

Pro-Poor Development at Regional Level – Challenges and Options



Workshop Report

Protea Hotel, Midrand, South Africa

11-12 May 2011

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1. Summary

On May 11 and 12, 2011, the Southern Africa Trust supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit GIZ, held a workshop to identify obstacles of implementing the Base of the Pyramid (BoP) and Inclusive Business concepts that are specifically relevant for the southern African region. Companies actively developed a list of the major hindering factors and recommendations for the implementation of the above concepts based on the current regional integration approach.

Both BoP and inclusive business concepts include the poor in the value chain of a company holding much potential for increased profitability and new markets for the private sector, provide jobs and incomes, and results in economic development. The current regulatory framework and business environment of regional integration does not sufficiently support the companies in regionally rolling out these new concepts. Their success depends on the creation of an appropriate enabling environment, for example focusing on improved:

- Customs and trade;
- Infrastructure;
- Tax systems;
- Access to Finance;
- Communications;
- Information, etc.

This will also lead to an improved investment climate.

The workshop was specifically offered to companies from nine SADC countries. The companies were invited due to their current activities or plans in the field of BoP/inclusive business and represented, amongst others, the industry sectors of agriculture, retail, mining, finance, insurance, mining, and logistics.

2. Introduction of the BoP and Inclusive Business Approaches

At the beginning of the workshop, companies' expectations, their definition of BoP/inclusive business and key requirements to initiate these approaches were discussed. Networking and partnering with other players, as well as the provision of finance were seen as crucial for the successful development of any inclusive business activity. For the execution of regional roll-out of BoP/inclusive business, the harmonization of regulations in the southern African region was identified as being very important. In addition, the question of how to measure and monitor the implementation of BoP/inclusive business was raised.

While inclusive business is often regarded as focusing on the supply chain of a company and mainly involving the poor as producers, the BoP approach addresses the consumer market whereby products and services are specifically targeted towards a low income segment. Meanwhile in both concepts, the poor can also be included in the production, distribution, marketing, and maintenance of goods and services. Recently, the concepts are converging and the boundaries between them are disappearing.¹

To implement BoP/ inclusive business, the poor need to have access to products to re-sell or distribute these and to finance. Proper and comprehensive training on technical, but especially on economic/business-related skills is necessary. To achieve profitability for both the private sector and the poor, companies need to hand over parts of the ownership, but must also guarantee standards and quality management.

2.1. Business opportunities at the base of the pyramid (BoP) through regional integration

In the keynote speech, Dr Prega Ramsamy from the Southern Africa Trust provided background information on inclusive business/BoP and the possible options for companies in the SADC region. By implementing BoP, companies often target people living on less than US\$ 2 per day and involve them across companies' value chains.

Emerging markets

According to Prega Ramsamy, those companies that master inclusive business could be those who realize great success in the coming decades. The market for products and services at the base of the pyramid, where approximately 4 billion people in developing economies live in poverty, is vast, representing \$5 trillion in purchasing power.² In the region, it is estimated that the BoP-market

¹ For instances, in the year 2009, the "BoP 2.0" approach was presented publically.

² The World Bank estimates BoP markets globally at \$20 billion for water-related projects, \$51 billion for information and communication technologies projects, \$158 billion for health and social protection programs, \$179 billion for transportation, \$332 billion for housing, \$433 billion for the

encompasses almost 100 million people. If this market for goods and services is 5% of the size of the global market, then a market potential of almost \$200 billion exists.

Despite the immensity of the markets, few multinational firms have built sizable businesses serving consumers or producers who survive on just a few dollars a day.

Financing the Start

For the BoP approach to evolve into a powerful engine for inclusive growth in the SADC region, it must be seen by the private sector as having a sufficiently compelling return on investment in order to compete successfully with other applications of capital and other resources. Financing inclusive business does not involve abandoning traditional modelling of estimating capital needs, expected future cash flows, and gauging risk, amongst other things. However, it does entail adjustments to factor in indirect and less tangible benefits to the company.



Dr Prega Ramsamy from Southern Africa Trust

Best Practices, Advantages and Requirements

The integration of the poor into companies' core business was illustrated by the examples of SABMiller's and Coca Cola's inclusive business practices throughout Africa. Whilst the first addresses small-scale farmers, i.e. a producer market,³ for the company's supply with raw material (barley, sorghum, cassava, maize, sugar etc), the latter particularly involves the poor in the field of distribution (consumer market). However, what both companies have in common is that their partners, the poor, are intensively trained in technical aspects of business, and moreover, are also trained in economic skills as they learn about business plans, bookkeeping and other entrepreneurial skills. Further, both companies also have in common, significantly higher revenues as a direct result of integrating the poor in their value chains.

The following table summarises some of the advantages of adopting inclusive business for business, (poor) communities and also the government, and also indicates some requirements for companies to be able to tap into these BoP-markets.

poor's energy needs, and \$2,895 billion for addressing low-income household food needs. The FAO estimates that 925 million people are undernourished.

³ SABMiller also integrates the poor in the distribution and marketing of their products. This case was discussed in a specific working group at day 1 of the workshop.

Table 1: Advantages of BoP and requirements for companies for a successful implementation

Advantages for companies	Advantages for communities	Advantages for governments	Requirements for companies
Higher profitability	Jobs and income	Increased tax revenues (SME)	Change of mindset: Open to collaborate with new markets
Wider market share	Increased market access	Improved social services	High understanding & knowledge of local / informal markets
Lower operating costs	Enhanced human dignity	Increased GDP	Market research, Resources/Investment
New consumers	Access, innovation and technology	More support for infrastructure	Innovation and “thinking out of the box”
Better brand of products	Better access to credits	Improved business climate	Proper calculation on Return on Investment (RoI)
Ease of doing business due to better relations with government & communities	Better living conditions as a result of the above points		Patience

Addressing the BoP through Regional Integration

Directing the keynote presentation to focus on regional integration, Dr Ramsamy said that the wider economic space provided by SADC, specifically that of linking the different markets and removing tariff and non-tariff barriers, can act as a catalyst to kick-start inclusive business across borders.

The success of BoP rests on a solid tripartite partnership comprised of the private sector, governments and communities in which the governments should:

- Provide an enabling regulatory environment for inclusive business, within and across borders;
- Support programmes aiming at sustainable and inclusive economic growth initiatives for the people at the base of the pyramid;
- Address the dire need for funds by providing incentives for larger companies that are able to demonstrate commitment to pro-poor businesses;
- Create new funding mechanisms that allow companies and organisations operating at the grassroots level to unlock vital sources of financial and technical support more easily; and
- Promote flexible partnerships and the formation of networks among enterprises, development agencies and governmental organisations for better business opportunities, access to technology, financing and information.

