



WHY INCLUSIVE BUSINESS MAKES BUSINESS SENSE

LESSONS FROM KATALYST

WHAT MAKES KATALYST USEFUL

LESSONS FROM THE FIELD

Two encounter study reports prepared by
DR. PETER DAVIS



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LESSONS FROM THE FIELD

PREFACE

This publication actually contains 2 studies, both commissioned as part of Katalyst's 'capitalisation' process. As the project enters its last year, the capitalisation team are seeking to learn as much as possible from Katalyst's experiences over the past decade and a half.

Katalyst is a development project with a difference, in that it is funded by government money (the current, third phase is supported the British, Danish and Swiss governments) but works very closely with the private sector. Katalyst facilitates companies in the development of business models which provide benefits to poor people – be that by engaging the poor as producers and suppliers; or by developing goods and services they might consume. The aim of this approach is to develop sustainable ways of improving the lives of poor people in Bangladesh.

The success of the project over its long life has been monitored closely by the measurement and evaluation teams of the funding donor agencies. That Katalyst has been highly successful in creating jobs and raising incomes has been clearly demonstrated, and the annual reports published by these reviewers are matters of public record. What the two studies in this publication do is to look beyond Katalyst's explicit goals and to explore what other lessons might be drawn from the project's long experience. The two studies look respectively at:

- **Why inclusive business makes business sense.**

Key to Katalyst's approach is collaboration with the private sector. But what prompts companies to work with Katalyst and what they get out of that collaboration? This study examines what commercial and other benefits companies have gained from their work with Katalyst.

- **What makes Katalyst useful**

Katalyst has undertaken a wide range of activities and interventions during its life, but which things does Katalyst do which ensure that an inclusive business approach to addressing societal challenges works where more traditional donor approaches may have failed? This report examines the most important parts of the Katalyst 'tool kit'.

The goal of both of these studies is to draw lessons from Katalyst's experience which could be used more broadly. As the private sector assumes a more significant role in the architecture of development it is important to understand more clearly what benefits companies might get from greater engagement; and also what actions work best to facilitate inclusive market approaches. These studies are a contribution to this discussion.

Dr. Peter Davis
Oxford, October 2016

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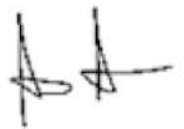
FOREWORD

The Agribusiness for Trade Competitiveness Project (ATC-P), known as Katalyst, is a market development project, which aims to increase the income of poor men and women, thereby contributing to sustainable poverty reduction in Bangladesh. Phase 3 of Katalyst is co-funded by the Swiss Agency for Development and Cooperation (SDC), the UK Government, and the Danish International Development Agency (Danida). It is implemented by Swisscontact under the Ministry of Commerce, Government of Bangladesh, throughout its three phases, starting from October 2002, the project has so far benefited over 3.5 million farmers and small enterprises, and increased their income by USD 430 million.

On behalf of Swisscontact-Katalyst, we would like to thank Dr. Peter Davis on the successful completion of two studies that are called “Why inclusive business makes business sense?” and “What makes Katalyst useful?” Dr. Davis is a political economist with expertise in the role of private sector in international development, with a particular focus in fragile and conflict-affected states.

In Phase 3, Katalyst has introduced a new theme titled ‘Capitalisation’. The aim of this theme is to capture project’s learning and anchor them with a wide range of stakeholders. As part of its capitalisation strategy, Katalyst engaged Dr. Davis to draw lessons from Katalyst’s experience in the form of these two studies. The first one focuses on the private companies’ incentives to engage in inclusive businesses and the second on the development projects’ perspective to promote private sector led inclusive business.

As these report verify, there is ample scope for private sector to take up inclusive business initiatives and for development projects to support such initiatives. Together we can expect a new era of strong partnership in development that is more sustainable, resilient, and inclusive.



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WHY INCLUSIVE BUSINESS MAKES BUSINESS SENSE

LESSONS FROM KATALYST

INTRODUCTION

What is this report about?

Katalyst is a development project backed by funding from international donors. However, it is a development project with a difference. Whereas many development programmes are based on making grants to governments and others, Katalyst's approach is to work very closely with the private sector. Katalyst facilitates companies in the development of business models which provide benefits to poor people – be that by engaging the poor as producers and suppliers, or by developing goods and services they might consume.

The rationale for this different approach is that while traditional donor grant-making approaches can improve things for what is often a finite period, the challenge can be to sustain these benefits over time. The aim of the alternative, so-called 'inclusive business' approaches is to provide sustainable ways to improve the lives of poor people.

That this model has worked for poor people has been demonstrated by the results of various assessments of Katalyst which have been undertaken since its inception. These reviews highlight a number of examples. Firstly, a project on maize contract farming in the fragile char areas of northern Bangladesh, begun in 2006, has seen the farmers involved increase their seasonal income from BDT15,500 to BDT23,500 per acre. Secondly, as a result of another project initiated in 2012, around 135,000 farmers have been trained to use pesticides safely. This has both greatly improved farmers' health and also reduced their costs on wasted inputs. Thirdly, the Jigyashi 7676 telephone helpline has provided farmers with vital information on disease prevention and other key aspects of farming. It is estimated that this service responded to 385,000 calls from farmers in 2011-12 alone.

At the same time, it is clear that these societal benefits have also provided good business for the companies involved. Companies reviewed for this study variously report strongly improved sales growth, the creation of new lines of business, and greatly improved relationships with key business partners. The sister report to this one, *Why Inclusive Business makes Business Sense*, explores in more detail the different ways in which inclusive business models and collaboration with Katalyst have provided commercial and operational benefits to the companies involved.

This report explores what precisely it is that Katalyst does that enables the creation of businesses which are both commercially viable and durable and provide clear benefits for poor Bangladeshis. What does Katalyst add which private companies cannot manage for themselves? What things does Katalyst do which ensure that an inclusive business approach to addressing societal challenges works, where more traditional donor approaches may have failed?

The logic for seeking to answer these questions and for this report is simple. If we can more clearly understand what value Katalyst adds in facilitating 'inclusive business' approaches, then we are in a better position to establish similar entities – be that in Bangladesh or elsewhere – to do similar things. If 'inclusive business' approaches are to become more mainstream we need to understand what sort of a catalyst Katalyst has been, and how that might be recreated.

Background to Katalyst

Agri-business for Trade Competitiveness Project (ATC-P) – better known as Katalyst – is a development programme which was initially established in 2002. Over three phases of work it has received backing from a number of international donor agencies which include, in the current phase, the British Department of International Development (DFID), the Danish International Development Agency and the Swiss Development Corporation.

Katalyst is an example of the approach to development known as ‘making markets work for the poor’ (M4P). This is based on the view that the best way of improving the lives of poor people sustainably is to engage them in market structures while at the same time working to ensure that those market structures are supportive of the interests of the poor. Katalyst’s work can be seen as being formed of three main streams:

- **Enabling:** working with government departments and others to create an effective regulatory environment.
- **Encouraging:** collaborating with large companies – both Bangladeshi and foreign – to identify business models which provide benefits to poor people as well as to the company.
- **Empowering:** providing poor people with the belief that they can engage in larger scale market activities and providing them with the wherewithal to do so.

Despite the growth in other sectors of the economy– most notably the ready-made garment industry– agriculture remains central to life in Bangladesh. It is estimated that this sector employs 47% of the total labour force of the country– yet it only provides 16% of GDP. Because of this central importance and in order to improve productivity in the sector, Katalyst’s focus throughout its years of operation has been in agriculture. The project operates in three main agricultural sectors:

- **Maize:** This is a relatively new crop in Bangladesh, the cultivation of which has grown rapidly in recent years on the back of demand from the fisheries and poultry sectors. With the poultry sector growing at 20% a year, Bangladesh currently imports 30% of its maize demand. Katalyst’s work in the maize sector seeks to bolster domestic supply and so reduce the demand for the imported product.
- **Vegetable:** It is estimated that as much as 12% of the rural population is involved in the cultivation of vegetables, which perform two main functions in rural households. Firstly, they provide valuable additional nutrition to the family; they are also a cash crop which can provide useful additional income. Historically, horticultural inputs, growing practices and sales markets have all been problematic, hence Katalyst’s involvement in this sector.
- **Farmed fish:** Demand for fish as a source of relatively cheap protein is rising significantly in Bangladesh. A sharp increase in the urban population and over-fishing of wild species is leading to a strong growth in fish farming. As with the vegetable sector, there are challenges in terms of inputs, production techniques and with the sales markets, all of which have been the subject of Katalyst activities in recent years.

As well as these three value chains, Katalyst also works on three cross-cutting issues – that is, topics which are not specific to the cultivation of one crop in particular, but which are relevant across all sectors within agriculture. These are as follows:

- **Forward markets:** It is quite typical for development projects in agriculture to focus on the inputs farmers need (seed, fertiliser and so on) and on farming techniques, but to neglect to enable farmers to create sales markets for the goods they produce. Katalyst is different, and as a key area of activity works with farmers and other partners to develop stable sales markets for agricultural produce. In many cases this means working to ‘de-layer’ market processes in which there may be many strata of intermediaries between producer and consumer who add little value.

- **ICT:** The advent of even fairly basic modern technologies (such as the mobile phone) has had a significant impact on the lives of rural farmers. For example, ICT means they have access to more reliable weather forecasts, and can get to know the market price of the commodities they are growing, so giving them a stronger negotiating position. Katalyst works in a number of areas to harness the potential of ICT to improve agricultural practice and the lives of farmers.
- **Women's empowerment:** As Bangladesh gradually develops new sectors of the economy, so more men are taking paid, employed jobs, taking them away from homestead farming. This makes the role of women in agricultural areas all the more important. Yet despite this, farming remains geared towards men, particularly in the areas of decision-making and engagement with market actors. Katalyst is working in a number of areas to improve the position of women in agriculture and to ensure that they are able to operate effectively.



The methodology for this report

This report was commissioned by Katalyst in late 2015 and is part of its 'capitalisation' work. As noted earlier, the impacts of the project on its main target audience – poor farmers – has been widely examined as a part of regular project reviews. What the capitalisation process seeks to do is to identify what other, hopefully beneficial impacts the project has had in its 14-year life which have not so far been captured as part of the normal process of project oversight. This report focuses on understanding precisely what Katalyst has done which has enabled the creation of workable inclusive business projects.

To that end, this report is based on a review of current and historical documents, and on extensive interview data. Interviews were undertaken in February and March 2016 with senior managers within Katalyst and with senior representatives of the ten main corporate partners with whom Katalyst is currently working. These interviews used an open interview technique designed to explore two main areas: firstly, what commercial or other benefits had the company gained from its work with Katalyst, and secondly, what specific capabilities made Katalyst a useful partner.

While by definition those interviewed were sympathetic to Katalyst and therefore might be expected to provide a broadly favourable account of their collaboration, it should be noted that all those interviewed appeared frank in their responses, and were prepared to speak about what had not worked as well as about what had.

Inclusive business

The concepts of ‘inclusive business’ and ‘inclusive market development’ have been gaining greater traction in the past decade, even though the precise definition of the terms remains something of a matter for debate. For the purposes of this paper it is not necessary to explore all the different terms used; instead we summarise the concept with the definition used by the International Finance Corporation that inclusive business models are “are commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations.”¹

The focus on inclusive business stems from two main premises. The first is the recognition that even when private sector organisations in developing countries do achieve middle income status, much remains to be done. Economic development in these countries is often highly uneven and non-inclusive with the result that, despite injections of donor funding, levels of poverty often remain high, or in some cases even deteriorate. According to the Nigerian Statistics Agency, for example, in 2010, 61% of Nigerians were living on less than a dollar a day, up from 52% in 2004. Inclusive business models are viewed by many in the sector as a key tool in making sure that development at a headline level benefits the many, not just the few.

The second premise reflects the fact that a small but increasing number of companies have demonstrated a preparedness to engage with issues which donors would call ‘developmental’. Initiatives such as the Extractive Industries Transparency Initiative on revenue transparency, the Kimberley Process to certify ‘conflict-free diamonds, and the Sustainability Compact to address the issues in the Bangladeshi garment sector, show that many private sector organisations recognise the importance of responding to societal demands. Other companies, including Danone, Heineken and Unilever have developed business models which involve the poor either within supply chains or as customers.

The challenge with inclusive business, and one which this report seeks to explore in more detail, is to understand exactly what the chemistry is that makes it work. As donors increasingly seek to engage the private sector as a development actor, a clearer picture is needed of what donors can best do which supports companies in developing businesses that are both profitable and developmentally useful. What input, collaboration, networking and other support ought donors (and entities like Katalyst which they support) provide to facilitate the creation and maintenance of inclusive businesses?

Katalyst has worked with a large range of companies over its lifetime. The aim of this report is to provide clarity about what value these organisations think Katalyst has added in helping them to establish inclusive businesses. The interviews undertaken with ten current partner companies explored what prompted the engagement with Katalyst in the first place, what the partnership has delivered during its life and may continue to in the future, and how the relationship and what the company gained have changed and modified over time.

This report tries to be as granular as possible about what these companies believe Katalyst has done which has allowed them to create functioning inclusive businesses. As will become clear, some core themes emerge about what Katalyst has done to stimulate the creation of such structures and to help them to persist over time. The hope is that by better understanding precisely how a donor-backed entity has created functioning inclusive businesses, this learning might be used elsewhere. This report is aimed firmly at the donor community, and in particular those who are trying to engage the private sector. The intention is that the lessons from the experience of Katalyst can inform a toolkit of actions that other donors might use elsewhere in the world to facilitate businesses which are both profitable for the company, and at the same time help improve the lives of poor people.

1. IFC. Inclusive Business. www.ifc.org/inclusivebusiness (accessed 19/04/16).



DEVELOPMENT, THE PRIVATE SECTOR AND INCLUSIVE BUSINESS

The central aim of this report is to explore why it is that some companies choose to engage with inclusive business approaches, and to understand what they get out of these arrangements. However, to do this properly it is useful first to take a brief look at wider international discussions of the role of the private sector in development.

The private sector in development

It is now widely recognised that the private sector is, to quote DFID, “the engine of development.”² This assessment is borne out by a number of reports. For example, a study carried out by UNCTAD, the Indian Government, and DFID found that rises in exports from India between 2003-04 and 2006-07 led to the creation of 26 million new jobs and to USD55 billion in additional income.³ The significance of the development of the private sector for a country’s wider development is also demonstrated by the experience of China. A study of 29 Chinese provinces between 1978 and 1989 found that growth of private and semi-private enterprises led to an increase in economic growth, while the presence of state-owned enterprises (SOEs) reduced growth rates.⁴ A more recent study has found not only that the private sector contributed to economic growth, but also that it helped the country to cope with the societal impacts of the decline in state industry: “The growth of private sector has mitigated the social costs of SOE reforms [as well as leading] to China’s impressive share in world exports.”⁵

2. Mitchell, A. ‘Foreword’ in *The Engine of Development: The private sector and prosperity for poor people*. DFID, London. 2011 p4.

3. UNCTAD. *Poverty-reducing effects of trade cited at India conference*.

4. Chen, B. and Y. Feng. ‘Determinants of economic growth in China: Private enterprises, education, and openness.’ *China Economic Review* 11: 1-15. 2000.

