



MINISTRY OF ENTREPRENEUR
DEVELOPMENT MALAYSIA



NATIONAL FORUM ON INCLUSIVE BUSINESS: CHARTING THE PATH FOR SHARED PROSPERITY THROUGH INCLUSIVITY

Preliminary Results of the Landscape Study

3 October 2019

Mahkota Hall, SME Corp. Malaysia, Kuala Lumpur



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1. Why IB?



The big picture on why IB is so valuable

1. Malaysia **seeks more inclusive approaches** to economic growth to avoid leaving B40 further behind
2. Malaysia wants **the private sector to play a bigger role** – alongside government – to create a prosperous & economically inclusive society
3. New development plan emphasizes shared prosperity
4. IB help address inclusion challenges at a **meaningful scale** and with **commercial sustainability**.

→ Examples of IB in other countries



Why should the government be interested in IB?

Limitations of traditional approaches

Government implements → issues of quality and costs; last mile is missing

Government contracts out to private sector → often lacks innovation

NGOs and SEs are doing → lack of scale, lack of viability

Opportunities with IB – the triple win

Good for the poor:

- creates income opportunities above the market rate, and/or
- provides affordable goods and services that are relevant to improve living conditions

Good for business: creates returns, profit first but not only, reduces costs, develops new markets, engages new producers, huge unserved market, out-of-the-box solutions

Good for society and government: reduces poverty, effective & efficient alternative to government intervention, pushes private sector to be socially responsible

International examples of IB

Agrobusiness: Provide income 20-40% above market, share risk, 10,000 of farmers, highly profitable firms

- **Kennemer Foods** (PHI): cacao intercropping with coconut
- **Amru rice** (CAM): organic rice export plus guaranteeing credit
- **11 agrobusiness companies** (China-Shanxi): 15,000 new jobs each, variety of products

Urban utilities:

- **Manila Water** (PHI): affordable water for 2.8 million poor households in the slums of Manila, revenue generation through Banco ladies, 1 water meter for 5 households, social control on water wastage
- **Cemex** (MEX): architects and storage facilities in the poor areas of Mexico City

Tech edu + job placement:

- **BPO** (PHI): risk reduction innovation: bringing down transmission costs from 18% to 9%
- **J-SAT** (MYA): job placement in Japan: 50% upfront from off-taker; rest in instalments over 3 years after youth has been placed in well paid jobs (8000 per year) in JPN

FinTech:

- **BanhJi** (CAM): financial audits of mom & pop shops, linking to bank who then give collateral free loans
- **Brilla** (COL, ECU, CHI): interest free loans based on utility payments, 3.5 million customers

Results: Just 20 companies per country bring well-paid income opportunities & services to millions of people

2. What is IB?



IB definition

- A commercially viable core-business model of a private sector company that provides
 - Scaled-up
 - Innovative
 - Systemicsolutions to the relevant problems of the B40

