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INCLUSIVE BUSINESS MARKET SCOPING STUDY IN THE PEOPLE'S REPUBLIC OF CHINA

JUNE 2018

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Cover: Inclusive businesses play a key role in providing the base-of-the-pyramid capacity building programs to increase production, improve quality of goods and services, and standardize practices. These capacity building activities can provide opportunities for higher income to the base-of-the-pyramid (photo by Lu Guang, ADB) (*top left*); The agriculture sector has the most companies implementing inclusive business models in the People’s Republic of China. These companies can generate additional income or create jobs for the base-of-the-pyramid (photo by Richard Abrina, ADB) (*bottom left*); A large number of the base-of-the-pyramid population is situated in the rural areas. Inclusive agribusiness approaches can contribute to the reduction of poverty by engaging the base-of-the-pyramid as suppliers, laborers, and distributors (photo by Carolyn Dedolph, ADB) (*right*).

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Abbreviations

ADB	–	Asian Development Bank
BOP	–	base of the pyramid
CSR	–	corporate social responsibility
G20	–	Group of Twenty
GDP	–	gross domestic product
HDI	–	Human Development Index
IB	–	inclusive business
ODI	–	outward direct investment
PRC	–	People's Republic of China
PwC	–	PricewaterhouseCoopers
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
UNDP	–	United Nations Development Programme

Currency Equivalents

(as of 1 March 2017)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.14
\$1.00	=	CNY6.86

Executive Summary

This market scoping study for inclusive business (IB) in the People's Republic of China (PRC) and companies from the PRC operating abroad was commissioned by the Asian Development Bank (ADB) in July 2016. The study is the first of its kind for the PRC, and is part of ADB's broader IB initiative that supports IB in Asia and the Pacific through technical assistance. The objectives of the study were to provide an overview of IB approaches in the PRC and companies from the PRC operating abroad identify possible IB investment opportunities, and outline opportunities to strengthen the enabling environment for IB in the PRC.

Although the concept of IB has some resonance in the PRC, the terminology of IB is not widely used nor fully understood. This lack of awareness made it challenging to identify companies that are using IB approaches as well as information sources to understand the IB landscape in the PRC.

A total of 193 companies were compiled for review and analysis in 23 provinces across 13 sectors. The companies were selected following an established process. First, in relation to the ADB's definition of IB, the key criterion was to find companies that engage those at the bottom of the pyramid (BOP) in their core businesses. Based on this criterion, two types of companies emerged:

- (i) those with a business model that naturally engages those in the BOP, such as agriculture and animal husbandry; and
- (ii) those focused on the national policy of targeted poverty alleviation, such as energy and e-commerce.

To understand the IB landscape further, the consultants undertook interviews with 40 stakeholders from multilateral institutions, businesses, governments, and nongovernment organizations; engaged with global IB networks and stakeholders; and conducted a detailed desktop review.

Key Findings of the Review

Of the companies assessed, categorizations were made to group them into four key types of IB activities:

- (i) 48% of companies were using IB models,
- (ii) 38% were undertaking strategic corporate social responsibility,
- (iii) 12% were for-profit social enterprises, and
- (iv) 2% were not-for-profit social enterprises.

In terms of size, it was found that small and medium-sized enterprises are a significant proportion of IB in the PRC. Of those companies where financial data were available (i.e., 158 companies), 51% have annual revenues at or below CNY50 million.

The agriculture sector has the greatest concentration of IB among the sample companies. Of the 193 companies assessed, over 49% represent sectors associated with agriculture. The e-commerce sector is another key sector that incorporates those in the BOP into various aspects of its value chain as consumers, distributors, suppliers, and employees. IB in the e-commerce sector not only provides direct goods and services to the BOP, but also drives direct changes by providing e-commerce education and establishing logistics infrastructure.

Overall, this study found that the IB concept, as defined by ADB, is not widely known in the PRC. However, this does not necessarily equate to low numbers of IB activities. Many small and medium-sized enterprises in selected sectors are already operating their businesses as IB even without being aware of the IB concept or receiving any IB-specific support.

The implementation of IB approaches by companies from the PRC operating abroad is at an early stage of development and, despite limited enabling environments and incentives, some of these companies are creating broader social impacts in key developing markets by fostering inclusive development at the community level.

Despite the IB landscape being at an early stage, IB is of particular relevance to the PRC as the government has made a commitment to raise its entire population above the poverty line by 2020. In this regard, encouraging development of IB as part of an overall poverty alleviation approach offers the government the dual benefit of being able to stimulate economic growth through expanded and new businesses while, at the same time, generating direct and measurable benefits for the poor.

There are opportunities for IB to build on existing government programs, such as the Great Western Development Strategy, which encourages larger companies from the coastal regions to establish new business models in the poorer western provinces to drive development and improve living standards. In addition, the Guangcai (Glorious Cause) Program (see section 4), with an initiative of about 20,000 companies doing both corporate social responsibility- and IB-related work in remote and poor areas of western PRC, is complementary to IB, with many companies involved having the necessary foundation and intent to adopt IB.

It will take a multilateral effort to further develop the understanding and good examples of what makes an effective IB in the PRC and beyond. The government and research institutes should lay the foundation, and private companies should work hand-in-hand with them, to discover, test, and implement sustainable IB approaches.

Background

A. Definition of Inclusive Business

The Asian Development Bank (ADB) defines inclusive business (IB) as commercially viable and bankable companies whose core business models provide, at scale, innovative and systemic solutions for poor and low-income people living below the poverty line.¹ These people represent the bottom 40%–60% of the income pyramid, and are known as the bottom of the pyramid (BOP).² About 60% of Asia and the Pacific’s population is part of the global BOP.

The World Business Council for Sustainable Development is credited for coining the term “inclusive business” in 2005.³ Fundamental to the emergence of IB is the belief that commercial drivers can align with development outcomes. Expanding markets for products and services to maximize profits can create opportunities for the poor and the disadvantaged.

As such, IB targets the poor and low-income individuals as consumers, suppliers, distributors, and/or employees, with the goal of making reasonable profits (i.e., an internal rate of return of 8%–20%) while creating tangible development impact (footnote 3).

There are many ways that IB strategies benefit business, including

- (i) generating enhanced profits and reduced costs,
- (ii) developing new markets for products,
- (iii) driving innovation in products and processes,
- (iv) expanding the labor pool, and
- (v) strengthening the business value chain (footnote 3).

¹ “Inclusive business” is defined by ADB as a business entity that generates high development impact by (i) improving access to goods and services for the base-of-the-pyramid (BOP) population (i.e., low-income people living on \$3 a day); and/or (ii) providing income and/or employment opportunities to low-income people as producers, suppliers, distributors, employers, and/or employees. IB approaches integrate poor people into the mainstream economy as (i) consumers, by providing essential goods and services that meaningfully improve people’s lives by addressing issues of access, affordability, quality, and choice; (ii) suppliers or distributors, by creating income-earning opportunities for the BOP in their value chains; and (iii) employees, by creating decent jobs that benefit unemployed, underemployed, and low-income workers. An IB must be commercially viable, i.e., it must meet nonsovereign operation standards of viability. An IB or an IB entity can be (i) a stand-alone business entity, or (ii) a business operation of a larger business entity. ADB. 2017. *Standard Explanatory Data Indicator Definitions*. <https://www.adb.org/sites/default/files/institutional-document/33903/standard-data-definitions-may2017.pdf>; and ADB. 2013. *Technical Assistance Report: Inclusive Business Support*. <https://www.adb.org/sites/default/files/project-document/79584/46240-001-tar.pdf>.

² ADB identifies BOP as those living below the \$3–\$4 poverty line. ADB. *Inclusive Business*. <https://www.adb.org/themes/social-development/inclusive-business>. It is important to note that the International Finance Corporation and the Group of Twenty (G20) Inclusive Business Framework identify them as those earning up to \$8 per day in purchasing power parity terms.

³ Business for Millennium Development. 2016. *Delivery and Effectiveness of Australia’s Bilateral AID Program in Papua New Guinea*.

IB benefits the poor and low-income individuals by including them in the global economy by

- (i) providing goods and services at affordable prices,
- (ii) meeting basic needs,
- (iii) enabling them to become more productive, and
- (iv) increasing incomes and expanding pathways to exit poverty (footnote 3).

The IB model is championed by ADB, the Group of Twenty (G20), the Inter-American Development Bank, International Finance Corporation, the United Nations Development Programme (UNDP), and the World Business Council for Sustainable Development. It is viewed as a primary way for businesses to contribute to servicing the BOP and to achieve the Sustainable Development Goals.

The G20 IB framework outlines three types of IB approaches, which reflect different motivations, commercial objectives, and anticipated financial returns of participating companies.⁴ Regardless of the IB approach used, rather than seeing the BOP population as bystanders or even victims of the market, IB aims to include them in their value chains as producers, employees, consumers, distributors, and innovators. The three types of IB approaches are (footnote 3):

- (i) **IB models.** These are commercially viable, for-profit, scaled-up solutions for the relevant problems of the BOP.
- (ii) **IB activities.** These are smaller commercial initiatives of companies, often emerging from corporate social responsibility (CSR) work, that are not central to the commercial viability of a company.
- (iii) **Social enterprise initiatives.** These are for-profit or not-for-profit initiatives, mostly small, driven by social objectives. Typically, profits are reinvested into the company, and results are necessarily financially viable.⁵

This study focuses on IB models, IB activities aligned to business with strong business potential, and scaled-up for-profit social enterprise initiatives on the edge of becoming bankable.

⁴ The G20 IB framework defines IB; sets out recommendations to enable IB; and proposes a way forward for governments, the private sector, and other stakeholders to encourage IB. The framework was endorsed during the G20 2015 Antalya Leaders' Summit. G20 Development Working Group. 2015. *G20 Inclusive Business Framework*. Antalya, Turkey. <http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf>.

⁵ The consultants acknowledge the vast contribution that companies have made to the BOP in terms of poverty alleviation, both within the People's Republic of China (PRC) and abroad, through the creation of jobs in a variety of sectors, including manufacturing, construction, and mining. This study differentiates IB from general job creation for the BOP as business models that depart from the business-as-usual approach and require the development of different kinds of business models that are intentionally designed to benefit underserved markets within the BOP.

Table 1: Inclusive Business Approaches

	Inclusive Business Models	Inclusive Business Activities	Social Enterprise Initiatives
Base-of-the-pyramid Relationship to business	Core value chain	Ancillary	Ancillary or core value chain
Financial return expectation	Market return	Market return or below-market return	Not-for-profit maximizing
Primary funding type	Commercial	Commercial	Mixed

Source: Group of Twenty (G20) Development Working Group. 2015. *G20 Inclusive Business Framework*. Antalya, Turkey. <http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf>.

B. Methodology of the Study

The objective of this study is to provide an overview of IB approaches in the People's Republic of China (PRC) and companies from the PRC operating abroad identify possible IB investment opportunities, and discuss opportunities to strengthen the enabling environment for IB support.

The process to achieve the objectives of this study was difficult. Although the concept of IB has some resonance in the PRC, the terminology of IB is not widely used nor fully understood. This lack of awareness made it challenging to identify companies that are using IB approaches, as well as information sources to understand the IB landscape in the PRC. Within this context, the methodology below was utilized by the consultants to achieve the objectives.

All companies in the PRC that were identified as employing IB models, IB activities, and social enterprise initiatives were collated into a long list. These companies were selected following an established process. First, in relation to ADB's definition of IB, the key criterion was to find companies that engage the BOP in their businesses. Based on this criterion, two types of companies emerged: (i) those whose business model naturally engages the BOP, such as agriculture and animal husbandry; and (ii) those involved in the national policy of targeted poverty alleviation, such as energy and e-commerce.

Second, with these themes identified in the first step, the consultants sought guidance from relevant government agencies such as the Ministry of Commerce, the Ministry of Finance, and the State Council Leading Group Office of Poverty Alleviation and Development. Thus, some companies were added for research and review. Last, using information learned about each company, the consultants scored and rated each based on a matrix. Each company was first scored independently, and subsequently reviewed and calibrated on a collective basis. If a company's rating was very low, the consultants would delist it and replace it with a more representative company, resulting in a total of 193 companies.

The matrix evaluated companies' activities according to sector, IB approach, region, type of IB, and how the BOP is engaged. Central to the matrix was a weighted average score applied to each company based on three key criteria (Table 2):

- (i) **Business return.** Annual turnover, bankability, and profitability of the IB approach.
- (ii) **Social return.** Relevance and solutions to the problems of the BOP, reach and depth of impact for the BOP, and potential for the IB approach to bring about systematic change to the BOP.
- (iii) **Innovation.** Business innovation (i.e., new business practices that have generated additional opportunities both for the BOP and the company), social innovation (i.e., new CSR practices that have increased the welfare of the BOP), and environmental innovation (i.e., new practices that have made the company more environmentally sustainable).

The 73 highest-ranked companies on the long list were then registered on a short list. These companies were then more closely assessed to determine if they should be interviewed and used as case studies.

Interviews with senior representatives from target companies are a key feature of this study to analyze companies undertaking IB approaches in the PRC. These interviews were conducted with 35 of the 73 companies identified.

Table 2: Criteria for the Long List of Inclusive Business

Criterion	Rating	Weight (%)
Business Return		
	35%	
Turnover	1. <CNY3 million 2. CNY3 million–CNY10 million 3. CNY10 million–CNY50 million 4. CNY50 million–CNY100 million 5. CNY100 million–CNY300 million 6. >CNY300 million	40
Bankability	Low (1–2), medium (3–4), high (5–6)	30
Profitability	Low (1–2), medium (3–4), high (5–6)	30
Social Return		
	45%	
Relevance and solution	Low (1–2), medium (3–4), high (5–6)	25
Reach	Low (1–2), medium (3–4), high (5–6)	25
Depth	Low (1–2), medium (3–4), high (5–6)	25
Systemic change	Low (1–2), medium (3–4), high (5–6)	25
Innovation		
	20%	
Business	Low (1–2), medium (3–4), high (5–6)	35
Social	Low (1–2), medium (3–4), high (5–6)	35
Environmental	Low (1–2), medium (3–4), high (5–6)	30
Total		100

Notes:

1. See Appendix 2 for key criteria and metrics for assessing social returns.
2. Companies with scores higher than 3.5 were recommended for shortlisting.

Source: Consultants.

To understand the IB landscape in the PRC as well as the enabling environment and policy potential for IB, 40 interviews were also conducted with various government departments, business associations, relevant individuals, and consultancy firms. In addition, to assist in the identification of IB approaches in the PRC as well as relevant contacts for these IB approaches in the PRC and abroad, IB networks, forums, and stakeholders were interviewed.

To supplement this activity, a desk review was undertaken to assess the companies and the IB environment in the PRC and companies from the PRC operating abroad. This included studying various international and local publications, online references, and reports.

C. The ADB Inclusive Business Initiative

IB is part of ADB's Strategy 2020 update.⁶ Thus, ADB has embarked on an IB initiative⁷ that supports IB in Asia and the Pacific through two technical assistance projects.

- (i) **Promoting Inclusive Growth through Business Development at the Base of the Pyramid.** This technical assistance project aimed to develop IB ventures in Bangladesh, Cambodia, India, Indonesia, the Lao People's Democratic Republic, Myanmar, Pakistan, the Philippines, Sri Lanka, Thailand, and Viet Nam. It also conducted preparatory work for setting up two subregional equity and debt funds for IB in South Asia and Southeast Asia.
- (ii) **Inclusive Business Support.** This project is designed to facilitate the financing of IB projects supported by ADB, promote policy work with selected governments, as well as conduct knowledge exchange on IB.