5. Hasan, I., Wachtel, P., & Zhou, M. ‘Institutional development, financial deepening and economic growth’. *Journal of Bank & Finance*, 33(1), 157–170. 2009.

Studies of individual companies operating in emerging economies demonstrate that these companies can have significant pro-poor impacts in both their backward (supplier) and forward (distributor and retailer) value chains. A 2005 study by Oxfam examined the impacts of the consumer product company Unilever’s business in Indonesia. These included tax revenues “averaging about US\$ 130 million per year”, jobs for 5,000 people within the company itself for which “pay and benefits are above what is required by law... [and which have] high health and safety standards, good retirement and maternity benefits and workplace facilities...” and an estimated further 300,000 jobs in the company’s value chain. A study carried out in 2008⁶ found similar impacts by Unilever’s business in South Africa. This report found that for every job Unilever created in its direct operations, a further 22 were created in the value-chain, representing 0.8% of the country’s total employment. A more recent study⁷, again by Oxfam as part of their Poverty Footprint initiative, of the operations of Coca-Cola and SABMiller in Zambia and El Salvador, found similar wealth-creation impacts. This work concluded that the gross value added by the value chains of these two companies in 2008 was USD21m in Zambia and USD83m in El Salvador. Oxfam calculated that this supported and estimated 3,741 jobs in Zambia, and 4,244 in El Salvador.

Yet the corporate sector remains a controversial player

Yet despite these statistics the corporate sector’s role in development remains controversial among some, as is demonstrated by the current debate over corporate land acquisitions in developing countries. Such land acquisitions have been characterised by some campaigners as “land grabs”⁸. Exact figures are disputed, but the World Bank estimates that between 2008 and 2010, 45 million hectares of farmland were bought and sold, compared to an annual average of four million hectares per annum before then.⁹ The causes of this are seen as linked to the global crises of recent years.

Such land acquisitions have been strongly criticised by those who see them as adversely impacting on local populations and small farmers in developing countries: “The expansion of corporate farming is exacerbating tenure insecurity, displacing local producers, undermining the ecological sustainability of local land and water resources, with profound and long-term implications for the economic and social structures of rural societies.”¹⁰ The UN Special Rapporteur on the Right to Food argues that the increased focus on food for export will increase food insecurity: “The countries targeted by these deals... will be potentially increasingly dependent on international markets to achieve food security. They will produce more food, but this food will be exported.”¹¹ One influential report described the issue as undermining “the right of working class people to have effective access to, control of, and use of land and live on it as a resources and territory.”¹²

Closer to home for Katalyst – in Bangladesh – the Rana Plaza disaster in 2013 made a mockery of the claims of many apparel firms to protect the workers manufacturing their clothes. The collapse of this eight-story building left more than 1,000 people dead and more than 2,500 injured. The factories on the site manufactured products for well-known international brands such as Matalan, Benetton, Primark and Walmart, most of which had well-publicised codes of

6. Kapstein, E. *Measuring Unilever's Economic Footprint: The Case of South Africa*. 2008

7. Oxfam America. *Exploring the links between international business and poverty reduction*. Oxfam

8. Borras, S M & J Franco. ‘Towards a Broader View of the Politics of Global Land Grab: Rethinking Issues, Reframing Resistance.’ *Initiative in Critical Agrarian Studies Working Paper Series 001*. ICAS Amsterdam 2010 p35.

9. World Bank. *Rising Global Interesting Farmland: Can it Yield Sustainable and Equitable Results*. The World Bank, Washington DC. 2010.

10. Da Via, E. ‘The Politics of “Win-Win” Narratives: Land Grabs as a Development Opportunity’. Paper presented to *International Conference on Land Grabbing* IDS 6-8 April 2011 p4.

11. de Schutter, O. Quoted in <<http://www.dw-world.de/dw/article/0..4524232.00.html>>.

12. Borras, S M & J Franco. ‘Towards a Broader View of the Politics of Global Land Grab: Rethinking Issues, Reframing Resistance.’ *Initiative in Critical Agrarian Studies Working Paper Series 001*. ICAS Amsterdam 2010 p35.

conduct to protect the workers in their supply chains. Even if such policies were in place, critics maintain, they were manifestly ineffective.

Companies engaging in development

However, there are a growing number of examples of organisations proactively developing business models which specifically address the needs of poor people, either as suppliers and producers or as consumers. News agency Thomson Reuters demonstrates how the poor offer a large (if low-margin) market as consumers. In 2008, the company launched a subscription-based service called Reuters Market Light, which uses mobile phone SMS technology to provide small farmers with tailored information about 150 crop types in more than 1,000 markets. This service reduces information asymmetry in agricultural markets and helps small farmers get a greater proportion of the value of their produce. In 2012, the service passed the one million subscriber mark.¹³

The example of Dutch brewer Heineken demonstrates how companies can engage with the poor as suppliers. In Rwanda for example, the company's local company, Bralirwa has explored ways of using local products as the raw materials for their beer production. Initially sorghum was used, which the company buys from around 3,000 farmers. From 2008, the company developed a programme with a local maize mill, Minimex, and the Dutch development agency¹⁴. The mill was granted 700 hectares in the Bugesera district by the Rwandan government, designated for agricultural development; 140 hectares of this land have been cultivated for professionally mechanised and irrigated production of maize using high yielding maize varieties, for use in the mill and to be supplied to Bralirwa for use in brewing. In addition to the workers on this site, the project also provides work to 500 outgrowers.

THE PERCEIVED VALUE OF KATALYST

Money

The most obvious thing that Katalyst brings to its relationships with companies is money. All of the projects on which Katalyst has worked are co-financing arrangements between itself and the partner company. Who pays what varies from project to project and over time; something between 60:40 and 40:60 between Katalyst and its partner seems to be the norm at the outset of a relationship.

In the bigger scheme of corporate funding processes the amount of money which Katalyst brings to the table is relatively modest. However, in the context of the type of new business development with which the project works with companies, the sums Katalyst provides can make the difference between a company being prepared and able to explore a new venture, or not. Katalyst is able to help its partner companies' financial calculations stack up.

Preparedness to risk capital in search of new opportunities is in the nature of a company; however, most companies have clear processes for comparing the different opportunities available, and usually require a clear business case and anticipated rate of return before financing for new ventures is made available. Potential new opportunities in Bangladesh's agricultural markets frequently fail to meet these internal rate-of-return calculations.

In many of the cases covered in this report the market was uncertain, the challenges in getting suppliers to deliver the right quality at the right time unquantified, and additional challenges to making the business work unclear. Yet equally, in most cases the logic of the potential

¹³ Thomson Reuters. Reuters Market Light <http://www.reutersmarketlight.com/milestones.html>.

¹⁴ Piederiet S. Presentation on Bralirwa to EMRC Agribusiness Forum. Kampala, 5th Oct 2010.

business was clear: farmers were seeking an additional crop and summer maize had obvious potential to fill that gap; fisheries were seeking new ways to respond to the increasing demand for fish and the introduction of mola as a commercial species would serve that purpose; contracting with small-scale farmers was a clear route to addressing the increasing demand for 'safe food' from a growing urban middle class.

What inclusive business models do is to allow companies to explore these new ideas and to take risks which their mainstream management processes might not otherwise permit. Because Katalyst makes additional financing available, the cost to the company is lower, thereby allowing its internal accounting processes to approve participation in a new opportunity rather than rejecting it.

A more broad challenge to market development exists in Bangladesh. It is not that companies are trying to develop their own products in an already-existing market: rather, they are trying to develop markets from scratch. As ACI argued in relation to the development of a market for agricultural inputs for small farmers, this is not the sort of process which one company can achieve on its own; it needs to work with partners, and in this regard, the role of Katalyst is key. It is clear that the economics of these new business areas would not have been viable for ACI (or for many of the other companies interviewed) were it not for the collaboration and cost-sharing with Katalyst.

Cost-sharing with Katalyst makes it possible to go down routes that would otherwise not be possible and to explore opportunities that would otherwise be ignored. For example, according to NAAFCO its partnership with Katalyst helped the company to explore an opportunity it had spotted for itself but would not have been able to take up without support, as the financial returns were not sufficiently clear. Similarly, when GME Agro began its collaboration with Katalyst, 60% of the funding to develop its business in biopesticides came from Katalyst. That proportion has already dropped to 40% and the company states that a point is approaching when they will be able to bear the total cost of internally. Metal Agro too have been able to use Katalyst's financial support to make possible the development of a new business process – a telephone helpline for farmers. At the outset, the cost share for the call centre was 50:50 between Katalyst and Metal. The company now regards it as being so central to its marketing that it is prepared to take the entire cost on itself. According to a company representative, "Our costs are rising but we see this as part of our marketing activities."

The use of inclusive business models therefore enables companies to explore new areas of business that their normal analytical frameworks may cause them to ignore. It is also clear that the track record and reputation of Katalyst helps as well – it enables those responsible for the prospective new business to point to a reliable business partner as part of the process of winning support internally. At the same time, the fact that the financial support is there as a 'pump primer' allows companies to explore areas which may well become highly profitable in the long term but which in the short term present many challenges.

However, in addition to making companies' internal rate-of-return calculations work, the fact that Katalyst is prepared to risk financial resources on a new project gives confidence to those engaging with the new venture that the new idea will bear fruit, and supports them to win over others in the business. A number of companies interviewed said that this was vital: had Katalyst merely been providing consultancy advice, a project would not have been approved. GME Agro, for example, made it clear that its wider management team was open to the relationship with Katalyst because Katalyst's activities were supportive of the company's general strategic approach. However, it also seems that the additional financial resources provided by Katalyst were of key importance: the company stated that some elements of their

business development strategy would not have been possible without Katalyst's financial input. The fact that Katalyst was putting its money where its mouth was persuaded company decisionmakers to give the go-ahead to the new venture.

Identifying new opportunities

However, the financial resource Katalyst offers is only of interest to companies if there is a viable commercial opportunity to explore. Katalyst is able to add value here too, by identifying business opportunities which companies themselves have not spotted. In many cases, these new businesses have progressed to being (or are on the way to being) profitable and durable. There are also several examples where a company identified a potential opportunity, but had been unable to worked out how best to develop it. In these cases, Katalyst was able to find ways of turning an interesting idea into reality.

At first sight it may seem curious that a donor-funded NGO is able to identify commercial opportunities which a private sector company has not seen for itself. How is this possible? The answer seems to be that Katalyst and its staff is looking at rural markets through a different lens to that employed by corporate managers. Company staff are often relatively distant from small-scale farmers, whereas Katalyst engages with these communities on a daily basis; Katalyst is thus able to see rural agriculture from a different perspective and may, from time to time, spot a potential market which a corporate entity might not see. Furthermore, the structure of Katalyst – as a catalyst rather than a primary actor – is crucial. Many donor-supported programmes identify a need among poor populations and seek to develop a grant-funded response. In contrast, Katalyst is set up to look for market-based solutions to beneficiary needs. It is this mindset among Katalyst staff which enables them not simply to spot an area of need – farmers seeking an additional source of income, for example – but to devise a potential market approach to that need and then identify a corporate partner to develop this opportunity. In a number of the cases reviewed for this study, it was Katalyst which had identified a commercial opportunity for which it then sought a corporate partner.

Syngenta Bangladesh: identifying a market in summer (kharif) maize

Syngenta AG is a global Swiss agribusiness that produces agrochemicals and seeds. It was formed in 2000 through the merger of Novartis Agribusiness and Zeneca Agrochemicals, and in 2015 global sales in were approximately USD13.4 billion, over half of which were in emerging markets. In Bangladesh Syngenta operate in a number of sectors, including in seeds, agrochemicals and fertilisers.

The company estimate that around 50% of their sales come from small-scale farmers – up from only 10% a decade ago. Consequently the company is used to operating in collaboration with development actors – indeed 'partnership' part of their corporate mandate.

Syngenta had been working with Katalyst to develop into the maize business, the demand for which crop is growing strongly on the back of demand for feed from the fish and poultry sectors. Ten years ago more than 80% of maize was imported – now less than 30% is imported, despite the increase in the size of the market. It is estimated that as much as 40% of this domestic supply comes from small-scale farmers.

However, alongside this work, Katalyst had identified the potential of a market selling seeds for summer (kharif) maize. Because of their experience, Katalyst realised that farmers were seeking an additional crop both to increase their income, and reduce reliance on one crop a year. Summer maize requires relatively few inputs and therefore had the potential to be a useful additional money-earner for small-scale farmers.

However, despite the potential advantages, farmers had been sceptical about their ability to manage an additional crop. Field research by Katalyst revealed that while kharif maize cultivation had been slowly gaining popularity in certain parts of northern region, farmers lacked good summer maize seed varieties, and did not have information on proper cultivation techniques, cropping patterns and so on. These challenges meant that where farmers were growing these maize varieties, their yields were low.

Therefore the collaboration between Katalyst and Syngenta focused on supporting farmers to plant and manage a summer maize crop effectively. Syngenta made kharif-specific quality seeds available and worked with Katalyst to provide knowledge on better cultivation techniques, quality input usage, balanced fertilization and so on. The collaboration has operated through holding training sessions with farmers, and also by skilling-up the seed retailers, who act as a key source of information to farmers on a day-to-day basis.

The summer maize project has been a considerable success. Syngenta estimate that in 2010 they sold between five to ten MT of summer maize seed varieties a year. They now sell annually as much as 200 tonnes – a 20-fold increase. As a result farmers now have increased and diversified revenues and hence greater security.

Quality Feeds: diversification in farmed fisheries and creating a market at scale

Katalyst was also able to identify an important new market for Quality Feeds (QFL): one which also provided strong benefits to small-scale farmers. QFL is a manufacturer of feed for a number of agricultural sectors in Bangladesh, and like Syngenta has previous experience in working with Katalyst. The partners' first collaboration focused on consistency in formulating feeds from raw materials.

Again leveraging their knowledge of the needs and interests of small farmers, Katalyst had identified that fish farmers were looking for additional streams, but that any new departure had to work given the constraints of the physical infrastructure available to those farmers, and could not imply significant additional input costs.

Katalyst therefore suggested to QFL that they develop a market for cultivation of mola (sunfish) to small-scale fish farmers. Mola are a small indigenous species of fish which historically was farmed widely in Bangladesh, but more recently has been neglected. The new business is seeking to reintroduce mola as a commercial species to provide greater diversity of income to small farmers.

Mola cultivation works well within a polyculture fish farming environment. Mola live in the upper layer of ponds, whereas carp (the most popular farmed species of fish) are cultured in the layers below. The two species thus do not intermingle with each other, meaning that the farmer gets better usage of the pond. Moreover, mola live largely on what is already in the pond they need little additional feed or care. In effect therefore they provide a low-cost additional 'crop' to farmers.

QFL readily admit to initial scepticism about developing a business in this sector: "We were not convinced about mola as a business area, but were persuaded that it was a good idea." As well as being the instigator of the business, Katalyst is also key to its development through supporting the company in developing a business model that allows QFL to tap into a cluster of farmers who predominantly culture the traditional carp species – providing them direct access to a large number of new potential customers.