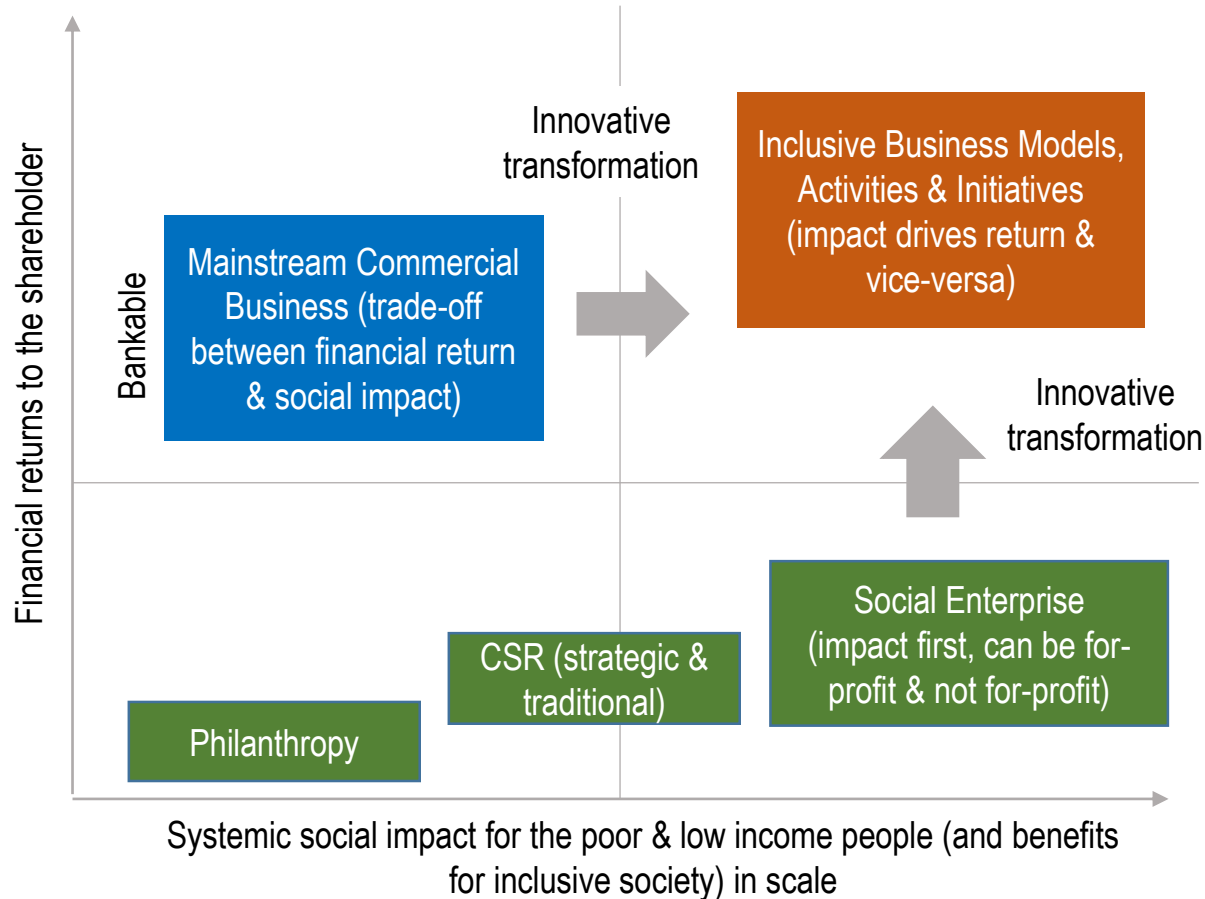
IB differs from

- **SE and CSR** → commercial viability, scale, growth, profit
- **Mainstream business** → targets solutions for the B40 (business drives impact and vice-versa)
- **Common contract farming** → better income than usual
- **Impact investing** → for B40
- **Microfinance** → included in IB but importance of innovation for social results, not just financial inclusion (access)

Impact first/only			Business designed to drive social impact and vice-versa			Bottom-line only, impact perhaps as trickle down
Philanthropy	Traditional CSR	NGO-driven social enterprise	IB initiative	IB activity	IB model	Mainstream business

IB can be made

IB is about innovative transformation of businesses



IB is about:

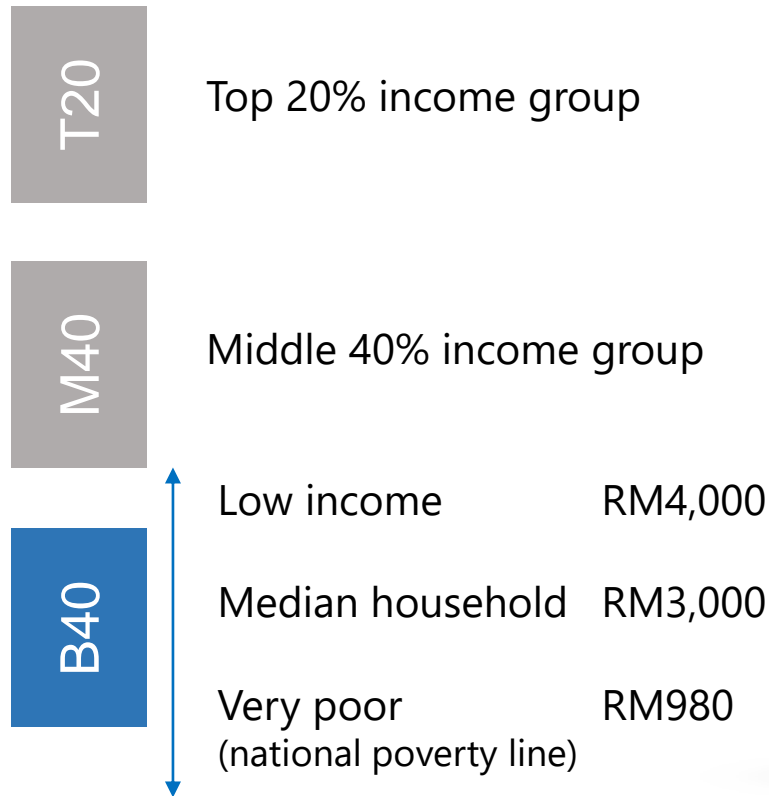
Structural transformation and

No trade-off between profit and social impact

Innovation to reduce business risk and enhance social impact

(not just doing good on a small **scale**)

IB is not about the extreme poor but about the B40



3. IB relevance for Malaysia

(IB as part of a structural transformation of the private sector)



Why IB is so valuable for Malaysia?

1. Malaysia **seeks more inclusive approaches** to economic growth to avoid leaving B40 further behind
2. Malaysia wants **the private sector to play a bigger role** – alongside government – to create a prosperous & economically inclusive society
3. New development plan emphasizes shared prosperity
4. IB help address inclusion challenges at a **meaningful scale** and with **commercial sustainability**.

Areas where IB can make a difference in Malaysia

1. In remote rural areas, problems in urban areas might be even bigger
2. Well paid jobs for B40
3. Costs and quality of social services
 - Education: B40 pay 10-20% of their income for education, enhancing teaching quality, relevance for labor market
 - Housing: large demand in smaller cities; lack of affordable housing
 - Lighting & electricity: some remote areas still have problems
4. **Undocumented stateless refugee communities** (ca. 10% of the country's permanent inhabitants) are not included in the caring society

Certain mindsets may prevent development:

- Missing thrive among businesses for engaging in new opportunities
- Government shall provide' mindset

4. How do IB lines look like in Malaysia?



The assessment methodology

- **Longlist** (suggested by experts, business associations, SME Corp., desk-research)
- **Shortlist of potential IB models** (criteria: business, social impact, innovative or traditional)
- **Company interviews** (structured interview guide)
- **IB rating** to classify real and potential IB
- **Summary of results**

IB company assessment in Malaysia (number of companies)									
	Total	IB (potential and real)					Non-IB		
		IB-M	IB-I	IB-A	IB (R)	IB (P)	MB	NGO-SE	CSR
Longlist	125								
Shortlisted	67								
Prioritised for interview	47								
Interviewed	22								
IB rated									

Notes: IB-M, IB-I, IB-A stands for inclusive business model, initiative and activity. (P) stands for potential IB. NGO-SE means grant/NGO driven social enterprise. CSR means corporate social responsibility work. IB stands for inclusive business

Potential IB examples in Malaysia

- **Agrobusiness:** BoomGrow, Nestle?, Live Green Charcoal, Langit
- **Manufacturing:** Everlasting Mus, Tanoti Craft, Suri, Komuniti
Tukang Jahit
- **Education and job placement:** JariJari, Everlasting Mus,
- **Health:** ?
- **Municipal services:** Epic Homes?
- **Energy, Transport:** SOLS, Grab Food? FoodBike ?
- **Finance:** Amanah Ikhtiar Malaysia ?
- **Tourisms:** Backyard Tour, Fuze Ecoteer, Panorama
- **Trade & Services:** 99 Speedmart? PichaEats, Biji Biji, Panorama

Assessment of real, potential and not relevant cases is on-going

Observations from the company interviews (1)

- **Very few companies** are potential IB
- **Small in revenue** (< MYR 1 million)
- **Rather small in social reach** (< 50), some bigger (2,000)
- **Agrobusiness value chain potential not much explored**
- **Very low awareness of what inclusive business is**, and of
 - Social depth and systemic transformation
 - Need for business innovation
 - Misperception among firms that by involving the B40 they are already being supported
 - Reaching B40 is an obligation (e.g. policy of financial inclusion), but often no strategic intend nor innovation

