



Strengthening micro-enterprises in corporate value chains

Dialogue Summary

Thursday 24th March 2016, IDB Headquarters

The following document summaries a dialogue hosted by the Inter-American Development Bank (IDB) and Multilateral Investment Fund (MIF) on behalf of SABMiller, CARE and Business Fights Poverty, to explore learnings, insights and examples of how to enable micro-enterprises in corporate value chains to thrive and to strengthen the ecosystem that micro-enterprises depend on to succeed.

Session 1 – Inclusive Distribution

Inclusive distribution models demonstrate importance of ecosystem approach

A number of large companies participating in the SCALA initiative¹ are successfully integrating micro-distributors into their value chains, opening up new routes to market for their brands, whilst bringing livelihood opportunities and relevant products and services to poor communities.

The experience of participating SCALA companies is that partnerships and collective action significantly enhances the scale, impact and reach of inclusive distribution networks.

For example, in the Dominican Republic, Nestlé has created the “Plan Barrio” initiative, which will incorporate 4,500 micro-distributors and sales people, predominantly women from low-income households, who sell affordable Nestlé products to consumers. Collaboration is key to the success of the programme, with Nestlé providing training and products to micro-distributors at a price which allows them to make a profit and Adopem Bank providing financing solutions. In addition to introducing the parties and helping in bridging the cultural divide, additional financing support has been provided by the Multilateral Investment Fund (MIF) through the SCALA initiative. As a result of the programme, the majority of women have managed to double or even triple their incomes whilst working shorter hours. Nestlé have seen sales growth generated through “Plan Barrio” increase by 75% (2014-2015), currently accounting for 4% of overall sales in the Dominican Republic.

Key success factors identified through the SCALA initiative include: Having a clear understanding about each partner particular interests within the project/partnership; establishing a common agenda (shared vision of the change to bring about/common understanding of the problem and approach to address it); focusing on the strengths and potential contribution of each partner; collectively building of measurement systems (indicators, measurements tools, technical terms, goals, etc.); dynamic and continuous communication.

¹ The SCALA initiative aims to empower people at the BoP through their integration in anchor companies’ inclusive distribution channels that bring products and services to poor communities. The project supported by IDB / MIF, Citi Foundation, IDRC / CRDI and the Canadian Government provides technical financing assistance to scale inclusive distribution models and knowledge sharing.



Importance of building trust for scale

The SCALA initiative also emphasises the importance of anchor companies adopting good practices for managing inclusive distribution networks, and by doing, building trust between the company and its micro-distributors and between the networks and its customers. This not only helps anchor companies to protect themselves against potential reputational risks, but impacts on hiring and retention rates, two of the most important challenges facing anchor companies. Learnings from anchor companies include ensuring a deep upfront understanding of micro-distributors, ensuring they understand their rights and obligations, that they are properly prepared and trained and that guidelines are in place should a relationship need to be terminated.

Piloting through a CSR project can increase chances of success

Piloting an inclusive business model to establish proof of concept via a CSR initiative can reduce the pressure to deliver a short-term return on investment, especially if up-front set up costs are high, for example investing in IT systems and training. For example, Danone's Ecosystem initiative provides up-front catalytic funding to projects it supports.

Getting business model fundamentals right is key

For consumer goods and services companies engaging with micro-enterprises, a key up-front requirement is ensuring initiatives are set up for success and that micro-enterprises are trained and prepared to safeguard product integrity and deliver the appropriate customer experience. This includes ensuring that products are stored and served appropriately and that branding is correctly applied.

Importance of understanding context and needs and tailoring solutions, especially amongst disadvantaged groups including women and youth

When designing programmes that engage micro-enterprises, care needs to be taken to fully understand and respond to specific needs. For example, women, who are the primary carer givers to children and their families, need flexibility. SABMiller's 4e programme, a partnership between SABMiller, the Multilateral Investment Fund (MIF) and FUNDES to empower 190,000 small-scale retailers (*tenderos*), placed a significant emphasis upfront on researching their needs and aspirations to inform programme design.

Activities to empower youth need to take into account the difficulty they face in accessing finance in the absence of any collateral or track record, and also their lack of soft skills, which are key to accessing corporate value chains. At the same time, young people are potentially more familiar with and well positioned to leverage advances in mobile technology for cashless transactions, but in many countries the regulatory environment works against young people being able to access and use these type of services.

Session 2 – Supporting Smallholders

Agriculture in Latin America has high impact potential

With over 14 million smallholder farmers in Latin America and with poverty concentrated in rural areas, research shows that supporting agriculture-generated growth is up to four times



more effective in reducing poverty than growth generated by other sectors. LAC has the potential to become a global breadbasket although smallholders face various constraints.

Incentivising commercial functions to engage in support of small farmers

A growing number of companies now recognise that the sustainability of their supply chain is closely linked to the performance of their supplier base including small-scale farmers. Appreciation of the risk presented by climate change is also growing amongst companies and changing consumer preferences are also driving greater investments in responsible sourcing practices.

Companies are investing more in understanding and mapping their supply chains

Companies are investing more resources in building a more detailed understanding of their supply chains including farm level data and production costs to identify and mitigate risks and to capitalise on opportunities. With a growing demand for greater transparency in supply chains, companies are looking to build more direct relationships with their suppliers including farmers.

Successful pilots can be scaled and replicated

Evidence from programmes supported by IDB and MIF suggest that successful interventions and pilots can be scaled and replicated in other countries / regions. Key success factors include recognising that what works is highly context specific and that programmes will often need to be adapted to local circumstances. Strong collaboration between partners is also key to success.

For example, in response to a lack of viable long-term financing for coffee renovation in areas impacted by the roya coffee plant fungus, IDB, World Bank, the Global Agriculture and Food Security Program and Starbucks partnered with ECOM, a commodity trading company, which sources coffee from small-scale farmers. Building on an existing portfolio of short-term loans to small coffee producers and a programme of technical assistance, the partners will provide funds for long-term lending to ECOM's farmer base plus additional non-reimbursable funding to strengthen ECOM's internal capacity to administer long-term loans to farmers and improve its operating system (SMS), which centralises farmer and field information and collects assessments to obtain big data. For each loan, a technician and a credit analyst carries out a desk review and use information from SMS to assess each credit request. Beneficiaries of the initial pilot will be 560 Nicaraguan farmers, 85% of whom have fewer than 50 hectares under production. It is envisaged that the pilot will be expanded to include 3,000 farmers in ECOM's supply chain in Nicaragua, Honduras, Costa Rica, and Mexico.

Translating a global business model at local level and moving beyond projects can be challenging

Due to the high level of difference in market conditions from country to country, it is very challenging for companies to adapt a global business model at the local level to incorporate micro-enterprises due to issues of scale and complexity. What works is highly context specific and large company approaches still tend to be more country / project specific and do not yet address the underlying operating systems and policies to incentivise greater



engagement with micro-enterprises at scale. Also, micro-enterprises face a significant challenge meeting required standards of large companies.

Absorbing capacity building costs in the value chain

An important issue is how the cost of building farmer capabilities to access value chains is absorbed. There is often a lack of incentives to invest in micro-enterprise capabilities if the costs cannot be passed on to the end consumer or passed on through the value chain. Donor funding is available to share the cost to business of building micro-enterprise capacity across a range of sectors, particularly for models that are innovative and can serve to build a “business case” to strengthen the commitment of a value chain’s leader and/or other stakeholders within the chain.