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# Integrating Business and Development Impact

**Businesses are increasingly setting up programmes to engage with international development. Development agencies are also seeking to mobilise businesses' knowledge and resources to achieve development goals. The difficulty lies in designing and implementing programmes that achieve development impact and also align with core business strategies. This briefing presents case studies on business interventions in agriculture, health care and waste management. The analyses identify lessons on how to evaluate corporate engagement programmes, make them more effective, and design future programmes to better integrate business performance and development impact.**

Over the last decade, businesses have gradually become more consumed with monitoring, evaluating and reporting the impact of their activities on international development. At the same time, development goals have increasingly focused on reducing poverty by targeting very poor people. 'Inclusive business', for example, is a business strategy for increasing the incomes of the poorest and most marginalised groups and promoting growth by including them in global value chains.

However, there continues to be a lack of integration between corporate engagement programmes that focus on international development and corporations' core business strategies. From the start, many programmes are not intended to achieve strategic business objectives. The programmes are also not designed or evaluated according to up-to-date international development evidence and practices.

In this *In Focus Policy Briefing*, we examine the integration of business performance and development impact, as illustrated through three case studies on business and development. The programmes described in the case studies are evaluated on development impact by Institute of Development Studies (IDS) researchers and assessed on a business strategy basis by scholars from the INSEAD business school's Humanitarian Research Group.

The commentaries appraise the effectiveness of the business interventions in achieving development impact, their alignment with core business and competitive strategies, and challenges in evaluating their impact and designing future programmes.

Giacomo Pirozzi, Panos

Scientist carrying out malaria research, Angola

Case Study 1

## Vayugrid: Generating Wealth and Renewable Energy for Poor Rural Communities

**VayuGrid is a for-profit social enterprise engaged in building community-based bioenergy and biofuel supply chains with rural communities, government and industry. The VayuGrid team aimed to design an inclusive business model for biofuel production in India that would generate both renewable energy and wealth for poor rural communities.**

**By comparing existing energy ventures in emerging markets, VayuGrid selected an alternative castor oil as the most cost-effective route. The team considered the agricultural biofuel value chain in detail to design their business, and worked with local farmers, an integral part of the chain, to identify and overcome a series of challenges. These included most farmers being smallholders; having poor irrigation coverage; dependence on water-intensive food crops; lack of access to markets; and very low mechanisation in farm practices. VayuGrid also fostered local demand-supply linkages by providing upfront financing of farm inputs for smallholders with inadequate resources. The goal of their business model was to bring together geographically dispersed marketplace communities and enable sustainable business.**

### Development Impact

The search for a 'wonder crop' risks involving poor farmers with few resources in new projects that are not fully considered. Yet VayuGrid's approach suggests ways to minimise the risks associated with innovation. They chose castor, which is well known in the region and easy to grow. They also focused on local consumption of unprocessed oil in order to reduce the uncertainty of demand, and developed complementary products to diversify markets for the oil and decrease risk.

Reaching poor rural communities increases the difficulty of setting up a production system. VayuGrid developed the supply chain for seeds, fertiliser and pesticides; ensured the supply of inputs at a fair price tailored to farmers' specific circumstances; provided upfront financing for farmers; sought out additional value-added products; worked with farmers and village organisations to build trust; and established relationships with civil society organisations that could act as interfaces with farmers and local-level organisations. The impact of VayuGrid's interventions was increased smallholder farmer participation in value chains.

*John Humphrey, IDS*

### Business Impact

VayuGrid realised that smallholders played a dual role as both producers and consumers and organised the value chain to interact with them through contract farming and community clusters for demand. Many poor and rural communities face similar challenges when trying to gain access into global supply chains for their products: isolation (either physical or informational); fragmentation (leading to lack of economies of scale); vulnerability to natural elements, market fluctuations and exploiters; and poor risk management. As a result, rural communities are left out of or exploited by global markets, which aggravates social and economic divides.

The business model simultaneously ensured VayuGrid's licence to operate, secured access to land, avoided the fragmentation that hinders the achievement of economies of scale and improved local demand for oilseed energy products. VayuGrid's role as a supply chain aggregator could also be replicated in industrial sectors such as automotive, aerospace, electronics or retailing.