In 2017, eight IB projects with committed funding, while two IB projects were committed in 2016.⁸

D. Rationale for the Study

In recent decades, the PRC has made significant strides in lifting a vast majority of its population out of poverty. Critical to this achievement has been the economic growth experienced in the country.⁹ However, the PRC's high Gini coefficient of 0.49 (compared to that of the Organisation for Economic Co-operation and Development average of less than 0.30) shows that income inequality is comparatively high and that poverty levels still persist throughout the country.¹⁰ Indeed, the poverty rate of the PRC is 11.8%, and 157 million people still live on less than \$1.25 per day, primarily in the west.¹¹

⁶ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. <https://www.adb.org/sites/default/files/institutional-document/34149/files/midterm-review-strategy-2020-report.pdf>.

⁷ ADB. Regional: Promoting Inclusive Growth through Business Development at the Base of the Pyramid. <https://www.adb.org/projects/41258-012/main>.

⁸ ADB. 2018. *2017 Development Effectiveness Review*. Manila.

⁹ Department for International Development of the United Kingdom. 2008. *Growth: Building Jobs and Prosperity in Developing Countries*. <http://www.oecd.org/derec/unitedkingdom/40700982.pdf>.

¹⁰ A.R. Kroeber. 2016. *China's Economy: What Everyone Needs to Know*. Oxford: Oxford University Press.

¹¹ UNDP. About China. <http://www.cn.undp.org/content/china/en/home/countryinfo>.

As the government is committed to lift all of the population above the poverty line by 2020, within the context of a slowing economy, alternative strategies need to be implemented to increase growth and to decrease the poverty rate. The achievement of such poverty alleviation outcomes depends on the degree to which the poor participate in the growth process and share in its proceeds (footnote 9).

IB offers the government the dual benefits of generating additional income for the BOP and stimulating economic growth through expanded and new business activity that creates measurable benefits for the poor. IB can also build on existing government programs, such as the Great Western Development Strategy, that encourage larger companies from the coastal region to establish new business models in the poorer western areas to drive development and to improve living standards.

To promote the expansion and uptake of IB approaches to address the challenges of economic inequality in the PRC, this study

- (i) provides an overview of IB approaches in the PRC and companies from the PRC operating abroad to inspire other businesses to replicate such approaches,
- (ii) identifies possible investment opportunities to support the scaling up of specific IB approaches that will encourage increased commercial viability and enhanced scale and depth of impact, and
- (iii) discusses opportunities to strengthen the enabling environment for IB that can result in the mainstreaming of IB approaches in the PRC.

E. Inclusive Business in the People's Republic of China

Although the term “IB” is not widely used in the PRC, a small group of companies does implement IB approaches, with many closely aligning their business activities with the central government's poverty alleviation agenda. A large portion of the IB contacts interviewed have worked with the government's poverty alleviation offices to contribute to the Precise Poverty Alleviation Campaign.¹² The financial performance of these IB approaches is related to external factors, including access to unique natural resources and favorable government policies, such as preferential prices and capital expenditure subsidies. For those companies focused on selling to the BOP, product differentiation is a challenge to be addressed when faced with the end-consumer, and few companies have established their brand values as a point of difference in the market.

IB approaches and potential IB approaches identified are predominantly classified as inclusive agribusiness initiatives in rural areas or businesses supporting disfranchised minority groups in urban areas.

¹² This is a Government of the PRC initiative focused on setting specific targets for projects and the expenditure of capital that results in the eradication of poverty.

1. Rural Inclusive Business

In rural areas, most of the BOP work in agriculture. As a result, agriculture businesses, such as crop farming and husbandry, work primarily with large numbers of local farmers. These companies play key roles in creating additional income or jobs for the BOP at scale, and demonstrate several common practices and patterns beyond income increases, including improving income stability by raising production yields via advanced technologies or standardized practices and reducing the costs of agriculture inputs. In addition, agriculture IB approaches often rent land from farmers to build centralized company production bases, which result in the creation of additional jobs by hiring local farmers and producing more standardized and higher-quality products.

As an example, Raohe Black Bees in Heilongjiang Province builds bee production facilities, leases these facilities to local farmers, and provides them with technical training. Farmers can then raise their own bees on the Raohe production base and sell the honey back to the company at a fixed protection price that is, on average, 30% higher than the market standard. If the honey satisfies higher European Union quality standards, the farmers are paid a premium over this protection price for their honey. Previously in Heilongjiang Province, local farmers traditionally raised bees without any technical training, so the quality of the honey produced was poor. Thus, farmers sold their honey to vendors at low and volatile prices, earning little income.

In addition to more traditional crop farming and husbandry in rural areas, some energy companies have launched pilot programs to install solar panels on housing to generate electricity or to collect animal manure to make biofuel. Such initiatives have helped create extra income for farmers by selling the energy produced and reducing emissions that would have been generated from using traditional fuels.

The most impactful and effective IB approaches address poverty from multiple angles that often include innovative technical solutions. As an example, Alibaba adopted the Double Cores + N Services Strategy, whose first core consists of promoting the development of *taobao* villages, which are rural areas with grassroots e-commerce businesses and scalable e-commerce ecosystems. The second core focuses on the rural *taobao* program, which builds out rural e-commerce operation centers in low-income rural areas to collect products to sell, bring in outside products, and provide rural e-commerce training services. The N Services portion then helps provide product sales platforms, production material services, logistics services, and e-commerce training services.¹³ The rural communities benefited from accessing cheaper products online as well as increasing income by selling their agriculture products to additional online channels. On the other hand, the company gained market share in a booming rural e-commerce market.

¹³ M. Zhang. 2017. How Inclusive Businesses Can Tackle Poverty in China. *Stanford Social Innovation Review*. 5 January 2017. https://ssir.org/articles/entry/how_inclusive_businesses_can_tackle_poverty_in_china.

2. Urban Inclusive Business

In urban areas, most of the BOP tend to be disfranchised minority groups, such as migrant workers, domestic workers, or people with disabilities. IB or potential IB approaches operate to meet the needs of these groups by focusing on creating pathways to employment and training opportunities. However, due to high service costs and limited pay ability, there are very few scaled IB approaches in urban areas.

Smaller social enterprise initiatives do exist to target the urban BOP's fundamental needs, including education and employment. These initiatives usually provide targeted, holistic, and long-lasting support to specific BOP groups, such as autistic children and their families, migrant workers, and domestic workers. Most are still exploring or are deliberately refraining from having a profit-generating business model, so many are still dependent on donations and government subsidies.

As an example, Jia Shi Fen is an online-to-offline platform that connects homeowners who need interior construction services with migrant workers skilled in construction. Homeowners can search for workers according to their requirements on the platform, and migrant workers can find a consistent flow of construction projects thanks to this site. Traditionally, many layers of intermediary agents are between homeowners and construction workers, leading to high commissions for these agents and low project fees for construction workers. However, through Jia Shi Fen, migrant workers can earn 10%–15% higher incomes.

F. Inclusive Business in Companies from the People's Republic of China Operating Abroad

The opportunities for IB as a key business strategy for companies from the PRC operating in developing countries and areas are vibrant. Currently, 79.3% of the PRC's outward direct investment (ODI) is in developing countries and areas, including some of the least-developed countries in Southeast Asia and Africa.¹⁴ The PRC is Africa's largest trading partner; more than 2,200 companies operate in Sub-Saharan Africa.¹⁵ On this basis, the potential for companies from the PRC to systematically address the issues of poor and low-income people abroad with IB is high.

However, despite the opportunity to create mutual benefits and significant development impact, few companies from the PRC are undertaking an IB approach abroad. This absence of IB can be attributed to two major barriers.

- (i) Companies from the PRC are currently operating in sectors in developing markets that do not involve the BOP beyond employment and are typically not compatible with IB.
- (ii) Incentives do not exist for companies from the PRC to execute IB abroad.

¹⁴ Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce, Government of the PRC; Research Center of the State-Owned Assets Supervision and Administration Commission of the State Council; and UNDP China. 2015. *2015 Report on the Sustainable Development of Chinese Enterprises Overseas*. Beijing: UNDP.

¹⁵ M. Pigato and W. Tang. 2015. China and Africa: Expanding Economic Ties in an Evolving Global Context. Paper presented at the World Bank Investing in Africa Forum. Addis Ababa. 30 June–1 July.

In the absence of widespread IB activity by companies from the PRC operating abroad, two trends are emerging that either characterize IB or create pathways toward IB development:

- (i) **Fostering local inclusive business opportunities.** In an attempt to deliver impactful CSR programs, some companies from the mining sector are stimulating the development of micro IB and social enterprise initiatives.
- (ii) **Fostering inclusive business development through employment.** Companies from the PRC operating abroad from the manufacturing, construction, and mining sectors are creating jobs that can directly benefit the BOP.

G. Corporate Social Responsibility

Although distinctly different in application, CSR and IB both consider the role of business in addressing societal needs. CSR has been defined by ISO26000 as “the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society.”¹⁶

CSR is mandatory in the PRC, and there are various requirements, including:

- (i) The 2006 Company Law requires that companies undertake social responsibility in the course of doing business.¹⁷ More broadly, there is an expectation of companies to contribute to the development of a “harmonious society.”¹⁸
- (ii) State-owned enterprises (SOEs) are encouraged to engage in CSR. In 2008, the State-Owned Assets Supervision and Administration Commission of the State Council issued CSR reporting guidelines. Since then, almost all SOEs issue annual CSR reports.

CSR in companies from the PRC operating abroad typically focuses on philanthropic approaches that contribute to the welfare of society both in the PRC and abroad. A broad range of business associations reported that this activity is primarily undertaken through corporate donation programs, driven by charitable and public relations motivations as well as government expectations to enhance government relations (i.e., soft diplomacy). For example, various oil companies from the PRC are building local schools in Africa to maintain healthy relationships with local communities and local government officials.

CSR in the PRC is not connected to core business activity; therefore, it typically does not have the potential to scale up in terms of reach and impact for the BOP. A review of the 50 largest companies in the PRC showed that the majority of these companies undertake CSR programs that have no alignment with core business activity, nor do they involve commercially viable CSR programs.¹⁹ The current charitable model means that, at best, these CSR programs can

¹⁶ International Organization for Standardization. 2016. *ISO 26000: Social Responsibility*. Geneva.

¹⁷ J. Sarkis et al. 2011. Winds of Change: Corporate Social Responsibility in China. *Ivey Business Journal*. January–February.

¹⁸ M. Hung, J. Shi, and Y. Wang. 2015. *Mandatory CSR Disclosure and Information Asymmetry: Evidence from a Quasi-Natural Experiment in China*. http://www-bcf.usc.edu/~yongxiaw/CSR_HSW_final.pdf.

¹⁹ Desktop review undertaken by the consultants.

provide relief from poverty for low-income people, but are unlikely to provide systematic solutions for the poor to overcome poverty. There is potential to convert these CSR activities to be more in line with IB models and/or IB activities (i.e., strategic CSR). Doing so would provide companies with an innovative approach to meet CSR requirements through core business activity in ways that can address the poverty alleviation goals of the government.

Poverty, Economic Development, and Its Relevance for Private Sector Support



A. Macroeconomic Background of the People's Republic of China

Between 1979 and 1999, the PRC's growth rate averaged 9.6%²⁰ as the country transitioned toward a market-based economy. Due to the country's high population and increasing technological innovation, it is likely to become the world's largest economy within the next decade.²¹ However, in recent years, its economic growth has begun to slow due to a slowdown in traditional growth industries such as manufacturing, real estate, and export industries, as well as the lack of new industries that can sufficiently sustain the overall growth rate. In 2015, its gross domestic product (GDP) growth rate fell to 6.9%, its lowest point in the last 25 years.²²

On the back of this growth, the PRC lifted 700 million people out of poverty over 4 decades. In the last 6 years alone, the country has helped bring an estimated 100 million people out of poverty as a result of targeted poverty relief policies, ongoing economic growth, and a high rate of urbanization.²³ Indeed, in 2016, the government increased its poverty alleviation budget by 43.4%, reflecting its commitment to end extreme poverty.²⁴ It was also one of the few countries that met most of the Millennium Development Goals, including the goal of halving its population living in poverty, and reduced malnutrition and undernourishment in the country by over 50%.²⁵ Since 1990, its Human Development Index (HDI) rating has significantly increased in comparison to the world average, reflecting improvements in life expectancy, education, and income.

Despite the PRC's significant growth and increases in average incomes and productivity, the World Bank continues to classify the PRC as a developing country; although average per capita income has risen 229% over the last 20 years (footnote 21), income inequality persists. Over 70 million people in rural areas of the PRC, particularly Gansu, Guangxi, Hubei, Hunan, the Inner Mongolia Autonomous Region, Sichuan, and Xinjiang, experience poverty.²⁶ In western and central PRC, an estimated 130 million people are food-insecure or

²⁰ J. Wong, and W. Liu. 2007. *China's Surging Economy: Adjusting for More Balanced Development*. Series on Contemporary China. Book 11. Hackensack, NJ: World Scientific Publishing.

²¹ A.R. Kroeber. 2016. *China's Economy: What Everyone Needs to Know*. Oxford: Oxford University Press.

²² PricewaterhouseCoopers. 2016. *What China Plans to Do in 2016 and the Next Five Years*. <https://www.pwchk.com/en/migration/pdf/govt-work-review-mar2016.pdf>.

²³ PWC. 2016. *Prosperity for the Masses by 2020: China's 13th Five-Year Plan and Its Business Implications*. <https://www.pwchk.com/en/migration/pdf/prosperity-masses-2020.pdf>.

²⁴ National People's Congress of China. 2016. China's NPC Approves 13th Five-Year Plan. <http://www.npc.gov.cn/npc/zgrdzz/site1/20160429/0021861abd66188d449902.pdf>.

²⁵ United Nation's Children's Fund. 2015. *Report on China's Implementation of the Millennium Development Goals, 2000–2015*. <http://www.unicef.cn/en/uploadfile/2015/0724/20150724114236419.pdf>.

²⁶ World Bank. The World Bank in China. <http://www.worldbank.org/en/country/china/overview>.

undernourished.²⁷ Rural regions have indeed been at a significant economic disadvantage, as much of the PRC's industrial growth has been urban-biased (footnote 20). While cities, such as Beijing, Shanghai, and Tianjin, maintain high average incomes (footnote 21), rural regions have not experienced the full benefits of a growing economy. The average urban income is around three times the average rural income.²⁸ Areas with high rates of ethnic minorities are also more likely to experience disadvantages.

B. Poverty

With over 55 million persons classified as poor, the PRC's poverty headcount ratio was 5.7% in 2015.²⁹ This ratio is much higher in the western and central areas of the PRC, as these regions have a higher percentage of rural populations and agricultural dependence.³⁰ Several factors contribute to the ongoing poverty levels in these regions.

- (i) While the country's overall employment rate has been increasing since 1978, rural employment rates have actually been decreasing since 2000 (footnote 28).
- (ii) Rural–urban migration, while allowing those from rural areas to access urban employment, is disproportionately undertaken by men, leaving unskilled women alone to face the economic challenges of rural areas (footnote 30).
- (iii) Remote areas suffer from a lack of infrastructure, limiting further development.
- (iv) Resource depletion and land degradation over recent decades have led to decreased crop yields and lower income for regions reliant on agriculture.
- (v) Rural areas typically have lower levels of literacy and educational opportunities, resulting in a reliance on traditional farming practices with limited yield and development capacity. Women are disproportionately affected in this regard.
- (vi) People in rural and remote regions have lower access to financial resources and markets (footnote 30).

Overall, the PRC's HDI score is relatively high and, since 2010, has overtaken the global average. However, it must be noted that the values for different areas within the PRC vary considerably. Clear differences exist between the HDI rankings of the wealthier cities of Beijing, Shanghai, and Tianjin, and those of the poorest regions of Gansu, Guizhou, Tibet Autonomous Region, and Yunnan. While the health HDI is relatively consistent throughout the PRC, health disparities exist. Differences in education and income HDI rankings between the urban and rural regions are also accentuated, reflecting the significant challenges of rural poverty (Table 3).