The SADC regional market within the context of the Free Trade Area, and a better business climate with a harmonized regulatory framework offers business with new opportunities at the BoP. In addition, communities should gear themselves to

take up the opportunities offered by inclusive business through better discipline and organization. There are, however, significant barriers to cross-border trade, investment and services which need to be removed.

Prega Ramsamy concluded saying that success stories in inclusive business therefore can be the guiding posts for similar endeavours in the southern African SADC region.

In **plenary**, the discussion opened with provocative questions on whether the presented approach was substantially different from mainstream business practice, and whether BoP would be an attempt to teach business how to do better business. Points made were that inclusive business is a rather recent concept, and that, therefore, there is a need for companies to gain more knowledge about it, and recognise it as an important option to remain in business. With regard to the financing of inclusive business, it was stated that many successful and profitable BoP-products, like Vodacom's M-Pesa mobile phone, could only have been developed with financial aid of a donor. It was, however, questioned whether locally people involved are making meaningful profits through the distribution of companies' products, as there were mixed experiences – both positive and negative.

It was agreed that governments cannot tackle the issue of poverty alone, but that their efforts should dovetail with those of business and civil society organisations. In some countries, inclusive business, also involving the government, has been practiced for the past few decades, for example, Mauritius during 1960s although this was not called inclusive business per se.

A key aspect to successfully implement inclusive business is the change of mindset within the companies. Management and shareholders need to be convinced of the potential of the endeavour. To start and implement inclusive business successfully companies would need to:

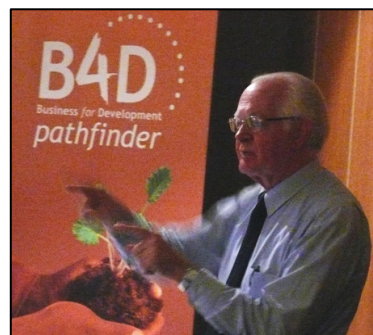
- Ensure that top business management is balanced with commitment and adaptation at operational levels.
- Ensure that shareholders understand the long-term prosperity at the BoP against short-term gains in volatile traditional markets.
- Develop an understanding of how global issues such as poverty, the environment, and demographic change affect businesses and sectors.

However, other stakeholders like government and civil society organizations also need to change their mindsets and be more open to inclusive business.

Prega Ramsamy highlighted the importance of having an evaluation and monitoring tool that can guide inclusive business at the BoP and at the same time measure their success. The B4D Unit of the Southern Africa Trust is, therefore, developing tools to initiate, implement and assess the performance of the companies. The B4D Barometer will enable companies to implement the BoP approach incrementally.

2.2. Corporate Engagement at the South African BoP – And Into Neighbouring Africa - Contrasts and Similarities in the Challenges

Based on this introduction on BoP and inclusive business concepts, Wolfgang Thomas, professor at the University of Stellenbosch and BoP Hub in Cape Town, provided a deeper analysis looking at different levels of corporate engagement, options to combine the concepts with given national instruments and fields of action, and the need for companies to engage in regional integration to extend their approaches.



Professor Wolfgang Thomas from University of Stellenbosch

- The different dimensions of corporate engagement at the BoP are;
- At level of global markets, companies are operating in saturated first-world markets and look more and more for opportunities to capture an increasing share of expanding emerging markets.
- Africa's transformation creates vast opportunities for foreign businesses to get engaged – but the ways in which companies are currently engaging can be questioned whether this leads to a positive impact on Africa's integration and economic development, including South Africa business expanding its engagement in other African countries.
- In South Africa, low-income segments/township/rural markets are more and more taken into account.
- The corporate engagement in this country in sustainable/inclusive business goes along with activities in the field of Black Economic Empowerment (BEE), environmental sustainability and poverty alleviation.

Combining BoP With Given National Instruments

In South Africa, the positive effects of inclusive business can lead to new areas of economic growth, for example, with reference to the involvement of SMEs in the value chain of large companies. An illustration of the integration of SMEs of is the use of the BEE scorecard to assess and monitor empowerment in businesses, and countries in southern Africa like Zambia and Namibia have started with similar scorecard approaches. In general, aspects like environmental sustainability and poverty alleviation challenges should be stronger integrated in these scorecards and other governmental mechanisms.

Small and medium enterprises specifically are not aware of BoP concepts, or have too little knowledge on current BoP activities and success rates.

Companies' Need for Regional Integration

To realise the growth potential of BoP, companies must appreciate that they need more regional integration, as some national economies are too small to provide for economies of scale. The expansion of BoP within a country and a region requires co-

operation between the public, private and civil-society sectors (for example co-operation with municipalities), and also a stronger engagement with smaller enterprises, and with other industry sectors. Success stories need to be replicated in the region, covering improvements from lessons learnt. This expansion also should include the replication of BoP approaches in rural areas.

However this requires the gradual lowering of economic and other boundaries between African countries while, in parallel SMEs need to learn to be more economic to be integrated into the companies' value chains. But changes in trade, customs and labour across Africa shall happen in a structured way in order to prevent new types of exploitation.

Partnering At the Regional Level

For a national and, in particular regional roll out of BoP concepts, Wolfgang Thomas suggested for multi-dimensional partnerships which are adapted to the different sectors, regions and issues. Apart from working together with regional and national governments and civil society organization, it was recommended to involve the following stakeholders more;

- **Media:** to promote success stories and thus to create a stronger awareness of all stakeholders was identified as being of crucial importance for this
- **Academia:** to more train leaders, managers and facilitators who understand the dynamic challenges as well as to conduct more applied research in the field of inclusive business and its regional roll-out. Existing knowledge of processes and progress in comparable countries like Brazil, India, Turkey and Kenya needs to be used more intensively for learning purposes.

In the **discussion**, it was recommended that if business aims at the above extension, and in general, staff of a company employing a BoP approach should have knowledge about the subject and its execution, and these should also be included as part of regular business (management) training.

Participants referred to the fact that markets are relatively small in sub-Sahara Africa. For example, Namibia has a total population of less than 2 million people. But when these small markets can be merged through regional integration, the potential for BoP-products will rise significantly. As the people at the base of the pyramid develop their purchasing power through sheer volume, the process of merging small markets of the Southern African region will create larger markets for BoP-products over time. Many of these countries have developed products and it is therefore difficult to predict the attractiveness of the markets and how business would be able to enter successfully in those small markets.

As multi-stakeholder decisions on regional integration often take a lot of time, a business model for this is required to foster the processes. This business model is likely to vary from country to country. Companies which set up a new plant or store in other countries need to be open for local products and should recognise that local products can meet product standards.

