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Supporting Entrepreneurship at the Base of the Pyramid through Business Linkages

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“Together, each is worth more. The challenges are huge, but when I see so many people coming from far away – when time is a rare and expensive commodity – I feel we are building the trust to be successful.”

Juscelino Martins, Chairman, Tribanco

Preface

Brazil is undergoing an economic boom, with GDP growth of 5.4%, low inflation, and a balance of payments surplus in 2007. At the same time, the country faces enormous divides between "haves" and "have nots," and critically needs to find ways of making growth more inclusive.

In this context, Brazil was an exciting venue for the third roundtable dialogue in the *Business Linkages* series established by IFC in 2007 in partnership with the International Business Leaders Forum and the Corporate Social Responsibility Initiative at Harvard's Kennedy School. *Business Linkages: Supporting Entrepreneurship at the Base of the Pyramid*, held June 10-12 in Rio de Janeiro and co-hosted with Tribanco, brought together approximately 40 corporate business linkage practitioners and selected operational partners from civil society and the international development community to discuss supply, distribution, and sales models that foster entrepreneurship and enterprise development among those currently living in conditions of poverty. The roundtable focused on business drivers and key success factors behind participants' linkage models, offering a space where participants could share openly the opportunities – and challenges – they all face. The level of openness in the conversation was highly encouraging. We consider it the sign of a maturing field when people are interested in discussing what is not working, in addition to what is.

The Rio roundtable has seeded a richness of relationships, helping to cultivate what one participant called a "constellation" of professionals who can offer one another guidance and support in building business linkages to support entrepreneurship at the base of the pyramid. It has also generated a richness of examples and best practice approaches, which we hope to share with you in writing this report. Our thanks go out to the companies and organizations who contributed them.

Above all else, the Rio roundtable showed that we have so much to learn from one another in this field. Our linkage efforts are, in a sense, R&D, with the ultimate objective of enabling base of the pyramid (BOP) business to unfold at scale. Rewards will not be immediate, but, collectively, we can identify models that show promise. We must keep up our investment. With this in mind, IFC is planning the fourth Business Linkages Roundtable in Asia, to continue knowledge exchange and the search for models that lend themselves to scale.

Sujata Lamba, Senior Manager, Global Linkages Unit, IFC

1 Opportunities to Support Entrepreneurship at the Base of the Pyramid

Global income distribution is highly skewed. Plotted on a graph, it resembles a pyramid – with a small peak of about 100 million people earning $50 a day and a very broad base of approximately four billion people earning less than $8 a day.[1] Those at the base of this pyramid – two thirds of the world's population – have limited economic power and, worse, limited economic opportunity.

In recent years, leaders in the business and international development communities have become increasingly interested in creative new business models and strategies to engage those at the base of the pyramid (or BOP).[2] Much of the attention has focused on engaging the BOP as end consumers. That is one important BOP strategy, particularly for companies in industries like food and beverage, financial services, information and communications technology, health care, and water and sanitation, whose products and services – when appropriately designed, packaged, and delivered – can help consumers meet basic human needs and improve their productivity. But many companies are also engaging those at the BOP as business partners: as farmers, micro-entrepreneurs, and small business owners within their value chains.[3] These "business linkages" can help increase local job and wealth creation, enhance skills and capacity, add purchasing power, and generally stimulate economic activity and development – contributing, in the process, to quality of life. For the company, business linkages can help reach BOP end consumers more effectively, unlocking potentially vast new markets. They can also help companies catalyze innovation, reduce costs, increase flexibility and specialization, and enhance social license to operate, giving them greater competitiveness overall.

BOX 1 INCLUSIVE BUSINESS

A related concept that is gaining traction worldwide, thanks to pioneering work by the World Business Council for Sustainable Development (WBCSD) and United Nations Development Programme (UNDP), is that of "inclusive business." Like business linkages, inclusive business models involve the poor in corporate value chains – whether as employees, entrepreneurs, suppliers, distributors, franchisees, retailers, customers, or sources of innovation – and are or have the potential to become financially viable.[4] WBCSD describes such business models as "entrepreneurial initiative[s] seeking to build bridges between business and low-income populations for the benefit of both."[5] Please see **http://www.inclusivebusiness.org** and **http://www.growinginclusivemarkets.org** for more information and examples.

There are three broad categories of opportunity to support BOP entrepreneurship and enterprise development through business linkages: buying from, distributing through, and selling to BOP farmers, micro-entrepreneurs, and small business owners (referred to in this report as small and micro enterprises).[6]

1.1 Buying From Small and Micro Enterprises

Companies are finding opportunities to source a wide variety of products and services from local small and micro enterprises. These products and services range from agricultural commodities and other natural resources to cleaning and printing services to higher value-added inputs such as manufactured components (see Cases 1-7).

Buying from local small and micro enterprises can help companies reduce costs and increase flexibility. It can increase quality, traceability, and/or sustainability of supplies, which is increasingly important in agriculture, forestry, apparel, and other sectors. In some cases, for example in coffee and tourism, it can contribute to an interesting, unique product offer. And buying from local small and micro enterprises helps build strong and diversified local economies, fortifying companies' social license to operate and enhancing their long-term growth prospects.

In addition to direct sourcing, companies often work with small and micro enterprises beyond their own supply chains. These activities take on two dimensions:

- **Helping suppliers diversify their markets.** Many companies are uncomfortable being the sole buyers for small and micro enterprises, because of the legitimate risk that such suppliers will become dependent on the company. When SABMiller began sourcing sorghum for its Eagle Lager from smallholder farmers in Uganda, for instance, the program met with such success that two years later the company faced a surplus in the market, as there were few other buyers for the crop. As a result, the company now encourages suppliers to seek other customers and sometimes actively helps facilitate those connections. SABMiller is also working to diversify Ugandan agricultural markets together with the national government in the context of its poverty alleviation plan. In another example, Brazilian health and wellness chain Mundo Verde allows suppliers to sell exclusively to the company for the first six months of their relationship, but thereafter pushes them to broaden their customer bases. Mundo Verde has found that if they do not do so, small suppliers do not remain competitive.
- **Working with businesses outside the supply chain in order to diversify local economies.** Helping suppliers broaden their customer bases is particularly difficult in a rural area like Ahafo, where Newmont Ghana Gold's mine is located, because the market is small. In contexts like this, companies face not only the risk that their suppliers will become dependent, but that entire communities and local economies will become dependent. As a result, such companies often engage in entrepreneurship

and enterprise development work outside their supply chains. This is the thrust of Anglo Zimele's Small Business Start-Up Fund, which provides loan financing and technical assistance for entrepreneurs via Small Business Hubs located in the communities around Anglo American mines in South Africa. Similarly, SABMiller's KickStart program provides training and investment for fledgling businesses in the communities where the company operates. KickStart began in South Africa and has since been replicated in Botswana and Colombia. Programs like KickStart and the Small Business Hubs are undertaken for business reasons – such as employee welfare and morale, risk and reputation management – even though they are not "core business" activities.