These data reflect key observations and highlight potential opportunities for IB approaches to address, including those in regard to health and education. Health outcome disparities involve increased morbidity in rural regions due to a lack of preventative health methods and adequate nutrition. As an example, life expectancy between Shanghai and Tibet Autonomous

²⁷ Y. Song, G. Qi, Y. Zhang, and R. Vernooy. 2014. Farmer Cooperatives in China: Diverse Pathways to Sustainable Rural Development. *International Journal of Agricultural Sustainability*. 12 (2). pp. 95–108.

²⁸ United Nations Development Programme. 2016. *China National Human Development Report 2016: Social Innovation for Inclusive Human Development*. Beijing: China Publishing Group Corporation.

²⁹ National Bureau of Statistics China. 2017. *China Statistical Yearbook 2016*. Beijing: China Statistics Press.

³⁰ International Fund for Agricultural Development. Rural Poverty Portal. Rural Poverty in China. <http://www.ruralpovertyportal.org/country/home/tags/china>.

Table 3: Comparison of Regions in the People's Republic of China on the Human Development Index

Region	Health Index	Education Index	Income Index	Human Development Index
Beijing	0.952	0.854	0.806	0.869
Tianjin	0.932	0.791	0.814	0.843
Shanghai	0.953	0.807	0.803	0.852
Hebei	0.870	0.677	0.675	0.735
Shanxi	0.869	0.704	0.656	0.738
Inner Mongolia Autonomous Region	0.861	0.689	0.758	0.766
Jiangxi	0.860	0.681	0.655	0.726
Henan	0.864	0.671	0.664	0.727
Hubei	0.868	0.706	0.699	0.754
Hunan	0.866	0.679	0.676	0.735
Guangxi	0.872	0.641	0.648	0.713
Sichuan	0.866	0.656	0.657	0.720
Guizhou	0.809	0.613	0.616	0.673
Yunnan	0.784	0.613	0.620	0.668
Tibet Autonomous Region	0.762	0.451	0.630	0.600
Gansu	0.826	0.642	0.616	0.689
Qinghai	0.791	0.627	0.674	0.694
Xinjiang	0.828	0.660	0.677	0.718

Source: United Nations Development Programme. 2016. *China National Human Development Report 2016: Social Innovation for Inclusive Human Development*. Beijing: China Publishing Group Corporation.

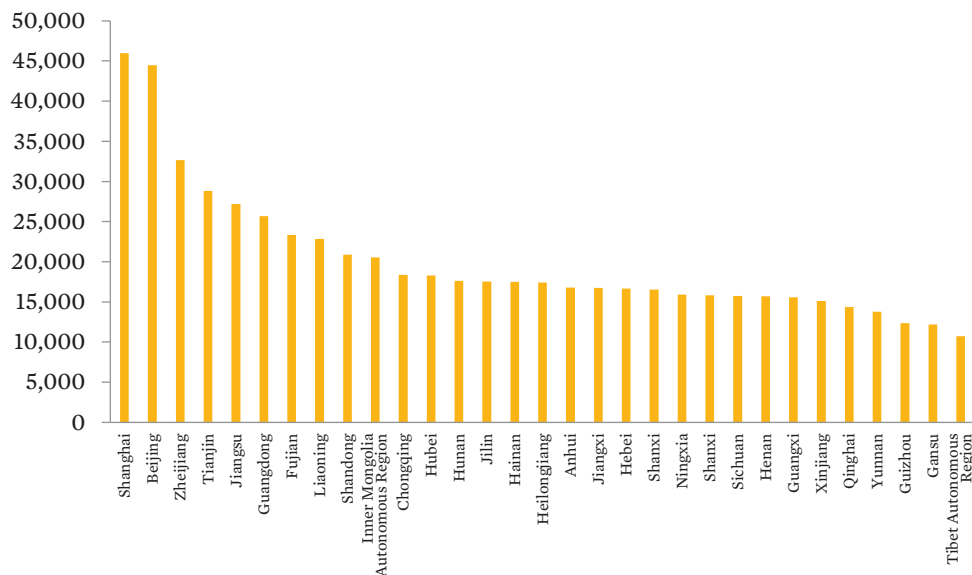
Region are significantly different, at 80.26 years and 68.17 years, respectively (footnote 28). In terms of schooling, children in rural areas may be prevented from attending school due to financial constraints, they may attend schools with inadequate facilities and poor-quality materials, and/or they may not live within a reasonable distance of local schools.³¹

IB approaches in the western and central regions that are focused on education, health, and income indicators could be established to achieve poverty reduction. Low-cost education, as an example, could increase the average years of schooling per child, and/or vocational training could better position some rural persons for income-earning opportunities. Affordable health-care services and nutritional products could also be provided, contributing to increased life expectancy at birth as well as a greater quality of life.

While rural poverty in the PRC is significant, a considerable level of urban poverty also remains. Since 1980, the country's urban population has risen from 19% to more than 50% of the total population. Although the rate of absolute poverty, or those living below a minimum

³¹ China Foundation for Poverty Alleviation. *Our Domestic Work. Poverty Alleviation and Development Programs*. <http://en.cfpa.org.cn/index.php?file=article&cmd=list&cid=9>.

Figure 1: Per Capita Disposable Income by Region, People's Republic of China, 2014



Source: United Nations Development Programme. 2016. *China National Human Development Report 2016: Social Innovation for Inclusive Human Development*. Beijing: China Publishing Group Corporation.

standard of income, is relatively low, around 22 million–23 million people in cities throughout the PRC are thought to live below this standard.³²

The PRC has actively encouraged urbanization during its recent decades of economic development and growth. However, in 2013, 180 million people were living in urban slums or slum-like conditions (footnote 32). According to the Ministry of Civil Affairs, in 2015, the nationwide urban population that received the government's basic living allowance numbered 17 million.³³

Since the 1990s, the government has recognized the issue of urban poverty, and has taken steps to address it through job-creation programs and limited social security.³⁴ Some key policies are:³⁵

- (i) Based on different regional living standards, companies now must pay a minimum wage to their employees.
- (ii) Local governments must guarantee that laid-off SOE employees receive basic living expenses, and that retired SOE employees receive their retirement benefits.

³² ADB. 2014. *Urban Poverty in Asia*. Manila.

³³ Ministry of Civil Affairs, Government of the PRC. 2016. *People Social Service Development Statistical Bulletin 2015*. Beijing.

³⁴ A. Hussain. 2003. *Urban Poverty in China: Measurement, Patterns and Policies*. Geneva: International Labour Organization.

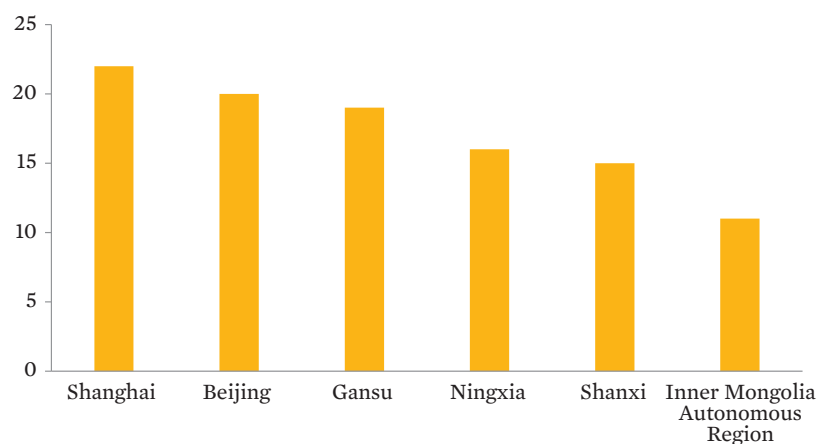
³⁵ China Institute for Reform and Development. 2012. *Policies and Problems of Anti-Poverty Programs in Chinese Cities*. http://www.chinareform.org.cn/area/city/Report/201204/t20120408_138750.htm.

- (iii) An unemployment benefit that is more than the minimum wage and lower than the minimum living expense must be paid to the eligible unemployed population for less than 24 months.
- (iv) Any urban resident whose income is lower than the local minimum living expense standard can receive in-kind support from the local government.
- (v) The local government must actively provide the means to create new job opportunities for the unemployed.

C. Inclusive Business and Poverty Reduction

IB approaches identified as part of this study operate across 25 regions in the PRC. Of these regions, 6 have a concentration of 10 or more IB approaches from the total of 193 companies identified for this study. Key hubs for IB include Gansu, Ningxia, and Shanxi, which all represent regions with significantly lower HDI rankings than the national HDI ranking. Beijing and Shanghai are also key hubs for IB, with IB approaches in these cities featuring a mix of initiatives operating locally and/or in other areas across the country with significantly higher poverty rates.

Figure 2: Regions with Highest Concentrations of Inclusive Businesses in the People's Republic of China



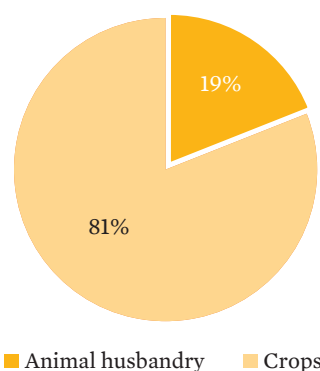
Source: Consultants.

The agriculture sector has the greatest concentration of IB approaches. Of the 193 companies assessed as part of this study, over 49% are in sectors associated with the agriculture sector, including animal husbandry. Inclusive agribusiness partnerships represent an important opportunity for companies and smallholder farmers, and are a potential pathway to achieve market growth and poverty reduction through IB. In particular, agriculture-based IB can provide direct benefits to the BOP in rural areas of the PRC by

- (i) connecting farmers with buyers to provide an avenue for sustainable income-earning opportunities;

- (ii) providing support, extension services, training, and agronomic inputs that can help farmers increase the quality and quantity of crops;
- (iii) providing access to finance for tools, inputs, and equipment to increase productivity;
- (iv) creating jobs in food processing at the local level; and
- (v) generating revenue through companies renting farmers' land.

Figure 3: Agriculture-Related Inclusive Business in the People's Republic of China



Source: Consultants.

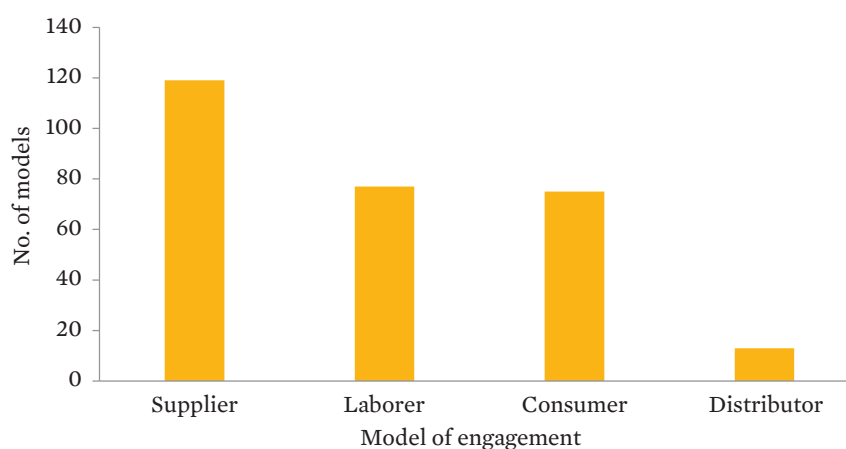
Companies in the PRC using IB approaches contribute to poverty reduction in two key manners: (i) opportunities for income generation and (ii) provision of relevant and affordable products and services that can contribute to overcoming the poverty cycle. These avenues of impact are related to specific modes of engagement with the BOP, by engaging the BOP as (i) suppliers, laborers, and distributors; and (ii) consumers to meet the needs of the poor.

IB initiatives identified in the PRC exhibit a stronger orientation toward income generation and highlight the importance of the BOP to the value chain of these companies. It should be noted, however, that many companies utilize multiple models of engagement with the BOP.

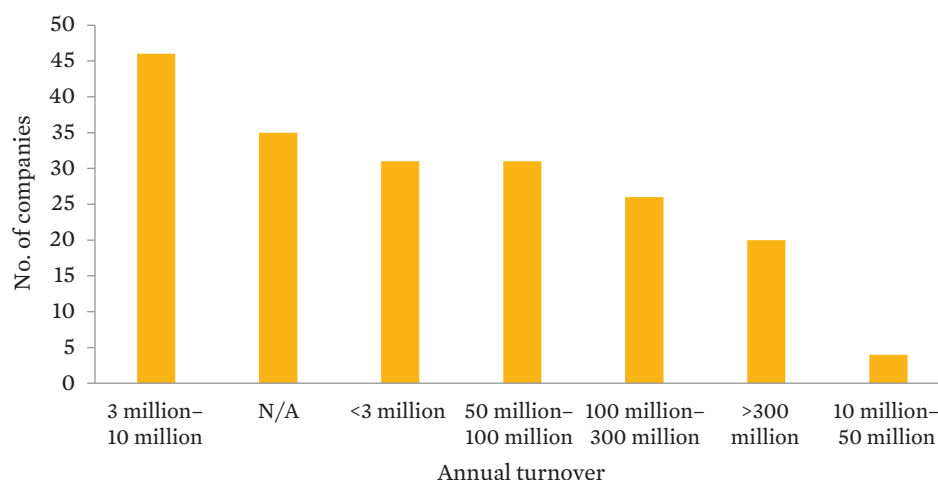
Smaller companies using IB initiatives play an important role in generating additional income for the BOP as well. Of those companies that had data available, 51% had annual revenues at or below CNY50 million, 29% had annual revenues of CNY10 million–CNY50 million, and almost 20% had annual revenues at or below CNY3 million. Only 12% had annual revenues greater than CNY300million.

This prevalence of smaller enterprises, as well as the impact that small and medium-sized enterprises (SMEs) can have in creating additional income for the BOP, is significant given that SMEs contribute more than 60% to the country's GDP.³⁶ Therefore, any consideration

³⁶ W. Li. 2016. Small and Medium Enterprises: *The Source of China's Economic Miracle and Their Financing Challenges*. http://sydney.edu.au/china_studies_centre/china_express/issue_3/features/small-and-medium-enterprises.shtml.

Figure 4: Inclusive Business Models of Bottom-of-the-Pyramid Engagement

Source: Consultants.

Figure 5: Annual Revenues of Companies with Inclusive Business (CNY)

N/A = data not available.

Source: Sample companies' financial statements, and consultants' interviews.

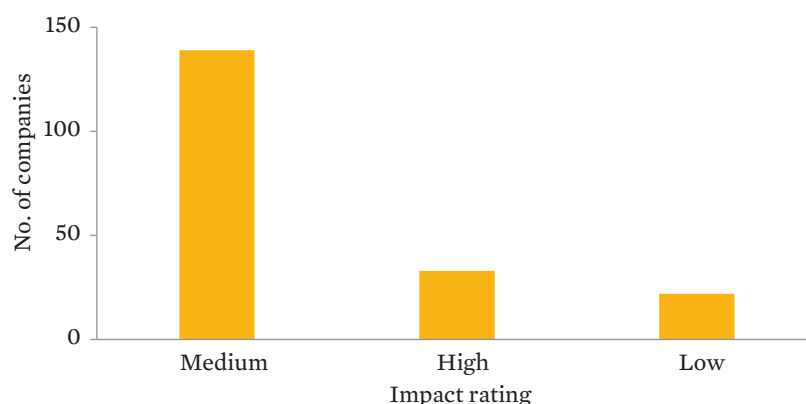
of the advancement and scale-up of IB approaches in the PRC must take into account the important role that SMEs play in the market:

In the PRC, around 80% of employment in manufacturing and new urban employment are contributed by SMEs. More importantly, SMEs create more employment for low-income and socially vulnerable groups. In less-developed regions, SMEs are oftentimes the only source of employment (footnote 36).