3. Implementing BoP - The Example of a Micro-Insurance Approach

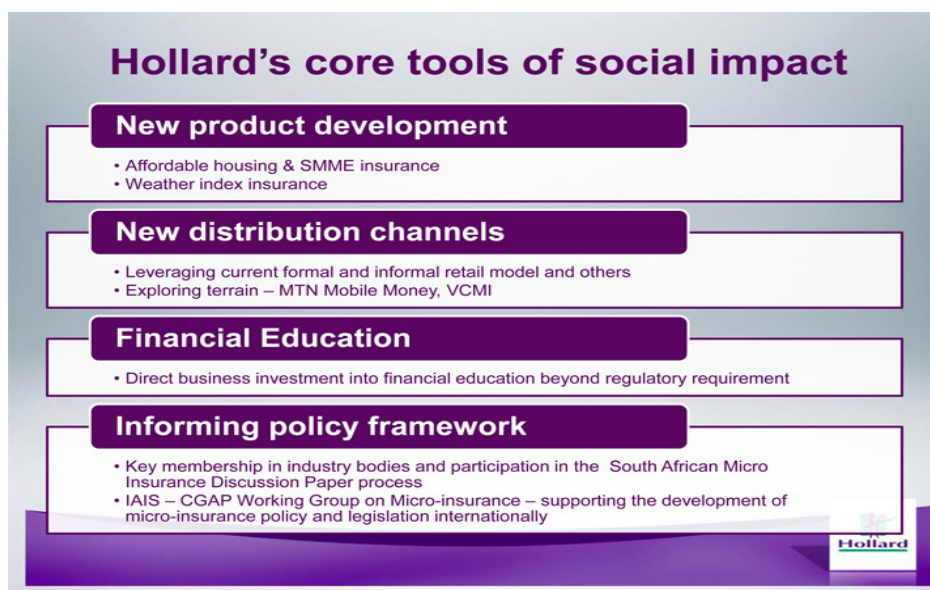
Thabo Gumbi from Hollard focused on the practical experiences of his company in developing and supplying its new products to the poor, which cover, affordable housing and SMME insurance, and weather index insurance, amongst other things.

For these products, the company explored new distribution channels and partners (see graph below), in order to leverage current formal and informal retail models, and to look at alternative distribution methods, for example, through mobile phones, in collaboration with the company MTN. In this way, access to new markets was combined with the financial education of distributors beyond the given regulatory requirements. The micro-insurance product has meanwhile completely split away from Hollard’s Corporate Social Investment (CSI), in the sense that the product is no longer financed through the company’s CSI budget.



Thabo Gumbi representing Hollard

Diagram 1 Hollard’s concept to include the poor in their value chain



The business model differs substantially from a normal insurance product and is adapted to the needs of the poor. For instance, as far as insurance products are concerned, the underwriting is removed, and the simplicity of the product is strongly improved. In the case of affordable housing, the company adapted their product with regard to the household income of less than R3 000 per month and building values below R250 000. This was based on preliminary market research done by Hollard, which led it to decide to have no liability cover related to conflicts with neighbours, but only to cover riots. The

rating of the product is not based on the value of the property, which has significantly simplified the product relative to mainstream insurance products.

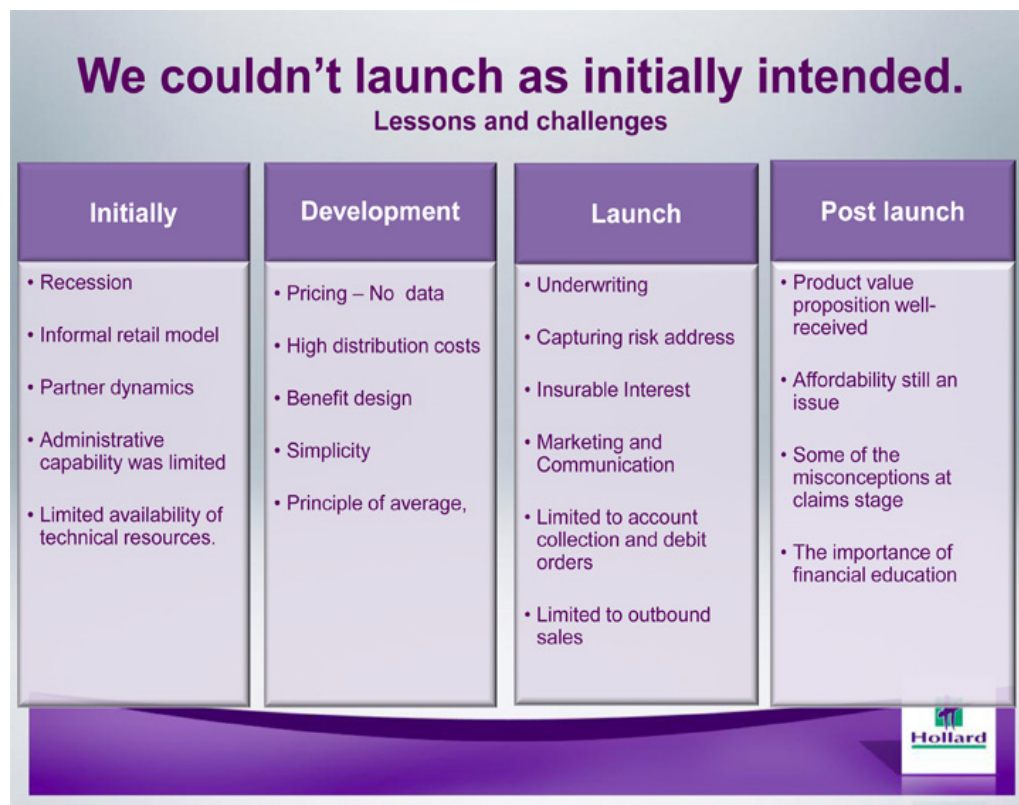
The products can be combined with other insurance products such as funeral insurance. Affordability levels of households is derived from data jointly administered with Jet, a retailer company in South Africa, based on monthly instalments paid by the customers.

After the launch of the product, Hollard’s assessment was that;

- The product value proposition was well-received;
- Its affordability is still an issue; and
- Financial education is crucial for the long-term success of the product.

Hollard’s processes to implement their BoP approach, challenges encountered and lessons learnt are summarized in the following graphic;

Diagram 2: Hollard’s lessons and challenges



In the discussion it was pointed out that Hollard’s micro-insurance was initially highly priced relative to the market. When the company started the roll out of the product there was no base for calculating rates, and the company adapted the prices using feedback from the market. Hollard subsequently reduced the original offer to customers by 50% of the price, in order to make the product affordable for low income households.

4. Exchange on experiences & best practice examples and regional role out of BoP and inclusive business concepts

The participants then split into break-away sessions to deepen the discussions on companies' experiences of inclusive business/BoP, on options for execution, and needs to be addressed in order for companies to implement BoP/inclusive business within the region.

Group 1 analysed;

- BoP option for companies;
- Challenges and needs;
- Necessary steps for a company to do; and
- Requirements to be fulfilled by the companies to create an enabling environment for inclusive business.