CASE STUDIES

1 ECOM AGROINDUSTRIAL CORPORATION[7]

Founded in 1849, ECOM is one of the three leading companies in the highly concentrated coffee trading market. Increasingly, consumers, and therefore roasters and retailers, are demanding various combinations of high quality, sustainable production, fair trade, traceability, and improving social conditions in farming communities. To ensure these characteristics, a daunting array of initiatives now exists, ranging from certification schemes, to supply chain assurance schemes, to enhanced reporting, to branding. Ecom's country offices have large networks of buyers, agronomists and quality specialists who can reach out to large numbers of geographically dispersed small farmers. This enables ECOM to assess their needs and then provide recommendations and targeted support to help them come into compliance with any given set of best management practices. Some examples include Starbucks Café Practices, Nespresso AAA and Rainforest Alliance certification. One of the most exciting opportunities ECOM has is to catalyze the adoption of best management practices, and then facilitate small producer-large buyer linkages based upon them, on a large scale-across its 20 countries. To date ECOM's efforts have reached tens of thousands of farmers in the coffee business alone, enabling them to produce more efficiently and sustainably and capture higher prices in the market place. Within the coffee division, business resulting from sustainable business linkages with small and medium farmers around the world has grown today to almost 10% of the total coffee sales from less than 1% five years ago. For the year 2007, of these sustainable sales, about 5% come from Common Code for the Coffee Community (4C) coffee, 20% Fair Trade and Organic, 30% certificates such as Utz Kapeh and Rainforest Alliance, and 45% private sustainability programs such as Starbucks' Cafe Practices, Nestlé's AAA, and others.

2 SABMILLER[8]

SABMiller, one of the world's leading brewers, procures agricultural commodities from smallholder farmers in a number of countries in which it operates. It has found that this strategy helps shorten and simplify the supply chain, enhance availability, reduce pricing risk, and sometimes, obtain excise tax breaks. In India, SABMiller is working with Cargill, its primary maltster, and other partners to support the development of a high-quality local barley malt industry to supply its 10 breweries. Previously, smallholder farmers were uninterested in growing barley, because most of what was produced was feed grade and could not command a good price. SABMiller and Cargill are working with farmers to improve the quality of barley crops by offering certified seeds, agricultural skills training, and other support through Sanjhi Unnati (SU) Centers located in growing districts. Farmers then have the option of selling their produce back to Cargill at those same centers. Since the program was initiated in 2005, the number of farmers participating has increased from 1,574 in 2005-2006 to 6,024 in 2007-2008. Yields and quality have improved, and greater consistency in quality has enabled SABMiller to increase brewing efficiencies.

3 STARBUCKS AND THE CONSERVATION COFFEE ALLIANCE[9]

Starbucks started the Conservation Coffee Alliance together with Conservation International (CI) and other partners in Chiapas, Mexico, in 1998, and has since expanded to Peru, Colombia, Costa Rica, and Panama. The Alliance strengthens supply conditions for Starbucks by stabilizing access to a premium crop, achieving traceability, and improving environmental and social impact. At the heart of the Alliance are Starbucks' C.A.F.E. practices, developed in partnership with CI, which guide farmers to produce higher-quality, more environmentally sustainable coffee. CI and other agencies work with farmers on the ground to implement the practices and continuously improve their performance. The practices do not generate a yes-or-no type certification, but rather a score, and Starbucks commits to purchase coffee from farmers who receive the highest scores. The commitment to purchase is the company's most significant contribution to the Alliance; however, Starbucks has also provided $10.5 million in loan capital for specialized financial institutions Verde Ventures, Root Capital, and the Calvert Foundation to on-lend to coffee farmers. In fiscal year 2007, Starbucks made 65% of its purchases from C.A.F.E. practices-approved suppliers. By 2013, the company aims to increase that figure to 80%.

4 MUNDO VERDE

Mundo Verde is a chain of franchised health and wellness stores in Brazil. The company currently has 127 stores serving 45,000 clients per day. It also considers itself a union of small suppliers, with 1,200 current suppliers and approximately 3 new suppliers being added each day. Most of these are small and micro enterprises, and many started off in the informal sector. To enable their integration into the value chain, Mundo Verde requires them to incorporate formally, and refers them to the national small business association SEBRAE for capacity-building and technical assistance in this process. Once they have become suppliers, the company encourages them to build their competitiveness in the wider market to ensure that they remain sustainable, which helps to reduce churn in the supply base. It allows suppliers to sell exclusively to Mundo Verde for a maximum of six months in order to prevent dependency. Suppliers bring their products to a central distribution hub where the company sorts and sends them on to its retail stores. Many Mundo Verde franchisees also work with small suppliers directly, as they are given the discretion to source up to 30% of their products locally.

5 PETROBRAS

Petrobras is the sixth largest energy company in the world, and the first largest in Latin America. The company purchases $35 billion a year in goods and services, and as such, is an enormous catalyst for business entry, growth and development in the oil and gas sector in Brazil. Petrobras has been working with SEBRAE to increase the competitiveness and integration of small and medium enterprises (SMEs) into its extended value chain. The partners currently have 14 projects ongoing in 11 states. Each project includes four major components. First is identification and mobilization of large suppliers and other institutions in the local value chain to participate in the project. Second, the partners conduct a diagnosis of the cluster – evaluating opportunities and requirements for small suppliers, what potential small suppliers exist, and what their needs are. Third, the partners provide capacity-building to help potential small suppliers meet those requirements and capture those opportunities. Finally, the partners facilitate ongoing cooperation of firms and other institutions in the local oil and gas sector through a Rede Petro ("Oil and Gas Network"). Petrobras and SEBRAE's 14 projects currently encompass 21 Petrobras business units, 188 other large and medium enterprises, and 6,365 small enterprises.

6 NEWMONT GHANA GOLD LTD.

Founded in 1921 and based in Denver, Colorado, Newmont is a multinational gold company with operations in the United States, Australia, Peru, Indonesia, Bolivia, New Zealand, Mexico, and Ghana. Newmont's Ahafo mine in Ghana, opened in August 2006, is its first African project. Ahafo is located approximately 180 miles northwest of the capital city of Accra, and the company's lease area spans 10 communities with 208,000 residents.

In order to reduce its supply costs and enhance its social license to operate, Newmont has set up a dedicated unit within the supply chain department to work with local suppliers – informing local businesses about Newmont's standards, establishing customized local procurement procedures, and obtaining internal "buy-in" within the company for local procurement.

The company has also set up the Ahafo Linkages Program jointly with IFC to provide management and technical skills training to local businesses in and outside of Newmont's supply chain. A key challenge has been to change the dominant local view of contracts as entitlements to contracts as the results of competitive bidding processes. The program is also working to diversify local economic activity, historically concentrated in subsistence farming, and to strengthen a local business association. In 2006, Newmont began with 25 local micro, small, and medium enterprise suppliers. As a result of the company's linkage efforts, by 2007 it had increased this figure to 52, and as of the first quarter of 2008, it had reached 88.