Observations from the company interviews (2)

- **Social Enterprises (SE) view**
 - Some firms are not comfortable with “profit sharing” motive (SE requirement)
 - Some firms hesitate to call themselves SE as they want to be different from mainstream business;
→ IB as category would help them.
- **High openness (& interest) to develop more inclusive business models**
→ importance of business coaching
- **Companies are not seeking subsidies or tax breaks →**
They are more interested in business coaching, recognition, public procurement to help access new markets & reduce investment risk

IB can be made (transition)

BoomGrow: from mainstream business to IB model

- Healthy food but how does it go into the mouth of the B40

PichaEats, Everlasting Mus: from SE or mainstream business to SE initiative or IB model

- How to scale for impact?

Farm Fresh Milk ? / Nestle ? / BoomGrow ?: potential from mainstream business to IB model

- How to ensure it provides to better income than others and how to scale suppliers?

Transition from small to bigger companies

Making IB does not necessary come from the market dynamics alone. It needs company commitment (strategic intend) & capability, business coaching, & perhaps also risk reduction financing. It also needs encouragement & recognition.

What do companies need to develop IB models?

Stronger IB climate and awareness

- IB as part of national strategy
- Awards and recognition
- Champion and focal points to contact for information / support

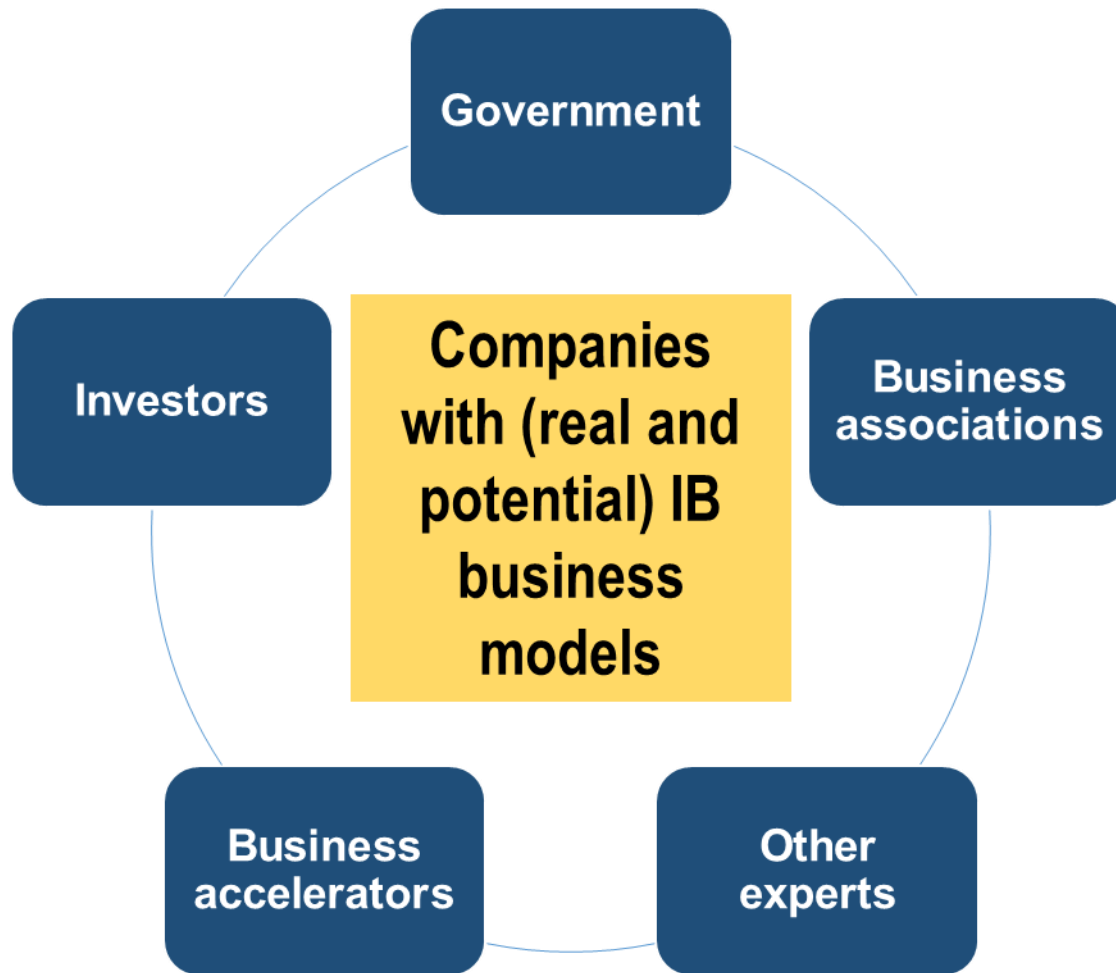
Business coaching

- Not for start-ups
- Very specific help for companies that either want to set up an inclusive business line or transform an existing business line
- Emphasize more and deeper social impact AND enhancing business return through better social impact; and relevance for B40
- Emphasize growth and returns

Risk reduction financing for investors

not grant or subsidy or tax; unleashing investments from private sector

5. The enabling environment for IB in Malaysia



Many actors are not (yet) promoting IB in Malaysia

- **Government:** has emphasised in the past caring support and SE
- **Business associations:** are representatives of companies and do not see themselves as the private sector voice for development (“what is in it for the company vs. what’s in it for society”)
- **IB companies:** not many examples
- **Impact investors:** mostly not existent, venture capital emphasise other deals, government finance institutions and funds could be mobilised to target more IB but still lack awareness
- **Facilitators and business incubators:** government programs emphasise tech start-ups and SE or mainstream SMEs; private incubators emphasise start-ups, or facilitators receiving their payment from grants
- **Development partners:** not much presence in Malaysia

IB needs a committed champion

What do potential partners say?