As in other areas of agriculture in Bangladesh many farmers lack sophisticated farming skills, and the fisheries sector is no exception. Therefore QFL and Katalyst have developed and run

workshops in various places to train farmers. Each seminar has between 25 and 30 attendees and focuses on training farmers on how to use feeds correctly, within a wider context good farm management. The structure of the seminars and their content has been developed by Katalyst which has brought in expertise from the Bangladesh Fisheries Research Forum (BFRF).

Despite their initial scepticism QFL have come to realise that the mola business has great potential. Though still in its early stages the company is seeing growing interest from farmers, who themselves are coming to see mola as an additional crop which they can sell at local markets, thereby providing a valuable additional source of income, at relatively-low additional input cost.

Adding reach

In developing new businesses, a challenge is that companies frequently have too few people trying to do too much. Indeed, an additional reason why Katalyst is sometimes able to spot commercial opportunities which companies have missed is that no-one from the company had the time to explore an area of potential interest. However, more broadly it is clear that Katalyst is able to 'add reach' to its corporate partners, and enable them to do things which they might not have had the resource internally to do alone.

It is clear from many of the cases reviewed that even where a company may have spotted an opportunity in a new business area, they may be faced with a decision about whether they can exploit it given finite resources and time available. Therefore, even opportunities which might be viable in the long-run risk being left because of short-term capacity issues.

This additional 'reach' can come in a number of forms. Sometimes it is that Katalyst has a network and connections in parts of the country where the company is weak – therefore Katalyst is able to add geographic reach to that company. In other cases, the additional 'reach' has been in terms of being able to bring additional human resource to bear on a new business project. Where a company might not have sufficient in-house staff to make a project work, Katalyst is able to provide additional manpower. Thirdly this additional staff resource brings with it relevant technical and managerial skills to support the company staff.

Aarong: improving quality and capacity in the supply chain

In the case of Aarong, the 'added reach' which Katalyst was able to provide was in the form of improving the quality of training and capacity building in the company's supply chain, to help it deliver a new business model.

Aarong was set up to promote rural crafts to urban populations, and at present its main market consists of non-resident Bangladeshis in places like the UK who buy products in Aarong's stores to take back to their country of residence. In recent years the company has developed a new business plan focusing on fewer products and on product designs they knew would sell well. To that end the company employed a professional Creative Director, and appointed a number of their more experienced and able artisans as intermediaries to work with others to ensure consistency of quality and design.

A central challenge in delivering this new business plan was to improve skills levels and quality within the Aarong supply chain. Accordingly, Katalyst has developed a train-the-trainers process, focusing on the key, experienced artisans in Aarong's network. These people become 'producers' who act as focal points to farm out work to others in their area. The training focuses on issues of product design, quality control, and process management to ensure that these focal 'producers' are able to delegate work effectively, and collect it back within the timeframe Aarong requires. These 'producers' also receive training in basic business skills.

There are a number of steps to the process. Initially Katalyst works with Aarong to understand what the needs the producers have identified, and what challenges the producers feel themselves to be facing in responding to the requirements from Aarong. This takes the form of a gap analysis between the expectations of Aarong and of its suppliers. Katalyst then develop training modules to respond to these needs. To date Katalyst have trained 200 of these key 'producer'-level artisans, and Aarong has used these people to train a further 600 in its network.

Aarong's view of Katalyst is as a consultancy; providing specialist and bespoke advice and support. As the company observed, it is not cost-effective to develop specialist knowledge internally in all the areas they might need to cover, and therefore bringing that expertise in, in the form of Katalyst, makes practical and business sense. It is clear that in this case, Katalyst is able greatly to extend the reach the company has, and to facilitate its more rapid growth.

Metal Agro: facilitating long term service to small farmer customers

In the case of Metal Agro, Katalyst was able to 'add reach' by helping the development of better processes of customer service, specifically through the creation of a customer help-line service. This initiative has helped the company create a much improved relationship with the farmers to whom it sells, and also provided much-needed information and support to these farmers.

Metal Agro was established in 2003, and initially focused on providing mechanisation – tractors and other machinery – to farmers. More recently, the company has also moved into the development and sale of seed, in particular hybrid and high-yielding varieties. At present, it has more than 60 varieties of seed for 23 crop types, mostly in the vegetable sector.

Metal Agro has been working with Katalyst to develop its business in new, hybrid seed varieties, a collaboration which has demonstrated to the company the need to persuade farmers of the benefit in using these new varieties over traditional ones. While yields are higher from these new seed types, they are more expensive to buy and require different care protocols than farmers may be used to. There is, therefore, a degree of resistance from farmers who are wary of new ways and who are inclined to be sceptical of the promises made by agricultural firms. The farmers' fear is that they will pay more money for seed, but not see the increases in yields. In practice this fear is realistic, not because the increased yields are not possible, but because farmers lack the right skills and information to manage new hybrid seed types properly.

Information is therefore crucial for farmers to ensure proper application of inputs and to achieve consequent improved yields. To achieve this, Katalyst has helped Metal Agro to develop a customer care helpline available to all the company's seed customers. The care line works on a missed call basis: a farmer calls a toll-free number and is then called back. Smallholder farmers are reluctant to pay for information services and a missed call-based service means that the company bears the costs of the call, so making it affordable for farmers.

At present the call centre has ten lines, but there are plans to expand this as the current call volume of 70-80 calls a day is increasing rapidly. The care line provides farmers with a support service when they are actually in the field. The support provided is not restricted to information about the company's products: the company reports that of the calls received about 60% are specifically about Metal Agro's seed, the remainder are about more general farming questions, and the use of fertiliser, pesticide and so on. As a result, the call centre is able to extend the company's reach by providing to farmers a reliable source of information when company representatives are not physically present to cater to farmers' information needs.

It seems clear that the collaboration with Katalyst has fundamentally changed Metal Agro's customer relationship processes. At the outset, the cost share for the call centre was divided 50:50 between Katalyst and Metal. The company now regards it as being so central to their

marketing that it is prepared to take on the entire cost themselves. According to a company representative, “Our costs are rising but we see this as part of our marketing activities.” The company attributes its strong sales growth in recent years at least in part to the introduction of the help line. The call centre was established in 2014, and in the following year sales increased by 30%, compared with annual growth rates in previous years of between 15 and 20%. Sales are expected to grow by 50% in the current year.

Katalyst has therefore been instrumental in helping Metal Agro to extend its capabilities, and to understand and respond more effectively to the needs of its customers. For their part, farmers now have better access to high-quality information about a range of farming issues through a timely and easy-to-use process.

Direct Fresh: making contract farming work

By providing additional capacity and ‘reach’ Katalyst has supported Direct Fresh in developing its home delivery service for high quality fruit and vegetables. They sell predominantly to the ex-pat community, the growing Bangladeshi middle class, and entities such as hotels. The business therefore responds to growing concerns about the safety of food in Bangladesh, and concerns about the health impacts of the use of pesticides and preservatives used in agriculture and in the food supply chain.

A key challenge for the business has been to develop a supply chain capable of meeting growing demand. Given land constraints in Bangladesh – the company source only about 30% of their production from its own land – Katalyst and Direct Fresh have developed a contract farming model which currently works with around 2,000 small farmers. Bangladeshi farmers frequently use poor farming methods and tend to rely on traditional knowledge handed down to them, rather than on training in modern agricultural techniques. Direct Fresh thus face a challenge in terms of the quality and reliability of its suppliers, and has been working with Katalyst to address this by providing training to their farmers. For example, at present Direct Fresh and Katalyst are working with farmers on better production of brinjal, which is especially susceptible to attacks by insects. Training is being provided to farmers on proper use of integrated pest management (IPM) techniques to manage pests in a way which does not compromise the quality and healthiness of the resulting produce. The firm uses its own farms as demonstration sites to be able to show its contract farmers how business can be done more effectively.

Direct Fresh has been able to use its relationship with Katalyst to access additional expertise and capacity to develop its network of contract farmers. The benefit to the farmers is also clear. Contract farmers are paid immediately on delivery; in addition, their relationship with Fresh Direct means that they have a ready route to market and do not have to engage in marketing their produce.

Building relationships

The additional ‘reach’ which Katalyst is able to provide, as described above, is not generic: it provide its corporate partners with very specific value added, enhancing their credibility among their clients and so allowing them to build relationships and trust with important audiences.

The first element in this is Katalyst’s knowledge of very particular areas of agribusiness – knowledge which is vital in making new ideas workable. For example, in the fisheries sector Katalyst spotted the opportunity for setting up a business cultivating the mola species of fish. It had a sufficiently detailed understanding of farmers’ needs to know that there would be interest in the commercial farming of an additional species of fish. Furthermore, Katalyst understood enough about the technicalities of fish farming to know that if a breed could be

found which lived at a different pond depth than the widely-farmed carp species, then it could co-exist well in a polyculture environment. Finally, if a breed could be identified which required relatively little additional resource input, that would also increase farmers' income with little additional cost. That Katalyst understood all of these facets of the fisheries business enabled it to identify the opportunity in this sector and also to bring its relevant knowledge and expertise to bear on the development of that opportunity.

A second element is that Katalyst understands the mindset of Bangladesh's small-scale farmers. To develop a new business idea (such as mola fisheries) there is a need to understand the way farmers work. Many of the companies interviewed for this study acknowledged that they do not always have a detailed understanding of the constraints facing farmers, not least in terms of their knowledge of good farming practice. Few farmers have had formal training and instead rely on what they have learned from their fathers and peers. Katalyst has an understanding of how farmers see the world, and as a result is able to design interventions in such a way as to be accessible to those farmers.

Thirdly, it is apparent that collaboration with Katalyst wins for its corporate partners the trust of other key audiences. A number of those interviewed observed that there is often a degree of mistrust of large companies among small farmers, who are suspicious that they are only told what is in the corporate interest. Messages about good farming techniques (which companies need to get across so their products are used properly) often get lost. Working with Katalyst ensures that the this mistrust can be overcome, so that companies are listened to by their customers.

This issue of trust is also true of other relationships, for example in the case of Direct Fresh and Fisharbour which are developing 'safe food' businesses to sell to the rising urban middle class. In the absence (at least for now) of regulatory standards supporting the companies' positive claims about their food, their relationship with Katalyst gives customers with the confidence that those claims are true.

ACI: Developing an input market for rural farmers

The case of ACI demonstrates how Katalyst can help a company to understand better the needs of its customers and to build a stronger relationship with them over time. ACI is a diversified conglomerate with interests in a range of business areas, including pharmaceuticals, electronic goods and home care. The company is listed in Bangladesh but began life as a unit of the UK-based ICI. ACI has an agribusiness division which provides a full range of services to farmers, including mechanisation, seeds and fertilisers.

ACI began its work in the agriculture sector by building a new business in organic fertilisers, which are better for the soil, and therefore have better farming outcomes and are more cost-effective for farmers. In developing this business, ACI also came to realise there was an issue with the quality of the seeds that farmers use, with 70% of the seed market being in traditional, local, low-quality seed varieties.

However, in both of these areas, ACI is facing challenges in changing farmer behaviour. Farmers have reservations about buying organic fertiliser on the open market, and in the seed business, they display a conservatism and resistance to trying new things. In both cases the root challenge is that few small-scale farmers have ever been taught properly how to farm, but have simply continued the practices used by their fathers and grandfathers.

Katalyst has played a key role in helping ACI develop the relationship with its customers in terms of how it discusses with them the balanced usage of fertiliser. Katalyst and ACI have collaborated to organise a series of training events designed to encourage farmers in the use of

both organic fertilisers and hybrid seed types. Using its knowledge of the farmer community, Katalyst has developed teaching materials which contain clear messages about farming techniques which can be easily understood by farmers.

The company states that Katalyst's good understanding of farmers and the fact that it is trusted by them has helped deepen its relationship with its customers. Indeed, those interviewed said that this element of trust was crucial – that farmers instinctively mistrusted statements by and information disseminated by companies, believing that they are nothing more than sales messages – trying to 'dupe' farmers into buying things they do not really need. The reputation of Katalyst has helped overcome this, and to enable farmers to understand that whatever the commercial interests might be for ACI, there is at the same time an important message to take on-board.

NAAFCO Agrovet: building relationships in the fisheries sector

For NAAFCO too, its relationship with Katalyst has been instrumental in developing the relationships needed to build its business in the fisheries sector. NAAFCO is a privately held group of companies established in 1984 by the Huda family. The group has a range of interests including textiles and fuels; however, its main focus has been on agriculture inputs, including fertilisers and pesticides.

The group has observed significant growth in the fisheries sector, reportedly driven by i) farmers seeking higher returns than they can obtain from land-based agriculture, and ii) an increasing demand for fish as a relatively cheap source of protein. From the farmers' perspective there are other advantages. Return horizons are shorter (the return period for rice production is around 150 days; for fisheries this is only 110 days). In addition, fish production is not seasonal and so can be conducted all year round. Fish production therefore offers a good source of income for farmers.

However, NAAFCO faced a number of challenges in capitalising on this potential market. Firstly, the market is very diffuse – there are a large number of small potential customers rather than a few large ones. In addition, the company wanted to leverage its existing dealer and wholesaler network as a cost effective basis for their activities. Thirdly, it faced a challenge of building trust with the individual farmers while at the same time maintaining good relationships with its wholesaler network around the country.

NAAFCO has worked with Katalyst to develop a market in fish feed and aqua chemicals, and clearly believes that this collaboration – through a series of farmer meetings held in various locations around the country – has enabled it to be part of the long-term growth in this sector. These meetings have been successful in part because the Katalyst name is known and trusted by farmers, helps overcome their suspicions that what they hear from companies is merely a sales pitch. The partnership with Katalyst gives NAAFCO's message credibility and helps it build a relationship of trust with its target farmers.

Furthermore, these meetings have provided a direct link between company management and the farmers. Through them, NAAFCO has developed a database of farmers, putting it in a better position to understand its market and to respond to its needs. According to NAAFCO Agrovet's managing director, "This whole process has allowed us to develop a better connection with the farmers and to understand what they actually want." The database has been used as a resource for a call centre dealing directly with farmers: the company described it as "a gold mine".

As well as improving customer relationships, the project has enabled NAAFCO to work more effectively with its dealer network throughout the country. On a day-to-day basis it is these

dealers who provide the link between the company and its customers. Because NAAFCO now has a clearer idea of what farmers need, it is better able to support its dealers in providing for the needs of small farmers in areas where company personnel are unable to provide these embedded services. Katalyst has thus been key in helping NAAFCO to develop some of the relationships essential to allowing it to be part of a rapidly growing sector.

GME Agro: developing a market in biopesticides

GME Agro identified the potential for a market in Bangladesh for biopesticides, an area encouraged by the Bangladesh government which was concerned at the damage being done by the overuse by farmers of chemical pesticides. Since 2014, Katalyst has worked with GME Agro to develop its business selling biopesticides to small farmers. In practical terms, Katalyst has facilitated the arranging of a series of field-level demonstrations for farmers, followed by training sessions. According to GME Agro, these activities have been transformational for the company and have been central to the successful development of the business.

GME Agro accepts that at the outset it did not properly understand its market and had assumed that the farmers would know more about biopesticides than turned out to be the case. The central challenge is that farmers are used to applying chemical pesticide to control pests, whereas the reason for using biopesticides is one of prevention – for example, to interfere with the breeding cycles of unwanted pests. Biopesticide use therefore requires a different approach to farming. Use of chemical agents is episodic – that is, different chemicals are used at different stages of a crop's growth. In contrast, biopesticide is used more systemically, and requires constant and regular maintenance rather than sporadic interventions.

