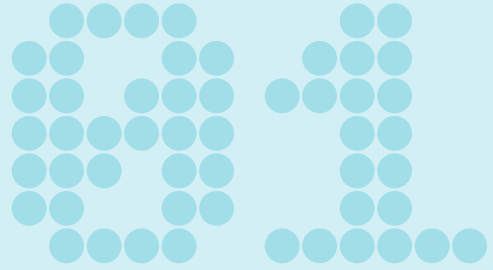




micaia

reflections



**Innovations in the
baobab value chain
and inclusive business
development – lessons
and opportunities**

Andrew Kingman



LEGEND
*Land: Enhancing Governance
for Economic Development*



About Micaia

Micaia is a 'family' of organizations working together around a common strategy based on four 'pillars of local prosperity': sustainable management of natural resources, diverse and inclusive local economies, active citizenship, and food and energy security.

Micaia's approach is to focus on a small number of substantial landscapes – defined geographical areas – over a long period, working with local people on meeting challenges and taking up opportunities linked to one or more of the 'pillars' noted above. As we learn from that work, we hope to share the lessons with others and this 'Reflections' series is part of that commitment to sharing our experience. Micaia Foundation is an operating foundation, established in 2009, and working almost exclusively in Manica Province. The foundation helps people develop the capabilities they need to make informed choices about their lives and livelihoods and tries to link practical work on the ground with engagement with policy/decision makers.

Eco-Micaia Ltd is an ethical trading company that is helping establish inclusive businesses, working with producers and/or community partners. Eco-Micaia focuses particularly on specific value chains within the field of non-timber forest products that have the potential to go to scale commercially. Eco-Micaia has established and manages three subsidiary companies: NDZOU Camp (a community joint venture eco-lodge); Mozambique Honey Company; and Baobab Products Mozambique.

About LEGEND

Land: Enhancing Governance for Economic Development (LEGEND) is a programme of the UK Department for International Development (DFID) which aims to improve land rights protection, knowledge and information, and the quality of private sector investment in DFID priority countries. It includes assistance to the development and start-up of DFID land-related programmes and activities bearing on land and land rights at country level, alongside knowledge management activities, a challenge fund to support land governance innovations, and coordination with a network of global land partners supported by complementary DFID grants.

From October 2016 to June 2019, Micaia Foundation implemented a LEGEND-funded project. The project was complemented and partly co-funded by a grant from a private family foundation with a management office in the UK and to a lesser extent by German development agency GIZ through its Green Innovation Centre programme. This and two companion papers are reflections on this project. The research underpinning them was supported by the University of Sheffield through a collaboration between Micaia and Sheffield Institute for International Development.

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PO Box 121, Chimoio, Mozambique

Email info@micaia.org
Website www.micaia.org
Registration number 100094525

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Introduction

This reflection paper focuses on the baobab value chain in the north of Manica Province, and specifically on the interactions between women baobab collectors and Baobab Products Mozambique (BPM), as BPM seeks to develop its inclusive business model.

For the last three years, the commercial interactions between BPM and the communities, particularly the women who collect the baobab fruit, have taken place in the context of a LEGEND-funded project implemented by Micaia Foundation. Micaia's project sought to address two central problems:

- Women baobab harvesters have little or no control over the baobab trees or fruit in the current value chain.
- Women harvesters' livelihoods are vulnerable to the rapid, uncontrolled deforestation of the baobab zone – a result of a lack of effective land governance and natural resource management.

The annual sale of baobab fruit is one of the very few sources of cash in the dry north of Manica Province. Since 2013 Micaia has been working with women baobab fruit collectors, and in 2015 Eco-Micaia Ltd established a subsidiary company dedicated to creating a more valuable and sustained market for the women, while opening the company up to active participation by representatives of the women collectors. Micaia's LEGEND project sought:

- To secure tenure rights and management arrangements in relation to the baobab resource for women fruit collectors
- To help to integrate the women into the Baobab Products Mozambique (BPM) value chain

The linked project, supported by the private foundation, focused on building the technical skills and knowledge of collectors, developing a programme of informal learning, and supporting development of collectors' organizations.

Social enterprise and inclusive business – what's in a name?

Micaia has typically described BPM as an 'inclusive business', while explaining that Eco-Micaia, the 'parent' company, is an '*empresa com características sociais*' ie a social enterprise. Given the increasing prominence in development discourse of both of these descriptors, it is important to reflect on the extent to which BPM embodies the characteristics of either an inclusive business or a social enterprise.

