BUSINESS AND POVERTY

Opening markets to the poor
The devastating impact of rising energy and food prices on the world’s poor has sparked alarm about this group’s vulnerability as global markets shift, often suddenly and deeply. The burdens of poverty, already heavy, become crushing as family incomes fail to cover basic needs for food and shelter. For a growing number of development thinkers and innovative entrepreneurs, ending this poverty—and the vulnerability that goes with it—is best approached by focusing on the potential of the poor as the world’s largest market of producers, workers and consumers.

This issue of Development Outreach focuses on this market, made up of those living at the “base of the economic pyramid” (BoP), that is, the four billion people with incomes below $3,000 per year in local purchasing power. Its contributors outline, in 13 articles that cover a wide range of case studies, market-based approaches to reducing poverty.

While this BoP group lives in relative or absolute poverty, it constitutes about two-thirds of the world’s people and a market of $5 trillion. Forward-looking companies are reaching out to this group, providing both products and opportunities that benefit the poor, as well as their own bottom lines. By investing in sustainable development now, businesses are building markets that will grow from today’s promise to flourish in the future.

Companies that focus on the BoP market make a concerted effort to include the poor in their business strategies. They go beyond philanthropy and traditional concepts of corporate social responsibility, to invest in the poor as producers and consumers. The case studies in these pages show how they operate profitably in what is still the frontier of the mainstream market economy, while enhancing the well-being of the poor by nurturing them as productive consumers.

Business and Poverty: Opening Markets to the Poor coincides with a new Executive Development Program offered by the World Bank Institute, “Inclusive and Sustainable Business: Creating Markets with the Poor.” Offered in Washington for the first time in June, the course provides guidance and tools to business executives and public sector leaders seeking to enable businesses to engage the BoP group.

Christopher Neal
EXECUTIVE EDITOR
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Opening markets to the poor
IN RECENT YEARS, business has played a significant role in alleviating poverty, especially in sectors such as telecommunications, information technology, and microfinance. Certain initiatives in these sectors, such as microfinance in urban Latin America and wireless telecommunication in Asia, have yielded impressive results, creating unrealistic benchmarks against which other corporate programs are being judged. Although businesses have made significant contributions in some sectors, in many others they have been unable to "move the needle" on poverty.¹

It can be argued that the private sector may have contributed to broadening the gap between the rich and the poor and to environmental degradation, but business has also helped improve the quality of life in many low-income areas.² There have been quiet but strong links among economic growth, innovation, and development. This article is not intended to defend once again the fundamental economic rationale for capitalism and its potential role in alleviating poverty. Rather it is meant to bolster that premise with current examples and practices and to urge businesses to adopt a more proactive role in the
development of markets that benefit the poor. Our perspective is that a company’s responsibility is not only to increase its investors’ wealth, but also to help create wealth for the 4 billion or so people at the Base-of-the-Pyramid (BoP) who make do with incomes of less than $5 per day, as characterized in the article on the Next Four Billion.

Poverty is an economic, social, cultural, political, and moral phenomenon and we believe it is necessary to address these dimensions in an integrated fashion—one that contributes to sustainable global development. Nestlé’s Milk District Model illustrates this approach. By providing opportunities for training, education, and a steady income to poor rural farmers in exchange for a consistent milk supply, Nestlé effectively integrated poverty alleviation into a business model that was mutually beneficial: the company has been able to increase its supply of fresh milk and poor communities have benefited from job security, improved nutrition, and a better standard of living.

There are many ways in which business can help in opening markets to the poor, ranging from multinational corporations (MNCs) and local small and medium enterprises (SMEs) to corporate foundations, business alliances, and small entrepreneurs from both developed and emerging economies.

Business models that engage the poor

NEW BUSINESS MODELS have focused mainly on cost structure, innovative distribution methods, and logistics, and have ignored the need to develop market institutions. Productive corporate engagement at the BoP will require an in-depth understanding of the meaning of “market based solutions;” clarification of the types of markets (informal vs. organized markets); and understanding how companies can connect factor and product markets to help create job opportunities.

