

IFC's Experience with Inclusive Business

An assessment of IFC's role, outcomes, and potential scenarios

An IEG Meso Evaluation

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CONTENTS

ABBREVIATIONS	IV
ACKNOWLEDGMENTS	V
OVERVIEW	VI
MANAGEMENT RESPONSE	XI
1. INTRODUCTION	1
Purpose and objective	5
Approach, scope, and methodology	6
2. IMPLEMENTATION OF IFC'S SUPPORT TO INCLUSIVE BUSINESS MODELS	9
The extent and nature of IFC's support for inclusive business models	9
Social Bonds	12
Salient features of IFC's Inclusive Business portfolio and its evolution	13
Assessment criteria for identification of inclusive business models	16
Appropriateness of ex-ante classification of inclusive agribusiness projects	17
3. EFFECTS ON IFC, ITS CLIENTS, AND THE BASE OF THE PYRAMID	20
Development Outcomes of Inclusive Business Projects	21
Effects of Regulatory Issues on Inclusive Businesses	26
IFC's Role and Work Quality in Supporting and Strengthening Clients' BOP orientation	26
Effects on People at the Base of the Pyramid	28
Demonstration Effects through Replication of Inclusive Business Models	30
Related Findings from Recent Evaluations	32
4. EXPERIENCES WITH DIFFERENT INCLUSIVE BUSINESS APPROACHES	36
Objectives and Definitions	37
Approaches	38
Link with technical assistance and knowledge	39
Tracking of Results and Link to Staff Incentives	40
Evaluative Evidence on Alternative Approaches	40
Factors linked to Reaching the BOP	41
Considerations for IFC	42
5. CONCLUSIONS AND WAYS FORWARD	43
Future Options	44
Further Research	48
ENDNOTES	59
Appendix A. Methodological Approach	

Abbreviations

ADB	Asian Development Bank
AIMM	anticipated impact measuring and monitoring
AS	Advisory Services
BOP	base of the economic pyramid
CAO	Compliance Advisor Ombudsman
CY	calendar year
DEG	Deutsche Entwicklungsgesellschaft (German Development Bank)
DFI	development finance institution
DfID	Department for International Development
EBRD	European Bank for Reconstruction and Development
E&S	environment and social
FCS	fragile and conflict-affected states
FMO	Netherlands Development Finance Company
FY	fiscal year
G20	Group of Twenty
GPOBA	Global Partnership on Output-Based Aid
IB	inclusive business
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MAS	manufacturing, agribusiness and services
MIF	Multilateral Investment Fund
OMJ	Opportunities for the Majority
PPP	purchasing power parity
RNFE	rural non-farm economy
SDG	sustainable development goal
UHT	ultra-high temperature
UMIC	upper middle-income country
XPSR	expanded supervision report

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Overview

Highlights

- ❖ **Definition.** Inclusive business is defined as a business that provides goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP), making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. IFC's definition of inclusive business excludes BOP employment.
- ❖ **IFC focus.** IFC's definition of inclusive business refers to companies' business models and their value chains. It is a specific term that is related to concepts such as "shared prosperity" and is more targeted than horizontal definitions of inclusion (for example, dimensions such as gender, youth, and lagging regions).
- ❖ **Business volume share.** IFC's commitments to projects with an inclusive business component have reached \$16 billion or 14 percent of IFC's total business volume in FY05–17.
- ❖ **Passive approach.** IFC's approach to inclusive business consists mainly of tagging and tracking projects, after Board approval, that meet the criteria of an inclusive business model. The inclusive business dimensions of IFC projects do not influence their selection, structuring, or implementation. IFC treats inclusive business projects no differently than any other IFC project lacking an inclusive business component. Thus, IFC's approach to inclusive business is passive instead of proactive.
- ❖ **Relative performance.** Reflecting IFC's current approach of treating inclusive business projects the same way as any other projects, the performance of inclusive business projects is at par with the other IFC projects, even though inclusive business projects tend to involve higher country, sponsor, and market risks. Notably, no trade-off between profitability and inclusion objectives is apparent in the available evidence.
- ❖ **Agribusiness.** The performance of inclusive agribusiness projects is also comparable with that of other IFC agribusiness projects, except for their environmental and social (E&S) ratings, which are weaker, mostly owing to challenges involving land issues and waste processing unrelated to the inclusive nature of their business models.
- ❖ **Key drivers.** The client's pre-existing orientation to integrate the BOP in its value chain is a key driver for IFC's reaching the BOP in its operations. In inclusive agribusiness projects, for example, IFC's main contribution is through its financial support for expansion and stabilization of the clients that had already made the BOP part of their business model. IFC's nonfinancial additionality is significant in a few cases where IFC's advisory services directly assisted with the deepening of the clients' engagement with BOP stakeholders.

IFC's approach and the evaluation

In 2010, IFC recognized the Inclusive Business (IB) concept as important for reaching people at the base of the economic pyramid (BOP), but its support has remained largely passive rather than proactive or strategic.

IFC uses a context-specific definition of inclusive businesses. It includes businesses that integrate people at the BOP as part of their core business

model on a commercially viable basis. Such businesses make the BOP part of their value chain as suppliers, distributors, or customers. This definition is related to socioeconomic inclusion found in concepts such as "shared prosperity" and is narrower in focus than broader, horizontal dimensions of inclusion (for example, gender, youth, and lagging regions).

This evaluation is a corporate-level assessment of the role and effectiveness of IFC in its support to its clients' inclusive business models. It also identifies implications and options for IFC's future support to inclusive business. The evaluation uses a two-pronged approach based on: (i) a review of IFC's entire portfolio (comparing inclusive business projects with the rest of IFC's portfolio), integrating IEG's relevant evaluative evidence across different sectors and themes; and (ii) a focus on the agribusiness sector.

Implementation of IFC's approach to inclusive business models

From 2010, IFC has aimed to play three roles in the inclusive business space:

- i. *Clients.* IFC has aimed to help client companies with inclusive business models to enhance their focus on the BOP through financing and advisory support;
- ii. *Leadership.* IFC has aimed to contribute to operationalizing the concept of inclusive business (for example, within the G20 Global Platform on inclusive business); and
- iii. *Social Bonds.* IFC has supported the emerging market for Social Bonds through its Treasury operations.

However, IFC's approach to inclusive business has been largely passive. It established a knowledge management unit tasked with flagging and tracking projects with inclusive business characteristics after these projects had been appraised and approved by the Board. But IFC has not proactively or strategically sought to develop and recruit clients with inclusive business models. In addition, IFC's identification, structuring, and supervision of inclusive business projects has been no different than for the rest of IFC's portfolio.

IFC lacks a corporate-level inclusive business strategy or any institutional targets and incentives related to inclusive business. However, some sector or regional strategies and project documents have included references to "lower income populations"

and related terms since about 2007 that suggest a concern with addressing the needs of the poorer segments of the population. In recent years, IFC has elevated the external profile of its work on inclusive businesses through the role it plays alongside the G20 and the issuance of social bonds.

Notwithstanding the passive nature of its engagement, IFC has committed about \$16 billion to companies classified as inclusive, or about 14 percent of its long-term commitments between FY05-17. By number of projects, the share is higher, at 19 percent. IFC's inclusive business portfolio is more prominent in International Development Association (IDA) and fragile and conflict-affected situation (FCS) countries than in IFC's other countries of operation, which indicates that inclusive business models can be a vehicle for growing IFC's support to low-income and high-risk economies.

Regarding sectors, about 51 percent of IFC's inclusive business commitments are in financial markets, reflecting the significant role of microfinance institutions. The manufacturing, agribusiness and services (MAS) industry group accounts for 27 percent; while the telecom, media, and technology sector reaches 15 percent. Within MAS, the agribusiness and forestry sector had the largest share (15 percent of inclusive business commitments). The relative lack of inclusive business infrastructure projects (comprising 5 percent of the inclusive business portfolio compared with the 23 percent share of infrastructure in the rest of IFC's portfolio) may be indicative of a lack of opportunities or understanding of how infrastructure projects can directly integrate the BOP in their value chain.

IEG assessed the appropriateness and consistency of the way IFC identifies its inclusive business portfolio for a sample of evaluated inclusive agribusiness projects against IFC's definition and

OVERVIEW

criteria. It concluded that most projects had been classified correctly; however, the availability of data used for substantiating whether the people reached by these projects are at the BOP is inadequate. For instance, IFC project documents often lack data on farmer incomes, the share of smallholder farmers, or their expected revenues. In the absence of such data, IEG based its own assessment of IFC's tagging of inclusive business mainly on the low- and lower-middle-income status of the host country and other contextual information including from field visits and interviews. Moreover, IEG found that such data is often available with IFC clients and could be collected systematically with relatively little additional effort. As IFC leverages its experience with inclusive business, it needs to rely on more rigorous information to substantiate the effects on the BOP in its inclusive business projects. Otherwise, this lack of BOP-specific information could create a reputational risk to IFC if external parties were to demand "proof of concept," that is, robust evidence that IFC is reaching the BOP through its portfolio of inclusive business projects.

Many comparator institutions among multilateral development banks, bilateral agencies, and the private sector have implemented a focus on the BOP, though their mandates, definitions of inclusive business, and objectives differ. IEG interviewed several comparators to benchmark IFC's approach. Three main approaches are apparent: (i) mainstreaming of inclusive business elements across all projects by conducting a gap analysis to identify inclusiveness aspects ex ante prior to project appraisal or approval; (ii) targeting inclusive business through special vehicles or dedicated programs; and (iii) hybrid approaches that combine elements of both.

These approaches vary significantly in comparator institutions across several dimensions, including: (i) the degree of proactivity in engaging in inclusive

business projects; (ii) the level of upstream identification of areas of exclusion to inform targeted interventions; (iii) the criteria for inclusiveness; and (iv) the availability of blended or public finance to fund innovative or pilot solutions.

The comparators' evaluative evidence points to mixed effectiveness of inclusive business approaches. The main drivers for reaching the BOP include: (i) focusing on larger, well-established companies with wide distribution networks to ensure reach to poorer households; (ii) the existence of champions for inclusive business programs within companies; (iv) the use of analytics to inform strategy and project selection; and (v) the company's prior experience with BOP and the quality of its approach.

Effects on IFC, its Clients and the Base of the Pyramid

The performance of inclusive business projects is at par with the rest of IFC despite involving higher country, sponsor and market risks. On average, inclusive business projects are implemented in higher-risk countries, involve modestly less sophisticated clients, and smaller project sizes than the rest of IFC's portfolio at entry. All these factors are associated with lower development outcomes, according to IEG's analysis. The use of repeat clients, expansion of existing operations (rather than greenfield projects) and choice of instruments, which tend to be associated with stronger outcomes, appeared to have mitigated the risks. Thus, despite the high-risk profile, IEG did not find a trade-off between the profitability of projects with inclusive business models and their inclusion objectives.

The performance of inclusive business projects in the agribusiness sector is also comparable with that of other IFC agribusiness projects, except for their environmental and social (E&S) ratings. The weaker E&S performance of inclusive agribusiness projects appears to be mainly due to shortcomings

in the clients' management of E&S and not the inclusive business model per se. This highlights the potential role IFC can play through its E&S support for strengthening clients' BOP business models.

In the agribusiness sector, the way IFC reaches the BOP is through its clients' pre-existing business model that integrates the BOP in its operations. The clients' engagement with its supply chain farmers through technical assistance and provision of inputs, as well as their nurturing of the attendant procurement and collection infrastructure (often through intermediaries) appears to be the key to the client's business success as well as to the scaling-up of their outreach to the BOP. Thus, the selection of clients with effective inclusive business models drives IFC's involvement in the inclusive business space.

Factors affecting the business success of inclusive agribusiness projects include: (i) sustainability and scalability of the clients' business model with robust growth and adequate returns on invested capital; (ii) favorable movements in global commodity prices; and (iii) occasionally, tariff protection. Field missions and interviews identified additional drivers such as: (i) support from the parent company; (ii) strong brand name; (iii) product innovation to provide higher value at lower cost; and (iv) broad based distribution network.

Several factors can adversely affect the performance of inclusive agribusiness projects, including: (i) weak management; (ii) adverse regulatory decisions; (iii) declines in global commodity prices; and (iv) adverse developments in country conditions.

IFC's main contribution has been through its financial support for the expansion and stabilization of the inclusive agribusiness clients by providing finance at longer tenors than available in

the local market. Its non-financial additionality has focused on assisting clients with the implementation of their E&S management system (albeit with limited success as indicated in the E&S performance ratings) and with the strengthening of corporate governance. In a few cases (four of 20 sample projects) IFC's advisory services directly assisted with the deepening of the clients' engagement with BOP farmers. In most cases, however, IFC clients are implementing linkages programs on their own to enhance their BOP focus.

IFC does not adequately assess the impact of its inclusive business projects on the BOP, relying instead in most cases on aggregate "reach" indicators—for instance, "number of farmers" without distinction between small, medium and large-size farmers—making it impossible to assess the effects on the BOP. The current use of aggregate "reach" indicators instead of measuring impact is a systemic issue for IFC's entire portfolio. The absence of additional information—such as on the share of total inputs delivered by smallholder versus medium or large-scale farmers, and the prices paid or payments made to these farmers for their produce—and the consequent inability to validate the intended welfare benefits on the BOP risks undermining the credibility of IFC's current approach to inclusive business.

IEG identified only a few examples of successful replication of inclusive agribusiness models across countries or regions. The main reason appears to be related to the importance of local contextual factors (such as type of crops, climatic conditions, farmer capacity, local regulations) in shaping the specific inclusive business models that prevail in agribusiness.

Conclusions and Ways Forward

Based on the findings of this evaluation, the report concludes with three options for IFC to consider:

OVERVIEW

Option 1: Keep the current approach: IFC may decide to continue with its current passive approach. However, the credibility of IFC's current approach is undermined by the absence of robust methods to measure reach and impact on the BOP.

The evaluation suggests a need for IFC to strengthen data collection and measurement to enhance the robustness of the identification of inclusive business projects and to capture impacts on BOP beneficiaries.

Option 2: Upgrade IFC's current approach to an "operational framework": Building on its current approach, IFC could aim at increasing its focus on inclusive business incrementally, by proactively identifying and selecting clients with inclusive business models, and by systematically identifying client gaps for deploying the suite of IFC's advisory services program.

Option 3: Design a corporate strategy toward inclusive business: If IFC wishes to elevate its focus on inclusive business as a corporate strategic priority, it could adopt a strongly proactive approach with significant changes to its current approach, risk appetite, and instrument mix, supported by a shift in corporate culture and incentives. Under this option, IFC would need to strengthen staff skills to enhance the more proactive design and implementation of projects, and to strengthen its diagnostic work.

Finally, in projects that are subject to, or affected by, government regulation, IFC could collaborate with the World Bank to work with governments on issues that may affect the viability of inclusive business models. Furthermore, IFC could collaborate with the World Bank to correct market failures to provide a conducive framework for inclusive business growth.

Management Response

Content to follow.

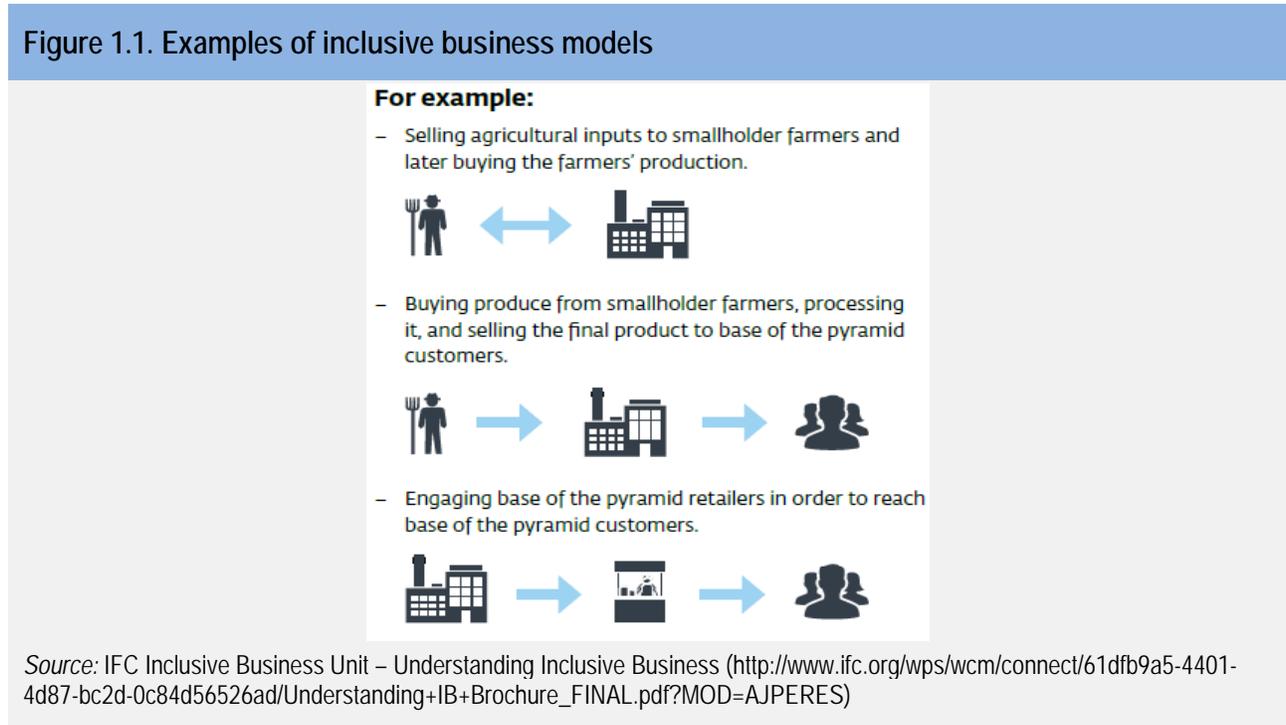
1. Introduction

Highlights

- ❖ **Definition.** Inclusive businesses are those that provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the “base of the economic pyramid” (BOP), integrating them into the value chain of the companies’ core business as suppliers, distributors, retailers, or customers.
- ❖ **IFC’s focus.** IFC’s definition of inclusive business is related to concepts such as “shared prosperity” and more targeted than broader definitions of inclusion (for example, dimensions such as gender, ethnic groups, and lagging or high-risk regions).
- ❖ **Absence of strategy.** IFC does not have a corporate strategy on inclusive business. However, some sectoral and regional strategies and project documents include references to “lower-income population”, “base of the pyramid,” “inclusive business,” and “underserved groups,” all of which suggest a corporate concern with addressing the needs of the poorer segments of the population in line with the World Bank Group’s twin goals.
- ❖ **Evaluation scope.** This evaluation comprises a corporate-level assessment of IFC’s experience with supporting inclusive businesses. It explores drivers of success and lessons on “what works”. It assesses IFC’s role and effects on clients with inclusive business models. The evaluation illustrates its findings with a focus on inclusive agribusiness projects.
- ❖ **Analytical underpinnings.** This evaluation is based on a comprehensive assessment of IFC’s inclusive business portfolio, supplemented by case studies of inclusive agribusiness projects. The evaluation also builds on and reflects relevant findings and lessons from recent IEG sector or thematic evaluations that covered aspects of inclusive businesses.

1.1 Inclusive business is defined as businesses that provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP), making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers.¹ Inclusive business (IB), as defined by the G20 and IFC, is a specific term referring to companies’ business models and their value chains. The definition emphasizes that businesses integrate people at the base of pyramid (BOP) as part of their core business model (principally as suppliers, distributors, or customers) in a commercially sustainable way. Thus, inclusive business is differentiated from corporate social responsibility approaches where the BOP focus is typically tangential to the business purpose. The commercial viability condition precludes the use of subsidies or concessional financing to promote the use of the BOP. Inclusive business is related to concepts of socioeconomic inclusion such as “shared prosperity” and is more targeted than horizontal definitions of inclusion (for example, dimensions such as gender, youth, and lagging regions). This evaluation uses

IFC's definition of inclusive business, which does not consider BOP employment as a criterion for eligibility. Figure 1.1 illustrates inclusive business models consistent with IFC's definition, while box 1.1 provides background on different approaches and concepts related to inclusion that are relevant for private enterprises.



