

Summary of the IB market scoping study

Rationale and Methodology

In November 2017, the DaNa Facility – a development program financed by DFID / UKAID to promote responsible and inclusive businesses and policies in Myanmar – commissioned a study on the role of Inclusive Business (IB) in Myanmar. The study presents the concept of IB, shows examples of private sector investments in IB, assesses the enabling environment for IB (including the activities of government, business associations, technical assistance facilitators, impact investors, and development partners), and recommends policy measures that could leverage IB for more inclusive growth in Myanmar. The draft findings were discussed during two IB consultation workshops in March 2018 in Mandalay and Yangon, and comments from these workshops and other stakeholder consultations will be incorporated prior to the report's release. The study was prepared by a team of local and international consultants.¹

Myanmar has seen rapid economic growth in recent years, however more can be done to ensure that this growth is shared widely by all Myanmar people. The country remains troubled by high poverty rates (26%), low GDP per capita (below \$1,300), poor access to quality and affordable services, and lack of well-paying income opportunities. IB can be part of addressing these challenges. IB can create new and productive jobs and deliver adequate and affordable services for low income people—and do so at scale—in ways that the government and the mainstream private sector cannot. Thus, IB offers a triple-win for business, the poor, and society as a whole (the government).

Inclusive Business can play a major role to make growth and development in Myanmar more inclusive. While the IB market in Myanmar is still very nascent and knowledge about the concept quite limited, opportunities exist for promoting IB. An emerging social enterprise (SE) culture in Myanmar offers an opportunity to link the IB agenda to ongoing SE discussions.

What is IB?

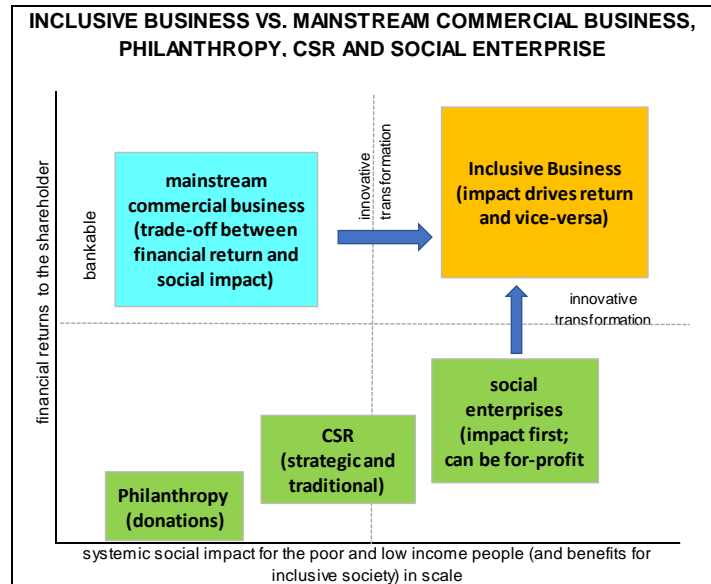
Inclusive Businesses are commercially viable business lines that create scaled-up, systematic, and innovative solutions to the relevant problems of poor and low-income people. Inclusive business is different but complementary to other related concepts:

- Philanthropy, corporate social responsibility (CSR), and NGO-driven social enterprises focus less than IB on strong financial returns;
- Mainstream businesses do not generally target the poor and low-income people at the base of the income pyramid (BoP, bottom 40% income groups)² ;

¹ For questions on DaNa, please contact the team leader of the facility, Mr. Peter Brimble (peter_brimble@danafacility.com).

² The study used a threshold for the BoP of up to MMK 350,000 monthly family income (or expenditure), consistent with the international poverty line for lower-middle income countries (\$1.9; formerly \$1 or \$1.25) and low income line (about \$5 per capita per day; formerly \$4) used in IB interviews. IB typically have business lines in which the majority of benefits go to the BoP, and some exclusively target the BoP or even the poor.

- Creating shared value (CSV) concepts emphasize reaching new markets by reaching the poor, rather than engaging the poor—as consumers, suppliers, shareholders, laborers, and distributors—to provide solutions to their problems;
- Impact investing often emphasize a business' broader implication for the environment, governance, or technological innovations, while IB emphasizes social dimensions of investments (i.e. impact on low poor and socially excluded people);
- Responsible business does not necessarily prioritize social impact as IB does (although all IB should be responsible businesses);



Under the umbrella of inclusive business, the G20 Framework on IB distinguishes between IB models (scaled-up core IB business lines), IB initiatives (often growth-oriented for-profit social enterprise with large market shares), and IB activities (often large-scale strategic CSR of companies preparing to develop core business lines that serve the poor). IB models, which are generally the most impactful of the three, may be either domestic or international firms but they are most often larger companies. IB investments also offer high returns, often higher than mainstream business, due to knowledge of the BoP market and risk mitigation innovations.

