3 Business Strategies for Expanding Economic Opportunity

This report has assumed that investments by large firms in expanding economic opportunity have focused on specific barriers to people's ability to work, accumulate assets, and improve their lives. Our case studies show that a number of barriers must, in fact, be tackled simultaneously. Collaborative action across sectors is often necessary, as no company or partner organization possesses all the capabilities need to overcome all barriers.

From the case studies explored in detail, we found three different levels of interventions for expanding economic opportunity: creating inclusive business models involving the poor as entrepreneurs, suppliers, distributors, retailers, customers, or sources of innovation; building the human and physical capital of the poor to enable them to participate in these models; and tackling specific institutional or policy barriers in the enabling environment to enhance feasibility and impact. Behind each intervention are specific activities carried out by a variety of partners across business, government, civil society, and the international donor community (see Figure 1).

FIGURE 1 **THREE INTERVENTION LEVELS TACKLED BY CROSS-SECTOR PARTNERS**

	Companies	NGOs (or Academia)	Local Government / MLOs / Bilaterals
Create Inclusive Business Models	• Research how to grow and commercialize crops • Local foodstuff transport and processing • Purchasing with guarantees • Building distribution networks and micro-businesses • Financing,mainly through loans	• Management of crop collection • Financing, mainly through loans	
Build Human and Physical Capital	• Training to farmers through company agronomists and promotion of alternative sources of income • Establishment of rural banking systems • Provision of new seed as well as pesticides, fertilizers, oils, life insurance, and other financial incentives	• Provision of plant material, seed development • Training (the trainers) on domestication or transformation of crop • Curriculum development and certification post-training • Establishment of rural banking systems	• Initiative design and (co)-financing • Coordination of major stakeholders and monitoring • Identification of implementation partners • Provision of loans and loan guarantees to credit providers
Improve the Enabling Environment including Institutions and Policies	• Development and enforcement of production standards • Creation of local NGOs or program centers to raise awareness and disseminate sustainable practices • Investment in educational materials for local schools	• Research policies on sustainable and equitable farming • Research on pest management • Formation of groups / associations for social mobilization • Funding of social entrepreneurs in communities: e.g. working on water access, roads, schools	• Coordinate research on domestication strategy for new crop • Support environmental baselining • Education to farmers on the reasons for applying minimum wages • Support to publicize initiatives, provide relevant licenses, build trust

From this perspective, a number of patterns emerge:

First, initiatives are truly collaborative: they all mobilize cross-sector partners, particularly to address community development needs. Second, interventions for creating economic opportunity do not come as single thrusts: all initiatives employ at least two of these interventions simultaneously. Indeed, creating businesses requires empowered people and supportive environments. The presence of these multiple levels of need is why most initiatives manage very complex change processes and depend on the motivation and resources of many partners.

In different ways, these three levels of intervention help to overcome a variety of barriers to expanding economic opportunity along food & beverage value chains. These barriers include the poor's lack of appropriate skills, technologies, and finance, as well as their inexperience in designing and growing businesses, and lack of awareness of the economic and business opportunities. In addition, supportive institutions, reliable infrastructure, and effective "rules of the game" are all largely missing in the contexts in which they live and work. Below, we dissect each intervention separately, while recognizing that they are all inter-connected in practice.

3.1 Creating Inclusive Business Models

Key constraints to designing and implementing business models that include the poor, whether as farmers, distributors, or retailers, include their inexperience in designing and growing businesses and their difficulty in accessing financing for their operations.

3.1.1 Inexperience in Designing and Growing Businesses

The poor often lack the capability to design and grow their businesses to meet the safety, quality, quantity, and other requirements of participating in the value chains of larger firms. To address this barrier, large firms are applying their expertise to help farmers and small business partners accelerate progress toward sustainable, scaleable models that can create enough value to improve lives.

Upstream, farms are turned into competitive enterprises by infusing knowledge on how to grow and commercialize high-quality crops. These businesses can expand on the basis of higher prices and more stable cash flows. Starbucks, for example, has been able to pay a 20-40% premium above locally attainable prices for quality coffee in Chiapas. ECOM similarly sells certified coffee from its sustainable coffee program to Sara Lee at a $5 premium per bag, with $3 going to growers and $2 to the local non-profit set up to help implement sustainable farming practices.

Companies also try to share value locally by helping to design and develop businesses further down the value chain. Unilever, for example, established an independent company to process AB nut in Tanzania and set up local buying centers which employ 45 people. Interestingly, in this case, the company goes beyond offering premium prices to secure supply; it guarantees that same price until the new operation realizes full economies of scale. Meanwhile, the company is actively searching for secondary guaranteed buyers for AB oil to improve long-term prospects for the crop.

Danone Grameen goes even further by building an entire chain of businesses from micro- farms to yogurt factories to small-scale distribution enterprises. The venture, however, faces challenging economics: with yogurt portions sold at 5 taka ($0.07 US) in order to be affordable to local communities, little margin is available to operate this array of businesses. Consequently, a dilemma arises: is economic opportunity better delivered by connecting the poor to international but volatile markets that allow for redistribution of significant value added, or by developing local markets which face such constraints?