1.2 The term “base of the economic pyramid (BOP)²” is defined as people who are low-income and who lack access to basic goods and services earning less than \$8.44 per day in purchasing power parity terms.³

1.3 Inclusive businesses are expected to improve access to affordable, quality products and services, enhance productivity, and generate new income and livelihood opportunities for the BOP. Since the concept was first articulated⁴ in 2004, IFC began to refer to people at the BOP. In 2007, IFC and the World Resources Institute issued a report, “The Next 4 Billion – Market Size and Business Strategy at the Base of the Pyramid,”⁵ suggesting that the behavior of 4 billion low-income people, a majority of the world’s population, as consumers and their aggregate purchasing power, offered significant opportunities for market-based approaches to serve their needs, increase their productivity and incomes, and enable their entry into the formal economy.

Box 1.1. Inclusive Business and Related Concepts

Organizations differ in how they approach inclusive business, with three distinct categories emerging: Inclusive Business Models, Inclusive Business Activities, and Social Enterprise Initiatives. This evaluation focuses on the inclusive business models of IFC clients.

Inclusive business model: Companies with an inclusive business model integrate the base of the economic pyramid (BOP) into their core business operations. Commercial viability of the business model is at the forefront for companies because they rely primarily on commercial sources of financing for their business operations and look to realize market returns. Here the model differs from development approaches that are dependent on direct public funding.

Inclusive business activities also integrate people at the BOP into companies' value chains. However, these activities are not central to the commercial viability of the company nor do the BOP make up a significant part of the base of customers, suppliers, or business partners. The activities are usually financed by companies' internal resources, often complemented by support from commercial funds, concessional funding, or grants.

Social enterprise initiatives have a mission to improve individuals' and communities' economic and social well-being and institutionalize the pursuit of explicit social objectives. A distinct feature of social enterprises is that they are not aiming to maximize profits. Instead, profits may be reinvested to fulfil and strengthen the company's social mission. Not all enterprises are financially viable; some may rely on concessional resources.

	INCLUSIVE BUSINESS MODELS	INCLUSIVE BUSINESS ACTIVITIES	SOCIAL ENTERPRISE INITIATIVES
BOP's Relationship to Business	Core Value Chain	Ancillary	Ancillary or Core Value Chain
Financial Return Expectations	Market Returns	Market Returns or Below Market Returns	Not Profit Maximizing
Primary Funding Type	Commercial	Commercial	Mixed

A related yet distinct concept is **corporate social responsibility (CSR)**, which refers to "a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social well-being. The term generally applies to efforts that go beyond what may be required by regulators.... CSR may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change."

Source: Annexes to G20 Inclusive Business Framework; Investopedia (<https://www.investopedia.com/terms/c/corp-social-responsibility.asp>).

1.4 The inclusive business concept of reaching out to and integrating the BOP into markets is important for IFC's development mandate and its contribution to the World Bank Group's twin goals. Since the mid-2000s, IFC has acknowledged an interest on people at the "base of the economic pyramid" as part of its stated intention to move closer to the frontier and seize opportunities by integrating low-income populations. Thus, even before the adoption of the World Bank Group's twin goals of eradicating extreme poverty and ensuring shared prosperity, IFC has noted distributional objectives in its strategies, such as in its corporate strategy documents (IFC Road Maps) from 2010. IFC projects have

also often referred to “lower-income population,” “base of the pyramid,” “inclusive business,” and “underserved groups,” that are indicative of a concern with addressing the needs of the poorer section of the population. In 2011, the Independent Evaluation Group (IEG) assessed IFC’s poverty focus and results. It concluded that IFC had recently begun to focus more explicitly on inclusive, pro-poor growth. However, it also found that there was not enough clarity on what poverty meant in the context of IFC and how its interventions reach and affect the poor.⁶

1.5 By enhancing opportunities for the poor to participate in the core value chain, inclusive businesses can contribute to the World Bank Group’s twin goals of eradicating extreme poverty and ensuring shared prosperity. The commercial viability objective of inclusive businesses favors the participation of the private sector, motivating IFC’s support to the inclusive business models of its client base. Inclusive businesses can thus establish a bridge between the IFC 3.0 strategy focused on maximizing finance for development and market creation and its commitment to contribute to achieving the World Bank Group’s twin goals.

Box 1.2. Link between Inclusive Business and Sustainable Development Goals

The G20 has identified inclusive business as a powerful force for inclusion that has the potential to contribute to the Sustainable Development Goals (SDGs). The Addis Ababa Action Agenda (July 2015) emphasized the importance of the private sector and maximizing finance for addressing sustainable development challenges. This demands a fundamentally different engagement, with the private sector going beyond corporate social responsibility and philanthropy. For private capital and innovation to flow toward advancing the Agenda 2030 and the SDGs, societies will have to structure incentives that simultaneously advance business and development. Within this broad agenda, the G20 Framework on Inclusive Business focuses on business approaches that seize market opportunities that directly improve the lives of those living at the BOP.

Source: G20 Inclusive Business Framework.

1.6 **Inclusive businesses require a conducive ecosystem to grow and achieve broad-based impact.** According to the *G20 Inclusive Business Framework* (2015), governments can play a key role by enabling companies to pursue inclusive business models and integrate the BOP into their core business operations. Companies can create new markets at the BOP, create information, provide training and raise awareness, and offer financing to actors in their value chains. However, inclusive businesses face external and internal constraints, both at the BOP market level and at the company level: (i) *Rules and regulations*: innovative inclusive business solutions are often limited by existing regulation, or because supporting legal foundations are missing; (ii) *Financial resources*: conventional finance providers are not always equipped to finance inclusive businesses, and often consider risk-adjusted returns too low to merit credit or investment; (iii) *Information*: at the market level, information about BOP consumers’ needs, preferences, and consumption patterns is often not available to potential investors or business partners; and (iv) *Capacity*:

companies often face high costs to raise customer awareness and train producers, distributors, and retailers, at the BOP.

1.7 Within the inclusive business global space, IFC currently plays three roles: (i) it supports client companies with inclusive businesses to enhance their focus on the BOP through funding and capacity building; and (ii) it exercises a degree of catalytic and convening power regarding the global inclusive business agenda (such as, for example, within the G20 Global Platform on Inclusive Business); and (iii) through its *Social Bond Program*, it attracts capital with the objective to support select IFC projects that address social issues for targeted populations, such as finance for women entrepreneurs, and low-income communities in emerging markets. Since 2014, IFC has raised \$800 million by issuing bonds whose proceeds are meant to target inclusive business projects. This evaluation focuses on IFC's support to client companies ((i) above) with cursory references to some activities under IFC's convening role and its Social Bond program.

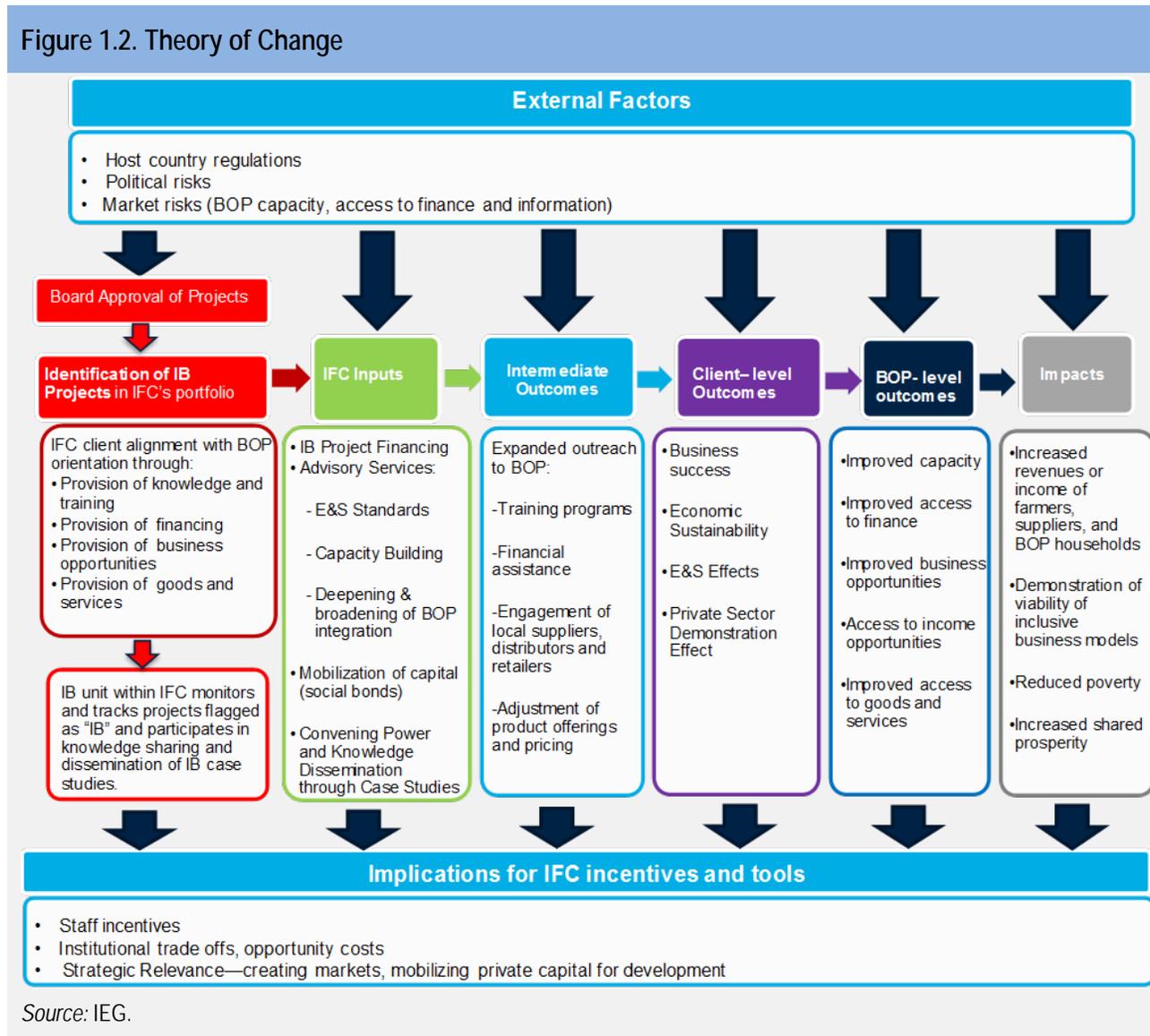
Purpose and objective

1.8 This evaluation is a corporate-level assessment of IFC's support to inclusive business models and informs IFC regarding drivers of success, lessons, and trade-offs if IFC decides to scale up its support to inclusive businesses. About a decade after IFC's adoption of the concept of "inclusive business", this evaluation assesses the extent to which (and how) IFC has implemented its approach to inclusive businesses; to what extent it has been effective supporting the inclusive business models of its clients; and identifies implications for potential scenarios for IFC's future support to inclusive businesses. It provides lessons and insights for the potential redesign of IFC's framework and strategy and interventions in the inclusive business space. It also informs IFC's new impact development framework, Anticipated Impact Measuring & Monitoring (AIMM), with respect to tracking the reach and effects on the BOP along the supply chain of IFC clients.

1.9 This evaluation is timely: IFC is assessing the links between the scope and nature of its current support to inclusive business, its IFC 3.0 strategy, and its contributions to the World Bank Group's twin goals and the Maximizing Finance for Development agenda, where inclusive business models can have a direct, positive and sustainable role.

Approach, scope, and methodology

1.10 The evaluation follows a theory of change that has been developed as a stylized representation of IFC's support to inclusive businesses along the following causal linkages: (i) IFC provides services to its clients, some of which may be specific to inclusive business; (ii) IFC client companies work with the BOP; and (iii) the IFC inclusive business team provides knowledge and tracks IFC's engagements in inclusive business projects (figure 1.2).



1.11 The evaluation assesses IFC's role and performance by analyzing evaluative evidence and data regarding the entire IFC inclusive business portfolio. To triangulate findings, the evaluation uses a two-pronged approach based on a (i) review of IFC's entire portfolio (comparing inclusive business versus the rest of IFC) and IEG's relevant

evaluative evidence across different sectors and themes, and (ii) focus area on the agribusiness sector. IEG's analysis covers the IFC portfolio from FY05–17, using as a starting point the year that IFC began applying the “inclusive business” classification. Original evaluative work to distill and illustrate findings focuses on the agribusiness sector.

1.12 The evaluation focuses on agribusiness for the following reasons: (i) to provide a more in-depth sector specific analysis within a heterogeneous inclusive business project portfolio; (ii) agribusiness is the second largest sector in the inclusive business portfolio (NB: although financial markets are the largest sector in IFC's inclusive business portfolio, they have been extensively covered in IEG's recent evaluation work); (iii) agribusiness presents important challenges but also great potential for reducing poverty. This is so especially in Africa, where most of the world's poor live, and where agriculture is the largest source of livelihoods; and (iv) the mixed record of agribusiness in poverty reduction suggests opportunities to learn from successes and failures.

1.13 Because of this two-pronged approach, the evaluation identifies two sets of findings: those applicable to IFC's generic approach to inclusive businesses; and those related to agribusiness that should not be extrapolated to the inclusive business portfolio. The evaluation indicates the reference population for its analysis and findings accordingly.

1.14 The evaluation draws on multiple sources to collect evidence on lessons of experience from inclusive businesses, triangulate findings, distill commonalities and differences, and increase the robustness of insights:

- Based on IFC's corporate databases and IEG's evaluation databases, the evaluation involved a comprehensive portfolio analysis of the universe of IFC's portfolio of 700 investments tagged as inclusive businesses committed in FY05–17.
- IEG synthesized available evidence from recent IEG evaluations covering aspects of inclusive business (e.g., Rural Non-Farm Economy, Financial Inclusion, Transformational Change, Health).
- The evaluation conducted interviews with representatives of other multilateral development banks, donors, and private sector counterparts supporting inclusive business models to benchmark approaches to inclusive businesses and to understand their institutional roles, comparative advantage, and applicable lessons.
- The evaluation completed 20 case studies representing all evaluated inclusive agribusiness projects in the portfolio. The case studies assess the inclusive business role of farmers as suppliers, consumers, or borrowers. The case studies were conducted first as desk analyses. They included interviews with the IFC transaction leaders and client representatives (where feasible).

CHAPTER 1 INTRODUCTION

- The case studies were complemented by field visits to Ghana, Kenya, and Nigeria to deepen the understanding of different approaches to inclusive businesses and their effects on clients and the BOP.

1.15 This report is organized as follows: Chapter 2 discusses the implementation of IFC's support to inclusive business models. Chapter 3 summarizes the effects on IFC, its clients, and the base of pyramid. Chapter 4 presents the experiences with different inclusive business approaches across IFC's comparators. Chapter 5 concludes with a summary of the main findings and a discussion of the implications and ways forward for IFC.

2. Implementation of IFC's Support to Inclusive Business Models

Highlights

- ❖ **Interest in the BOP.** Since the mid-2000s IFC has acknowledged an interest on people at the 'base of the economic pyramid' as part of its stated intention to move closer to the frontier and seize opportunities by integrating low-income populations.
- ❖ **Passive approach.** However, IFC's approach to inclusive businesses has been passive rather than proactive. It consists mainly of tagging, ex post, and tracking projects with an inclusive business model: projects are selected, structured, and implemented no differently than IFC's other projects.
- ❖ **A significant portfolio but no corporate priority.** Inclusive business is not currently a stated corporate priority in IFC, which lacks any institutional targets and incentives related to inclusive businesses. Yet, IFC's commitments to projects with an inclusive business component have reached \$16 billion, 14 percent of IFC's commitments (FY05–17).
- ❖ **Critical data and impact information is lacking.** While IFC classifies projects with inclusive business components mostly appropriately and consistent with its inclusive business screening criteria, the availability of data used for substantiating whether the beneficiaries of those projects are people at the BOP is inadequate. In the absence of more rigorous information on the BOP status and the impact of IFC's projects on the people at the BOP, it is not possible to assess the consistency and effectiveness of IFC's support.

The extent and nature of IFC's support for inclusive business models

2.1 **The implementation of the inclusive business concept in IFC has evolved since the mid-2000s.** IFC introduced the term “inclusive business” successively from about 2007 onwards, as it aimed to move closer to the frontier and to strengthen its development impact by seizing on opportunities offered by integrating low-income suppliers, consumers, or distributors into supply chains and the formal economy. This action was motivated by the economic potential of 4 billion people living at the base of the economic pyramid.⁷ Thus, IFC identified distributional objectives in its corporate strategies even before the adoption of the twin goals (2013), beginning with the IFC Roadmaps (annual strategy documents) since 2010.

2.2 In 2010, IFC formed a dedicated Inclusive Business Unit with five staff charged with advancing the inclusive business agenda. The Unit focuses on knowledge generation and management and, by design, has limited relevance and visibility vis-à-vis operational units. IFC plays three roles in the inclusive business space: (i) it supports the inclusive business models of client companies that focus on the BOP through funding and capacity building; (ii) it exercises a catalytic and convening power role in the global inclusive business agenda; (iii) it helps attract private capital to support inclusive business-related activities through its Social Bond Program started in 2014. This evaluation focuses mainly on aspects related to role (i) above.

2.3 IFC's approach to inclusive business is passive instead of proactive. IFC's approach consists mainly of tagging and tracking projects with an inclusive business model. Projects are tagged at entry, based on their current business models, once project appraisal and approval are complete. In addition, IFC provides some institutional support through knowledge creation and sharing based on case studies of inclusive businesses in its client base. Based on interviews with IFC staff, IFC follows established project and credit review processes where it does not select or appraise projects for their potential to reach the BOP, or design projects purposefully to be inclusive. This *modus operandi* results in the inclusive business focus being subordinate to, and not part of, IFC project identification and design criteria. IFC does not monitor the implementation of inclusive business projects with any BOP angle as reference. All the above translates into a passive, rather than proactive approach; it focuses on tagging investment operations, while advisory services, for example, are not systematically reviewed for their potential to reach the BOP.

2.4 IB projects do not receive different treatment at appraisal or during implementation in terms of the degree of attention from IFC management, deployment of instruments, level of aftercare, etc. Rather, IFC's approach is to help some of its clients engage with the BOP through its mainstream suite of financial and advisory products, with the intention of deepening the development impact of its operations.

2.5 IFC uses advisory services (AS) to provide targeted support to inclusive business models in its client base, but such services are not always related to the BOP. Inclusive business projects are more likely to involve both investments and advisory services projects than other IFC projects: 23 percent of evaluated inclusive business projects had such a link, compared with 10 percent of the rest of IFC's evaluated investments. However, the advisory projects are not necessarily related to strengthening the client's engagement with the BOP. For inclusive agribusiness projects that received AS, about 60 percent of AS was directly linked to the BOP.

2.6 Inclusive business is not currently a strategic priority for IFC, which explains the absence of related corporate and staff targets and incentives. Inclusive business projects are not captured in scorecards or individual staff performance metrics, providing no incentives to prioritize projects with inclusive business models over other corporate priorities or business volume targets. The recent IFC 3.0 strategy refers to inclusion in a way that indicates a scope broader than IFC's current definition. It mentions "*...inclusive business models and projects that focus on excluded groups, including women, youth, the urban poor, and SMEs, including health, vocational education and agriculture supply chains.*" The newly established Anticipated Impact Measurement and Monitoring framework (AIMM) similarly tries to capture project aspects related to inclusion as one of the criteria for assessing the proposed projects' ex-ante impact.