7 ANGLO ZIMELE[10]

Anglo Zimele is the enterprise development and empowerment initiative of mining giant Anglo American in South Africa. Zimele now encompasses three main funds: the Supply Chain Fund, the Anglo Khula Mining Fund (a partnership with government focused on junior mining), and the Small Business Start-Up Fund. The oldest fund, the Supply Chain Fund, has financed over 150 businesses since it was established in 1989. The Supply Chain Fund offers both loan and equity financing and usually takes minority stakes of about 20-30%, which give it Board representation and the ability to exert positive influence on the strategic direction of the firm. The Fund looks for firms that are already commercially viable so that it can focus its assistance on generating significant future growth. Zimele provides capacity-building on topics including technical skills, business principles, marketing, legal issues, corporate governance, health, safety, and environmental management, using a hands-on, incubator-style approach. It also works with Anglo American's divisional supply chain personnel to identify procurement opportunities for the companies in its portfolio. Zimele typically exits its investments within a pre-determined time frame of approximately three years. As of 2006, approximately 72% of Zimele's investments were still in operation, employing over 2,200 people.

1.2 Distributing Through Small and Micro Enterprises

Distributing through small and micro enterprises can be an effective strategy for reaching target markets at the BOP. In some cases, infrastructure is so poor that traditional distribution methods, using large trucks for example, simply cannot be used. In other cases, sales volumes and/or price points are too low for traditional distribution to be cost-effective. In still other cases, the local "rooting" and relationships of trust that small and micro enterprises possess are critical to the successful marketing and sales of products and services to their neighbors (see Cases 8-11).

Distributing through local small and micro enterprises can enable companies to offer better service to BOP customers, whether they be small-scale retailers or end consumers. Nestlé and Coca-Cola Sabco, for example, are able to provide daily deliveries to thousands of tiny shops, something that would be impossible using conventional distribution systems. The companies' micro-distributors can help shop owners identify the kinds of products that will be fast-moving, and they can offer mixed-case ordering and frequent delivery of small quantities of product. This enables shop owners to reduce the amount of investment they have tied up in inventory, reduce out-of-stock situations, and meet consumer demand. This increases shop owners' sales, helping their businesses to grow and succeed.

Small and micro distribution channels to the BOP can also sometimes be leveraged to disseminate valuable information and ideas in addition to products and services. For example, Unilever's Shakti agents disseminate useful knowledge on health and hygiene to customers in Indian villages. Similarly, the Brazilian cosmetics company Natura used its direct sales force of about 600,000 women to promote a government effort to bring drop-outs back to finish school. According to the company, Natura's outreach brought five times as many people back to school as the government's own outreach did.

8 NESTLÉ ATÉ VOCÊ ("NESTLÉ COMES TO YOU")

In Brazil, Nestlé is reaching BOP consumers in urban *favelas* through a network of micro-distributors and direct sales agents. Nestlé's typical distribution model is to ship one full truck of one product, which does not work well in the *favelas*, where streets are narrow and drop sizes are small. With the Nestlé Até Você model, distributors and micro-distributors buy products and assemble the assortments that micro retailers need. In addition, they assemble pre-packaged kits for direct sale to families in their homes. Their direct sales agents are women from the local communities who have lived there for at least five years and built up relationships of trust. Recruiting typically happens in person or by word of mouth. For example, Nestlé has recruited men selling drinks, candy, and flowers at traffic lights and turned them into micro-distributors. Many of its direct sales ladies previously sold Yakult, a drinkable yogurt, also going door-to-door. Others are recruited in popular spots such as local churches and schools.

9 HINDUSTAN UNILEVER LIMITED'S PROJECT SHAKTI

Part of Hindustan Unilever Limited's (HUL's) competitive advantage in India is its extensive sales and distribution network. By the year 2000, in the face of increasingly cutthroat competition in the fast moving consumer goods sector, HUL realized that to sustain that advantage, it had to penetrate more aggressively into rural India – where nearly three quarters of the population live. The company's response has been Project Shakti, through which women entrepreneurs are recruited and trained to sell sachet-size products door-to-door in their villages. Shakti entrepreneurs are identified through existing self-help groups and non-governmental organizations, which also provide loans if start-up capital is needed. HUL's rural sales promoters provide ongoing coaching. In addition, a subset of entrepreneurs are appointed as communicators, charged with raising awareness of the health and hygiene benefits of HUL's projects, which helps with marketing. The Shakti network now includes approximately 40,000 women, with a target of reaching 100,000 by 2010, which will enable HUL to serve up to half a million villages. Increased penetration, sales, brand awareness and loyalty are key benefits of the model.

10 RURALFONE

Telecommunications provider Ruralfone targets underserved markets in Brazil's low-income northeast region. In its first deployment in Quixadá, the company observed that residents traveled very little – and put together a tailored product offer consisting of unlimited voice minutes at a low monthly fee for calls within one's village. The company also put together a tailored retail strategy in which local residents are hired as sales coordinators and delivery personnel. Sales coordinators go door-to-door recruiting their neighbors as customers, and customers can subsequently call their sales coordinators when they need refill cards. The coordinators promptly dispatch delivery personnel on motorbikes to deliver the cards. Pre-existing relationships between sales coordinators, delivery personnel, and customers help with sales in a culture in which people prefer personal connections over anonymous economic transactions. These relationships have also helped the company with an important customer acquisition hurdle: the cost of a handset. Ruralfone does not offer financing for handset purchases, but has found that its sales coordinators and delivery personnel sometimes do. Because they know their customers, they can make good credit decisions and follow up to ensure repayment. Ruralfone's subscriber acquisition cost is only $5, compared with $60 for other Brazilian operators. Interestingly, whereas many BOP business models are currently high volume, low margin, Ruralfone's business in Quixadá is relatively low volume, high margin with approximately 2,600 subscribers and EBITDA greater than 50%.

11 COCA-COLA SABCO'S MANUAL DISTRIBUTION CENTERS[11]

Coca-Cola Sabco (CCS) is a key bottler for The Coca-Cola Company in southern and eastern Africa and Asia, with 25 plants employing over 9,700 people across 12 countries. Many of CCS's territories are characterized by highly dense, low-income urban settlements with narrow, unpaved, and unmaintained roads and high numbers of very small-scale retail outlets. In 1999, as the organization started to recognize the need for a distribution system that would be more appropriate to these contexts, a new approach was tested in Ethiopia: a system of Manual Distribution Centers (MDCs) owned by independent entrepreneurs actively supported by CCS. CCS provides initial consulting, for example on routes and methods of delivery, and helps negotiate loan arrangements where needed with local commercial banks. CCS also provides ongoing training and coaching from its field sales representatives. After its initial pilot in Ethiopia, in 2001 and 2002, the MDC system got strong leverage across East Africa as it was recognized that this would become the primary route-to-market in low-income urban environments. There are now over 3,400 MDCs in CCS's distribution network, generating over $600 million in revenues for their owners. The MDC model has also spread to other Coca-Cola bottlers in Africa and other parts of the world. The model has created entrepreneurial opportunities, jobs, and incomes for MDC owners and their employees, enhanced service to small and micro retailers, and increased market penetration and sales for CCS and The Coca-Cola Company.

1.3 Selling To Small and Micro Enterprises

In some industries, selling to small and micro enterprises offers opportunity for simultaneous business and development impact as well (see Cases 12-15). Certain products and services have the effect of empowering the purchaser and making him or her more productive. These include:

- financial services such as credit, insurance, savings, and transactions services;
- information and communications technologies such as mobile phones and Internet access;
- production equipment and technology such as small-scale irrigation systems;
- utilities like water and power;
- and distribution and business development services appropriate to the needs of small firms.