Challenges and Recommendations

1. Need of sufficient man-power to supervise the involvement of the poor
This can be outsourced to other players, like the local community, civil society organisations or governmental authorities like extension services.
2. Innovations are required to continuously match the changing tastes of the customers and their changing demands
These innovations should be implemented in a product-efficient manner.
3. Lack of communication within the company, starting with the long-term process of changing the mindset within the company
Corporate policies should be in place and to ensure their compliance. Varying interests of the management team of the company can be avoided by empowering (and training) of local management.
4. Companies often rely on the decisions of their mother company
Senior management of the mother company needs to be involved to adopt the BoP concept

In their presentation of results, group 1 stated that BoP, indeed, was seen as an option for companies to increase their profits and markets. However issues like quality standards, efficiency and the reliability of delivery through the poor need to be taken into account to serve customers needs. The poor, therefore, must be trained, and technical knowledge shall be transferred by using third parties, for example, extension services in the field of agriculture.



Attendees participating in group-work activity

In addition to partnerships with

governments, the collaboration with civil society organisations was regarded as important, for example, as civil society can assist with the access to the poor (and thus the new markets) and the training. Building trust, confidence and structural and institutional capacity was regarded as a success factor as well as setting boundaries on the other hand, for example, through careful selection of the partners and constant monitoring of activities.

In plenary, the discussion of the major feedback covered the following aspects;

- Is crucial for the successful implementation of inclusive business to focus not only on the training of technical skills, but emphasize economic skills training of the poor/partners.
- There is a need for the harmonization of the various companies' policies which address the integration of the poor in the value chain of a given company.

Using a case study, Group 2 discussed;

- Options of integrating the poor in each major function of the value chain. issues of Profitability of these inclusions and
- Risks for each of the proposed inclusions.

The company chosen as a case study was a brewery working at the international level, which included the poor in supply and distribution of their products.

Value Chain Activity	Options of integration of the poor
Inbound logistics	Transport (contract) Production of raw material
Processing	Integration of the poor will not affect the brewing process itself but can cover the tin/bottle production, the production of the crowns of beer bottles, the outsourcing of additional ingredients, like sugar
Outbound logistics	<ul style="list-style-type: none"> • Transport to whole-seller, then using an SME fleet (trained and supported by the company) • Transport in remote, rural areas, and crowded places by locals
Marketing and sales	<ul style="list-style-type: none"> • Training of tavern owners in business skills and how to sustain their businesses • Labels plus its design (local culture) • Communities to handle marketing • Advertising on a low level but by many people (distributing posters, promoting specials) • Building up a local call centre
Service/Maintenance	Value added services
Procurement	<ul style="list-style-type: none"> • Contract commodities (including creation of standards) • Clothing/uniforms • Security services, • Gardening • Catering, etc

Referring to the local supply, Group 2 affirmed the profitability of integrating the poor in the company's core business as follows: After specific training was done on technical

and economical skills, the involvement of a local transport system leads to lower capital costs for the company, especially as that involvement can be combined with competitive bidding.

The supply of raw material by specifically small scale farmers will also be profitable as the company will not need to import material, which results in cost savings on import taxes and the non-dependence on world markets. Heavy finance-intense agriculture is outsourced and the company can focus on its core business (brewing) instead of on agriculture. The company can also start with new products in line with the demands of the poor; such as, beer manufactured with more traditional ingredients, like sorghum or cassava. This can lead to less excise, resulting in lower product prices, and thus higher sales.

Similar to Group 1, quality, reliability, and skills were seen as risks while skills-training was seen as part of the solution. Details of integrating the poor in each function of the value chain were further discussed in plenary.

Group 3 focused on the regional roll-out of BoP;

- analysing companies' experiences to date; and
- their challenges and required steps in the future.

As BoP is a comparably new concept, the exchange and distribution of information, for example, of best practices, successes and hindering factors, was seen as a key starting point. In the course of the discussion, participants identified a need to provide this information on the Web.

Further steps necessary for regional roll-out of BoP and inclusive business are
Information

- Gathering market and population information for BoP-products is required however this is difficult and cost-intensive
- Conducting market research on local needs, which differ from country to country, to adapt the product(s) accordingly;
- Negotiations with companies to establish favourable interest rates to finance the roll-out.

Access to Finance

- Understanding the risks in each country, e.g. by using knowledge, like FinScope studies;
- Further develop regional finance frameworks;
- Finding financial institutions that can operate across borders;
- Identify financing options (in the company and from third parties);
- Finding insurances, credit lines and a facility of finance institutions to export capital. This includes the need to understand regulatory frameworks in different countries.

Trade Barriers

- Reducing trade barriers between the countries as these prevent penetration of the regional market.
- Multi-stakeholder dialogues to achieve consensus between the involved stakeholders about the major barriers for the regional role out.

The information could include information about local and regional markets for products, financial markets, a stakeholder analysis and other aspects for the business case for inclusive business, for the private sector to take up and support inclusive business activities. The need for advocacy for the inclusive business concept itself at various levels was also identified, as well as the identification of local stakeholders for joint implementation and finance options within a given country and the southern African region.

During the discussion in plenary, the example of African companies importing from Europe rather than their neighbour countries was given, to highlight the challenges of regional roll-out of BoP and inclusive business. It was recommended that companies explore other options to create regional demand and regional markets.

5. Obstacles Preventing Companies to Expand Their BoP Models into the SADC Region



Antinio Hercules, facilitating the discussion

The workshop then focused on the constraints for the regional role out of (inclusive) business activities based on the current framework regional integration. The sessions started with a panel discussion on “Regulatory and other constraints to pro-poor growth - Companies’ experiences dealing with BoP at the regional level”. The issue was analysed with special regard to customs, access to finance, taxes and, in addition out of the view from informal cross-border traders. The panellists were;

- Mr. Hennie Heymans, DHL Central Africa
- Mr. Jean Pierre Snijders, Vodacom South Africa
- Ms. Maya Makanjee, FinMark Trust
- Mr. Tadeo Taruvinga, Informal Cross-Border Traders

Generally, the following constraints were identified as;

- Current ways of implementing customs (see below);
- Lack of infrastructure (roads, communications, electricity);
- Challenges through given monetary policies (for example, current challenges regarding FOREX⁴ in Malawi);
- Africa traditionally being regarded as a “dumping continent”, i.e. the public and private sectors are provided with discontinued models, for example, in the field of ICT; and

⁴ *Forex is an “over-the-counter market where buyers and sellers conduct foreign exchange transactions. The Forex market is useful because it helps enable trade and transactions between countries, and it also allows an investment opportunity for risk seeking investors who do not mind engaging in speculation.”* (<http://www.investorwords.com/2045/Forex.html>, 24/5/2011)

- Constantly changing rules, regulations and interpretation of same within SADC.