The government has also been emphasizing the role of SMEs in poverty alleviation. For example, the government initiated the 10,000 Companies Help 10,000 Villages campaign, which encourages SMEs to use their advantages to develop leading industries that leverage key resources of impoverished villages.³⁷ Under the campaign, SMEs in the agriculture sector are encouraged to create more jobs for villages by, for example, promoting the “company production base + farmers + cooperatives” model.³⁸ For SMEs in the finance industry, the government encourages them to use microfinance to provide short-term loans or credit guarantees to promote growth in villages. For internet companies and commerce companies, the government advocates for online-to-offline channels to sell agriculture products from rural areas to urban consumers (footnote 37).

As a result, IB approaches in the PRC are implementing business models that can and are having a significant impact in reducing poverty in the country. Of the 193 companies identified as part of this study, 72% were categorized as creating medium to high depth of impact for the poor in terms of how much their IB approach improves the lives of the BOP through income generation and/or increased affordability and/or accessibility of goods and services. Meanwhile, 91% of companies are considered to be delivering medium to high impact through IB approaches that are providing solutions to the relevant problems of the poor.

Figure 6: Depth of Impact on the Poor of Companies with Inclusive Business Approaches



Source: Consultants.

³⁷ “中国中小商业企业协会关于鼓励中小企业积极参与扶贫攻坚工作的意见” (The opinions about encouraging small and medium-sized enterprises to actively participate in poverty alleviation.) <http://www.zxsx.org/newn.asp?id=11653>.

³⁸ According to this model, farmers rent their land to companies to form a company production base, and then the company hires farmers or cooperatives to work on the production base.

D. Opportunities for Private Sector Development

As the private sector accounts for close to three-quarters of the economy, the continued development of a dynamic, strong, and growing private sector is critical to the PRC achieving its objective of lifting all of its population above the poverty line by 2020.³⁹ The development of this sector ensures that the PRC can meet its overarching goal of creating 50 million new jobs before 2020 (footnote 24).

To support this growth, the government is committed to reducing barriers to doing business in key sectors, including telecommunication, transport, electricity, and natural resources. The government has simplified approval procedures for businesses, and introduced one-stop online registration systems to encourage the growth of private sector companies.

The PRC's 13th Five-Year Plan provides a comprehensive framework within which private sector development, and ultimately IB development, can take place. Specific actions and targets within the plan that present opportunities for private sector development, while also contributing to the country's poverty targets, are in Table 5.

E. Promoting Innovation through E-Commerce

The government is promoting e-commerce to achieve inclusive growth in line with the five-year plan's focus on promoting innovation and technological advancement. E-commerce is a means to stimulate private development in rural areas, while also overcoming infrastructure problems by linking the poor in the interior to the eastern seaboard. E-commerce platforms can create market linkages among rural, urban, and international markets that otherwise would not exist by enabling the rural population to sell their products, including agriculture commodities and traditional handicrafts. It is hoped that the development of e-commerce can help lift 55 million rural people out of poverty by 2020. As such, across the PRC, pilot cities for poverty alleviation projects through e-commerce are being established.

Companies such as Alibaba, JD.com, HC360, and DHgate demonstrate the transformative impact that e-commerce can create for low-income people. In 2014, Alibaba entered the rural market with a commitment to invest CNY10 billion to establish e-commerce service centers in rural areas.⁴⁰ Similarly, online marketplaces with B2B focus, such as HC360 and DHgate, have stimulated the development and growth of SMEs in rural areas, encouraging trade flows and direct access to market without middlemen, which in turn created employment opportunities for local people.

³⁹ A. Atherton and D. Smallbone. 2009. Promoting Private Sector Development in China: The Challenge of Building Institutional Capacity at the Local Level. *Environment and Planning C Government and Policy*. 31 (1). pp. 5–23.

⁴⁰ China Radio International. 2016. *Internet and E-Commerce Help Reduce Poverty in China: Experts*. 5 September. <http://english.cri.cn/12394/2016/05/09/3742s927008.htm>.

Table 4: The People's Republic of China's 13th Five-Year Plan

Action: Promoting innovation and technological advancement	
Example of relevant target: "Encourage the integration of the internet with traditional sectors of the economy and all kinds of internet-based innovations including those in industrial organizations, business models, supply chains, and logistics."	<p>Opportunity for IB development: Creation of market linkages through e-commerce stimulating growth of SMEs in rural areas.</p> <p>Potential benefit for the poor: New income-earning opportunities through increased business activity in rural areas.</p>
Action: Enhancing environmental protection and green growth	
Example of relevant target: "Promote the green transformation of the traditional manufacturing industry and speed up the development of low-carbon and recycling industries with a commitment to make green competitiveness a new engine of economic growth."	<p>Opportunity for IB development: Creation of new industries that will drive economic growth.</p> <p>Potential benefit for the poor: New employment opportunities in new sectors.</p>
Action: Reforming state-owned enterprises	
<p>Example of relevant targets: "Encourage the private sector to enter into industries dominated by state-owned enterprises."</p> <p>"Open up currently monopolized sectors such as oil, natural gas, electricity, telecommunications, and utilities for private investment."</p>	<p>Opportunity for IB development: Greater opportunities for the private sector to expand into additional sectors and create targeted service offerings for the poor, e.g., micro-insurance and solar power.</p> <p>Potential benefit for the poor: Increased competition, resulting in lower costs of goods and services, plus new product offerings.</p>
Action: Investing in urbanization and infrastructure	
Example of relevant target: "Enhance support to less-developed regions, such as ethnic minority communities and border areas as well as resource-constrained and ecologically degraded regions, and help shift excess industrial capacity... to developing western regions."	<p>Opportunity for IB development: Increased infrastructure investments in rural areas to drive economic development and create market linkages to get out products produced in the region.</p> <p>Potential benefit for the poor: Reduced need to migrate to urban centers due to economic growth in regional areas.</p>
Action: Improving health, education, and livelihoods	
Example of relevant target: "Encourage the private sector to provide health-care services by giving them the same status as public institutions."	<p>Opportunity for IB development: Dynamic and competitive health-care sector throughout the country.</p> <p>Potential benefit for the poor: Greater opportunities to access affordable health-care services.</p>
Action: Promoting global collaboration	
Example of relevant target: "Bring benefits to the people of countries and regions along the route through collaborations in education, science and technology, culture, tourism, health care, and environmental protection."	<p>Opportunity for IB development: Increased opportunities for business activity offshore.</p> <p>Potential benefit for the poor: Increased economic, social, and employment opportunities for those in belt and road regions.</p>

IB = inclusive business, SMEs = small and medium-sized enterprises.

Source: National People's Congress of China. 2016. *China's NPC Approves 13th Five-Year Plan*. <http://www.npc.gov.cn/npc/zgrdzz/site1/20160429/0021861abd66188d449902.pdf>.

JD.com is helping connect farmers to markets through its 3F strategy: Factory to Countryside, Finance to Countryside, and Farm to Table.⁴¹ The Factory to Countryside portion expands JD.com's logistics network to cover rural areas more thoroughly so that farmers can quickly buy products from factories, such as fertilizer and electronics, at affordable prices. The Finance to Countryside portion provides farmers with more finance instruments to access low-interest loans. Finally, leveraging big data technology, the Farm to Table portion will, over time, efficiently bring harvests to urban consumers' tables so that farmers can more easily sell their crops at better prices and urban consumers can enjoy fresher food.

E-commerce can be categorized as an IB approach through the commercial provision of services to the poor that systematically meet their needs, resulting in increased income-earning capacity. It also places greater control in the hands of rural communities by removing local intermediaries. Finally, it provides rural communities with a range of direct benefits not previously accessible, including

- (i) access to finance (e.g., microloans, and approval of credit online);
- (ii) market connections;
- (iii) secure and trusted payment systems; and
- (iv) new opportunities by encouraging entrepreneurship and employment, while providing an alternative to urban migration.

F. Provincial Interest in Inclusive Business⁴²

At the provincial level, there is also a growing interest in the potential for IB approaches to address entrenched poverty challenges.

Heilongjiang Urban Development Project. The Government of Heilongjiang requested ADB support for an urban development project in four cities (i.e., Hegang, Jixi, Qitaihe, and Shuangyashan) in the coal region to improve the enabling environment for noncoal economic and industrial transformation. While most of the investments are for urban infrastructure upgrades, the cities are also interested in supporting SMEs in noncoal-related industries to create new jobs and to transform the cities' economic structure. The cities have agreed to develop an SME incubation component to assist SMEs, especially companies involved in IB and social enterprises, to improve their overall operation capacities, finance management, and business strategies. In addition to the incubation component, ADB will also provide longer-term loans to promising SMEs.

Shanxi Integrated Agriculture Development Project. Implemented by the Shanxi Poverty Alleviation Office, ADB is cofinancing this project with a sovereign loan of \$100 million, guaranteed by the provincial and national governments. The key objective is to create 20,000 new jobs for the poor and low-income people. Companies with high IB scores⁴³ will receive various benefits, such as high-priority access to revolving loans and additional

⁴¹ H. Yong. 2016. E-commerce Helps Alleviate Rural Poverty. *China Today*. 12 May. http://www.chinatoday.com.cn/english/economy/2016-05/12/content_720515.htm.

⁴² Content provided by Armin Bauer, former principal economist and coordinator, ADB Inclusive Business Initiative, Sustainable Development and Climate Change Department, ADB.

⁴³ IB scores are based on financial and social returns as well as innovation and value-chain contribution.

technical assistance; business development support to strengthen their business models and make them more inclusive; and access to additional financing from banks. Typical investments per company are \$0.3 million–\$5.0 million.

G. Slowing of Economic Growth and Implications for Inclusive Business

In recent years, the PRC's economic growth has slowed to single-digit figures. In 2015, its GDP growth rate fell to 6.9%, a high but much lower rate than the previous rapid growth rate averaging 10.0%. Many businesses have seen decreases in their return on capital, and the broader economy is projected to go through a “rebalancing” over the coming decade.⁴⁴

The key types of industries impacted by the slowdown are those with saturated markets and those that rely on consumers with high levels of disposable income. A contraction of these industries will lower the likelihood of IB being established in these sectors in the near term. They include:

- (i) **Manufacturing.** The provision of low-skilled manufacturing jobs is a significant employment opportunity for the BOP and has played a critical role in the PRC achieving high levels of poverty alleviation to date.⁴⁵ However, rising wage costs, and comparatively cheaper manufacturing expenses in neighboring countries and areas, have affected the PRC's manufacturing sector. The shifting of these jobs offshore will result in fewer employment opportunities for the BOP in urban areas.
- (ii) **Construction.** The increased demand for unskilled labor in the construction sector has provided substantial employment for the BOP, with a shortage of supply leading to higher wages.⁴⁶ However, restricted credit and debt finance may limit new construction projects, resulting in a reduction of employment opportunities or a stagnation of wages for the BOP.
- (iii) **Retail.** Slower growth may affect consumer confidence, and limited access to credit may restrict discretionary spending at the local level. Luxury goods have already experienced contractions, thanks in part to the government's push away from extravagant products.⁴⁷ While these typically do not concern IB, they are often employers of the BOP, especially in the textile and garment industries. A market contraction will potentially threaten these employment opportunities in the future.

The slowdown of the economy will not necessarily result in a decrease in the provision of goods and services to the BOP. As companies seek to identify new and alternate market opportunities in the context of a slowing economy, companies could identify the BOP as a

⁴⁴ L. Zhang. 2016. China's Rebalancing Explained in 6 Charts. *IMF Blog*. 6 September. <https://blogs.imf.org/2016/09/06/chinas-rebalancing-explained-in-6-charts/>.

⁴⁵ Y. Li, and M. Rama. 2015. Firm Dynamics, Productivity Growth, and Job Creation in Developing Countries: The Role of Micro- and Small Enterprises. *World Bank Research Observer*. 30 (1). pp. 3–38.

⁴⁶ European Union SME Centre. 2015. *The Construction Sector in China (2015 Update)*. 5 July. <http://www.eusmecentre.org.cn/report/construction-sector-china>.

⁴⁷ S. Gordon. 2016. Which Industries Will Be Hit Hardest by China's Slowdown? *World Economic Forum*. 20 January. <https://www.weforum.org/agenda/2016/01/which-industries-will-be-hit-hardest-by-china-s-slowdown>.

new, untapped market to engage through the provision of cost-effective goods and services that are relevant to the needs of the poor.

H. Current Poverty Alleviation Policies and Inclusive Business

The development of IB is inseparable from the country's poverty alleviation policies. The following section will elaborate the poverty alleviation policy macro landscape and existing poverty alleviation programs.

1. National Poverty Alleviation Policy

Having acknowledged the progress made in poverty reduction over the past decades, and recognizing the unresolved challenges still present, the PRC has begun pushing measures to achieve the 2020 goal of a moderately prosperous society. To achieve this goal, a new overarching directive with a more targeted approach was needed. To this end, the Outline for Development-Oriented Poverty Alleviation in China's Rural Areas, 2011–2020.⁴⁸ was released, to ensure that the targeted poor will be covered by basic social insurance and housing, with larger increases in income than the country average.

Precise poverty reduction solutions have also been emphasized since 2015. Opinions on the Innovative Mechanisms for the Gradual Push of Poverty Alleviation in Rural Areas contains two key messages.⁴⁹ One is ignoring GDP growth rates in poor areas for official assessment, replacing these with poverty alleviation targets. The second is that the development of poverty alleviation efforts must be designed through a standard method to define who are poor, why they are poor, and what can be done to lift them out of poverty in the local context.

One poverty alleviation solution is to develop featured businesses in poor areas, which utilize abundant natural resources for business purposes from the agriculture, forestry, husbandry, and fishery sectors (footnote 49). Some featured business poverty alleviation approaches include One Village One Product, cultivation of dragonhead companies to involve more poor by promoting one flagship product per village, and strengthening the benefit-sharing mechanism with the poor.⁵⁰

To emphasize the crucial role of business in reducing poverty, the Ministry of Agriculture issued Guiding Opinions on the Development of Featured Industries to Drive Prevision Poverty Alleviation in Rural Areas.⁵¹ Later in the year, the State Council released the 13th Five-Year Plan on Poverty Alleviation, which sets mandatory target to eradicate poverty across the country by 2020. Five industries are identified to reduce poverty: agriculture and forestry,

⁴⁸ The State Council, Office of Poverty Alleviation and Development. 2011. *Outline for Development-Oriented Poverty Alleviation in China's Rural Areas (2011–2020)*. http://www.cpad.gov.cn/art/2011/7/14/art_46_51506.html [accessed 9th May 2017].

⁴⁹ The State Council Decision on Winning the Tough Battle against Poverty. 2015. http://www.cpad.gov.cn/art/2015/12/7/art_46_42386.html.

⁵⁰ State Council, Office of Poverty Alleviation and Development. 2015. Decision on Winning the Tough Battle against Poverty. http://www.cpad.gov.cn/art/2015/12/7/art_46_42386.html [accessed 9th May 2017].

⁵¹ National Development and Reform Commission. 2016. *Guiding Opinions on the Development of Featured Industries to Drive Prevision Poverty Alleviation in Rural Areas*. Beijing.

tourism, e-commerce, assets income (through land leasing for industry development), and technology (footnote 24).

2. Featured Businesses and Inclusive Business

The IB concept has close overlap with the implementation of various poverty alleviation policies, particularly policies related to featured businesses in poverty alleviation. The IB approach and existing policies to encourage featured businesses are similar in that both are using a market-based commercial solution to reduce poverty. However, featured businesses usually consider the poverty alleviation assignment a marginal part of their operation and not their core businesses.

For example, a solar energy company can sell its solar panels to low-income households in rural areas at discounted prices. Local farmers install the panels to generate additional electricity that can be sold to produce additional household income. While such a commercial solution to alleviate poverty is highly related to the featured business locally, such initiatives only constitute a small portion of the company's main business. As a result, few resources are dedicated to such initiatives to create social impacts at significant scale.