2.7 Despite the lack of a related corporate strategy, **IFC has identified inclusive business models as a relevant priority area for client identification in a few sector strategies or business plans** in sectors with a high prevalence of BOP business models (for example, agribusiness, commodity traders) or where such business models can usefully strengthen the development impact rationale for IFC engagement (for example, health). The Manufacturing, Agribusiness and Services (MAS) strategy FY15–17 (December 2013), for example, emphasized agribusiness as one inclusive business priority area. The strategy focused on the “Inclusive Agribusiness Development Model” as examples of IFC engagements to meet the objective of improving livelihoods in rural areas, and encompassed (i) anchor projects around large-scale commercial agribusiness development, (ii) links to large numbers of small farmers and communities, and (iii) integrated operations with associated infrastructure. Similarly, IFC’s food processing industry strategy advocated focusing on opportunities for small farmers, micro, small and medium-size enterprises (MSMEs), and women as a part of sector strategy for inclusive development (Branded Foods and Beverages Sector Strategy 2014).

2.8 In manufacturing, support for “inclusive business models” was one of the IFC product offerings along with loans, equity, and mobilization. The manufacturing sector strategy specified that such an approach is more suitable for middle-income countries (MICs) and upper middle-income countries (UMICs) (Manufacturing Strategy 2012). Nonetheless, despite the acknowledgement of inclusive businesses as priority in those sector strategies, IFC has not systematically developed new clients with an inclusive business model or introduced BOP solutions to existing clients. This corroborates the current gap between stated objectives at sector strategy level and follow-up actions at project level.

2.9 IFC’s recent agribusiness strategies have expanded the focus from traditional value chain advisory projects to emphasize professionalization of farmer organizations (for example, financial literacy, business skills of smallholder farmers and small and medium-size enterprises) under one of the strategy’s pillars: supporting efficient supply chains.⁸ While IFC’s strategy continues to be to “*increase [...] efficiency and sustainability of smallholder supply chains and agro-input distribution systems,*” this strategic shift reflects a focus on areas of potential comparative advantage for IFC. It also reflects the challenges and prohibitive cost of working directly to support fragmented, low-capacity smallholders.

2.10 **In recent years, the profile of IFC’s work in the inclusive business space has been elevated because of the role it plays alongside the G20.** IFC exercises a degree of leadership and convening power in the inclusive business space as part of the G20 Global Platform on Inclusive Business. According to IFC, this role includes disseminating knowledge on inclusive business models globally through partnerships with donors, multistakeholder initiatives, and the private sector.

SOCIAL BONDS

2.11 In response to the launch of the Sustainable Development Goals (SDGs) by the United Nations in 2016, a bond market aimed at financing projects with social issues has emerged and deepened, as investors have started to embed environmental, social, and governance standards into their investment decisions. In response, IFC has developed its Social Bond program alongside other multilateral and private financial institutions. To mobilize capital for IFC, since FY14, IFC has issued close to \$800 million in inclusive business or social bonds to support projects classified as inclusive businesses in IFC's portfolio, including a \$500 million benchmark bond in 2017.

2.12 The proceeds of the bonds accrue to IFC's treasury department, where they are notionally matched against a portfolio of eligible projects that benefit women-owned enterprises and help improve social outcomes, through a portfolio of projects classified by IFC as inclusive businesses post approval.⁹ The Social Bond-eligible projects are selected from an IFC loan portfolio. Thus, in FY15-16 Inclusive Business Bond proceeds were disbursed to 13 eligible projects, totaling US\$298 million. On an annual basis, IFC publishes the list of projects which have received funding from Social Bond proceeds. The payment of interest and the principal of the Social Bonds is strictly based on the credit quality of IFC and is therefore de-linked from the inclusive business project risk.

2.13 Thus, the aim of the Social Bonds program is to provide opportunities for (mainly institutional) investors to support a notional portfolio of IFC projects that address social issues. However, there is no direct, explicit link between the bonds and IFC's inclusive business work because the bonds are primarily an instrument for mobilizing capital for IFC rather than for proactively expanding IFC's inclusive business portfolio. In the context of social bonds, IFC has aimed to contribute to catalyze the market and enhance transparency through its work on Green Bond Principles for Social Bonds. IFC has committed to publishing annually a list of projects which have received funding from Social Bonds proceeds and project highlights starting in 2017. The increased external scrutiny associated with the issuance of Social Bonds has implications for the scope and quality of IFC's future work with inclusive businesses because the investor community will most likely become increasingly interested in understanding the way their fundings gets allocated, the nature of the inclusive business investments that they support on the ground, and the true impact on the BOP of such investments.

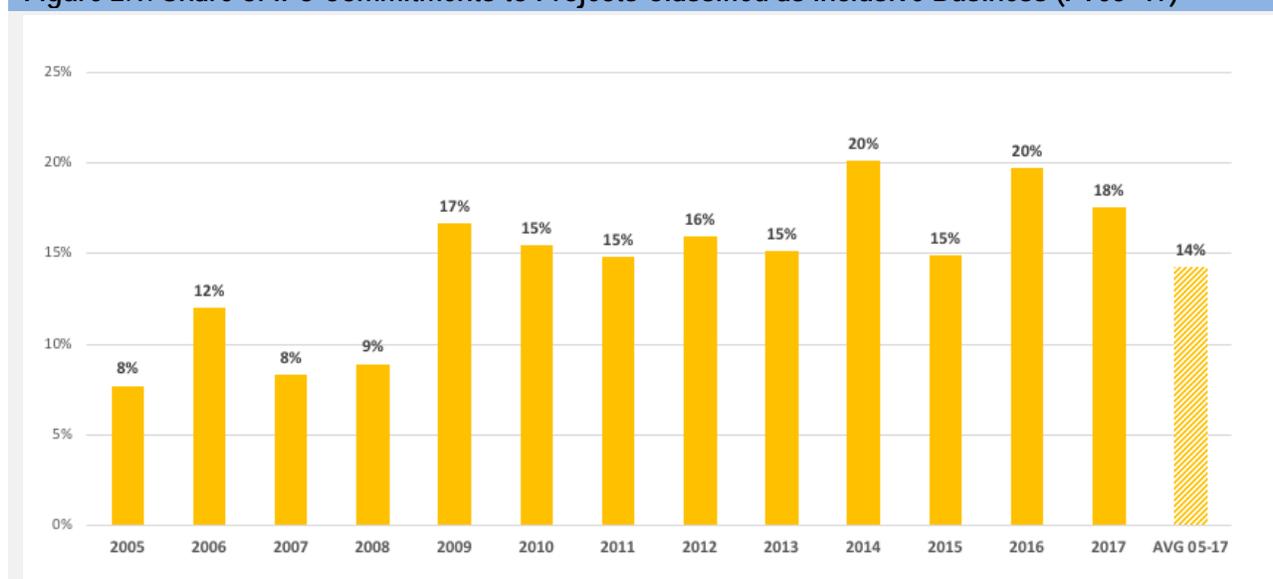
2.14 Both IFC roles in the inclusive business space, a degree of global leadership and the Social Bond program build, and depend on, IFC's credibility in supporting client companies' inclusive business models. They are innovative ways of leveraging IFC's experience, which will benefit from a better understanding of their impact on both the investor community – through demonstration effects – and on the BOP.

Salient features of IFC's Inclusive Business portfolio and its evolution

2.15 **IFC has committed \$16 billion to client companies with activities classified as inclusive businesses; this represents about 14 percent of IFC's long-term commitments in FY05–17.** Since IFC started tracking its inclusive business projects in 2005, such volume accounted for 700 investments (19 percent of the total).¹⁰ The share of inclusive businesses and number of investments have remained relatively stable since FY09, that is, before IFC formed its Inclusive Business unit as a focal point.

2.16 IFC's commitment totals indicate the financial support for clients and projects with inclusive business models. The total does not express the amount directly targeted at the BOP. It only indicates IFC's financial support to clients' investment plans and business models generally, given that most clients employ a portfolio of business models, of which inclusive business is one.

Figure 2.1. Share of IFC Commitments to Projects Classified as Inclusive Business (FY05–17)



2.17 **Financial markets dominate IFC's portfolio in inclusive businesses,** accounting for more than half of commitment volume and investments to inclusive businesses (figure 2.2). During the period FY05–17, IFC distribution, by sector, of inclusive business projects was as follows: almost 51 percent of IFC commitments were in financial markets, reflecting IFC's significant exposure to microfinance institutions.¹¹ The MAS industry group accounted for 27 percent; while telecom, media and technology reached 15 percent.¹² Within MAS, the agribusiness and forestry sector had the largest share (15 percent of commitments to IB). The relative lack of infrastructure projects with specific inclusive business components (comprising 5 percent of the inclusive business portfolio compared with the 23 percent share of infrastructure for the rest of IFC) may indicate a paucity of

opportunities or understanding of the way in which infrastructure investments may directly reach the BOP either through enhanced access or improved service quality.

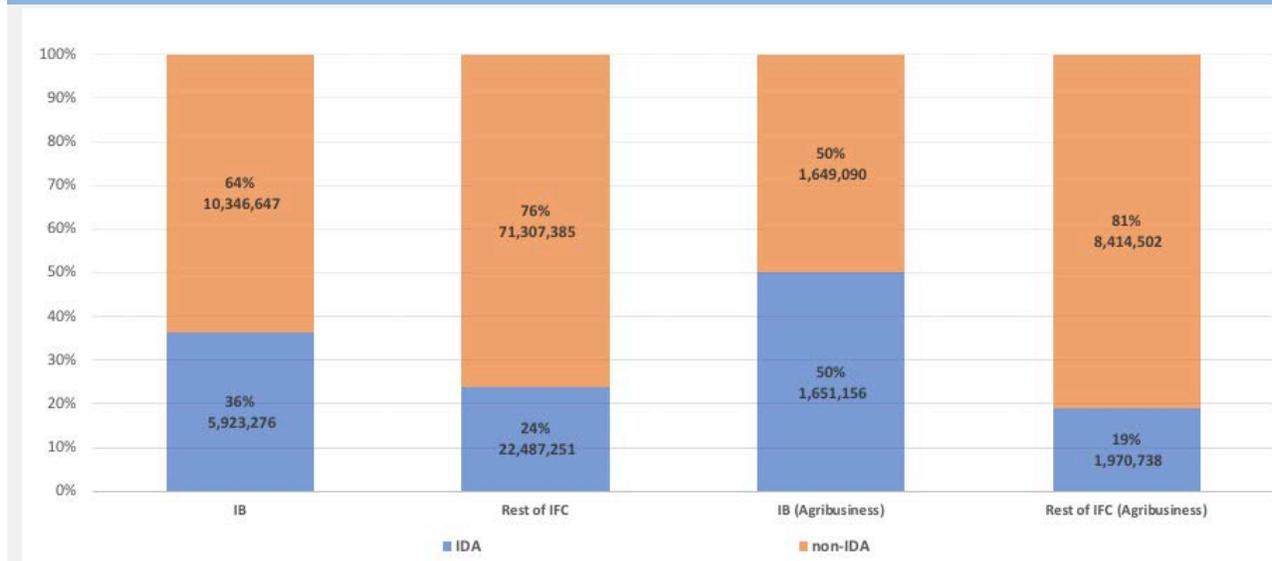
Figure 2.2. The Financial Sector is Dominant in IFC's Inclusive Business Portfolio, while Infrastructure Involves Fewer Known Inclusive Business Models



2.18 Inclusive businesses are more concentrated in IDA-eligible countries than IFC's overall portfolio. As a share of commitments linked to projects with inclusive businesses components, IDA countries account for 36 percent of the portfolio versus 24 percent for the rest of IFC projects (figure 2.2). FCS countries account for 8 percent of inclusive business commitments, more than double the share of the rest of IFC projects (3 percent). This indicates that inclusive business models play a more prominent role in higher-risk and frontier markets and thus can be a vehicle for growing IFC's support to those markets, dovetailing the maximizing finance for development focus on bringing private sector solutions to IDA countries.

2.19 Non-IDA countries accounted for the remainder (64 percent) of IFC's commitments to projects with inclusive business components. By region, Latin America and the Caribbean, and East Asia and the Pacific account for almost half of the inclusive business portfolio, followed by South Asia and Sub-Saharan Africa.

Figure 2.3. Inclusive Business projects are more concentrated in IDA countries than the rest of IFC



2.20 Inclusive businesses in agribusiness and forestry – the focus of case studies in this evaluation – are distributed evenly across regions, but are highly concentrated in IDA countries (50 percent). In addition, the inclusive business portfolio had a higher share of global projects (8 percent of commitments). In many of those projects IFC provided funding for globally operating companies or the global expansion or stabilization of client companies beyond their home market. For this evaluation, IEG undertook case studies of a representative sample of 20 agribusiness and food supply chain projects for which expanded project supervision reports (XPSRs) are available.¹³

2.21 A salient feature of IFC's inclusive business portfolio is the high prevalence of repeat clients versus one-off clients. Repeat clients account for 60 percent of inclusive business commitments, compared to 34 percent in the remaining IFC portfolio. This indicates that IFC engages in repeat transactions with clients to help expand or stabilize their business models. This finding is supported by evidence from a recent IEG evaluation that found that investment projects with repeat clients are associated with significantly better development outcomes.¹⁴

2.22 Similarly, inclusive businesses involve more project expansions than greenfield investments. Most commitments involving inclusive business models are expansions of existing operations (55 percent) compared with 40 percent for the rest of IFC. This reflects IFC's classification of inclusive businesses based on clients' current business models. This pattern is even more prominent for inclusive agribusiness commitments. According to IEG's analysis of results drivers in IFC investments, expansions have been associated with better development outcomes in part because of the higher risks associated with greenfield investments.¹⁵

Assessment criteria for identification of inclusive business models

2.23 IFC's Inclusive Business Unit has established criteria for differentiating inclusive businesses and has developed guidance to identify such projects in different sectors. IFC's guidance calls for either suppliers, distributors or consumers directly linked to the investment project (i) to meet the BOP income criteria, (ii) to provide enhanced access to goods or services (through training, inputs, or enhanced affordability), and (iii) to be a core part of the project's business (as measured, for example, by the share of inputs sourced from BOP, outputs sold to BOP consumers, or lending dedicated to BOP borrowers). The IFC Inclusive Business unit reviews and classifies each IFC investment following project approval through a vetting process.

2.24 The criteria for the identification of inclusive business models in the agribusiness and forestry sectors are articulated in an internal IFC guidance document,¹⁶ which states that *"in order to be classified as having an inclusive business model, companies must reach BOP farmers. Then determine if BOP farmers are a core part of the company's business."*

2.25 The remainder of this section reviews IFC's performance based on 20 case studies of inclusive agribusiness projects. Box 2.1 lists the criteria for the classification of agribusiness and agrifinance projects as inclusive business projects reflecting the more detailed current guidance adopted in fiscal 2014.

Box 2.1. IFC Criteria for Classifying Inclusive Business in Agribusiness

Sourcing Products from BOP farmers:

1. **BOP eligibility:** Does the company buy from any farmers who meet one of the following:
 - Live on \$8.44 PPP/day or less?
 - Have less than 5 hectares or 10 cattle?
 - Generate sales of less than US\$1,000 a year?
2. **Enabling access:** Does the company provide any of the following because they cannot otherwise be accessed by the farmers without assistance:
 - Training/extension services (such as certification)?
 - Inputs (for example, fertilizer, seed, farm equipment, etc.)?
 - Financing?
3. **Core business:** Do the farmers who qualify as BOP either:
 - Represent 20 percent of the company's purchase volume?
 - Number at least 10,000 in total?
 - Number at least 5,000 in total and represent 10 percent of the company's purchase volume?

Developing and/or selling inputs to BOP farmers:

4. **Enabling access:** Is the company addressing one of the following to enable farmers to access their product?
 - **Affordability:** By tapping into a government subsidy program, providing or facilitating financing for farmers, setting up a prepayment scheme, etc.
 - **Awareness and/or accessibility:** by educating farmers on use of inputs, providing at-the-farm or near-the-farm sales, etc.
5. **Core business:** Does the company either:
 - Sell at least 20 percent of its products to farmers qualifying as BOP?
 - Has a product in its portfolio that is specifically designed for use by BOP farmers?

Providing agrifinance to BOP farmers:

- BOP-focused facility: Is the project fully dedicated to financing BOP farmers or producer organizations and co-operatives comprised of BOP farmers?

Source: IFC (2015): *Is it Inclusive Business? A Guide for Agribusiness & Forestry; Is it Inclusive Business? A Guide for Financial Institutions.*

Appropriateness of ex-ante classification of inclusive agribusiness projects

2.26 IEG assessed the appropriateness of IFC's identification of inclusive business models through a desk review of all agribusiness projects that IFC tagged as inclusive business models and for which a project evaluation was available (20 projects). A full list of reviewed projects is in Appendix A, table A.2. The desk reviews were supplemented by interviews with relevant IFC investment officers and client company representatives. Of the review sample clients, 16 are agriprocessors that source a diversity of farmed inputs (oil palm fruit, raw rubber, timber, raw milk, corn, livestock, coffee and cocoa beans, fruits and vegetables, etc.); two clients both buy from, sell to, and arrange financing for farmers; and two other clients are local banks with a dedicated window focused on lending to farmers. Though the analysis is based on a sample of agribusiness projects, the findings below are indicative of the consistency of IFC's identification of inclusive business projects overall.

2.27 ***BOP eligibility:*** At approval, all projects in the sample had significant upstream or downstream linkages to small farmers meeting the BOP eligibility criteria. Thus, for the 16 (out of 20) projects in the sample located in low-income and LMICs (with annual per capita incomes up to \$3,955) IEG can plausibly infer that most small farmers meet the income-based eligibility criterion of \$8 PPP/day or less (now \$8.44 PPP per day, equivalent to \$3,080 per year). For the four projects in UMICs contextual information collected by IEG from investment officers or clients suggests that a significant share of their farmer suppliers or borrowers appear to meet the farm-size or herd-size criteria.

2.28 ***Enabling access:*** Most projects engage with farmers to enhance their access to the value chain. As specified in IFC's guidance document, an inclusive business model is expected to directly engage with BOP farmers by providing some training/extension services, agricultural inputs, or financing that would not otherwise be accessible to them; simply purchasing produce from farmers is not a sufficient criterion. Almost all (15 out of 16) of the IFC's agriprocessor clients directly engage with their supply chain farmers by providing technical assistance, mostly to increase productivity and improve the quality of their produce. Financing is provided by the two banks in the evaluation sample and indirectly facilitated by the two clients that sell to farmers and by one of the agriprocessors. The single exception is an agriprocessor project for which there is no indication that the client engages directly with the farmers in its supply chain, other than providing a market for their produce. Given that enabling access is a required criterion for the classification of IFC projects as inclusive business projects, this finding suggests that

the agriprocessor project is only partially aligned with the current criteria for identification as an inclusive business. This lack of alignment may in part reflect that the project was classified prior to IFC's adoption of more detailed guidance for inclusive business.

2.29 *Core business: Sourcing from BOP is a part of the client's "core business."*

Sourcing from, selling, or lending to BOP farmers represents a significant share (20 percent or more) of the client's business volume in every project in the evaluation sample. The share of sourcing from BOP farmers ranged from 100 percent for stand-alone processing plants to 25–35 percent for a few of the more vertically integrated clients who also own and operate their own plantations. In one case, where the project documents indicated a less significant share of sourcing, a subsequent interview with IFC staff suggested that the BOP farmers' share was closer to 30 percent. The agroequipment client in the sample took advantage of government subsidy programs to enable BOP farmers to purchase agricultural equipment, and these sales represented a major part of its sales. For the two agrifinance clients, the project documents provide no information on the share of smallholder lending in their total asset portfolio, but because these projects supported facilities fully dedicated to financing BOP farmers, they also meet the "core business" criterion.