The most obvious advantage for companies in selling to small and micro enterprises is the opportunity to grow revenues by developing new markets. These enterprises are currently underserved in many – often all – of the areas listed above. Reaching them successfully often requires product and business process adaptation, which points to a second advantage in selling to them: the effort drives creativity and innovation. In some cases, innovations that arise to target BOP customers prove relevant in higher-income markets as well, a phenomenon McKinsey & Company has termed “innovation blowback.”[12]

12 TRIBANCO[13]

Martins Group is Brazil's largest wholesale distribution company. When large foreign retail chains started coming to Brazil, the Martins Group decided to carve out its own market by serving the country's many small retailers, most of them family-owned micro, small and medium enterprises. The company now serves over 300,000 of these retailers nationwide. But Martins considers itself not just in the distribution business, but in the business of making its customers more competitive. In this spirit, the group established Banco Triângulo S/A or Tribanco in 1990. Tribanco currently extends credit to more than 39,000 small retailers and provides consumer credit to 3.2 million of those retailers' shoppers. Retailer credit is provided to finance store improvements, for example in lighting, display, and technology. While other banks shy away from lending to such small enterprises, Tribanco devotes over 80% of its lending to them, and has found that their investments generally more than pay for themselves. Tribanco also provides retailers the opportunity to offer their shoppers branded credit cards. For most small retailers, this is a huge point of pride, and 8,400 have chosen to participate thus far. The cards have participating retailers' own brands on them, and they can choose which shoppers to issue cards to. Participating retailers are not responsible for non-payment on the part of their shoppers, but they have incentives to help ensure that shoppers repay – the better the overall repayment rate, the smaller the fee Tribanco charges for the card service. Experience has shown that late payments are not infrequent, but non-payment is only around 5%. Tribanco is now the biggest issuer of private label credit cards in Brazil. For many of its cardholders, this is their first credit card, which helps them establish and build credit histories, paving the way for further financial sector inclusion.

13 REAL MICROCRÉDITO

Real Microcrédito was set up in 2002 by Banco Real ABN Amro in Brazil, in partnership with global microfinance umbrella organization Acción International. The bank owns 80% of the company while Acción owns 20%.[14] Real Microcrédito is now the second largest microfinance institution in the country, with more than 50,000 clients and an active portfolio of over $33 million as of December 2007.[15] 95% of the company's clients are in the informal sector operating businesses that Acción classifies as commercial/retail and service/production.[16] Its methodology, based on the global methodology of Acción, is heavily relationship-based. It has roughly 300 credit agents who are from the territories they cover, and whose local knowledge and contacts – combined with rigorous due diligence that despite its comprehensiveness generally takes only about 48 hours[17] – enables them to make credit decisions that are generally sound. Credit agents also follow up regularly via informal, almost social visits to ensure that the loans they issue are used productively in ways that will enable the borrowers to repay. Real Microcrédito is growing aggressively, on track to reach 120,000 customers by the end of 2008. By 2012, the company hopes to reach 500,000 customers, becoming the largest microfinance bank in Brazil.

14 AMANCO

Mexico has over one million smallholder farmers – with less than four hectares of land apiece – who struggle to achieve the levels of productivity that would enable them to provide adequately for their families and begin to move out of poverty.[18] It is estimated that if those smallholder farmers situated near water sources could purchase irrigation solutions, the market could be as large as $2 billion.[19] Amanco is working to create this market by aggregating demand through social entrepreneurs, who can serve not only as marketing and distribution partners but also trainers and financial intermediaries – helping the farmers access the microloans they need to purchase Amanco equipment. Demonstration plots have been installed in key locations to help persuade farmers that the equipment is a worthwhile investment. Whereas many irrigation solutions are customized to meet the needs of large commercial farms, Amanco's small-scale irrigation systems are standardized so they can be offered more cheaply. Amanco also offers the social entrepreneurs wholesale prices equivalent to those it offers its top distributors. The social entrepreneurs then pass along some of those savings to farmers, making the equipment even more affordable.[20] In practice, Amanco's smallholder farmer customers have been able to increase their productivity up to 22%, while reducing labor costs by up to 33% and saving significant quantities of water.[21]

15 SMART COMMUNICATIONS[22]

Smart Communications, a mobile network operator in the Philippines, provides its Smart Money mobile phone-based money transfer service to more than 7 million Smart Money users nationwide. Smart has relied on the ubiquitous *sari sari* stores, the very small, local retail shops that dominate the Philippine landscape, to sell prepaid airtime for many years. Many customers use Smart Money for these transactions. Recently, a partnership between Smart and the Hapinoy chain of *sari sari* stores has enabled store owners to use Smart Money in their B2B transactions as well. Microventures, an NGO, helps the Hapinoy stores to aggregate their orders and negotiate bulk pricing from wholesalers, including Nestlé and Unilever. The stores get further discounts for paying in Smart Money, which is the equivalent of cash. The combined discounts have enabled Hapinoy stores to offer more competitive prices to their customers, and some stores have increased their revenues as much as three times. In addition, the ability to use Smart Money instead of cash increases safety and reduces the risks of theft and loss, both for store owners and for delivery personnel.

2 Challenges in Forming Business Linkages

Business linkage practitioners in large firms face three main categories of challenges in forming business linkages with small and micro enterprises: operational challenges, reputation and relationship management challenges, and systemic challenges.[23] A growing body of experience suggests that the issues are often similar across industries and geographies, whether a firm is buying from, distributing through, or selling to those at the BOP.

- **Operational challenges** include securing internal commitment to linkage efforts within the firm, obtaining reliable, actionable information about small and micro enterprises present in the local market, and measuring the impact (especially the societal impact) of any linkages that are formed.
- **Reputation and relationship management challenges** include managing community expectations and reducing the economic dependence of local small and micro enterprises on the business relationships they establish with the larger firm.
- **Systemic challenges** include building the skills and capacity of small and micro enterprises and improving their access to finance.

Here we focus on systemic challenges to linkage efforts, as they are some of the most critical and – at the same time – some of the least amenable to unilateral business solutions. Finding successful approaches to these challenges will underpin the ability to replicate and scale up business linkage activity worldwide.

2.1 Building the Skills and Capacity of Small and Micro Enterprises

Small and micro enterprises suffer from lack of market information, management skills, and technology – which leaves them at a competitive disadvantage in the marketplace. As Rachel Kyte, IFC Vice President of Corporate Advice, states, "The top issue that executives raise with me in terms of constraints on investment in countries where the BOP is large is the lack of access to appropriate human capital." Companies seeking to buy from small and micro enterprises are often held back by prospective suppliers' inability to meet quality or safety requirements, change their product or service mix, or scale up quickly enough to match demand. Companies seeking to distribute through such enterprises may be constrained by the limited buying power, marketing inexperience, or cash management problems they tend to possess.