For the purposes of this paper we adopt the following definition of a social enterprise, used by the Overseas Development Institute (ODI): *an organization intended primarily to pursue social impact, which is also financially viable.*¹ As with 'inclusive business', there is

as yet no agreed standard definition of the term ‘social enterprise’. The word ‘primarily’ in the ODI definition is key. This sets it apart from definitions that are content with more general commitments to pursuing social and/or environmental returns as part of the core business purpose while seeking to maximize profits.² It also differs from definitions that place social enterprise more centrally at the crossroads of production-oriented non-profit organizations and co-operatives, squarely within the third sector.³

Most businesses are set up primarily to pursue financial returns . . .

Most businesses are set up primarily to pursue financial returns – for shareholders, management, workers and perhaps for suppliers too. This would certainly be the case for companies describing themselves as ‘inclusive businesses’. According to the UNDP, an ‘inclusive business’ is a commercially viable model that benefits low-income communities (those who live on less than USD8 a day) by including them in a company’s value chain on the demand side as clients and consumers, and/or on the supply side as producers, entrepreneurs or employees.⁴ While widely used as the original definition of inclusive business, the roots of the concept go back to work exploring the largely untapped market of the ‘bottom of the pyramid’⁵ and also to recognition that the failings of capitalism require that companies seek to create economic value in ways that create value for society.⁶

A relevant driver of inclusive business has been the concept of ‘blended value’ . . .

Another relevant driver of inclusive business has been the concept of ‘blended value’⁷ – a recognition that all companies (and non-profits) inevitably create a mix of economic, social and environmental value and that the next phase of capitalism should more directly seek to maximize the benefits of the blend.⁸ Jed Emerson’s work has tended to focus more on investment strategies and has greatly influenced the emergence of the field of impact investing – especially among social investors and major philanthropic organizations. In sectors such as agriculture, this is having significant impact in Africa. From 2012 to 2016, in the context of the Mozambique Honey Company (another Eco-Micaia investment), Micaia worked closely with a UK government-backed impact investing fund, the Africa Agriculture Development Company (AgDevCo). The extent to which impact investments are really very different from more traditional investments varies immensely; suffice it to say that there is a big range between very traditional venture capital (prioritizing high financial returns) and more risk-tolerant, socially focused investments that seek a more blended value outcome.

A clear link can be made between Porter and Kramer and their concept of ‘corporate shared value’ (CSV) and presentations of the benefits of ‘inclusive business’ by major institutions such as the World Business Council for Sustainable Development (WBCSD). For Porter and Kramer, *CSV is integral to a company’s profitability and competitive position. It leverages the unique resources and expertise of the company to create economic value by creating social value.*⁹ The WBCSD¹⁰ note four elements in the business case for inclusivity: encouraging innovation (to enable companies to tap into the BOP market); expanding the labour pool (accessing ‘appropriately skilled and cost-effective’ workers while creating income through new waged employment); gaining competitive advantage (by opening new BOP markets); and securing/enhancing supply chains (sourcing from small-scale producers).

Prahalad's conviction
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There is no doubt that many of the world's largest multinational corporations (MNCs) such as Unilever and Hewlett-Packard, were quick to embrace C K Prahalad's call for a more inclusive version of capitalism. Prahalad's conviction was that poverty can only be reduced significantly if it is converted into an opportunity – for the poor themselves and for businesses that have the creativity and commitment to reach the poor in new and inclusive ways that respect poor people as individuals. Defining a business as 'inclusive' simply because it finds ways to package and sell goods to the poor for the first time seems to be a very narrow and limited rationale for such a definition. However, 'inclusive business' promoters such as Dutch development agency

SNV take the view that an inclusive business is one that includes the poor as consumers, suppliers or workers (note that such a definition doesn't include the possibility of 'owner'), so its relevance to BPM should be considered.

There are multiple criticisms of the BOP marketing approach. While not differing (from consumers in wealthier communities) in terms of aspirational behaviour, etc, poor people cannot afford to make 'bad choices' – buying products they do not really need can preclude buying more vital goods or services.¹¹ BOP marketing by major companies might also be accused of undermining smaller companies struggling to create locally produced affordable products, often with locally sourced ingredients. Beyond the ethical challenges, there are also many business challenges such as the high cost of market penetration, and these realities have tended to push MNCs to focus on distribution of goods and services that are more attuned to the basic needs of low-income customers.

Despite – and perhaps because of – the criticism, surveys of major companies engaging in low-income markets in more inclusive ways do show many examples of innovations that are opening up new opportunities for low-income consumers and going beyond the early focus on single unit marketing (eg of shampoo or washing powder). Obvious examples include financial services (utilizing mobile phone technology), access to energy and electricity (with pay-as-you-go systems), investments in decentralized marketing (eg Coca Cola's micro-distribution centres), creating new micro-insurance products for small-scale farmers, and so on.¹²

In many ways, the nature of inclusive business in BOP markets is much more focused on 'creating a fortune *with* the Bottom of the Pyramid' rather than 'finding a fortune' there.¹³ In the last decade there has been a concerted shift away from finding ways to sell existing products to low-income consumers towards creation of small-scale, small-'footprint' goods and services that are more appropriate in BOP markets. In turn, this drive has forced companies to explore the potential of and develop new partnerships with NGOs and community groups, local businesses, research institutions and a wide range of networks and stakeholders in the 'ecosystem' in which the BOP market is found. Indeed, much of the focus in current inclusive business and shared value debates is about how to build ecosystems that can lead to transformative change.¹⁴

Baobab Products Mozambique: an inclusive business?