Katalyst's support has been important in a number of ways. First of all, it has encouraged GME Agro to conduct more field demonstrations than its annual five, and to do them differently. Katalyst's expertise has also allowed GME to expand into new areas of the country, and its experience in dealing with small farmers, alongside its credibility among farmers, has been transformational in the impact on the company's relationship with its customers.

Secondly, this developing relationship with the end customer has encouraged GME to change the structure of its sales force in order to improve the customer relationship. When the business was established, a single sales force was responsible for sales of both biopesticides and traditional chemical pesticides. However, GME soon realised that having the same people selling two very different products confused farmers. As a result, a specialised biopesticide sales force has been established to support farmers with these products.

Thirdly, Katalyst has changed the way in which GME operates its field demonstrations. Instead of trying to demonstrate biopesticide use in a single field, Katalyst suggested that in order for the benefits of the products to be observed properly, a cluster of fields was needed. This ensured that the trials were not contaminated by proximity to fields where chemical pesticide was used, but rather allowed the biopesticides to work to their maximum effect.

The company made it clear that even though it had technical expertise in biopesticides and an existing sales force and sales tools, the association with Katalyst has been instrumental in developing the right relationship with its customers, and between its sales staff and farmers. As the company acknowledges, it "may not have been possible to have learning at this level and intensity without Katalyst". It is clear therefore that collaboration with Katalyst has allowed GME to develop a new line of business more readily and swiftly than it would have been able to do on its own.



Facilitating regulatory reform

Effective regulation is the basis for the growth of new sectors and for open competition between companies on the basis of agreed standards and quality. In many areas, the business regulatory environment in Bangladesh is still weak and does not provide a reliable legal base. In particular, there are challenges around the setting and monitoring of product standards in a number of areas. As several companies interviewed for this study have made clear, a further challenge existing in Bangladesh is that while the government is in principle keen to act, it does not always have the capacity to move swiftly. A number of companies also reported a degree of mistrust of corporate sector representatives on the part of government officials.

It is clear that Katalyst can and has played a key role in helping to secure sound regulation and oversight. This is principally because, in collaboration with Katalyst, companies have been able to demonstrate to government officials that the purpose for proposing particular regulations is not to benefit a specific company, but to contribute to a basis for the development of a market which can benefit ordinary Bangladeshis. Katalyst can therefore act as a 'neutral intermediary' between companies and Government.

The commercial challenge presented by an absence of adequate legislation is demonstrated by the examples (discussed in more detail elsewhere in this report) of Fisharbour (which has developed a retail offer providing 'safe fish' to urban markets) and Direct Fresh, which is providing deliveries of groceries also free from contaminants. A key issue for both companies is the absence of any regulatory framework either for defining what 'safe food' is or for providing oversight for this. As a result, any company might claim its food to be 'safe' as no regulatory body exists to police such claims.

The same issue also exists in the fertiliser market, where regulatory standards for micronutrients are yet to be established. This is an area which concerns Syngenta in terms of the impact on its business in maize seed. In this regard, it has worked with Katalyst to conduct demonstration projects to show the beneficial impact of micronutrients and has trained farmers in their use. However, it is currently the case that any company could claim to be selling micronutrients, and that no legal framework exists to validate these products. Here too, more work is needed to help support new markets by the creation of robust and transparent regulatory frameworks.

Ispahani: creating a regulatory environment for biopesticides

The case of Ispahani demonstrates how Katalyst provides companies with the chance to facilitate the development of sound regulatory structures. This is a diversified Bangladeshi conglomerate, headquartered in Chittagong and owned by the Ispahani family. Ispahani Agro was established in 2007 and has interests in three areas: seed, agro-processing and biotech.

Early in its life, the company identified a potential market in Bangladesh for biopesticides. Media coverage had pointed to the health impacts of chemical pesticide on farmers, as well as the environmental impact of excessive use of these products. In addition, the government had indicated its desire to see a move towards 'integrated pest management' (IPM), which involves environment-friendly measures to control pest and disease in crops. A holistic approach, IPM combines cultivation techniques (such as intercropping) which minimise pest populations, the use of pest-tolerant crop varieties, and biological pest control agents (such as pheromone traps) to obtain an optimal result. The government has been positive about IPM (for example, the prime minister has highlighted IPM practice in her speeches) but no concrete regulatory framework for IPM (or even any clear guidance about what such a framework might look like) exists. In addition, developing a market in IPM faced other practical operational challenges. Firstly, there was a need to address resistance from dealers and wholesalers, which was based on the concern that the lower cost of IPM products could result in lower returns for them. Secondly, despite offering better value, IPM also encountered scepticism from farmers as it challenged long-established farming methods and approaches.

Ispahani worked with Katalyst from 2009, initially to develop a coherent policy framework for IPM as a whole (without such a framework it would have been possible for anyone to claim a product as an IPM, thereby undermining legitimate companies seeking to develop a durable business in this area). However, despite its supportive remarks, the government made little effort to take a lead in this. There was also opposition to the development of biopesticide regulations from the industry group representing the chemical pesticide companies, who feared any new products could undermine them.

In 2009, Katalyst, with its co-facilitator GMark Consulting Ltd, conducted a study on the prospect of IPM in Bangladesh and found that demand existed among farmers but that the products and services were unavailable. In Ispahani's view, the role of Katalyst in overcoming these challenges was crucial: the project's reputation and credibility enabled a forum on IPM to be held in which Katalyst prepared a policy recommendation paper and presented it to relevant government representatives. The result was a clear regulatory framework, introduced in 2010, which amended the "Pesticide Rules of 1985" and which incorporated the commercial marketing of IPM products. This framework provides for a licensing process which tests IPM products over two growing seasons in two regions (the government is looking for ways to shorten this timeframe). As a result of these new regulations, in 2012 Ispahani achieved licenses for two products; the company now has six products registered.

ENGAGING THE PRIVATE SECTOR: THE LESSONS FROM KATALYST

Factors of business success

It is evident that Katalyst has added value to its corporate partners in a number of ways, and equally clear that many of the businesses which have emerged from these collaborations would not have done so without Katalyst's input, or at the very least would have done so more slowly than was actually the case.

To understand more clearly why Katalyst's inputs have been valuable, it is important to view things through the lens which companies themselves use: how does Katalyst's work help the company to develop a durable, profitable business? There are a number of components, of which some of the most important are as follows :



- Regulatory environment. Company success is greatly helped by the existence of a transparent, predictable set of business regulations governing it and its competitors.
- Relationships with business partners. A company relies for its success on a range of relationships with different stakeholders, including customers, suppliers and intermediaries.
- Internal process and systems. Robust internal procedures are an important factor in assuring that a company is able to manage itself in an effective manner.
- Cost-effective financing. A company needs to have access to finance at maturities and interest rates to facilitate the operation and expansion of the business.
- New market development. To expand, a company needs to identify and develop new markets, be that through the creation of new products, or through finding new sets of customers.

‘Katalysing’ successful business

Viewed through the lens of what makes a successful business, it is clear how important Katalyst’s work is to its corporate partners. It provides a number of clear benefits:

Regulation

Sound regulation is essential as a basis for the growth of new businesses. It provides clear standards of quality and behaviour, and a level playing field for fair competition between companies. In Bangladesh however, the regulatory environment is weak in a number of regards; in new areas in particular it does not provide a reliable legal base. The companies interviewed as part of this study made it clear that the Bangladesh government is suspicious of what it views as companies ‘lobbying’ for particular regulatory structures, and that at the same time in many cases public officials lack the facilities and capabilities to do their job effectively.

Working with Katalyst offers companies a means of addressing these challenges. Katalyst has credibility with government, and a company’s collaboration with Katalyst thus helps persuade officials that any recommendations it make in regards to standards and regulations are in the broader interest rather than just its own. In addition, the process of getting regulations in place can be a long one, and partnering with Katalyst provides companies with a degree of reassurance that the effort put in will yield success. Katalyst can act as a neutral intermediary between business and government.

The cases reviewed for this study make it clear that Katalyst has played a key role in developing effective regulation in the area of biopesticides, with the result that a number of companies now have licensed products and the market is expanding. This provides not only successful business for the companies but also lower input costs for farmers, as well as a reduction in the adverse health and environmental impacts associated with chemical pesticides. For both Fresh Direct and Fisharbour, a key element of developing their businesses in the next year or two is collaborating with Katalyst to ensure the introduction of a clear regulatory frame work for ‘safe food’.

New market access and development

Companies rely for their expansion and continued success on finding new and profitable areas of business. This may be achieved by finding new markets for existing products or by developing new goods and services. As part of this process, market research is extremely important, as are processes of product development – to identify what new opportunities there might be, and therefore what products would be appropriate.

In this area too, Katalyst has demonstrated that it can provide significant support and insight. In a number of the cases reviewed in this paper, Katalyst was able to identify new areas of business which the companies themselves had not seen. The most significant examples are those of summer maize and mola farming. In both cases, the opportunity was presented to a slightly sceptical company; in both, the businesses have developed well and appear to be providing a profitable new activity for the companies involved, as well as the opportunity for additional revenues for small farmers.

The notion that an NGO is able to identify commercial opportunities that companies have not seen may evoke scepticism from some quarters. However, herein lies the particular value of Katalyst. While as an organisation it is empathetic towards the needs of the corporate sector, its perspective is that of a donor entity. Katalyst works closely with small-scale farmers and is trusted by them, and therefore looks at ‘the market’ in a very different way from corporate executives. It is able to spot new opportunities because it starts from the standpoint of

farmers' needs; it is then able to make these opportunities work because it has the ability to present those needs to company staff in a way which highlights their commercial opportunity from them.

Relationships

Good business also requires strong, functional relationships with key business partners. Companies need to understand the strengths, weaknesses and needs of a range of stakeholders including customers, suppliers and commercial intermediaries. The challenge in a market like Bangladesh, however, is that developing a proper understanding of these groups – of what really makes them tick – is a considerable challenge. It is clear that companies often do not have a detailed understanding of small-scale farmers, and that relying on a network of small contract suppliers also poses real difficulties.

By contrast, Katalyst does have a good understanding of these groups and their needs. For example, in the case of mola fisheries and summer maize, Katalyst understood that farmers were looking for additional revenue streams, and that certain inputs which agri-business can provide might help in this regard. Furthermore, Katalyst understands the technical limitations of many farmers and their reluctance to try new things. Many of the companies interviewed for this study acknowledged that they do not always have a detailed understanding of the constraints facing farmers, not least in terms of their knowledge of good farming practice. Katalyst's understanding has therefore helped companies to design interventions in such a way as to be accessible to small farmers. The case of Aarong shows how a similar situation is also true when working with a company's small-scale suppliers.

However, working with Katalyst has not just helped companies with their customers and suppliers; it has also caused them to re-evaluate their relationships with dealers and even with their own field force. GME Agro, for example, believes that a better understanding of farmers' needs allowed it to make better use of its sales force. For NAAFCO, the better relationship with customers means that the company is able better to support its dealers in providing support to small farmers where company personnel are unable to provide a full service.

Process and systems

Alongside relationships, companies need robust internal systems and processes to be able to manage their business effectively. This includes approaches to new business development, financial control and management of human resources. However, most companies run lean operations, meaning that these systems are often over-stretched and activities need to be prioritised. This is an additional reason why companies sometimes fail to spot potential market opportunities: they do not have the capacity to explore every possible avenue.

Here again, companies have found the relationship with Katalyst of great value as a way of 'adding reach' and capability to their own resources. In some cases, Katalyst has provided its partners with a network and connections in parts of the country where the company's presence is weak. Elsewhere, where a company might not have sufficient in-house staff to make a project work, the additional 'reach' has been achieved where Katalyst has provided additional personnel. Thirdly, this additional staff resource brings with it relevant technical and managerial skills to support the company staff.

In this regard, as observed by a number of those interviewed, Katalyst acts in effect as a consultancy provider to its partners, providing additional capacity as and when needed. As Aarong stated, it is not cost-effective for them to develop specialist knowledge internally in every areas they might need to cover, and bringing in that expertise in the form of Katalyst makes practical and business sense.

Financing

Business development requires appropriate financial backing, and proposed new business ventures usually need to meet clear criteria on projected market development and rates of return. Many of the company projects reviewed in this report would have struggled at the outset to meet this sort of criteria. For example, even though the biopesticide market seemed a logical, viable potential business, the challenges to making it work were significant. A relevant legal framework needed to be put in place; farmers needed to be persuaded to try a new approach to pest control; the company's internal sales teams needed to be overhauled; support to farmers needed to be established. In sum, without the support of Katalyst, the costs and uncertainties of this situation may have prevented companies from working in this sector.

Katalyst is able to provide its partners with co-financing of the projects on which they collaborate. This allows companies to explore new ideas and to take risks which their mainstream management processes might not otherwise permit. According to NAAFCO for example, partnership with Katalyst helped it to explore an opportunity which it had spotted itself but would have been unable to take up without support, as the financial returns were not sufficiently clear. Similarly, when GME Agro began its collaboration with Katalyst, 60% of the funding to develop the business in biopesticides came from Katalyst. That proportion has already dropped to 40% and the company state that a point will come when they will be able to bear all the cost of the business internally. Metal Agro too have been able to use Katalyst's financial support to make possible the development of a new business process – a telephone helpline for farmers. At the outset, the cost share for the call centre was shared 50:50 between the company and Katalyst. Metal Agro now regards the helpline as being so central to their marketing that it is prepared to take on the entire cost itself. According to a company representative, "Our costs are rising but we see this as part of our marketing activities."

If the financing offered by Katalyst makes companies' sums add up, the fact of co-financing also serves to build confidence within partner companies. Katalyst places its own capital at risk in the projects on which it works; this strengthens companies' confidence in the ideas being developed and makes them more ready to commit to involvement.

Concluding remarks

It is clear from this study that collaboration with Katalyst has given companies services, capabilities and support which have enabled them to create successful businesses. Companies



need good relationships with commercial stakeholders, strong internal systems, access to new markets, a sound regulatory framework, and sources of workable finance. Katalyst's offer to its partners can impact in all these areas, as illustrated by the following diagram:

Katalyst is valuable to private sector companies because it can identify, stimulate and facilitate new business. It has a deep understanding of the needs and ways-of-working of smallholder farmers in Bangladesh, and at the same time is capable of expressing to companies how those needs might become profitable, durable businesses. This dual understanding of the needs of both beneficiaries and companies means that Katalyst can provide support to developing new businesses in ways which ensure that the needs of farmers are met within a profit-making entity. A number of interviewees were asked whether they viewed Katalyst as a consultant, and the general view was that this was too simplistic a term. Certainly much of Katalyst's advice and input is redolent of a consultancy offering. However, Katalyst's financial involvement and the fact that it regards the new business as being as much their project as that of their partners makes Katalyst much more hands-on than a consultant might be.

Katalyst's key strength is that it understands both the local development dynamics and the realities of the business world, and that it is able to bring the two together in ways which create viable businesses which provide a sustainable vehicle to address the developmental challenges of Bangladesh. As donor agencies seek to work more closely with the corporate sector and to engage companies in development, the experience of Katalyst will continue to provide vital lessons.





