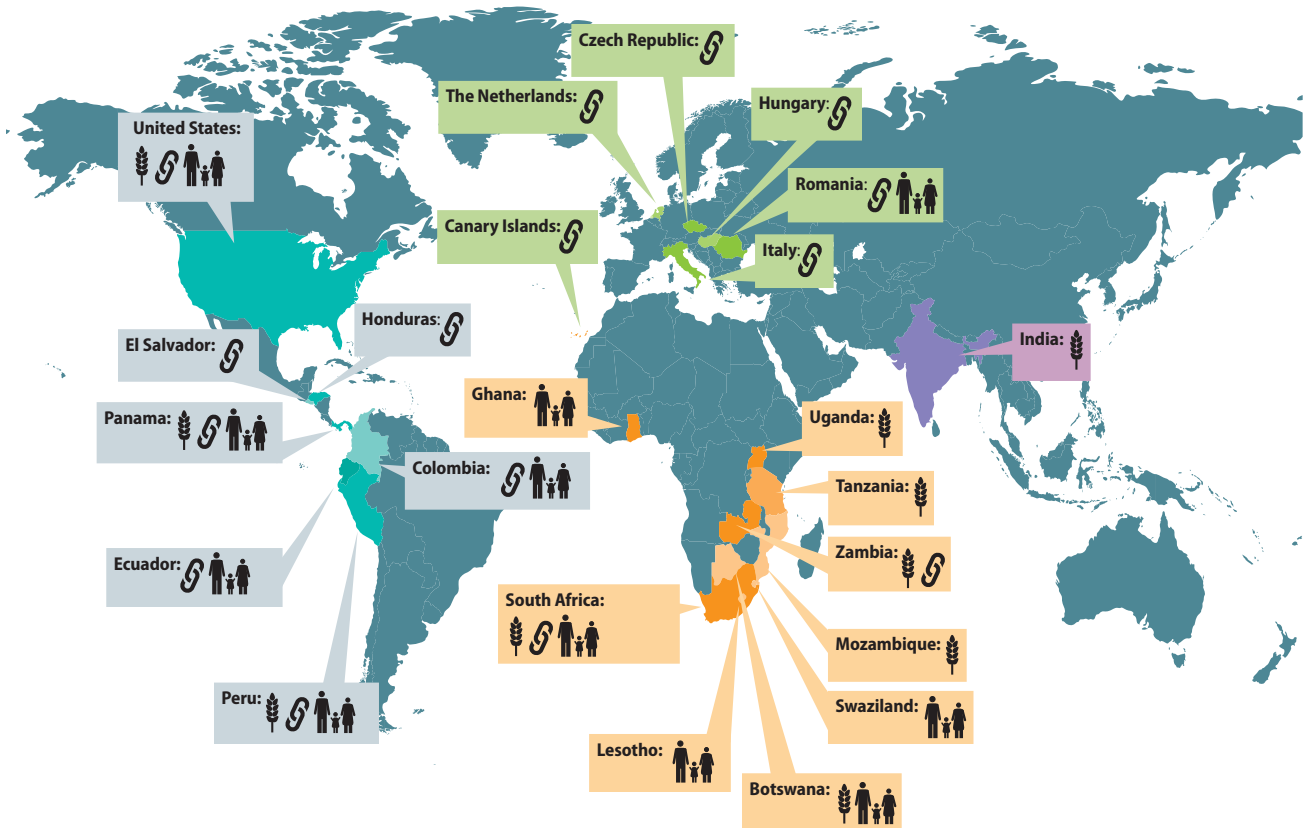
SABMiller, its subsidiaries, and their enterprise development partners provide these enterprises and the entrepreneurs who run them with various types of support, depending on local contexts and needs. Generally, support falls into the categories of:

- training and mentoring,
- access to finance, and

- access to markets – one important market or potential market being SABMiller itself.

The company currently manages 49 enterprise development programmes in 24 countries, as depicted in Figure 1.

Figure 1: SABMiller's Enterprise Development Programmes



Smallholder agriculture

Enterprise development in the value chain

Enterprise development in the community

SABMiller's approach to its entrepreneurship programmes continues to evolve from a community social investment model to enabling stronger linkages with the core business for greater project sustainability and scale.

In its experience managing enterprise development programmes around the world, SABMiller has identified three key success factors underpinning their performance and impact. These include:

1 Leveraging core business operations and expertise

SABMiller procurement creates demand for the goods and services that other enterprises offer, often in relatively large volumes – presenting significant opportunities for growth for those who can develop the capacity to supply at the levels of quantity and quality required. Through sales and marketing, SABMiller offers distributors and retailers the opportunity to earn money reselling popular products to customers and end consumers further down the value chain. The company also leverages its business knowledge and expertise to support entrepreneurs in the value chain and in the community more broadly through training, mentoring, and programme management. In Uganda, for example, SABMiller's sorghum procurement programme has helped 9,000 farmers improve their quality and productivity and begin to sell to the company, increasing their incomes by a factor of seven.⁵ SABMiller's approach to its entrepreneurship programmes continues to evolve from a community social investment model to enabling stronger linkages with the core business for greater project sustainability and scale.

2 Leveraging scale

SABMiller uses its global scale to gather, consolidate, and share lessons learned and best practices from around the world, to develop regional programmes with efficiencies that single country programmes cannot achieve, and to attract powerful partners looking for ways of reaching thousands of

enterprises effectively and efficiently. For example, the company has recently extracted best practices from several years of experience supporting small-scale retailers in Latin America to develop and launch the *4e, Camino al Progreso* programme in six countries. The programme is in partnership with the Inter-American Development Bank (IADB), the largest source of development financing for Latin America, which is owned by 55 member governments in the region and worldwide.

SABMiller recognises that while its own capabilities and scale matter, small and growing enterprises will only thrive in large numbers in the long run if they are embedded in strong and supportive "business ecosystems" that include, but go beyond, the company itself.

3 Strengthening business ecosystems

SABMiller recognises that while its own capabilities and scale matter, small and growing enterprises will only thrive in large numbers in the long run if they are embedded in strong and supportive "business ecosystems" that include, but go beyond, the company itself.

The term "ecosystem" comes from ecology, where it refers to a community of organisms that depend on one another and a shared natural environment. Strategist James Moore coined the term "business ecosystem" in a McKinsey Award-winning *Harvard Business Review* article in 1993, noting that firms, too, depend on communities of interconnected, interdependent stakeholders, including suppliers, distributors, retailers, customers, companies selling complementary products, competitors, investors, trade associations, regulators and other government agencies, educational institutions, the media, and others. Moore also suggested that, unlike most organisms, firms could strengthen their business ecosystems in ways that supported their long-term growth and competitiveness.⁶

Small and growing businesses certainly depend on healthy, supportive business ecosystems. They flourish when suppliers offer the right products and services at affordable prices, with payment and delivery terms that suit their cash flows; when banks offer appropriate payment, investment, and risk management services; when educational institutions equip them and their employees with the knowledge and skills they need to succeed; when government provides an enabling regulatory and tax environment and puts relevant infrastructure and public services in place; and so on.

Strengthening business ecosystems means raising awareness, aligning incentives, and helping to change mindsets and behaviours within the interconnected, interdependent community of stakeholders whose actions affect small enterprises' prospects for growth and success, both now and into the future.

Small and growing enterprises are typically limited in their ability to strengthen their business ecosystems because they lack resources, connections, and influence. Here, large companies can play a unique and critical role: they have greater resources, but even more importantly, they have market power. Large companies' supply of and demand for goods, services, and labour gives them a type and sphere of influence that is difficult for governments, donors, and civil society organisations to replicate, though those stakeholders have their own critical roles to play. Large companies are also uniquely incentivised to strengthen business ecosystems because it contributes to their own success as well as the success of the smaller firms in their value chains and communities.

Large companies are also uniquely incentivised to strengthen business ecosystems because it contributes to their own success as well as the success of the smaller firms in their value chains and communities.

As a result, SABMiller's enterprise development programmes work to achieve sustainable impact at scale by strengthening business ecosystems in addition to providing enterprise support services. Strengthening business ecosystems means raising awareness, aligning incentives, and helping to change mindsets and behaviours within the interconnected, interdependent community of stakeholders whose actions affect small enterprises' prospects for growth and success, both now and into the future. The company does this by using its own business processes and practices, partnering with other organisations capable of leverage and influence, and working through broader platforms for collective action.

2 Report Objectives

Recognising that strengthening business ecosystems is key to the sustainability and scale of impact of its enterprise development programmes, SABMiller has drawn upon its experience to date to develop a framework intended to help programme managers more systematically strengthen those ecosystems going forward. This report describes that framework and illustrates it with two of the programmes on which it is based:

■ **Oportunidades Bavaria**, which supports small-scale retailers in subsidiary Bavaria's value chain in Colombia. Oportunidades Bavaria is linked to SABMiller's core business. Participating retailers are "necessity" entrepreneurs (i.e., they have started their own businesses because they have few other job options).

■ **SAB KickStart**, which supports a wide range of entrepreneurs in SABMiller subsidiary SAB Ltd's local communities in South Africa. SAB KickStart is not necessarily linked to SABMiller's core business, though several participants have come to supply SAB Ltd with goods or services. Participants are "opportunity" entrepreneurs (i.e., they have started their own businesses because they see a market opportunity).

This report aims to document an approach with the potential to help SABMiller and other companies, governments, donors, and civil society organisations strengthen the performance of their enterprise development programmes and create more sustainable impact at scale.

3 A Framework for Sustaining and Scaling the Impact of Enterprise Development Programmes by Strengthening Business Ecosystems

Drawing upon its experience to date, SABMiller has developed a framework intended to help enterprise development programmes improve their performance and impact by strengthening business ecosystems. The framework consists of six steps:



1 ALIGN COMPANY AND COUNTRY OBJECTIVES

The first step is to set compelling objectives, which are critical to mobilising the internal and external resources, capabilities, and allies needed to run a successful enterprise development programme. SABMiller sets compelling objectives by analysing what is important to the company and what is important to the country where the programme will take place, and locating the intersection between the two. At that intersection will be a target group of entrepreneurs and a set of intended outcomes of supporting them.

To understand what is important to the company, managers review their business plans and sustainable

development priorities. Managers also take stock of the resources and capabilities the company can bring to the table. These may include procurement, sales, and other business processes, staff time, expertise, networks, infrastructure, and funding. Because these resources and capabilities are likely to come from a variety of different departments within the company, managers are encouraged to map the departments that need to be involved, what they have to offer, and what their incentives are – so that enterprise development programme objectives can be framed in ways that resonate across departmental boundaries.

To understand what is important to the country, SABMiller relies on a combination of research and the first-hand experience of local managers. The company's research, conducted each year, generally includes more than 500 interviews with stakeholders in the government, the company's value chain, the media and general public. Through

its in-country corporate affairs function, SABMiller maintains on-going dialogue with key stakeholders from government, civil society, communities and the media across a wide range of public policy areas to ensure the company is able to anticipate and respond effectively to key local issues and opportunities.

2 UNDERSTAND THE TARGET ENTREPRENEURS

The next step is to develop an in-depth understanding of the target entrepreneurs' businesses and the value chains, family structures, and communities in which they are embedded. Managers must get to know how those entrepreneurs work and why, what they aspire to, and what challenges they face. In some cases, SABMiller undertakes detailed research, for example working with specialist research firm MindCode to identify key insights to inform the design of *4e, Camino al Progreso*, a new broad-based enterprise development programme targeting 40,000 small shop keepers in SABMiller's value chain in six Latin American countries. As with commercial projects, SABMiller's sustainability programmes are underpinned by extensive research into key stakeholders and the wider environment to build contextual understanding and to help define project objectives and strategies.

