

# BUSINESS SOLUTIONS TO POVERTY – HOW INCLUSIVE BUSINESS MODELS CREATE OPPORTUNITIES FOR ALL IN EMERGING EUROPE AND CENTRAL ASIA

## Report Fact Sheet

The private sector around the world is increasingly aware of the fact that people with low incomes have a largely untapped potential for consumption, production, innovation and entrepreneurial activity. Such potential is ever-present in the region of Emerging Europe and Central Asia (ECA), where, some 130 million people live on less than USD 4.30 in purchasing power parity (PPP) terms per day. These people remain an untapped resource, mainly due to the fact that businesses are unaware of the opportunities presented by developing inclusive business models. To overcome this knowledge gap and promote inclusive business models, a first of its kind report focusing on the ECA region was created. *Business Solution to Poverty – How inclusive business models create opportunities for all in Emerging Europe and Central Asia* aims to inspire companies and other stakeholders in the ECA region to identify and realize opportunities for including people with low incomes into value chains and to provide clear guidance as to how this can be achieved.



A woman led small retail shop in Central Asia  
(Photo: UNDP)

**Inclusive Business Models** - Inclusive business models include people with low incomes on the demand side as clients and customers, and/or on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between businesses and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For businesses, they include winning new customers, expanding the workforce, and

strengthening supply and delivery chains. For people with low incomes, they include meeting basic needs, having sustainable earnings, and achieving higher productivity. In addition, the models can be designed in a way that uses environmental resources sustainably.

**The Development Opportunity** - People with low incomes can benefit from being included into business models by increasing incomes, meeting basic needs, and gaining productivity: 130 million people in the region live on less than USD 4.30 per day; 11 million are unemployed; and 140 million work in the informal economy. Almost 19 million people lack access to clean water and almost 40 million lack access to improved sanitation facilities. Health services are often expensive and of poor quality. These needs can be met by using business approaches. Similarly, access to goods and services can increase productivity; 5 million people in the region lack access to electricity and more than 150 million lack access to financial services. Access to information and communication technologies (ICT) such as Internet can also be improved.

**The Business Opportunity** - Businesses can benefit by winning new consumers, expanding the workforce and strengthening supply and delivery chains. The access gaps highlighted above as well as poor price-performance levels can mean new markets for companies that can address these shortcomings. Similarly, the large pool of unemployed or informally employed people – most of whom have at least a secondary education – can be tapped to win new employees at reasonable terms. The 8.5 million micro- and small-sized enterprises (MSMEs) – and more if counting the informal ones – and the 1.3 million small-scale farms located in Central Asia alone can offer services as suppliers or in the delivery chain. Some of the inclusive business models studied were not just created to increase profits, but also to provide economic opportunities for low-income communities. They were initiated mostly by

organizations with development goals.

**Building Inclusive Business Models** - The report identifies the constraints that prevail when developing business in low-income markets and the solutions that have been used to overcome them in the ECA region. Based on the global report *Creating Value for All: Strategies for Doing Business with the Poor* of UNDP's Growing Inclusive Markets Initiative, five areas of constraints are discussed: limited market information, ineffective regulatory environments, inadequate physical infrastructure, missing knowledge and skills, and restricted access to financial services. Of these, missing knowledge and skills was the most widespread constraint in the cases studied. The strategies that were mainly used to overcome them were investing to remove constraints and combining resources and capabilities with others.

**Other Actors Supporting Inclusive Business** - Supporting institutions may range from governments to business associations, from public agencies to NGOs and development agencies. These actors play a critical role in the success of inclusive business models. They create the necessary foundations through policy-making and research and advocacy. They also act as partners, providing financing and complementary capabilities.

**Recommendations** - The report provides several recommendations for various actors – companies, governments, development agencies, civil society organizations and others – for taking action to make inclusive business models a reality.

#### **Examples of inclusive business models helping countries meet MDGs:**

- In **Albania**, Edipack is a leading paper recycling and packaging enterprise, operating in one of the most environmentally hazardous regions of the country. In doing so, the company contributes to environmental sustainability and social inclusion of the marginalized. The company also helps its sister company to grow, generating a turnover of USD 2 million in 2008.
- In **Georgia**, Begeli is an organic produce distributor with a 10% annual growth rate providing a direct marketing channel for over 400 low-income farmers that receive a price premium and capacity building to satisfy the organic standards.

- In **Tajikistan**, Tojiksodirobank (TSB) restructured its loan portfolio to target cotton farmers, and in doing so, was able to foster gender equality, provide capacity building to the cotton farmers and a source of income to over 150 small-scale family farms. TSB's cotton loan portfolio is over USD 10 million.

- In **Turkey**, Hey Textile is a textile manufacturer that expanded its production facilities in remote areas of Turkey, where operational costs are lower, thereby increasing its profits by 10% while employing over 1,000 low-income people, 50% of whom are women.

- In **Ukraine**, Vitmark has adapted its products and processes to include the poor as suppliers, employees and consumers. The company annually injects a considerable sum into the local economy, by purchasing 40,000 tons of fresh fruits and vegetables, paying above-average salaries and investing in capacity building and professional development.

*The **Growing Inclusive Markets Initiative**, led by the United Nations Development Programme (UNDP), is a platform to facilitate the engagement of all actors for more inclusive business models so that the pursuits of profit and human progress can work to mutual advantage. It gathers relevant information, highlights good examples, develops practical operational strategies and creates space for dialogue.*

#### **Working Group**

A multi-stakeholder Working Group was created as the key convening platform of the ECA GIM Initiative. Its objective is to safeguard a multi-stakeholder process in the development and implementation of this regional initiative. The Working Group comprises representatives of diverse institutions with an interest in the private sector's development role and active in the ECA region – including leading international development agencies, business organizations and experts from well-known research institutions operating at the interface of business and development.

**For more information, visit:**

[www.growinginclusivemarkets.org](http://www.growinginclusivemarkets.org)

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