MED: IB is a good complement to SE agenda, we support IB as strategic focus for 12th plan

MaGIC: Link SE to IB; interest in upscaling SE, involvement in accreditation (joint SME Corp + MaGIC)

AIM: Appreciate specific IB link to innovation; impact investment (payment for outcome) for SE is not easy → scale into IB is needed

MEA: Can support IB as strategic focus for 12th plan

MIDA: include IB in existing incentives for less developed areas

MDTCA , MRD, MWFCF: general interest

MoA: IB is very relevant for new type of agribusiness; we can target IB in existing programs, want to get involved in accreditation

Business associations (SMEAM, NCCIM, MAAE, NAWEM):

- not easy to find good examples,
- Interested to get involved in accreditation
- Interested in advocating the concept & doing outreach

Sabah/Sarawak: relevant for remote areas, lets try in tourism and agribusiness

Investors: are cautious

- SME Bank: risk reduction is a good approach; SJFF
- Investment funds: MAFCAP, FELDA, Equinas, Khazhana
- Impact investors do not exist in Malaysia
- Approach impact investors from abroad, once the country has a clear strategy

Companies

- Scaling SE
- Find IB concept very interesting and want to get out of SE jacket

IB champion should

- Have strong and effective private sector development policies, promoting innovation and social development
- Have programs where IB can be linked to (e.g. business coaching, awareness raising, financing, registration, accreditation)
- Can coordinate among various gov. agencies & with private sector
- Has a committed leadership to champion IB
- Briefing and theoretical buy in of others is not enough; more concerted efforts (real action plan) are needed to get buy in and support from government organisations

Social enterprises are not sufficient to address needs of the B40

- **Strong social enterprise movement since 2016**
- **However, need and potential to increase scale of impact and focus on B40**
- **Support mechanisms under MaGIC**
 - Current SE registration allows for tax incentives for donations top SE; it may be too strict and benefits are not much for SE.
 - Tax incentive is for donations in SE → does not fully encourage commercial viability
 - SE registration requires profit to re/invest.
 - In consequence, not so many commercially driven companies are interested in being registered as SE because of profit and reputational reasons.
 - Coaching and training / boot camps for start/ups mostly
 - Funding of at least MYR 20 million since 2014
- **Reforms required:**
 - Traditional SE definition (profit to be reinvested) reduces interest of business people
 - SE to scale up business and social impact and to become more commercially oriented
 - To go beyond reach: depth, systemic transformation., innovation
 - Encourage SEs to move from NGO-driven SE or tech start-ups to IB initiative

