EXPLAINER

Bringing Business Opportunities to Economically Vulnerable Populations

ADB is supporting a producer-focused inclusive business model in Mongolia that enables a dairy company to buy more milk from small livestock herders. Photo credit: ADB.

Inclusive business models can effectively reduce inequality, helping vulnerable low-income earners get out of poverty.

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Introduction

Inequality is an enormous and worsening challenge for both advanced and developing economies. Although temporarily interrupted by the pandemic, we have seen progress in reducing extreme poverty. The share of the global population that lives in extreme poverty was reduced to less than 10%. This is a significant milestone achieved through the efforts of national governments, often with support from international development agencies and financing institutions. Unfortunately, we have not seen similar progress with reducing inequality.

Based on the World Inequality Report 2022,[1] income inequalities have worsened in the last decades. The report shows that the richest 1% took 38% of all additional wealth accumulated since the mid-1990s. While Asian countries made improvements in the global country ranking, many experienced a rise of within-country inequality in the last 3 decades.[2] The report also mentions that countries have
become significantly richer over the past 40 years, but their governments have become significantly poorer. Therefore, a substantial share of wealth is in private hands, with important implications for state capacities to tackle inequality in the future.

Figure 1: In Country Inequality Is on the Rise
Top 10% and bottom 50% income shares, 1900–2021


A good strategy in addressing inequality in a sustainable manner is by improving the inclusive growth of those in the low-income strata or the base of the pyramid. This population consists of the poorest segment in the pyramid and those that have already escaped extreme poverty but mostly remain vulnerable.

In this explainer, we introduce inclusive business models and present two examples to demonstrate how they can help low-income groups to progress.

Who comprises the base of the income pyramid?

The base of the income pyramid refers to the population with the lowest income in the country or area, measured on a per-capita (or per-household) basis. Globally, more than four and a half billion people constitute this group.[3] The Asian Development Bank (ADB) uses as income threshold the median income, which means the base of the pyramid is the half of the population with the lowest income.

Many of these people are above the poverty line but are vulnerable and face the risk of being pushed
back into poverty in times of recession, pandemic, or natural disaster. Part of them still lack access to basic goods and services, e.g., health care, education, clean water, sanitation or electricity, and they have only limited access to social services, internet, or mobile networks. These people are often un- or underemployed, not integrated into the formal market economy, and do not benefit from socioeconomic development. They live in lagging areas and are vulnerable to natural disasters and exploitation. These limitations make their further progress difficult and could lead to a perpetuation of poverty or vulnerability.

How can the private sector help?

Reducing inequality and enabling universal access to basic services are vital to ensuring sustainable long-term development. The United Nations 2030 Agenda for Sustainable Development set a goal to reduce inequality within and among countries, targeting sustained income growth for those at the bottom 40% of the population at a rate higher than the national average.[4] The role of the private sector is crucial for meeting the Sustainable Development Goals (SDGs) as they provide creative and innovative solutions in addressing development challenges.

Private sector solutions that have poverty alleviation effects and work without the need for subsidies should be used as much as possible. Most of the job generation, technology transfer, productivity improvement, and economic development happen within the private sector. In developing countries, the private sector provides 9 out of 10 jobs.[5] Inclusive business approaches are one of the private sector solutions with high development impact that have potential to address underserved markets and the inclusion of the poor, women, or smallholder farmers.

ADB, through its Strategy 2030, considers inclusive business as a key strategy to generate quality jobs for inclusive growth that aligns with the recognition of the private sector’s role as a partner in carrying out the Agenda 2030 framework. ADB’s private sector operations envisage the creation of quality jobs and other income opportunities as a means to provide services to the poor and integrate the base of the pyramid population into the mainstream economy as consumers, suppliers, distributors, or employees.

What is inclusive business? How significant is it to the base of the pyramid?

ADB defines inclusive business as a business entity that generates high development impact by improving access to goods and services or providing income or employment opportunities to low-income people as producers, suppliers, distributors, employers, or employees.[6] These businesses integrate people at the base of the pyramid into the market economy—specifically those that have some economic resources but are not yet reached by market solutions. These businesses strive for commercial viability while making social impacts—a win-win solution that benefits low-income earners, the private sector, and society in general. Inclusive business reduces poverty in a sustainable manner while making economies more equitable. Therefore, inclusive business directly contributes to the improvement of living standards and reduction of poverty.
Why invest in inclusive businesses?