IB goes one step further by deliberately seeking opportunities to include the poor in its value chain of its core business. For example, an IB company's main business can sell high-quality millet and processed millet products. The company engages thousands of farmers in all key production areas of its supply chain as suppliers, laborers, and consumers. The company pays above-market purchasing prices for harvests that meet the company's quality threshold. Such higher pay not only helps the company secure the best raw material but also increases income for farmers in its supply chain. Without improving the well-being of the farmers, the company will struggle to secure high-quality raw material supply, and its core business will suffer as well. Therefore, low-income farmers are an indispensable part of the company's core business.

3. Dragonhead Companies and Inclusive Business

In the mid-1990s, the agriculture sector entered a new stage of development, which demanded restructuring and strategic change. The key driving force in such change was "dragonhead companies," which are companies in certain scales of operation and assets that have a competitive presence in the value chain as well as strong capability in technology and innovation. They helped develop markets, led innovation in technology development, and guided the operations of production bases and farmers.

Dragonhead companies typically have traditional business lines and do not often design special models that create scale benefits for the BOP. Their performance is assessed by the enterprise's operation and finance status, while its systemic contribution to poverty alleviation is a side effect or resides within its CSR. Currently, prevailing measures taken by dragonhead enterprises either deliver marginal impact or reduce the company's profitability.

The most popular approaches used by dragonhead companies are leasing farmland at low prices, employing farmers as laborers or through stable purchase contracts, and providing some CSR measures (i.e., mostly related to education, not strategic, and below the international standard of 2%–3% of net profit for CSR spending). Often limited by their own experiences

and knowledge horizon, dragonhead companies have homogeneous business models that, in return, offer limited contribution to systemic poverty alleviation and rural income increase. Most take their commitment to poverty reduction as a top-down political task, a CSR, and a cost to business operations. The passive mentality of such entrepreneurs results in an unsatisfactory connection between growing their business and supporting poverty alleviation.

To a certain extent, dragonhead companies and IB both address low-income farmers, but the two terms are fundamentally different in terms of their strategic focus and mechanisms of realization. Explaining the difference between the two can bring out the innovative nature of IB, as well as its relevance to the PRC's current needs of poverty alleviation and promoting its international influence.

While dragonhead companies focus on the local economy, IB focuses on low-income farmers. Dragonhead companies impact their peer enterprises in the same industry as model enterprises, and make significant contributions to the region's economic development, expressing that their value resides in their contribution to the local GDP (i.e., direct impact) and also through their value and supply chain (i.e., indirect impact). IB, however, focuses on low-income farmers by its coverage and depth. A dragonhead company would not care about innovation to diversify in the interest of the poor, and would just expand production through more of the same approach.

As previously stated, most dragonhead companies put "helping farmers" in the category of CSR. They perceive increasing the well-being of the BOP as imposing additional costs to operations. Therefore, most perceive that there is an inevitable trade-off between a company's finance return and well-being of the BOP. On the other hand, the ultimate goal of IB is a "win-win" situation, that is, by helping farmers, an IB also builds its core competitiveness, including stronger consumer brand recognition, a more stable and cost-efficient supply chain, improved products and profit proposition, as well as more productive farmers. IB can break the perceived trade-off between a company's finance performance and social impact by introducing technical and business model innovations, which enable a company to incorporate the BOP into its core business strategy and generate more finance opportunities.

For example, previously, agriculture companies believed that paying farmers more for their supply would incur extra costs and, hence, sacrifice their finance return. However, an IB that pays low-income farmers well, and uses socially conscious branding to attract customers who are willing to pay a premium for such products, can actually be more profitable than its peers who do not pay as well and also win additional social recognition.

IB has more thorough social impact performance measurement metrics. To monitor performance of dragonhead companies, the Measures on the Certification and Operational Monitoring of Key National Dragonhead Companies in Agriculture Industrialization provides guidance.⁵² In addition to standard audited finance statements, bank reference, tax certificates, and safety operation documents, dragonhead companies must also provide information on the number of farmers involved in their businesses and CSR initiatives. In comparison, IB not only measures the breadth of its social impact in terms of the number of

⁵² Ministry of Agriculture. <http://www.chinatax.gov.cn/n810341/n810765/n812161/n812532/c1084472/content.html>.

low-income people reached, but also monitors the depth of its social impact by the additional income created for low-income persons and how much more it pays than its peers.

IB tool kits are also fundamentally different to dragonhead companies. While dragonhead companies—like IB—are innovative and often leaders in their industries, IB focuses on using innovations to increase the well-being of the poor within its core business, while dragonhead companies are focused on developing their industry. Poverty alleviation dragonhead companies exist; some are IB companies, but others only have a small component of their business with poverty alleviation impacts. In addition, although dragonhead companies have a vision of achieving success, IB also addresses how to make this happen while benefiting others. An IB evaluation tool answers through the effective integration of farmers, especially low-income farmers, into the enterprise's value chain; and a systematic support of farmers (as company's suppliers) for raw materials.

The concept of IB also entails a tracking, helping, and rewarding mechanism. International practice has proved that this soft component is the key to achieving success. The purpose of IB accreditation is to discuss with companies the possibility for change that improves effects on the BOP while, at the same time, creating a win-win for the company.

4. Guangcai Companies and Inclusive Business

The Guangcai (Glorious Cause) Program is an initiative of about 20,000 companies doing both CSR- and IB-related work in remote and poor areas of western PRC.⁵³ Established in 1994, the program has helped push an estimated 8 million people out of extreme poverty.⁵⁴ Supported by the United Front Work Department and the All-China Federation of Industry and Commerce, its goal is to empower those living in poverty, while bridging the gap between most- and least-developed areas to ensure mutual prosperity. The program is primarily run by the China Society for the Promotion of the Guangcai Program, which also provides technical assistance for investment projects and facilitates information exchange for resource exploitation and trade cooperation.⁵⁵

The program focuses on Gansu, Guangxi, Hubei, Hunan, Inner Mongolia Autonomous Region, Sichuan, Tibet Autonomous Region, and Xinjiang. It has helped facilitate market links for these regions, established wholesale markets, and donated money to local health and education initiatives. For the private sector, investments under the program present an opportunity to gain profit through low-cost business models, while benefiting from government finance incentives and political recognition.⁵⁶

There are three components to the Guangcai Program:

- (i) Companies involve farmers in their production processes to create new jobs and additional income.
- (ii) Larger companies and foundations develop sustainable charitable programs (e.g., they cover the cost of education for students of an entire village).

⁵³ China CSR Map. http://www.chinacsrmap.org/Org_Show_EN.asp?ID=688.

⁵⁴ Guangcai49. Introducing Guangcai49. <http://www.gc49china.com/en/about.aspx>.

⁵⁵ United Nations Conference on Trade and Development. 2003. *The management outlines of Guangcai program*. http://www.cspgp.org.cn/cspgp/10_zdxm/glbfl.htm.

⁵⁶ G. Peiyuan, Y. Yongda, and D. Huixian. 2006. *The Guangcai Model*. Berlin: Springer.

- (iii) Graduate students are deployed to rural areas to establish local agribusinesses.

Although this study did not focus on assessing companies involved in the Guangcai Program, it is clear that many of these companies are using business models comparable to IB. However, most of the companies still consider efforts to increase income for the poor as part of their CSR initiatives, similar to dragonhead companies' approach.

In addition, most of the program activities are in the form of philanthropic donations to traditional charities not related to the companies' main business (i.e., education, disaster relief, and poverty alleviation), whereas the IB approach is a completely profit-driven commercial operation that is closely related to the company's core businesses. Guangcai Program activities that involve the low-income population as employees are motivated explicitly by a poverty alleviation purpose with political support from local government agents, while the IB approach is driven by a company's own commercial goal, which can be better achieved if low-income farmers in the value chain improve their well-being.

The Guangcai Program has assigned dragonhead companies to designated impoverished villages to achieve poverty alleviation goals. Companies using IB approaches are not driven by such government assignments, and efforts to increase income and create jobs for farmers in the companies' value chains are self-driven by the companies' core business strategies. The Guangcai Program usually covers the population under the national poverty line, whereas companies using IB approaches have a wider reach (i.e., low-income groups that are above the national poverty line, but still have limited means and are at risk of falling back into poverty).



The Inclusive Business Market in the People's Republic of China

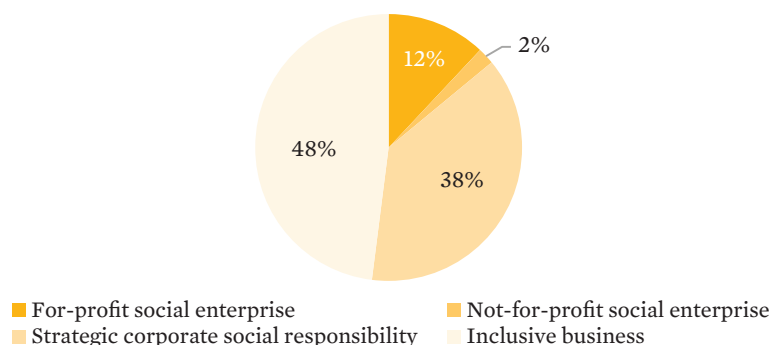
A. Characteristics of the Sample Companies

Based on the 193 companies listed for the study, IB activity in the PRC is spread across the country, with most initiatives concentrated in the northern, southern, and eastern regions. The greatest number of IB approaches identified are occurring in Beijing, Gansu, the Inner Mongolia Autonomous Region, Ningxia, Shanghai, and Shanxi, with the overall trend of initiatives focused on rural regions.

The majority of IB initiatives utilize IB models in line with the G20 IB framework. As noted earlier, the longlist review process categorized companies as IB models, strategic CSR, for-profit social enterprises, and not-for-profit social enterprises.

Key to the success of any IB approach is that the company is commercially viable and ideally bankable. Of the 193 companies identified and where data were available, only 13 companies were assessed to have a high level of profitability in terms of profit margin generated.⁵⁷ In comparison, 135 companies were identified to have low to medium profitability, and 144 companies were rated as having a low to medium level of bankability in terms of their perceived debt repayment ability. However, it is worth noting that the IB approaches involve different sectors, and profitability levels across sectors are inherently different.

Figure 7: Types of Inclusive Business in the People's Republic of China

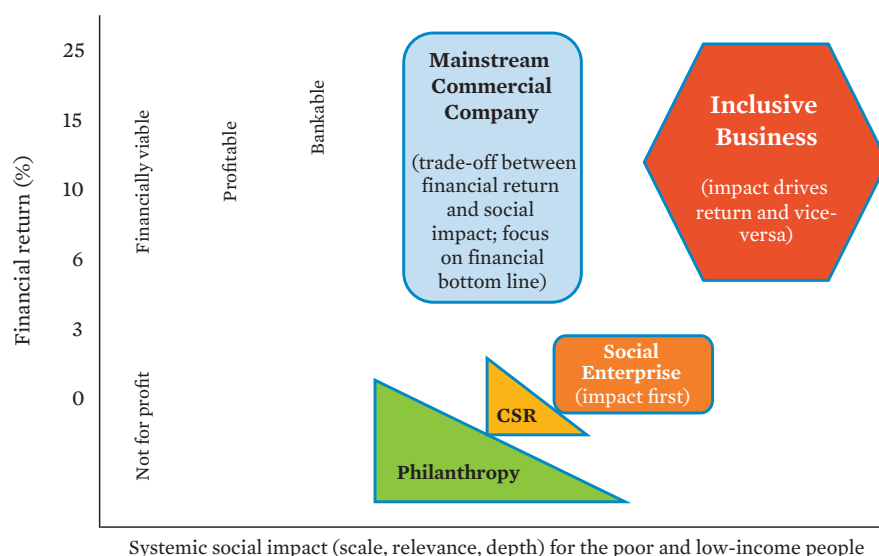


Source: Consultants.

⁵⁷ ADB identifies high-level profitability as profitability beyond 10%.

Eleven of the companies interviewed indicated that they received some form of local government subsidies and benefits, mostly not related to their IB operations, including financial subsidies of CNY1 million–CNY100 million, tax incentives, tax rebates, interest-free loans, government guarantees for new loans, and subsidies for organic certification and quality standards.

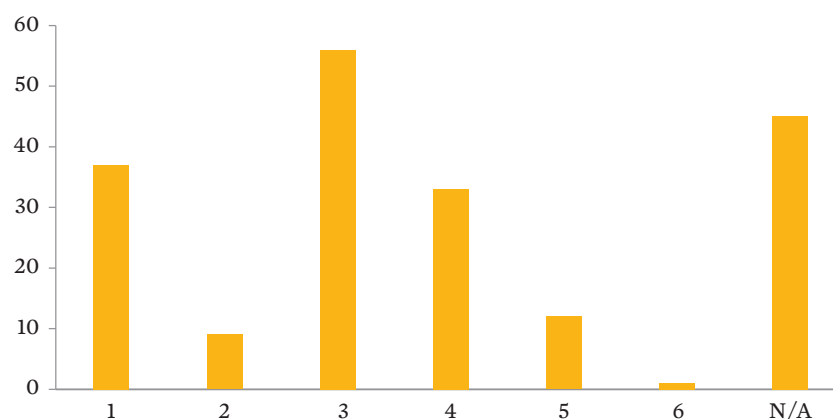
Figure 8: Financial Return and Social Impact of Inclusive Business Models, For-Profit Social Enterprises, and Strategic Corporate Social Responsibility (%)



CSR = corporate social responsibility.

Source: Consultants.

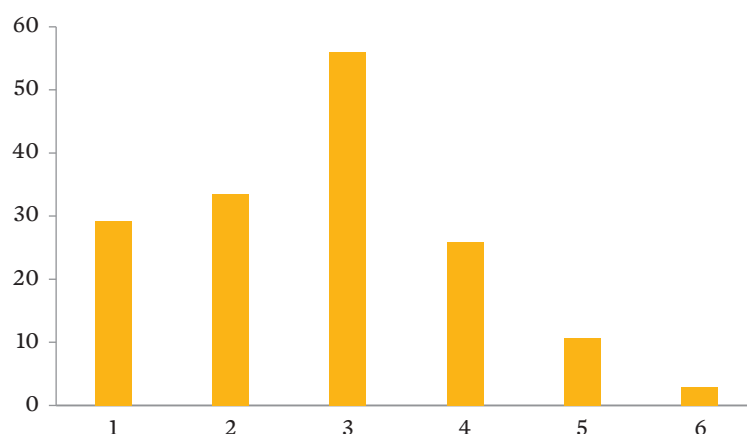
Figure 9: Profitability of Inclusive Business Initiatives or Companies



N/A = data not available.

Note: Profitability (profit margin) by ranking: low, 0%–5% (1–2); medium 6%–10% (3–4); high 11%–15% (5–6).

Source: Consultants.

Figure 10: Bankability of Inclusive Business Initiatives or Companies

Note: Bankability by ranking: low, 1–2; medium, 3–4; high, 5–6.

Source: Consultants.

Table 5: Financing Sought to Expand Operations of Interviewed Companies

Investment Requirement	No. of Companies
<CNY5 million	3
CNY5 million–CNY20 million	5
CNY20 million–CNY300 million	5
CNY300 million–CNY500 million	2

Source: Consultants.

A common theme identified across the interviews was the desire to secure local government funding and support although government subsidies, on average, only constituted a small percentage of the companies' overall revenue.

Of the 35 companies interviewed, 24 companies indicated that they require and are actively seeking financing to expand IB operations through further investment, loans, or capital by issuing additional shares. Of these 24 companies, 15 disclosed that the investment sought ranges from CNY2 million to CNY500 million.