SE registration and proposed MaGIC participation in IB accreditation

- **MAGIC has a registration system** for social enterprises, which it would be meaningful for IB, if it could also:
 - Include social depth
 - Not restrict the use of profit
 - Set targets for “reach” (high-medium-low)
 - Assess business lines rather than whole company
- **MaGIC participation in accreditation of IB** would be very useful
 - MaGIC being part of the steering committee for IB accreditation
 - Establishing a separate accreditation for Inclusive Business (in addition to that for social enterprises under MaGIC)

Malaysia can introduce IB as a complementary approach to scale up social impact of private sector

An IB champion should ...

- Have strong and effective private sector development policies, promoting innovation and social development
- Have programs where IB can be linked to (e.g. business coaching, awareness raising, financing, registration, accreditation)
- Be able to coordinate among various government agencies and with the private sector
- Have a committed leadership to champion IB of different sizes (small, medium and large)
- Be able to develop and follow up on concerted efforts (real action plan) from government organisations and private sector representatives (briefing and theoretical buy in of others is not enough)

6. Recommendations for promoting IB

6 key strategic recommendations for promoting IB in Malaysia

1. IB in strategy
2. Institutionalise champions
3. Dissemination and outreach
4. IB accreditation
5. Business coaching and impact assessment
6. Financial incentives

Plus 3 additional support proposals

7. Explore public procurement
8. Conduct coherent IB reporting
9. Carefully consider tax incentives

Details of recommendations

01

IB included as one of the initiatives under Strategic Thrust 3: Promoting Holistic and Integrated Entrepreneurship Development of National Entrepreneurship Policy (DKN 2030) and proposed to be included under the 12 Malaysia Plan

02

Appoint IB focal points in critical Govt. and private organisations; Establish a Steering Committee for promoting IB; Establish an IB unit at the lead agency in Malaysia

03

Develop communication materials on IB; Promote IB in events in conjunction with business associations' event; Establish an award for IB

Details of recommendations

04

Establish a transparent accreditation system targeted at IB

05

Establish (and fund) a business coaching & impact assessment facility; Clarify access criteria and promote to companies through business associations; Create list of possible IB business coaches & impact assessment experts

06

Risk reduction facility → best option, linked to investment guarantee and result-based financing for investors; Incentives for interest grace period longer repayment cycle, Tax incentives; Credit lines

7. Any questions, comments?



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8. Additional information



IB not CSR and not SE

3 distinct IB approaches: IB models, IB activities, Social enterprise initiatives

	Traditional CSR	NGO-driven social enterprise	Inclusive Business			Mainstream Business
			IB Activity	IB Initiative	IB Model	
Type of company investing	Large	Micro + Small	Large	Small+ Medium	Medium+ Large	Micro, Small, Medium, Large
Commercial viability, returns						Tiny to high
Scale of investment & revenue	Tiny	Tiny	Small	Small	Medium to High	
Viability	Not intended	Perhaps intended	Low	High	High	
Bankability	Not intended	Low-high but limited	Medium to high			
Profitability	Loss making	Not intended	Low-medium	Medium	High	
Social impact						Not intended
Reach	Small	Small	Small but pilot for large	Medium	Large	
Depth	Low	Low-high but limited	Medium to high			
Systemic change	Not intended	Low	Medium to high			
Innovation	Not intended	Not intended	Intended to reduce investment risks and risks of the poor			Sometimes intended, mostly not

IB goes beyond SME and does not include micro enterprises

for information

SME Definition and Statistics in Malaysia										
company size		annual sales/revenue		employees (no)	no of companies		value addition per employee (2005 census, MLR)	% of GDP	employment	IB
		million MLR	million USD (IB discussion)							
large	manufacture	> 50 million	> \$10 million	> 200	13,813	1.5%	104,879	63.4%	34.7%	IB-M, IB-A
	services	> 20 million		> 75						
medium	manufacture	15-50 million	\$3-\$10 million	75-200	20,612	2.2%	76,911			IB-M
	services	3-20 million		30-75						
small	manufacture	0.3-15 million	\$0.2-\$3 million	5-75	192,783	20.9%	48,528			IB-I
	services	0.3-3 million		5-30						
micro	manufacture	<0.3 million	not IB	<5	693,670	75.3%	38,162			not IB
	services									
Total	SME as % of total	65.3% of all SME employment is in low-			920,878	98.5%	163,601	36.5%	65.3%	only few
total SME	of which services	value services			907,065	99.1%	50,419			