Baobab Products Mozambique (BPM) is not purely a social enterprise. It is a company that aims to be profitable financially, and to share some of its profits with its suppliers. Yes, BPM has a clear focus on social and environmental impact, but its primary purpose, its drive, is to become an established large-scale profitable supplier of baobab products in the world market. So, if BPM is not a social enterprise, is Micaia justified in terming it an 'inclusive business'?

The BPM model – key elements and new developments

BPM was set up in 2015 to provide an alternative route to market for women collectors of baobab fruit. Micaia had worked in communities in the north of Manica Province since 2013, exploring opportunities for local enterprise, and we had recognized the importance of baobab as a seasonal source of income. We also quickly recognized that the women were being exploited by traders, many of whom were buying for potentially lucrative export markets.¹⁵ With no existing Mozambican business active in baobab, Eco-Micaia established BPM to intervene in the baobab value chain and increase both the returns for women collectors and their understanding of the value chain.

From the beginning, BPM set out to pay a significantly higher price than that on offer from the informal traders. Initial research by Eco-Micaia during the business planning phase had revealed that the price of baobab pulp/seed that could be secured by the women varied quite considerably due to factors such as proximity to a main road* or to a village normally used by traders as a main buying point. People in small villages with poor road access could be 'picked off' later in the season, selling to traders at very low prices. The women got paid per 'lata' (a large bowl) and, not surprisingly, the women had no idea about the weight of baobab in the container. As it is difficult to build varying prices and different sized containers into a commercial model, Eco-Micaia wanted to introduce a price per kilo. Rather than impose a price, Eco-Micaia approached the issue in a transparent and participative manner. Women were asked to bring a 'lata' of pulp/seed. In each case there was a discussion about what the price would normally be for the lata, and there were always a few sharp women who tried their luck by pushing the price high! In the end, though, a consensus was reached and the prices stated chimed with Micaia's earlier research. With the price per lata agreed, the contents of the container were put into a sack which was then weighed on a digital scale. In order to test the scale, the women were encouraged to weigh other items that they knew weighed a specific amount. Satisfied that the scale was accurate, they could then see the weight of the baobab per lata. It transpired that the women were receiving between MZN2 and MZN3.5 (USD0.075–USD0.12)** for their baobab. The higher prices were only achieved if they walked to the main road, and for many of the women this meant a full day's walking. For the 2014 'pilot' season (when Eco-Micaia bought a small volume of pulp/seed to test

*If it was close enough to walk, carrying the baobab, the women could get a better price from the roadside vendors, who in turn made a good profit on selling small sacks of pulp/seed to passing travelers.

**In 2014 the MZN to USD exchange rate was approximately MZN30 to USD1.

processing technologies and quality) the price was set at MZN4 (USD0.15) per kilo. The women were happy.

In 2015, with BPM established and with organic certification secured, thus opening up export markets, the volume of pulp/seed purchased increased from 10 tons in 2014 to 60 tons in 2015 (enough to produce 15 tons of powder). BPM increased the price to MZN7 (USD0.175) per kilo for pulp/seed, partly because of the company's clearer understanding of the market prices and business model, partly in response to a devaluation in the currency.* Given that BPM's demand was still relatively small, other traders were able to find stock at similar prices to those they were paying in 2014 – meaning that BPM was often paying three times the informal market price.

*In mid-2015 during the buying season, the Metical had devalued to MZN40 to USD1.

In 2016, with growing demand in the international markets, BPM targeted 150 tons pulp/seed and offered a price of MZN9 (USD0.18) per kilo.** At this level of buying, BPM's price began to affect the wider market, with traders being pushed on the price they paid (though with such a large supply, traders could still find stock cheaply).