5.1. Customs

Customs was seen as the biggest challenge in the SADC region that had a “gate keeper” role resulting in a negative knock-on effect on consumer pricing. As a positive example, customs in Mauritius has reduced the administrative burden on SMMEs and their operation in that country.



Hennie Heymans talking about constraints at border posts

The resource person on the issue of customs, Mr. Heymans, made the point that the power of border posts should be shifted so that customs better service enterprises. Due to the current operating hours at border posts business is constrained by the resultant challenges of delayed delivery, cash flow implications and longer lead times. Up to now, the additional costs based on these hindering aspects are paid by the consumer. Moreover the operating hours lead to further social challenges. For example, specified operating hours at customs lead to overnight stops, the creation of temporary villages, and contribution to HIV and AIDS infection rates, as well as its association with other ills such as car high-jacking.

Often administrative processes at the border are still performed manually, with the result that goods are released on receipt of a manual stamp. The lack of technology also includes low bandwidth of PCs, which slows down processes and results in lost data and paperwork. There is a general lack of enthusiasm to embrace technology leading to a lack of investors’ confidence, a lack of progress resulting in the perpetuation of the “3rd world syndrome” leaving Africa exclusively for those business investors who can afford investing in highly expensive processes.

“If the big organizations are struggling with the above challenges, how much more difficult is this for smaller companies?”

**Hennie Heymans, DHL
Midrand 12/05/2011**

In addition, there is a loss of tax revenue as a result of the manual administrative processes employed by customs. In sum, workload is duplicated and a bottleneck at the border is created which leads to above overnight stops mentioned, and all of the associated challenges socially and economically. Further constraining factors are;

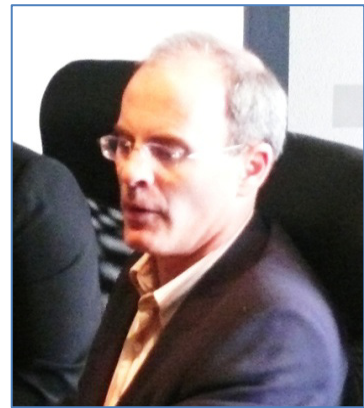
- Bribery
- The attitude of border-post officers and accessibility of senior officers
- The general lack of efficiency
- The lack of proper tools for processing and obsolete equipment.

Presently, the procedures at customs can in general be described as “autocratic” in nature, and in effect opposes the inclusion of the poor as new stakeholders and partners of companies.

5.2.Taxes

The participants then looked at the issue of taxes as obstacles for regional integration and the role-out of BoP goods and services in the region. The impact of taxes on companies implementing BoP was illustrated by the example of the use of mobile phones and mobile phone banking. The resource person for the issue of taxes, Mr. Snijders, introduced the Vodacom M-Pesa⁵ mobile phone and pointed out that the actual tax regulations prevent an optimal service to the people at the BoP as follows:

- African investments and mobile telephony specifically bear strong tax burdens. Africa as a region has the highest incidence of tax (PriceWaterhouseCoopers PWC 2011).
- Mobile specific taxes: number fees, excise duties of 10% on airtime (East Africa): increase the cost of access to customers.
- Subscriber registration, monitoring and interception lead to increased costs access to telephony.
- Mobile payments, such as M-Pesa, in many countries require a banking licence (this is the case in South Africa), leading to;
 - Increased transactional costs due to competition from banks
 - The use of agent networks, which increases accessibility costs.

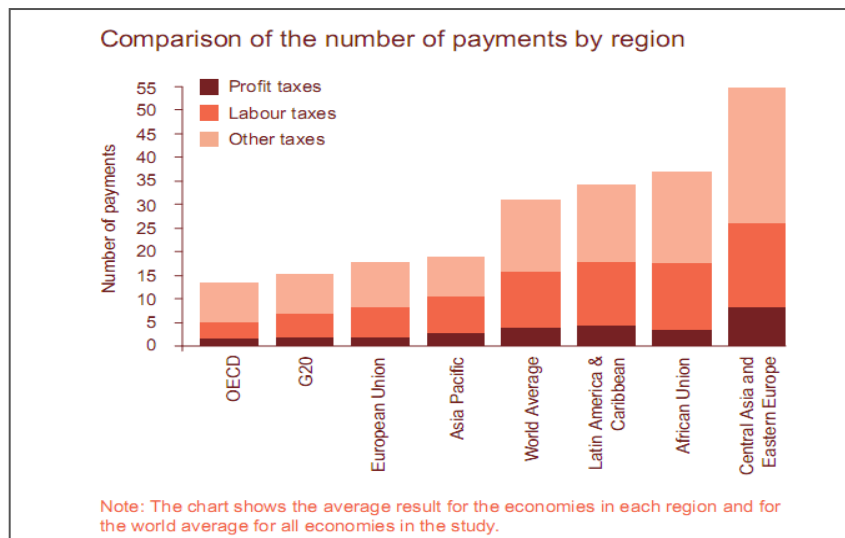


Jean-Pierre Snijders, Vodacom, taking about the issue of taxes

The taxes mentioned above have an even bigger impact, as there is a strong link between mobile communications and economic welfare. According to Deloitte, for every 10% increase in mobile penetration, there is an associated increase in the GDP growth of 1.2 % in developing countries.

⁵ *The M-Pesa phone serves the unbanked, in different markets with different regulatory environments as in the case of South Africa and Kenya. The M-Pesa phone allows the transfer of money between individuals, between individuals and businesses (like payments), cash withdrawal and deposit. Once the money has been paid into the account, it can be used to pay bills, transfer to other people or purchase goods and services in a safe, efficient, simple and rapid way. In Kenya, it led to benefits for the poor (consumers) and to significant profits for the company.*

Diagram 3: Number of tax payments



Source: PriceWaterhouseCoopers: *Paying Taxes 2010, an African Perspective*

In a report by Deloitte Touche Tohmatsu (2007), it was concluded that by reducing mobile-specific taxes, mobile ownership and use will rise, stimulating wider economic growth and increasing the total amount of tax produced by the mobile industry in a number of countries. However, as of 2008 in sub-Saharan Africa:

- 8 governments levied luxury taxes on airtime;
- 24 governments levied luxury taxes on handsets; and
- 25 governments levied luxury taxes on equipment.

The reduction of these luxury taxes on handsets, network equipment and airtime offers an opportunity to substantially lower barriers to entry for those that are not yet connected. Vodacom estimates that lowering mobile-specific taxes in the region increases affordability and would enable around 45 million additional consumers at the BoP to connect by 2012.

Regulatory challenges, in general, are rather hindering rather than promoting companies in expanding their businesses and integration the poor. For instance, in South Africa, regulations compelled Vodacom to postpone the launch of their M-Pesa phone for about two years. In Namibia, the license system made the company decide that they will not introduce the M-Pesa phone in this country as the country's economic potential is too small. However, there are also positive measures by government, for example in Tanzania, import duties on handsets were reduced as ICT is a vigorous policy issue in this country. Resulting recognition of the fact that African economies were relatively small Mr. Snijders recommended a regional licence system for telecommunications companies as separate local licences in each country are "extremely inefficient".