WHAT MAKES KATALYST USEFUL

LESSONS FROM THE FIELD

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WHAT MAKES KATALYST USEFUL

LESSONS FROM THE FIELD

INTRODUCTION

What is this report about?

Katalyst is a development project backed by funding from international donors. However, it is a development project with a difference. Whereas many development programmes are based on making grants to governments and others, Katalyst's approach is to work very closely with the private sector. Katalyst facilitates companies in the development of business models which provide benefits to poor people – be that by engaging the poor as producers and suppliers, or by developing goods and services they might consume.

The rationale for this different approach is that while traditional donor grant-making approaches can improve things for what is often a finite period, the challenge can be to sustain these benefits over time. The aim of the alternative, so-called 'inclusive business' approaches is to provide sustainable ways to improve the lives of poor people.

That this model has worked for poor people has been demonstrated by the results of various assessments of Katalyst which have been undertaken since its inception. These reviews highlight a number of examples. Firstly, a project on maize contract farming in the fragile char areas of northern Bangladesh, begun in 2006, has seen the farmers involved increase their seasonal income from BDT15,500 to BDT23,500 per acre. Secondly, as a result of another project initiated in 2012, around 135,000 farmers have been trained to use pesticides safely. This has both greatly improved farmers' health and also reduced their costs on wasted inputs. Thirdly, the Jigyashi 7676 telephone helpline has provided farmers with vital information on disease prevention and other key aspects of farming. It is estimated that this service responded to 385,000 calls from farmers in 2011-12 alone.

At the same time, it is clear that these societal benefits have also provided good business for the companies involved. Companies reviewed for this study variously report strongly improved sales growth, the creation of new lines of business, and greatly improved relationships with key business partners. The sister report to this one, *Why Inclusive Business makes Business Sense*, explores in more detail the different ways in which inclusive business models and collaboration with Katalyst have provided commercial and operational benefits to the companies involved.

This report explores what precisely it is that Katalyst does that enables the creation of businesses which are both commercially viable and durable and provide clear benefits for poor Bangladeshis. What does Katalyst add which private companies cannot manage for themselves? What things does Katalyst do which ensure that an inclusive business approach to addressing societal challenges works, where more traditional donor approaches may have failed?

The logic for seeking to answer these questions and for this report is simple. If we can more clearly understand what value Katalyst adds in facilitating 'inclusive business' approaches, then we are in a better position to establish similar entities – be that in Bangladesh or

elsewhere – to do similar things. If ‘inclusive business’ approaches are to become more mainstream we need to understand what sort of a catalyst Katalyst has been, and how that might be recreated.

The background to Katalyst

Agri-business for Trade Competitiveness Project (ATC-P) – better known as Katalyst – is a development programme which was initially established in 2002. Over three phases of work it has received backing from a number of international donor agencies which include, in the current phase, the British Department of International Development (DFID), the Danish International Development Agency and the Swiss Development Corporation.

Katalyst is an example of the approach to development known as ‘making markets work for the poor’ (M4P). This is based on the view that the best way of improving the lives of poor people sustainably is to engage them in market structures while at the same time working to ensure that those market structures are supportive of the interests of the poor. Katalyst’s work can be seen as being formed of three main streams:

- **Enabling:** working with government departments and others to create an effective regulatory environment.
- **Encouraging:** collaborating with large companies – both Bangladeshi and foreign – to identify business models which provide benefits to poor people as well as to the company.
- **Empowering:** providing poor people with the belief that they can engage in larger scale market activities and providing them with the wherewithal to do so.

Despite the growth in other sectors of the economy – most notably the ready-made garment industry – agriculture remains central to life in Bangladesh. It is estimated that this sector employs 47% of the total labour force of the country – yet it only provides 16% of GDP. Because of this central importance and in order to improve productivity in the sector, Katalyst’s focus throughout its years of operation has been in agriculture. The project operates in three main agricultural sectors:

- **Maize:** This is a relatively new crop in Bangladesh, the cultivation of which has grown rapidly in recent years on the back of demand from the fisheries and poultry sectors. With the poultry sector growing at 20% a year, Bangladesh currently imports 30% of its maize demand. Katalyst’s work in the maize sector seeks to bolster domestic supply and so reduce the demand for the imported product.
- **Vegetable:** It is estimated that as much as 12% of the rural population is involved in the cultivation of vegetables, which perform two main functions in rural households. Firstly, they provide valuable additional nutrition to the family; they are also a cash crop which can provide useful additional income. Historically, horticultural inputs, growing practices and sales markets have all been problematic, hence Katalyst’s involvement in this sector.
- **Farmed fish:** Demand for fish as a source of relatively cheap protein is rising significantly in Bangladesh. A sharp increase in the urban population and over-fishing of wild species is leading to a strong growth in fish farming. As with the vegetable sector, there are challenges in terms of inputs, production techniques and the sales markets, all of which have been the subject of Katalyst activities in recent years.

As well as these 3 value chains, Katalyst also works on 3 cross-cutting issues – topics which are not specific to growing one crop in particular, but which are relevant across all sectors within agriculture. These are as follows:

- **Forward markets:** It is quite typical for development projects in agriculture to focus on the inputs farmers need (seed, fertiliser and so on) and on farming techniques, but to neglect to enable farmers to create sales markets for the goods they produce. Katalyst is different, and as a key area of activity works with farmers and other partners to develop stable sales markets for agricultural produce. In many cases this means working to ‘de-layer’ markets processes in which there may be many strata of intermediaries between producer and consumer who add little value.
- **ICT:** The advent of even fairly basic modern technologies (such as the mobile phone) has had a significant impact on the lives of rural farmers. For example, ICT means they have access to more reliable weather forecasts, and can get to know the market price of the commodities they are growing, so giving them a stronger negotiating position. Katalyst works in a number of areas to harness the potential of ICT to improve agricultural practice and the lives of farmers.
- **Women’s empowerment:** As Bangladesh gradually develops new sectors of the economy, so more men are taking paid, employed jobs, taking them away from homestead farming. This makes the role of women in agricultural areas all the more important. Yet despite this, farming remains geared towards men, particularly in terms of decision-making and engagement with market actors. Katalyst is working in a number of areas to improve the position of women in agriculture and to ensure that they are able to operate effectively.

The methodology for this report

This report was commissioned by Katalyst in late 2015 and is part of its ‘capitalisation’ work. As noted earlier, the impacts of the project on its main target audience – poor farmers – has been widely examined as a part of regular project reviews. What the capitalisation process seeks to do is to identify what other, hopefully beneficial impacts the project has had in its 14-year life which have not so far been captured as part of the normal process of project oversight. This report focuses on the impacts of Katalyst on its corporate partners.

To that end, this report is based on a review of current and historical documents, and on extensive interview data. Interviews were undertaken in February and March 2016 with senior managers within Katalyst and with senior representatives of the ten main corporate partners with whom Katalyst is currently working. These interviews used an open-ended interview technique designed to explore two main areas: firstly, what commercial or other benefits had the company gained from its work with Katalyst, and secondly, what specific capabilities made Katalyst a useful partner.

While by definition those interviewed were sympathetic to Katalyst and therefore might be expected to provide a broadly favourable account of their collaboration, it should be noted that all those interviewed appeared frank in their responses, and were prepared to speak about what had not worked as well as about what had.

Inclusive business

The concepts of ‘inclusive business’ and ‘inclusive market development’ have been gaining greater traction in the past decade, even though the precise definition of the terms remains something of a matter for debate. For the purposes of this paper it is not necessary to explore all the different terms used; instead, we summarise the concept using the definition employed by the International Finance Corporation that inclusive business models are “are commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations.”¹

The focus on inclusive business stems from two main premises. The first is the recognition that even when private sector organisations in developing countries do achieve middle income status, much remains to be done. Economic development in these countries is often highly uneven and non-inclusive with the result that, despite injections of donor funding, levels of poverty often remain high, or in some cases even deteriorate. According to the Nigerian Statistics Agency, for example, in 2010, 61% of Nigerians were living on less than a dollar a day, up from 52% in 2004. Inclusive business models are viewed by many in the sector as a key tool in making sure that development at a headline level benefits the many, not just the few.

The second premise reflects the fact that a small but increasing number of companies have demonstrated a preparedness to engage with issues which donors would call ‘developmental’. Initiatives such as the Extractive Industries Transparency Initiative on revenue transparency, the Kimberley Process to certify ‘conflict-free diamonds’, and the Sustainability Compact to address the issues in the Bangladeshi garment sector, show that many private sector organisations recognise the importance of responding to societal demands. Other companies, including Danone, Heineken and Unilever have developed business models which involve the poor, either within supply chains or as customers.

The challenge with inclusive business, and one which this report seeks to explore in more detail, is to understand exactly what is in it for a business organisation. Much is made in the development world of ‘the business case’ for inclusive business, but much of the writing on the topic is vague and imprecise. The waters have been further muddied by those who believe that private sector companies are now in pursuit of some ‘higher form of capitalism’². It is not clear how this more altruistic-sounding approach might square with the day-to-day challenges and quarterly targets that most in business have to wrestle with.

Katalyst has worked with a large range of companies over its lifetime. The aim of this report is to provide clarity about why it is that the companies which have partnered with Katalyst have chosen to do so, and what they believe they have gained from the collaboration. The interviews undertaken with ten current partner companies explored what prompted the engagement with Katalyst in the first place, what the partnership has delivered during its life and may continue to in the future, and how the relationship and what the company gained have changed and modified over time.

This report tries to be as granular as possible about what these companies feel they have gained from engaging with ‘inclusive business’ models – what these companies believe to be the ‘business case’ for such approaches. As will become clear throughout this report, some distinct themes emerge about what inclusive business models add and why ‘inclusive business’ is a strategy which could be relevant to many more companies. The hope is that greater clarity about what inclusive business adds, as well as greater clarity about some of the challenges of this approach and the timeframes needed, will allow more frank and informed discussions with other companies in Bangladesh and elsewhere.

1. IFC. *Inclusive Business*. www.ifc.org/inclusivebusiness (accessed 19/04/16).

2. Porter, M. and Kramer, M. (2011) ‘Creating Shared Value’, *Harvard Business Review*.



DEVELOPMENT, THE PRIVATE SECTOR AND INCLUSIVE BUSINESS

The central aim of this report is to explore why it is that some companies choose to engage with inclusive business approaches, and to understand what they get out of these arrangements. However, in order to do this properly it is useful first to take a brief look at wider international discussions of the role of the private sector in development.

The private sector in development

It is now widely recognised that the private sector is, to quote DFID, “the engine of development.”³ This assessment is borne out by a number of reports. For example, a study carried out by UNCTAD, the Indian Government, and DFID found that rises in exports from India between 2003-04 and 2006-07 led to the creation of 26 million new jobs and to USD55 billion in additional income.⁴ The significance of the development of the private sector for a country’s wider development is demonstrated by the experience of China. A study of 29 Chinese provinces between 1978 and 1989 found that growth of private and semi-private enterprises led to an increase in economic growth while the presence of state-owned enterprises (SOEs) reduced growth rates.⁵ A more recent study has found not only that the private sector contributed to economic growth, but also that it helped the country to cope with the societal impacts of the decline in state industry: “The growth of private sector has mitigated the social costs of SOE reforms [as well as] led to China’s impressive share in world exports.”⁶

Studies of individual companies operating in emerging economies demonstrate that these companies can have significant pro-poor impacts in both their backward (supplier) and forward (distributor and retailer) value chains. A 2005 examination by Oxfam⁷ examined the impacts of the consumer product company Unilever’s business in Indonesia. These included

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3. Mitchell, A. ‘Foreword’ in *The Engine of Development: The private sector and prosperity for poor people*. DFID, London. 2011 p4.
 4. UNCTAD *Poverty-reducing effects of trade cited at India conference*.
 5. Chen, B. and Y. Feng. ‘Determinants of economic growth in China: Private enterprises, education, and openness.’ In *China Economic Review* 11: 1-15. 2000.
 6. Hasan, I., Wachtel, P., & Zhou, M. ‘Institutional development, financial deepening and economic growth’. In *Journal of Bank & Finance*, 33(1), 157–170. 2009.
 7. World Bank. *Rising Global Interesting Farmland: Can it Yield Sustainable and Equitable Results*. The World Bank, Washington DC. 2010

tax revenues “averaging about US\$ 130 million per year”, jobs for 5,000 people within the company itself, for which “pay and benefits are above what is required by law...[and which have] high health and safety standards, good retirement and maternity benefits and workplace facilities...”, and an estimated further 300,000 jobs in the company’s value chain. A study carried out in 2008⁸, found similar impacts by Unilever’s business in South Africa. This report found that for every job Unilever creates in its direct operations, a further 22 were created in the value chain, representing 0.8% of the country’s total employment. A more recent study⁹, (again by Oxfam as part of their Poverty Footprint initiative) of the operations of Coca-Cola and SABMiller in Zambia and El Salvador found similar wealth-creation impacts. This work concluded that the gross value added by the value chains of these two companies in 2008 was USD21m in Zambia and USD83m in El Salvador. Oxfam calculated that this supported an estimated 3,741 jobs in Zambia and 4,244 jobs in El Salvador.

Companies going further...

YHowever, beyond these broad statistics demonstrating that growing companies help to grow countries, there are also examples of companies proactively developing business models which specifically address the needs of poor people, either as suppliers and producers, or as consumers. News agency Thomson Reuters demonstrates how the poor offer a large, if low-margin market as consumers. In 2008, the company launched a subscription-based service called Reuters Market Light which uses mobile phone SMS technology to provide small farmers with tailored information about 150 crop types in more than 1,000 markets. The service thus reduces information asymmetry in agricultural markets and helps small farmers get a greater proportion of the value of their produce. In 2012, the service passed the one million subscriber mark¹⁰.

The example of Dutch brewer Heineken demonstrates how companies can engage with the poor as suppliers. In Rwanda for example, the company’s local company, Bralirwa has explored ways of using local products as the raw materials in their beer production. Initially sorghum was used, which the company bought from around 3,000 farmers. From 2008, the company developed a programme with a local maize mill, Minimex, and the Dutch foreign ministry¹¹. The mill was granted 700 hectares in the Bugesera district by the Rwandan government, designated for agricultural development; 140 hectares of this land have been cultivated for professionally mechanised and irrigated production of maize using high yielding maize varieties, for use in the mill, and to be supplied to Bralirwa for use in brewing. In addition to the workers on this site, the project also provides work to 500 outgrowers.

... but why?

What remains a matter of debate is why some companies choose to engage in inclusive business approaches like the instances above. Over the past few years, sets of case studies of inclusive business examples have been published by IFC, the Asian Development Bank and Business Fights Poverty; there even exists a Practitioner Hub for Inclusive Business¹². While these case studies make for interesting reading, what they lack is much detail about the commercial rationale for the companies involved. The benefit of the approach to the beneficiary groups is recounted in detail: why the companies themselves became involved is the subject of much less detailed scrutiny.

8. Kapstein, E. *Measuring Unilever’s Economic Footprint: The Case of South Africa*. 2008

9. Oxfam America. *Exploring the links between international business and poverty reduction*. Oxfam

10. Thomson Reuters. *Reuters Market Light* <<http://www.reutersmarketlight.com/milestones.html>>.

11. Piederiet S. Presentation on Bralirwa to EMRC Agribusiness Forum. Kampala, 5th Oct 2010.

12. <http://www.inclusivebusinesshub.org/>.