To meet the challenge of building the skills and capacity small and micro enterprises need to participate effectively in their value chains, companies have used a variety of approaches. Some common elements include:

- **Assessment.** Newmont Ghana Gold Ltd., for example, starts all of its enterprise development efforts with a diagnostic assessment conducted by consultants working for the Ahafo Linkages Program, a joint Newmont-IFC effort. Based on the results, they put together a Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis and identify priorities for improvement via training, coaching, and other capacity-building support.

- **Training.** A wide range of training methodologies exist for various audiences and learning needs. Interestingly, many companies and business development service providers have developed their own methodologies for BOP audiences rather than purchase methodologies and modules from third party providers, who are often unable to translate their material effectively for use by first-time entrepreneurs or business owners moving from the informal to formal sector. When third party training has been successful, it has typically been provided by international financial institutions, development agencies, and NGOs. Martins Group develops the curriculum for its Martins Retail University, which helps the small retailers in its distribution network develop and compete. Retailers pay for courses using "loyalty points" earned by purchasing from Martins, and they are responsible for their own travel and accommodation costs. For those who cannot afford to travel, Martins has outfitted a number of trucks as Mobile Training Units which bring classes to clients' doors. In addition, Martins Retail University courses are available online for anyone with an Internet connection.

- **Coaching.** Many firms stress the importance of ongoing mentoring or coaching, in addition to formal training, to reinforce learning and solve in real-time any problems that arise. Martins, Ruralfone, Coca-Cola Sabco, and Anglo Zimele all offer coaching. In the distribution linkage models, it is usually the field sales representatives who fill this role. Anglo Zimele offers coaching for its Small Business Start-Up Fund investees through its network of Small Business Hubs. Hub managers must visit investees once a month to make sure they are performing according to their business plans, if not better. While the program is less than a year old, Zimele has so far experienced a 100% repayment rate with this hands-on approach.

- **Peer-to-peer learning.** One way of providing ongoing support is by facilitating the growth of peer networks. Martins, ECOM, and others have found that their formal training sessions have the effect of bringing people together and seeding relationships that allow them to learn from one another, both during training and beyond. In South Africa, the NGO Strategic Business Partnerships (SBP) has gone so far as to formalize these peer networks through the Business Bridge program. Business Bridge brings small business owners together once a month to identify common concerns and problems, discuss difficulties, identify additional information they need, and bring in speakers to provide that information – for instance, a revenue service official to talk about tax returns or a corporate procurement manager to talk about large firms' expectations.[24]

- **Experiential learning.** It is often said that the best way to learn is through experience. In this vein, Starbucks teaches farmers in Central America to taste or "cup" their coffee to learn what appropriate acidity levels are. Similarly, in Sierra Leone, DeBeers and Rapaport train artisanal diamond miners to recognize the value of the diamonds they extract.[25] Efforts like these both empower farmers and miners in their dealings with buyers and increase transparency in the buying process. Anglo Zimele engages in another form of experiential learning in its Small Business Start-Up Fund: whereas many small enterprise funds offer no-interest loans, Zimele charges interest, so that the entrepreneurs in its portfolio learn that "money costs money." Newmont Ghana Gold stresses the importance of experiential learning in changing mindsets among the entrepreneurs and small business owners it works with. Over time, they move from mindsets of entitlement ("I deserve a contract with Newmont because I live here") to mindsets of continuous improvement ("I can improve and successfully compete for a contract with Newmont").
- **Awards and incentives.** Certainly the biggest reward is business success, but many companies engaged in business linkages also stress the importance of award and incentive programs in promoting the learning and continuous improvement among small and micro enterprises. Starbucks, for example, rewards the coffee suppliers that improve the most on their performance over the previous year. The competition is to improve the most, rather than to perform the best, so even small, under-resourced farms can win.

2.2 Improving Access to Finance for Small and Micro Enterprises

According to the UN Conference on Trade and Development (UNCTAD), "finance has been identified in many business surveys as the most important factor determining the growth and survival of SMEs in both developing and developed countries."[26] Financial services are critical in enabling small and micro enterprises to scale up operations, upgrade technology, and change or improve products and services. However, traditional financial service providers such as banks often regard such enterprises as high-risk, and the high transaction costs involved in assessing creditworthiness and making loans or investments can make it unprofitable. Firms seeking to form business linkages with these enterprises must therefore be prepared to take active roles in ensuring they have access to finance.

Business linkage practitioners have responded by:

- **Establishing their own financial institutions or financing arms.** As a large coffee buyer in direct contact with many of its suppliers, ECOM is often asked by those suppliers to extend credit, and frequently does. ECOM is currently working with IFC to standardize and professionalize this practice within the firm. In South Africa, mining company Anglo American established a wholly-owned subsidiary – Anglo Zimele – to take equity stakes in small, minority-owned suppliers. Distribution giant Martins Group in Brazil established a formal bank, Tribanco, to serve the financial needs of its entire value chain, with a focus on small retailers and their end consumers.

- **Capitalizing specially targeted external funds.** Not all companies are eager to get into the financial services business. As a result, some choose instead to allocate capital (usually in the form of grants or long-term, interest-free loans) to specially targeted third party funds that operate in their regions or industries. For example, Starbucks loaned $2.5 million to Verde Ventures, $7 million to Root Capital, and $1 million to the Calvert Foundation, which now on-lend that money to small-scale farmers in Latin America.[27] In Azerbaijan, BP and IFC have jointly capitalized a brand new Supplier Finance Facility of $15 million over 8 years, administered by the Micro Finance Bank of Azerbaijan. The facility is owned 40% by BP, 40% by IFC, and 20% by the Micro Finance Bank of Azerbaijan.[28]

- **Partnering with microfinance institutions.** Theoretically, firms engaging in business linkages should find significant scope to partner with microfinance institutions (MFIs) to ensure that their small-scale suppliers, distributors, and retailers have access to financial services. For example, in India, Frito Lay works with the MFI BASIX to ensure that the potato farmers in its value chain have access to credit. In practice, many MFIs lack the capacity or scale to partner with large firms in their linkage efforts, and cultural differences can add greatly to the transaction costs of doing so. But there is probably untapped potential to partner with some of the larger, more professionalized MFIs, like BASIX, Compartamos, and others.

- **Partnering with commercial banks.** While commercial banks have the capacity and scale that many MFIs lack, they do not always have the interest or incentives that MFIs have to serve BOP clients. But business linkage practitioners have found scope to partner with those commercial banks that do have such interest – whether for values, long-term business strategy, or regulatory compliance reasons. For example, Mundo Verde puts its suppliers in touch with Caixa Econômica Federal and Banco do Nordeste, which have lines of credit for small suppliers at special rates. Banks generally perceive BOP clients as high-risk, but those operating within the value chains of large firms are perceived to be comparatively lower-risk within the segment. Large firms must often share the risk with the bank, for example through contract terms or loan guarantees. In one example, Brazil's Votorantim Papel e Celulose (VCP) worked with Banco Real to provide access to finance for its eucalyptus farmers. The timber, with purchase at an inflation-indexed price guaranteed by VCP, served as collateral. VCP shared the risk of default with the bank, and for the more inexperienced farmers, VCP bore it entirely.[29]

- **Focusing on financial literacy.** Levels of financial literacy among BOP clients are often low. Without the knowledge or skills to manage it wisely, debt can easily worsen one's economic situation rather than give one the means to improve it. Anglo Zimele addresses this by having its Small Business Hub managers thoroughly explain its loan terms and interest rates, how interest accumulates, and how it gets paid off. Each loan recipient must understand completely before submitting his or her business plan, and must sign an acknowledgement letter to that effect. Real Microcrédito in Brazil has found that a lack of basic business skills – the kind of capacity discussed in Section 2.1 – can lead small and micro enterprises to take on debt they do not need. Often, Real Microcrédito's credit agents discover that prospective clients do not need credit, but rather basic business advice – for example, regarding what products to purchase at what times, to avoid investing in merchandise that takes too long to turn over. Once loans are granted, both Anglo Zimele and Real Microcrédito follow up with borrowers – monthly in the case of Zimele and bi-weekly in the case of Real Microcrédito – to see how the money is being invested and how the client's business is performing. The companies' hub managers and credit agents can then help their clients reorient as needed and stay on track.