5.3. Access to Finance

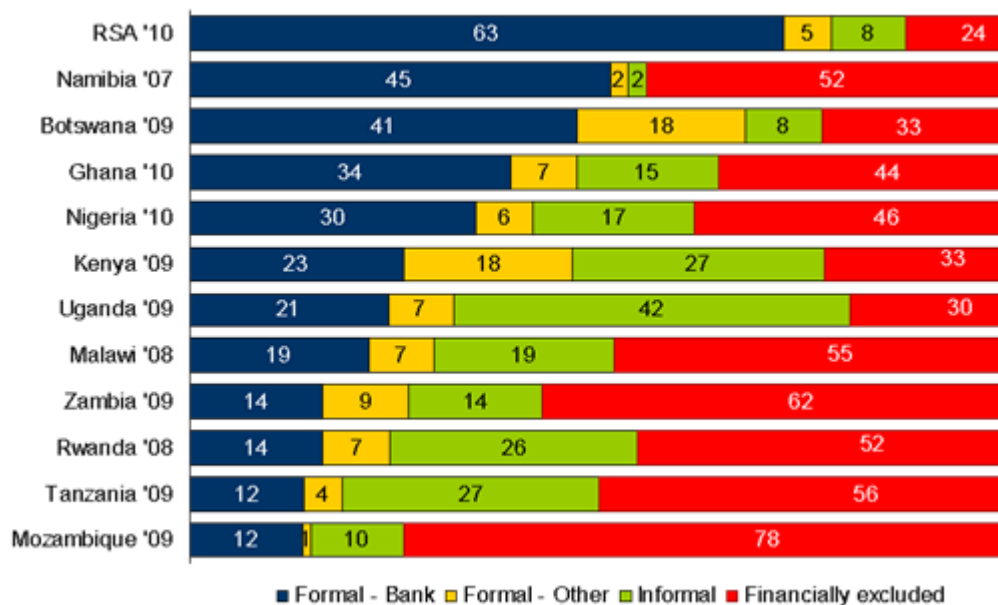


Maya Makanjee from FinMark Trust

The lack of access to finance is another obstacle for the implementing of BoP activities at national and regional level. Ms. Makanjee, resource person for this topic provided a synopsis of countries' statistics on formal financial inclusion and exclusion (see graph below). With the exception of South Africa and Botswana, the majority of people within SADC do not have access to finance, especially with regard to formal finance systems. These provide hindrances for people wanting to become entrepreneurs, or those, requiring start-up capital to engage in the value chain of a company. The major constraints for financial inclusion are:

- Regulations, for example, on application requirements. As a possible solution, the thresholds of business models need to be re-examined.
- Policy environment of companies, as financial inclusion is often not part of a firm's agenda. Recommended were approaches like the market development in Mauritius.
- Accessibility and affordability aspects for the consumer are not properly factored in.

Diagram 4: Comparison of Access Strands, FinMark Trust 2011



The financial inclusion of the (excluded) poor is of key importance for further social and economic development at local, national and regional levels, independent from the question of whether the inclusion happens at the formal or informal finance sector level.

5.4.Constraints for cross-border traders

The fourth resource person, Mr. Taruvinga made an input on the constraints on informal cross-border trade, which accounts for a proportion of about 40% of intra-regional trade in the SADC region.⁶ The cross-border trade is, in addition to the above obstacles, hindered by:



Tadeo Taruvinga, talking about informal cross-border trade

- Non-tariff barriers, for example, in the case of Zambian sugar, the government prohibits the import of sugar which is not fortified, etc., as a means of protecting local industries
- Claimed customs deposits on goods in transit (for example, in Zambia)
- Visa requirements, such as the DRC entry requirements leading to profit loss resulting in the smuggling of goods
- Difficulties for micro-traders in obtaining certificates of origin from SADC
- Lack of information on import-export business, for example, in the case that crops are restricted due to disease outbreaks(also leading to smuggling)
- Lack of information on import-export procedures, for example, difficulties to obtain export invoices
- Cross border transportation and accommodation have become expensive
- Micro-financing became expensive for micro-traders as high fees need to be paid for administrative procedures for example it is required to pay an application fee and a commitment fee.
- A lack of pro-poor trading places
- Expensive health insurance policies, for example, in South Africa

In the plenary aspects of licensing for telecommunication companies were further discussed, as well as the fact that in some countries, like in Mozambique, there is no formal banking system in the rural areas. In Malawi, companies are constantly facing power-cuts and other infrastructural problems in particular, which provides limits to the extent that the finance sector is able to provide their services to the poor, or work together with mobile banking providers to include the poor. It also hinders companies like DHL in clearing their freights. DHL announced its commitment to uplift some of

The Common Market for Eastern and Southern Africa (COMESA) has introduced a Simplified Trade Regime which is a set up of products that do not need a certificate of origin, which is an incentive not available in SADC.

⁶ *Mr Taruvinga informed the meeting that, for example the Zambian cross-border traders' organization, in which he is working, has 20,000 members, of which 500 travel out of the country to do trade regularly.*

the infrastructure, for example, by making an offer to sponsor generators to customs authorities. However, there needs to be the necessary political will towards such investments in order to maximise the take-up of these interventions.

It was suggested that a coherent effort for regional governmental institutions like SADC, COMESA and the East African Union shall be developed to harmonize their regulations and policies, for example with regard to a Free Trade Area.

The major constraints for regional integration and the a regional roll-out of BoP concepts were gathered and clustered and referred to break-away groups to discuss these in break-away sessions. The following list summarises the major constraints:

Constraints hindering the role-out BoP in the region

- Customs, for instance;
Ever changing rules, regulations
 - Operating hours of border posts
 - Bribery/corruption - related to state officials
 - Attitude of staff of border posts
 - Lack of efficiency
 - Lack of proper tools
 - Lack of technology, take-up of technology
 - Authorities acting in an autocratic way
- Regulatory barriers - government laws, regulations: taxes, movement of goods, people
- Non-regulatory barriers: access to finance, cost of finance (this context is very important, presents opportunity), knowledge of financial products; High costs of communication, ICT, mobile telephony
- Infrastructure (roads, communications, electricity, water)
- Monetary policies
- Non-trade barriers, for example. Currency conversion - and those related to the movement of goods in the region
- Lack of Information
- Lack of Communication and excise duties on communications

The participants agreed on two major clusters covering these constraints;

- Cross-border movement of goods and people
- Access to business (registration and finance)

As many constraints were allocated to the cluster “Cross-border movement of goods and people” two groups were created to further discuss these issues, whilst a third group addressed the matters of the cluster “Access to business (registration and finance)”.