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Entrepreneurs' challenges may have one or more of the following dimensions:

- **Capacity:** related to knowledge, skills, assets, or resources among target entrepreneurs
- **Market:** related to market linkages with entrepreneurs' suppliers, distributors, retailers, or customers
- **Finance:** related to entrepreneurs' access to financial services including credit, savings, and insurance
- **Policy:** related to government regulation, enforcement, or public services.

3 SELECT PRIORITY CHALLENGES AND KEY STAKEHOLDERS

In Step 3, managers prioritise one or more of the target entrepreneurs' challenges in accordance with the entrepreneurs' needs and aspirations and SABMiller's programme objectives and key performance indicators. Focusing the company's business ecosystem strengthening efforts around one or more challenges helps to define the scope of what can otherwise be an unwieldy exercise. In this report, we will describe the framework as applied to

one priority challenge. Managers consider the four dimensions of the priority challenge and identify stakeholders that play important roles – whether positive or negative, through action or inaction. They assess who needs to be involved in order to overcome the priority challenge sustainably and at scale. Managers also make note of what each key stakeholder is *currently* doing and what they would *ideally* be doing, if different, to address each challenge.

4 ANALYSE KEY STAKEHOLDERS

Managers can begin by identifying *categories* of stakeholders, since categories (for example, banks) will have much in common. But they will eventually need to move to the level of *individual* stakeholders in order to craft and implement an engagement strategy.

Next, with key stakeholders' current and potential roles in mind, enterprise development programme managers analyse them along three dimensions:

- **Incentive:** what incentives does this stakeholder have to address the priority challenge? What disincentives does the stakeholder have?
- **Institutional capacity:** does this stakeholder have the resources and capabilities needed to address the challenge? What strengths does the stakeholder bring to bear? What are the stakeholder's limitations or capacity gaps?

- **SABMiller's influence:** can SABMiller change this stakeholder's incentives or institutional capacity, and/or do others need to act? If others need to act, can SABMiller persuade them to do so?

Again, managers can begin using *categories* of stakeholders, since categories will have much in common. But they will need to move to the level of *individual* stakeholders in order to craft and implement an engagement strategy. For example, it may be possible to say that banks, as a category, are reluctant to lend to the target entrepreneurs because they perceive them to be risky. But *why* they perceive the target entrepreneurs to be risky, whether or not those particular assumptions are rooted in fact, and whether and how they can be changed will often differ from bank to bank.

5 DEVELOP STAKEHOLDER ENGAGEMENT STRATEGY

Having identified key stakeholders and analysed their incentives, institutional capacity, and SABMiller's ability to influence them, enterprise development programme managers can begin to design an engagement strategy to involve them in business ecosystem strengthening to address the priority challenge sustainably and at scale. This step must be completed at the level of *individual* stakeholders.

The first question is *whether* to engage each stakeholder. The analysis in Step 4 can help managers prioritise which stakeholders to engage, and in which order. This will depend on the company's objectives for the programme, the resources and capabilities the company brings to bear, and the time horizon in which it hopes to see results.

The second question is *how* to engage each stakeholder. What does each stakeholder need in order to take action to address the priority challenge, and from whom? What structures are necessary – bilateral or multilateral, formal or informal, short-term or long-term? Can SABMiller foster the necessary engagement itself, or does the company need to bring in a catalyst like a foundation, donor agency or development bank? There is no simple formula, since the answers are subject to so many local contextual factors – down to the personalities of the individuals representing each stakeholder organisation. As a result, the framework offers a menu of possible tactics that managers, using their own judgment, can choose to implement through SABMiller's own business policies and practices, through partnership with other stakeholders, and through broader collective action platforms.

6 MONITOR AND EVALUATE PERFORMANCE AND IMPACT

Finally, enterprise development programme managers monitor and evaluate their programme's performance and impact in addressing the priority challenge. Key performance indicators (KPIs) should include outputs, outcomes, and impacts for both the target entrepreneurs and the company itself. Impacts, or goal-level changes, are the most meaningful. But because impacts are difficult to measure and attribute, and take significant time to materialise, selecting output and outcome indicators that are good proxies for impact can help managers gauge whether they are on track or should make course corrections as needed.

4 The Framework in Action: Oportunidades Bavaria in Colombia

About Oportunidades Bavaria

Colombia's economy has grown substantially over the last decade, but remains dependent on commodity exports like oil, coal, coffee, and fresh cut flowers. The benefits have been uneven. Income inequality is high and unemployment and informality remain prevalent. In 2013, 96.4% of companies operating in Colombia are micro-enterprises, representing 50.3% of the employed population.⁷ Bringing these enterprises into the formal economy and helping them grow is a national priority.

Against this backdrop, SABMiller's Colombian subsidiary Bavaria S.A. launched the Oportunidades Bavaria programme in 2009 to improve the business performance and quality of life of *tenderos*, small-scale shopkeepers who are critical players in the company's value chain.

Bavaria S.A., founded in Colombia in 1889, is now SABMiller's largest operation in Latin America. Oportunidades Bavaria is managed by Bavaria S.A.'s foundation, Fundación Bavaria, among a number

From a development perspective, Oportunidades Bavaria aims to improve the business performance and quality of life of tenderos, small-scale shopkeepers who are critical players in the company's value chain.

of other enterprise and community development programmes. As of September 2013, the programme reached some 10,000 *tenderos* in 19 out of 32 regions in Colombia. In partnership with financial institutions, Oportunidades Bavaria provides *tenderos* in Bavaria's value chain with access to credit as well as to bank accounts and micro-insurance for loan repayments and funeral expenses. The latter two areas are at an early stage of development, roll-out, and uptake. In 2012, Oportunidades Bavaria also piloted business training for *tenderos*, which contributed to the development of the new *4e, Camino al Progreso* programme launched by SABMiller in August 2013. This is a broad-based

enterprise development programme targeting 40,000 *tenderos* in SABMiller's value chain in six Latin American countries in five years – including those who have participated in Oportunidades Bavaria. The Oportunidades Bavaria brand name is now being phased out.

4e, Camino al Progreso (4e) has been designed in collaboration with the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB). It will be implemented in partnership with FUNDES, an organisation that promotes the competitive development of micro, small, and medium-sized enterprises in Latin America. Through access to credit and training, *4e* specifically aims to develop the capabilities of *tenderos* to improve their businesses, enhance the quality of their own and their families' lives, and build their leadership skills to take on community-level responsibilities. In Colombia, the goal is to have engaged more than 17,000 *tenderos* by 2018.

1

ALIGN COMPANY AND COUNTRY OBJECTIVES

From a development perspective, Oportunidades Bavaria aims to improve the business performance and quality of life of *tenderos*, small-scale shopkeepers who are critical players in the company's value chain. From a business perspective, the programme helps *tenderos* to increase sales of all products, including Bavaria's, strengthen retailer loyalty, and reduce costs and risks associated with informality and the use of cash.

The most important assets Bavaria brings to the table in pursuing these objectives are its products, its marketing and sales systems and staff, its in-depth knowledge of the *tenderos* that buy from the company, and the Fundación Bavaria staff who manage the programme. Fundación Bavaria also contributes additional operating and marketing budget.

2 UNDERSTAND THE TARGET ENTREPRENEURS

In Colombia, there are an estimated 400,000 *tenderos*, of whom 375,000 sell Bavaria products. The Oportunidades Bavaria programme targets so-called “Category C” *tenderos* who sell 3-7 cases of beer per week. Bavaria has approximately 230,000 of these *tenderos* in its value chain. These *tenderos* are considered “survival” or “necessity entrepreneurs” as they run stores or other micro-enterprises to generate income to meet their families’ day-to-day needs. Their total revenues range between US\$130-US\$315 per month.

Bavaria has approximately 230,000 of these tenderos in its value chain.

The Oportunidades Bavaria programme has a larger number of female participants because banks consider women less risky borrowers than men. Women often work with their spouses in their stores, although some women run their own stores. *Tenderos* have typically studied up to high school in Colombia, but many have additional vocational or technical training.

Tenderos run small stores of approximately 40 square feet stocking a variety of products such as food and beverages, basic household goods, and airtime for mobile phones. The small size of their stores often makes ordering and delivery a major challenge, as they require small quantities of product on a frequent basis – something it is difficult for most suppliers to provide efficiently.

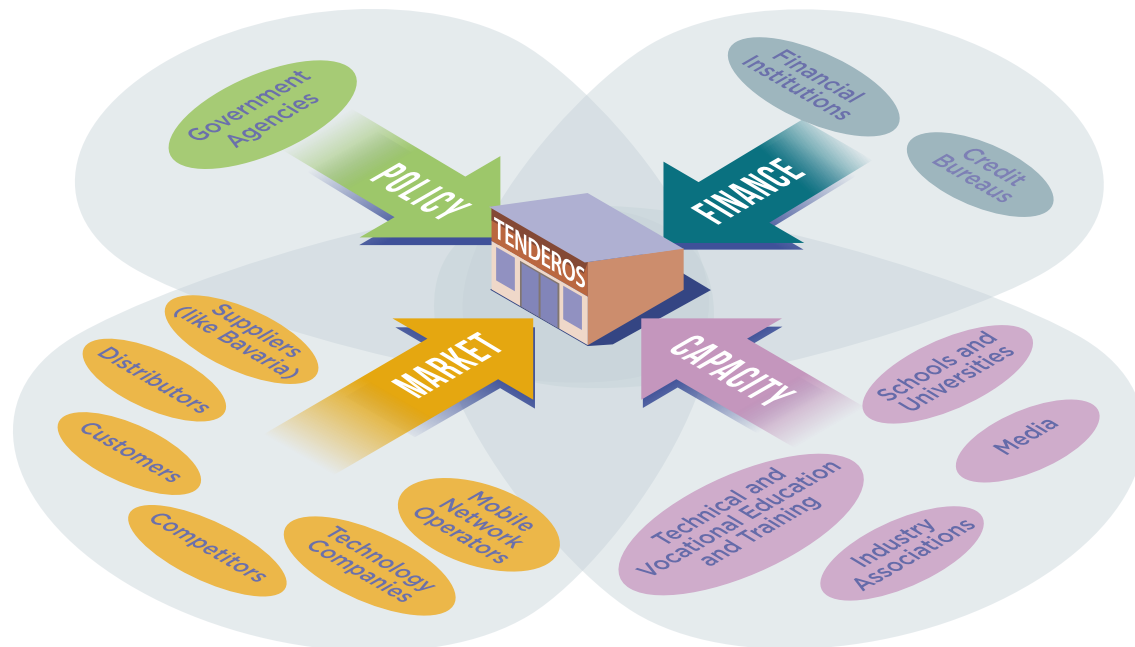
Approximately 71% of *tenderos*’ stores are adjacent to or in their homes. They are located in low-income communities, so low-income customers can easily make frequent, even daily visits to purchase products as their limited and often irregular cash flows permit. This makes *tenderos* a critical channel for companies to get their products to low-income customers.

Tenderos account for 60% of Bavaria’s annual sales volume, and Category C *tenderos* account for 40%. Serving customers with irregular cash flows and purchasing patterns gives *tenderos* irregular cash flows as well, along with difficulty predicting demand – which often results in product stock-outs. Dealing exclusively in cash also presents a security risk. Switching to electronic payments would offer *tenderos* increased security and operational efficiency.