2.30 Thus, ex ante, projects are mostly consistent with IFC's screening criteria for inclusive business. With one exception, all projects involved significant upstream and downstream linkages to small farmers that meet the BOP income criteria, enhanced access to farmers, and constituted a significant part of their "core business."

2.31 Nonetheless, the substantiation for IFC's classification is inadequate. IFC often lacks data on, inter alia, farmer income levels or the share of BOP-eligible farmers. IEG therefore based its assessment and conclusion on the appropriateness of IFC's classification of a project as inclusive business mainly on plausible inference, such as the low-income country (LIC) and LMIC status of the host country. This does not constitute a robust substantiation of the extent to which these projects target the BOP (and for their eventual development impacts).

2.32 None of the project documents provide data on the actual income of the farmers, such as may be desirable for rigorous documentation of their BOP status, or the number of smallholder farmers and volume of purchases from diverse types of farmers. Such information is critical for IFC to understand the effects of its projects on the BOP. While it can be assumed that most smallholder farmers in LICs and LMICs fall within the BOP, there is no reporting on the share of total inputs delivered by medium-size farmers (for example, between 100 and 200 hectares) and sizable private commercial farmers who are also part of the supply chain for some projects. In only a few cases, some helpful contextual information is provided, such as, "their plots average 3 hectares", "23 percent of farmers are in frontier regions", and "about 60 percent of independent producers are smallholders with 10 hectares or less".

2.33 **Therefore, unless project documents contain more rigorous information about the BOP status of beneficiaries, it is not possible to validate the consistency and effectiveness of IFC's support to BOP.** More contextual information such as farmer income levels and the share of suppliers that are smallholders, could provide helpful specificity and comfort about the extent to which the projects “work directly with people who live at the base of the pyramid.” Evidence gathered in interviews suggests that the number of farmers reached, as captured in IFC Development Outcome Tracking System, included smallholder farmers, cooperatives, aggregators to medium-sized and large farms. Thus, the target BOP group is typically a subset of the aggregate “reach” indicator used by IFC in assessing the projects. In most cases, more detailed or disaggregated information was readily available from the client or known to IFC field staff, pointing to the relative ease with which IFC could strengthen the level of comfort of its assertions.

3. Effects on IFC, its Clients, and the Base of the Pyramid

Highlights

- ❖ **Performance.** Overall, based on project development outcome ratings, the performance of inclusive business projects is at par with the rest of IFC even though they involve higher country, sponsor, and market risks.
- ❖ **Absence of trade-off.** Despite the higher risks, IEG did not find a trade-off between the business success of projects with inclusive business components and their inclusion objectives. This reflects IFC's current approach, which is based on its standard credit and approval requirements. The resulting inclusive business projects have characteristics that compensate for the higher risk.
- ❖ **Client orientation is key.** IFC reaches the BOP through its clients' pre-existing orientation to integrate the BOP in its operations. Thus, the selection of clients with effective inclusive business models drives IFC's involvement in the inclusive business space, although IFC does not consider such orientation in deciding whether to work with the client.
- ❖ **Agribusiness.** The performance of inclusive business projects in the agribusiness sector is also comparable with that of other IFC agribusiness projects, except for their environmental and social (E&S) ratings, which are weaker, mostly due to challenges involving land issues and waste associated with agriprocessing that are not necessarily related to the inclusive nature of their business models.
- ❖ **Agribusiness drivers.** Factors affecting the success of inclusive agribusiness projects include adequacy of managerial decisions, regulatory action or inaction by the government; fluctuations in global commodity prices, and adverse changes in country conditions.
- ❖ **Additionality.** IFC's main contribution to inclusive agribusiness occurs through its financial support for expansion and stabilization of clients with inclusive business operations. IFC's nonfinancial additionality is significant in a few cases where IFC's advisory services directly assisted with the deepening of the clients' engagement with BOP farmers. In most cases, IFC clients are enhancing their BOP focus by implementing linkage programs on their own.
- ❖ **BOP impact assessment.** IFC does not assess the impact of its projects on the BOP, relying instead on aggregated "reach" data—covering BOP and non-BOP supply chain participants—which makes it impossible to assess its ultimate effects on the BOP.
- ❖ **Limits to replication.** In the agribusiness sample, IEG identified few successful cases of replication of business models across countries and regions. The main reason is the importance of local contextual factors—such as type of crops, climatic and soil conditions, farmer capacity—in shaping the specific inclusive business models that prevail in the sector.

3.1 This chapter provides information on the effects of IFC's approach to inclusive businesses, synthesizing findings from the overall inclusive business portfolio, from the inclusive agribusiness case studies and from relevant recent IEG sector and thematic evaluations.

Development Outcomes of Inclusive Business Projects

3.2 The performance of inclusive business projects is at par with the rest of IFC projects despite involving higher country, sponsor and market risks. These results reflect the overall project-level development outcomes of projects with inclusive business models, albeit not those of the inclusive business component *per se*. Insofar as these IFC clients (and private companies generally) obtain their supplies from diverse sources rather than relying solely on one type (that is, BOP suppliers, midsize or larger suppliers, or vertically integrated models), such development outcome ratings and evaluative findings reflect the performance of the IFC-supported project as a whole. Thus, the share of projects approved between FY05–17 and evaluated by IEG, with an overall development outcome rating of “mostly successful” or above is 57 percent; the same as the inclusive business subset of the evaluation portfolio. Similar patterns apply to project performance related to business success, economic sustainability, and the private sector development dimensions of development outcomes (figure 3.1).

3.3 Though IFC’s investment outcome ratings of inclusive business projects overall – assessing the profitability of the loan or equity investment to IFC-- are like those of the rest of IFC projects, the investment outcome ratings of inclusive agribusiness projects are significantly below those of the rest of IFC’s agribusiness projects (63 percent versus 85 percent).¹⁷

3.4 In higher-risk IDA environments, inclusive business projects similarly perform on par with the rest of the IFC portfolio in IDA countries (53 percent versus 51 percent, respectively, rated mostly successfully or higher). In FCS countries, inclusive businesses perform well (65 percent), but the number of evaluated projects (17) is too small to draw robust conclusions from their performance. Finally, inclusive business projects showed only slight variation in their performance across different industry groups.

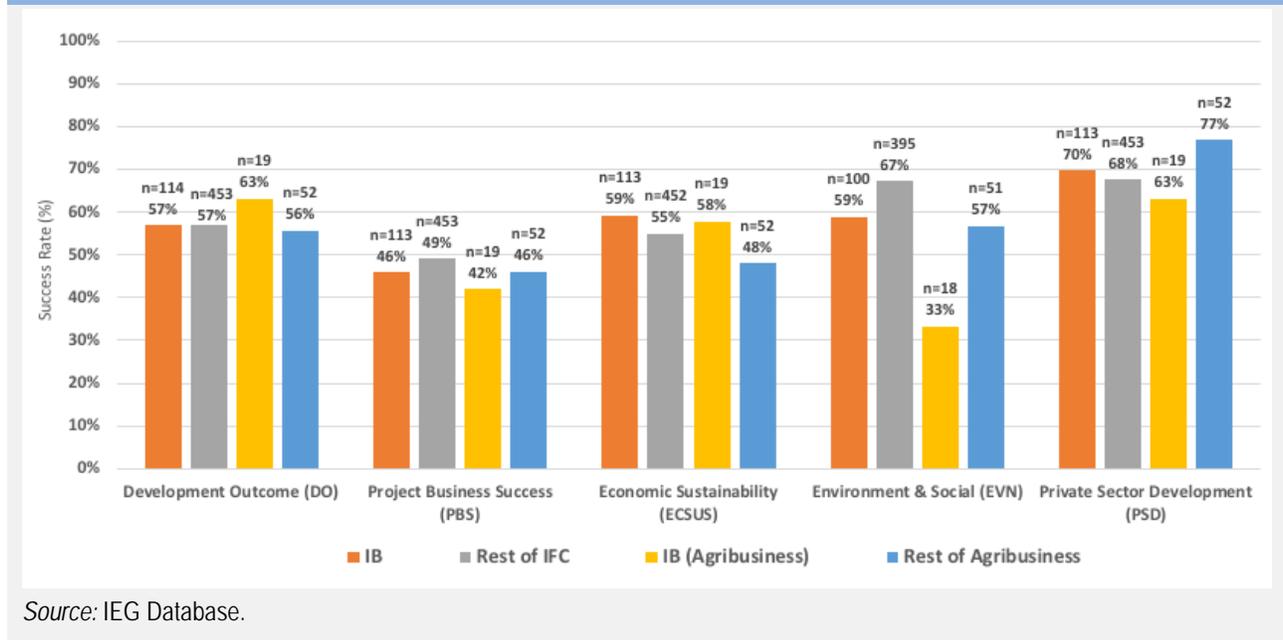
3.5 Inclusive business projects involve higher risks, but some project characteristics appear to mitigate the risk. Based on IEG’s analysis, they are implemented on average in higher-risk countries (based on the Institutional Investor Country Credit Risk ratings), involve modestly less sophisticated clients (as measured by their IFC Credit Risk Rating scores), and smaller project sizes than the rest of IFC’s portfolio at entry. These indicators tend to be associated with weaker development outcome ratings. In addition, interviews with IFC staff and clients indicated a perception of higher risk with inclusive business models because of the complexities and challenges of integrating many smallholders in the projects’ supply chain and ensuring proper capacity building and quality.

3.6 IFC appears to manage its portfolio of projects with inclusive business components carefully, as indicated by (i) the higher frequency of repeat clients; (ii) a focus on expansions rather than greenfield investments consistent with IFC’s tagging of projects as inclusive based on current business models; and (iii) a higher share of loans versus equity (loans account for 76 percent of commitments compared to 61 percent for the rest of IFC).

These three factors are typically associated with stronger development outcome ratings in IFC’s portfolio – and this pattern is true for the portfolio of inclusive business projects too.

3.7 Inclusive business projects involved a somewhat higher proportion of projects linked with advisory services than the rest of IFC. However, in many cases (40 percent in the agribusiness sample), advisory services were not targeted to strengthening the company’s reach to the BOP but related to other aspects of the project.

Figure 3.1. Project-level Development Outcomes (CY07–16)



3.8 **The environmental and social (E&S) performance of inclusive businesses in agribusiness is weaker than for the rest of the IFC portfolio.** The E&S performance for inclusive agribusiness projects at 33 percent is lower than the rest of the IFC portfolio (67 percent) and the other agribusiness portfolio (57 percent).¹⁸ This overall pattern of E&S performance at the company level likely reflects the challenges inherent in the high frequency of land issues and high volume of waste processing associated with agriprocessing, which are not necessarily linked to the company’s inclusive business orientation. In about half of the case study projects rated less than satisfactory for E&S, however, the reported shortcomings – air and water pollution, delayed compensation of project-affected peoples, use of banned pesticides and ineffective community engagement – would have some adverse indirect impacts on local BOP communities, which could seriously undermine the project’s sustainability and social license to operate. IFC’s E&S work quality was satisfactory or better in almost all the agribusiness case study sample projects that were rated below satisfactory on E&S performance (13 of 14 such rated projects). Therefore, it can be inferred that the weak E&S performance of those projects is not owing to a lack of IFC support on E&S, but to shortcomings in the client’s

management of E&S. These cases highlight the potential role IFC can play through its E&S support for strengthening clients' BOP business models (box 3.1).

Box 3.1. Environmental and Social Issues in Inclusive Agribusiness Projects

Environmental and Social (E&S) effects of an inclusive agribusiness project were rated unsatisfactory mainly because of unsatisfactory ex-ante assessment of legacy issues related to land acquisition, the conduct of security forces, community safety and security, and effective community engagement. In addition, the company did not monitor and report several serious incidents, some of which resulted in deaths of security personnel and allegedly of community members. Following a complaint to the Compliance Advisor / Ombudsman (CAO), the company is implementing Performance Standard-4 requirements seriously and is committed to operating in accordance with the Voluntary Principles on Security and Human Rights, which are based on UN standards. Several gaps were still outstanding as of 2016. A follow-up of compliance was conducted by CAO in June 2017 and will be published in the next monitoring report of CAO.

E&S effects of another inclusive agribusiness project were rated partly unsatisfactory because the project did not materially meet IFC's standards at appraisal and current requirements about effluent discharges that constitute the key pollution loads and air emissions. According to a CAO complaint filed by local stakeholders, the company's meat processing facilities lacked the required environmental licenses to operate and appropriate environmental assessments were never undertaken, contrary to an Annual Monitoring Report that reported compliance with local laws.

Source: IEG.

3.9 The clients' pre-existing orientation to integrate the BOP in their business models is the key driver for IFC to reach the BOP. Based on IEG's agribusiness case studies, the clients' engagement with the supply chain farmers through technical assistance and provision of inputs, and their nurturing of the attendant procurement and collection infrastructure (often through intermediaries) appears to be the key to both the clients' business success and the scaling up of their outreach to the BOP. This coincides with the finding in a recent IEG evaluation,¹⁹ which concluded that the client's business model and its efforts to link with small farmers and small traders in the supply chain is the key driver for IFC to reach the BOP. IFC can support the enabling environment for an inclusive business project to progress, but it does not lead the shaping of the business model, which is the client's responsibility. Hence, the selection of an appropriate client is key for the success of the project and for IFC's claim to reach the BOP.

3.10 Several drivers are associated with the business success of the inclusive agribusiness projects. The business success ratings in the sample of 20 inclusive agribusiness projects was about evenly split between successful and less successful outcomes. The main drivers of business success include: (i) sustainability and scalability of the clients' business model with strong business growth and positive project business results – and high returns on invested capital; (ii) favorable movements in global commodity prices; and (iii) in a few cases, tariff protection.

Box 3.2. Successful Business Outcomes in Inclusive Agribusiness Projects

Prior to IFC's involvement in one of the leading dairy companies in a country in the Latin America and Caribbean region, the company already had a strong BOP focus. The company was already selling its ultra-high temperature (UHT) milk to more than 92,000 small shops, and sourcing raw milk from approximately 6,414 small and medium-size farmers, nearly a quarter of whom were in rural frontier regions where employment opportunities were scarce. The company's main product, UHT milk, has a longer shelf compared to pasteurized milk and does not rely on refrigeration; hence, storage is easy and affordable for small-scale outlets. The upstream and downstream linkages between the company and the small-scale farmers—many in the BOP—and distributors have contributed to job creation and economic activity in the supply chain. Several factors explain the company's robust performance, including increasing demand in its key market segments in the country's low-income populations, where dairy consumption levels are as low as 35 liters or less per person per year. As the country's economy continues to grow and poverty levels decrease dairy consumption per capita is expected to grow. Also, the project's return on invested capital was above benchmark because the company: (i) successfully implemented its expansion program; (ii) exceeded its intended sales and profitability; and (iii) demonstrated strong business growth.

In another successful inclusive business model, prior to IFC's investment in a listed company in South Asia, the company had the capacity and track record of reaching the BOP farmers as both consumers and producers. The company offers farmers inputs (micro irrigation systems, seeds, saplings, PVC pipes etc.), financing and training on good agriculture practices to produce more and high-quality crops. It also purchases fruit and vegetables from farmers through its food processing division for processing and sale in export and domestic markets. Finally, the company supplies micro irrigation system products to farmers through a network of distributors, which are mostly small and medium enterprises.

Source: IEG.

3.11 An IEG field mission to Nigeria identified the following factors that enabled a company to expand inclusive business operations to a new country: (i) support from the parent company to help overcome a weak macroeconomic situation thus enabling the company to continue operating; (ii) a strong brand name, which enabled the company to capture a market share of close to 30 percent; (iii) product innovation to provide higher value at lower cost, for example, a multipurpose soap, and (iv) a broad-based distribution network.

3.12 The following factors tend to have an adverse effect on the business success outcomes for assessed agribusiness case studies, though these may not be specific to the performance of the inclusive business component of the projects:

- *Client-related factors:* In some cases, poor management decisions affected project performance. For instance, poor hedging decisions by management forced a company to significantly scale back its operations, close its processing plant, and reduce its BOP purchases to zero. Serious management weaknesses in another company led contract farmers to lose confidence and sell their production to more nimble competitors that were offering a higher price.
- *Macroeconomic issues:*
 - a) Adverse regulatory decisions by government. In one case, government's interventions in the market through import controls of a commodity, which tended

to favor farmers and created uncertainty and volatility for all agriprocessors in that sector, negatively impacted the project's business success. In another case, an export ban of a commodity (a major source of revenue for a company) by the government negatively impacted the client's revenues and profitability.

- b) Decline in global commodity prices. The 2008-09 global financial crisis was associated with major declines in global commodity prices that negatively affected the revenues and profitability of several companies in the IEG evaluation sample.
- c) Deteriorating country conditions such as nationwide strikes, devaluation of local currency, deteriorating macroeconomic conditions, and political crisis negatively affected the operations of some companies in the IEG evaluation sample.

Box 3.3. Unsuccessful Outcomes in Inclusive Agribusiness Projects

A company's weak business performance was broadly attributed to the following factors:

- (i) the global financial crisis, which occurred soon after IFC's commitment in the project, contributed to falling commodity prices. The company had already made some long-term hedges at the low commodity prices, which turned out to be a poor decision because the price soon recovered;
- (ii) Soon after the recovery, the soaring prices of that commodity caused the company to purchase its raw material from third parties at much higher prevailing market prices than expected; and
- (iii) At the same time, the company had already entered into unfavorable forward contract positions with some customers when commodity prices were low, so it could not take advantage of the higher prevailing commodity prices in the market for its finished products and had to sell at the lower contract prices.

The combination of (ii) and (iii) reduced cash inflows to the company, forcing it to significantly scale back its operations, including delaying the planting of new trees and subsequently closing its processing plant.

Source: IEG.

3.13 A field visit to a microfinance institution in Africa providing microloans to mostly informal businesses and individuals unable to access funds from mainstream banks identified the following factors affecting its performance: (i) competition from other financial institutions which also offer savings account products; (ii) high staff turnover, because of higher salaries paid by other financial institutions after staff received training and gained experience with this client; and (iii) macroeconomic factors such as an energy crisis that affected the overall business environment and led to a depreciation of the local currency.

3.14 **Many of these factors driving the success or failure relate to specific features of the inclusive business models in agribusiness.** For instance, a company's exposure to price volatility depends on the extent to which it is vertically integrated. Companies that rely on sourcing from smallholder farmers may therefore be subject to higher commodity price and supply risks than companies that have in-house plantations. IFC inclusive business clients have encountered cases where farmers do not deliver on their contractual obligations if the spot price exceeds the contracted price (of course other factors play a role

such as the extent to which farmers perceive themselves to be treated fairly by the company, the extent to which farmers perceive and value a long-term stable relationship with the company, etc.). Thus, companies that use inclusive business models may have to use hedging more often than other more vertically integrated companies and may be subject to commodity risks. In the case of regulatory risks related to trade barriers, some common factors are related to inclusive business models. The types of commodities that are more vulnerable to trade-related government actions may be the ones on which the livelihoods of many farmers depend.

Effects of Regulatory Issues on Inclusive Businesses

3.15 Inclusive agribusiness models are frequently affected by regulatory issues. Many inclusive business models are driven by the need of firms to secure or expand supply chains. Several inclusive agribusiness models case studies originated from market imperfections or government action or inaction. Business models predicated on land rights or tenure issues, prohibited from owning land directly, dependent on receiving subsidies, or subject to export restrictions have affected the viability of projects. The frequency of encountering regulatory issues in the agribusiness sample points to the need to carefully consider the risk of changes in government policy and regulations when assessing the sustainability of such business models (box 3.4).

Box 3.4. Inclusive Business Models Encountering Regulatory Issues

A farm forestry program for a pulp and paper mill provides farmers with an additional source of revenues by advocating a co-plantation agriforestry model and by using barren uncultivated land. The government in that country prohibits pulp and paper manufacturers from directly investing in or owning plantations. Therefore, the companies must purchase their inputs (wood) from the smallholder farmers. In addition, the company also provides seeds, technology, etc. to smallholder farmers and there is no obligation for farmers to sell their wood to the company.

