

Co-creating profitable business models to address the SDGs:

Four arguments in favour of a new strategic approach to donor-business engagement

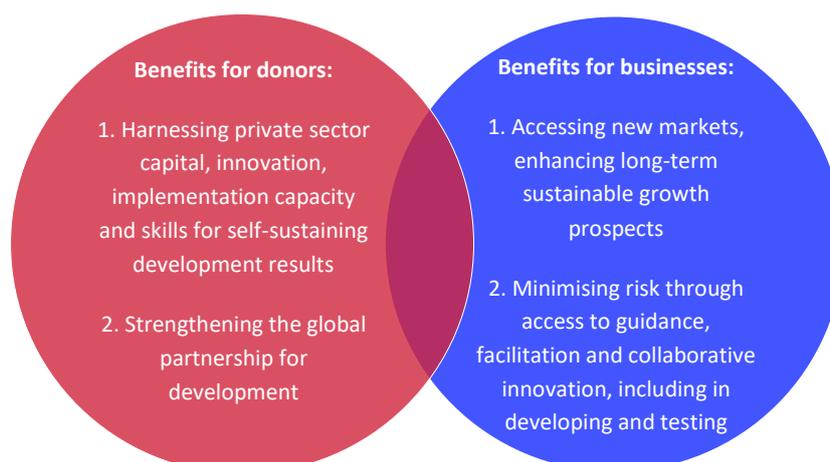
Public donor agencies seek to engage with the private sector in order to attract additional resources and capabilities for achieving the Sustainable Development Goals (SDGs). Businesses, for their part, increasingly recognise that sustainable and innovative ways to tap into emerging markets can be key to their long-term growth. Yet, donors often fail to motivate companies to collaborate with them. Why?

Many collaboration approaches have been transactional and top-down, with donors defining key parameters and formats. Activities were often implemented by third parties, rather than businesses themselves. Not surprisingly, with lacking private sector ownership and little space for innovation, development impacts have been limited and short-term. A new type of strategic donor-business engagement adopted by BMZ and others is now changing this.

The essence of strategic donor-business engagement is to achieve market-based solutions to reach the SDGs – by creating innovative business models at the strategic intersection between long-term profit generation and development goals. As such, it is distinct from other forms of engagement in two fundamental ways:

- **It focuses on synergies between development challenges and companies' primary purpose of making profit** to bring about lasting and transformative solutions to reach the SDGs, rather than short-term social responsibility projects. This is also often referred to as *shared value* – a for-profit strategy to addressing development problems that intersect with a company's *core business*.
- **It enables public-private collaboration at eye-level** that focuses on the joint identification of development challenges with business potential and *co-creation* of tailored, sustainable business solutions.

Donors use different strategies to engage with businesses in this way; in Germany, a flagship example of strategic engagement is the [lab of tomorrow \(lot\)](#) process implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). In effect, the *lot* is a [three-stage business model design and incubation process](#) in the context of international development, including: **(1)** the joint identification of a country-specific development challenge with commercial potential, informed by user centred research; **(2)** an innovation sprint with interdisciplinary participants to co-create market-oriented business solutions; and **(3)** refining new business models to validate their viability – leading to the launch of investible start-ups or joint ventures that do not require further donor handholding. [Practical examples of the various business models](#) emerging from *lot* processes worldwide cover topics such as [eco-efficient energy](#), [digital tax collection](#), [access to high-impact health products](#) and [agri-food processing](#). An [lot manual and toolkit](#) are available for conducting a *lab of tomorrow* innovation process in a self-directed manner: They offer a step-by-step guide on how development partners can enable entrepreneurial actors to jointly develop SDG-oriented business models using the *lab of tomorrow* approach.





Benefits for donors (1): Sustained mobilisation of private sector capital, innovation and implementation capacity for development. The private sector brings assets that uniquely complement donor agency efforts to achieve the SDGs: capital, to help close the annual SDG finance gap of US\$2.5 trillion; innovation capabilities, to solve diverse and complex development challenges; infrastructure and capacity, to reach donors' target groups with tailored products and services; entrepreneurial skills, including agility, to respond to changing market needs; and the willingness to test new solutions and take risk. Donor agencies can only unlock this potential of the private sector if their 'offer' helps businesses to achieve their goals. Therefore, the *lot* process is designed to help pave the way to profitable business models. The key benefit for donors supporting *lot*-type processes is a realistic prospect that companies will sustain the development results created through their business in the long run.



Benefits for donors (2): Strengthening the global partnership for sustainable development (SDG 17). The *lot* process and underlying principles are firmly in line with the SDG goal of 'strengthening the global partnership for sustainable development', including the targets of public-private and multi-stakeholder partnerships that mobilise and share know-how, technology and finance for the SDGs. Indeed, projects such as the *lot* allow donors, for the first time, to create *shared value* through *partnerships at eye-level* with the private sector. New stakeholder networks persist beyond *lot* innovation sprints, and all actors enhance capabilities to partner and innovate. In strategic forms of engagement such as *lot*, donors also focus on *mobilising* private sector resources for development that would not otherwise be forthcoming: With limited options for support, many businesses shy away from investing in new business models in high-risk markets. Donors therefore provide finance, information, networks or capacity in order to help make such investments happen, and to secure their wider social, ecological or economic benefits.



Benefits for businesses (1): Accessing new markets, revenue sources and competitive advantages. There are three main drivers for companies to engage in the SDG agenda through their core business. First, the financial incentive of tapping into new markets is significant: Addressing the SDGs offers business opportunities worth US\$12 trillion until 2030 (BSDC, 2017). Pioneering innovative commercial development solutions can also help companies attract new customers and investors, secure first-mover advantages such as higher market shares and enhance capabilities to diversify their business portfolio. Beyond direct financial benefits, SDG-driven business models help firms to maintain or enhance the ecological, social or economic foundations of doing business.



Benefits for businesses (2): Enhancing chances of resilient business growth through guidance, facilitation and collaborative innovation. Developing new business models for new markets is risky. The specific tactics deployed by the *lot* approach provide a unique flexible and lean support system for business innovation which companies cannot readily access otherwise, as summarised below:

Company needs	Donor(-funded) services
Guidance in identifying market gaps	Access to local expertise and networks to narrow down development problems with commercial potential
Market and customer intelligence	Market and customer research harnessing local networks
Locally viable, customer-oriented innovations	Collaborative innovation process with business development coaches and local and international stakeholders/experts to enable access to capabilities and know-how
Day-to-day support in testing and implementing a business model	Mentoring and advice on the local business environment and facilitation of contacts to local and international partners
Seed funding, growth capital	Facilitation of linkages with investors

As a result of these services, companies can maximise the growth potential and resilience of their innovations – with transformative impact on both their business and sustainable development.