IB Market Scoping

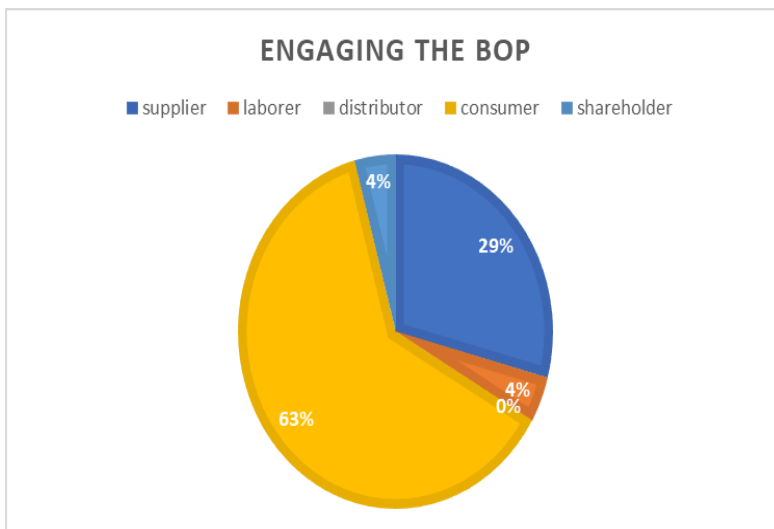
Research methodology: The method for identifying inclusive businesses in Myanmar involved a combination of primary and secondary data collection, informed expert interviews, and selected deep dives. The team first compiled a longlist of 176 companies with the potential to become IB, which was then narrowed down to a list of 98 through initial research and expert discussions. A shortlist of 48 firms were interviewed or further assessed against more detailed IB criteria and information from questionnaires (however company data are strictly confidential and used in this study only at an aggregated level). IB potential business lines were then assessed using a composite rating tool.³

Myanmar has at least 56 potential IB models, initiatives and activities: Of the 176 business cases considered, 56 were businesses with potential or real IB models, initiatives, and activities, 94 were mainstream businesses, 16 were NGO-driven social enterprises, and 10 were traditional CSR activities. Of the 56 companies with potential IB models, 28 were IB models (50%), 17 were IB initiatives (30%), and 11 were companies with IB activities (20%). 21 companies had good IB

³ The rating tool is comprised of data on the commercial viability of the company and its business case (42% of total scoring), the social impact as measured by reach, depth and systemic change (45% of total scoring), and the innovation of an investment for sustainably reducing poverty and building a growing and risk-mitigated business (13% of total scoring). The performance of each company was rated as low (1 or 2 points), medium (3 or 4 points) or high (5 or 6 points) against a set of quantitative and qualitative indicators adjusted to the relevant sector. The final IB scores (rate x weight) indicate the specific weaknesses and strengths of the companies with regards to IB development. A similar tool is used in the IB accreditation system in the Philippines and in the Shanxi province of China as a basis for providing financial support from the government to the private sector.

business lines, while 35 have potential IB lines which require further fine-tuning on the social side or clearer IB focus in the business approach itself.

Sectoral composition and IB quality: Of the 56 companies with potential IB models, 23 were in agribusiness (40%), 12 in finance (21%), 6 in energy (11%), 5 each in health and trade (9%), 3 in tourism (5%), and 2 in education (4%). However, this distribution does not reflect the huge potential for IB in education, tourism and housing which Myanmar’s market needs suggest. The quality of IB models, initiatives and activities was not high however. Only 3 agribusiness, 1 health and 1 trade company—apart from the 4 microfinance companies—had high IB scores, while the rest just passed the threshold of being rated as IB. Hence there is much need to improve the business model for achieving more social impact and better commercial returns. By mode of engagement,



29% of companies engage the BoP as suppliers, 4% as laborers, 63% as consumers (mostly microfinance services), and 4% as shareholders; 2 companies had multiple engagement modes.