*Ruth Carrasco-Gallego, INSEAD*

Case Study 2

## Medicines for Malaria Venture: Tackling Malaria Through Effective Public/Private Partnerships

**Medicines for Malaria Venture (MMV) was founded in 1999 to discover and develop at least one new safe, effective and affordable anti-malarial drug before 2010. MMV was set up as a Product Development Partnership, which means it was a joint venture between the public and private sector. It aimed to increase R&D and production of new artemisinin-combination therapy (ACT) treatments and combat increased drug resistance to conventional malaria treatments. MMV provided philanthropic funding for research, which created incentives for private sector and academic researchers to collaborate on malaria drug development, despite the lack of profit potential. Without having to bear high research costs, pharmaceutical companies were willing to contribute their expertise in development and production.**

**With 30 drugs in the pipeline, MMV was a drug development success even by private sector standards. MMV then faced the challenge of getting the drugs that they had developed to households who had unreliable access to medical treatment, could not afford more costly treatments and who sometimes cut treatment short due to the expense.**

### Development Impact

MMV demonstrates the importance of understanding the institutional and social context in order to realign incentives for malaria research and expand the market for malaria treatments. The problems with distributing malaria treatments included lack of transportation and access to doctors and pharmacies; high treatment costs relative to household budgets; little patient information on new treatments; the distribution of treatment via private or informal rather than public channels; and poor supply chain management in public channels.

MMV identified key markets, developed supply chains and marketed the products. MMV carried out market research in Uganda on the types of distribution outlets, product types, prices, distribution networks and sources of product information. By using a market approach and cooperating with public sector and civil society organisations, MMV increased uptake of its products, with three new ACT treatments being brought to market through both public and private sector channels.

*Noshua Watson, IDS*

### Business Impact

When MMV was founded, there was a large market for ACT medication amongst the poorest consumers. Yet the prohibitive costs of research, development and delivery, combined with the need to supply the drugs at a very low price, made the market unappealing to many pharmaceutical companies. By bringing together research institutions, international donors and companies, MMV provided pharmaceutical manufacturers with a virtually risk-free platform to develop ACTs that could be sold inexpensively.

Pharmaceutical company Novartis went on to develop Coartem Dispersible, the first drug to emerge from the MMV pipeline. A soluble and sweet-tasting drug suitable for children, 52 million treatments have been sold to date in 33 countries.

From a corporate perspective, MMV facilitated complex processes such as research, regulatory approval, staff training and distribution in unfamiliar regions. In turn, companies gained enormously from increased sales and access to new markets. Most importantly, MMV allowed pharmaceutical companies to contribute to social impact by using their core competencies.

*Orla Stapleton, INSEAD*

Case Study 3

## Tetra Pak Brazil: Designing and Implementing Inclusive Business Models

**Tetra Pak is a global supplier of packaging for liquid food products. Tetra Pak Brazil sought to reduce the environmental impact of packaging by using more recycled materials in its manufacturing. It aimed to develop a sustainable, layered packaging from recycled waste. Aseptic (sterilised) packaging is already a technical and commercial success, but multi-layered packaging is difficult to recycle because the materials are hard to separate. In order to access more recycled materials, Tetra Pak needed to increase the overall recycling rate, which was difficult as waste management is considered to be a 'public good'. As a result it was near impossible to persuade the municipal authorities and households to increase recycling rates.**

**Tetra Pak recognised that poor people working in selective waste collectives, who make a living out of collecting saleable materials recovered from household waste, would be a source of materials. To close the recycled packaging production cycle, Tetra Pak set up multiple initiatives: sponsorship of environmental education for children to influence household recycling; technical support for municipalities and street cooperative collectives; cooperation with paper and mixed-material recycler companies; and proof-of-concept development of small-scale recycling plants.**

### Development Impact

Many poor consumers benefit from Tetra Pak's long-life, aseptic packaging for perishables, which partially fulfils C.K. Prahalad's 'Bottom of the Pyramid' approach by making products specifically for poor people as consumers. However the 'Bottom of the Pyramid' concept has evolved to emphasise 'inclusiveness', which involves and benefits the poor not only as consumers, but also as distributors, suppliers and employees, especially in the core areas of the business.

Tetra Pak Brazil needed to respond to the environmental challenges that its packaging creates. The environmental gains for its multidimensional recycling initiatives are very clear. However, Tetra Pak could have done more to empower poor people at the 'Bottom of the Pyramid' through value chain inclusion.

Tetra Pak Brazil correctly identified impoverished selective waste collectors, but in future Tetra Pak could do more to measure impact by clarifying which types of empowerment they seek to foster, who their target beneficiaries are and by evaluating the type and magnitude of change on each dimension.

*Lizbeth Navas-Alemán, IDS*

### Business Impact

Cost savings and a commitment to sustainability were embedded in Tetra Pak's culture by its founder. Tetra Pak Brazil had always adopted a 'beyond compliance' approach, and had the highest recycling rates in the company.