6. Break-away Session – Constraints and Recommendations

Apart from further discussing and ranking the above constraints by focusing on BoP, the groups were requested to develop recommendations and strategies to overcome these obstacles. The latter was discussed, by examining success stories of where these constraints had been addressed, in order to provide learning opportunities for participants.

6.1. Cross-Border Movement of Goods and People

The groups identified the following constraints, possible recommendations and success stories:

- Limited free movement of goods and people (including visas, work permits etc)

The goal is to enable a free movement of goods and people. In general, the following success stories were listed;

- A Derogation⁷ to allow a more free movement of people
- A simplified trade regime – cutting “red tape”, and
- Tariffs for urgent and normal passport applications

Exchange controls were seen as important factor affecting the movement of goods across borders. Generated obstacles of these controls were seen in:

- Advanced payment
- Local currencies are not tradable
- Additional approvals needed

It was, therefore recommended to follow the examples of

- Mauritius where exchange controls were removed
- South Africa where there is an increasing threshold for approvals
- Malawi & Mozambique which agreed on tradable local currencies

In addition, it is required to simplify processes on thresholds to address the issue of anti-money laundering.

6.1.1. Customs

Customs play a crucial role for the cross-border movement of goods and people. The related constraints caused have been listed in the text box above and were discussed in details in the above panel discussion. Discussion also included the example of lacking of national capacity to internally control SPS (Sanitary and Phytosanitary⁸) inspections.



Teophory Mbilinyi presenting on group work

⁷ The partial abrogation of a law; to derogate from a law is to enact something which is contrary to it; to abrogate a law is to abolish it entirely.

General recommendations to improve customs were:

- Fully-harmonised duty
- Improved infrastructure, for example, such as the work done at the Beit Bridge border post in Zimbabwe
- Improved ICT & technology to make customs more efficient while private stakeholders need to support customs with IT equipment
- Significant extension of operating hours
- One stop shops at the borders of all SADC countries
- Training on basic customs issues
- Better organized private sector associations to put pressure on government
- Engaged private stakeholders in formulating and implementing regulations

Bribery and corruption were identified as crucial constraints of customs. Mozal Mozambique was regarded as a positive example to combat these issues. The company reduced corruption at the border post by stakeholder involvement, a special project team and the involvement of stakeholders in a mining investment project.



David Graf, GIZ SADC

It was recommended that “political will” needs to be addressed through communication within government facilities and the implementation of investment processes, including the removal of “red tape” or streamlining.

6.1.2. Non-tariff barriers

The groups recommended the minimisation of non-tariff barriers.

In this context, a major constraint was seen in the non-recognition of certifications in other countries. It was recommended to

- Harmonise standard requirements
- Improve quality of infrastructure
- Accept international standards

⁸ *The inspection intended to prevent the spread and the introduction across national boundaries of pests of plants and plant products Category: Botany and zoology.*

6.1.3. Ever-Changing Rules and Regulations

Moreover the ever-changing rules and regulations play a major role hindering the required cross-border movement of goods and people. Improvements can be achieved through:

- Quick notification system, to be also used in SADC-wide media
- Impact assessment
- Stakeholder consultation



Participants collaborating in group discussions

6.1.4. Limiting the Free Movement of Goods and People

- Lack of communication
- Lack of sufficient infrastructure
- Lack of proper working tools
- Lack of Information on
 - Market(s)
 - Prices
 - Customs procedures
 - Regulations
 - Statistics
 - Misleading websites & how to find the right information
 - Capacity building

Concerning the lack of information, positive examples are as follows;

- A website on all statistics accessible to all (e-govern), like it is available in Malawi and other countries
- User-friendly leaflets

6.2. Access to Business

A third group analysed the major constraints to start and do business. These are summarised in the table below.

Constraints for access to business	Recommendation
Finance	<ul style="list-style-type: none"> • Education/capacity building in business skills • Seek help from development agencies to mobilise funding – show business value of BoP • Cross border financing – innovative solutions from private sector while trade barriers will also be reduced
Registration and License	<ul style="list-style-type: none"> • Decentralisation of authorities • Simplification of formats • Using modern technology for template procedures, for example filling-in the forms using mobile phones

	<ul style="list-style-type: none"> • Affordable registration fees • One stop shops
Monetary policies	<ul style="list-style-type: none"> • Interest rates – address the cost of money • Exchange rates – stabilisation • Capital Export licenses – simplified/expedited process and standardisation across the region

Table 4: Results of Group 3, options for addressing the issue of limited access to business

The group also provided positive examples or processes in the field of finance, which could be used or replicated. These are:

- DBSA and African Development Bank financing micro-finance institutions
- Financial Services Charter, for example, in South Africa and Namibia which are providing small business with financing
- Mozambican financial institution Gabinete de Consultoria e Apoio a Pequena Industria (GAPI, a small Scale Investment Support Office) supporting farmers, Malawi Rural Finance Company (MRFC) in Malawi for farmers
- The Africa Enterprise Challenge Fund, based on key players of development finance, provides grants and interest-free loans to businesses who wish to implement innovative, commercially-viable, high impact projects in Africa.
- APEX funds (governments) created a guarantee scheme for SME in Swaziland, and includes micro-finance in South Africa
- Bank Windhoek in Namibia has established a post-loan mentoring of SMEs
- Companies that financially support SMEs within their partnerships, for example, for inclusive business or within outgrower-schemes⁹
- Banking Sector initiatives targeting the poor.

⁹ *The FAO defines “an out-grower scheme as a contractual partnership between growers or landholders and a company for the production of commercial forest products. Out-grower schemes or partnerships vary considerably in the extent to which inputs, costs, risks and benefits are shared between growers/landholders and companies. Partnerships may be short or long-term (e.g. 40 years), and may offer growers only financial benefits or a wider range of benefits. Also, growers may act individually or as a group in partnership with a company, and use private or communal land. Out-grower schemes are usually prescribed in formal contracts.”*
<http://www.fao.org/docrep/004/ac131e/ac131e03.htm>

7. Way Forward

In the final session of the workshop, the further activities of the companies, the Southern Africa Trust and the GIZ were discussed.