**In April 2016 when the price was set, the Metical was at 50 to USD1.

The 30 months in which Micaia worked with communities as part of the LEGEND project saw several key developments in the baobab value chain. First, BPM changed from buying the fruit pulp and seed, extracted from the fruit pod, to buying whole fruit. The motivation was to maximize quality control. For the women collectors, the change meant less work for the same amount of money. BPM took time to demonstrate that the price per kilo of fruit was at least equivalent to the price BPM had paid for pulp in 2017 (MZN10/USD0.16 per kilo). In 2018 BPM paid MZN6 (USD0.097) per kilo of fruit, which is equivalent to MZN10–12 (USD0.16–0.19) per kilo of pulp/seed (fruit shell to pulp/seed ratio does vary quite a lot). Fruit was transported from the villages to a large-scale storage centre

For the women collectors, the change meant less work for the same amount of money.

outside the town of Guru. After some weeks of drying on racks in the sun, fruit was cracked and pulp extracted by a team of women recruited from Guru town, who received MZN4 (USD0.065) per kilo of pulp/seed. So as a combined price, BPM was paying approximately MZN15 (USD0.25) per kilo.

Second, BPM expanded the scale of its operation, targeting increasing volumes of fruit to produce sufficient powder to challenge for space in the bulk export markets. This meant more training of lead collectors and, through them, of more individual collectors. The number of contracted collectors increased from 450 in 2016 to 980 in 2017.

The third significant development was starting work on establishing a Baobab Collectors Association. The aim is to have a representative body that can legally hold shares in the business and become the vehicle for collectors to participate in it. While not the main focus of the LEGEND work, the project did include support for legal advice on drawing up statutes and training representatives of collectors in order that they might play informed roles and take up responsibilities in the association once launched. As we describe below, the process of consulting collectors, discussing the purpose of the association and explaining how it might function took longer than planned. However, by mid-2019 the statutes were finalized and the association was on its way to being formally launched with a founding executive and a set of by-laws enabling its operations.

The interaction between Micaia's LEGEND-funded work on natural resource management planning and land demarcation also had direct implications and relevance for BPM. The company's future relies on a sustained annual supply of baobab fruit, so measures to manage the baobab forest areas and prevent the increasing burning that destroys seedlings and immature trees are important. In the short term, more practically important outputs of the work include detailed maps of the baobab collecting zones, useful in particular for supporting BPM's annual application for organic status.

Returning to BPM's operating model, the company has continued to experiment and make changes, all the while attempting to maximize efficiency, particularly with regard to logistics in the buying campaign. A key change has been to introduce a voucher system, under which lead collectors receive and store fruit collected by contracted collectors, issuing a receipt/voucher stating the weight of fruit delivered and stored at the collection centre. On the buying day, all women with vouchers present these to BPM's buyer and receive payment.

In the 2019 campaign, another change is to revert partially to having the women crack the fruit and extract the pulp and seed. BPM has built three fixed 'primary processing stations' located strategically to allow for fruit to be delivered from surrounding villages. In each station, a team of local women has been trained to crack the fruit and extract pulp and seed. BPM is confident that with adequate supervision the high standards the company sets for handling and hygiene will be maintained. If so, then BPM intends to expand the field cracking operation in 2020 so that most of the fruit is cracked closer to source.

Is BPM an inclusive business?

There are several elements of the BPM model that suggest it is indeed an inclusive business. First, BPM buys fruit in one of the economically poorest areas of Manica Province, in communities in which annual *per capita* income is just MZN1,668 (USD27). At

There are several elements of the BPM model that suggest it is indeed an inclusive business.

this most basic level, BPM is 'including' low-income communities in its supply chain. However, raw materials such as baobab are almost exclusively sourced in low-income communities. BPM has no choice but to 'include' such communities in its supply chain. If this were the only claim BPM could make to being 'inclusive', it would be almost meaningless.

BPM does, however, have a choice about who it buys from. BPM is committed to buying only from women, and each year women are offered a formal contract to supply the company. This does not mean that no men are involved in the supply chain (an increasing number of men are helping collect or transport fruit), but the aim is to secure the primary role for women even as the value chain is becoming more lucrative at source. Given that women in Mozambique are in general disempowered by the constructed but long-established culture of patriarchy, focusing a business on a women-only supply chain is an important statement and a more meaningful interpretation of 'inclusivity'.

On this criterion alone, BPM has met the UNDP definition of an 'inclusive business'. However, BPM has gone – is going – much further. BPM is including its women suppliers

as shareholders in the company, ie the women are also part owners of the business. Few definitions of inclusive business even mention this opening up of ownership, yet in countries such as the United States, employee ownership is mainstream and effective. In the US case, Employee Stock Ownership Plans (ESOPs) have been available to companies of all sizes (with tax breaks encouraging take-up) since 1968. Studies have shown that businesses with employee ownership on average grow faster and more profitably than those without an ESOP, though the businesses perform better if the formal ESOP is matched with a set of measures to support active participation by workers.¹⁶ Workers in such companies gain a little extra income but also appear to enjoy the 'inclusion'.