3.1.2 Lack of Financing

A key obstacle for small farmers and entrepreneurs in establishing and growing their businesses is a lack of access to finance. Credit to finance new activities or technologies can be offered directly by company programs, as in the case of the Danone Grameen joint venture, or through partners, as in the case of Conservation International's Verde Ventures, Ecologic Finance, and Calvert, which partnered with Starbucks in the Conservation Coffee Alliance. Each was already providing credit to farmers in Latin America.

In the case of Coca-Cola Sabco, the International Finance Corporation (IFC) was looking for appropriate corporate partners in East Africa to drive economic development through small business creation. Through their partnership with CCS, IFC assisted entrepreneurs interested in setting up distribution businesses to obtain favorable financing for their operations. IFC's role was critical in encouraging local banks to become involved as well.

Governments and representative offices of global multilateral agencies play important roles in co-designing and financing many initiatives. In almost all cases profiled here, development institutions cover significant portions of the budget. UNDP is financing 80% of the $5 million budget for women livestock caretakers in Pakistan, for example, and the US Agency for International Development invested $1.2 million in expanding the Conservation Coffee Alliance throughout Latin America, in addition to issuing a $4 million credit guarantee to Ecologic Finance to secure its loans to farmers. And the UK's Department for International Development, the Netherlands Development Organization, and the Austrian government are infusing funds into Unilever's $4 million AB oil program in Tanzania. Beyond financing, however, it is clear that these institutions also contribute legitimacy and valuable support in mobilizing implementing partners and program communities. Local government institutions play important roles on this level as well: issuing appropriate licenses, hosting community engagement processes, and communicating progress to other public institutions.

3.2 Building Human and Physical Capital

Whether they aim to build up suppliers of raw material, plant operators, or distributors, all initiatives examined include considerable transfer of skills, technologies, and new financing mechanisms. Case studies strongly suggest that this is a fundamental intervention level.

3.2.1 Lack of Skills

Training on how to grow crops for quality and environmental sustainability, operate processing plants, or manage distribution businesses is found in every case featured. Interestingly, the division of labor between companies and NGOs is not highly differentiated at this level: Nestlé has its own agronomists training livestock caretakers in Pakistan (a key reason UNDP selected the company as implementing partner), but ECOM, having realized that it was difficult to work with local stakeholders as a trading company, decided to create a local NGO (the Alianza por la Sostenibilidad) to train farmers in sustainable coffee farming.

3.2.2 Lack of Needed Technologies

Technology transfer is similarly present in a number of initiatives, whether providing cold chains for milk conservation, or plant material to reach new quality standards in coffee production. Again, these assets can come from various sources: either the company has access to the technology or a partner NGO steps in, as Conservation International did with its plant nurseries in Chiapas.

3.3 Improving the Enabling Environment

The principal barriers addressed here are contextual: they are missing public goods that allow businesses to grow and operate. These deficits might be found in concrete infrastructural or institutional gaps, in policy vacuums, or in even more intangible factors such as local beliefs and norms. While there are many ways to categorize barriers in the enabling environment, the case studies suggest four important areas to address to create economic opportunity.

3.3.1 Low Awareness of Economic Opportunities

The first area builds awareness about economic opportunities and the benefits of changing practices. Social mobilization to “sell” the projects appears to be a shared role across sectors, even if companies frequently build on the credibility of NGOs, local governments, and agency representations to publicize and encourage programs. Unilever has relied on a number of NGOs to create farmer-producer groups that build awareness first, and then skills. SABMiller and Cargill’s program established centers in three districts of Rajasthan to mount publicity campaigns targeted at barley farmers about the potential for growing a higher-grade crop. Danone Grameen benefits from the considerable aura of Grameen, and the trust it generates among the poor, to mobilize communities to join its new businesses. Reliance’s ambition to make Rural Business Hubs into centers stimulating agricultural productivity in India is based on added services to farmers as a pull mechanism for mobilization.

3.3.2 Dearth of Supportive Institutions

The second area to address is the availability and strength of local institutions, such as farm groups, to orchestrate necessary educational, financial, or transaction processes. This category of interventions even extends more broadly to essential community institutions, such as schools. Whether as cooperatives, educational centers, or trading houses, building new centers of economic activity is a pattern visible in almost all examples.

3.3.3 Deficiency of Infrastructure

The third, though far less frequently addressed area, touches on the infrastructure needed to collect or transport goods. SABMiller and the Murarka Foundation, in parallel to working with farmers, are supporting a network of over 70 social entrepreneurs in targeted farm communities. These individuals run projects tarring roads, allowing for better transportation of produce or piping treated water to villages. Starbucks Conservation Coffee Alliance also noted that cooperatives' newfound wealth was in part dedicated to repairing roads and making them more rainfall resistant. Such projects serve community activities beyond coffee farming.

3.3.4 Needs for Knowledge and Standards

Lastly, a critical area for the food & beverage sector, given its sensitivity about food safety and traceability, is to research and develop social and environmental standards to apply to food production and processing, and enforce these through various certification schemes. In Unilever's work on AB oil, a World Conservation Union (IUCN) evaluation ascertained that AB oil production is environmentally sound and socially equitable, and the government-sponsored Tanzania Forest Research Institute (TAFORI) coordinated research aiming to develop an appropriate domestication strategy for the new crop.