Tenderos may open their stores without any formal business registration, but require several permits and licenses to operate, such as certification of compliance with fire safety, health, and tax codes as well as registration with the municipality and local chamber of commerce. Most often *tenderos* operate with only one or two of the required permits because they do not have a strong understanding of relevant laws, running the risk of store closures. Lack of awareness of laws governing beverage consumption in the street-front areas of their stores, or at certain times of night, can also lead to unwitting violations. Such laws also impact *tenderos*’ sales revenues.

In general, *tenderos* know their customers, who are usually their neighbours, very well. This personal knowledge enables them to extend *crédito fácil* (“easy credit”) to trusted customers. In this respect, *tenderos* have a competitive advantage over supermarkets, which find it difficult to assess risk and offer store credit to low-income consumers.

However, most *tenderos* have little access to credit or other financial services themselves. They need credit to finance their business operations, asset purchases, and store improvements, as well as savings and insurance to protect their financial futures. But while approximately 75% of *tenderos* have borrowed from microfinance institutions and informal sources such as moneylenders, family, and friends, most *tenderos*

Figure 2: *Tenderos'* Business Ecosystem

have not borrowed from banks, which offer few appropriate products and services – whether credit, savings, or insurance. *Tenderos* have low levels of financial literacy, do not understand how formal financial services could help them, and tend to mistrust the banking sector. Part of this mistrust is associated with having to pay fees and taxes, such as the government’s financial transaction tax. *Tenderos* prefer to use informal financial services to avoid these.

Running their stores is an imperative for day-to-day survival, but many *tenderos* aspire to grow their businesses to improve their quality of life and secure better educational opportunities for their children.

Running their stores is an imperative for day-to-day survival, but many *tenderos* aspire to grow their businesses to improve their quality of life and secure better educational opportunities for their children. Others aim to own their own homes. At the same time, Bavaria’s research has shown that many *tenderos* are anxious about growing their businesses, since it

increases their visibility and makes them vulnerable to robberies. They often fear that growth gives the appearance of prosperity, making them a source of envy in the neighbourhood. Some *tenderos* also believe that business growth may lead to additional legal compliance requirements or taxation.

Limited business skills also stand in the way of growth. *Tenderos* may not know how to manage their cash flows or perform basic accounting; for example, they often mix personal and business expenses. Without clear understanding of their monthly costs and sales revenues, *tenderos* are unable to determine how much profit they make, if any, to reinvest in their stores or to use for other purposes. *Tenderos* also lack inventory management skills, such as knowledge of when to sell products based on the nature of the product and its expiration date. Additional challenges for *tenderos* include learning how to differentiate their stores from the competition and using product pricing to their advantage in this regard.

Tenderos are often well-respected in their communities. They seek to differentiate their stores based on features other than price, such as having a convenient shop location or providing a comfortable place to consume food and beverages. Their stores tend to be social hubs, a feature that many *tenderos* feel could be

more effectively leveraged to make their stores centres for advice and services. Although evidence suggests that many *tenderos* doubt the importance of their trade, leading to low self-esteem and stress, they still would like to be the voice of their communities and a vehicle for community security and cohesion.

3 SELECT PRIORITY CHALLENGES AND KEY STAKEHOLDERS

At this stage of the programme, Oportunidades Bavaria has prioritised three challenges it considers most important to its business and development objectives: inventory management skills; product ordering, delivery, and payments; and financial inclusion. Of these three challenges, financial inclusion is the most complex and systemic, with market, finance, capacity, and policy dimensions. As a result, it most requires business ecosystem strengthening in order to generate sustainable impact at scale.

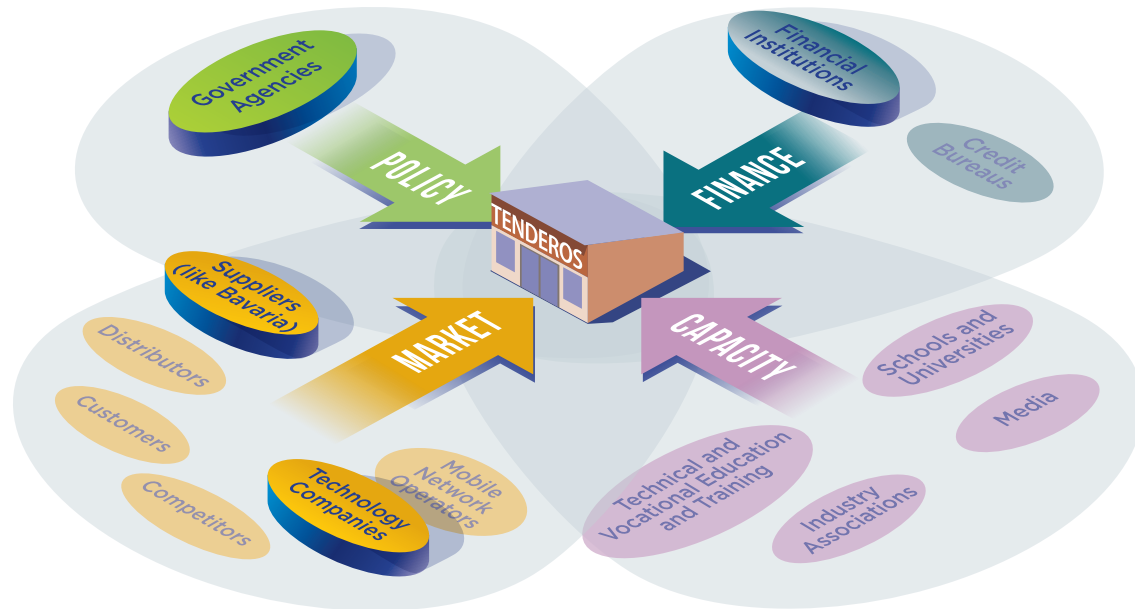
Oportunidades Bavaria has identified a number of business ecosystem stakeholders key to the priority challenge of financial inclusion for *tenderos*; these include banks, government regulators, large fast-moving consumer goods (FMCG) companies, and technology providers.

Banks. For the most part, banks do not consider low-income individuals like *tenderos* to be interesting or viable markets. *Tenderos* lack formal credit histories and banks generally do not have proven alternative methods of assessing their credit risk. *Tenderos* also require relatively small loans and small savings accounts and can afford to pay only low fees, so the transaction costs can be prohibitive without significant innovation in products and processes. However, some banks have begun to venture into this market – among them the largest private bank in Colombia, Bancolombia, and government bank Banco Agrario de Colombia. Many microfinance

institutions (MFIs), such as Comultrasan, have been serving low-income clients for many years. Banks have also begun to develop a branchless banking network in Colombia, with over 20,800 agents as of June 2012.⁸ This is expected to make formal financial services more accessible to low-income populations. With transactions currently consisting mostly of deposits and utility bill payments, there is scope for network expansion as well as offering a wider array of services.⁹

Oportunidades Bavaria has identified a number of business ecosystem stakeholders key to the priority challenge of financial inclusion for tenderos; these include banks, government regulators, large fast-moving consumer goods (FMCG) companies, and technology providers.

Government regulators. An enabling regulatory environment is critical for financial inclusion. In 2006, the Government of Colombia created *Banca de las Oportunidades* (BDO), a policy programme to expand access to financial services among low-income populations. The programme promotes regulatory changes, develops projects to bring together financial institutions and low-income clients, and provides incentives for financial institutions. This programme has facilitated some important changes. For example, in 2006, the Financial Superintendence of Colombia (SFC), the country's regulatory and supervisory agency for

Figure 3: Key Stakeholders for the Priority Challenge of Financial Inclusion

the financial sector, created new rules permitting “any type of legal entity to act as an agent of a fully licensed financial institution and to deliver financial services on its own premises.”¹⁰ Through BDO, the government also created incentives for banks to establish agents in areas without access to financial services. This was expected to facilitate payments to low-income households through *Familias en Acción*, the government’s conditional cash transfer programme. These incentives drove a significant expansion of Colombia’s branchless banking agent network in rural municipalities and in marginal neighbourhoods in big cities. BDO also advocated for the creation of low-value savings accounts featuring “simplified know-your-customer (KYC) requirements, fee exemptions on a specified number of transactions, and exemptions on directed lending provisions.”¹¹

Tenderos lack formal credit histories and banks generally do not have proven alternative methods of assessing their credit risk. An enabling regulatory environment is critical for financial inclusion.

At present, the government charges a financial transaction tax of 0.4%, known as *cuatro por mil*, on every debit from a bank account or credit card transaction. This tax has discouraged low-income households from opening and using bank accounts. However, as a result of advocacy by BDO, the SFC has created new rules eliminating this tax on monthly debits of up to US\$3,500 from all types of savings accounts. These include electronic and mobile phone-based accounts. Despite this policy change, there has not been significant uptake of bank accounts among *tenderos*. According to Bavaria, this is partly because *tenderos* lack awareness of the changes. There have also been procedural challenges: according to CGAP, “(i) banks reportedly do not always apply the exemption, (ii) customers are required to present a written declaration to banks stating that there is only one account benefiting from such exemption, and (iii) accounts held by more than one person cannot be exempted.”¹²

The SFC has also created new rules to facilitate the development of mobile phone-based savings products. An individual may open a savings account

linked to his or her mobile phone number, which serves as the account number. Approximately US\$2,000 per month may be maintained in this account tax-free, and can be used to make various payments, such as utility bills. Mobile phone-based savings accounts came onto the market in 2012 and could be leveraged to advance electronic payments among *tenderos* and their customers. Again, according to Bavaria, raising more awareness would help to facilitate uptake.

Despite this policy change, there has not been significant uptake of bank accounts among tenderos. According to Bavaria, this is partly because tenderos lack awareness of the changes.

Large FMCG companies. Many large FMCG companies sell through *tenderos* to reach consumers in low-income markets. Like Bavaria, several of them are facilitating access to micro-credit for *tenderos* in their value chains – but there is scope for more companies to do so, and on a larger scale. A number of companies are also beginning to implement electronic ordering and payment systems, which should drive uptake of more formal financial services

like the mobile phone-based savings accounts and other bank accounts.

Various technology providers are in the process of developing electronic ordering and payment solutions that could benefit tenderos.

Technology providers. Various technology providers are in the process of developing electronic ordering and payment solutions that could benefit *tenderos*. Frogtek, a Mexican company, offers a digital point-of-sale solution for small retailers that enables them to better manage their businesses. Using a software programme called Tiendatek, a tablet, and a barcode scanner, *tenderos* can register sales transactions; obtain a variety of metrics, including, their best and worst performing products, total profits, and sales credits; and charge credit cards. Among other benefits to *tenderos* and their suppliers, including FMCG companies, the solution also facilitates real-time reporting on product inventory. However, while the benefits of technology solutions could be substantial, Bavaria has found that in general, affordability is a significant challenge for Category C *tenderos*.