In one of the inclusive business projects, a company was planning to procure milk from small and medium-sized dairy farmers by setting up village collection centers. However, the company's revenues and profitability were negatively affected by regulatory changes resulting from the government banning the export of a product (casein) that was a major source of revenue for the company.

Source: IEG.

IFC's Role and Work Quality in Supporting and Strengthening Clients' BOP orientation

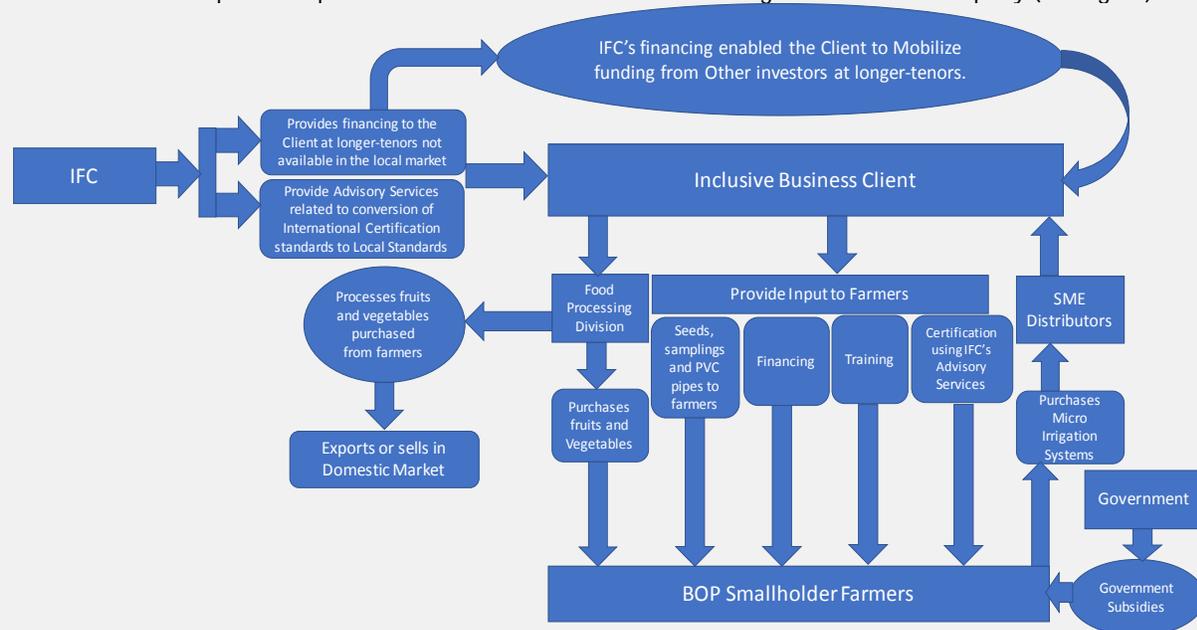
3.16 IFC's financial additionality is more important than its nonfinancial additionality for IFC's inclusive agribusiness projects. IFC's main contribution has been through its financial support for expansion and stabilization of the clients' inclusive business models. In most projects, IFC provided financing to the client at longer tenors than available in the local market.

3.17 IFC's nonfinancial additionality was significant in agribusiness projects (30 percent) where IFC made specific contributions to inclusive business models aimed at engaging with the BOP. IFC assisted its clients with the implementation of E&S

management systems (albeit with limited success, as noted in para 3.8) and with the strengthening of corporate governance. In six of 20 projects in the IEG agribusiness review sample, IFC worked with clients to enhance their BOP focus. In those projects, IFC's advisory services helped to deepen the clients' engagement with the BOP farmers by strengthening their provision of training and knowledge on agronomic and E&S practices, water conservation, and meeting certification standards (see box 3.5). In four cases (20 percent) IFC provided advisory services to its clients on energy efficiency and water loss reduction measures, which were unrelated to their BOP business models. In most cases, IFC clients are implementing linkages programs on their own to enhance their BOP focus. Overall, IFC's role and contribution rating for inclusive agribusiness projects – which encompasses IFC's additionality – is somewhat lower, at 53 percent, than for the rest of the agribusiness portfolio (63 percent).

Box 3.5. IFC's Financial and Nonfinancial Additionality

IFC's main additionality in a company in South Asia was to provide financing at a tenor not available in the market, especially during the global financial crisis. At that time, local banks only provided short-term funding to agribusinesses. IFC's investment enabled the company to mobilize funding from other investors—in the follow-on project, IFC invested \$40 million and the company mobilized \$120 million in long-term financing from other development institutions such as DEG, FMO and PROPARCO. IFC's investment enabled the company to expand its operations in other states or provinces in the country. In addition to financing, IFC also provided technical assistance to the company in modifying international standards and adapting them to the local standards. Food safety standards can be difficult to ensure in inclusive business models when sourcing takes place from thousands of small farmers; IFC's assistance has enabled farmers to implement food safety standards and meet the certification standards. This enabled them to export their produce in the international markets through the investee company (see figure).



Source: IEG.

3.18 Field visits to clients in Ghana, Kenya, and Nigeria confirmed the importance of IFC's financial additionality. However, several clients were appreciative of IFC's catalytic work in providing advisory and capacity building services, which attracted and leveraged support from other donors. A microfinance institution lacked funding at the time of its startup and IFC's funding played a significant role. Furthermore, IFC provided technical assistance to the client for the development of agribusiness and mobile banking services.

3.19 IFC's work quality shows comparable ratings for projects with inclusive business models and the rest of IFC. However, ratings of IFC's supervision work quality for inclusive agribusiness projects are significantly below the rest of the agribusiness portfolio. IFC's work quality ratings for inclusive business projects, at 70 percent, are the same as those for the rest of IFC (68 percent). IFC's supervision work quality rating is one of the two components of IFC's work quality (the other being Screening, Appraisal, and Structuring). Such ratings for inclusive agribusiness projects, at 74 percent, are significantly below the rest of the agribusiness portfolio (94 percent). IEG's review of inclusive agribusiness projects found that the supervision issues were mainly owing to IFC's lack of proactive engagement with its client and lack of efforts to monitor the projects during the supervision stage.

3.20 However, inclusive business client feedback is critical of IFC's work quality and contributions. IEG analyzed client surveys from 2014–16 comparing responses from inclusive agribusiness clients with the rest of agribusiness clients to identify areas of variance. Inclusive agribusiness clients' rating of IFC's E&S input was 25 percentage points below that of other agribusiness clients, and their overall satisfaction with IFC's overall service was 21 points lower. Inclusive business clients also rated IFC's ability to provide financing not readily available elsewhere lower than other agribusiness clients (-20 points).

3.21 This evidence was corroborated during field visits. For instance, a company in Nigeria indicated that owing to the depreciation of the local currency, it incurred prohibitive cost of funding, especially of the IFC loan, which resulted in high foreign exchange losses. That company suggested that in future IFC may need to put a ceiling on its cost of funding to address the possibility of significant depreciation of the local currency. Another client visited by IEG indicated that initially IFC made significant contributions to the company's funding and strategy. However, after the change from the initial investment officer (who developed a good relationship by working closely with the client), other staff were not too involved with the company and managed the investment from the South Africa country office.

Effects on People at the Base of the Pyramid

3.22 IFC does not assess impacts on the people at the BOP – which makes it impossible to assess the projects' ultimate effects on the intended beneficiaries.

Although IFC has begun to conduct some income analysis exercises, especially as part of advisory services in agribusiness, the current practice of using aggregate “reach” indicators instead of using indicators that disaggregate between BOP and non-BOP supply chain participants, remains a systemic issue for IFC’s entire portfolio. Almost all projects in the inclusive agribusiness sample (95 percent) included a baseline of farmers reached in the base year, and, in most cases, a target number or an indication that the number would be monitored for the target. However, only about half of the projects in the sample report the number of farmers reached in the target year. Every case had positive outreach effects on the BOP, as inferred from increases in the number of farmers – by a range of 6 percent to 370 percent, but no distinction was made between BOP and non-BOP farmers. Furthermore, only two projects in the sample reported both the number of farmers reached and volume of inputs from farmers – again without distinction between BOP and non-BOP. None of the projects reported income or welfare effects on farmers. Thus, even in those cases which reported both target-year farmer numbers and purchase volume, it is not possible to assess the actual welfare impact on BOP farmers without additional information on the size distribution of the farmer population (share of total inputs delivered by smallholder farmers) and the prices paid or payments made to these farmers.

3.23 In agribusiness projects where IFC staff or clients provided a breakdown of suppliers, companies used a mix of smallholder, medium, or large farms, cooperatives and plantations, with smallholders typically accounting for less than half of the total number of “farmers reached” indicator reported by IFC. Collecting such information systematically across its clients with inclusive business models would greatly enhance the credibility of IFC’s reporting of expected and actual effects, especially considering the increased visibility of IFC’s engagement with the inclusive business agenda discussed earlier.

3.24 **Properly targeting people at the BOP and sustainably improving their income remains a challenge.** A social assessment carried out by IEG in 2011 identified several shortcomings in a farm forest IFC project, indicating the complexities inherent in such projects. It involved the lack of proper targeting, a mismatch between project design and **the needs of the poor, lack of attendant training and capacity building, failure to consider** gender aspects in project design, and unintended negative effects – increasing debt levels of farmers (see box 3.6). The issues highlighted in this study point to the need for increased attention to social impacts during project appraisal as well as enhanced capacity to monitor and evaluate such dimensions and impacts on intended beneficiaries.

3.25 **IEG did not find evidence of a trade-off between profitability and BOP “reach” objectives at the project level.** Despite a perception of higher risk inherent in inclusive business models, as noted earlier, the business success performance of inclusive business projects is on par with the rest of IFC’s portfolio. In the evaluation sample of agribusiness projects, successful business outcomes tended to be associated with increased outreach to the BOP. Project documents do not provide evidence of the extent to which the BOP focus

may have contributed to the projects' business success, such as in terms of lower cost, better quality, or more reliable supply. This finding underline that a project's business success is a necessary condition for increasing BOP outreach. The distribution of projects in IEG's evaluation sample across project business success and inclusion dimensions is shown in table 3.1. The absence of an apparent trade-off between profitability and inclusion objectives in the reviewed agribusiness cases reflects IFC's current approach of selecting and appraising inclusive business projects using the same rigorous standards with which it selects and appraises the rest of its portfolio.

Box 3.6. A Farm Forestry Project Falls Short in Generating Positive Outcomes for the BOP

An IFC-supported company initiated a farm forestry program in 2005 with the objective of developing their supply base of raw materials, specifically the cultivation of eucalyptus trees to be converted to pulpwood for sale to local pulp mills. The expected target beneficiaries of the program were low-income small farmers to whom the company would provide training, inputs such as saplings, fertilizers, and pesticides, and financing to cover the upfront costs of their investment. Thus, the program also sought to improve the livelihoods of the beneficiaries by providing the necessary training, materials inputs, and access to credit that would lead to increased earnings and contribute to reducing poverty.

However, the company's weak engagement with intended beneficiaries raising lofty expectations about investment returns, inaccurate assessment of the financial cost of the investment to target beneficiaries, and the failure to accurately capture the targeted beneficiaries resulted in a poorer than expected project outcome. The project mainly benefited small and medium farmers who could afford the cost of the program, rather than the marginal farmers who constituted most of the local farm population. The project missed an opportunity to benefit the poorest. Closer and continued engagement or a deeper analysis of the economic drivers and externalities could have provided opportunities for the company to address or mitigate some of the problems highlighted above and achieve more project success.

Source: IEG. 2012. The Private Sector and Poverty Reduction: Lessons from the Field.

Table 3.1. Distribution of Project Business Success Ratings and Change in Outreach to Farmers for Inclusive Agribusiness Projects

Project Business Success (PBS)				
% change in farmers	U	PU	S	E
more than 1000%	0%	0%	0%	8%
501% to 1000%	0%	0%	0%	0%
100% to 500%	0%	15%	0%	15%
0% to 100%	0%	0%	8%	8%
-0% to -49%	0%	8%	8%	0%
-50% to -99%	0%	8%	0%	0%
-100%	23%	0%	0%	0%

Note: Project Business Success Ratings Scale: E = Excellent, S = Satisfactory, PU = Partly Unsatisfactory, U = Unsatisfactory.

Demonstration Effects through Replication of Inclusive Business Models

3.26 Examples of successful replication of inclusive business models are limited in the evaluation portfolio. Although the inclusive business portfolio is characterized by a

higher share of IFC global projects – mostly corporate loans used to provide capital to expand clients’ operations globally – than the rest of IFC and by a higher share of expansion projects (instead of greenfield projects), IEG’s review identified only a few examples of successful replication of inclusive business models across countries or sectors. The main factor appears to be the importance of local contextual factors – such as type of crops, climatic conditions, and farmer capacity – in shaping the specific inclusive business models that prevail in agribusiness. Findings from IEG’s field visits to Kenya and Nigeria illustrated the challenges to replication and highlighted the importance of contextual factors and the need for adaptation (boxes 3.7 and 3.8).

Box 3.7. Successful Inter-Regional Replication of an Inclusive Business Model

A diversified IFC client involved in beverages, instant noodles, and wheat flour milling in the East Asia and Pacific region is focused on providing quality consumer goods to rural markets by leveraging small, family-owned retail outlets as distribution networks to quickly move products to market. In addition, the client also provides training and capacity building to its farmers-suppliers to improve product quality through a certification process. In this way, the client’s business model was inclusive, as it engaged with the BOP segment in all areas of its value chain, from supplier to distributor to end-user.

From 1998, IFC supported the client in implementing a comprehensive environmental and health and safety management system in their operations. IFC also played a role in securing B-loan financing from a commercial bank for the client; given the long lead time to reach profitability for the client’s operations, access to long-term financing was crucial and might not have otherwise been available without IFC’s involvement.

The client project could capture a 33 percent share of the market, increase the overall market size 6 percent annually, thus reaching more BOP households, and make its product the top-selling noodle brand in Indonesia. Furthermore, the client’s operations provided a valuable and reliable source of household income for both farmers (as suppliers) and small retail outlets (as distributors). Product innovation on the client’s part also spurred other competitors to improve the quality and cost-competitiveness of their own products, resulting in lower prices and improved product quality, to the benefit of the consumers.

In 2013, IFC supported the expansion of the Group’s food business to Nigeria by building upon its successful entry into the Nigerian detergent sector. IEG found that the company’s detergent products are targeted towards lower-income consumers at the BOP; the company sells its detergent in all pack sizes and the very small packs (28 grams) are mostly used by lower-income households. However, the company’s noodle business, which started operations in 2015, is not vertically integrated. Rather, it is procuring its raw materials (such as wheat flour and oil) from local companies, unlike its parent company in Indonesia, which is vertically integrated and directly procures the wheat grains and palm fruit from small holder farmers for production of wheat flour and palm oil for its noodle business. The biggest challenge that the company is facing in Nigeria is the depreciation of the local currency, which has resulted in higher cost of funding and has led to significant foreign-exchange losses to the company.

Source: IEG.

Box 3.8. Challenges Faced in Replication of a Business Model

Since 2006, IFC has supported the expansion of the world’s second largest coffee trader. The company’s business model is based on building strong long-term relationships with its farmers-suppliers, by providing them with extension services and up-country logistics to improve the quality and productivity of their farms (with improved methods and renovation of plants and farms), coupled with seasonal working capital advances and loans. Its partnership with certification agencies to help spread sustainable farming practices aimed to increase the proportion of certified coffee varieties and help farmers increase incomes by meeting applicable environmental and social production standards,

CHAPTER 3

EFFECTS ON IFC, ITS CLIENTS, AND THE BASE OF THE PYRAMID

and benefitting from price premiums associated with certification. IFC has supported the client with a series of investments and advisory services in Central America, Asia (Indonesia, Papua New Guinea, Vietnam) and Africa (Kenya, Tanzania, Uganda).

However, while generally successful, the replication of this inclusive business model across regions and countries has not been without challenges. The case of Kenya illustrates the complexities of working with low-capacity smallholder farmers and farmer organizations can lead to mixed results. From 2008, an IFC-supported program, working with 12 cooperatives, had trained 350 promoter farmers to prepare 24,000 farmers to meet certification standards (Fairtrade International, Rainforest Alliance, Utz). However, by the time of an IEG field visit in 2018, only seven of the original 12 participating cooperatives were still maintaining at least one of the certifications. Key challenges revolved around the trade-offs between the effort of training and maintaining sustainability practices and the incentive derived from the price premium associated with certification. The company has also encountered political headwinds, with regional governments mandating that coffee harvests be sold to local authorities. As a result, even though about 70 percent of coffee is produced by smallholders, the company is currently sourcing more and better-quality coffee beans from its managed farm operations.

Source: IEG.

Related Findings from Recent Evaluations

3.27 Recent IEG evaluations covering sectors and themes such as the rural non-farm economy, financial inclusion, health, education, and infrastructure have relevant findings on approaches for reaching poorer or BOP segments of the population that complement the findings of this evaluation and provide sector-specific nuances.

Box 3.9. IFC's Experience in Promoting Financial Inclusion

An IEG evaluation of support to financial inclusion, covering IFC projects from FY07–13, focused on access by the poor and unserved or underserved to formal financial services, considering them as BOP consumers.

In examining IFC projects with a financial inclusion component, IEG observed a strong focus on microcredit projects in the IFC portfolio. However, verifying the target beneficiaries was challenging because projects often did not have a clear definition of a "microenterprise." It was thus difficult to determine the impact of micro credits on the end beneficiaries.

IFC's upstream interventions were delivered through Advisory Services (AS) which focused on establishing or strengthening regulatory frameworks. The interventions also emphasized building the capacities of local microfinance institutions, specifically in the areas of product development or process improvement. IFC investments in support of financial inclusion were relatively small; they focused on markets that were unserved or underserved, thus reaching a target segment that other private and public actors did not or could not reach effectively. Furthermore, while IFC's investments in microfinance institutions often struggled to achieve adequate business performance, many achieved a remarkable level of economic sustainability and private sector development effects.

Most IFC-supported banks (90 percent) had mixed portfolios rather than exclusively focusing on microloans or the BOP. The remainder had significantly larger portfolios and thus were able to serve clients (which included small and medium enterprises) that borrowed at significantly larger volumes; this would indicate that IFC played a role in the microenterprise segment, but that only a fraction of its support caters to a very small retail segment of the microcredit market. Although this can benefit microenterprises indirectly through the strengthening and deepening of that segment of capital markets, it illustrates the need for better targeting and segmentation of the microenterprise and SME segments and more accurate reporting on the degree of penetration of the very small retail segment of the microcredit market. Therefore, financial inclusion broadly does not equate to inclusive business.

Within the microloan segment, IFC-supported banks issued loans that were slightly larger than those issued by their peers; according to IFC's self-reported data, the median and average annual sales of IFC-supported microenterprises amounted to \$152,000 and \$530,000, respectively, which is considerably above the threshold of \$100,000. This raises doubt as to whether the institutions supported by IFC are effectively reaching microenterprises, and whether the thresholds themselves are set without reference to local conditions and income levels.

IFC's experience with microfinance institutions illustrate the value of supporting new clients and investing in small and innovative projects that may take longer to become profitable ventures, but may have a significant development impact.

Source: IEG. 2015. Financial Inclusion – A Foothold on the Ladder toward Prosperity.

3.28 IFC support to health and education has the potential to reach the BOP by providing basic services for the poor, particularly in countries where service delivery by the public sector is lacking or of low quality. These sectors involve the BOP as potential consumers of services.

3.29 IFC projects in health and life sciences indicate the following key success drivers of an inclusive business model for the private sector in health care: (i) a demand for low-cost, high-quality healthcare and the absence of quality hospitals in the public sector providing specialized care outside of major urban centers; (ii) the availability of a robust public health insurance that creates a market opportunity to serve low-income patients; and (iii) accessibility to private sector hospitals, which are located in less-developed population centers, thereby saving patients a trip over considerable distances to large cities, often at great expense.