Household Income and Basic Amenities Survey, Oct 2017

for information

Big income differences

- Median: B40 = MYR 3000, M40 = 6,275, T20; all = MYR 5288
- huge geographical difference of median monthly income:
 - Kuala Lumpur = MYR 9072, Sarawak = MYR 4163, Sabah = MYR 4110, Kelantan = 3079, Malaysia MYR 5822 ,
 - Rural = MYR 3471, urban = MYR 5860, B40 rural = MYR 1969

Access to services on average very good: water = 95.5%, electricity 99.9%, waste collection = 60.4%, house ownership = 76.3%, poor in terms of cash, but not starving → income models are crucial, but social services also

Income differences by region					
Sarawak and Sabah					
<1000	1001-2000	2001-4000	B40	M40	T20
25%	15%	25%	65%	25%	20%
Kuala Lumpur					
<2000	2001-3000	3001-5000	B40	M40	T20
5%	5%	30%	40%	40%	20%

Source: Statistical Office (Oct 2017): Household Income and Basic Amenity Survey

Government's approach to private sector needs to transform – what businesses say

for information

- “ Government intervention is crowding-out private sector investment “
- “ Incentives for private sector have too long duration “
- “ Government is conscious of votes and programs do not end “
- “ Too much government intervention diminishes culture of innovation
- “ Too much government spending for operations expenditures, not enough for performance oriented development “
- “ Centralisation of government is limiting public innovation at the state level “
- “ Industry 4.0 needs to be made relevant for B40 “

*for
information*

SME Corp & MaGIC cooperation on IB/SE accreditation

Synergies between SE accreditation by MaGIC with proposed IB accreditation		
	SE through MaGIC	IB accreditation
purpose of the company/business	social or environmental goal	business drives social impact and vice-versa (focus on social solutions for B40)
tool	inclusion criteria (3 criteria)	composite rating (28 criteria)
involved / done by	MaGIC only	jointly done by: SME Corp, MaGIC, MoA, MoRD, MEA business associations (federation, SME, youth, women)
accreditation criteria	51% of workforce from benef. Group	business
	35% of business costs / raw material to/from benef. group	social
	51% of profit for social mission	innovation
commercial	profit back to business, financial sustainability (what does it mean?)	revenue, growth, profit margin (1-40%), bankability, governance, ES safeguards
social	reach only	reach, depth, sydetermic transformation
innovation	none	business, technology, social, environmental
application process		
	step 1: voluntary, questionnaire	step 1: voluntary, questionnaire
	step 2: MaGIC assessment	step 2: detailed assessment
	step 3: audit the impact?	step 3: joint IB rating)
	step 4: SE accreditation plus; MoF endorsement for tax status (3 years)	step 4: formal accreditation, award, notification, dissemination
		step 5: if company wants incentives: IB agreement
		step 6: incentives only per compliance with IB agreement
basis of the assessment	whole SE	IB business line only
types of incentives	branding	branding (after step 4) business coaching (after step 4)
	tax incentives for donors	tax incentives for company (after step 6)
	direct grant funding in the business	risk reduction facility encouraging private sector funding (impact investors) (after step 5)
	by social for procuremernt (BUY)	public procurement ? (after step 5) awards, showcasing on website (after step 4,5,6)
purpose of incentives	finance operations of social enterprises	encourage investments from the private sector
	SE concept excludes major part of business in Malaysia, has less ownership among business community, and is not a private sector driven	IB concept includes scaling and growing SE as IB-Initiative
issues:	SE are small in impact, and have issues with commercial viability, do not scale, accreditation drives social activity not business --> need for PART B	not yet established as a concept in Malaysia
objective		creating synergies and cooperation

Results of the company analysis

for information

Summary of the company assessment																							
	IB type				venue of impact		B40 engagement model					company size			results				IB rating (average)				
	IB-M	IB-I	IB-A	potential	transmission		supplier	laborer	distributor	consumer	shareholder	small	medium	large	revenue (MYR million)		social reach (number of B40 people) (1)		overall	commercial	social	innovation	
					income	services									2,018.0	2,023.0	2,018	2,023					
agrobusiness																							
industry and crafts																							
health, education, social protection																							
urban services																							
economic infrastructure (energy, transport)																							
tourism																							
Fintech, trade, other services																							
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0	0	0.00	0.00	0.00	0.00	

Notes: (1) assuming 4.1 persons per household.