4 ANALYSE KEY STAKEHOLDERS

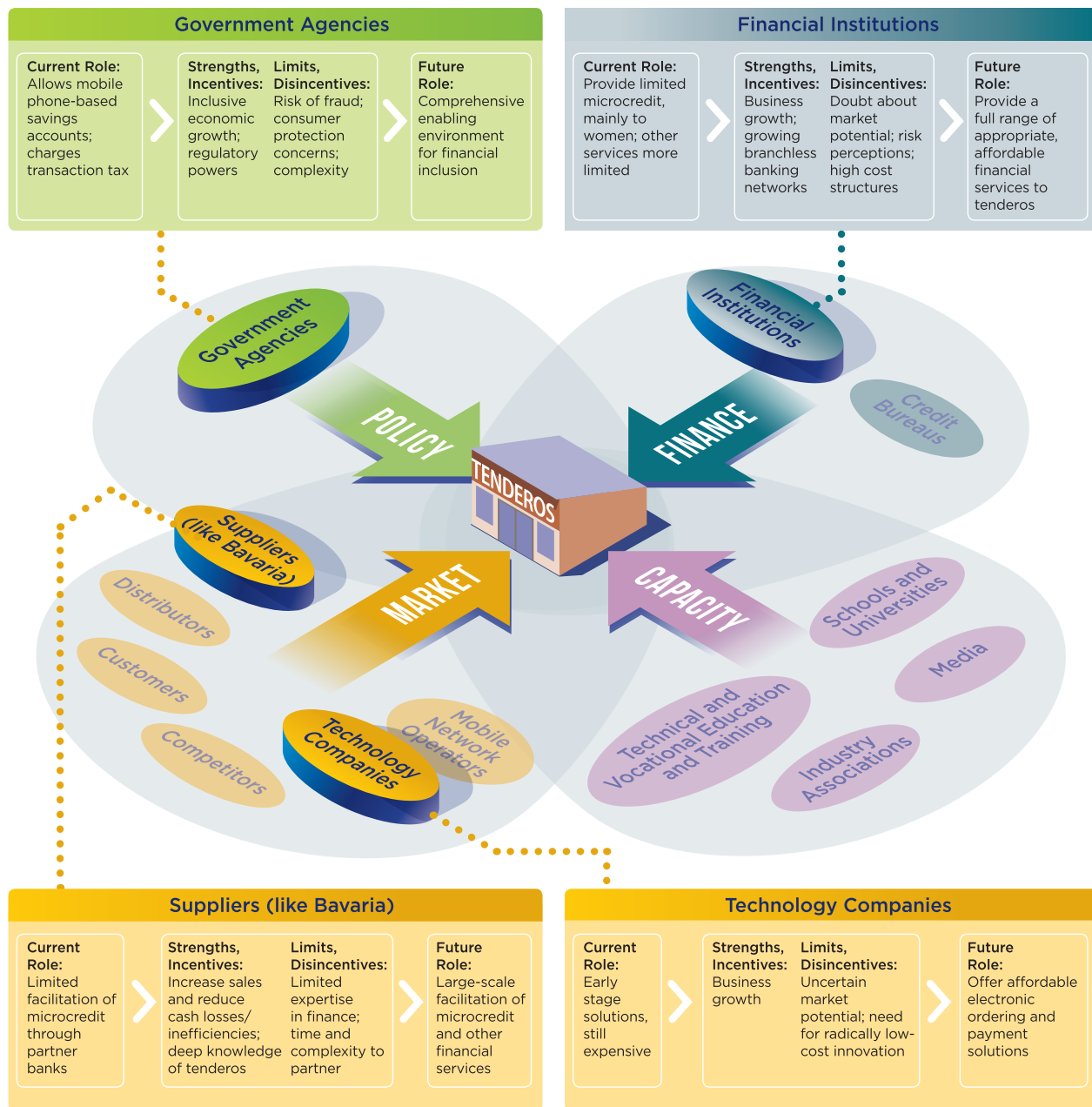
In examining the priority challenge of financial inclusion for *tenderos*, Oportunidades Bavaria has worked to understand the incentives and institutional capacity issues facing each of the critical stakeholders.

Banks. Banks have business growth, regulatory compliance, and even mission-related incentives to work with *tenderos*. In terms of business growth, *tenderos* and other low-income individuals are a nearly untapped market for most big banks, and one with significant need for financial services. The growth opportunity could be significant for banks

Banks have business growth, regulatory compliance, and even mission-related incentives to work with tenderos.

capable of the product, service, and business model innovations required to turn this need into demand. Emerging branchless banking networks should help these banks reach low-income customers at lower cost. Bancolombia and Banco Agrario de Colombia have two of the largest branchless banking networks in the country, allowing low-income customers to make utility payments, account withdrawals and deposits, sometimes using their mobile phones.

Figure 4: Key Stakeholder Analysis for the Priority Challenge of Financial Inclusion



Banco Agrario de Colombia, for its part, has the largest physical branch network in the country, with 741 offices in 720 cities and branchless banking correspondents at 5,000 locations in 322 cities. In all, Banco Agrario has a presence in 1,042 municipalities, 94.5% of the municipalities in Colombia.

On the regulatory side, in 2012, the SFC created new rules to advance financial inclusion, requiring banks to offer financial literacy training to low-income segments and stipulating when banks should offer products for free. Government banks and microfinance institutions (MFIs) also have mission-related objectives to fulfil.

However, *tenderos*' lack of formal credit history, apprehension or mistrust of banks, and low willingness or ability to pay taxes, fees or premiums for insurance products present disincentives. *Tenderos* and the low-value accounts that they maintain do not present a sufficiently strong business case for some banks. Another limitation is that despite a high rate of mobile phone penetration in Colombia, about 92%, banks are still not taking advantage of the opportunity to deliver financial services more conveniently and at lower cost through mobile phones.

The SFC's overarching incentive to create a regulatory environment conducive to financial inclusion is economic growth.

Government regulators. The SFC's overarching incentive to create a regulatory environment conducive to financial inclusion is economic growth. Bringing more people into the formal financial sector brings in more money that can be reinvested in productive activity. Increasing uptake of electronic payments would reduce security issues that inhibit investment. And integrating more micro and small businesses into the formal economy could generate additional tax revenue. At the same time, the SFC faces challenges to taking particular steps to promote financial inclusion, such as incentivising branchless banking – including the risks associated with agent fraud or managing agent liquidity if banks do not institute proper processes and systems and ensure compliance. It can be complex to regulate innovative new financial products for low-income customers, requiring a delicate balance between financial inclusion and consumer protection goals.

Large FMCG companies. Increasing sales is the primary incentive for large FMCG companies to facilitate financial inclusion for *tenderos*. Credit can enable *tenderos* to purchase assets such as refrigerators or coolers; help them make store improvements,

Increasing sales is the primary incentive for large FMCG companies to facilitate financial inclusion for tenderos.

which in turn can attract more customers; and help reduce the number of times they experience product stock-outs which may otherwise occur due to irregular cash flows. Companies have deep knowledge of their *tendero* customers and records of their payment histories, which can be leveraged to help assess credit risk and explore opportunities for new products, such as product finance, which would enable *tenderos* to purchase inventory on credit. Companies can also help drive uptake of formal financial services by facilitating the switch from cash to electronic payments, which would have the added benefit of reducing costs by preventing theft and the inefficiencies associated with managing cash.

Despite these benefits, facilitating financial inclusion for *tenderos* can be time-consuming and complex, and many FMCG companies do not consider financial inclusion a core competency. Additional challenges include finding the right partners, aligning objectives, covering the cost of training, and agreeing upon a strategy and implementation plan.

The incentive for technology companies to develop affordable solutions for ordering and electronic payments is to tap into new markets and grow their businesses.

Technology providers. The incentive for technology companies to develop affordable solutions for ordering and electronic payments is to tap into new markets and grow their businesses. Disincentives include doubts about the size of those new markets, the challenge of radically low-cost innovation, and the cost of training *tenderos* in new technology.

5 DEVELOP STAKEHOLDER ENGAGEMENT STRATEGY

Based on its analysis of key stakeholders' roles, incentives, and institutional capacities, as well as its own influence, capabilities and resources, Oportunidades Bavaria is engaging a number of organisations to strengthen the business ecosystem to enhance financial inclusion for *tenderos*.

Bavaria has catalysed strategic alliances with three financial institutions to provide tenderos with access to credit

Bavaria has catalysed strategic alliances with three financial institutions to provide *tenderos* with access to credit: Bancolombia, Banco Agrario, and Comultrasan. These institutions have been engaged primarily because their large geographic footprints offer scale and efficiency. Bavaria can cover the entire country with only three partners. Bancolombia has the country's largest branchless banking network. Banco Agrario has the largest physical branch network in Colombia, as it is a public sector bank with a mandate to cover the entire country. It also has a micro-credit programme for women, offering them lower interest rates than are offered to men. Most MFIs do serve *tenderos* but cover smaller areas, which would make it challenging for Bavaria to reach the 375,000 *tenderos* in its value chain. Comultrasan is an exception, since it is the largest cooperative bank in Colombia and because it has excellent coverage in Santander, which was the birthplace of the pilot Oportunidades Bavaria programme.

Bavaria sales representatives play an important role in enabling these banks to provide *tenderos* with credit, recommending specific *tenderos* based on their payment track records. A *tendero* should have more than a year's purchase history with Bavaria to qualify for a recommendation; the sales representatives' personal knowledge of *tenderos*' circumstances and credit needs is also important. Bavaria sales representatives act as an initial filter and make introductory visits with bank loan officers, though

Bavaria does not formally pre-approve *tenderos* for loans. The average loan is approximately \$1,300 with a tenor of 18 months. Annual interest rates vary by *tendero* but generally range between 25% and 40%.

Since women are considered lower-risk borrowers, the banks provide loans to female *tenderos* more often than male *tenderos*. In the absence of long formal credit histories, risk assessment is based on getting to know the individual and her revenue stream. Banks do not require stores to be registered, but the *tendero* must have a government-issued identification card. The banks also provide basic credit literacy training. For example, during Bavaria's pilot training programme, Bancolombia's representatives attended training sessions to explain their loan product and conditions, and to answer questions.

Bavaria sales representatives play an important role in enabling these banks to provide tenderos with credit

Beyond loans, Oportunidades Bavaria's three partner banks offer *tenderos* bank accounts. There has been limited uptake due to fees and taxes; of the more than 10,000 *tenderos* who have received micro-credit via Oportunidades Bavaria, about 3,550 have savings accounts. This is expected to change with the introduction of mobile phone-based savings accounts. Though these accounts will not be taxed, financial institutions will need to find creative ways to incentivise *tenderos* and other low-income individuals to try them. Bancolombia is currently piloting such accounts, and expects to have results by the end of 2013.

The banks are also at a very early stage of developing and rolling out micro-insurance products for health, life, and accidents. Of the 10,000 *tenderos* who have received microcredit to date, approximately 10% have also purchased insurance for loan repayments in case of death of the debtor or funeral expenses

(\$1,500-\$3,000) through Bancolombia. As *tenderos* get more comfortable with financial services through credit and the new mobile phone-based savings accounts coming onto the market, Oportunidades Bavaria's partner banks may explore development of new micro-insurance products. Additional targeted financial literacy efforts will be necessary.

Finally, Bavaria and Bancolombia have begun to explore the potential for some *tenderos* to become branchless banking agents. This would help advance financial inclusion for *tenderos* and for their customers, giving *tenderos* an additional service to offer and giving customers convenient and secure means of making deposits, withdrawals, and payments. The requirements are stringent. For example, *tenderos* will have to sign a contract with the bank to manage the data phones for conducting branchless banking transactions, participate in training on how to use the data phones, and visit bank branches or contract with transporters to deposit excess cash in banks.