This lack of focus on a company's reasons for engagement with inclusive business is reflected in the various definitions for the term which have been advanced by different organisations. Much of what has been written about 'inclusive business' suggests that this development represents a new departure in terms of how companies operate and what they exist to achieve. For example, in 2005 the World Business Council for Sustainable Development (WBCSD) defined inclusive business as a set of activities seeking to contribute towards poverty alleviation. A UNDP report in 2008 argued that an inclusive business model was one which focused on providing benefits to poor people. A more recent report by the same organisation looking at inclusive business models in Africa, refers to the notion of 'shared prosperity'¹³.

This idea that inclusive business reflects a recalibration of how companies operate reflects a much-heralded article published in the Harvard Business Review in 2011. The authors, Michael Porter and Mark Kramer, argued that the nature of business has changed, and that companies are now in pursuit of some 'higher form of capitalism', which they called 'shared value'¹⁴.

The lack of focus in existing case studies on companies' rationale for engagement, and the implication within existing definitions of inclusive business that somehow these approaches reflect a degree of altruism on the part of the companies which do participate, still leave us unclear about what makes companies follow this model.

It's about profitable business

The interviews undertaken for this report provide useful insights into this question and give us a more nuanced insight into why companies – or at least these companies in Bangladesh – see inclusive business as a useful and relevant strategy.

The companies interviewed for this report were a mixture of Bangladeshi-owned firms (e.g. Direct Fresh) and the local units of large, international companies (e.g. Syngenta). Despite their diversity, what was clear from all the interviews was that these companies' work with Katalyst was based on a desire to create profitable, sustainable business models. In no case was the engagement in any way related to philanthropic or even corporate social responsibility (CSR)-related activities. Indeed, a number of companies referred to the fact of their already having a CSR function before their work with Katalyst began, and that it had nothing to do with the work with Katalyst. Even Aarong, which is a social business, still requires its activities to be profitable, as these profits provide a substantial proportion of the income of the charity, BRAC.

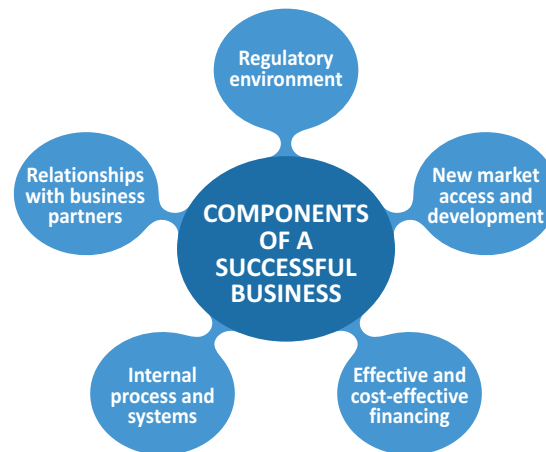
However, what was equally clear is that all of the companies interviewed were open to the idea that profitable, sustainable business models might be used to work with poor people. Even though, in some cases, companies had to be persuaded to collaborate with Katalyst, all were open to the idea that inclusive business had something to offer. Is this because, as they operate in Bangladesh, these issues are more apparent than might be the case elsewhere? As there is no comparative information, this must remain a moot point at this stage, though one ripe for further exploration.

What makes a profitable business?

However, if the companies interviewed for this study are engaged with inclusive business approaches as part of their core, profit-making business, rather than as a philanthropic gesture or CSR, it is important to consider what exactly makes a successful business. There are a number of components, of which some of the most important are as follows:

13. Porter, M. and Kramer, M. (2011) 'Creating Shared Value', *Harvard Business Review*.

14. Aarong is a social enterprise established by BRAC which is a not-for-profit development organisation.



- Regulatory environment. Company success is greatly helped by the existence of a transparent, predictable set of business regulations governing it and its competitors.
- Relationships with business partners. A company relies for its success on a range of relationships with different stakeholders, including customers, suppliers and intermediaries.
- Internal processes and systems. Robust internal procedures are an important factor in assuring that a company is able to manage itself in an effective manner.
- Cost-effective financing. A company needs to have access to finance at maturities and interest rates to facilitate the operation and expansion of the business.
- New market development. To expand, a company needs to identify and develop new markets, be that through the creation of new products or through finding new sets of customers.

Creating a profitable, durable business is therefore about addressing all of these different sets of issues. Inclusive business is about creating profitable business: what the next chapter of this report looks at is precisely how inclusive business approaches can be used as tools in all these different aspects of a company's work.

WHY DO INCLUSIVE BUSINESS MODELS MAKE BUSINESS SENSE?

The companies interviewed for this report regard the use of inclusive business models as part of their core business operations, rather than for philanthropic reasons or as part of their CSR obligations. As the representative of one company said, "Our work in inclusive business is for commercial purpose[s], not CSR". What this chapter considers is exactly how inclusive business models make business sense, and why companies choose to engage with them.

What is clear is that there is no single commercial or operational rationale for inclusive business. Rather, as is clear from the analysis of the company interviews taken as a whole, IB approaches can have a significant impact on a range of issues pertinent to the development and maintenance of a durable, growing business. A successful business requires many things to work together in a coordinated way: IB approaches can offer a modus operandi to support (and even enable) work in many of these areas.

Improving business relationships

A successful company relies heavily on its relationships with key business partners. Accordingly, companies devote significant amounts of time to developing an understanding and appreciation of the key stakeholders in their value-chain. It is apparent from the

companies studied for this report that inclusive business models can be instrumental in understanding and improving these relationships, in three areas in particular: with customers, with suppliers, and with business partners and intermediaries.

Developing customer relationships

A key challenge facing companies in Bangladesh is that they have to deal with a large number of small-scale customers. They therefore cannot rely for sales and sales growth on relationships with just a few large customers: they need to develop links with small farmers too. This poses a number of challenges. The first is a practical one: how to attract customers, many of whom live in remote and hard-to-reach areas? The second is also a practical challenge: how to overcome a lack of skills and capability among many farmers? Few farmers in Bangladesh are aware of modern, appropriate farming techniques, relying instead on traditional knowledge, learned perhaps from their fathers and grandfathers. These methods tend to be engrained, and as in most cases companies are seeking to sell seed, fertiliser and approaches to pest control which are new, there is a significant challenge in terms of educating farmers in the correct use of these new agricultural products and processes. The third challenge involves the need to develop trust between farmers and large companies, an essential factor in convincing many of the benefits of new products and approaches, and be able to use them effectively. A number of farmers recounted instances where trust in a larger company had not brought the results they had been promised. A number of company representatives interviewed for this study observed that small farmers are inclined to regard what large companies tell them is merely a marketing ploy.

GME Agro: improving customer relationships to develop a market in biopesticides

SGME Agro is a unit of the larger GME Group which has interests in various sectors, including healthcare and medical imaging. GME Agro began as a part of GME Group's biotech business, becoming a separate entity within the Group in 2013. It focuses on integrated pest management (IPM), the use of pheromones, bio-insecticides and other non-chemical substances to control crop pests. This technology is relatively new to Bangladesh.

In terms of developing customer relationships, a central challenge has been the need to alter the engrained habits of many in the farming community. Farmers tend to applying chemical pesticide to control pests, whereas the reason for using a biopesticide is one of prevention – for example, to interfere with the breeding cycles of unwanted pests. Biopesticide use therefore requires a different approach to farming. Use of chemical agents is episodic – that is, different chemicals are used at different stages of a crop's growth. In contrast, biopesticide is used more systemically, and requires constant and regular maintenance rather than sporadic intervention.

Working with Katalyst, GME Agro developed a process of demonstrating to farmers how to use IPM effectively. These demonstrations were undertaken on a separate cluster of fields to ensure that trials were not contaminated by proximity to fields where farmers were using chemical pesticide. The company also acknowledge that Katalyst's experience in dealing with small farmers was critical – that there was an understanding of how farmers think, and what the gaps in their knowledge were. This made the training highly effectively.

These improved customer relationships have been a key element in faster-than-expected sales growth. The company's financial projections in 2013 anticipated sales of around BDT5 million after two years – a figure it felt was quite optimistic; in fact, sales have been significantly higher, at around BDT7 million.

ACI: working with famers on seed and fertiliser

The importance of the relationship with its client farmers has also been a key issue for ACI (now a Bangladeshi firm and which began life as a unit of the UK-based ICI). ACI has been developing its agribusiness in two key areas: increasing the use of organic fertiliser and in improving seed

quality. In both of these areas, it is not simply developing new business, but is having to change entrenched attitudes and behaviours of many in the farming community.

Historically, farmers have used cow manure to fertilise their fields; in recent years however, a decrease in cattle numbers has reduced the amount of manure available, with the result that farmers are increasingly using chemical fertiliser. Its overuse is having an adverse effect, meaning that farmers are both wasting their resources and causing damage to the soil. ACI is working to develop a new business in organic fertiliser which is better for the soil, with resultant better farming outcomes and which is more cost-effective for farmers.

In developing its fertiliser business, ACI also identified a challenge with the quality of the seed that farmers use; 70% of the seed market is in traditional, local, low-quality seed varieties. ACI has therefore been working to develop a business selling higher quality, high-yield seed varieties; these have also been developed to respond to the different conditions in various parts of the country: for example challenges with salinity in the south of the country.

ACI's relationship with Katalyst has therefore focused on promoting the balanced usage of fertiliser. As a part of this initiative, Katalyst and ACI have collaboratively organised a series of events such as field days to encourage farmers in the use of organic fertiliser and hybrid seed types. Specialised training materials have been developed which contain clear messages about farming techniques which farmers can easily understand.

The company acknowledges that the collaboration with Katalyst has helped deepen its relationship with its customers, as Katalyst both has a good understanding of farmers and is trusted by them. In addition, Katalyst's reputation among farmers has mitigated against their mistrust of what companies say and helped get the message across that whatever ACI's commercial interests might be there is an important message to be taken on board about the use of seed and fertiliser.

Suppliers

Companies face similar challenges with their domestic supply chains. The supplier base is geographically diffuse and made up of a relatively large number of small-scale suppliers. Moreover, these suppliers often lack key skills and capabilities. Two issues present a particular challenge. Firstly, there is the need for suppliers to meet high standards of quality and to do so consistently: the recipient company needs to be able to provide its customers with consistency of product, and so requires the same of its suppliers. In Bangladesh, small-scale suppliers are unused to such standardisation. In addition, small supplier companies frequently lack basic business skills such as book-keeping, logging of orders and order control. Both of these issues pose a significant challenge to end companies, which inclusive business approaches can be used to address.

Aarong: improving capabilities in the supply chain

The example of Aarong demonstrates how the challenges with suppliers can be overcome. Aarong was set up to promote rural crafts to urban populations, and at present its main market consists of non-resident Bangladeshis who buy products in Aarong's stores to take back to their country of residence.

The company describes itself as "a social enterprise with a sense of commercial direction". This poses the challenge of the requirement of being able to balance the needs of the company with those of the rural producers who produce the handicrafts that Aarong sells.

To this end, Aarong has re-evaluated its business model and now focuses on fewer products and on product designs that they know sell well. It employed a professional Creative Director and appointed a number of their more experienced and able artisans as intermediaries – called 'producers' – to work with others to ensure consistency of quality and design. These artisans

act as focal points to farm out work to others in their area. The resulting business model means that Aarong now uses more consistent, professional designs and charges a mark-up on the price it pays to the artisan.

However, crucial to the success of this business model is that these producers have the appropriate skills to be able to deliver the required quality and delivery schedules. To enable this, Katalyst has developed a train-the-trainers process, focused on these key, experienced artisans. This addresses issues of product design, quality control and process management to ensure that these focal 'producers' are able to delegate work effectively and collect it back within the timeframe Aarong requires. These 'producers' also receive training in basic business skills.

There are a number of steps to the process. Initially, Katalyst works with Aarong to understand what needs the producers have identified, and what challenges the producers feel themselves to be facing in responding to Aarong's requirements. This takes the form of a gap analysis between the expectations of Aarong and those of its suppliers. Katalyst then develops training modules to respond to these needs. To date, Katalyst has trained 200 of these key producer-level artisans, whom Aarong has used to train a further 600 in its network.

NAAFCO Agrovat: focusing on the role of dealers in the fisheries sector

NAAFCO is a privately held group of companies, established in 1984 by the Huda family. The group has a range of interests, including textiles and fuels. It also has interests in pharmaceuticals – both human and animal – and manufactures drugs under licence in Bangladesh on behalf of three international companies. However, its main focus has been on agriculture inputs, including fertilisers and pesticides.

The group has observed significant growth in the fisheries sector, reportedly driven by two key factors. Firstly, farmers are increasingly finding that returns on land-based agriculture are too variable and so are looking for other alternatives. Secondly, fish is a relatively cheap source of protein and is in increasing demand as Bangladeshis demand more protein in their diet.

In the fisheries sector, NAAFCO is collaborating with Katalyst to develop a market in fish feed and aqua chemicals. The company's preference is to work in those areas of the country where it already has an infrastructure, but decisions about locations are taken collaboratively with Katalyst. In each place, a team is sent out to arrange meetings with farmers, designed to educate them in effective aquaculture techniques, and to enable them understand how to use feeds and aqua chemicals effectively.

In working with these farmers however, NAAFCO came to realise the importance of its dealer and retailer network, which the project has enabled the company to be much more systematic in its use of. On a day-to-day basis it is these dealers who provide the link between NAAFCO and its customers. Because the company now has a clearer idea of what support farmers need, it is able to better assist its dealers in providing embedded services to small farmers in areas where company personnel are under-resourced. NAAFCO intends to focus on those in its network who have been most enthusiastic about what is being developed, in order better to serve their existing customer base and to explore new ones. As a company interviewee stated, this network might also be crucial in identifying new markets: "Maybe we can open up new markets we might not have... seen yet."

Improved business processes

As external relationships with key business partners are important to a company's success, so too are internal systems and processes. For its operations to work effectively, an organisation needs to have the capability to develop and manage its internal structures. Research for this

paper has identified examples of inclusive approaches being used to create new internal processes which have strengthened key aspects of the business and thereby improved the company's durability and profitability.

Metal Agro: development of a call-centre for customer support and business development

Metal Agro was established in 2003 and is a subsidiary of the civil engineering firm, Project Builders. The company operates in a number of areas, including the sale of seed: at present it produces more than 60 varieties of seed for 23 crop types, mostly in the vegetable sector.

As is the case with other companies in this report, Metal Agro has faced a significant challenge in persuading farmers of the benefit in using these new varieties over traditional ones. While yields are higher, these new seed types are more expensive to buy and require care protocols which may differ from those the farmers are used to. Perhaps unsurprisingly, a degree of resistance exists on the part of farmers who are inclined to be sceptical of promises made by agricultural firms.

Farmers fear that they will pay more money for seed but without seeing a commensurate increase in yields. In practice this fear is realistic, not because increased yields are not possible, but because farmers tend to lack the appropriate skills and information needed to manage new hybrid seed types effectively. Growing the business therefore requires the development of the relationship between the company and its customers, such that the farmers trust the promise of increased yields and are supported to achieve them.

