

Inclusive business: a critique

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Training and technical support has helped Bac Ha Tea Company to develop women-led supply chains and stable incomes for ethnic minority women in Vietnam

Photo Credit: GREAT program

In the era of COVID-19, development organisations from the [International Institute for Environment and Development](#) to the [Asian Development Bank](#) (ADB) are pushing for inclusive business to be the ‘new normal’. With the International Labor Organisation [estimating](#) that relative poverty is set to increase by more than 50% in lower-middle-income countries, businesses need to ‘[build back better](#)’. Donors, governments, and investors are advocating for businesses to become inclusive through incentive mechanisms such as establishing private equity funding schemes, business coaching, risk sharing, and procurement preferences. But what should count as an ‘inclusive business’, and who is left out? This is a big deal, particularly when tax deductions and other incentives are tied to the label. The rhetoric of large donor organisations is often to privilege large businesses over micro or small enterprises. The problem with this, as we detail below, is that in many countries, the push for ‘big’, scalable solutions excludes the vast majority of local businesses that are well-placed to serve the poor.

Inclusive businesses are [defined](#) by the G20 as a commercially viable business model that benefits people living at the base of the economic pyramid (BoP) by including them in the company’s value chain as suppliers, distributors, retailers, or customers. The concept, however, is interpreted and elaborated differently. Some people associate inclusive businesses with the BoP business model, with reference specifically to the poor. Others, like the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Inclusive Business Action Network (iBAN), [say](#) that inclusive businesses ‘do not exclusively focus on the poor’ but rather the bottom 40% to 60% of the population.

The biggest issue though is the assumption that only medium or large national or multinational companies are inclusive. Assessments of inclusive businesses are typically based on the size of a company in terms of profitability and revenue, the

number of poor people reached by the business, and whether the business is innovative and addresses systemic causes of poverty. The ADB even **asserts** that the number of poor people reached by the business should be at least 1,000.

It seems that the donor preoccupation with reach, scalability, and corporate engagement prevents the vast majority of businesses that could work with the poor from being labelled inclusive. An **ADB scoping study** that looked at establishing a private equity fund to support inclusive businesses in Vietnam in 2012, for example, limited its study to medium to large national enterprises and multinational companies. A recent **landscape study** of inclusive businesses in Vietnam carried out by UNESCAP, iBAN, and the Agency for Enterprise Development under the Vietnamese Ministry of Planning and Investment proposes an accreditation system to recognise and provide support mechanisms for accredited businesses, such as business coaching, risk sharing and procurement preferences. All these supports could also be provided to small businesses, but the proposed accreditation scheme gives preference to medium and large enterprises through a focus on commercial return, size, and reach of companies. Even the scholarship on inclusive business supports this bias toward large businesses, by focusing on case studies of large multinationals and their inclusive policies.

This focus on large businesses ignores the micro and small businesses that, **according to the IFC**, account for 85-95% of the private sector in emerging economies. These figures are even higher in Vietnam, where **according to government statistics**, medium and large enterprises are only 1.4% and 1.3% respectively of all businesses.

The challenge for donors focused on scalability and ease is to connect these small businesses with the poor. There are examples where this is happening. In rural areas of North-West Vietnam, for example, agriculture and tourism offer strong potential for poverty reduction, inclusive growth and women's empowerment. Most of the businesses in this area are micro and small enterprises that each connect with around 50-500 smallholder farmers. Programs like DFAT's **Gender-Responsive Equitable Agriculture and Tourism (GREAT) program** (with which the first author previously worked) aim to empower ethnic minority women by collaborating with local businesses to include more of these women in their supply chains. The program currently partners with 17 small-medium local enterprises.

The program is still at an early stage but early evidence from internal reporting shows that micro and small businesses can create stable incomes for ethnic minority women. For example, the program works with **a local tea company** that purchases indigenous specialty tea from small farmers to supply high-end organic markets. The tea company is small, with 13 full-time employees and an annual

revenue of around US\$290,000. With the GREAT program helping to develop women-led supply chains through training and technical support, the tea company has expanded its business to engage more ethnic minority households in their tea value chains – with an increase from 296 to 697 households over a year and a half. These female suppliers have also increased their profit by reducing production costs, intercropping with medicinal plants, and improving yields. Despite the COVID-19 outbreak, this company has remained committed to buying from local ethnic minority producers. This kind of partnership can be replicated across other businesses in the remote uplands and areas where small enterprises make up the majority of the economy.

In the post-COVID world, building business back better, and rewarding ethical, responsible businesses is certainly a worthy aim. But focusing on only medium and large inclusive businesses ignores the great potential micro and small businesses have for creating jobs and providing better incomes for the poor. In developing countries where small businesses make up the vast majority of the economy, excluding these businesses means that many poor producers are also excluded. Inclusiveness should be defined inclusively: not on the basis of a company's size or revenue, but on the basis of the positive impact that support to a company, group of companies, or sector can create for the poor.

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