B. Inclusive Business Activity by Sector

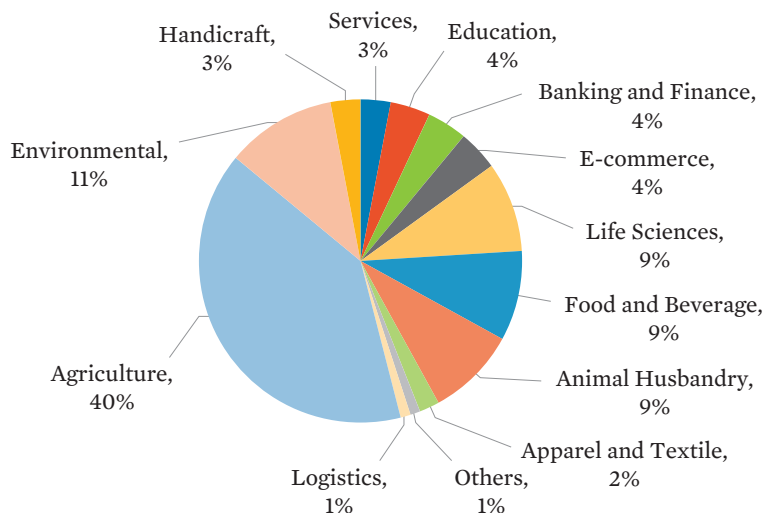
This section focuses on key lessons identified through interviews of these 35 companies across the PRC.

Table 6: Companies Interviewed for This Study

Company	Sector	Location
Raohe Black Bees	Agriculture	Heilongjiang
De Qing Yuan Ecological	Agriculture	Beijing
Lanmei Agriculture	Agriculture	Zhejiang
Shanpin Cooperative	Agriculture	Shanxi, Shaanxi, Sichuan
Song Xiao Cai	Agriculture	Beijing
Mengniu Dairy	Agriculture	Hong Kong, China (headquarters)
Lao Zhi Qing Group	Agriculture	Fujian
Xitou Organic Tea	Agriculture	Jiangxi
China Corn Oil	Agriculture	Hong Kong, China (headquarters)
Hubei Lorain Food	Agriculture	Hubei
Tian Zhi Run Dates	Agriculture	Shanxi
Xin Jiang Vegetable Market	Agriculture	Shanxi
Grass Capital	Agriculture	Inner Mongolia Autonomous Region
Bei Ye Mushroom	Agriculture	Shanxi
Minf Potato and Tian Feng Potato	Agriculture	Inner Mongolia Autonomous Region
Shanghai Gladsome Modern Agricultural Development	Agriculture	Shanghai
Da Yu Irrigation	Agriculture	Gansu
Taoshihui	E-commerce	Guangdong
58 Daojia	E-commerce	Beijing
Jia Shi Fen	E-commerce	Beijing
Alibaba	E-commerce	Zhejiang
Huamengtong Logistics	E-commerce	Inner Mongolia Autonomous Region
Microbenefits	Education	Jiangsu
Shanghai Netban Education Technology (Wang Ban)	Education	Shanghai
Bai Nian Vocational School	Education	Beijing
Fuping Domestic Service	Education	Beijing
Golden Wings Art School	Education	Beijing
Qian Lin Baby	Food products	Beijing
Tian Tian Ai Biotech	Food products	Jiangsu
Shokay	Textiles	Shanghai
Smart Focus	Medical	Shaanxi
IBirds Technology	Transport	Beijing
Fast Fish Apparel	Retail	Zhejiang
Credit Ease Yi Nong Dai	Finance	Beijing
Kangda International Medical	Medical	Shanghai

Source: Consultants.

Figure 11: Inclusive Business Activities in the People's Republic of China by Sector



Source: Consultants.

Sectors with the most companies implementing IB approaches include agriculture with 78; environment, 21; animal husbandry, 18; food and beverage, 18; and life sciences and health care, 17. The prevalence of agriculture business activity reflects the strong orientation of IB in the PRC toward the BOP in rural areas where poverty is the most concentrated.

Companies involved in several sectors use multiple models of engagement with the BOP as suppliers, consumers, distributors, and laborers, but IB approaches in some sectors engage the BOP in one dominant role. For example, this population participates in the finance and health-care sectors almost always only as consumers. On the other hand, they are involved in the logistics and handicraft industries almost exclusively as suppliers. In some traditional industries, such as agriculture, the low-income population participates as suppliers, consumers, distributors, and laborers, with a dominance in suppliers and laborers. In new sectors that incorporate the BOP, such as e-commerce, they are evenly engaged as suppliers, consumers, distributors, and laborers.

1. Agriculture

Within the agriculture sector, companies are including the rural poor in their value chain through two models of engagement: procurement from and supply to the BOP.

Procurement. Companies in the PRC using these IB models engage in direct sourcing relationships with poor farming communities, often disintermediating the supply chain. Such companies recognize that the capacity of farmers to produce commodities to meet their sourcing needs is directly linked to the company's own success; thus, IB models are implemented to ensure mutual benefits for all. Common to the companies interviewed is a commitment to pay farmers a guaranteed or market price, whichever is higher. In this

regard, farmers are put on a pathway to exit poverty. As an example, Tian Zhi Run Dates pays contracted farmers up to 30% more for their crop compared to noncontracted farmers. Of its 2,300 contracted households, 550 fall below the poverty line.

De Qing Yuan Ecological, an environment-friendly producer of chicken, eggs, organic fruit and vegetables, and various processed products, not only engages and hires farmers in its supply chain, but also distributes profits to local low-income shareholders and supplies electricity to the community generated from chicken manure biomass. Since the start of its operation, the company has created 150 new jobs directly and 600 supply-chain jobs indirectly. The company expects to pay annual dividends of CNY1,000 to its 4,424 local low-income shareholders, while providing electricity to over 3,000 local households.

Hubei Lorain Food is another company committed to the social impact of its IB approach. The company works in hilly areas associated with high poverty rates where chestnuts can grow. It has introduced higher-yield and higher-quality strains of chestnuts and is providing related technical assistance to farmers. More than half of the company's employees are affected by poverty but are paid a living wage. Hubei Lorain Food's approach and commitment in investing and developing the chestnut industry value chain by creating more economic value for the chestnut produce through deep processing has resulted to higher livelihood, and helped reduce incidences of poverty in these areas.

Of the 12 agribusinesses interviewed that are procuring from the BOP, nine expressed that they need further investment to expand their businesses. Channels of financing expected to be utilized include development bank loans, commercial loans, pre-initial public offering round financing, equity, and debt financing.

For a range of these businesses, local governments play a significant role in creating an enabling environment including provision of tax incentives, soft loans, and subsidies, recognizing the contribution made to economic development. Other companies have received funding from a local government agricultural development bank.

Supply. In these business models, companies focus on selling products and solutions that solve a relevant problem of the poor. For example, Da Yu Irrigation has developed an irrigation solution that addresses the high irrigation costs that limit yields and the income potential of farmers in Gansu. Farmers who use the company's equipment can upgrade from low-efficiency, labor-intensive irrigation methods to new approaches that can increase yields 10%–100%. Other companies, such as Bei Ye Mushroom, Minf Potato, and Tian Feng Potato, not only sell products (i.e., seeds) to farmers, but also include farmers in the value chain by procuring the crops from them. In these examples, the companies have developed close working relationships with farmers that includes renting land, hiring them, transferring technology, and training.

2. E-Commerce

Of the 35 companies interviewed, seven have built e-commerce business models that are complementary to the central government's prioritization of the sector.

Agribusiness e-commerce. Companies using this approach focus on creating market linkages among farmers, intermediary buyers, and end-consumers. They aim to narrow the gap between

rural and urban centers by creating new market supply opportunities for farmers previously disconnected from the market. For the buyer, this model provides new, alternate channels to procure commodities, while also reducing purchase costs. For the seller, it increases revenue due to the direct buyer–seller relationship established through the e-commerce platform.

Song Xiao Cai sources vegetables from large cooperatives and sells them to small vendors in urban markets in Beijing, Shanghai, Wuhan, Suzhou, Wuxi, and Changzhou. Urban vegetable merchants can buy vegetables at lower price points because Song Xiao Cai purchases them in large volumes direct from producers. This is of special importance to urban vegetable merchants, as many are low-income migrants from rural areas who make little after intermediary agent fees. On average, Song Xiao Cai has helped these merchants make 10% more income when using the platform.

Rural e-commerce. Similar to agribusiness e-commerce, rural e-commerce platforms are designed to reduce the gap between rural and urban populations through the sale and distribution of products and services that extend beyond agriculture. The platforms can be used for two-way selling and buying between rural and urban areas, and can overcome the absence of physical retail spaces in rural communities.

Taoshihui, an online platform for rural e-commerce, provides logistics, finance, and supply-chain services, and is working to establish a nationwide rural retail chain network for direct marketing and distribution to consumers in this area. The company has reached 11,570 villages across 17 provinces, and users of the platform can double monthly revenues and profit. In addition, Alibaba's rural Taobao initiative has benefited 1.2 million rural residents by providing not only an online platform but also e-commerce training and increased logistics infrastructure build-out. It has also provided rural residents with alternative income opportunities beyond agriculture. In addition to direct benefits associated with buying and selling products for low-income people, Alibaba hires village partners who train local communities in launching their own e-commerce businesses on Alibaba. These village partners can earn additional monthly incomes of CNY2,500–CNY3,000.

Service-based e-commerce. These platforms connect low-skilled, low-income workers with new work opportunities, overcoming traditional issues associated with finding employment, including a lack of training, lack of documented work experience, and uncertainty.

The largest “blue-collar” job search site is 58 in the PRC, on which workers are listed, mainly hired from rural areas, and provided with training and job opportunities. Over 200 million workers have resumes on this platform. A subsidiary, 58 Daojia, focuses on providing employment for 150,000 domestic workers. Domestic workers using this platform, on average, earn 20%–30% more than those not using the platform, thanks to better efficiency in finding work.

Jia Shi Fen, a similar platform focused on the construction industry, reached 4,000 migrant workers within the first year. It charges a commission that is 10%–15% lower than that of traditional construction firms (i.e., 40%–50%) due to a larger transaction volume and standardized online project management process. The low commission has attracted more homeowners to Jia Shi Fen, thus creating more stable project supply and better income for migrant workers. Using Jia Shi Fen, migrants' incomes can be 10%–15% higher than traditional forms of employment.

To ensure the future success of IB approaches focusing on e-commerce in the PRC, national, provincial, and local governments must continue to play an important role in ensuring a greater level of connectivity in rural areas, as well as providing training for new internet users. In addition, government support for transport infrastructure development is critical to the movement of goods between rural areas and urban centers via e-commerce.

3. Education

Education-based IB business models, focused on both adults and children, aim to provide accessible, affordable education services to the BOP.

Adult-based education. These services build the capacity of workers for future employment and increase their skillset for current employment. These IB models are of particular benefit to the BOP who often do not have formal skills training; many women in low-income rural communities do not have the opportunity to complete formal education, limiting their income-earning opportunities. FuPing Domestic Service Company trains women from poor rural families in domestic work at a low cost, and then finds them work, taking a commission. From 2002 to 2015, the company provided training to 33,000 rural women. To ensure that the company is targeting communities most in need, FuPing Domestic Service Company partners with local poverty alleviation-focused nongovernment organizations and women's associations.

Child-based education. Golden Wings Arts School has developed a unique model of providing low-cost art therapy and education to autistic students, selling student artwork and providing families with 20% of the proceeds. At the school, 40% of students are from low-income families, and the sale of art can produce up to CNY3,000 annual income for each family. The school has a blended revenue model generated through sales and donations.

4. Food Products

Some companies are utilizing IB models to develop food products that directly meet the needs of the BOP.

Infant food. Malnutrition, especially for children, is a significant issue in rural areas of the PRC. In response, the current public health strategy prioritizes nutritional improvement for infants in vulnerable areas, as infant nutritional deficiency can lead to hindered social and mental development. Tian Tian Ai Biotech aims to combat issues of undernourishment and anemia in low-income areas, working with the government to provide nutrition packs as part of the Nutrition Improvement of Infants and Children in Poverty-Stricken Areas Program. It develops the nutrition packs for its customer, the Ministry of Health at the provincial level, who distributes the product to low-income families with infants. At the end of 2015, 750,371 children ages 6–24 months received these packs. A 2014 assessment found that the nutrition program reduced the rates of growth stunting and anemia significantly in rural areas.⁵⁸ The study indicated that 86% of the program's target population had been reached, with an effective consumption rate of 55%. Critically, the rate of stunting fell from 10.1% to 8.4%, while the incidence of anaemia dropped from 32.9% to 26%.

⁵⁸ The assessment is a part of a long-term program under the Ministry of Health to tackle the nutrition issue in rural PRC.

Specialized products. In the PRC, 150,000 children live with phenylketonuria, a genetic disorder that results in decreased metabolism of the amino acid phenylalanine. Those living with this disorder must follow a diet low in foods that contain phenylalanine and take special supplements. The food is generally expensive imports, so the high costs and lack of options can be a burden on families with low incomes. Qian Lin Baby, however, manufactures 200 kinds of specialized food products for children with phenylketonuria at affordable prices. In addition, the company hires the children's parents as distributors to sell its products across 28 provinces. Of the company's 4,000 customers, 80% are from low-income families.

C. Inclusive Business Models in Companies from the People's Republic of China Operating Abroad

Currently, 79.3% of the PRC's ODI goes to developing countries (footnote 14), including some of the least-developed countries in Southeast Asia and Africa (footnote 15). As an example, in Indonesia, where 9.8% of the population live below or at the poverty line, the PRC is the third-largest investor, with investment jumping 291% last year alone. On this basis, the potential for companies from the PRC operating abroad to address the issues of the BOP using IB approaches is strong.

Yet despite the opportunity to create mutual benefits and significant development impacts, companies from the PRC are generally not undertaking an IB approach abroad. This absence of IB can be attributed to three key barriers.

- (i) **Developing markets are typically incompatible with inclusive business.** IB lends itself to certain sectors that engage the BOP directly through core business activity and are dependent on the BOP for success. These include sectors that focus on services to the BOP, such as information and communication technology, health, education, housing, water and sanitation, energy, and agriculture.⁵⁹ However, companies from the PRC are not actively operating in these sectors abroad. In Africa, ODI from the PRC flow is primarily channeled into the construction, mining, and finance sectors (footnote 14). In Asia, ODI from the PRC flows into leasing and commercial services, wholesale and retail, and finance sectors. At a country level, for example, in Thailand, private companies from the PRC primarily invest and operate in the trading and wholesale business sectors, and SOEs operate infrastructure projects. The very nature of these sectors and related business activity make it difficult for companies to drive business models that inclusively engage the BOP because they are sectors that do not directly engage the BOP beyond employment. Where companies from the PRC are engaged with the BOP through sectors such as agriculture, it is typically done through an indirect link, an intermediary, or a contract farming model.
- (ii) **The primary concern is advancement of the company's interests.** Until recently, many companies from the PRC operating abroad have imported labor from the PRC to increase business efficiency, especially in the construction and infrastructure sector. Where companies do focus on lifting up communities, this is primarily done through CSR, philanthropic activities, and/or compliance standards, which focus on

⁵⁹ G20 Development Working Group. 2015. *G20 Inclusive Business Framework*. Antalya, Turkey. <http://g20.org.tr/wp-content/uploads/2015/11/G20-Inclusive-Business-Framework.pdf>.

the poor as beneficiaries rather than including them in commercial activity. However, it should be noted that SOEs are required to undertake CSR reporting, which has resulted in the emergence of impactful community development projects.

- (iii) **Incentives do not exist for companies from the PRC to execute inclusive business abroad.** Incentives are a key to stimulating IB and can come from governments in the form of preferential treatment, subsidies, and tax breaks. Countries and areas where companies from the PRC are operating do not provide such IB incentives, however. Many are not aware of IB and its potential to provide solutions to the problems of the poor nor can they afford to provide incentives for IB.