Using waste collectors from the 'Bottom of the Pyramid' was part of a full-cycle business approach to improve packaging sustainability. Tetra Pak reached out to households, municipalities and paper recyclers. Tetra Pak tackled the shortage of recycled material suppliers by actively promoting the advantages of recycling aseptic packaging, providing technical assistance and finding alternative markets for recycled materials.

Tetra Pak Brazil was also very active in technology innovation that would solve the material separation problem and set up joint ventures to further test and commercialise the technology. The company was instrumental in developing small-scale recycling plants. Tetra Pak Brazil clearly combined a proactive approach to extended producer responsibility with a concern for communities.

*Luk Van Wassenhove, INSEAD*

> Successful programmes came about when the businesses took a holistic view of the social and economic systems in which they worked, instead of just a business to end-customer relationship.

## Making Business Effective in Development: Implications for Business

These three case studies highlight a number of problems for integrating business and development. To address these, businesses need to ask themselves the following questions when designing programmes.

### *1. Do Programmes Reach the Poorest?*

Even when products are specifically designed for poor people, issues of distribution and access arise, as demonstrated by the MMV example. Successfully integrating poor people into value chains may also mean finding benefits for better-off segments of society, such as middle-class households, schoolchildren, local officials and recycling plant owners in the Tetra Pak case.

### *2. Why Will Companies Bother?*

Without the profit motivation, companies such as VayuGrid might not be willing to take on the costs and risks of reaching the poorest. There will continue to be a need for aid expenditures from donor governments and NGOs. But if businesses understand the extensive challenges of incorporating the neediest into value chains, it could be better for aid agencies to focus their efforts on encouraging businesses to work with people in poor, rural areas.

### *3. Who Benefits?*

MMV very successfully developed new malaria drugs, but did not begin to address the market and distribution problems until later. Once MMV paid more attention to the micro-dynamics of drug distribution to poor communities, they were better able to improve malaria outcomes. Tetra Pak achieved its environmental goals, but the impact of providing employment for poor people was overshadowed by its other initiatives.

### *4. Who Has a Say?*

Tetra Pak engaged with several segments of society in order to close its production loop. By integrating itself so tightly into local communities, VayuGrid also created the possibility of damaging relationships if it chose to aggressively enforce contractual agreements.

## Lessons Learned

The case studies suggest that effective development interventions by businesses originate in the venture's founding principles and those principles are used to select a specific development aim. The business strategy and development aims are clear, whether in terms of increased smallholder farmer participation in value chains, widespread malaria drug access or increased availability of recycled inputs. The businesses' strategies for engaging with development also need to use the businesses' existing core competencies. Successful programmes came about when the businesses took a holistic view of the social and economic systems in which they worked, instead of just a business to end-customer relationship.

All of the case studies demonstrated the importance of involving government and civil society. As stakeholders, they can help businesses set targets for development impact, question and clarify businesses' intentions and also demonstrate best development practices. Government and civil society representatives should discourage programmes that do not align with companies' core principles and competencies, so corporate engagement programmes and the people involved are not abandoned if the programme is not sustainable. It is also important for governments to acknowledge that for-profit and non-profit suppliers can co-exist in the same markets and increase the variety and availability of products, services and employment to poor people.

## Further reading


Humphrey, J. and Navas-Alemán, L. (2010) *Value Chains, Donor Interventions and Poverty Reduction: A Review of Donor Practice*, IDS Research Report 63, Brighton: IDS

Prahalad, C.K. (2006) *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, New Jersey: Prentice Hall

Case Studies by the INSEAD Humanitarian Research Group, www.insead.edu/facultyresearch/centres/isic/humanitarian/CasesHumanitarianResearch.cfm

Oxfam America, The Coca-Cola Company and SABMiller (2011) *Exploring the Links between International Business and Poverty Reduction: The Coca-Cola/SABMiller Value Chain Impacts in Zambia and El Salvador*, www.sabmiller.com/files/reports/oxfam_poverty_footprint_report.pdf


## Credits


This *In Focus Policy Briefing* was written by **Dr Noshua Watson**, **Professor John Humphrey** and **Dr Lizbeth Navas-Alemán** of the Institute of Development Studies' Globalisation Team and **Professor Luk Van Wassenhove**, **Orla Stapleton** and **Ruth Carrasco-Gallego** of the INSEAD Humanitarian Research Group. The editors were **Vivienne Benson** and **Sarah Nelson**.



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