3 Key Success Factors in Forming Business Linkages

Business linkage practitioners cite a number of key success factors that cut across building capacity, improving access to finance, and other challenges in engaging with small and micro enterprises. Three stand out: local knowledge, relationships, and collaboration. Running through these is a constant need for creativity and the open-mindedness to try approaches that are “out of the box” of business as usual.

3.1 Local Knowledge

Local knowledge is fundamental to engaging small and micro enterprises in the value chain. What is the local economic landscape? What does the marketplace look like, who are the actors, and what are the rules – implicit or explicit? What are local social and cultural values, norms, and institutions, and how do they influence behavior? What kinds of social networks are present, and how are they organized? Business linkage practitioners must understand how things work in the target area or population, and just as importantly, *why* things work that way.

For example, in many cases, the influence of family stands out. In Brazil, Real Microcrédito has found that if its credit agents do not look at a prospective borrower’s family as part of their due diligence, they do not get their credit decisions right. Similarly, Anglo Zimele’s Small Business Start-Up Fund has found that some borrowers wish to have loan monies disbursed directly to their suppliers rather than into their bank accounts. If borrowers’ families find out there is money in the bank, there may be pressure to use it for other purposes.

Another common theme is the role of women – what IFC’s Rachel Kyte calls the “huge feminine face of the BOP.” Companies have found time and time again that women are both more reliable and more entrepreneurial than men. Family is a determining influence in this as well. Women must budget, use loan monies for productive investments, and be conscientious about repaying in order to keep food on the table and create future opportunities for their children. These same needs lead women at the BOP – particularly if husbands are injured or absent – to be more open to trying new income generating strategies. In many industries, women’s values are highly aligned with those of the company – for example in food and beverage, health and hygiene, and housing. And women’s social networks are critical sources of local knowledge and connections. The phenomenon is so strong that it led one corporate business linkage practitioner to ask, “Where are the men at the base of the pyramid?”

Despite these common themes, however, the essence of local knowledge is that it is local. It is not enough to rely on generalities; one must go out and learn firsthand.

Companies interested in engaging the BOP are increasingly creating opportunities for exposure and experiential learning by their employees. For example, when a new employee begins work at Tribanco, the first thing she is told is to forget everything she knows about traditional banking – that Tribanco is in the retail business, providing complete solution for small retailers. Employees are told go to out to the stores, learn what they need, and how they can grow. It is by growing those stores that Tribanco will grow. When Nestlé began thinking about BOP markets and developing its Nestlé Até Você model, employees spent three days with BOP households observing how they consumed Nestlé products and how that affected their lives. In addition to employees with immediate responsibility for the project, the group included senior managers and directors – including the Brazil CEO – and staff from other functional departments, such as accounting and legal.

Another strategy for acquiring local knowledge is to hire the right people in the first place – people living at the BOP, or with BOP roots or connections. Nestlé's micro-distributors and sales ladies, for example, must be from the local neighborhoods where they will operate. They must know and be known by everybody. Anglo Zimele's Small Business Hub managers are from the communities where the hubs are located, and speak the local dialects. Often hub managers are also people with entrepreneurial backgrounds themselves, adding another layer of familiarity and understanding. They know what it is like to work very long hours, to run out of money – whereas it may not occur to a career employee in a large company that small-scale suppliers cannot wait for a payment run at the end of the month.

3.2 Relationships

Business linkages require investment by all participants, from the large firm down to the small and micro enterprises it hopes to buy from, distribute through, or sell to. Investment entails risk. Relationships based on mutual understanding and trust help reduce that risk.

Those at the BOP live delicate balancing acts in making ends meet from day to day. Because their situations are so insecure, they can be risk-averse – and they are much more willing to try a new product, service, or economic activity if they know and trust the entity promoting it. For example, the small retailers in Martins' network have learned that the strategies the company recommends help them earn more money. As a result, they are willing to try new offerings. The coffee farmers in ECOM's network have had similar experiences. It can be difficult to persuade them to make the initial investments in enhanced productivity and quality techniques, but once they have seen the results, they trust that ECOM's future recommendations will be in their best interests.

Those working in large firms have their own reasons for being risk-averse – career tracks, broader political considerations, shareholder pressures, and so on. Relationships of trust are critical in mitigating the risks of engagement for large firms, too. This is particularly evident in the financial services sector. For instance, because Real Microcrédito's credit agents are from the communities in which they work, they may know from the word on the street whether a prospective borrower would have trouble repaying. Tribanco's store credit cards have a very low default rate – less than 2% – because they are issued by store owners, who have relationships with their customers. Store owners know where to go knocking if customers do not pay. And customers would prefer not to jeopardize their relationships with the stores in the first place. These are usually places customers go every day to buy necessities like milk and vegetables. They know that if they do not pay, they will not be able to go back.

We notice a number of common themes in these relationships:

- **Local knowledge.** Local knowledge, as discussed in the previous section, is a prerequisite. But often it is not enough to know about the people one seeks to engage – one must know the people. Martins has built its relationships from the ground up over more than 50 years in business, and now finds that even when competitors approach its small retailers with special offers, those retailers prefer to buy from Martins. There is no substitute for this kind of investment of time and energy. But for companies just beginning to engage those at the BOP, there are a number of ways to get a "head start." For example, in the same way a company can hire people who already possess local knowledge, they can hire people who already have relationships of trust with the target groups. Alternatively, they can leverage such people without hiring them by partnering with relevant organizations. Partnership will be discussed in the next section.
- **Mutual understanding.** Companies stress the importance of listening and of demonstrating their understanding through their actions. For example, Nestlé demonstrates its understanding of and respect for its Nestlé Até Você salesladies by integrating their husbands and children into the program through Community Centers. This reduces the risk for the saleslady that becoming involved with Nestlé will upset her family structure.
- **Transparency.** Being transparent allows people to understand the company at the same time as the company seeks to understand them. In its dealings with small farmers, Starbucks emphasizes transparency in pricing, ensuring that farmers see not only the price they receive but also the price Starbucks is paying, and the fraction that goes to the middleman or trader. Farmer can thus see that they are getting fair prices from Starbucks compared with other buyers. It is worth noting that transparency is not always a simple matter of putting information

out there – sometimes companies must make special efforts to ensure that information is understood. Ruralfone, for instance, makes cartoons and posters to help its sales agents understand the concept of putting the customer first, that the customer is ultimately where their salaries come from.