The large number of people living at the base of the pyramid represents a market with sizeable aggregated purchasing power. These new markets are sometimes only reachable via unusual or innovative distribution systems. This group also offers a significant pool of resources, e.g., affordable labor. Therefore, the base of the pyramid is often an untapped target group that can be attractive for commercial solutions. According to the G20 Inclusive Business Framework, rapid growth and improved standards of living in developing countries can create additional demand for goods and services by low-income people valued at as much as $5 trillion a year. [7]

Businesses that target these consumers and customize product offerings and marketing strategies to meet their needs are, in effect, integrating them into the value chain. Businesses can broaden their reach by tapping these underserved markets. However, as these consumers often constitute an invisible and poorly analyzed market with high transaction costs, finding efficient, low-cost solutions and setting up sustainable and scalable approaches require careful planning.

How does ADB support inclusive businesses in Asia and the Pacific?

ADB has been fostering private sector investments that address the base of the pyramid. From 2017 to 2021, 38 or 22% of 170 private sector projects that received financing from ADB’s private sector department support inclusive business approaches.

Integrating the population at the base of the pyramid in the value chain can work via consumer-focused or producer-focused linkages.

The consumer-focused model involves customizing products and services to a population with limited purchasing power. This may include repackaging products into small quantities and packages and adjusting the pricing and scope of services, such as health care, insurance, education, or integrating low-income groups, or NGOs representing such groups, as suitable intermediaries or partners. Community-based off-grid energy solutions and water user groups are examples of how unserved and underserved groups can gain access to electricity and tap water at cost-covering terms.

In India, for instance, ADB partnered with local energy firm Simpa Energy India Private Limited in providing home-based solar energy solutions to rural customers who either lacked access to electricity or received only a few hours of electricity from their grid connection each day. Without access to electricity, low-income households struggle and are easily pushed further into poverty. Running a small shop or participating in home-based livelihood or manufacturing activities is challenging without access to reliable electricity.
As of 2020, Simpa provided solar home systems to more than 50,000 additional households, or around 263,000 persons, in remote areas in the states of Karnataka, Uttar Pradesh, Bihar, and Odisha. This customer-focused solar solution overcomes the barrier of high upfront costs. Most poor households cannot buy the photovoltaic panels outright, but Simpa’s payment plan enables them to pay for the solar home system over time. This inclusive business helps a portion of India’s base-of-the-income-pyramid population in meeting essential household energy needs, such as charging mobile phones, powering light bulbs, or keeping fridges and small appliances running.

A **producer-focused business model** provides small farmers with market access and enables an agribusiness to scale up operations through integrating small farmers in the supply chain. This is typically done through contract farming where big companies have agreements with farmers or a group of farmers.

In Mongolia, ADB supports the expansion of Milko’s capacity for dairy-processing and for raw milk and fruit procurement from smallholder farmers and herders. By 2023, the company plans to integrate 700 more herders and 200 more berry collectors in formal value chains. The herders own livestock of 200 heads or less. Around a quarter of them have less than 50 heads and are considered indigent in Mongolia.[8] One of the goals of the project is to build milk collection centers near the homes of these herders so they have access to a market for their milk.

Other examples are engaging people as franchise agents, for renting or selling mobile batteries or solar home systems, or working with cooperatives that organize home industry or small-scale producers of handicrafts or other local goods.

The tourism industry has huge inclusive business potential, offering opportunities for people to serve as tour guides or homestay hosts. Digital platforms, which are increasingly being used to sell and deliver
homemade food, also have the potential integrate low-income groups into commercial activities.

Conclusion

The concept of inclusive business enables the private sector to help reduce poverty by integrating the untapped potential of the population at the base of pyramid into the value chain. Inclusive business does not only provide improved livelihood to them and reduce the vulnerability of the beneficiaries to fall back into poverty, but it also helps to extend commercial activities to low-income groups and enables governments to focus on the poorest and therefore help to alleviate inequality. Scaling up such inclusive business models could be supported by a multistakeholder approach where companies, financial institutions, governments, and international development agencies create favorable conditions so that high development impact projects that drive inclusion and equitable economic growth can take place.


Resources


ADB. *India: Off-Grid Prepaid Solar Leasing Project*.

ADB. *Mongolia: Gender Inclusive Dairy Value Chain Project*.

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