BPM has set aside 20% of shares in the company for its suppliers once they are formally represented in a legally registered association. The company is working closely with Micaia to help the women collectors establish their association, which should be launched by the end of 2019. Once established, the association will engage directly with

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BPM in several important ways. First, the association will have at least one member of its executive based in Chimoio, and BPM has offered to provide space in its office for the association to have a permanent desk. The hope is that this will facilitate regular interaction between the association and BPM, ensuring that the collectors have access to information about the performance of the business, trends in the market, new developments, and plans for the next season.

Second, the association will also, as a shareholder, be entitled to have a representative on the board of directors of the company. In turn, this means that the association will have access to management accounts, annual financial statements, management reports and other papers, and will be involved in planning and decision-making (though with its 80% stake in the company, Eco-Micaia will still be in a controlling position).

In deciding to give shares to BPM's suppliers via an association, Eco-Micaia's primary purpose was to enable the women to have a stake, to be involved in the company and, through that involvement, to gain a deeper understanding of the baobab value chain. Of course, the hope is that the company will be successful and if it is, then shareholders should benefit. BPM's intention is to establish an agreement with the association about ends to which money paid by BPM to the association should be put. This money might include pre-tax 'premium' payments as well as dividends. Ideas proposed to date for investing money include funding scholarships for secondary school, offering scholarships to children of collectors who reach the secondary level but who need to enter boarding school in order to attend. Another proposal is to use money for small monthly incentives for lead collectors to play their role in the communities (training new collectors, organizing the harvest, supporting the buying campaign). A third possibility is to channel some level of support to community institutions involved in conservation and natural resource management. Some money will be needed, of course, to cover the small running costs of the association, including travel costs for representatives attending annual meetings at district and province levels.

BPM's partnership with Micaia Foundation is another illustration of the company's application of a key feature of modern inclusive business approaches. Micaia uses the entry point of the BPM collector clubs across Guru and Tambara Districts, and the lead collector network, to deliver a range of development opportunities. In the last few years these have included the LEGEND project (secured largely because of LEGEND's interest in the relationship between BPM and its suppliers and their communities), and also creation of opportunities for the women to participate in informal learning processes, discussing topics as diverse as domestic violence, family health and nutrition, and planning a small business.

BPM also works with other partners to facilitate added value services for the women collectors and their families. A recent example is BPM's growing partnership with German development agency GIZ. While one GIZ programme, the Green Innovation Centre, is working directly with BPM to support a range of new business developments, GIZ is using the BPM network to explore how to support provision of decentralized financial services – which in turn could create a mechanism for BPM to use in making payments to collectors.

BPM also works with other partners to facilitate added value services for the women collectors and their families.

Another feature of many inclusive businesses working in the broad agriculture sector in Africa is the investment in and deployment of lead farmers. Micaia works with this model in beekeeping, agriculture and also, with BPM, in baobab. Lead collectors, selected by their peers, have been trained and retrained, and have become critical agents in the annual baobab campaign, from communicating about the likely scale of harvest to coordinating the buying operation.

Although BPM is primarily involved in working with low-income people as suppliers, in its effort to diversify products and reach domestic markets, the company is deliberately targeting the middle class along with lower-income segments of the population. This is being achieved by different packaging and distribution systems of its raw baobab powder, along with a new development of low-cost flavoured powder drinks that will compete with the many low-cost artificial powder drinks on the local market. These products are affordable for a large proportion of the urban poor and, as distribution systems via small urban centres expand, the rural poor too. In this way, BPM is seeking innovative ways of including low-income people as consumers of a natural product that has primarily been targeted at the new wave of investors in the baobab value chain in various African countries, and at the middle class in the wealthy countries of Europe and in the US.

Taken together, BPM exhibits many of the characteristics of an inclusive business, and its ownership model takes it further. Through its partnership with Micaia Foundation, and given the social mission of its founder and majority owner, Eco-Micaia, BPM is also part of an effort that can be seen to be in line with 'convergence economy' models.¹⁷ These envision a new phase of capitalism in which the boundaries between for-profit and not-for-profit are blurred. In this phase, whether it be deemed Capitalism 3.0 or not, the sharp division between business creating economic value and NGOs creating social value increasingly disappears. This is a capitalism in which the creation of shared value – social, financial, environmental – is the driving force of all stakeholders, increasingly

collaborating in inclusive ecosystems. Such a world might seem a long way off right now in rural Mozambique, but in its modest way BPM is a symbol of change.

Does size matter?

A cursory online search for ‘inclusive business’ yields almost exclusively references to multinational corporations or to the largest national companies in countries such as India, creatively reaching millions of consumers with decentralized marketing and distribution systems. Clearly, if the inclusive business approach is to make an impact on poverty, it has to be having an impact on the largest companies and transforming whole value chains.

BPM does exhibit many of the most important elements of an inclusive business.