The new *4e, Camino al Progreso* programme will play an additional role in addressing the priority challenge of financial inclusion. The programme is structured in four growth phases from “responsible *tendero*” to “sustainable *tendero*” to “excellent *tendero*” to “leader *tendero*.” The financial literacy

Apart from financial literacy and business management training, Bavaria is exploring the introduction of electronic ordering and payments for tenderos.

components of the programme are meant to build confidence of *tenderos* to apply for and manage loans, open bank accounts, purchase micro insurance and explore other formal financial services. The business management components will help *tenderos* to improve their business performance by, for example, tracking expenses and reducing costs or taking on new revenue generation opportunities like qualifying to become branchless banking agents. The Inter-American Development Bank is providing catalytic funding for the *4e* programme and the civil society group FUNDES is helping to deliver the training throughout Latin America.

Apart from financial literacy and business management training, Bavaria is exploring the introduction of electronic ordering and payments for *tenderos*. Such a system could be a key driver for *tenderos* to open mobile phone-based savings accounts or other types of bank accounts to make electronic payments to Bavaria's distributors. For those *tenderos* who do not currently engage with formal financial services, electronic payments could be a stepping stone to utilising a broader set of financial services in the long-term.

6 MONITOR AND EVALUATE PERFORMANCE AND IMPACT

The key performance indicators (KPIs) Fundación Bavaria has used to monitor Oportunidades Bavaria's performance include:

- The number of *tenderos* who have received microcredit (more than 10,000 as of fall 2013)
- The total value of micro-credits disbursed (approximately US\$ 15.6 million as of May 2013)
- The percentage of non-performing loans (2.71% as of May 2013)
- The number of *tenderos* with active savings accounts (3,550 as of February 2013)

New indicators related to *tenderos'* business performance, quality of life, and community leadership will be added in accordance with Oportunidades Bavaria's evolution into the broader *4e* programme, which aims to reach 17,400 *tenderos* by 2018. For example, as *tenderos'* recordkeeping abilities improve with training, the *4e* programme will be in a position to measure increase in total sales revenue, as well as increase in revenue from Bavaria products. FUNDES has already established baseline data on total sales revenue for *tenderos* participating in the programme.

5 The Framework in Action: SAB KickStart in South Africa

About SAB KickStart

South Africa has a high rate of unemployment among youth, defined by the government as persons between 15 and 34 years of age. In December 2010, three million youth were unemployed, representing 72% of overall unemployment in the country. South African youth also lag far behind other sub-Saharan African youth in perceiving that entrepreneurial opportunities exist (39% compared to 70%) or that they have the capabilities necessary to capture them (40% compared to 76%).¹³

Against this backdrop, SABMiller subsidiary South African Breweries (SAB) recognises that encouraging enterprise development and job creation in the communities in which it operates is important to the company's long-term sustainability. SAB KickStart is one of a number of SAB programmes designed to fulfil these goals. It is also an important avenue for the company to contribute to the objectives of the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, which focuses on developing small businesses that are black-owned. Launched in 1995, SAB KickStart has evolved into a competition platform to develop sustainable youth-owned enterprises that will have a high impact on job creation. By creating successful entrepreneur

SABMiller subsidiary South African Breweries (SAB) recognises that encouraging enterprise development and job creation in the communities in which it operates is important to the company's long-term sustainability.

role models, SAB KickStart also aims to encourage a culture of market-driven entrepreneurship in South Africa. The competition is aimed at 18 to 35-year-olds from previously disadvantaged groups.

The top 60 KickStart applicants participate in a two-week intensive business skills training workshop during which they are given assistance

to develop business plans. Candidates with the best business plans enter the regional phase of the competition; regional winners receive grant funding for their businesses and move to the national phase, during which comprehensive business development support is offered to assist entrepreneurs in developing and growing their businesses. A thorough assessment of each business is followed by a tailored growth strategy and individual mentorship for the entrepreneur for 12 months. The growth strategy also determines the amount of grant funding a business receives from SAB KickStart. Thereafter, SAB KickStart facilitates market access by linking participants to SAB Ltd. and providing opportunities to attend exhibitions and make international visits. Follow-up consulting and mentoring is also offered through consulting firms, MBA students, and SAB KickStart's alumni network.

1 ALIGN COMPANY AND COUNTRY OBJECTIVES

From a development perspective, SAB KickStart aims to create and support successful businesses in high-value sectors in local communities, creating and sustaining jobs and providing role models to inspire others. From a business perspective, SAB KickStart enables the company to deliver on its sustainable development objectives by helping to nurture more prosperous and healthy communities; the programme also lets SAB respond to the South African government's Broad-Based Black Economic Empowerment (B-BBEE) requirements.

In pursuing these objectives through KickStart, SAB contributes its corporate social investment resources

SAB contributes its corporate social investment resources to provide grant financing, training and mentoring for entrepreneurs; its expertise in managing and delivering a multi-layered, nation-wide enterprise support programme; and access to its value chain and networks.

to provide grant financing, training and mentoring for entrepreneurs; its expertise in managing and delivering a multi-layered, nation-wide enterprise support programme; and access to its value chain and networks.

2 UNDERSTAND THE TARGET ENTREPRENEURS

As a competition, SAB KickStart's application criteria ensure that participating entrepreneurs have a few things in common. SAB KickStarters are assessed to be entrepreneurial in nature, with strong integrity and commitment to their businesses. Their businesses must be in the early post-revenue stage, operating for less than five years, earning less than five million South African rand (R) a year, and employing fewer than 15 people. Their businesses must also have a sustainable competitive advantage as well as the potential to scale and offer wider employment opportunities.

Reaching scale is the overarching challenge faced by SAB KickStarters.

Reaching scale is the overarching challenge faced by SAB KickStarters. Reaching sufficient scale makes it easier for a business to source inputs on more advantageous terms, to become more price competitive, to meet customer demand for greater volumes, and to generate sufficient cash flow to sustain business investment and growth.

Another challenge for SAB KickStarters is access to financing for business needs such as working capital and leasing or purchasing equipment, other assets, and property.

Under the umbrella of reaching scale, SAB KickStarters tend to have other specific challenges. One is skills; though SAB KickStarters already have a university degree or diploma and have gained hands-on experience running their own businesses for a few years, they need formal training to develop certain entrepreneurial skills (such as preparing and pitching a business plan), business management skills (such as customer service), and sector-specific technical skills. In particular, they need capacity building programmes that integrate these three

types of skills. Programmes that offer professional or technical certification could be especially helpful, lending credibility to these entrepreneurs and their young businesses. However, training and mentoring programmes can be time consuming, costly, and difficult to access. Even though training costs may be defrayed through business training vouchers offered by the government for eligible small businesses, many SAB KickStarters find the application process and associated documentation requirements to access such funds to be lengthy and daunting. All of these factors can be a disincentive for some of these young entrepreneurs, who may not be able to take time away from running their businesses to research suitable programmes, apply for grant funding when available, raise their own funding contributions, and then to participate in training.

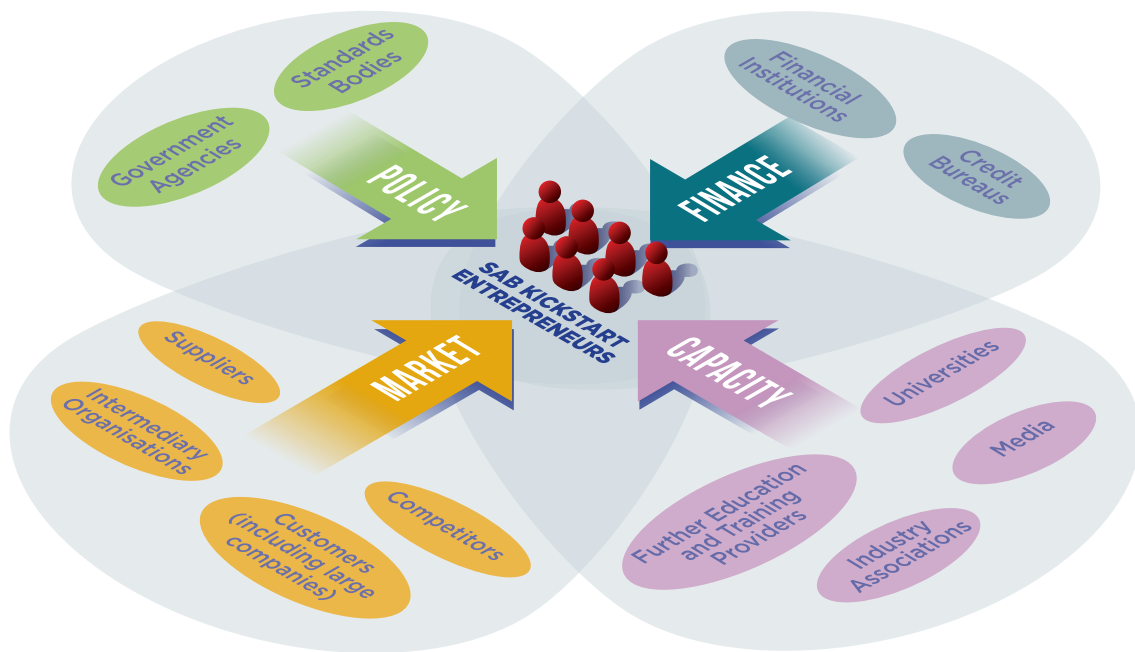
Another challenge for SAB KickStarters is access to financing for business needs such as working capital and leasing or purchasing equipment, other assets, and property. Because these entrepreneurs have early-stage businesses with limited track records, they face far more stringent collateral requirements and higher interest rates. Even with longer track records, however, small businesses often struggle to find appropriate products – for example, a flexible financing facility from a bank at realistic interest rates to manage cash flow fluctuations (e.g., overdraft). There are a number of government agencies and private companies through their enterprise development programmes that also provide financing, but SAB KickStarters aren't always aware of these programmes or simply find the application process too complex.

A third challenge for SAB KickStarters seeking to grow their businesses is finding and accessing markets.

A third challenge for SAB KickStarters seeking to grow their businesses is finding and accessing markets. Larger companies and government entities are promising in this respect, because of their buying power – SAB KickStarters serving large customers could achieve high sales volumes without having to go mass market. Large customers can also lend credibility to a SAB KickStart entrepreneur’s small business and widen his or her network which, in turn, can help with new customer acquisition. However, accessing these markets is difficult for SAB

KickStarters precisely because their businesses are currently small. They need large customers in order to scale – but until they scale, they cannot produce at the levels of quantity or price competitiveness that such customers require. They may lack contacts or other means of finding out about procurement opportunities. They may also lack the specific skills necessary to win and successfully execute large contracts – such as health, safety, and environmental compliance – or be unable to obtain loans at the required levels to expand production capacity.

Figure 5: SAB KickStarters’ Business Ecosystems



While SAB KickStarters have much in common as small businesses seeking to scale, they are also very diverse. They operate in industry sectors ranging from services to production and manufacturing. As a result, they often need widely varied and even

individualised solutions to common challenges like skills building or certification. The SAB KickStart programme must therefore work to understand each SAB KickStarter and his or her challenges individually. The box below provides one example.

SAB KickStart Entrepreneur Profile: Lyle Truter, TRU PVC Products

Given the diversity of their businesses, there is a limit to how well SAB KickStart can understand SAB KickStarters and their challenges as a group. To provide effective support, SAB KickStart works to understand participating entrepreneurs individually, including Lyle Truter, who is profiled below.

Lyle Truter has been selected as an SAB KickStart 2013 Finalist. He is Managing Director of Cape Town-based TRU PVC Products, a family-owned company that manufactures and supplies PVC pipe fittings for irrigation and civil markets. TRU PVC Products has been in business for four years, employs 14 people, and generates an annual turnover of around R3 million.