This study did undercover a small selection of companies undertaking business activity that is comparable to IB models in developing countries. Huawei, a leading global information and communication technology company, is addressing the digital divide by developing products and services for the BOP. In Kenya and Southeast Asia, the company has developed low-cost smartphones and mobile money platforms, while also delivering e-health and solar power solutions.

Julong, a palm oil company based in Tianjin, is working with smallholder farmers in Indonesia, paying them market rates if commodity prices are high and setting a minimum floor price if commodity prices fall below this rate. The company also introduced a crop-sharing scheme with local low-income farmers to increase yields and income. To date, over 5,000 families have seen an increase in their incomes, with over 20,000 people benefiting. The company also provides pesticides, seeds, and fertilizers, and brings technology and management experience to these farmers.

New Hope Group, a conglomerate from the PRC, is supplying agriculture products to improve the productivity of 50,000 farmers, and also provide high-quality animal protein, in Bangladesh, Cambodia, India, Indonesia, the Lao People's Democratic Republic, Myanmar, Nepal, the Philippines, Sri Lanka, and Viet Nam.⁶⁰

In an attempt to deliver impactful community programs, some companies involved in the mining and energy sectors are stimulating the development of micro IB and social enterprises. China National Petroleum Corporation assisted in the development of a local cassava plantation and processing plant in Venezuela as part of its community development program. Since then, its local joint venture partner invested further into the initiative, which procures cassava from smallholder farmers, creating employment opportunities and lifting families out of poverty. The plant is the third-largest cassava-processing plant in Venezuela, and all profits have been reinvested in the venture for the community's benefit.⁶¹

To ensure the development of a viable post-mine economy, MMG, a company majority owned by the PRC nationals, has invested in the development of a citrus farm social enterprise for local communities near the company's mines in the Lao People's Democratic Republic. The enterprise, Ironbark Citrus, will train farmers to grow citrus fruits and provide a revolving

⁶⁰ International Finance Corporation (IFC). *IFC Partners with New Hope to Boost Agribusiness in South and Southeast Asia*. <http://ifcextapps.ifc.org/ifcext%5CPressroom%5CIFCPressRoom.nsf%5C0%5CD1F0E4AB4BF5725985257E6000302C48>.

⁶¹ China National Petroleum Company. *Local Development. Cassava Plantation and Processing Plant in Venezuela*. http://www.cnpc.com.cn/en/local/common_index.shtml.

loan fund to the farmers. It aims to procure and then supply the fruit to international markets, increasing farmer incomes 10 times compared to their incomes from mining.

Indeed, companies from the PRC involved in the manufacturing, construction, and mining sectors abroad are creating jobs that can be directly beneficial to the BOP. In these scenarios, training and employment opportunities are provided to create a local labor force composed of the BOP. As an example, the PRC's largest conglomerate, CITIC, built a technical school in Algeria to train low-income, unskilled workers and to provide them employment opportunities as the company builds infrastructure in the country. The company is also utilizing a similar approach in Myanmar, where it has set up local vocational training centers as well as village funds near the Chowk special economic zone.

Tsingshan Holding Group, a manufacturer of stainless-steel products, has created 5,000 jobs in a small town in Sulawesi, Indonesia, by building a large nickel smelter. The company has provided training for the local community to operate the smelter, and its investment has had a significant impact on the development of the town. A stainless-steel mill has recently been established there, which will further contribute to income-earning opportunities.

Wanbao Mining, the operator of the Letpadaung Copper Mine in Myanmar, is committed to social investments for communities near its mine. Training programs and SME development linkages have been developed, such as the establishment of a community-owned trucking company.

Prosperity Knitwear, a Hong Kong, China company, has introduced better working conditions and improved wages in Myanmar. These enhanced conditions and fair wages assist the company in meeting the procurement criteria of Marks and Spencer, a major British multinational retailer, that Prosperity Knitwear supplies.

ODI from the PRC will continue to increase as a result of government-led strategies, such as the Go Out Policy, and plans for increasing international trade links through the One Belt One Road Initiative. These initiatives will see an increased presence in developing markets by a broader range of companies from the PRC, which will create potential to engage the BOP through various IB approaches. In addition, there will be

- (i) **Increased expectations from host country governments for companies from the PRC to contribute to sustainable development.** As an example, recent permits for large projects issued by the Myanmar Investment Commission have included special clauses for CSR programs to be implemented by recipient companies.
- (ii) **Increased requirements from host country governments for companies from the PRC to utilize local labor.** It is becoming more difficult for companies from the PRC to obtain foreign worker permits in countries like Indonesia. In these circumstances, companies from the PRC operating abroad must hire local labor.
- (iii) **Increased public pressure on companies from the PRC to have a positive legacy in developing countries.** The emergence of civil society organizations in Southeast Asia that have the capability of mobilizing the public to advocate for more inclusive and sustainable development from companies from the PRC will continue to exert pressure.

D. Inclusive Business Investors in the People's Republic of China

There are available funding and investment channels that can be used to support IB approaches in the PRC and companies from the PRC operating abroad.

Development banks and institutions. Four key institutions were identified that can provide financing for IB-related initiatives.

- (i) **China Development Bank.** The China Development Bank provides medium- to long-term financing facilities that serve the PRC's major long-term economic and social development strategies.
- (ii) **Agricultural Development Bank of China.** The Agricultural Development Bank of China is a state-owned policy bank that funds agriculture projects that contribute to economic development. Together with the China Society for the Promotion of the Guangcai Program, it provides annual funding to qualified enterprises involved in the Guangcai Program. Companies that receive financing are required to demonstrate commercial viability and direct development impact for low-income people.
- (iii) **International Finance Corporation.** The International Finance Corporation is the largest global development institution focused exclusively on the private sector. In 2015, it provided a long-term financing package of \$60 million to support the expansion of New Hope Group. This investment will increase the company's investment in agriculture and food businesses across 10 countries in South Asia and Southeast Asia, and will create more than 1,500 new jobs. It will also supply agriculture products to help improve the productivity of 50,000 farmers in the regions.
- (iv) **Asian Development Bank.** ADB is currently supporting two IB initiatives in the PRC: the Heilongjiang Urban Development Project and the Shanxi Integrated Agricultural Development Project.

Impact investors. In the PRC, impact investors invest in companies that have developed specific value propositions for the BOP. Social impact is emphasized as it relates to poverty alleviation and children left behind by migrant workers. Like IB, the impact investment community is at a nascent stage of development; there are less than 10 impact investors in the PRC.

The China Impact Fund is the PRC's first impact fund that specializes in financing and accelerating SMEs that provide environment-friendly products and services as well as start-ups with an environmental value proposition for the BOP. It emphasizes sustainable land use, clean energy, and water access.

Commercial banks and investors. If presented with a commercially viable IB approach, commercial banks and investors are open to investing in IB initiatives. Hongshan Capital Investment Management (Sequoia China Capital) is a key investment partner in the microfinance institution Zhonghennongxin established by the China Foundation for Poverty Alleviation. In addition, UOB Venture Management has provided financing to more than 100 privately held companies through direct equity investment, mainly in Southeast Asia and the PRC. The company's investments include both "responsible investing," in which communities

are enriched through environmental and social governance policies, and impact investing with poverty reduction mandate.

Foundations. Foundations can play an important role in financing IB initiatives that may not be considered investment worthy by development banks, impact investors, and commercial banks. This is particularly relevant in the PRC where over 60% of IB approaches identified have an annual turnover of less than CNY50 million, and typically require modest capital investment. Foundations can provide small-scale loans with low repayment rates and/or provide grant funding. The China Society for the Promotion of the Guangcai Program receives voluntary contributions from companies involved in the Guangcai Program. This foundation provided CNY31 million to an inclusive agribusiness in Ningxia, which has resulted in increased income for local farmers.

E. Nongovernment Organizations

Nongovernment organizations have the potential to invest in and catalyze IB initiatives in the PRC and abroad. Indeed, they can work as catalysts, investors, designers, implementers, ombudsmen, last-mile distributors, and operators.

China Fund for Poverty Alleviation. A leading nongovernment organization, the China Fund for Poverty Alleviation, disburses CNY400 million per year in funding to target groups for education, health, community development, and livelihood improvement, and disaster relief both in the PRC and overseas. It recognizes that modern enterprise is conducive to the creation of common wealth. Under its community development and livelihood improvement programs, it has established three social enterprise initiatives with an additional enterprise under development.

In 2008, it was also involved in the establishment of the microfinance institution Zhonghenongxin. Using a model similar to that of Grameen Bank, Zhonghenongxin reaches 300,000 beneficiaries across the PRC. Initially set up as a not-for-profit organization, this IB is now registered as a commercial company, and is the largest microfinance provider in the PRC today.

More recently, it established Zhonghenongdao, an e-commerce platform to assist in creating poverty alleviation outcomes for poor farmers. Farmers traditionally run their own businesses and work in isolation; therefore, it is difficult to scale up, acquire a support mechanism for quality control, and obtain market access. Utilizing its core skill as a nongovernment organization, the fund provides training on production criteria for farmers as well as aggregates farmer groups to sell their products to the market via e-commerce. A pilot program in Sichuan resulted in greater farmer incomes, with commodity prices increasing from CNY1–CNY3 per 500 grams and overall sales increasing to CNY5 million since the establishment of the initiative.

The China Foundation for Poverty Alleviation has also established Beautiful Village, a social enterprise in Hubei and Sichuan, that aims to help farmers transform villages into tourist destinations. Once investment costs are recovered by the farmers through tourism revenue, dividends are shared, as they are also shareholders in the business.

The fund is also launching an elderly care IB model providing services to the BOP. It will work with the government to reestablish traditional models of elderly care—a business model that will become increasingly relevant over the coming years. The PRC has an aging rural population all dependent on one child, many of whom are migrant workers in urban areas unable to provide care to family members left in rural areas.

Beijing United Charity Foundation. Essilor is the world's leading ophthalmic optics company, with a mission to improve lives by improving sight. The company designs, manufactures, and markets a wide range of vision care solutions to improve and protect eyesight. A significant challenge for the BOP is access to affordable eyewear. Globally, 2.5 billion people live with uncorrected vision—95% in emerging markets. For the poor, eye-related issues result in reduced productivity and income-earning capacity, and can foster the cycle of poverty. Essilor has set a global target of improving awareness and access to eye health services for 1.5 billion people by 2030, especially in rural areas.

As part of its PRC strategy, Essilor has developed a range of glasses for the BOP that retail at CNY29 per unit as opposed to the full market price of CNY200–CNY300. The company uses a last-mile distribution model, engaging the Beijing United Charity Foundation as the distributor to reach rural areas. The nongovernment organization conducts vision screenings, places orders with Essilor, purchases the glasses as a wholesaler, and sells the product to the BOP.

IV

Conclusions and Recommendations

For IB to flourish, an enabling environment must be created that develops the capability of key institutions whose support is required for the scaling up of IB in the PRC and companies from the PRC operating abroad.

A. Government Support of Inclusive Business

The government is critical in creating an enabling environment for IB. The following section provides specific recommendations for the government to promote the growth of IB in the PRC and companies from the PRC operating abroad.

The government must leverage the existing G20 inclusive business framework to support the development of inclusive business in the People's Republic of China and companies from the PRC operating abroad. The government has the opportunity to build on its endorsement of the G20 IB framework and its launching of the G20 Global Platform on IB. In particular, the government should implement the framework as part of its poverty alleviation strategy to lift all people above the poverty line by 2020. More specifically, as the framework suggests, the government should embed more pro-poor targets into government contracts. The government should also create new legal structures that enable enterprises to tackle poverty issues and to create tangible economic benefits. Such an approach enables the government to formalize how the private sector can be involved in achieving this target, which has been given national priority.

The government should encourage state-owned enterprises to implement inclusive business and utilize these enterprises to showcase the potential for inclusive business to private companies. Business associations acknowledged that, for IB to become mainstream, company case studies are required to create awareness of IB as well as to demonstrate best practices. Owned by the state, SOEs are ideal for setting examples for the private sector to follow. With the vast majority of IB activities in the PRC taking place in the SME sector, large companies need to see examples of companies of a comparative size before they act.

The government should provide a range of incentives and benefits for companies that commit to inclusive business. Government incentives and benefits can be critical in changing the behavior of companies to take up IB. The provision of tax benefits and incentives for commercial banks to provide loans to IB play key roles in motivating and rewarding companies to act. Local governments were also key to the success of IB approaches by providing loan guarantees, subsidies, interest-free loans, tax benefits, affordable insurance, and income tax waivers. From the companies' perspectives, it is important to introduce more stability to such government-led direct financial support to plan for their future operation. Some countries

in Asia have already adapted policies that provide additional benefits to companies with IB approaches. For example, in the Philippines, the Investment Priorities Plan demonstrates how the Government of the PRC could implement such a program. In the plan, the Government of the Philippines emphasizes sectors of strategic importance, so investments in these prioritized sectors are eligible for incentives and support such as simplified licensing, tax breaks, and eased restrictions. IB was included as one of the priority themes in the Investment Priorities Plan, 2014–2016; in the forthcoming plan for 2017–2019, the Board of Investment is considering including IB and social enterprise models as priorities that are eligible for incentives. The new plan will also provide specific guidelines on employment and standards for goods and services that will distinguish IB approaches from exploitative models.⁶²

The government should also consider developing preferential procurement policies for inclusive business as a way to accelerate sector growth. Similar to the current policy on SME procurement, such a policy direction should include budget set-asides for IB procurement, price preferences, and incentives for larger businesses to subcontract with IBs.⁶³

The government should consider adopting an accreditation system to identify companies that should receive government support for inclusive business. As IB in the PRC vastly differ in approach, impact, innovation, and business return, the adoption of an accreditation system would be helpful in determining initiatives that are most suitable for incentives. Such a system would enable the government and stakeholders to undertake a comparative analysis among companies that represent different sectors, approaches to engagement, and depths of impact on the BOP. The government could first develop the accreditation system in priority sectors, such as e-commerce and agriculture, that are linked to the overall development agenda and 13th Five-Year Plan. The Government of the Philippines introduced an IB accreditation system. First piloted in three priority sectors, agriculture, housing, and tourism, criteria utilize a composite rating tool that uses sector-specific criteria. The rating is based on a forecasted assessment, which is then validated after 6–12 months after assessing the social impact of the investment.⁶⁴

The government should consider promoting the entire industry eco-system in which companies utilizing inclusive business are involved. Because of the overarching supervision that the government has over various industries, the government can create systematic changes to entire industries that cannot be achieved by individual companies. For example, the county government in Shuangyashan, Heilongjiang can advocate for black bee protection and promote black bee honey products, so that all companies with IB producing black bee honey can benefit.

Local governments should work with various finance organizations to ensure that basic infrastructure is built to attract more inclusive business. Most companies involved with IB rely, to a certain extent, on the robustness of basic infrastructure, such as local transport systems, large-scale storage space, or irrigation systems. However, it is difficult for individual IB companies to take up such an enormous infrastructure investment without government help.

⁶² Practitioner Hub for Inclusive Business. <http://www.inclusivebusinesshub.org/>.

⁶³ G20. 2016. *G20 Inclusive Business Report for the 2016 Summit*. http://www.g20inclusivebusiness.org/sites/default/files/reference-attachments/G20%20Inclusive%20Business%20Summit%20Report_FINAL.pdf.

⁶⁴ Board of Investments. <http://www.boi.gov.ph/>.

The government should consider facilitating collaboration with various stakeholders involved in inclusive business. Government agents can leverage their advantage to promote further collaboration with companies involved with IB. For example, Shanpin Cooperative has been working with various county governments in Sichuan, which are advocating for the company's poverty alleviation model and introducing it to more counties in Sichuan. Another example is 58 Daojia, which has been working with vocational school partners to develop a more stable talent pipeline for its job offerings. The company hopes that the bureau in charge of vocational education can also introduce and connect it with more vocational school partners and make the public more aware of the work that it has been doing for workers.