3.30 Less successful outcomes in health projects in terms of inclusion have been owing to competition from health services from the public sector, uncertainty of payment from the government, or clients with weak local market knowledge and experience. There are significant challenges in attempting to reach the BOP with IFC's health sector engagements. Reaching the BOP requires robust insurance schemes that serve the poor.

3.31 IFC's inclusive business portfolio in the education sector focused on the provision of student financing or campus expansion – supporting mainly tertiary education.²⁰ For student financing projects, successful outcomes depended on actions of the public sector. For example, in the case of a private university in Chile, the commercial loan program that supplemented the government program of providing subsidized loans to low-income segments was not successful when it undercut project objectives of promoting inclusiveness; when the commercial loan program was scaled back and the government loan program expanded, enrollment rates in the BOP segment grew more rapidly and promoted a higher level of inclusiveness. For campus expansion projects, successful impact on the BOP segment was evident with institutions that had a strong focus on inclusiveness in terms of targeting poorer students at the core of their operations.; Projects that focused on the general expansion of facilities were less successful in reaching the BOP. In addition, market players with a strong focus on inclusiveness were willing to adopt a

results measurement system for the BOP segment, such as surveys utilizing student data or impact evaluations; however, many IFC projects tagged as inclusive business did not have a results measurement system in place for the BOP segment.

Box 3.10. IFC's Support to the Rural Non-Farm Economy

The evaluation of the World Bank Group's experience with the rural non-farm economy, covering FY04–14, assesses the contribution of IFC to sustainable income generation for the poor within the rural non-farm economy, including through employment opportunities. It thus takes a broad view of rural poverty, whereas this evaluation of inclusive business focuses on a specific approach: integrating the "base of the economic pyramid" as the core of IFC clients' business model.

The rural non-farm economy evaluation echoes the importance of IFC's choice of client and type of investment for its ability to reach and provide benefits to the rural poor. It concluded that it is vital to target aid as closely as possible to the binding constraints faced by the poor in rural areas.

For IFC-supported projects in the food-processing sector, interventions had strong links to rural areas and smaller urban centers and have generally achieved positive outcomes generating rural employment and demonstrating links to the rural non-farm economy. However, despite IFC's stated objectives of reaching the poor, there was scant evidence in the agribusiness portfolio that indicated that project design effectively identified, targeted, or monitored development impacts on the poor.

An examination of upstream and downstream linkages in the IFC value chain investment portfolio reveals that IFC covers several points in the agribusiness value chain, and that this integrated approach has been increasing over time. In the food and beverage sector, for example, the value chain approach tended to have stronger links to rural and smaller urban areas and has generated positive rural employment outcomes along the value chains of the RNFE, including support for both farmers and small and medium enterprises. On the other hand, IFC has worked with some international clients in the agriculture sector where its value addition has been weaker and the development outcomes have been less clear.

IEG observed that IFC's support of corporations with substantial market power may disadvantage smaller producers in the value chain, and that identification of risks associated with market structure (and increase of monopsony or monopoly power) and mitigating factors was insufficient. In addition, IFC's investments in the wholesale and retail sectors linked to rural areas sought to increase the availability of goods and reduce costs for rural consumers, but none of the investments tracked consumer benefits; only a few could boost employment through local recruiting.

Source: IEG. 2017.

3.32 IFC's limited experience in enhancing the underserved populations to infrastructure services indicates the potential for such approaches to improve the welfare of the lower-income population.²¹ For example, a Global Partnership on Output-Based Aid (GPOBA) grant to *Promigas Colombia*, helped transform a major utility company by redesigning its business model to be more socially inclusive and provide access to basic infrastructure services for the BOP. The project piloted a credit scheme that allowed BOP customers to pay their natural gas usage fees in installments, thus demonstrating their ability to consistently pay for infrastructure services while recovering the cost of service expansions through the payment scheme. The project was very successful in such a way that the company eventually expanded the credit scheme in 2007 to provide financing of construction materials and gas and electric appliances for BOP customers: 30 percent had

no previous access to credit. The pilot credit scheme that the company implemented was instrumental in helping the company to become more socially inclusive.

3.33 Manila Water Company's *Water for the Community* program sought to enhance access to infrastructure services for the poor by changing its approach to providing service to previously unserved neighborhoods within its service area. The company used the GPOBA's grant and could provide water supply services by subsidizing the cost for the poorest households. The project scaled up an existing community program that Manila Water Company had launched in 1998 and adopted following its privatization.

4. Experiences with Different Inclusive Business Approaches

Highlights

- ❖ **Different inclusive business approaches.** Many IFC comparator institutions have a stated focus on the BOP, although their approaches differ (for example, in definitions, concepts, objectives, and implementation modalities): (i) mainstreaming seeks to assess the potential to promote inclusiveness across the entire portfolio of projects and programs; (ii) targeting involves the use of special vehicles or platforms; and (iii) hybrid includes elements of both.
- ❖ **Drivers for reaching the BOP:** (i) Focusing on larger, well-established companies with wide distribution networks to ensure reach to poorer households; (ii) existence of champions for inclusive business programs within companies; (iii) the use of upstream analytics to inform strategy and project selection; (iv) availability of risk capital or blended capital to pilot and experiment with innovative solutions that have potential for scaling up prior experience with BOP approaches; (v) the quality and experience of client company managements; and (vi) the use of modern technology to create enormous potential for people at the BOP to be connected to, and integrate into, the global economy.
- ❖ **Implications for future options:** (i) More proactive identification of inclusive business; (ii) use special platforms or trust funds to take greater risk in terms of encouraging sponsors with good track record to become active in the inclusive business space; and (iii) strengthen data collection and assessment of effects on the BOP.

4.1 Many IFC comparator institutions have implemented a focus on the BOP, although definitions, concepts, approaches, and objectives differ. IFC's adoption of the concept of inclusive businesses did not occur in a vacuum; during the past decade, the novel approaches of socially and environmentally conscious or sustainable investing have emerged as investors have included these objectives in their strategic objectives and decision-making processes. Thus, multilateral development banks, private sector entities, and philanthropic institutions have begun to offer new instruments and vehicles to respond to this demand to reach the BOP.

4.2 The differences among institutions limit the comparability of approaches aimed at the BOP; for inclusive businesses, however, insights from different approaches may be helpful as IFC considers options for adapting its inclusive business model. Therefore, IEG conducted interviews with several of IFC's comparators and reviewed their strategy or evaluative documents, where available, to understand their approaches to inclusive business and to derive findings relevant for IFC's future engagement in the inclusive business space.

4.3 This chapter reviews the following aspects of the approaches used by comparators: (i) objectives and definitions; (ii) approaches; (iii) links with technical

assistance and knowledge; (iv) tracking of results and links with incentives; and (v) evaluative evidence on alternative approaches. The chapter concludes with factors linked to reaching the BOP that were identified by comparators and with considerations for IFC from the experiences with alternative approaches.

Objectives and Definitions

4.4 Approaches and initiatives by comparator institutions related to inclusive business have a common overarching objective: to expand the opportunities for market approaches to the poorest and underserved or excluded populations to serve their needs, increase their productivity and incomes, and enable their entry into the formal economy. Beyond these overarching objectives, the institutional goals for engaging with the BOP differ according to each institution's mandate or strategy.

4.5 **Definitions of the BOP and what constitutes "inclusive" differ among comparators.** Several institutions share IFC's definition elaborated earlier (based on BOP income, providing access, and constituting the core of the business activity). IFC's definition of the core of the business activity encompasses suppliers, distributors and consumers, whereas other international financial institutions also target employment creation. Other institutions may target horizontal inclusion objectives related to marginalized groups (such as gender, youth employment). Yet others may identify impactful sectors which can contribute to inclusion from which they select investment opportunities (such as microfinance, affordable housing, sustainable agriculture, small businesses, education, health) (see box 4.1).

Box 4.1. Definitions of the BOP and Inclusion

IFC's comparator institutions used a range of definitions to identify the base of the economic pyramid (BOP) or classify inclusive businesses.

The Inter-American Development Bank, for example, targeted people earning \$9/day on a 2005 purchasing power parity basis. The European Bank for Reconstruction and Development's concept of economic inclusion focuses on three main groups (youth; women; and less advantaged people) and on three key areas of inclusion, (access to skills; access to services; and access to finance). FMO has adopted the IFC and G20 definition. ADB defines inclusive business as a business entity that generates high development impact by (i) improving access to goods and services for the BOP (people living on \$3 a day); and/or (ii) providing income and/or employment opportunities to low-income people as producers, suppliers, distributors, employers, and/or employees (the latter, unlike IFC).

Source: IEG.

Approaches

4.6 Approaches used by comparators vary significantly in several dimensions.

Comparators differed in the degree of proactivity, the level of upstream identification of areas of exclusion to target through interventions, the definition of issues considered important for inclusion (inclusion as the “core” of the business model versus horizontal issues such as gender, or youth employment), and the requirement for projects to be commercially sustainable versus the availability of subsidized or blended finance or risk capital, which may be used to fund innovative or pilot solutions. Some entities had resource to donor funding to compensate for higher risk interventions. For example, the Inter-American Development Bank’s Multilateral Investment Fund (MIF), a fully trust-funded entity, focuses on small projects (\$1 million to \$3 million) that are expected to be innovative with the potential to scale up. Some institutions have dedicated entities or special platforms for inclusive business. Box 4.2 describes approaches implemented by multilateral development banks, bilateral agencies, and philanthropies.

Box 4.2. Examples of Different Approaches Used by IFC Comparators

- Among *MDBs*, The Inter-American Development Bank’s (IDB) approach, now discontinued, aimed at helping companies move down-market by helping them reach lower-income households not previously served by their business models; ensuring commercial viability with no subsidies; providing grants for institution building; being innovative, replicable, and sustainable. IDB’s approach allowed it to embrace more experimental and pioneering solutions and to focus on knowledge exchange among companies. The European Bank for Reconstruction and Development (EBRD) does not have an inclusive business definition per se, and focuses on creating economic opportunities for the young and for women, and on other areas of exclusion identified in project screening (with emphasis on access to skills, services, and finance). This involves an upstream engagement in the strategy and business development cycle to identify areas of exclusion in countries or sector themes, and to select and structure projects accordingly. The Asian Development Bank’s (ADB) support to inclusive businesses has been part of its institutional and regional development agendas since 2014.
- Inclusion is a driver of several *bilateral agencies’* corporate strategies (for example, the UK’s Department for International Development)—by delivering job opportunities and income, access to finance, and access to social services. Inclusion is part of the Netherlands Development Finance Company (FMO’s) corporate strategy. It aims to meet Sustainable Development Goal 10—to reduce inequality-- by focusing on least developed countries and by working with the private sector.
- *Philanthropies and impact investment funds* typically hone in on special-focus areas related to reaching the BOP. For example, Grameen Impact Investments mainly focuses on mobile money channels and digital information flow. Root Capital supports start-ups and early-stage businesses that work with smallholder farmers. Impact investors may not specifically target inclusion objectives but support inclusive business models through the pursuit of the impact objectives of their inclusive business activities.

Source: IEG.

4.7 IEG’s analysis distinguishes three main approaches to inclusive business among MDBs, bilateral agencies and private sector institutions:

- *Mainstreaming*: This approach seeks to assess the potential to promote inclusiveness across the entire portfolio of projects and programs, for instance as part of a corporate strategic priority (for example, EBRD).
- *Targeting*: This approach involves the use of special, dedicated vehicles, programs or platforms with a specific focus or mandate on inclusive business (for example, IDB's now-defunct Opportunities for the Majority).
- *Hybrid*: This approach combines elements of both mainstreaming and targeting. It may involve inclusive business projects that are a subset of projects meeting certain criteria, but support is not provided through specific dedicated programs or investment vehicles (for example, IFC, Asian Development Bank, FMO).

Box 4.3 provides examples of the typology of inclusive business approaches.

Box 4.3. Typologies of Inclusive Business Approaches across Multilateral Development Banks and the Private Sector

Mainstreaming: The European Bank for Reconstruction and Development, for example, assesses every project for economic inclusion by conducting a gap analysis on aspects of inclusion such as gender or youth employment.

Targeting: The Inter-American Development Bank's (IDB) Opportunities for the Majority (OMJ), for example, tagged inclusive business projects at the time of project identification. Initially, OMJ focused on funding small corporations that worked with the base of the economic pyramid (BOP). However, it encountered problems with this approach. These corporations were undercapitalized, lacked management skills, and did not have adequate funding to cover legal documentation. Consequently, OMJ changed its strategy to focus on larger corporations that had wider distribution networks and larger potential to reach the BOP.

The Multilateral Investment Fund (MIF), a fully trust-funded unit within IDB, provides grants to small-size projects—mostly in venture capital funds or in microfinance institutions. It determines eligibility, conducts due diligence, and approves projects within a short span of time (for example, six months). Root Capital conducts a gap analysis during the underwriting process to check whether the client can borrow from elsewhere, to ascertain Root Capital's additionality and drive its decision making.

Hybrid: The Netherlands Development Finance Company (FMO) ensures when tagging that the projects are aligned with SDG-10 and fall within one of the following three sectors: (i) finance; for example, microfinance projects targeting women entrepreneurs and youth; (ii) energy, such as renewable energy projects providing off-grid energy to lower-income households; and (iii) agribusiness; for example, businesses that are linked to smallholder farmers.

Source: IEG.

Link with technical assistance and knowledge

4.8 Some international financial institutions focus on knowledge exchange and convening power. For instance, IDB/OMJ's approach heavily relied on investor conferences to raise awareness of inclusive business solutions among private sector investors and to build a pipeline of inclusive business projects. These conferences brought together a measure of thought leadership in the inclusive business space, emphasized demonstration effects, and became a source of deal origination for inclusive business projects.

4.9 The availability and nature of technical assistance to help clients expand their reach to the BOP also varies across comparators. For instance, EBRD emphasizes its nonfinancial additionality by providing complementary technical assistance through international expertise, policy dialogue, and client awareness building. Other players promote greater awareness of investment in inclusive business projects or training to businesses that buy from smallholder farmers. However, according to interviews with IFC staff, technical assistance to strengthen smallholder supply chains has been challenging because of its cost and the low capacity and fragmented nature of farmers or farmer organizations.

Tracking of Results and Link to Staff Incentives

4.10 Like IFC, other international financial institutions in the inclusive business space mostly monitor and track BOP reach-level indicators. Some comparators tracked indicators using IT platforms such as PULSE, which allows clients to input data on a regular basis. In some cases, this was supplemented by field visits to validate reach data provided by clients. Among comparators, impact assessments to understand income and welfare effects on intended BOP beneficiaries were extremely rare.

4.11 Benchmarking and tracking within each institution may provide an incentive for staff and management to carry out inclusive business engagements. However, among the comparators specific staff incentives were typically in place where inclusion or engaging with the BOP were linked to strategic corporate priorities.

Evaluative Evidence on Alternative Approaches

4.12 Evaluative evidence on the effectiveness of inclusive business approaches is available from the IDB and EBRD. EBRD has identified the following lessons since it introduced economic inclusion in its methodology: (i) a need for strong private sector engagement to address business challenges as well as inclusion aims, (ii) robust baseline data and impact measurements are needed at project and policy levels, supported by evaluations and research, (iii) close cooperation with external partners is desirable to achieve maximum impact; and (iv) availability of complementary technical assistance funding is useful for knowledge transfer and capacity building.

4.13 An independent evaluation of the IDB's Opportunities for the Majority (2012) found mixed development effectiveness of the projects it supported, and identified significant challenges, including: (i) projects had only partially identified the market failures they were intended to address; (ii) although most projects appeared to target the BOP, given the broad definition of the BOP in Latin America, few projects reached the poor according to national poverty lines; (iii) better targeting of the BOP may be negatively correlated with business performance; (iv) most projects appeared to support innovations, one of the program's criteria; (v) one half of projects provided nonfinancial

additionality; and (vi) internal procedures are unduly expensive for small clients, leading to dropped projects.

4.14 IFC's previous experiences with initiatives involving dedicated platforms to invest directly in SMEs and "grassroots" businesses have been challenging. IFC piloted approaches aimed at local SMEs and inclusive social enterprises (such as the Africa Enterprise Fund). Initial expectations were not met, requiring additional funding of operating costs each year because of high delivery costs and cumulative losses. Given this experience, IFC shifted its strategy away from direct support to SMEs toward wholesaling. IFC's Grassroots Business Initiative (launched in 2004) was an innovative pilot venture intended to drive social impact for people at the BOP. It provided funding and technical assistance to social entrepreneurs. The initiative created social "value added" especially through formalization of businesses, capacity building, and wage or working condition premiums, but it faced trade-offs between its social and financial objectives. Following the pilot phase, IFC spun off the initiative into an independent nonprofit organization.

4.15 Another possible measure of the effectiveness of approaches, the share of inclusive business projects in the total portfolio, varies among the different institutions in the inclusive business space. Given the limited comparability of their approaches, such measures may not provide useful benchmarks.

Factors linked to Reaching the BOP

4.16 Comparators identified several drivers of positive results in reaching the BOP. These factors do not differ much from those that drive success in non-inclusive business projects:

- Focusing on well-established, larger companies with wide distribution networks is associated with achieving better reach to poorer households.
- Champions for inclusive business can be important catalysts in implementing inclusive business programs.
- The use of upstream analytics to inform strategy and project selection can facilitate the rollout of inclusive business solutions.
- The availability of risk capital or blended capital has been associated with an ability to pilot and experiment with innovative solutions with potential for scaling up.
- The quality and experience of client company managements is a recurring factor of success.
- Finally, the use of modern technology (principally, the ubiquitous availability of a mobile phone network in many of the emerging and developing countries) creates enormous potential for people at the BOP to be connected to, and integrate into, the global economy.

Considerations for IFC

4.17 IFC may draw on the experiences of comparator institutions as it decides whether to adjust its approach to inclusive business and, for example, engage directly with the BOP with a view to enhance the impact of its inclusive business projects. Box 4.4 provides three features taken from across comparators, which IFC management may want to consider as it reflects on its future inclusive business options (see chapter 5).

Box 4.4. Implications from Comparator Experiences for IFC's Future Options

More proactive ex ante identification of inclusive business. IFC could integrate an analysis of inclusion aspects during the anticipated impact measuring and monitoring (AIMM) stage to identify opportunities for more proactive engagement with clients.

Use special platforms or trust funds to take greater risk by encouraging sponsors with good track records to become active in the inclusive business space. At present, IFC's inclusive business portfolio comprises sponsors that already have an inclusive business model. There is a lack of evidence on whether encouraging sponsors to become active in the inclusive business space works or not, IFC could use Trust Fund or blended finance to pilot this approach among potential sponsors in its portfolio, in the presence of market failure (for example, asymmetric information between IFC client and base of the pyramid [BOP] suppliers), including by using IDA's Private Sector Window.

Strengthen data collection and assessment of BOP impact. IFC could partner with companies that use innovative approaches to collect real-time information.

Source: IEG.

5. Conclusions and Ways Forward

5.1 In 2010, IFC recognized the inclusive business concept as important to reaching people at the base of the pyramid (BOP). Since then, IFC has aimed to play three roles in the inclusive business space:

- *Clients*. IFC has supported client companies with inclusive business models to enhance their focus on the BOP through financing and advisory support;
- *Leadership*. IFC has aimed to exercise a degree of thought leadership in operationalizing the concept of inclusive business (for example, within the G20 Global Platform on inclusive business); and
- *Social Bonds*. IFC has supported the emerging market for Social Bonds through its Treasury operations.