Commitments

In a first step, the companies shared information on their commitment in the field of inclusive business and its regionalization as follows:

Company / Organisation	Commitment
African Barrack Gold, Tanzania	<ul style="list-style-type: none"> Participate in any forum that is geared towards improving BoP using the inclusive business model in the region Apply the inclusive business model to serve our local suppliers to solve some challenges and to partner with CSR to capacitate our local suppliers
Bottling & Breweries Group (Carlsberg) Malawi	Learn from the SABMiller case on local empowerment and localization of raw materials (barley production) through financing, support and extension services
Dairiboard, Malawi	Discuss the BoP approach within the company
FinMark Trust	Can partner with the Southern Africa Trust <ul style="list-style-type: none"> on regional financial integration issues in research initiatives
GIZ SADC	Feed inputs of workshop and of discussion paper into high-level SADC processes
Harambe Holdings Zimbabwe	Engagement of at least 3 (BoP) activities in each of the Harambe-owned companies (for example in the field of transport and procurement)
Informal Cross Border Traders	<ul style="list-style-type: none"> Assist in engaging with the SADC Secretariat and presenting the outcomes Cross- checking the position paper (below) of the working group
Kilicafe Tanzania	Introduce the BoP concept to the coffee farmers providing coffee to Kilicafe
Mozal	Advocate the BoP philosophy amongst the target community
Nam-Mic Namibia	Discuss within the company the possibility of developing an insurance product addressing BoP
Nedbank Swaziland	<ul style="list-style-type: none"> Discuss the BoP concept within the company Enabling a political exchange between the Southern Africa Trust and the Government of Swaziland at high level to start discussions on inclusive business and an enabling environment
RAB Processors, Malawi	To strongly take up the inclusive business concept and sensitise and educate the target groups at the base of the pyramid and drive the whole concept towards success
Shoprite Malawi	The company can implement capacity building of its stakeholders to uplift their skills so that they can produce the required product according to the customer requirements and demands.
Southern Africa Trust /B4D	<ul style="list-style-type: none"> Support companies

Unit	<ul style="list-style-type: none"> ○ with information on inclusive business (for example, case studies) ○ networks (connecting the companies to other players) ○ and monitoring instruments (in the future) • Be a Contact Hub for requests of companies
TPC Ltd Tanzania	<p>To discuss the concept of inclusive business with shareholders and put strategies in place to implement the concept</p> <ul style="list-style-type: none"> • ICT systems support • Participation in policy-making
Vodacom South Africa	<ul style="list-style-type: none"> • BoP procurement • Skills transfer • Finance platforms.

Working Group and Position Paper

Further on the way forward, the participants agreed on establishing a working group to proceed with the following processes;

- Develop a business position paper which would then be brought to the attention of SADC (for example, SADC Summit) to further discuss the following issues within a dialogue of business, government, civil society organizations and donors;
 - BoP/inclusive business as an option of economic development in the region with;
 - Constraints for the regional roll-out of BoP and inclusive business concepts; and
 - Recommendations to reduce or overcome these constraints, and to build a more enabling environment for BoP/inclusive business activities of companies, including SMEs, and the poor.
- Identify further business champions, including business associations within the southern African region to
 - Be involved in future activities of the group;
 - Get buy-in of the position paper; and
 - Publicise the positions of the working group.



Participants discussing the way forward

The position paper will refer to concrete and specific aspects of BoP-related challenges and solutions at the regional level as well as cover living examples to emphasize constraints and recommendations of the private sector to make regional integration work for the poor.

The following participants were nominated as members of the working group;

- David Govere - Harambe Holdings Zimbabwe; President, Employer's Confederation of Zimbabwe (EMCOZ); Representative, SADC Employers' Group (SEG);
- Hennie Heymans - DHL Central Africa;
- David Graf - GIZ SADC;

- Dr Ullrich Klins - Southern Africa Trust, B4D Team;
- Matthews Mwase - Shoprite Malawi;
- Theodora Nyamandi - DairiBoard, Malawi;
- Dr Prega Ramsamy - Southern Africa Trust, Head of B4D;
- Sabit Sayidi - Bottling & Brewery Group (Carlsberg), Malawi;
- Jean Pierre Snijders - Vodacom South Africa; and
- Reward Tenga - African Barrick Gold, Tanzania.

In following 2 experts will assist in developing the above position paper:

- Maya Makanjee - FinMark Trust South Africa; and
- Prof. Wolfgang Thomas - University of Stellenbosch/BoP Hub in Cape Town.

Annexure 1 - Agenda



Pro-Poor Development at Regional Level - Challenges and Options

Protea Hotel, Midrand, South Africa

Agenda

DAY 1

- 08:30 - 09:00** **Registration**
- 09:00 - 09:45** Welcome and objectives of workshop
Antonio Hercules, Facilitator
- 09:45 – 10:45** Tapping opportunities at the Bottom of the Pyramid (BoP) through regional integration
Dr Prega Ramsamy, Southern Africa Trust
- Discussions*
- 10:45 - 11:15** **Tea Break**
- 11:15 – 12:10** Corporate engagement at the local BoP – and into neighbouring Africa: Contrasts and similarities in the challenges
*Prof Wolfgang Thomas, University of Stellenbosch/
BoP Hub Cape Town*

Discussions

12:10 - 13:00 Implementing BoP - the case of micro-insurance

Thabo Gumbi, Hollard

Discussions

13:00 - 14:00 Lunch

14:00 – 15:20 Break-away

1. *Development of inclusive business*
2. *Rolling out in the region*

15:20 - 15:40 Tea break

15:40 - 17:00 Presentation of group results and discussions

17:00 - 17:30 Critical issues and requirements for companies to implement BoP at the regional and national level

Wrap up

19:00 Joint Dinner

DAY 2

08:30 - 10:15 Regulatory and other constraints to pro-poor growth - Companies' experiences dealing with BoP at the regional level

Panel Discussion

1. *Hennie Heymans, DHL*
2. *Tadeo Taruvinga, Informal Cross-Border Trade*
3. *Jean Pierre Snijders/Susie Lonie, Vodacom*
4. *Maya Makanjee, Finmark Trust*

10:15 – 10:35 Tea break

10:35 – 12:40 Constraints hindering the development of BoP at the regional level and recommendations & strategies to overcome these obstacles

Break-away sessions for Finance, Trade and Industry

12:40 – 13:40 Lunch

13:40 – 15:00 Presentation of results and discussions

15:00 - 15:20 Tea break

15:20 - 16:20 Plenary discussion focusing on the way forward and the establishment of a working group
Business Champions

The working group shall develop a position paper on the relevance of public/private sector dialogue to facilitate sustainable development in the SADC region. This paper will address the identified constraints and make appropriate recommendations.

16:20 – 16:35 Wrap up of the day and closing of the workshop

DAY 3

(For Working Group Only)

08:30 – 09:30 Summary of findings focusing on identified constraints, recommendations and lessons learnt
Facilitator

09:30 – 10:30 Development of position paper by the working group (Part 1)

10:30 – 10:50 Tea Break

10:50 – 12:50 Development of Position Paper by the working group (Part 2)

12:50 – 13:00 Closing of the Working Group session

13:00 – 14:00 Lunch

14.00 Departures

Annexure 2 – List of Participants

No.	Name	Company	Country	Email
1	Mr. Reward Tenga	African Barrick Gold	Tanzania	jreuben@africanbarrickgold.com
2	Mr. Sabiti Bryson Sayidi	Bottling & Brewery (Carlsberg)	Malawi	ssayidi@sobomw.com
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