Yet this surely does not mean that smaller companies cannot be inclusive. BPM does exhibit many of the most important elements of an inclusive business. Indeed, it goes – is trying to go – further than most. Having thousands of smaller companies operating in more inclusive ways may well be as valuable as having one or two

corporate giants offering some new product or service to the rural poor. After all, most rural people in Mozambique, if they have any access to market at all, have to deal with traders who have little or no interest in their supplier beyond getting access to the agricultural commodity they require at the lowest price they can get away with. Development NGOs and impact investors have intervened to support ‘outgrower schemes’ and build capacity for farmer organizations, warehouse receipting and other means of enabling low-income small-scale farming households to improve their livelihood. These initiatives rarely challenge the status quo with regard to the nature of the end buyer and its involvement with suppliers. The entry point of most development projects is at the farm level, building capacity to maximize price within whatever range the market allows. What BPM is doing is illustrating a different approach, a more holistic approach that seeks to change the nature of the interaction between supplier and buyer. If – a very big if – Mozambique had hundreds, perhaps thousands of small- and medium-scale businesses trying to operate in more inclusive ways, we believe that the impact on poverty and wellbeing could be transformational.

BPM is trying to do business differently – itself and through its partnership with Micaia Foundation (and others).

BPM is trying to do business differently – itself and through its partnership with Micaia Foundation (and others). It is closer to the shared/blended value end of the spectrum of inclusive business development than the ‘profiting from BOP consumers’ end. In this way it does aim to be a model that can influence others. However, the challenge of taking the model to scale is a real one. Isolated

cases of good practice and learning need to be connected to make a bigger impact, or else need to be transferred into value chains and markets much bigger than something as ‘niche’ as baobab.

Lessons from practice

The core business case must be sound

It probably goes without saying but we will restate it: for the inclusive business model to work, the core business must be sound. Building an inclusive business is about building relationships, creating trust, investing in building capacity to enable value not only to be shared, but to be maximized. This requires a long-term perspective and also some level of confidence in the market opportunity. Beyond this, the process of building relationships and including suppliers in the business inevitably raises expectations and requires new types of commitment on the part of suppliers. It is only ethical to start down this track if the core business is sound. In the case of baobab, despite a turbulent market, the long-term prospects do look strong, but to hedge against shocks in the international market, BPM is looking at ways to diversify its product range. With regard to price, BPM has sought to increase the price paid to suppliers year on year but at levels that do not threaten gross profit margins. The world market price for baobab powder is falling and is yet to settle. BPM will not join a 'race to the bottom'. We will continue to look for distribution partners willing to value BPM's strong social commitments, but for the company to survive its price structure must be competitive.

It takes time

Almost all of the women from whom BPM buys baobab are unschooled and many have never been as far as the city of Chimoio, capital of the province in which they live. When BPM started, few women had any experience of commercial activities or trade beyond annual interactions with informal trade buyers looking for cheap baobab or, in some areas, vegetables. Business models, company structures, shareholding – all were alien, features of a different world. Even the women's knowledge of baobab, a source of food and income for generations, ended as the pulp left the village on trucks destined for far-off markets. The patriarchal society in which the women live limits their voice; it has established 'cultural' norms that give men power over financial resources and decision-making in the home. This was the world BPM (and Micaia) entered in 2014.

The patriarchal society in which the women live limits their voice.

In the five years of interaction, we have tried to develop an understanding of how the value chain operates from tree to finished products in far-off markets. We have sought to explain how value is added at every stage along the chain, how different processes (logistics, machining, packaging, distribution and marketing) all add costs and how all players extract a margin. We have learned about and sought to 'improve' (based on BPM's needs) the harvesting and primary phase of processing, providing training and advice to the women. We have introduced the concept of the association having a stake and role in the company, and consulted with the women about what they might want from the association and how they would want it to operate.

All of these interactions take time, not only because BPM's base of collectors is large, but also because many of the issues are so new that they have to be discussed in accessible stages, topics being returned to over and over again, meetings lasting one or two hours under a tree, not days in classrooms.

Partnerships are vital

The literature on inclusive business stresses collaborations and partnerships, and every stage in BPM's development illustrates the critical role partnerships play. Without Micaia Foundation, BPM would have struggled – given its limited working capital – to build the strong base the company has in the baobab area today. Similarly, without BPM, Micaia might not have had the platform on which to build its programme and this would have precluded or significantly altered the type of support Micaia has been able to provide to collectors and their communities.