5.2 **However, IFC's approach to inclusive business has been largely passive.** It established a knowledge management unit tasked with flagging and tracking projects with inclusive business models after approval. But IFC has not proactively or strategically sought to develop and recruit clients with inclusive business models. In addition, IFC's identification, structuring, and supervision of inclusive business projects has been no different than for the rest of IFC's business.

5.3 **Results on the ground reveal a mixed picture:**

- a) *Business activity*. The share of investments in inclusive business projects has remained at about 14 percent of IFC's overall business volume during the FY05–17 period. This outcome reflects the limited availability of investable inclusive business projects in the market that meet IFC's credit risk standards.
- b) *Performance*. IFC projects with inclusive business models perform no different than the rest of IFC's portfolio, based on their development outcome ratings. Likewise, projects with inclusive business models are no less profitable than IFC's portfolio overall, even though they entail characteristics that involve higher risks. These higher risks are mitigated through project features that rely on expansions, repeat clients, and choice of financing instrument. IFC appears to manage its inclusive business portfolio applying the same appraisal and credit standards as it does to the rest of its portfolio. However, the environmental and social (E&S) performance of inclusive agribusiness projects is weaker than the rest of IFC's agribusiness portfolio; this is due to clients' management of E&S and not the inclusive business model.
- c) *BOP reach*. The way the IFC reaches people at the BOP is through its clients' pre-existing orientation to integrate the BOP in their business models, which

underlines the critical role that client selection plays. However, IFC lacks analysis or knowledge of the income or welfare effects of its inclusive business projects on people at the BOP, relying instead on its “reach” indicators, as is the case for the rest of its portfolio.

- d) *Inclusive agribusiness.* IFC’s main contribution to clients with inclusive agribusiness models takes effect through its financial support for the expansion and stabilization of their inclusive business operations. IFC’s nonfinancial additionality has been significant in a few cases where IFC’s advisory services directly assisted the deepening of the clients’ engagement with BOP farmers. In most cases, the clients are implementing linkages programs to enhance their BOP focus on their own without IFC’s help.
- e) *IFC funding.* IFC’s Social Bond Program has raised close to \$800 million since FY14 – including a \$500 million bond in 2017 – providing opportunities to mainly institutional investors to support a notional portfolio of IFC projects that address social inclusion issues. However, there is no direct link between the funds raised and IFC’s expansion of its inclusive business portfolio.

5.4 With its focus on reaching people at the BOP in commercially viable ways, the inclusive business modality represents an important link between IFC 3.0, its private sector development objectives, and IFC’s commitment to achieve the World Bank Group’s twin goals of poverty reduction and shared prosperity. In this context, it is a reasonable assumption that IFC would want to consider future options regarding its engagement with inclusive business activities, including the expansion of its portfolio. Based on the findings of this evaluation, the report suggests three options for the consideration.

Future Options

5.5 Option 1: Keep current approach. IFC may decide to continue with its current, passive approach, based largely on tagging inclusive business projects with clients that have inclusive business models, without special consideration of the inclusive business features of the project at the appraisal, implementation, or monitoring stage. This approach entails no distinction between the way IFC treats its inclusive business projects and the way it treats the rest of its portfolio. It does not contemplate inclusive business corporate targets or inclusive business scorecard indicators, or staff incentives related to inclusive business activities. However, it does entail a degree of knowledge management based on case studies, as is currently done.

5.6 The credibility of IFC’s current approach, however, is undermined by the absence of robust methods to measure reach and impact on the BOP. IFC does not systematically track and collect such data, in line with its approach to monitoring and

evaluating its portfolio. This can create a reputational risk to IFC if external parties (for example, donors or interested investors) were to demand “proof of concept,” that is, robust evidence that IFC is reaching the BOP through its portfolio of inclusive business projects. Currently, none of IFC’s inclusive agribusiness projects, for example, provide information on the number and income level of farmers, farm sizes, volume of purchases from BOP farmers, disaggregated between BOP and non-BOP. Instead, the monitoring of inclusive business projects relies largely on aggregated “reach” indicators (e.g., number of farmers) that do not distinguish between small, medium and large-size farmers that may not be eligible for the BOP. The tracking of more relevant indicators such as the actual number of BOP-eligible farmers, volumes of inputs purchased from them, and prices paid for these inputs would greatly add to the credibility of IFC’s rationale for supporting inclusive business models. Such key performance indicators may be routinely available from clients or even within IFC and could be collected and used without much additional effort.

5.7 **Option 2: Upgrade IFC’s current approach to an “operational framework.”**

Building on its current approach, IFC could aim at increasing its focus on inclusive business incrementally, by proactively identifying and selecting clients with inclusive business models, and systematically identifying client gaps for deploying the suite of IFC’s advisory services program. This “inclusive business framework” could include the following key features:

- i. moving from ex-post tagging post appraisal and approval, to ex-ante focused business development and systematic screening of projects for opportunities to enhance existing inclusive business models of potential clients building on the AIMM framework as a diagnostic tool;
- ii. having ready-to-use instruments (such as Advisory Services) for quick deployment to support enhancement of clients’ inclusive business orientation;
- iii. more strategic use of IFC’s environmental, social, and governance performance standards for enhanced impact at the BOP, possibly with the support of AS;
- iv. staying largely within current credit risk parameters for potential inclusive business clients;
- v. better leveraging and disseminating the knowledge and experience IFC has gained from its support to clients with an inclusive business model during the past 15 years.

5.8 This “inclusive business operational framework” could expand the pipeline and IFC’s involvement with inclusive business overall including in currently neglected (from the point of view of inclusive business) areas such as infrastructure. Based on IFC’s experience to date, IFC may increase its focus on projects with inclusive business models without necessarily jeopardizing its profitability. However, this would have to be done

prudently: within IFC's current appraisal process and standards, and with careful monitoring of effects on inclusion and profitability.

5.9 Option 3: Design a corporate strategy oriented toward inclusive business. If IFC wishes to elevate its focus on inclusive business as a corporate strategic priority, it could adopt a strong, proactive approach to its inclusive business activities, with significant changes to its current approach, risk appetite, and instrument mix, supported by a shift in corporate culture and incentives. Such a strategy would build on option 2 above ("operational framework") by deepening and broadening the pipeline of inclusive business projects; but it would go beyond option 2 in several aspects:

- i. assuming more risk in terms of client quality and degree of BOP orientation while carefully monitoring the effects of this scale-up on effectiveness and IFC's profitability;
- ii. deploying a broader instrument mix that includes blended finance and the Private Sector Window to support IFC's push into higher risk and more innovative areas in combination with an enhanced Advisory Services offering;
- iii. considering special platforms to mobilize capital by linking specific inclusive business opportunities to mobilization: for example, adding mobilization platforms to its Social Bond treasury initiatives;
- iv. adapting corporate incentives to reward business development, appraisal, and ongoing implementation support on projects widely considered more complex and difficult to do.

5.10 This corporate strategy option can be gradually introduced through piloting, learning, and careful replication and scaling up of activities. In designing a corporate strategy oriented toward inclusive businesses, IFC can draw upon the different inclusive business concepts and definitions implemented by comparator institutions to fine-tune its own concept and definition (see chapter 4).

5.11 Under option 3 (corporate strategy), IFC would need to strengthen staff skills to enhance the more proactive project design and implementation, and to strengthen its diagnostic work. Proactively engaging BOP populations requires an increased focus on social impacts to ensure interventions are properly targeted to the BOP and avoid unintended negative effects. In conclusion, therefore, the implementation of a more strategic and aggressive approach with implications for the risk profile of inclusive business interventions, product mix and capital mobilization, and incentives would likely be associated with additional administrative cost.

5.12 In projects that are subject to, or affected by, government regulation, IFC could collaborate with the World Bank to work with governments on issues that may affect the commercial viability of inclusive business models (in the spirit of the Cascade Approach). The inclusive agribusiness projects evaluated suggests that some projects

could have benefitted from collaboration with the World Bank, especially those affected by government regulations. When government decisions can have adverse effects on an inclusive business client, IFC can collaborate with the World Bank and work closely with the governments to identify solutions for regulations or policy decisions that could have adverse impacts on businesses reaching the BOP.

5.13 Furthermore, IFC could also collaborate with the World Bank to correct market failures to provide a conducive framework for the growth of inclusive businesses.

This is needed especially for projects in rural or poorer regions of a country where there is no capacity among smallholder farmers to grow some crops, or in the absence of export logistics (such as Global Certification Standards) or modern agronomic practices. In such projects, IFC can collaborate with the World Bank and develop joint implementation plans to set up intermediate entities (such as a Scheme Management Entity or a Cooperative) between the private sector companies and smallholder farmers in that region. The role of these entities would be to develop the capacity and link smallholder farmers to private sector companies. Such links could lead to demonstration effects for other private sector companies entering the region, which could in turn, lead to the development of the agribusiness sector in that region.

5.14 Table 5.1 captures key aspects for each of the three options available to IFC senior management to decide the way forward for IFC’s inclusive business activity.

Table 5.1. Future Inclusive Business Options			
	Option 1 CURRENT APPROACH	Option 2 OPERATIONAL FRAMEWORK	Option 3 CORPORATE STRATEGY
Client selection	No specific criteria	Proactive identification and selection of clients with developed inclusive business models	Proactive client identification and selection with more attention to those with higher risk profile and different degrees of existing BOP orientation
Project design and implementation	No differentiation in design and implementation	Some focus on addressing gaps in clients’ inclusive business models through Advisory Services.	Targeted design and implementation features to help IFC push into higher-risk, frontier areas through deployment of new instruments and types of funding
Monitoring, evaluation and knowledge management	Monitoring based on client-generated reach data when available; no specific evaluation of inclusive business project components; case studies; annual reporting to Social Bonds investors	Systematic data collection to enhance robustness of inclusive business classification; Selected impact assessment on the BOP	Systematic data collection to enhance robustness of inclusive business classification; Selected impact assessment on the BOP

CHAPTER 5
CONCLUSIONS AND WAYS FORWARD

	Option 1 CURRENT APPROACH	Option 2 OPERATIONAL FRAMEWORK	Option 3 CORPORATE STRATEGY
Mobilization	Social Bond Program	Social Bonds and more explicit links of use of proceeds to inclusive business activity	Social Bonds plus new instruments to mobilize funds for inclusive business activities
Staff incentives	No corporate or departmental targets	Selective country (e.g., IDA/FCV) and/or departmental targets	Selective country (e.g., IDA/FCV) and/or departmental targets

Note: BOP = base of economic pyramid; FCV = fragility, conflict, and violence; IDA = International Development Association.

Further Research

5.15 Under any of the options described above, the evaluation concludes with the need for IFC to strengthen data collection and measurement to enhance the robustness of the identification of inclusive business projects, and to capture impacts on beneficiaries. Consistent with IFC’s guidance notes for identifying inclusive business projects, such data include: the actual number and income levels of suppliers, distributors, consumers or borrowers linked to the project; the share of BOP beneficiaries among suppliers or sales; and the volume of purchases, sales, or loans to the BOP. This information is typically available from IFC’s clients as part of their key performance indicators, and it should be straightforward for IFC to collect and document this data at entry, and to verify it periodically during project implementation and ex-post evaluation.

5.16 IFC would also need to strengthen its analysis and knowledge of effects on people at the BOP. IFC can conduct or commission impact assessments for a subset of projects to gain a deeper understanding of impacts on different BOP stakeholders, assess the achievement of intended and unintended effects, and draw lessons from experience. Such impact assessments could be prioritized around information gaps identified from IFC’s enhanced regular data collection and monitoring efforts (see above), the potential for learning lessons, and piloting innovative approaches. In doing so, IFC could deploy funds from its advisory services program or from donors, and partner with specialized firms. A systematic and robust measuring of benefits to BOP would also enhance the credibility of IFC Social Bonds among its investors.

Appendix A. Methodological Approach

Evaluation Questions

1. The evaluation's objectives were to assess: (i) IFC's evolving role, additionality, and contributions to inclusive business models; (ii) the effects of IFC's support on its clients and their outreach to the base of the economic pyramid (BOP); and (iii) identification of success factors in terms of what works and what does not, and conclusions and suggestions going forward. In line with the above, three key questions guided the collection of data.

1. To what extent and how is IFC implementing its approach to inclusive business?
2. To what extent has IFC been effective in its support of inclusive businesses to make them more inclusive and sustainable from a commercial, environmental and social viewpoint?
3. Given the findings and lessons from 1) and 2), what are the implications for the potential scaling-up of IFC's support?

Theory of Change

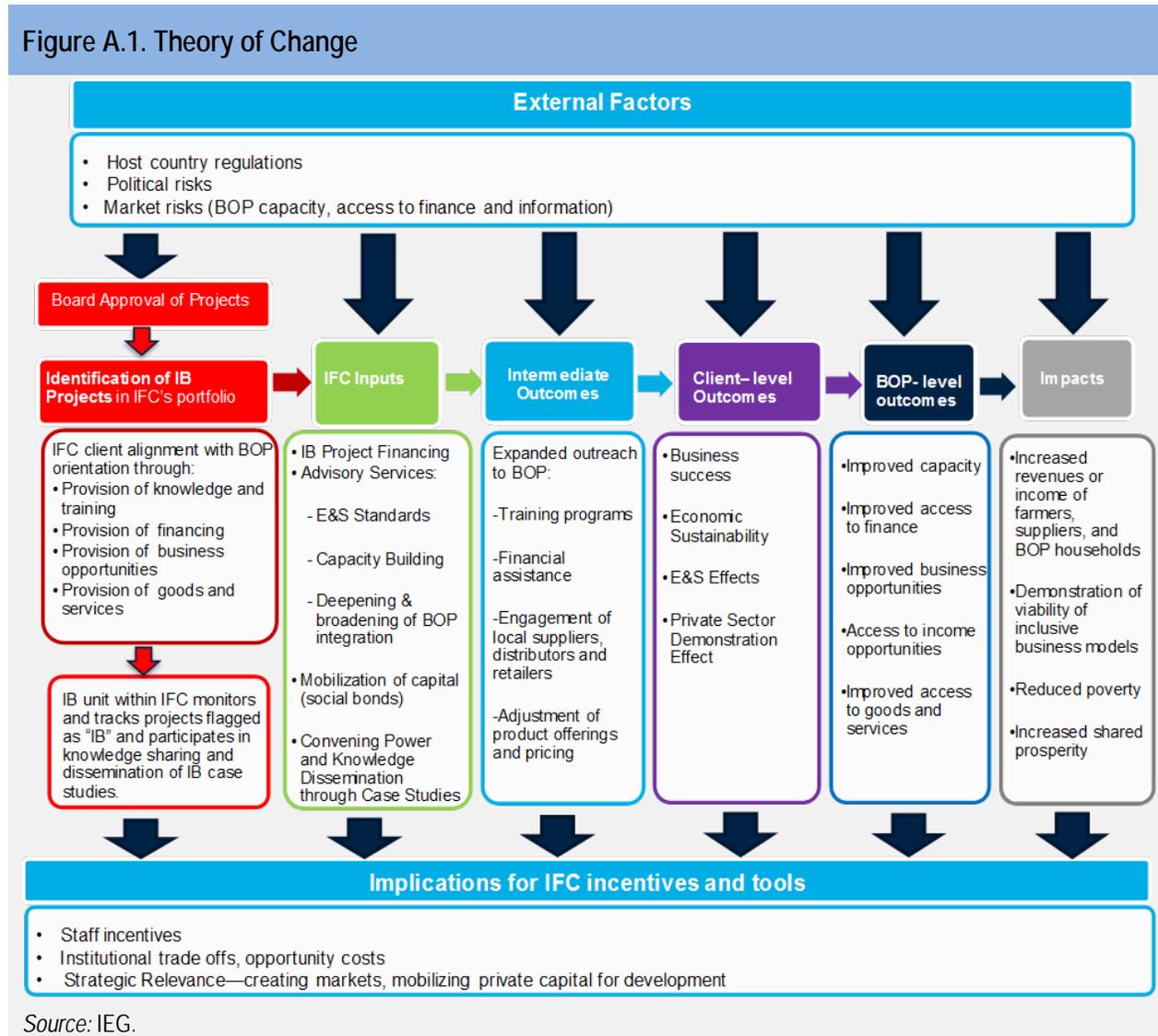
2. The theory of change is a stylized representation of IFC's support to inclusive businesses along the following causal linkages: (i) IFC tags inclusive business clients; (ii) IFC supports inclusive business clients; and (iii) IFC tracks and analyzes the effects and impacts on the BOP. These linkages are explained in detail under the implementation, outcomes, and impacts of the theory of the change (figure A.1.).

Implementation of IFC's approach to IB:

- ***IFC's Approach to Inclusive Business:*** This involves an assessment of the extent to which and how IFC targets inclusive businesses in its operations. Findings were derived from interviews, a review of strategy and program documents and the portfolio review.
- ***Inclusive Business Identification:*** IFC identifies and flags inclusive business projects using eligibility criteria that reflect the integration of the poor into the fabric of their business models. Such criteria include the provision of goods, services, and livelihoods on a commercially viable basis to people living at the BOP, making them part of the value chain of these companies' core business as suppliers, distributors, retailers, or customers. This causal link assessed the extent to which IFC identifies inclusive business projects correctly, mainly derived from the sample of in depth case studies.

APPENDIX A
METHODOLOGICAL APPROACH

- **IFC Inputs:** IFC provides financing for inclusive business client projects, supplemented by advisory services and other assistance to support their adherence to IFC’s environmental and social performance standards, their achievement of corporate governance best practices, the deepening and broadening of the integration of the BOP, as well as to address regulatory and other constraints to the scaling up of their inclusive business models. This causal link assessed the specific support from IFC for projects tagged as inclusive business. The evaluation examined this based on the portfolio review, case studies, and interviews with IFC staff and clients.



Source: IEG.

Outcomes of IFC’s approach to IB:

- **Intermediate Outcomes:** With IFC’s support, inclusive business clients will enhance their capacity and connectivity between their business models and the BOP. Such intermediate behavioral outcomes may be observable from the establishment and/or expansion of local sources of supply, training, and capacity building programs for local

suppliers, distributors, and retailers, the adjustment of product offerings and/or marketing strategies, the provision or facilitation of financing to all links in the value chain. The evaluation assessed intermediate outcomes based on case studies and interviews with staff and clients.

- **Client-level Outcomes:** Inclusive business clients will generate profit growth and achieve scale and efficiency in operations, generating development outcomes as per project objectives. The clients' financial sustainability and scaling-up is achieved in alignment with environmental, social, and governance standards, and is economically sustainable – including a contribution to the development of local communities and has a positive signaling effect for potential new entrants. External factors such as host country regulations, political risk, and sector risks may influence the achievement of such outcomes.
- **BOP-level Outreach:** As inclusive business clients grow, they may broaden and deepen their outreach to the BOP, as may be observable through such indicators as:
 - Improved local farmers' technical skills and capacity to produce certified agricultural products
 - Improved local farmers' access to global markets and better prices
 - Improved access to finance for suppliers, distributors, retailers, and/or customers in the value chain

3. The evaluation aimed to address questions on intermediate outcomes and outcomes through its case studies (drawn from IEG evaluative evidence), interviews with IFC investment officers, IFC client counterparts, and a search of project relevant information on the World Bank Intranet. However, the assessment of this component was hampered by the lack of availability of detailed and disaggregated data on beneficiaries. The evaluation did not conduct analysis of a comparison group of non-inclusive agribusiness projects.

Impacts:

- Impacts on the welfare of BOP beneficiaries are the decisive point of the results chain but given the data limitations regarding BOP impacts the evaluation will largely use BOP level outreach indicators to infer causal links regarding impacts on BOP groups.

Evaluation Components

4. Table A.1 lists the evaluation components. The following sections provide more details on each component.

5. To triangulate findings, the evaluation uses a two-pronged approach based on: (i) a review of IFC's entire portfolio (comparing inclusive business with the rest of IFC) and IEG's relevant evaluative evidence on inclusive business across different sectors and themes; and (ii) a deep-dive focus on inclusive business projects in the agribusiness sector to generate richer evaluative insights from specific case studies. The evaluation

APPENDIX A
 METHODOLOGICAL APPROACH

indicates which of its findings are generally applicable and which are more germane to the agribusiness, with limited extrapolation to IFC’s overall performance.