TRU PVC Products aims to supply quality products at highly competitive prices. The company's growth strategy is focused on driving efficiencies and controlling overhead costs, while consistently improving the production process by accessing institutional grants to finance more advanced manufacturing equipment. It also aims to build inventory to improve order fulfilment times and customer service.

Two primary challenges for TRU PVC relate to capacity building and managing cash flow.

Building capacity. TRU PVC Products needs to build the technical capacity of its employees to produce high quality PVC fittings. The industry body, Plastics SA, provides a wide spectrum of training courses covering technical, management,

and quality assurance skills, but TRU PVC lacks the financial resources to pay for employees to attend. The South African Department of Trade and Industry (DTI) offers small businesses grant funding to cover up to 80% of the cost of training, in line with its industrial policy focus on supporting the development of high-value sectors like manufacturing. However, the application process for funding is onerous and slow, in some cases taking up to 12 months to complete. TRU PVC Products has also considered adopting ISO 9001, a quality management system, into its manufacturing process, but decided not to proceed yet due to the high cost of introducing the standard and managing ongoing compliance.

Managing cash flow. Despite having a turnover of over R3 million per year, TRU PVC Products regularly faces the challenge of managing its cash flow, which can vary from month to month. It is difficult to find financial institutions willing to provide a flexible financing facility to help cover the company's cash requirements as needed. Where available, an overdraft facility typically carries a 13-15% rate of interest, making it hard for the business to make a return. DTI grants are too slow to be helpful for managing cash flows. The Small Enterprise Finance Agency (SEFA) also provides loans to small businesses, but requires recipients to contribute personal collateral, which many entrepreneurs are unwilling to do.

3 SELECT PRIORITY CHALLENGES AND KEY STAKEHOLDERS

For this study, SAB has chosen to focus on the priority challenge of facilitating business linkages between SAB KickStarters and large companies, including SAB. This challenge is multi-dimensional, spanning needs for skills, access to finance, and an enabling policy environment and public programmes – so strengthening the business ecosystem is required to generate sustainable impact at scale. SAB has

identified several key stakeholders: educational institutions, large companies, financial institutions, government policymakers and intermediary organisations. Their current roles are described on the next page.

Figure 6: Key Stakeholders for the Priority Challenge of Facilitating Business Linkages between SAB KickStarters and Large Companies



Large Companies. Many large companies in South Africa have established targets to purchase from small businesses and are making efforts to include these businesses in their supply chains. However, this is not generally done at scale. Large companies have stringent quality, health, safety, and environmental standards and require large quantities at prices that are hard to deliver without economies of scale – all of which make it difficult for small businesses to compete. A key challenge for large companies is how to cost-effectively and systematically integrate a sufficiently large number of SAB KickStart-type entrepreneurs into core areas of their supply chain rather than a small number through low-value, *ad hoc* opportunities.

Large companies often have some training available for direct suppliers, as well as distributors and retailers, but usually this is focused on specific value chain needs. Since 1987, for example, SAB has offered an Owner Driver programme through which former employees can get assistance to launch transport companies to deliver SAB products. Today, these companies deliver around 60% of SAB’s beer. Similarly, SAB’s Mahlesedi Taverner Training programme used to offer mentoring and training to small tavern owners. According to an enterprise development study conducted on 60 of the top 100 companies on the Johannesburg Stock Exchange by Impact Amplifier and NYU Center for Global Affairs in 2013, “[O]f the survey’s 35 participants that provide business development services, 66% support current suppliers and prospective suppliers with the goal of building and strengthening small enterprises that directly support the business.”¹⁴

Private sector financial institutions have a critical role to play in helping young entrepreneurs to start and grow their businesses.

Financial Institutions. Private sector financial institutions have a critical role to play in helping young entrepreneurs to start and grow their businesses. Standard Bank, Absa Bank, Nedbank, First National Bank, and GroFin, an SME fund manager, are just a few of the financial institutions in South Africa that work with small businesses. Standard Bank, for example, offers small businesses vehicle and asset financing as well as working capital financing through products such as purchase order finance and contract finance. Absa Bank has enterprise development centres where entrepreneurs can walk in and receive assistance, advice, and support on how to start or grow their businesses. Nedbank, through its small business services division, provides the “Startup Offer,” which gives business loans, coaching, and mentoring; the bank also features web-based tools such as a business plan guide for entrepreneurs. First National Bank offers Biznetwork, a network club aimed at small and medium business owners who want to develop their business capacity. GroFin is an example of a financial institution whose overall business is focused on serving small businesses in South Africa and other countries.

Government. In 2011, the South African government released its National Development Plan (NDP) to eliminate poverty and reduce inequality by 2030. The NDP set several milestones, including “increasing employment from 13 million in 2010 to 24 million in 2030 and establishing a competitive base of infrastructure, human resources, and regulatory frameworks.”¹⁵ South Africa’s Department of Trade and Industry (DTI) is one of the agencies tasked with implementing these elements of the NDP. It has responded through capacity building and regulation.

On the capacity building side, the government offers training programmes that SAB KickStart entrepreneurs could participate in. For example, the Black Business Supplier Development Programme (BBSDP) is a DTI initiative which includes grant funding up to R200,000 for black-owned businesses to participate in training in management, marketing, productivity, and use of modern technology. One of the criteria for a business to be eligible to receive this funding is an annual turnover between R250,000 and R35 million. While BBSDP contributes 80% of the training cost, entrepreneurs must contribute the remaining 20%. There are also some government programmes for small businesses to acquire technical skills in certain industries, though there remains a need to simplify the application process for small business entrepreneurs to secure funds for training.

On the regulatory side, DTI is responsible for the administration of the B-BBEE Act of 2003. In particular, the Minister of Trade and Industry is empowered to pass guidelines and codes as well as to create an Advisory Council to advise DTI on the implementation of the B-BBEE Act. The DTI also works with the South African National Accreditation System (SANAS) for accreditation of B-BBEE verification agencies. In 2007, the DTI created the B-BBEE Codes of Good Practice, thus creating a standard measurement framework and scorecard for all relevant entities in different industry sectors to assess black economic empowerment. Preferential procurement is one of seven criteria for how a company is evaluated on meeting B-BBEE requirements.

In October 2013, DTI released revised B-BBEE Codes of Good Practice which place strong emphasis on supplier development in order to encourage the identification and promotion of high value-add product and service opportunities in large companies’ supply chains that could be fulfilled by small businesses. Although the old codes required

companies to spend 3% of their net profits after tax (NPAT) on eligible enterprise development activities, the new codes specify that 1% of NPAT should be directed to enterprise development and 2% to supplier development.

Through the new B-BBEE codes, DTI is encouraging large companies to develop supplier development programmes tailored to their specific product and service requirements.

Through the new B-BBEE codes, DTI is encouraging large companies to develop supplier development programmes tailored to their specific product and service requirements. By doing so, it is expected that large companies would benefit in the medium to long-term by gaining access to small business suppliers that complete these programmes and would, therefore, be better equipped to fulfil large company contracts. By integrating these businesses into their supply chain, large companies would also be able to comply with B-BBEE codes.

The South African government also offers various types of financial support for small businesses. For example, the National Youth Development Agency (NYDA) used to offer loans to small businesses, but has moved to a grant-based model as of May 2013. NYDA anticipates that by offering grants between R1,000 and R100,000 to people aged 18 to 35, it will encourage them to start and/or develop a small business while taking away the pressure of repaying a loan if the business fails. As a precursor to receiving a grant, young entrepreneurs will receive vouchers for business training, mentoring, access to market linkages, and other support services. The grants may be used for working capital, stock purchases, and assets. Altogether NYDA has allocated approximately R25 million to fund vouchers for training and mentorship and grants for 37,000 young people. Small businesses can also access grants to purchase assets and participate in training through the BBSDP, which offers up to R800,000

for tools, machinery and equipment on a 50:50 cost-sharing basis between the entrepreneur and the BBSDP.

In addition to grant funding, the government offers loans to small businesses through the Small Enterprise Finance Agency (SEFA) and Industrial Development Corporation (IDC), which have allocated R2.7 billion for loans to young entrepreneurs over the next five years. It is expected that young entrepreneurs who are able to successfully develop a business could progress from grant funding through NYDA to a small loan from SEFA to a larger loan from IDC.¹⁶

Intermediary organisations. Intermediary organisations not only offer training programmes to small businesses, but also facilitate access to finance and markets. In general, while there is engagement between specific intermediaries and large companies on procurement opportunities, there is a need for the development of a robust marketplace of intermediaries capable of matching demand from large companies with supply from small businesses on a systematic, large-scale basis. Such intermediaries have an important role to play in linking SAB KickStart entrepreneurs to large firms through portals and other means.

Intermediary organisations not only offer training programmes to small businesses, but also facilitate access to finance and markets.

One such intermediary is Absa Bank Limited, a wholly-owned subsidiary of the Barclays Africa Group, which has created a web-based platform through which large companies may advertise procurement opportunities to small businesses. SAB KickStart entrepreneurs may utilise the portal, called Absa Online, to feature their small businesses as well as to identify prospective contracts. The South African Black Entrepreneur Forum (SABEF) is another intermediary organisation, offering

members access to training, finance, markets, and networking opportunities among other forms of support. In particular, SABEF is in the process of developing a partnership with a leading retail bank to give its members access to a procurement portal. This would enable members to create profiles of their small businesses and bid for contracts advertised by large firms. Another intermediary, the South African Supplier Diversity Council (SASDC), is a non-profit that aims to support member companies to develop business relationships with black-owned suppliers that it certifies. Its members can access a database of certified black suppliers, a Supplier Diversity Training Course, and a Supplier Diversity Levels Assessment Tool. SASDC also hosts networking events for its members to meet certified black suppliers.¹⁷ Its founding members include Absa Bank, DeBeers Consolidated Mines, and Unilever, among others.

Such intermediaries have an important role to play in linking SAB KickStart entrepreneurs to large firms through portals and other means.

The South Africa Bureau of Standards (SABS), a DTI agency, notes that many companies require contractors to have in place certain certifications such as ISO 9001:2002 before a contract may be awarded. Since it is cost prohibitive for most small businesses to achieve such certifications, SABS is developing technical partnerships to establish simple product and system guidelines. By meeting these guidelines, small businesses could work toward eventually achieving full-scale certifications.

Educational institutions (including universities and FET colleges). Many universities and colleges offer entrepreneur-ship and business management training in South Africa. These courses are mainly geared toward full-time college-age students, although some evening courses do exist for working professionals and business entrepreneurs such as

those who participate in SAB KickStart. For their part, further education and training (FET) colleges, which are equivalent to technical and vocational education and training providers in other countries, offer a variety of industry-specific technical offerings. Some FET colleges receive government funding and are able to offer courses in the government's priority sectors. But according to SAB KickStart, few FETs integrate entrepreneurship or business management training with technical subject matter. There is recognition of the need for this integration, which will be a focus of the Center for Entrepreneurship (CfE) that was launched at the King Hintsa FET College in Butterworth, Eastern Cape in October 2013.

SAB KickStart finds that neither universities nor FETs facilitate access to start-up financing for graduates at the required levels.

Further, SAB KickStart finds that neither universities nor FETs facilitate access to start-up financing for graduates at the required levels. These types of linkages are critical for students seeking to make the jump from learning to launching and growing a small business. Apart from strengthening their course offerings and financing linkages to equip students to launch businesses after graduation, SAB KickStart believes universities and FETs can play a role in developing and expanding short-term training programmes for young entrepreneurs who are already running a business and need to enhance their business and technical skills.