Smart subsidy is essential

An important feature of the inclusive business sector is its links with an expanded universe of funding and investment. Inclusive businesses are most likely to offer a 'blended value proposition' because they have a specific focus on social impact. They are increasingly concerned with their environmental footprint (both for efficiency reasons – reducing costs relating to waste, resource use, etc – and for marketing/consumer engagement), and they are (mostly) operating in LDC (Least Developed Country) 'emerging markets'. However, while the larger inclusive businesses may attract impact investment, companies in early-stage development need help to reach 'proof of concept'. This is where smart subsidy is so vital. While no grant funding has ever covered BPM's core operational costs, direct grants have paid for some aspects of research; covered participation in trade fairs and learning visits to countries with established baobab products on the market; and co-financed strategy design and brand development. These investments from funding partners have enabled BPM to get established in the international market. In parallel, Micaia's work in the supply chain helped build the skills, knowledge and organizational capacity of collectors, and this helped BPM scale up quickly and establish high standards for its quality control and traceability.

The inclusive approach does work

How should we judge the effectiveness of the inclusive business model? Here, we take the perspective of Eco-Micaia as social investor, funding the development of BPM with a 'blended value proposition' in mind. We sought not only to establish a profitable – and sustainably profitable – company, but also to develop strategies that intentionally seek to generate significant social impact and environmental benefits.

Profitability

BPM has been able to sell all the baobab powder the company has produced to date, but a major shock in the US market in 2017 meant that BPM had no export sales that year and so was unable to repay its working capital loans taken to support an expanded 2017 buying campaign. Only in 2018 was old stock (at a discounted price) sold to international buyers. The 2018 campaign saw BPM open a new non-certified organic operation, targeting a particular buyer. Again, the company was hit by an unexpected setback when

On the basis of provisional orders from buyers in the US, UK and South Africa, BPM should make a net profit in 2019.

the buyer reduced its demand. Only in early 2019 has BPM been able to sell its stock of non-certified powder. Despite the challenges in its early entry into the competitive export market, BPM is in a strong position. It is funding the 2019 buying campaign (target production 50 tons of organic powder) from income received for 2018 and 2017 stock. On the basis of provisional orders from buyers in the US, UK and South Africa, BPM should make a net profit in 2019.

BPM's commercial performance rests entirely on its supply chain delivering the quantity and quality that the company needs. To date, this has been achieved. But is the relative early success anything more than a reflection of BPM paying a higher price for the raw material? Price matters – a lot! The higher price paid by BPM has a disproportionately high impact in communities in which there is so little cash. BPM is collecting data on the practical benefits of the trade – more children in school and for longer; new household assets, etc – and surveys show that the collectors are very happy to be supplying BPM. There is some evidence that connections are building over time on the basis of more

The higher price paid by BPM has a disproportionately high impact in communities in which there is so little cash.

than price. When women in several villages in the 2018 baobab season sent Malawian traders (on whom the women once relied to buy their baobab) away from the village, the act was more than a simple reflection of the fact that BPM pays a higher price than the Malawians. We believe that it reflected a deeper connection to BPM, a sense in which the women feel included in the business.

Returning to the issue of price, the price paid by BPM is in part due to the company's investment in understanding the informal value chain and making a business decision to intervene with a model and price structure that significantly changed the nature of the chain. This was no marginal price difference, but a doubling or more of the price. Second, the higher price paid by BPM was linked to a series of measures designed to make the work of the collectors easier: establishing many more collection points than traders typically use; providing facilities and equipment to make cracking fruit easier (while reducing risk of contamination of fruit pulp). The collectors have supported BPM by transforming their traditional approach to collection (cracking fruit under the tree whence it fell, and transporting the pulp/seed back to their home) to meet BPM's need for quality control. The acceptance of the change was based initially on price, but over time, as BPM (with Micaia) has trained and retrained the collectors on issues of sustainable harvesting, the risks of contamination, and the importance (in the market) of traceability, the new system has become accepted as the norm. Without that transformation, BPM would have struggled to gain market share.

With three years of trade on which to build, BPM has been able to introduce new measures to improve business efficiency and maintain profitability in an increasingly competitive market. These include, as described above, use of a voucher system and return to some level of primary processing in communities under controlled conditions. The time and cost saving for BPM is significant, but such a system would have been unthinkable when BPM started.

Social impact

A key element of social impact arises out of the money received by collectors. On average, the women are earning the equivalent of MZN1,236 (USD20) each, though there is a considerable range, with almost 15% of collectors earning MZN3,090 (USD50) equivalent. Typically, their income from BPM is more than double what any of the collectors would have received from the traders with whom some of them used to trade. BPM continues to gather information and another reflection paper will focus more on social impact, but we know that money earned is being used to increase household assets (buying animals, a bicycle, cell phone, etc), improve housing (roofing sheets are a popular item), and pay for services, particularly school fees.

Social impact is much more than enabling the women to earn more money.