Commercial viability of IB is high: 21 IB business lines currently have revenues between \$1 and \$10 million, which is predicted to grow to \$3 - \$30 million each by 2020. The commercial viability of the companies with IB lines is high, with a current profit before tax of 3% to 20%, increasing to 10 - 40% by 2020. As expected, profitability is highest among companies with IB models (above 8%), followed by IB initiatives (2 - 10%) and IB activities (1 - 5%). Profitability is highest in agribusiness, followed by education and health, and microfinance. Most companies are bankable and few need additional commercial financing. Most companies expressed that it might not be difficult to get such financing, especially when their social impact model and commercial viability is known (pointing to the need for certification/accreditation and branding of IB). Some companies need technical assistance or grant financing in the range of \$0.1 - \$1 million to do impact assessment and business plan revisions, pilot testing of new approaches, to directly support the poor within their value chains.

IB models reach many poor and low-income people: The 21 companies for which deep dive assessments were done, have high social reach. Agribusiness investments typically target 300-3,000 farmers at present and will grow to 1,000-20,000 by 2020. Microfinance models target currently at least 70,000 clients each and expect to grow to up to 300,000 each by 2020. IT and mobile-based IB solutions in agribusiness and health have naturally higher reach of 70,000 to 3 million each, and this is expected to grow substantially by 2020. In sum, the 21 IB cases assessed will create new income opportunities for about 50,000 households by 2020, provide financial services to over 1 million households, offer health information and services to 2.8 million people, provide energy access to a minimum of 10,000 households.⁴ Apart from this exceptional reach, the depth of the social impact from IB (e.g. income increase against the market rate) and their ability to address business and social risks through innovation are also impressive.

⁴ If other solar energy companies with IB models are included this number would climb to about 70,000.

Enabling Environment

Inclusive business can address key challenges facing Myanmar's changing economy. Myanmar's economy faces major challenges, and an adequate business climate for private sector development is still emerging.⁵ Several new laws and regulations have made the economy more liberal (e.g. the 2016 Myanmar Investment Law and the 2017 Myanmar Companies Act), unleashed potential entrepreneurship, and inspired a new private sector that may drive dynamic growth. Businesses are eager to seize market opportunities to start new businesses or become more innovative in existing mainstream companies. The business community has also set up new networks for peer learning, and there is a desire for business and society to benefit by doing things differently. Social entrepreneurship is also emerging, especially among young business-oriented people. In this climate, IB is becoming a new avenue for entrepreneurs to position their businesses in contrast to older models and do good for society while also earning profits for shareholders.

Actors that may help promote the IB agenda: While assessing Myanmar's business environment and the institutions that may support the IB agenda, the study found the following:

- Business associations are interested in promoting awareness of IB and eventually setting up an IB/SE award system to enhance branding and recognition. In particular, the Myanmar Young Entrepreneurs Association could serve as a focal point for IB promotion in the business community. Other associations interested in IB promotion include UMFCCI, regional chambers like MRCCI, the MWEA, sectoral business groups like MAN, and international business chambers;
- Impact investors still struggle to generate investment pipeline and would benefit from IB growth. Investors could benefit from good investment cases and investment risks could be shared through an IB fund for -co-investing in accredited IB cases;
- Business incubators mostly work with social enterprises and start-ups in the tech space, or as consultants for mainstream business. However there are few such opportunities specifically for IB. There is a need to closely link the work of facilitator and advisory agencies with companies in the growth phase (like the DaNa Facility) to the IB agenda.
- Leaders in government have been interested in supporting IB. DICA in particular would be an appropriate champion for the IB agenda. DICA's relevance stems from its central role in company registration, its position as secretariat to the Myanmar Investment Commission, and its placement under the Ministry of Finance and Planning. DICA could be further supported by IB offices at the Ministry of Commerce, the SME Center of the Ministry of Industry, and relevant ministries like health, agriculture, education, and others;
- Development partners are interested in the IB agenda and could support IB growth through separate funding for technical assistance, supporting the proposed IB desk, and establishing an IB/SE investment fund. They could also integrate IB in their industry promotion services, especially for SME and value chain development.

⁵ In the World Bank's 2016 Doing Business study, Myanmar currently ranks among the lowest countries, coming in at 171 out of 190 economies worldwide.

Policy Recommendations

IB is a new form of public-private partnership: The study then makes recommendations on how government, private sector, and other actors can further promote the IB agenda in Myanmar. It prepared - for DICA - a Strategic Framework for IB support to be discussed by the government.. The study finds a strong dynamic on IB in Myanmar and recommends that the country is positioning itself within ASEAN with this new expertise, business case examples, and action, for promoting more IB investments and for enhancing positive recognition of Myanmar.

The 8 policy recommendations to promote IB in Myanmar can be summarized as follows:

Recommendation 1 – Establish an IB/social enterprise/impact investment steering group.

Recommendation 2 – Broaden awareness of IB and related branding.

Recommendation 3 – Provide technical assistance for IB business development and impact monitoring.