Information reaching the farmers about the proper application of inputs – and that improved yields will be achieved as a result – is therefore crucial, and Katalyst and Metal have developed an approach to provide this information to farmers free of charge, both that which relates to Metal Agro's products and also that which is about a whole range of agronomic queries. The structure they have selected is a customer care helpline available to all the company's seed customers. This works on a missed call basis (the farmer calls a toll-free number and then is called back – smallholder farmers are reluctant to pay for information services, and here the company bears the costs of the call, making it affordable for farmers).

At present the call centre has ten lines, but there are plans to expand this as the current call volume of 70-80 calls a day is increasing rapidly. Through the provision of this care line the company is providing a support service to farmers when they are actually in the field. While training provided to farmers is valuable, key lessons are often forgotten; the helpline – staffed by horticultural specialists – provides farmers with reliable information when they need it most. Metal Agro reports that of the calls received, about 60% are specifically about the company's seed; the remainder are about more general farming questions, the use of fertiliser and pesticide, and so on.

The helpline thus works as an aftersales service for Metal Agro and is perceived to be a customer retention tool for them. It does this by providing farmers with a reliable source of information when company representatives are not physically present to cater to their information needs.

It seems clear that this helpline has fundamentally changed Metal Agro's customer relationship processes. At the outset, the cost share for the call centre was 50:50 between Katalyst and Metal. The company now regards it as being so central to their marketing that it is prepared to take on the entire cost itself. According to a company representative, "Our costs are rising but we see this as part of our marketing activities."

The company also report that the call centre acts as a valuable market research tool. As part of their call, farmers indicate what new products they want and how existing products might be improved. In addition, where they call from and the questions they ask give Metal Agro a

clearer picture of what products work well in different parts of the country, and the company has used this information to develop a customer database.

Metal Agro attributes its strong sales growth in recent years at least in part to the introduction of the helpline. The call centre was established in 2014, and in the following year sales increased by 30%, compared with annual growth rates in previous years of between 15% and 20%. Sales are expected to grow by 50% in the current year.

Quality Feeds: financial risk management

As noted earlier, Quality Feeds (QFL) manufactures feed for a number of agricultural sectors in Bangladesh, including the fish, cattle and poultry sectors. The company has been working with Katalyst to support small-scale fish farmers in the cultivation and marketing of mola (sunfish). This is a small indigenous species of fish which historically was farmed widely in Bangladesh but which more recently has been neglected. The new business is seeking to reintroduce mola as a commercial species to provide greater diversity of income to small farmers.

The core of QFL's work has been to work with farmers and others to raise awareness of mola's potential as a commercial species, and to develop the skills among farmers to farm it effectively. In doing so however, the company became aware of the role of its retailers and intermediaries in the process, and a fundamental weakness in the accepted model of the business relationship between the company, these intermediaries, and the end-farmer client.

Because it was working intensively with its intermediaries and end-customers, QFL became aware of an inherent weakness in the prevailing business model in the fisheries sector. The existing model relies heavily on principal companies (like QFL) providing large credit lines to their agents, which in turn are used to provide credit to poor farmers to enable them to buy goods and services. The obvious weakness of this structure is that, in effect, companies like QFL risk large amounts of unsecured capital. Moreover, because of the lack of capacity of many small farmers, the bad debt level for many agents (and therefore for the principal companies) is significant. Through their work with Katalyst, QFL realised that this structure needed to be changed in order to reduce financial risk and thereby strengthen the durability of the company.

To be able both to reduce its financial exposure and at the same time maintain its service to its agents, QFL has established a network of depots around the country where agents can buy products on an 'as and when needed' basis; this has eliminated the need for risky credit to be extended to these intermediaries.

Regulation

Effective regulation is the basis for the growth of new sectors, and for open competition between companies on the basis of agreed standards and quality. In many areas, the business regulatory environment in Bangladesh is weak and fails to provide a reliable legal base. In particular, challenges exist around the setting and monitoring of product standards. As several companies interviewed for this study stated, a further challenge existing in Bangladesh is that while the government is in principle keen to act, it does not always have the capacity to move swiftly. A number of companies also reported a degree of mistrust of corporate sector representatives on the part of government officials.

For the purposes of this report, it is clear that inclusive business approaches can play a key role in helping to enable secure sound regulation and oversight to be put in place. This is principally because, in collaboration with Katalyst, several companies have been able to demonstrate to Bangladesh government officials that the purpose for proposing particular regulations is not for their own benefit but rather as the basis for the development of a market which can benefit ordinary Bangladeshis.

It is not surprising therefore that the issue of how to develop a sensible regulatory environment emerged during a number of interviews for this study. In every case, the concern certain organisations expressed was that in the absence of appropriate regulations, unscrupulous companies are able to act without fear of reprisal. For example, as is discussed more fully later in this report, two companies interviewed are developing businesses in response to public concerns about food safety. Fisharbour has developed a retail fish offer providing 'safe fish' to urban markets; Direct Fresh is providing deliveries of groceries similarly free from contaminants. A key issue for both companies is the absence of any regulatory framework, either for defining what 'safe food' is or for providing oversight of this. As a result, any company might declare its food to be 'safe' as no regulatory body exists to police this. In the short term, both companies accept that their collaboration with Katalyst establishes a degree of credibility in terms of their claims that their products are safe. Both companies are also working towards Hazard Analysis and Critical Control Point (HACCP) certification for their products. However, in the longer run there is a need to establish a clear regulatory standard for 'safe food', together with a robust process for policing such a standard.

The same issue also exists in the fertiliser market, where regulatory standards for micronutrients are yet to be established. This is an area which concerns Syngenta in terms of the impact on its business in maize seed. In this regard, it has worked with Katalyst to conduct demonstration projects to show the beneficial impact of micronutrients and has trained farmers in their use. However, it is currently the case that any company could claim to be selling micronutrients and that no legal framework exists to validate its products. Here too, more work is needed to help support new markets through the creation of robust and transparent regulatory frameworks.

Ispahani: creating a regulatory environment for biopesticides

The case of Ispahani Group provides an example of how the use of inclusive business approaches can facilitate the development of sound regulatory structures. This is a diversified Bangladeshi conglomerate, headquartered in Chittagong and owned by the Ispahani family. Ispahani Agro was established in 2007 and has interests in three areas: seed, agro processing and biotech.

Early in its life, the company identified a potential market in Bangladesh for biopesticides. Media coverage had highlighted the health impacts of chemical pesticides on farmers, as well as the environmental impact of excessive use of these products. In addition, the government had indicated its desire to see a move towards 'integrated pest management' (IPM), which involves environment-friendly measures to control pest and disease in crops. A holistic approach, IPM combines cultivation techniques (such as intercropping) which minimise pest populations, the use of pest-tolerant crop varieties, and biological pest control agents (such as pheromone traps) to obtain an optimal result. The government has been positive about IPM (for example, the prime minister has highlighted IPM practice in her speeches) but no concrete IPM regulatory framework (or even any clear guidance about what such a framework might look like) exists. In addition, developing an IPM market faced other practical operational challenges. Firstly, there was a need to address resistance from dealers and wholesalers, which was based on the concern that the lower cost of IPM products could result in lower returns for them. Secondly, despite offering better value, IPM also encountered scepticism from farmers as it challenged long-established farming methods and approaches.

Ispahani worked with Katalyst from 2009, initially to develop a coherent policy framework for IPM as a whole (without such a framework, it would have been possible for anyone to claim a product as an IPM, thereby undermining legitimate companies seeking to develop a durable



business in this area). However, despite its supportive remarks, the government made little effort to take a lead in this. There was also opposition to the development of biopesticide regulations from the industry group representing the chemical pesticide companies, who feared any new products could undermine them.

In 2009, Katalyst, with its co-facilitator GMark Consulting Ltd, conducted a study on the prospect of IPM in Bangladesh and found that demand existed among farmers but that the products and services were unavailable. In Ispahani's view, the role of Katalyst in overcoming these challenges was crucial: the project's reputation and credibility enabled a forum on IPM to be held in which Katalyst prepared a policy recommendation paper and presented it to relevant government representatives. The result was a clear regulatory framework, introduced in 2010, which amended the "Pesticide Rules of 1985" and which incorporated the commercial marketing of IPM products. The framework provides for a licensing process which tests IPM products over two growing seasons in two regions (the government is looking for ways to reduce this timeframe). As a result of these new regulations, in 2012 Ispahani obtained licenses for two products. The company now has six products registered.

Making the financial return work

Any new business opportunity carries risks: when that business opportunity involves working with an unproven market or untested suppliers, that level of risk increases significantly. Many of the businesses described by the companies interviewed for this study involved taking on these risks. Syngenta decided to explore a completely new potential market in summer maize; Quality Feeds did the same by taking a risk exploring the potential of mola cultivation. On the supplier side, Aarong bases its business on a network of small-scale producers, and Direct Fresh relies on a network of more than 2,000 small-scale contract farmers.

The challenge is that most companies will require a certain rate of return to allow both the funds and time to be made available to new business opportunities. At the outset, for many of the businesses described in this report, the level of return was unclear. In most cases the market was uncertain, the challenges in getting suppliers to deliver the right quality at the right time were unquantified, and any additional challenges in making the business work unclear.

Yet equally, in most cases the logic of the potential business was clear: farmers were seeking an additional crop and summer maize was an obvious choice to fill that gap; fisheries were seeking

new ways to respond to the increasing demand for fish, and the introduction of mola as a commercial species would serve that purpose; contracting with small-scale farmers was a clear route to addressing the increasing demand for safe food from a growing urban middle class.

What inclusive business models are able to do is to allow companies to explore these new ideas and to take risks which their mainstream management processes might not otherwise permit. Many of the companies interviewed said that the cost-sharing approach used by Katalyst allowed them to venture down routes which would otherwise not be possible, and to explore opportunities that would otherwise have been ignored. For example, according to NAAFCO the partnership with Katalyst helped it to explore an opportunity that it had spotted for itself but would not have been able to take up without support as the financial returns were not sufficiently clear. Similarly, when GME Agro began its collaboration with Katalyst, 60% of the funding to develop the biopesticide business came from Katalyst. That proportion has already dropped to 40% and the company state that a point will come when it will want and be able to bear all the cost of the business internally. Metal Agro too have been able to use the financial support to make possible the development of a new business process – a telephone helpline for farmers. At the outset, the cost share for the call centre was 50:50 between Katalyst and Metal. The company now regards it as being so central to their marketing that they are prepared now to take the entire cost on themselves.

The use of inclusive business models thus enables companies to explore new areas of business which their normal analytical frameworks may cause them to ignore. It is clear that the track record and reputation of Katalyst helps – it enables those responsible for the prospective new business to be able to point to a reliable business partner as part of the process of winning support internally. However, the fact that the financial support is there as a ‘pump primer’ allows companies to explore areas that may well become highly profitable in the long term, but which present many challenges in the short term.

Access to new markets

To continue to grow, companies are always seeking new business opportunities. This may involve identifying new customer cohorts for existing products or creating entirely new streams of business in response to new developments in the market and changing customer needs and demands. However, this also places demands on a company’s supply chain. A new market may exist or can be created, but if it is to be tapped into effectively then a workable supply chain needs to be put in place to respond to demand.

In both of these regards a key challenge that companies operating in Bangladesh face is that both potential markets and their supply chains are diffuse. In the agricultural sector in particular, companies are not usually able to sell to a small number of large customers (as may be the case, for example, in Europe). Instead they have to try to tap into the large number of small-scale farmers who make up the bulk of the agriculture sector. In Bangladesh, it is estimated that 96% of farms are two hectares or less in size. Equally, companies seeking to develop a new market which relies on the agricultural sector is obliged to work with a huge number of small suppliers rather than a more select group of larger ones. The normal desire for companies is to consolidate their supply chain: to reduce the number of their suppliers and so simplify quality control, logistics and payment structures. This is not a viable option in a country like Bangladesh.

The reality however is that the overwhelming bulk of potential markets consists of small-scale farmers, and there are not many cost-effective ways to satisfy these markets other than to use poor people in supply chains. In these circumstances, the use of inclusive business approaches becomes virtually essential as the only way to reach the potential customer base effectively.



It is clear from this study that there are a cadre of companies whose existing business model makes them aware of the opportunity of working with poor consumers and suppliers, and who therefore seek out collaboration with development partners to gain access to these markets and supply chains. What is also true, however, is that inclusive business models can enable companies to access opportunities that they might not have realised were there.

Syngenta: accessing the market for maize

A good example of using inclusive business to access new markets is that of Syngenta AG, a global Swiss agribusiness which produces agrochemicals and seeds. Its global turnover in 2014 was approximately USD13.4 billion, more than half of which was in emerging markets.

Syngenta has a track record globally for collaboration with donor actors to help develop its business. As the company states, in Bangladesh around 50% of its sales come from small-scale farmers, up from only 10% a decade ago. This makes being able to reach these farmers effectively central to the company's ability to develop new markets.

In Bangladesh, Syngenta has been working to develop maize farming, the demand for which is growing strongly on the back of demand for feed from the fish and poultry sectors. Ten years ago, more than 80% of maize was imported. Now less than 30% is imported despite the increase in the size of the market. It is estimated that as much as 40% of this domestic supply comes from small-scale farmers.

Katalyst has been instrumental in helping Syngenta reach these growers by developing training for retailers and the field force so that they can properly advise farmers. The partners have also developed a demonstration process to enable farmers to understand the importance of the timing of interventions, and the use of micro nutrients and irrigation.

However, as well as enabling the company to access a market it knew it wanted to move into, an inclusive business approach has also opened up additional opportunities. Through its work with Katalyst, Syngenta recognised that there might be a market not only for winter maize, but for the summer (kharif) crop too. It realised that farmers were seeking an additional crop to

boost their incomes, and that as summer maize requires relatively few inputs it could be a useful additional money earner for small-scale farmers.

However, despite the potential advantages, farmers were sceptical of their ability to manage an additional crop. Field research by Katalyst revealed that while kharif maize cultivation had been slowly gaining in popularity in certain parts of Bangladesh's northern region, farmers lacked good summer maize seed varieties and information on proper cultivation techniques, cropping patterns and so on. These challenges meant that where farmers were growing these maize varieties, their yields were low.

The collaboration between Katalyst and Syngenta focused therefore on supporting farmers to plant and manage a summer maize crop effectively. Syngenta made available a kharif-specific quality seed and worked with Katalyst to provide knowledge of, among others, better cultivation techniques, quality input usage, balanced fertilisation. The collaboration has operated through holding training sessions with farmers and by skilling up the seed retailers, who act as a key source of information to farmers on a day-to-day basis.

The summer maize project has been a considerable success for the company. Syngenta estimates that in 2010 it sold between 5-10 MT of summer maize seed varieties a year. It now sells as much as 200 MT annually – a twenty-fold increase.

Quality Feeds: diversification in farmed fisheries

Taking an inclusive business approach has also helped Bangladeshi firm Quality Feeds (QFL) to develop a new business in the fisheries sector. QFL manufactures feed for a number of agricultural sectors in Bangladesh, including the fish, cattle and poultry sectors. It imports its raw materials from overseas and manufactures the feed at sites in Bangladesh.