4

ANALYSE KEY STAKEHOLDERS

SAB has worked to understand the incentives and institutional capacity issues that affect key stakeholders in the priority challenge of facilitating business linkages between KickStarters and large companies.

Meeting Broad-Based Black Economic Empowerment (B-BBEE) requirements is a strong incentive for large companies to purchase from small, black-owned businesses like those within SAB KickStart.

Large companies. Meeting Broad-Based Black Economic Empowerment (B-BBEE) requirements is a strong incentive for large companies to purchase from small, black-owned businesses like those within SAB KickStart. The B-BBEE Act has created a legislative framework for the development of micro, small, and medium black-owned enterprises, including through preferential procurement. In particular, public entities are mandated to take into account a private sector company's B-BBEE status when making decisions on procurement, granting of licenses and concessions, sale of state-owned enterprises, and public-private partnerships. Private sector companies thus need to demonstrate specific achievements in preferential procurement to work with the government. Increasing procurement from small, black-owned businesses and especially from businesses in the communities in which large firms operate can also enhance the company's license to operate and result in reputational benefits.

SAB KickStarters are typically unable to match the low prices offered by larger firms that enjoy economies of scale.

At the same time, there are significant disincentives for large companies to purchase from SAB KickStart entrepreneurs. One is cost. SAB KickStarters are typically unable to match the low prices offered by larger firms that enjoy economies of scale. Adjusting

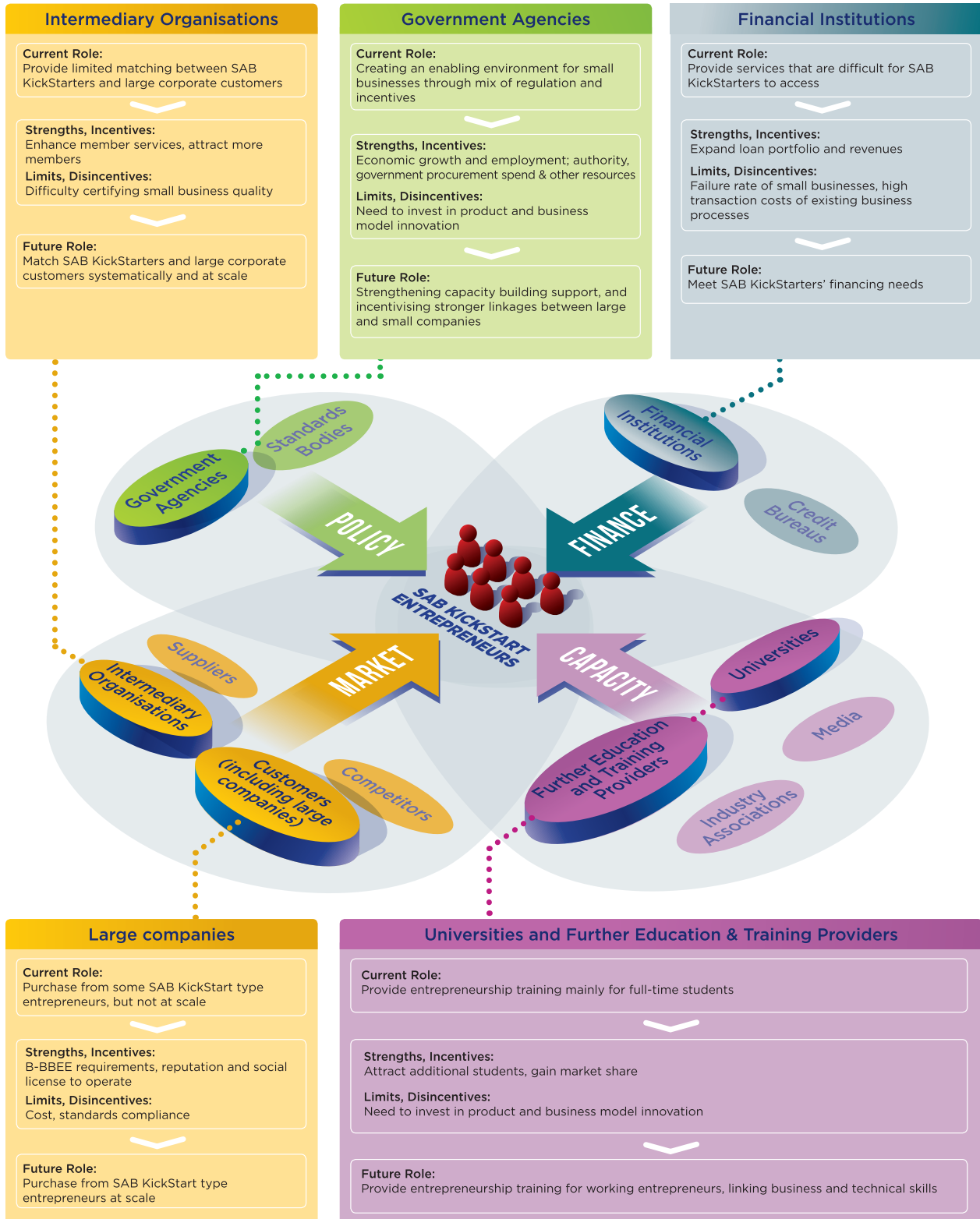
procurement policies and practices to accommodate small suppliers and providing any capacity-building that might be necessary also adds to the cost. Anecdotal evidence suggests that procurement staff at large firms can also have negative perceptions about the quality and reliability of products and services offered by small suppliers, finding it less risky to work with tried and tested larger suppliers.

At an operational level, most financial institutions have processes and systems in place that are better suited for lending to medium and larger businesses.

Financial Institutions. Private sector financial institutions have incentives to expand their loan portfolios and meet B-BBEE requirements by reaching small businesses. However, the high failure rate of small businesses can be a disincentive to lend. In addition, at an operational level, most financial institutions have processes and systems in place that are better suited for lending to medium and larger businesses. Procedures such as documentation or collateral requirements need to be adapted for small business loans. Banks must also complement such changes with training to equip loan officers to assess loan applications from small businesses. All of these options require an investment of time and resources by banks.

Government. The ambitious goals of the B-BBEE Act, National Development Plan, and Industrial Policy Action Plan create strong incentives for DTI to facilitate business linkages between large companies and SAB KickStart-type businesses through both regulation and capacity-building. DTI has already implemented a number of policies and programmes with this intent. At the same time, the risk of over-regulation, which could impact business competitiveness, has limited the department's ability to accelerate the pace of behaviour change

Figure 7: Key Stakeholder Analysis for the Priority Challenge of Facilitating Business Linkages between SAB KickStarters and Large Companies



among companies. According to a recent enterprise development report by Impact Amplifier and the NYU Center for Global Affairs, “Over 66% of participants [in the study] admit they would not initiate enterprise and supplier development independently; the B-BBEE requirements have been their critical motivation.” But “now that enterprise development programmes are in place, more than 80% believe [it] will benefit the long-term success of their companies and the corporate sector overall.” But when the old B-BBEE codes were applicable, “because companies [were] not required to align enterprise development with key business drivers, they [were] not strongly motivated to strive for high impact or success rates.”¹⁸ The goal of emphasising supplier development in the new codes is to drive increased procurement from small businesses in high-value add areas of large companies’ supply chains.

The goal of emphasising supplier development in the new codes is to drive increased procurement from small businesses in high-value add areas of large companies’ supply chains.

In the area of training, the government does offer some technical skills training for small businesses to supply to state-owned enterprises and large companies in certain industries. Gearing these training programmes more specifically to help small businesses respond to large companies’ procurement opportunities on a large-scale basis would require a fair amount of coordination with key private sector players to identify the most important areas of need. Thus, the government is seeking to encourage the private sector to invest in supplier development training through the new B-BBEE codes.

Finally, in the area of financing, the government has encountered attitudes among youth that they are entitled to money from the government. In 2011-12, for example, the NYDA provided R7.1 million in micro and small business loans, of which R3.8

million was deemed irrecoverable and R1.4 million had not been repaid by May 2013.¹⁹

Intermediary organisations. The primary incentives for intermediaries to work with SAB KickStart entrepreneurs include fulfilment of organisational or programme-specific missions and provision of services to members, whether these are small businesses, large companies or both. But it can be a challenge to reach and vet large numbers of small businesses, particularly early-stage small businesses like SAB KickStarters. In general, intermediaries may have limited resources and manpower to undertake in-depth assessment of small businesses and put in place a credible certification process. Those that do so generally tend to target very specific types of small businesses in certain industries.

Educational institutions (universities and FET colleges). The main incentive for universities to combine academic teaching on entrepreneurship with access to start-up financing – and for FET providers to integrate technical and business management skills training – is to ensure that graduates start and grow successful businesses. This enhances the institutions’ reputations in the marketplace and brings more students to their doors. Expanding or creating short-term evening/part-time courses for small business entrepreneurs could also help expand the student body. Such courses could help small business entrepreneurs to acquire skills they need to grow and acquire large company customers. Developing the capabilities and course content required, however, can be a daunting prospect for educational institutions in the context of limited resources. It is also atypical for graduates in South Africa to jump into launching their own business ventures soon after college without first gaining hands-on experience in an established firm. This creates a disincentive for educational institutions to invest time and resources in building collaborations to help recent graduates access start-up financing.

5 DEVELOP STAKEHOLDER ENGAGEMENT STRATEGY

Based on its analysis of key stakeholders' roles, incentives, and institutional capacities, as well as its own capabilities and resources, SAB KickStart is engaging a number of organisations to strengthen the business ecosystem for business linkages between SAB KickStarters and large companies.

In addition to capacity building, SAB KickStart facilitates market linkages appropriate to each entrepreneur's industry and growth stage.

Over the years and as the programme has evolved, SAB KickStart has worked with various organisations to offer business training to participating entrepreneurs. At present, the Gordon Institute of Business Science (GIBS) conducts the SAB KickStart programme's two-week intensive business training, which covers topics such as effective leadership; creative thinking and strategy; basic accounting and financial management; developing a business plan; sales, negotiations and networking; operations and supply chain management and access to funding.

In addition, to assisting participants and winners in executing their individual growth plans developed through the programme, SAB KickStart draws on small business consultants who are contracted as mentors. These growth plans can help KickStarters focus on reaching large company markets. From time to time, KickStart alumni work with business school students from universities such as the London Business School and University of Illinois at Urbana-Champaign to assess the business health of SAB KickStarters or assist with tactical or strategic advice on how to grow or improve their businesses.

In addition to capacity building, SAB KickStart facilitates market linkages appropriate to each entrepreneur's industry and growth stage. Trade fairs and conferences are important means of doing

this efficiently, especially given the diversity of SAB KickStart entrepreneurs. SAB KickStart is also exploring featuring participating entrepreneurs on web-based procurement portals like Absa Online.

SAB itself procures from SAB KickStarters when possible. As of 2013, there were 890 SAB KickStarters supplying goods and services to SAB in various industries, including consulting, marketing, printing, photography and hardware for information communications technology. SAB KickStart is now developing a database of all its graduates to systematically facilitate procurement linkages within SAB. Given the new B-BBEE codes place a strong emphasis on supplier development, SAB KickStart expects to streamline processes and systems to strengthen linkages between SAB and SAB KickStart alumni as well as to further tap into SAB's activities in supplier development. SAB KickStart is also exploring industry-level linkages through the South African Supplier Diversity Council, which is working on a more formal approach to engage with blue chip companies.