B. ADB Promotion and Awareness of Inclusive Business

ADB can help catalyze a greater understanding of IB through knowledge exchange and policy advice in the PRC. ADB should work with existing organizations and initiatives with close alignment to and interest in IB. ADB has the opportunity to both foster the development of IB at the SME level, while also undertaking targeted thought leadership with SOEs and large private companies.

ADB could work with appropriate partner organizations to demonstrate to state-owned enterprises the business case for undertaking inclusive business in the People's Republic of China. With 38% of IB identified in this study classified as strategic CSR, the opportunity exists to collaborate with leading organizations, such as Business Call to Action,⁶⁵ in the CSR and responsible business field to build greater awareness and understanding of IB. Specifically, this includes demonstrating the business case for IB over CSR, demonstrating how IB can help companies meet CSR expectations while delivering sustainable development impact, and assisting companies to transition from CSR to IB.

ADB could work with appropriate partner organizations to demonstrate to state-owned enterprises and large multinational companies the business benefits for undertaking inclusive business abroad. Recognizing the increased expectation of companies from the PRC to create inclusive growth in developing markets combined with responsible business practices, ADB could work with partner organizations, such as the China Business Council for Sustainable Development, the Chinese Academy of International Trade and Economic Cooperation, the State-Owned Assets Supervision and Administration Commission of the State Council, and the World Business Council for Sustainable Development, to inform companies how implementing IB approaches can meet these requirements. This partnering could focus on educating companies on how IB can assist them in enhancing their reputation and social license to secure local government support, creating a local and inclusive labor

⁶⁵ Business Call to Action aims to accelerate progress toward the Sustainable Development Goals by challenging companies to develop IB approaches that engage the BOP. It is a multilateral alliance among donor governments, including the Department for International Development of the United Kingdom; the Ministry of Foreign Affairs, Government of Finland; the Ministry of Foreign Affairs, Government of the Netherlands; Swedish International Development Cooperation Agency; the United States Agency for International Development; and UNDP. Over 170 companies, ranging from multinationals to social enterprises, working in 65 countries, have responded by committing to improve the lives of millions in developing countries through access to markets, finance services, affordable health care, water and sanitation, education, and other critical services.

force, meeting in-country government regulations, and mitigating opposition and resistance from civil society organizations.

ADB and partners could host a roundtable for chief executive officers of state-owned enterprises demonstrating the business case for inclusive business. Peer-to-peer learning is critical to create an environment for senior executives to understand, value, and commit to IB. A roundtable will be an important first step in assisting companies to begin transitioning toward IB, and follow-up workshops could be held with participating companies.

ADB could work with the Guangcai Program to share best practices and thought leadership on the development and scale up of inclusive business as a model. Although the concept of IB is widely known in the PRC, the concept is complementary in nature to the Guangcai Program. ADB can work to support the Guangcai Program by providing training on IB approach for companies that are participating in the Guangcai Program.

ADB could work with the China Development Research Foundation to influence both development practice and policy support of inclusive business. The China Development Research Foundation was established by the Development Research Center of the State Council to advance good governance and public policy to promote economic development and social progress. It has conducted extensive research regarding the distribution of infant nutrition packs through commercial companies. Through its recommendation, the nutritional pack intervention was broadened to become a nationwide program, mobilizing the network infrastructure of maternal and child care service centers under the Ministry of Health. Leveraging the influence that the foundation has of informing and shaping government policy, ADB can collaborate with it to similarly increase the understanding and awareness of IB for the creation of IB-specific policy outcomes by developing research and publications for government officials, engaging in the annual China Development Forum, and participating in the training of local and central government officials.

ADB could work with the China Social Enterprise and Investment Forum to help stimulate the development of social enterprises focused on the bottom of the pyramid as well as development of the sector more broadly. The China Social Enterprise and Investment Forum is dedicated to the development of the social enterprise and social investment sector. With 14% of IB classified as social enterprises, the opportunity exists to collaborate with the forum to help social enterprises understand the potential of becoming IBs by enhancing media recognition for IB, supporting existing award programs to recognize the work of leading IB, training impact investors and commercial banks to invest in IB as a form of social enterprise, and participating in the annual China Social Enterprise and Investment Forum event attended by over 1,000 people from the social enterprise community in the PRC.

C. ADB Technical and Financial Support for Inclusive Business

The provision of technical and financial support will ensure that IB initiatives are able to access the support required for success.

ADB's Private Sector Operations Department could assess the potential of inclusive business when catalyzing, structuring, and funding investments of companies in the People's Republic of China and abroad. When considering investment opportunities in the private sector, ADB could assess a company's potential to involve IB as a part of the investment decision-making process. Companies that exhibit business models comparable to IB and/or have the potential to become an IB could be provided with prioritized investment opportunities and the provision of knowledge-based solutions. ADB could also consider the inclusion of IB in the next country partnership strategy to help achieve the government's priority of fostering inclusive growth.

ADB could support the development of the impact investment sector by promoting and sharing an inclusive business accreditation tool. With less than 10 impact investor firms in the PRC today, there is an opportunity to develop the effectiveness and capacity of the sector to invest in IB. In particular, the sector could benefit from ADB's IB accreditation tool as a due diligence system for investment decision making. For the tool to be distributed among impact investment firms, ADB could also carry out training on the tool.

ADB could consider working with the China Society for the Promotion of the Guangcai Program to fund inclusive business initiatives identified through the Guangcai Program. The China Society for the Promotion of the Guangcai Program provides annual funding to qualified enterprises involved in the Guangcai Program and invests significantly in leading initiatives. Companies that receive financing are required to demonstrate commercial viability and direct development impact for low-income people. ADB could co-invest and/or provide matched or leveraged funding to company initiatives under the Guangcai Program that exhibit IB characteristics.

ADB could consider supporting the establishment of a central inclusive business hub in the People's Republic of China. The presence of a dedicated hub focused on promoting and mainstreaming IB activity is key to the development of IB in the PRC. Currently, there is no organization in the PRC that is focused on building the IB landscape. A local hub would meet this gap in the market by providing thought leadership, technical assistance, and partnership-brokering services. In particular, partnership brokering is essential to creating increased IB activity and deal flow for ADB and other development banks and investors. Without advocacy for IB initiatives, many companies would never become aware of the potential of IB; without technical assistance, many IB initiatives would fail to overcome internal and external barriers to achieve commercial sustainability; and without partnership brokering, companies could not engage with partners needed for IB to succeed (footnote 3).

D. Promotion, Awareness, and Support of Inclusive Business by Business Associations

Business associations have the potential to significantly inform, shape, and enhance the understanding of IB in the PRC through their existing membership and network structures.

Business associations should assist in promotion and awareness efforts to help the private sector understand inclusive business as a business opportunity to be explored. Through the development of information briefings, workshops, case studies, and learning resources,

business associations can present members with the business case for IB. In particular, business associations should provide opportunities for companies to share their experiences of achieving commercial and social objectives through IB.

Business associations should provide technical assistance and access to international trade networks. As ODI from the PRC continues to increase through government-led strategies and plans for increased international trade links, business associations can play a lead role in enabling IB to reach BOP markets in developing countries. Business associations can also assist companies in implementing IB models as a market entry strategy in developing markets.

E. Academic Support of Inclusive Business

The academic community in the PRC can contribute to the advancement of IB. Utilizing their strengths as education institutions, research platforms, and knowledge hubs, universities have the ability to influence future IB practitioners and practice.

Good Practice Model

Most private sector companies from the PRC involve the bottom-of-the-pyramid (BOP) population as laborers and suppliers in some way. However, many companies currently do not see improving the BOP population's well-being as a business opportunity. It is, therefore, crucial that the government and other organizations create the right incentives for companies to adopt inclusive business (IB). They may do this in a number of ways:

- (i) Private sector research institutes can work with the government to advocate for existing exemplary IB practices, so that private sector companies are exposed to available social and business approaches that benefit the BOP population.
- (ii) The government can incorporate IB practices into its existing policies on poverty alleviation.
- (iii) IB approaches need to be accompanied by basic infrastructure development, such as irrigation systems and roads. The government must play a critical role in delivering such costly infrastructure projects, allowing companies to implement more effectively their IB models.
- (iv) Many companies from the PRC have the potential to utilize IB, but currently lack expertise. Experienced international development organizations can offer capacity-building services, connecting domestic Firms with experts needed to expand their businesses and serve the BOP population's needs at the same time.

Source: M. Zhang. 2017. How Inclusive Businesses Can Tackle Poverty in China. *Stanford Social Innovation Review*. 5 January. https://ssir.org/articles/entry/how_inclusive_businesses_can_tackle_poverty_in_china.

Universities in the PRC should introduce inclusive business into the curriculum programs of schools that are relevant to inclusive business. Universities in the PRC have the opportunity to educate current and future generations of students about IB. In doing so, the academic community can create awareness and understanding of IB across the country. As these graduates are launched into formal employment in the public, private, and not-for-profit sectors, they will be equipped to implement and support IB approaches. The relevant faculties, schools, and departments include business, agriculture, social sciences, development studies, and information technology. In addition, executive programs of business schools can implement IB curriculum to help business leaders reconsider the business opportunities that exist regarding the BOP.

Universities in the PRC should undertake focused research on inclusive business initiatives across the country. Key to the development of an enabling environment for IB is a well-documented and rigorous body of evidence that captures the lessons and experiences of IB across the PRC. Through this, the academic community can contribute to increased knowledge and awareness of IB that can influence government policy and the practice of current and future companies utilizing IB approaches while also driving innovation. In the process, a greater understanding of externalities that can influence IB initiatives, including market conditions, environmental factors, and social dynamics, can be grasped to support future IB.

APPENDIX 1

Organizations Interviewed

African Chamber of Commerce in China
American Chamber of Commerce in China
Badan Koordinasi Penanaman Modal (Indonesia's Investment Coordinating Board)
Bank of China
Beijing United Charity Foundation
Brunswick Group
Business for Social Responsibility
China Chamber of Commerce in Indonesia
China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters
China Development Research Foundation
China Foundation for Poverty Alleviation
China International Contractors Association
China National Textile and Apparel Council
China Social Enterprise and Investment Forum
China Society for Promotion of the Guangcai Program
China–Africa Business Council
Chinese Academy of Agricultural Sciences
Chinese Academy of International Trade and Economic Cooperation
CSR Asia
DHgate
European Union Chamber of Commerce in China
German Industry and Commerce, People's Republic of China
Global Compact Network China
Global Environmental Institute
Huawei
International Finance Corporation
International Finance Corporation, Indonesia
Kamar Dagang dan Industri (Indonesian Chamber of Commerce and Industry)
Myanmar Centre for Responsible Business
Myanmar Chinese Chamber of Commerce
Narada Foundation
Southern African Systems Analysis Centre, National Research Foundation
Stuart Larkin, Myanmar Expert
SynTao
Thai Chinese Chamber of Commerce
Tianjin Julong Group
TPG
United Nations Development Programme
Vriens and Partners
World Business Council for Sustainable Development

APPENDIX 2

Key Criteria and Metrics for Assessing Social Returns

The following criteria and metrics were used to determine the breadth of reach of inclusive business (IB) assessed as a key indicator of social return. Reach is defined as the number of individuals at the bottom of the pyramid engaged in the IB approach, directly and indirectly, as suppliers, distributors, employees, and consumers.

Table A2.1: Reach Criteria

	Suppliers	Distributors	Consumers	Laborers
Engagement of Bottom of the Pyramid (high, medium, low)				
Currently (number)				
Direct beneficiaries				
Indirect beneficiaries				
Demographics				
Women (%)				
Over age 60 years (%)				
By income group (%)				
<\$1.25/day (poor)				
<\$2.00/day (poor)				
<\$4.00/day (vulnerable)				
<\$10.00/day (lower-middle class)				
Upper-middle class and rich				
Next 3–5 Years (number)				
Direct beneficiaries				
Indirect beneficiaries				
Demographics				
Women (%)				
Over age 60 years (%)				
By income group (%)				
<\$1.25/day (poor)				
<\$2.00/day (poor)				
<\$4.00/day (vulnerable)				
<\$10.00/day (lower-middle class)				
Upper-middle class and rich				

Table A2.2: Social Impact of Inclusive Business Investment

	Impact Channel	Low	Medium	High	Very High
Supplier	Job and income creation	500–1,000	1,000–10,000	10,000–50,000	>50,000
Distributor		500–1,000	1,000–10,000	10,000–50,000	>50,000
Labor		200–500	500–2,000	2,000–10,000	>10,000

Table A2.3: The Poor as Consumers—The Impact of Inclusive Business by Sector

Sector	Low	Intermediate	High	Very High
Agribusiness	3,000	10,000	30,000	>30,000
Food and beverage	50,000	200,000	1,000,000	>1,000,000
Banking and finance	50,000	200,000	1,000,000	>1,000,000
Information technology	50,000	200,000	1,000,000	>1,000,000
Water	10,000	50,000	100,000	>100,000
Housing	3,000	10,000	30,000	>30,000
Energy	10,000	50,000	100,000	>100,000
Transport and logistics	10,000	50,000	100,000	>100,000
Health	5,000	20,000	50,000	>50,000
Education	5,000	20,000	50,000	>50,000
Consumer products	50,000	200,000	1,000,000	>1,000,000
Retail	50,000	200,000	1,000,000	>1,000,000
Manufacturing	50,000	200,000	1,000,000	>1,000,000
Tourism	50,000	200,000	1,000,000	>1,000,000

The following criteria and metrics were used in determining the depth of impact of IB assessed as a key indicator of social return. Depth is defined as how much the IB approach improves the lives of the bottom of the pyramid through income generation and/or increased affordability and/or accessibility of goods and services.

Table A2.4: Type of Depth

Income	Before Inclusive Business Approach (CNY/month)	After Inclusive Business Approach (% increase)	Notes
Income			
Income increase, compared to other company (%)			
Market rate			
Company pays			
Other benefits received			
Production inputs (e.g., seeds)			
Access to finance			
Training			
Others			
Access and Affordability			
Access increase			
Affordability increase			
Price			
Other			

Table A2.5: Depth—Improvement

	Low/Medium/High	% Improvement (since start of IB)	% Improvement (in 5 years)
Income			
Income increase			
Improvement in working conditions			
Long-term income stability			
Access and Affordability			
Increase in access to goods and services that were previously unavailable or difficult to access			
Increase in affordability of goods and services			
Other (Specify)			

The following criteria and metrics were used in determining the systematic change and relevance of the IB assessed as a key indicator of social return. A business model is not inclusive if it does not provide a solution to a relevant problem of the poor. An IB model must have the ability to systemically change the geography and sector in which it operates.

Table A2.6: Systemic Change

	Systemic Change	Notes
Geographic		
Sector		
Risks		
Structural exclusion/exploitation		
Future strategy		

Table A2.7: Relevance of Inclusive Business Approach

Relevance	Notes
Problem(s) of bottom of the pyramid	
Solution(s) provided by inclusive business	
Relevance of solution(s)	
Estimate how much the approach is a systemic solution to the relevant problem (1–6, 6 being highest)	

Table A2.8: Systemic Impact of Inclusive Business Approach

	Low	Medium	High	Very High
Impact on poverty in the geographic region of operation				
Ability of approach to create sector-wide improvement for bottom of the pyramid				
Ability of approach to systematically change structural exclusion and exploitation				
Risk reduction for the poor				
Future sustainability of impact				

Inclusive Business Market Scoping Study in the People's Republic of China

The report explains the current state of inclusive business (IB) models from the People's Republic of China (PRC), drawing from domestic and international company examples and practices. Key characteristics of IBs in terms of sector, size, and business model, and challenges facing these IBs are discussed. It also presents opportunities for IB to build on existing government programs, and proposes actions various stakeholders can take to promote the growth of IB in PRC.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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