- **Integrity.** Acting with integrity is a fundamental part of building trust. The importance of integrity almost goes without saying – but it is worth emphasizing in the business linkages context. While the concept is increasingly popular among businesses, development agencies, and NGOs, companies doing business with the BOP operate under the raised eyebrow of skeptics who wonder whether it might just be a new way of exploiting the poor. Sustaining success into the long term therefore requires companies and their staff to operate with the utmost integrity. While "BOP business codes of conduct" have been proposed, the challenge probably requires something deeper, more ingrained into the culture of the company and the personal ethical fiber of each employee.

3.3 Collaboration

Collaboration is vital to overcoming the market failures, governance gaps, institutional weaknesses, and resource constraints that underlie skills and capacity constraints, gaps in access to finance, and other challenges to supporting entrepreneurship at the BOP through business linkages. As opposed to "going it alone," collaborating can reduce the cost and risk to any one company and strengthen the external environment for its efforts.[30] It can open up a greater range of programmatic options and add to the speed and agility with which they can be implemented.

In a recent study of four linkage programs involving smallholder farmers, SABMiller found that on a spectrum from pure insourcing to pure outsourcing, partnership models had worked best. In these models, "SABMiller management actively oversee the project and manage key stakeholders, yet identify partners to deliver support in the areas of their comparative advantage."[31] The key appears to be to enable each partner to focus on doing what it does best.

Depending on their skills and those of available partners, business linkage practitioners are engaging in many different types of partnership. A small selection includes:

- **Operations.** Petrobras collaborates with various federal government ministries in PROMINP, a program to build skills and capacity for the oil and gas sector in Brazil. In the coffee sector, ECOM partners with various organizations – including the NGO Rainforest Alliance for social and environmental standards and the French government agency CIRAD for production and quality – to train the small farmers it purchases from. As discussed earlier, Starbucks partners with Root Capital and Verde Ventures to improve access to finance for small coffee farmers, with Starbucks providing loan capital and its partners issuing and administering the loans. Only one borrower has defaulted in the last four years.

- **Cost-sharing.** Martins shares the cost of the training provided through its Martins Retail University with some of its large vendors, such as Unilever and Nestlé, who also benefit from improved retailer performance.
- **Information exchange.** Projeto Vínculos, run by the German development agency GTZ and the United Nations Conference on Trade and Development (UNCTAD), enables large firms engaging in business linkages to exchange information about small-scale suppliers. In Tanzania and Malawi, the Private Sector Initiatives established by SBP include collaboratively-generated supplier databases that serve the same function.
- **Learning.** As mentioned earlier, ECOM has recently begun working with IFC to find ways of professionalizing its practice of offering credit to small suppliers. Upon establishing Real Microcrédito in 2002, Banco ABN Amro Real partnered with pioneering microfinance umbrella organization Acción International, which transferred its methodology and helped the bank build the capacity to use it. Real Microcrédito is now the second-largest microfinance bank in Brazil with 70,000 customers. Its plan is to become the country's largest, reaching 120,000 customers by the end of 2008 and 500,000 by the end of 2012.

It is important to stress that partnership is a means, not an end unto itself. Partnership has advantages where it allows each partner to focus on doing what it does best. Sometimes, for some tasks, it is not possible to find a partner who is better qualified than the company is. So while the company might prefer to partner, it is more effective to handle that task itself. For example, in South Africa, Anglo Zimele found that existing training programs were not appropriate for the previously disadvantaged, small-scale, often first-time entrepreneurs it wanted to work with. Zimele thus created its own training program, even though it would not consider training to be a core competence.

The capacity to partner strategically is an art and a science, according to IBLF, a partnership broker and training provider.[32] It requires careful due diligence on prospective partners, clear agreement on objectives and measures of success, and joint monitoring with an eye to continuous improvement not only of project outcomes but also of the partnership itself. Strategic partnership capacity is something Unilever in Brazil is seeking to build rapidly across the board. The company finds it increasingly critical not only to linkages at the BOP, but also to business across the board.

4 Development of the Business Linkages Field

Business linkage practitioners are often one hundred percent focused on the day-to-day work of addressing challenges and innovating solutions to ensure that their individual models succeed. At the same time, they agree that much time and effort is wasted re-inventing the wheel, and that their efforts would be bolstered considerably by further development of the business linkages field – including a body of knowledge and best practices and sources of training, support, and expert advice. IFC, IBLF, the CSR Initiative, and other international development institutions, non-governmental organizations, and academics have key roles to play along with corporate business linkage practitioners in taking strategic steps to put this "institutional infrastructure" or "connective tissue" in place. Such strategic steps include measuring impact, documenting and disseminating best practices, creating and strengthening intermediaries, and shaping supportive regulatory and policy environments.

4.1 Measuring Impact

It is impossible to replicate without first identifying what works. Measuring impact is fundamental to investment and management decision-making.

Which indicators matter in decision-making about business linkages? Certainly basic business indicators such as gross margin and EBITDA still apply. Indicators that capture some of the future benefits, such as innovation and long-term growth potential, as well as the external impact on partners and communities, are also important. For example, Unilever in Brazil assesses the holistic concept of "value creation," whereas Nestlé looks at "social inclusion." A full impact picture will include qualitative as well as quantitative indicators spanning inputs, outputs, and outcomes both for the business and for the small and micro enterprises in its value chain. IFC and the CSR Initiative at Harvard's Kennedy School are currently working with Coca-Cola Sabco to evaluate the impact of its Manual Distribution Center (MDC) model on the micro-entrepreneurs who own the centers.

In selecting indicators, it is important to think about how different data relate to the things a company wants to learn, and the decisions it wants to make. What can each indicator tell you, and what can it not? What decisions and actions – by whom – is it intended to inform? The Measuring Impact Framework recently launched by the World Business Council for Sustainable Development (WBCSD) and co-branded with IFC provides guidance for companies grappling with these questions. IFC is currently piloting the framework with Newmont Ghana Gold Ltd. at its Ahafo mine.

BOX 2 THE WBCSD-IFC MEASURING IMPACT FRAMEWORK

Released in spring 2008, the WBCSD-IFC Measuring Impact Framework grew out of a need among WBCSD member companies for better ways of assessing and articulating their impacts on society – allowing them more effectively to engage stakeholders, manage risks, and identify opportunities to improve. As a result, the Framework is about more than arriving at a set of numbers. As WBCSD explains, it is "designed to help companies understand their contribution to society and use this understanding to inform their operational and long-term investment decisions." A variety of companies are now applying the Framework to different projects with different strategic information needs. For more information, please see **www.wbcsd.org/web/measuringimpact.htm**

Measuring impact is also a critical step in achieving political buy-in for linkages both within a company and externally. It can be useful to think about the kinds of indicators that are important to each project's major stakeholders. In Brazil, SEBRAE goes so far as to select indicators together with stakeholders via a group process. For example, SEBRAE is currently involved in 14 projects with Petrobras in different locations. In each one, stakeholders have full discretion over the decision as to which indicators they will measure. If common indicators are found across projects, it is a result of coincidence, rather than centralized planning.