SAB KickStart is now developing a database of all its graduates to systematically facilitate procurement linkages within SAB.

In the area of access to finance, SAB KickStart is aiming to build upon the grants it offers to entrepreneurs by partnering with financial institutions to offer loans for SAB KickStarters which could enable them to supply to large companies. Various options are in the early stages of exploration, including risk-sharing facilities and accounts receivable financing. SAB KickStart is also directly advising and sharing its experience with NYDA on the grants it offers to young entrepreneurs and is exploring opportunities for further collaboration.

6 MONITOR AND EVALUATE PERFORMANCE AND IMPACT

The KPIs SAB has used to monitor SAB KickStart's performance include:

- New businesses created: 3,200
- Jobs created since 1995: 21,000 jobs
- Number of jobs generated per business: 6.7
- Number of entrepreneurs benefiting through business skills training and business development support: 24,300
- Number of black-owned enterprises supplying goods and services to SAB: 890

SAB KickStart is aiming to build upon the grants it offers to entrepreneurs by partnering with financial institutions to offer loans for SAB KickStarters which could enable them to supply to large companies.

SAB KickStart is currently reviewing its KPIs to provide a more robust indicator on jobs created versus jobs supported.

6 Recommendations

This report has described how one company, SABMiller, is working to increase the sustainability and scale of impact of its enterprise development programmes by strengthening the business ecosystems on which small and growing enterprises depend.

Through Oportunidades Bavaria in Colombia, the company is facilitating financial inclusion for the small-scale retailers in its value chain by referring trusted customers to banks, reducing the banks' perceptions of risk and increasing their willingness to lend, and partnering with a major development bank and an NGO to provide training that will enhance retailers' financial literacy, business performance, and ability to repay their loans.

Through SAB KickStart in South Africa, the company is working to facilitate business linkages with large companies for early-stage entrepreneurs in the community through partnerships that build the entrepreneurs' capacity, through platforms like trade fairs, conferences, and websites that connect them with customers, and – importantly – through leadership by example, procuring goods and services from those entrepreneurs itself. By engaging these interconnected, interdependent stakeholders and facilitating relationships among them, Oportunidades Bavaria and SAB KickStart are working toward more sustainable impact on a greater scale than SABMiller could generate on its own.

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While Oportunidades Bavaria and SAB KickStart are mature programmes, SABMiller's framework for strengthening business ecosystems will be just as valuable to managers designing and implementing

enterprise development programmes for the first time – who have the opportunity to build in this type of approach from the beginning. The framework also offers a model for other companies, civil society organisations, donor agencies, and governments looking for ways to increase the sustainability and scale of impact of their enterprise development efforts.

Key stakeholders have different motivations, mental models, and vocabularies, which can make it difficult to see how objectives align.

It must be emphasised that strengthening business ecosystems is not easy. It is a long-term process that involves collaboration across departmental, organisational, and sectoral boundaries, both within the company and externally. Key stakeholders have different motivations, mental models, and vocabularies, which can make it difficult to see how objectives align. Relationship-building takes time and trust, whereas most organisations prefer to act quickly, retain control, and take the credit for their work. And while staff may see the big picture, their incentive structures can prevent them from acting on it.

The experience of SABMiller and others suggests three priorities for organisations interested in increasing the sustainability and scale of impact of their programmes through strengthening business ecosystems:

- **Create an internal enabling environment.**

Creating an internal enabling environment for business ecosystem strengthening starts with defining and setting targets for impact at scale – for development and for the company. Targets must span relevant departments and cascade from the initiative level down to the individual manager level. An internal enabling environment should also include the incentives, internal and external networks, resources, tools, and professional development opportunities that initiatives and individuals need to meet

their targets. SABMiller's business ecosystem strengthening framework is one example. A corporate culture that celebrates engagement and considers collaboration key to its own success is also essential.

Joining forces would reduce transaction costs, make more effective use of limited resources, and increase the scope of business ecosystem strengthening that could be done – thereby enhancing sustainability and scale of impact.

- **Join forces with stakeholders implementing similar programmes.**

While many enterprise development programmes are now being implemented in partnership, those programmes and partnerships are often still fragmented. They often duplicate each other's efforts, competing for time and attention from target entrepreneurs and other business ecosystem stakeholders, and leave still other stakeholders out entirely. In any given country, for example, one might see a variety of large companies working with a select few NGOs to implement similar enterprise development programmes in parallel to related offerings from the government. The same applies to programmes in other development areas. While there will be legitimate concerns about competition in some specific instances, as a general operating principle, joining forces would reduce transaction costs, make more effective use of limited resources, and increase the scope of business ecosystem strengthening that could be done – thereby enhancing sustainability and scale of impact. This type of collaboration would require participating stakeholders to value sustainability and scale of impact over individual organisational benefits such as reputation and branding.

- **Support or build shared infrastructure to make collaboration more efficient.**

Shared infrastructure could include partnership brokering services, regular forums for corporate

and cross-sector dialogue, and geographic or issue-specific platforms for communication, coordination, and collaboration. Such infrastructure can help to bring a sufficient critical mass of business ecosystem stakeholders together around a shared long-term vision and objectives, clarify the roles each stakeholder should play, channel energy and resources where they are most needed, and catalyse innovation and specific partnerships.

Such infrastructure can help to bring a sufficient critical mass of business ecosystem stakeholders together around a shared long-term vision and objectives, clarify the roles each stakeholder should play, channel energy and resources where they are most needed, and catalyse innovation and specific partnerships.

Finally, it should be noted that the principle of ecosystem strengthening could apply not just to enterprise development, but to any sustainable development challenge rooted in the complex interplay of behaviours, capabilities, and incentives of broad networks of interconnected, interdependent stakeholders. In health, food security and nutrition, education, women's empowerment, and other areas, individual efforts are absolutely necessary, but not sufficient. As momentum toward greater collaboration and partnership builds, ecosystem strengthening approaches offer the potential to combine the comparative advantages of business, government, and civil society in ways that drive economic growth and human development more sustainably and at scale.

As momentum toward greater collaboration and partnership builds, ecosystem strengthening approaches offer the potential to combine the comparative advantages of business, government, and civil society in ways that drive economic growth and human development more sustainably and at scale.

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About the Authors

Beth Jenkins

Beth is Insights Director for Business Fights Poverty and a Senior Fellow at the CSR Initiative (CSRI). She has nearly fifteen years' experience researching and advising on inclusive or base-of-the-pyramid business models and cross-sector partnerships in various positions in the public, private, and non-profit sectors and academia. Most recently, she served concurrently as Non-Resident Fellow at CSRI and Consultant to the International Finance Corporation (IFC), where she provided strategic advice and implementation support for the start-up phase of IFC's Inclusive Business Models Group. Previously, she directed CSRI's Economic Opportunity Programme, analyzing, documenting, and disseminating inclusive business activity together with partners such as the International Finance Corporation, United Nations Development Programme, World Business Council for Sustainable Development, and NGOs and companies around the world. She authored and edited eight reports in the CSR Initiative's Economic Opportunity Series, including a cross-cutting analysis and seven industry studies in the extractives, financial services, food and beverage, information and communications technology, health care, tourism, and utilities sectors. She has developed six inclusive business reports with IFC and co-authored the UNDP publication "Creating Value for All: Strategies for Doing Business with the Poor." Earlier in her career, Beth was responsible for developing and disseminating risk management concepts and capabilities at Booz | Allen | Hamilton, with special emphasis on the strategic risks companies face as a result of social, environmental, and international development issues. She also spent five years working on base-of-the-pyramid business models in the information and communications technology and housing sectors at the World Resources Institute and Ashoka. She is a graduate of Yale University and the Harvard Kennedy School.

Richard Gilbert

Richard is Communications Director at Business Fights Poverty, Deputy Director of Business Action for Africa and a Director of advisory firm Inspiris, where he provides policy and communications advice to some of the world's leading businesses and development organisations. Richard works with these organisations to develop thought leadership platforms, advocacy programmes and partnerships that enable businesses and development partners to advance responsible business practice and scale inclusive business approaches. At Business Action for Africa, he leads policy and advocacy activities for a network

of over 200 businesses and development partners working collectively to accelerate growth and poverty reduction in Africa. He has co-authored a series of publications on the contribution of business and partnership to development, most recently a publication titled: "A New Global Partnership with Business" in partnership with the Harvard Kennedy School Corporate Social Responsibility Initiative and the Partnering Initiative. Prior to joining Inspiris in 2008, Richard worked in senior positions at leading communication consultancies Edelman, Weber Shandwick, GCI Group and Burson Marsteller, where he has advised a wide range of companies including Microsoft, The Coca-Cola Company, Cadbury Schweppes, Intel and SABMiller. He holds a Masters in Responsible Business Practice from the School of Management at the University of Bath.

Piya Baptista

Piya is a Research Fellow at CSRI specializing in inclusive business, micro-and small business development, and social entrepreneurship. She has worked with businesses, international development organisations, non-profit organisations, foundations, and universities. Until late 2012, Piya served as Associate Operations Officer for the International Finance Corporation in business advisory services for companies in emerging markets, helping clients to build supply chain linkages with micro and small businesses. Her work cut across a range of industries such as mobile financial services, general manufacturing, and agriculture. Piya co-authored the publication "Unleashing the Power of Convergence to Advance Mobile Money Ecosystems" for IFC and CSRI. She has also written 13 case studies on IFC clients' inclusive business models and contributed to several other reports. At the World Bank, Piya worked on multi-million dollar rural development projects with the Government of India to support farmers and micro-entrepreneurs. She has also built business partnerships between corporations like Unilever's subsidiary in India and small farmers and artisans through the Self Employed Women's Association. Piya began her career with Ashoka: Innovators for the Public where she provided cross-cutting support for programmes serving social entrepreneurs worldwide. She is a graduate of the London School of Economics and St. Xavier's College in India.

About the CSR Initiative at the Harvard Kennedy School and Business Fights Poverty

CSR Initiative

The Corporate Social Responsibility Initiative (CSRI), www.hks.harvard.edu/m-rcbg/CSRI/, at the Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government (M-RCBG) is a multi-disciplinary and multi-stake-holder program that seeks to study and enhance the public contributions of private enterprise. The initiative explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on analyzing institutional innovations that enhance governance and accountability and help to achieve key international development goals. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among business, government, civil society and academics. Founded in 2004, the CSR Initiative works with a small Corporate Leadership Group consisting of global companies that are leaders in the fields of corporate responsibility, sustainability or creating shared value. The Initiative also works with other leading CSR and sustainability organizations, government bodies, non-governmental organizations and companies to leverage innovative policy research and examples of good practice in this field. The CSR Initiative is chaired by Professor John Ruggie and directed by Jane Nelson.

Business Fights Poverty

Business Fights Poverty (BFP), www.businessfightspoverty.org, is the world's largest network of business and development professionals. BFP is run by Inspiris, a London-based firm that designs, manages and supports networks and partnerships at the interface of business and international development. Inspiris leverages world-class expertise in strategy, communications and social media to cultivate collaboration across business, government and civil society – unleashing new potential for innovation and impact. It is the creative energy behind a suite of innovative networks that enable companies to combine business success with greater impact in the developing world. These include BFP and Business Action for Africa (www.businessactionforafrica.org), a leading coalition of businesses and development partners.

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CSR Initiative

Harvard Kennedy School
79 John F. Kennedy Street
Cambridge, MA 02138 USA

www.hks.harvard.edu/m-rcbg/CSRI/

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