Social impact is much more than enabling the women to earn more money. New survey data collected by BPM and Micaia in the course of the 2019 campaign confirms anecdotal evidence building up in the last few years that suggests women are gaining respect and increasing their role in decision-making in the

household. For example, almost half of 63 respondents in the survey stated that they are more involved in decision-making since they started trade with BPM. Interestingly, a little under half of respondents stated that their husband had changed since the BPM trade started. Most comments describe the husband as being supportive of his wife's involvement in the trade, recognizing its value to the family. A few comments even referenced the husband being more respectful, conversing more, and (in one case) drinking less! Social change, especially in terms of gender dynamics, comes slowly in rural communities where polygamy is the norm, but there is evidence that the BPM connection is making an impact. Detailed information on the survey results is included in the second reflection paper in this series.

Beyond the household, women are more involved in community life, particularly via the collector clubs. In each club there is a lead collector, confidently passing on technical advice and collecting information for BPM, and organizing the harvest. There is a representative to the association, who is responsible for explaining to her peers how the association will function.

Environmental benefit

BPM trains all its collectors in the principles and practices of sustainable harvesting (not taking all fruit, leaving cracked fruit, etc) and, while not all collectors follow the guidelines strictly, BPM does not receive too many damaged fruit pods. There is also a growing

awareness among collectors of the need to nurture young baobab trees. This is more of a challenge, however, as families open up new fields using a 'slash and burn' system. Fire destroys the seedlings even if the mature baobab trees survive. Work by Micaia, in conjunction with BPM (under LEGEND) on natural resource management planning and zoning of baobab forests, *should* mean that the key baobab zones are supported and young trees will have a chance to reach the stage (5–8 years) at which they are no longer vulnerable to grazing.

Opportunities

Can BPM's inclusivity create competitive advantage?

The baobab market worldwide is undergoing great change. The market is growing but the growth is being driven by mainstream manufacturers looking for 'exotic' ingredients to add to products such as drinks and snacks. These potential bulk buyers of baobab powder are helping drive down the price. The manufacturers in the main are not interested in the 'back story' of a company such as BPM, its ethical credentials or inclusive business model. Price is the key factor. Fortunately, because of its business model and the relatively low cost base in Mozambique, BPM is able to offer bulk product into the mass market, though the company has determined that it will not join a 'race to the bottom', commodifying baobab in such a way that undermines its special status as a unique African 'super food'.

Despite the growth in the lower end of the market, the world baobab market does still have segments in which ethical practices, organic certification and explicit social purpose matter. At the national level, BPM has recently (August 2019) signed a supply contract with Compal, which has a juice on the Mozambican market that incorporates baobab and that is marketed as having positive connections to social and community benefits. Internationally, it is interesting to note that BSR (Business for Social Responsibility) is looking at how major companies assess their suppliers' claims to be inclusive. They focus on intentionality, ie the explicit and strategically determined inclusion of suppliers and their communities, a focus on social impact being a key factor in the company's actions and plans. They also focus on partnerships, particularly with NGOs and community organizations.¹⁸ This is potentially quite interesting for BPM. As a big supplier of raw material to some of the largest buyers and distributors, BPM can and should do more to differentiate itself from competitors offering product at a similar price by focusing on its inclusive business credentials.

Can the BPM model and approach be adopted in other value chains?

Eco-Micaia is supporting a similar approach to that taken with BPM in building the Mozambique Honey Company (MHC). In total, some 2,000 people will be directly involved in an inclusive business in Manica Province. Compared with the tens of thousands of

*In Manica Province the big buyers of maize and soy in particular are DECA, ECA, Export Marketing and Abilio Antunes.

smallholder farmers who supply the big traders in agriculture* the numbers are small. However, Eco-Micaia is developing new value chains in the natural products sector. While there is no plan to establish additional companies, Eco-Micaia is designing business models on an inclusive basis. Moreover, many of the features that define the BPM model – partnerships, premium prices, engaging suppliers in the business – are in place.

Within the natural product sector, at least in Manica Province, Eco-Micaia is focusing to an extent at the ecosystem level. By building the Centre for Natural Product Enterprise on the edge of Chimoio, Eco-Micaia has not only provided BPM and MHC with a suitable production space but also created a platform for product research and development, and marketing and distribution under a unique brand. Eco-Micaia anticipates launching new products including herbal teas, cosmetic oils and dried food products in 2020. The centre creates efficiencies through shared services and provides a focal point for donors and investors interested in developing livelihoods in the non-timber forest products sector.

Looking beyond natural products, Eco-Micaia is now in a position to start engaging with larger companies based in or around Chimoio that have established practices illustrating some level of commitment to a more inclusive approach. A starting point will be to open a dialogue with senior managers in some of these businesses, to explore experiences to date, and to begin to understand challenges in different value chains.

Notes

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