Recommendation 4 – Set up IB support desks in various agencies.

Recommendation 5 - Set up an IB accreditation or certification system.

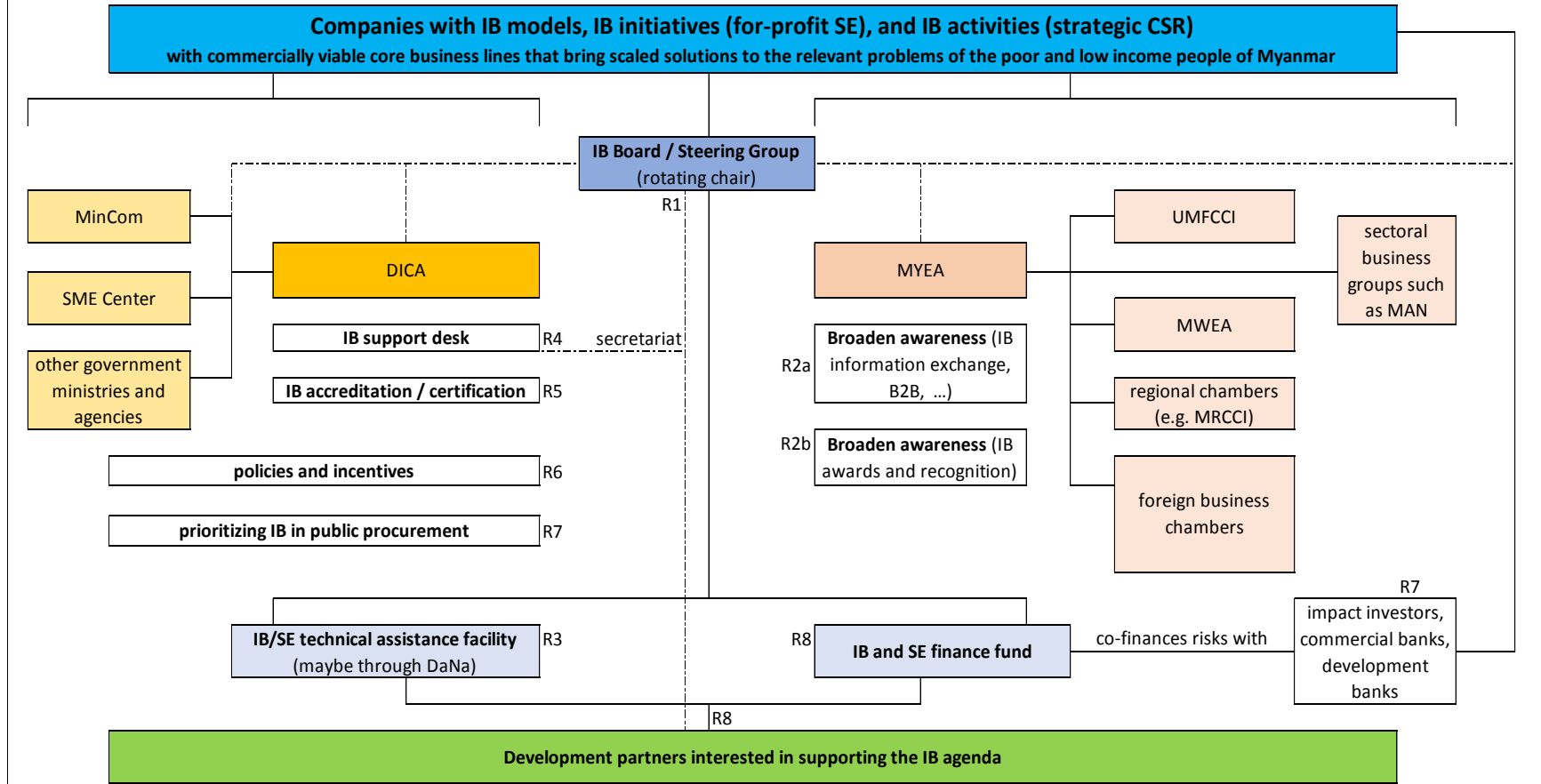
Recommendation 6 – Prioritize IB in industrial policies and incorporate into incentive structures.

Recommendation 7 – Strengthen demand for IB products through public procurement.

Recommendation 8 – Establish an IB and SE investment fund.

These recommendations are expected to be discussed with the Myanmar Investment Commission and the PSD Committee in order to obtain guidance toward further action.

Strategic Framework and Policy Recommendations to Promote IB in Myanmar



Note: R1-R8 are the strategic recommendations to the government, business associations, investors, and development partners to systematically promote IB in Myanmar