Many companies are still struggling to find the best ways of measuring impact, particularly external impact on the small and micro enterprises they work with, as well as the broader communities they operate in. Collaboration with third parties, such as international financial institutions, consulting firms, and NGOs, can be a valuable way of adding robustness and credibility to measurement efforts, while saving time for linkage practitioners absorbed in the day-to-day demands of making their models work.

4.2 Documenting and Disseminating Best Practices

It is important not only to know what works, but also to understand *how* it works and *why*. For example, some of the linkage efforts that work well in coffee, with its relatively high margins, do not work well in other agricultural sectors with lower margins, such as beef. Some of the microfinance linkages that work well in rural areas, where relationships of trust are strong, do not work well in urban areas where people tend not to know their neighbors. The "why" is of critical importance in determining what it is possible to replicate, and where – what can be standardized, and what must be localized.

To accelerate progress, we must learn from business linkage efforts as they develop. We must also think about feasible ways to capture that learning and share it with others. It can be difficult to find the time with all the pressures and urgencies that characterize innovative new business activities. But as long as knowledge is concentrated in the individual practitioner's head, scale will be limited and replication will not happen.

Certainly part of the answer is for companies to become better learning organizations. This is particularly important for large, geographically dispersed, and decentralized companies, such as multinationals.

Companies and their partners – other companies, international financial institutions, universities, consultancies, NGOs, and others – must also work to build learning networks, generating and sharing information in a collaborative, networked fashion.

One reason learning networks are valuable is that they lessen the burden on any one company and make far more learning possible. Non-company intermediaries can often play valuable roles in both documenting and disseminating best practices within learning networks. Non-company actors may have more time for such tasks than linkage practitioners do themselves, and their work may be perceived to be more objective and therefore more credible. They also have different networks – often spanning organizations in different countries, industries, and social sectors (e.g. business, government, and civil society). In Brazil, the GTZ-UNCTAD coalition Projeto Vínculos plays a strong documentation and dissemination role. IFC plays this role worldwide.

Another reason learning networks are valuable is that they allow us to begin to think laterally. If we hope to scale and replicate business linkage efforts, it is not enough simply to collect examples. We must look across examples and determine what experience is telling us. What are the essential elements of a successful business linkage model? Which aspects must be localized, and what factors determine how to do so? Learning networks make this kind of "laboratory"-style work possible.

4.3 Creating and Strengthening Intermediaries

We have seen that intermediary organizations such as international financial institutions, development donors, market research and consulting firms, universities, NGOs, and social entrepreneurs have great potential to facilitate linkage success and replication. They can play key roles in measuring impact, documenting and disseminating best practices, informing public opinion and public policy, and brokering partnerships, and some also play operational roles in business linkage efforts. However, there are currently too few intermediaries in the business linkages space, and even fewer that are commercially viable and have achieved scale. IFC is one of very few intermediaries that operates across industries, on a truly international basis. More could be done to create, strengthen, and grow organizations equipped to intermediate in this space.

4.4 Shaping Supportive Regulatory and Policy Environments

While many business linkage opportunities and challenges are within the power of corporate and collaborative innovation to capture and solve, the possibilities and limits are inevitably, to some extent, shaped by the regulatory and policy environment. Much can be done within existing environments, as the cases in this report have shown. However, we must also think about influencing existing environments to become more supportive. Regulation and policy affect business linkage prospects on two levels. First, they can facilitate or stifle the entry and development of small and micro enterprises into the market. Second, regulation and policy can encourage or discourage efforts by large firms to link up with those small and micro enterprises that do exist. It can be easy to place the blame on government, but government cannot operate in a vacuum. Greater business-government interaction is required to identify regulatory and policy gaps and constraints that limit business linkage efforts, and to develop appropriate solutions.

5 Seeking Scale

With successful, sustainable models springing up in different industries and different countries around the world, business linkage practitioners agree that it is time to begin thinking about replicating those models – taking business linkage activity, in the aggregate, to scale.

While designing to local context is essential, business linkage practitioners find that many of underlying dynamics and success factors are consistent across geographies. As one states, “We are talking about people, and people are very similar.” But replication is not easy. Hindustan Lever’s highly-touted Project Shakti, for instance, has existed in India since 2001 – and Unilever is still talking about implementing it in the rest of the world. Similarly, Martins recently hosted 12 sales directors from an important international vendor – including representatives from China, India, and Russia – who asked the company to help them replicate its success. Martins would certainly like to help. The question is how to do it.

Replication and scale are the leading edge challenges facing business linkage practitioners today. The Business Linkages Roundtables are designed to provide time and space to move our collective thought process forward. IFC, IBLF, and the Harvard Kennedy School’s CSR Initiative are privileged to play a role in this emerging field.

Appendix 1 Participating Companies

IFC, IBLF, and CSRI gratefully acknowledge the following companies for sharing their experiences and insights during the Business Linkages Roundtable in Rio de Janeiro, June 10-12, 2008:

Algar S.A.
Anglo American
Ashoka
Banco Itaú S/A
Banco Real – Real Microcrédito
Banco Triângulo S/A
Cemar – Companhia Energética do Maranhão
Cisco do Brasil Ltda.
Citi
The Coca-Cola Company
Deloitte
Embratel
Empresa Interagrícola SA
Grupo B5
GTZ
Instituto Akatu
Instituto IPE
Martins
Mundo Verde
Natura
Nestlé Brasil Ltda.
Newmont Ghana Gold Ltd.
Petrobras
Rio Tinto
Ruralfone
SABMiller
Sadia
SEBRAE
Starbucks Coffee Company
Tribanco
Unilever Brasil
Votorantim Celulose e Papel
VW Caminhões e Önibus Ltda.

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INTERNATIONAL FINANCE CORPORATION

IFC, the private sector development arm of the World Bank Group, adds value to private sector investment by offering its client a range of Advisory Services. To catalyze local economic growth, IFC designs and implements programs to integrate Small and Medium Enterprises (SMEs) into the supply chains of its clients to create income generation opportunities for communities around clients' project sites. These results are achieved through a mix of interventions, such as local supplier development programs, training in business/technical skills for SMEs and micro-entrepreneurs, and facilitating SMEs' access to finance and entry into new markets. IFC also provides client companies with skills, tools and support to implement HIV/AIDS programs within their workplaces and surrounding communities.

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THE CSR INITIATIVE, HARVARD KENNEDY SCHOOL

Under the direction of John Ruggie (Faculty Chair) and Jane Nelson (Director), the CSR Initiative at Harvard's Kennedy School is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on the role of business in addressing global development issues. The Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors and is now also supported by Abbott Laboratories, Cisco Systems Inc., InterContinental Hotels Group, Microsoft Corporation, Pfizer, Shell Exploration and Production, and the United Nations Industrial Development Organization (UNIDO).

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IBLF is a not-for-profit organization established in 1990 to promote responsible business leadership and partnerships for international development. It is supported by over 100 companies from around the world and a range of other partners including inter-governmental organizations, bilateral development agencies, and NGOs. IBLF works in over 50 countries, mobilizing visionary leadership, building cross-sector partnerships and engaging the capabilities of companies to create innovative and sustainable development solutions.

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