Source: company assessment (ongoing)



Recommended institutional setup: Government and private sector work jointly to move IB forward

for information

- Steering committee as advisory body with multiple stakeholders
 - Chaired by MED, co-chaired by business association
 - Composed by:
 - Government agencies: MaGIC, MoA, MEA, SJPP/ MoF, MIDA/ MITI?
 - Private sector: NCCIM, SMEAM, MAAE, NAWEM /
- SME Corp. as secretariat and champion for IB promotion
- Business coaching and accreditation rating done by professional consultants
- Accreditation done jointly by government and private sector organisations

How to undertake IB accreditation?

for information

IB Rating system (summary)					
company name (product/sector)	IB type (please mark): IB-M / IB-I / IB-A, NGO-SE, MB				
	weight	company achievement, comments	sector benchmark	rate (1-6)	score (weight x rate)
The commercial return	41%				
the company	11%				
the IB business line	25%				
ESG safeguard standards	5%				
the social impact of IB model	46%				
reach	17%				
depth and relevance	15%				
systemic change for poverty	14%				
Innovation	13%				
business	4%				
technological	3%				
social (labor standards, CSR, ...)	3%				
environment	3%				
Total	100%				
commercial (business + tech innovation)					
social (social return + social innovation)					
innovation					

To qualify as an IB business lines, companies must achieve at the same, (a) an IB overall rating > 3.2 (of 6.0 maximum), (b) an IB commercial rating > 1.5 (of 2.1 maximum), (c) an IB social impact rating > 2.0 (of 2.92), and (d) an IB innovation and transformation rating > 0.35 (of 0.71).

Principles of IB accreditation

1. Composite rating tool (no exclusion criteria except bad governance and violation of social and environmental safeguard standards)
2. Jointly done by government and business association (share responsibilities)
3. Based on voluntary request by companies
4. Professionally assessed by third party
5. Easy to do, not many per year, only twice a year
6. Result in branding (awards, IB seal), and incentives (business coaching, funding, tax reduction, prioritisation in public procurement)

- Based on business model (**ex ante**) of the new investment
- For relevant IB **business line** only
- Ex-ante business → incentives only for for new investment
- We expect 20-50 proposals per year maximum
- Can be linked to social enterprise accreditation
- **Incentives only** after checking: year 0 = accreditation, year 1-3 granting incentives

How would risk reduction fund work?

for information

Rationale

- IB are innovative, and therefore have perceived risks among investors
- Potential investors would invest if some of the risk (not total) is reduced

Tools

1. Guarantee (5-10% of second loss risk)
2. Co-investment for risk (musharaka)
 - 5-10% of total investment, but maybe 20-30%% of phase 1
 - If results achieved → investor has to pay back
 - If results are not achieved → grant to investor/company

Time frame and action plan

for information

Landscape Study:

- Finalised by Dec. 2019
- IB company survey through BAs

IB in strategy

- SME and EDS: done
- Entrepreneur council: within 2019
- 12th plan
- Implementation and action plan: March 2020?

Other events with IB focus:

- MaGIC (30 Oct-2 Nov'19)
- 2nd ASEAN IB Forum Bangkok, 1 Nov'19
- SME Corp E50 award (June 2020)
- Events of business associations ?
- Others ?

Accreditation:

- 1st seminar on 3 October 2019
- System established by Feb 2020
- Funding for 2020-2022?
- First Award by II/III 2020 (as part of E50 award)

Business coaching

- Funding for 2020-2020

Finance and Incentives

- Conduct studies in 2020
- Institutionalize it in 2020

Other work: study on procurement (mid-2020)