Table A.1. Evaluation Components

Evaluation Component	Description
Review of strategy and program documents	Review of IFC strategy and board documents, as well as program documents on inclusive business and the Social Bonds program (evaluative question 1).
Portfolio review and statistical analysis	Analysis of IFC’s portfolio of 3,539 investments committed between FY05 and FY17, which comprised 700 inclusive business projects, and the evaluated portfolio of 569 investments (of which 114 are inclusive business projects) approved over the same period (Q1 and Q2).
Case studies of inclusive agribusiness projects	In-depth analysis of IFC’s engagement in 20 projects drawn from the universe of evaluated inclusive agribusiness projects encompassing desk review, interviews with IFC transaction leaders, and client representatives (where feasible) (Q1, Q2, and Q3).
Review of IFC client surveys Synthesis of IEG evaluative evidence	Review of IFC’s annual Investment Client Surveys (Q1). Synthesis of IEG evaluations covering aspects of inclusion or inclusive business (Q3).
Benchmarking with IFC comparator institutions	IEG interviewed 9 comparators from international financial institutions, bilateral aid agencies, and the private sector regarding their approaches to client relationship management (Q2 and Q3).
Key informant consultations and interviews Country field visits	Workshops and semi-structured interviews with IFC staff and managers, and client counterparts (Q1, Q2 and Q3). Gain an understanding of different inclusive business models, IFC’s additionality, and effects on the base of the economic pyramid (Q1, Q2, and Q3).

Evaluation Building Blocks

REVIEW OF STRATEGY AND PROGRAM DOCUMENTS

6. IEG reviewed relevant IFC strategy documents, documents prepared by the Inclusive Business unit and as part of IFC’s social bond program and published on the IFC’s internal or external website, as well as documents from the G20 Inclusive Business Framework. It did not conduct a review of the broader inclusive business literature.

PORTFOLIO REVIEW AND STATISTICAL ANALYSIS

7. IEG undertook a comprehensive portfolio analysis to identify relevant characteristics and patterns, as well as measure the performance of IFC’s inclusive business operations

versus a comparison group (the rest of IFC investments). The review covered the entire portfolio of IFC investments committed between FY05 and FY17 – the beginning of this period thus aligned with the inception of IFC’s inclusive business project classification in the database. The analysis compared a total of 700 investments classified by IFC as “inclusive businesses” to the rest of IFC long term investments during this period (2,839 operations). Within this database, IEG also compared the portfolio of inclusive agribusiness projects (covering 152 projects) with the rest of agribusiness projects (353 investments).¹

8. The review was based primarily on the IFC database for Investment Services and IEG’s evaluative database. IEG’s evaluative database of project evaluations encompassed 569 investments (of which 114 were inclusive business projects) committed between FY05 and FY12 and evaluated between CY2008 and CY2016.

9. The portfolio review established the distribution, key characteristics, and performance drivers of IFC’s portfolio, distinguishing between inclusive business operations (identified as described above) and the rest of IFC, as well as for agribusiness projects flagged as inclusive versus the rest of agribusiness. IEG applied relevant filters to identify operationally relevant characteristics, performance patterns, and drivers – such as development outcomes and work quality of the evaluated portfolio; country and project risk factors, instrument mix, among others.

10. IEG conducted descriptive statistical analysis for the results to establish trends of performance, examine statistical significance, and explore associations between characteristics and project performance.

¹ Project numbers exclude supplemental projects such as swaps, rights issues, and B loans; however, these are included in the commitment amounts.

APPENDIX A
METHODOLOGICAL APPROACH

CASE STUDIES

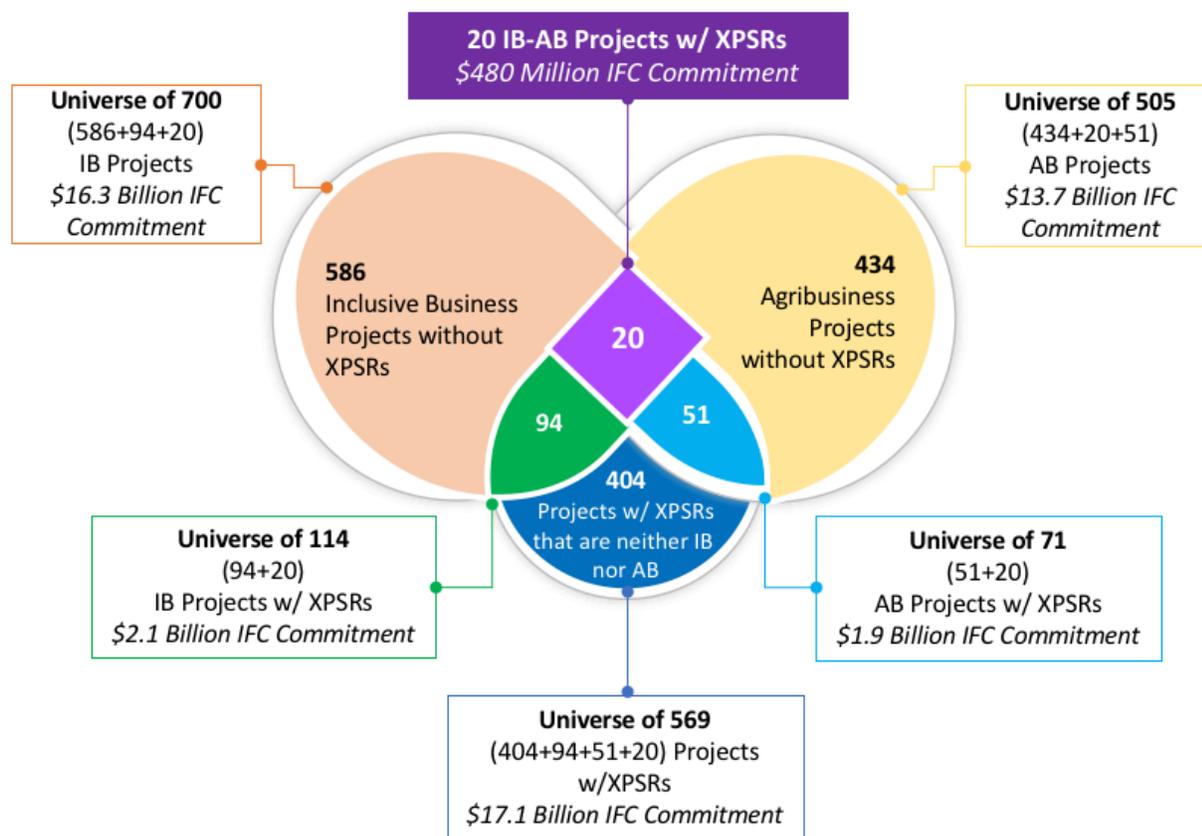
11. The evaluation conducted original qualitative analysis of case studies of inclusive business investments in agribusiness to derive factors of performance and lessons. The case studies involved a desk review of project files related to a client, interviews with IFC staff responsible for the client relationship, and, where feasible, interviews with client counterparts (feasible only in select cases, given that several of the older operations reviewed no longer have a relationship with IFC). This case study approach allowed IEG to assess IFC's role and the effectiveness of inclusive business models, using a standardized template that covers the dimensions of the evaluative questions and the theory of change. The case study reviews also included an examination of the advisory services projects linked to the case study investment projects.

12. IEG conducted case studies for all-inclusive agribusiness investments committed in FY05-17 which have been evaluated (that is, agribusiness investments tagged as inclusive and with a completed IEG Evaluative Note).

13. The portfolio of inclusive business operations in Agribusiness & Forestry or Agri-Food Chain Industry totaled commitments of \$3.3 billion (out of a total inclusive business portfolio of \$16 billion during FY05-17). Of the 114 evaluated inclusive business projects, 20 are in agribusiness. With respect to both the share of commitments and the availability of ex-post evaluations, inclusive agribusiness projects account for about 20 percent of IFC's operations in inclusive business. The 20 investments selected for in-depth case studies represent 3 percent of all inclusive business projects and 15 percent of all inclusive agribusiness projects (152 projects). Figure A.2 graphically shows the selection of case studies that met the criteria.

14. The case studies are drawn from a random and representative sample of IFC's portfolio derived from IEG's annual selection of projects for ex post evaluation (XPSRs). Therefore, the results are expected to be reliable and can be extrapolated to the IFC's inclusive agribusiness portfolio. However, more recent projects supported since FY13 are not represented among case studies as they are not mature enough to be selected for project evaluation. To address this, IEG covered insights from ongoing and more recent projects through its country field visits.

Figure A.2. Selection of the inclusive business Inclusive Agribusiness Sample from the Inclusive Business Universe



Note: XPSR = expanded project supervision report; IB = inclusive business; AB = agribusiness

15. IEG selected 22 investments for case studies; these are listed in table A.2. However, two projects (BGM Mozambique and Sabco CCS) were dropped because they did not buy from, sell to, or provide credit to farmers, and thus were outside the IFC criteria for inclusive business agribusiness and agrifinance projects.²

² *Is it Inclusive Business? A Guide for Agribusiness and Forestry; Is it Inclusive Business? A Guide for Financial Institutions*. Internal IFC guidance documents for classifying projects as inclusive business. Undated.

APPENDIX A
METHODOLOGICAL APPROACH

Table A.2. Case Studies

Project ID	Project Short Name	Institution Short Name	Country	Commitment FY	Orig Cmt-IFC Bal	Primary Sector Name	Agri-Food Chain Ind	Industry Group Sector Level 1	Industry Group
21901	PRONACA	PRONACA	Ecuador	2004	20,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
23013	Wings Noodle-PAS	PT PAS	Indonesia	2004	16,900	Food & Beverages	Y	Agribusiness & Forestry	MAS
21499	AP Paper Mills	AP Paper Mills	India	2005	40,000	Pulp & Paper	N	Agribusiness & Forestry	MAS
24171	JK Paper Ltd.	JK Paper	India	2006	26,500	Pulp & Paper	-	Agribusiness & Forestry	MAS
24915	CCS	SABCO	Africa Region	2006	35,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
25988	GOPDC	GOPDC	Ghana	2008	12,500	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
26206	Agrofinanzas	Bankaool	Mexico	2008	1,982	Finance & Insurance	Y	Financial Markets	FM
26705	ECOM WC - IDA	ECOM	World Region	2008	55,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
26510	Salala Rubber	Salala Rubber	Liberia	2009	10,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
26819	Cukra Palm Oil	Cukra	Nicaragua	2009	25,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
26947	Modern Dairies	Modern Dairies	India	2009	15,443	Food & Beverages	Y	Agribusiness & Forestry	MAS
27005	PRAN Group	PRAN Group	Bangladesh	2009	15,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
27250	DINANT	DINANT	Honduras	2009	30,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
27278	StanbicGhana PCG	Stanbic Ghana	Ghana	2009	30,508	Transportation and Warehousing	-	Agribusiness & Forestry	MAS
27624	Jain-II	Jain Irrigation	India	2009	44,217	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
27933	Engro Corporate	Engro Fertilizer	Pakistan	2010	50,000	Chemicals	Y	Manufacturing	MAS
28184	Xiwang Sugar Hld	Xiwang Sugar	China	2010	25,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
28492	Alqueria	Alqueria	Colombia	2010	20,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
29013	Zambeef Prod PLC	Zambeef	Zambia	2010	7,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
29975	Ecom Central Am	ECOM	Central America Region	2010	15,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS
29867	Food Concepts	Food Concepts	Nigeria	2011	20,000	Food & Beverages	Y	Agribusiness & Forestry	MAS
27398	BGM Mozambique	Bakhresa Moz	Mozambique	2009	7,000	Agriculture and Forestry	Y	Agribusiness & Forestry	MAS

KEY INFORMANT CONSULTATIONS AND INTERVIEWS

16. At the inception and throughout the evaluation process, IEG undertook interviews and consultations with IFC staff and managers.

SYNTHESIS OF IEG EVALUATIVE EVIDENCE

17. These included major evaluations, their relevant country case studies and background papers on IFC/private sector, Learning Products and IFC sector highlights such as: *Growing the Rural Non-Farm Economy to Alleviate Poverty; Financial Inclusion – A*

Foothold on the Ladder toward Prosperity?; Supporting Transformational Change for Poverty Reduction and Shared Prosperity; IFC's Approach to Engaging Clients for Increased Development Impact; Assessing International Finance Corporation's (IFC) Poverty Focus and Results; and internal reviews of IFC's performance in health and life sciences, and education.

BENCHMARKING WITH IFC COMPARATOR INSTITUTIONS

18. IEG undertook an analysis of comparator institutions that support inclusive business objectives or models to understand their roles, approaches to inclusive businesses, comparative advantages, and applicable lessons for IFC's engagement in this space going forward. IEG interviewed representatives from nine comparators from international financial institutions, bilateral aid agencies, and the private sector. These included EBRD, IDB, MIF, ADB, FMO, Grameen Foundation, Calvert Impact Capital, Root Capital, and Solar Sisters.

COUNTRY FIELD VISITS

19. The evaluation undertook country field visits to Ghana, Kenya, and Nigeria to gain an understanding of different inclusive business models implemented by IFC clients in several sectors, IFC's additionality, effectiveness and success drivers, as well as effects on beneficiaries.

Limitations

- **Time, data and resource constraints limited empirical work.** These limited the extent to which the evaluation could develop new original evaluative insights (including through field-based case studies). The evaluation triangulated the data gathered from existing evidence (Project Performance Assessment Reports, XPSRs, Project Completion Reports, and macro evaluations), desk-based case studies, evidence from field-missions, and portfolio analysis with the data gathered from structured interviews (of Inclusive Business clients, IFC investment officers and IFC staff & managers) to increase the robustness of findings and generate overall findings and lessons.
- **Limited generalizability of findings of the inclusive agribusiness deep dive to overall inclusive business portfolio.** The agribusiness case studies were only one dimension of the evaluative work. The evaluation conducted an in-depth quantitative analysis of inclusive business portfolio and compared the portfolio as well as performance of inclusive business to the rest of IFC and reflected findings from recent evaluations to nuance and complement findings from the agribusiness sector. However, given the complex nature of the agribusiness sector, findings from the case studies may not be fully generalizable to the overall inclusive business portfolio. The evaluation thus indicates where findings were drawn from the agribusiness case studies with possible limited application to other sectors.

APPENDIX A
METHODOLOGICAL APPROACH

- **Lack of data on impacts at the BOP-level** (such as increased revenues for farmers, increased productivity, increased capacity). IFC does not assess impacts on the BOP, and even data on outreach to the BOP were not available in a disaggregated way to easily infer effects on BOP. Based on structured interviews with clients and staff and field visits the evaluation gathered information on the extent to which BOPs were reached. However, the evaluation could not assess BOP impacts.
- **Limitations to developing insights on replicating approaches from one region to another due to different contexts and capacities.** Using existing evidence and structured interviews the evaluation identified challenges to scaling up successful inclusive agribusiness models from one region to another.

Endnotes

¹ In 2011, the G20 adopted a working definition of inclusive business (Source: "ANNEXES TO G20 INCLUSIVE BUSINESS FRAMEWORK." Accessed January 11, 2018. http://www.bing.com/cr?IG=EEF6DC53065849E69DC06CFDE26E0CB6&CID=1808691AB0036B9717FE626EB1AC6A1A&rd=1&h=L1emkXUGuB0HPS_75mWIBi9nGEDRSsfA6-dLlxGkRvU&v=1&r=http%3a%2f%2fg20.org.tr%2fwfp-content%2fuploads%2f2015%2f11%2fAnnexes-of-the-G20-Inclusive-Business-Framework.pdf&p=DevEx,5077.1.)

² "Base of the Economic Pyramid" (BOP) was first mentioned in C.K. Prahalad: "The Fortune at the Bottom of the Pyramid."

³ The PPP\$8 threshold was established in the "The Next 4 Billion" report by IFC and World Resources Institute in 2007, and PPP\$8.44 remains in use for the Global Consumption Database launched in 2014. Using PPP terms allows the real figure to be adjusted so that the relative purchasing powers amongst different countries are equal. For example, PPP\$8.00 is currently the approximate equivalent of US\$2.67 in Bangladesh, \$3.34 in Nigeria, and \$4.25 in Mexico (as of May 2015). Until 2015, extreme poverty was defined using \$1.25 poverty line based on the 2005 PPP exchange rates. Since the publication of the World Bank's 2015 Global Monitoring Report, the poverty line is defined by a consumption threshold at \$1.90 using the 2011 PPP exchange rates.

⁴ C.K. Prahalad and Stuart L. Hart: *The Fortune at the Bottom of the Pyramid*. August 2004.

⁵ Hammond, Allen L.; Kramer, William J.; Katz, Robert S.; Tran, Julia T. 2007. *The next 4 billion: market size and business strategy at the base of the pyramid* (English). Washington DC; World Bank.

⁶ IEG. 2011. *Assessing IFC's Poverty Focus and Results*.

⁷ *The Next 4 Billion*. July 2007.

⁸ IFC Agri Forestry: Investment and Advisory Strategy, September 20, 2016; IFC Agribusiness Deep Dive, November 27, 2017.

⁹ Eligible projects include: (i) Investments in companies that source directly from smallholder farmers; (ii) Investment in utilities (for example, electricity, gas, water) that provide low-income households with better access to services; (iii) Investments in companies that provide health services, education services, or housing to low-income populations in more affordable ways; (iv) Investments in companies that provide goods and services to low-income populations; and (v) Investments in companies that provide access to telecommunication and payment platforms in markets that include the low-income segment.

¹⁰ Long-term finance excluding capital market transactions such as swaps or rights issues.

¹¹ Support to microfinance institutions accounted for 13 percent of IFC's total commitments over the period FY05-17.

¹² Analysis done by the primary sector reveals a similar pattern: financial markets account for 50 percent of inclusive businesses commitments, followed by agribusiness and forestry (15 percent), telecom, media and technology (14 percent) and health, education, and life sciences, and infrastructure (6 percent each).

¹³ The universe of investments with a completed extended project supervision report (XPSR) and Evaluative Note (or PES, PPAR) identified as inclusive business in agribusiness and food supply chain—20 in all— was distributed as follows: five projects were in Sub-Saharan Africa, six in Latin America and the Caribbean, five in South Asia, two in East Asia and the Pacific; and one each in the Middle East and North Africa and World. These projects were selected as part of a random, representative sample of all IFC operations.

¹⁴ IEG. 2018. *Evaluation of IFC's Approach to Engaging Clients for Increased Development Impact*.

¹⁵ See, for instance, IEG. 2015: *Results and Performance of the World Bank Group 2014. Risks and Results*.

¹⁶ IFC (2015): *Is it Inclusive Business? A Guide for Agribusiness & Forestry*.

¹⁷ IEG XPSR database. IEG assesses four different dimensions for XPSRs carried out for a sample of IFC investments: development outcome, IFC's investment outcome, work quality, and IFC additionality.

¹⁸ Difference between E&S performance of the inclusive agribusiness portfolio and rest of agribusiness portfolio is statistically significant at 90 percent confidence interval.

¹⁹ IEG. 2017. *Growing the Rural Non-Farm Economy*.

²⁰ Of 32 education sector projects, eight were evaluated (six XPSRs and two PES-PPARs); all evaluated projects were in Latin America and the Caribbean, except for Trustco. Two of the evaluated projects were education projects focused on professional training; the remaining six were tertiary-level education projects. Two of the evaluated projects were also risk-sharing facilities (Ideal Invest and DUOC), while the remainder were corporate-financed expansions.

²¹ IEG. 2016. *Supporting Transformational Change for Poverty Reduction and Shared Prosperity*.