Working with Katalyst, QFL has worked with small-scale fish farmers to help them cultivate and market mola (sunfish). Mola is a small indigenous species of fish which historically was farmed widely in Bangladesh but which more recently has been neglected. The new business is seeking to reintroduce mola as a commercial species to provide greater diversity of income to small farmers.

Mola cultivation works well within a polyculture fish farming environment. This species lives in the upper layer of ponds, whereas carp (the most popular species of farmed fish) is cultured in the layers below. As the two species do not intermingle, the farmer gets better usage of the pond. In addition, mola live largely on what is already in the pond, and need little additional feed or care. In effect, they thus provide a low-cost additional 'crop' to farmers.

Initially Syngenta was unsure of the potential of this market. According to a company representative, "[At first] we were not convinced about mola as a business area, but were persuaded that it was a good idea." In collaboration with Katalyst, QFL has developed a successful business model for this new activity.

As in other areas of agriculture in Bangladesh, many farmers lack sophisticated farming skills: the fisheries sector is no exception. To address this, QFL and Katalyst have developed and run workshops in various places to train farmers. Each seminar has between 25 and 30 attendees and focuses on training farmers on how to use feeds correctly, within the wider context of good farm management. The structure of the seminars and their content has been developed by Katalyst, which has brought in expertise from the Bangladesh Fisheries Research Forum (BFRF). This training has been supplemented by a series of technical manuals which are intended to provide ongoing support and a reference guide to farmers.

Despite its initial scepticism, QFL have come to realise that the mola business has great potential. Although still in its early stages, the company is experiencing growing interest from farmers, who are coming to see mola as an additional crop which they can sell at local markets. QFL has seen strong growth in demand for feed and brood, and says that the new business is out-performing the projections made at the outset.

Creating new business models

It is thus evident that inclusive business approaches can assist companies to access markets for their existing products. However, what is also clear from the evidence of other companies is that inclusive business can facilitate the development of entirely new business models. In the case of Bangladesh, the examples identified are particularly interesting because the businesses emerge from the very specific dynamics of a country which has both a vast number of poor people and at the same time a growing and increasingly wealthy middle class which is demanding improvements in quality and service, and which is willing to pay for this privilege.

Fisharbour: creating a retail market for high-quality fish

One such new business model is Fisharbour, a newly developed retail brand selling fresh, high-quality fish to consumers in Dhaka. The company was created as part of the diversified conglomerate ACI, which has interests in a number of areas, including agribusiness, consumer brands, logistics and pharmaceuticals.

ACI had identified growing demand for 'safe food' among Bangladesh's growing middle class. Historically, food has often been adulterated; fish is often injected with preservatives to increase its shelf life. In addition, demand for 'safe food' is perceived to be particularly strong in the fish sector due to a strongly rising demand for fish, as many consumers switch from meat for health and financial reasons.

Fisharbour is a new business which responds to this perceived demand. The business buys fish fresh from the farms to which ACI provides feed, aqua-chemicals, and information on good aquaculture practice and proper post-harvest management. It has also established a cold chain to bring the fish to the store in Dhaka. An inclusive approach to this business is therefore essential to being able to supply consumer demand. Moreover, being seen to work with small farmers is important to the credibility of company claims that the fish is high quality: at present there is no government standard defining what constitutes 'safe food'. Katalyst's involvement with the Fisharbour project has been valuable in two respects. Firstly, as the company make clear, Katalyst's involvement has provided credibility to the claims that fish is fresh and uncontaminated. Secondly, Katalyst has supported the company in gaining HACCP certification for its products.

It is clear that the Fisharbour concept is proving a huge success. The company say it is winning new customers every day, with daily sales In April 2016 at around BDT30,000 from a standing start in November 2015 when the first retail store was opened. A further five sites are planned for 2016, and the success so far means the company is considering opening as many as 50 new stores in 2017.

Direct Fresh: delivering premium groceries to the doorstep

Like Fisharbour, Direct Fresh also leverages the increasing demand from Bangladesh's middle class for quality produce and uses an inclusive business approach to deliver its service. The company offers a home delivery service for high quality fruit and vegetables, selling predominantly to the ex-patriate community, the growing Bangladeshi middle class, and entities such as hotels. As with Fisharbour, demand comes from those who are concerned



about food safety, particularly in terms of the health impacts of the use of pesticide and preservatives used in agriculture and in the food supply chain.

A contract farming model is central to Direct Fresh's business, bringing with it the challenge of working with as many as 2,000 supplier farmers.. To ensure the quality and reliability of their suppliers, Direct Fresh has been working with Katalyst to provide training to their farmers. For example, Direct Fresh and Katalyst are currently working to improve production of brinjal, which is particularly susceptible to pest attack. Training is being provided to farmers on the proper use of IPM techniques to manage pests in a way which does not compromise the quality and nutritional value of the resulting produce.

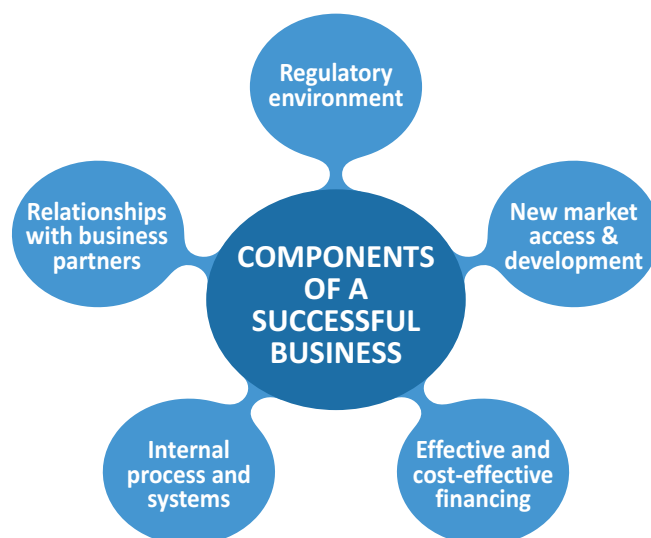
The firm uses its own farms (which provide about 30% of their total production) as demonstration sites to show its contract famers how things can be done. It also has a network of extension workers who assist the contract farmers in improving their cultivation techniques. Contract farmers are paid immediately on delivery, and their relationship with Direct Fresh means that they have a ready route to market and so do not have to engage in marketing their produce.

As with Fisharbour, the relationship with Katalyst and the use of inclusive business models helps buttress the company's claims for its food safety. Katalyst is also facilitating the process whereby the company will gain HACCP certification.

Direct Fresh is the pioneer of the safe food business in Bangladesh. The juxtaposition of many small, poor farmers and a growing, wealthy middle class has provided a new business opportunity on which it has been able to capitalise. The company is aware that others are likely to come into the market, but believes that its experience, brand name and track record gives it a first-mover advantage.

Conclusions

The conclusion which emerges from this report is that IB is about developing a profitable, durable business. It is about core business, not philanthropy. Previous reviews of inclusive businesses have reached a similar conclusion: what this report has been able to do is to explore in more detail the different components which make up 'the business case' for inclusive business. The starting point (as was made clear at the opening of this report) is to look at what makes up a successful business – that is, what factors combine to create a profitable company.



Inclusive business facilitates key factors of business success

As this report makes clear, inclusive business models make good business sense for a number of clear reasons:

Regulatory environment

A robust regulatory environment provides a level playing field which ensures transparency and ensures that all companies operating in one area follow the same rules. In the case of Bangladesh, the business environment remains problematic in many regards. From the perspective of the companies interviewed for this study, a key challenge has been the absence of clear, legally-defined standards in new business areas.

It is clear from these examples that engagement with inclusive business has helped create a more transparent and robust regulatory environment. There are a number of reasons why IB has been a particularly useful tool. Firstly, the fact that a company is developing a business which will provide direct benefits to poor Bangladeshis provides a clear incentive for regulators to focus on this area as a matter of greater urgency. In part at least, this reflects the fact that if small-scale farmers are provided with commercially sustainable opportunities, it reduces the likelihood that they will need to be supported by government revenue.

Secondly, that a company is engaged in an inclusive business approach helps reduce the mistrust and suspicion that some have for the corporate sector. Many of those interviewed observed that some in government in Bangladesh automatically assume that any representations which a company might make are ones only of self-interest. A company engaged in an inclusive business approach is more readily able to demonstrate that what it is seeking in the regulatory environment is for the benefit of the wider community and not merely in that company's own interests. The good reputation which Katalyst has in government circles facilitates swifter adoption and implementation of laws and regulation.

Relationships with key business partners

The quality of a company's relationship with key business partners is crucial to its success. Understanding the needs of suppliers, customers and business intermediaries, and being able to respond to these needs, is extremely important. In a market like Bangladesh however, developing a proper understanding of these groups – of what really makes them tick – is quite a challenge. It is clear that companies often lack a detailed understanding of small-scale farmers,

and that relying on a network of small contract suppliers can also pose real difficulties. Equally, as the cases in this study have shown, approaching the market through an IB approach can help to manage and improve these relationships.

Many of the case examples in this study have demonstrated the challenge of relating to a customer base made up of small-scale farmers, who frequently lack modern farming knowledge and are inclined to be suspicious of what companies tell them. The fact that these customers are numerous and spread over a large area further complicates the challenge of understanding and responding to their needs. An inclusive business approach provides a conduit which has enabled companies to work more constructively with their smaller customers, to develop approaches to training and information provision which work for them, and which build trust.

The same is also true on the supplier side, where companies find themselves working with a large number of small suppliers, many of whom lack good technical and management skills. The case of Fresh Direct shows that a company's own land can be used to demonstrate good farming practice to contract farmers, and how a network of more than 2,000 suppliers can be made to work in supplying produce to urban markets. The example of Aarong shows how effective training structures can be set up to ensure compliance with quality control standards and delivery schedules.

Internal processes and systems

A company's internal processes and structures are also extremely important. Internal systems of governance ensure that decisions taken at a senior level are properly enacted, that financial and other risks are properly managed, and that effective ways are in place to manage ongoing relationships. Once again, it is clear from this report that inclusive business models can identify areas where companies' systems need attention and provide remedial actions to address these.

In the case of QFL, its work with Katalyst in the fisheries sector identified a fundamental weakness in the funding model in terms of the relationship between the company and its dealers/retailers. Historically, this relationship has been based on the need for credit lines to be extended by the company to the retailers, and then on to small-scale farmers. This arrangement obviously implies significant unmanaged risk for the company in the form of bad debt. QFL was able to identify this risk and to put in place alternative processes to allow its dealers to access the products they need.

The case of Metal Agro is one in which a company saw the need to develop a new approach to its customer relationships. Engaging through an IB model with its customers helped it to better understand their needs, and in particular provided an awareness of the importance to farmers of timely and accurate information. As a result, the company established a customer helpline which provides information about the company's products and advice on all aspects of farming.

New market access and development

A company's expansion is based on its ability to identify and develop new markets, be that finding new customers for existing products or in developing entirely new business models and product lines. Once again, it is clear that taking an inclusive business approach can help companies identify potential new markets and provide the conduit for addressing these effectively.

One particularly interesting finding of this report is that in several cases Katalyst was able to identify a potential market which companies themselves had missed. At first sight, this might seem odd: that a donor organisation had been able to spot opportunities that professional business people had not seen. However, further assessment makes this apparent anomaly make more sense: because Katalyst knows the potential market better than its commercial counterpart it is better placed to know what new opportunities there might be. For example, Katalyst recognised that fish farmers were looking for an additional source of revenue, understood the practicalities of how mola could co-exist well with carp in a multi-species pool, and also that mola takes little in terms of additional time and resources on the part of the farmer. As a result, Katalyst staff were better placed to spot the opportunity of developing a mola business than was the company.

The examples of Fisharbour and Direct Fresh demonstrate also how IB can make entirely new business models work. In both of these cases the companies are building a business on the demand for safe food on the part of urban Bangladeshis, and using small farmers to meet that demand. In both cases an inclusive business approach has provided access to a network of suppliers, and support in developing processes and systems (such as contract farming) to manage this diversity of suppliers in an effective way.

Financing

Exploring new market opportunities in Bangladesh implies a degree of risk. Even where there is strong logic behind a new business opportunity (such as mola fisheries), there remain significant operational challenges to overcome if that opportunity is to be taken up effectively. In many cases, the degree of uncertainty and lack of visibility of an income stream makes it hard for companies to justify the financial outlay needed just to explore these new possibilities.

By collaborating with Katalyst in these ventures, companies are able to access additional financial support which allows them to justify to their colleagues internally the further exploration of these new opportunities. According to NAAFCO for example, the partnership with Katalyst helped it to explore an opportunity which it had spotted for itself but would not have been able to take up without support as the financial returns were not sufficiently clear. Similarly, when GME Agro began its collaboration with Katalyst, 60% of the funding to develop the business in biopesticides came from Katalyst. As noted above, this has already decreased to 40% and the company state that this is likely to drop to zero as the company becomes able to bear all the cost of the business internally

Concluding remarks

This study has shown that IB models can be used to support many of the functions needed to make a business successful. Companies need good relationships with commercial stakeholders, strong internal systems, access to new markets, a sound regulatory framework, and sources of workable finance. Inclusive business approaches can work in all these areas, as illustrated below:

Inclusive business ought best to be seen therefore not as an alternative ‘business structure’ – that is, that companies might operate entirely through IB processes – but as a new and powerful business tool which can be used to support many aspects of a company’s successful development.

Inclusive business provides an increased ability for companies to access new and unusual business opportunities: indeed in some cases it is clear that IB – and in particular, collaboration with an intermediary like Katalyst – can make companies aware of commercialisable opportunities they might have missed. Furthermore, inclusive business can provide access to the skills and capabilities needed to make the most of these opportunities, can help improve business relationships, identify how business processes may need to be revised, and so on.

It is interesting that IB allows companies to address the very particular circumstances in which Bangladesh finds itself. It simultaneously has a huge population of small-scale, usually very poor farmers, alongside a wealthy and expanding middle class. Inclusive business allows companies to develop markets, responding to the demands of the latter through including the former. In developmental terms therefore inclusive business works well as a tool for inclusivity. Many countries see the gap between rich and poor widen as it accedes to middle-income status: inclusive business is a process which allows the rising demands of the new middle class to be answered in ways which help poorer Bangladeshis. Of course, the circumstances facing Bangladesh are very specific, but it is interesting to speculate that in other countries too, dynamics may exist which would allow inclusive business to be used as a way to ensure more equitable development.

What is clear from this report is that IB offers companies a valuable business tool which can be used in a wide range of business areas. What is less clear is why some companies are more open than others to looking at the opportunities inclusive business offers. By definition, companies interviewed for this study accept the potential for IB and are using this approach in their business. Why is this approach not more widespread globally, given the obvious benefits it can bring? It may be that companies in Bangladesh are more aware of the potential of selling to or buying from the poor, given the large numbers of people that there are in the country. It may simply be that other companies are wary of trying relatively new approaches with which they are unfamiliar. Whatever the reason, the aim of this report is to demonstrate that inclusive business offers huge potential for companies operating anywhere in the world. There is no simple ‘business case’ for IB – as has been demonstrated, inclusive business approaches can be used successfully to address a range of business challenges. The examples in this report demonstrate that inclusive business is a strategy which more companies might use to identify and enter new markets, and which can provide the skills and capabilities to do so successfully.



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