Companies, particularly large ones, can have a much greater impact on the BoP by contributing to the creation of more efficient markets and by complementing market institutions, rather than just selling products to the poor. In less developed countries, poverty alleviation should be approached primarily through wealth creation, including access to jobs, healthcare, education, and vocational training, even before providing access to consumable goods and services that improve the quality of life of the poor. Of course, wealth creation and consumption are complementary, but there is a hierarchy.

In building wealth, business models need to include mechanisms to deal with the following challenges:
- Increasing the productivity and real income of the poor.
- Enhancing job creation opportunities through direct employment or self employment, supported by products and services that boost productivity.
- Moving away from the “traditional consumers” concept to the concept of “productive consumers.” (Developing self-esteem and dignity among consumers can be achieved both by creating conditions for employment and by paying decent salaries.)

How businesses address these issues depends on many factors, such as industry structure, company vision, size, location and ownership structure. The lessons learned from company experiences can serve as building blocks in achieving innovative, sustainable, and scalable solutions.

Companies such as Nestlé, Unilever and CEMEX have shown that through innovative business solutions they can both operate profitably within a given (underdeveloped) institutional framework, and simultaneously directly facilitate the development and strengthening of market institutions. Unilever’s experience with the “Shakti Revolution” in India illustrates that helping to empower underprivileged rural women by fostering entrepreneurship and creating income opportunities can be more important than sales alone, since it encourages the growth of a sustainable consumer base.

Building a BoP business culture

TO BETTER ENGAGE THE POOR, business needs to understand their values, aspirations, and the contributions they can make to value creation for themselves and others. Only limited efforts have been made to change the sometimes deep-seated assumptions that business leaders make about the poor, assumptions that are partly caused by a wide cultural and socioeconomic divide and a lack of direct interaction.

Incorporating poverty alleviation into corporate strategy always requires internal change in companies, and sometimes even redefining organizational values and cultures. These changes may include developing an entrepreneurial spirit for, a clear vision of, and a readiness to support new and risky BoP ventures. Not only is it necessary to capture the attention of corporate executives and senior managers, but an effort must be made to explicitly connect business growth and profitability with BOP markets. As the case of Sumimoto Chemical illustrates, consistent corporate backing for BOP ventures can lead employees to identify innovative market based solutions. In Sumimoto Chemical’s case, that solution came in the form of an insecticide infused mosquito net to protect vulnerable African populations against Malaria. The company’s management philosophy, known as the “Sumimoto Spirit,” aims to “generate profit not only for the company but also for society,” and has helped motivate their employees to reach the BoP. Similarly, the multinational cement producer CEMEX chose to put an interdisciplinary team of its own employees on the ground in Mexico to better understand the social and home-building practices of low-income communities, and used that knowledge to develop a successful product line of housing just for the poor. Unilever’s commitment to improving the lives and livelihoods of the poor in India is driven by the recognition that “the health of business is inextricably linked with the health of society.”

It is also important to understand the complementarities between philanthropy, corporate social responsibility (CSR), and service to the poor, as these approaches cannot be easily separated. Some CSR initiatives have recently been criticized as mere token philanthropic attempts to address the needs of the poor. But if companies allowed themselves to engage only in activities where business goals and poverty alleviation were
perfectly aligned, there would likely be fewer activities at the BoP. CSR activities have the advantage of providing a forum for businesses to learn about the needs of the poor.

ZMQ, a small to medium sized Indian software company, has combined its philanthropic commitment (12 percent of its profits) with its core competencies in developing ICT learning tools for social development in order to sponsor and create products and tools to bridge the digital divide. In one such venture, the company funded the development of a technology package to build the capacity of grassroots women in using livelihood-generating technologies. The Global Alliance for Improved Nutrition (GAIN) has formed a Business Alliance to explore the space between philanthropy and strategic private sector interest by developing new business models to fortify food with necessary vitamins and minerals and making it available and affordable to the poor. Large companies, such as Abbott Laboratories, often utilize their corporate foundations to explore the complementarities between philanthropy and CSR. Abbott Fund, in partnership with the Government of Tanzania, is engaged in a major project that is modernizing the country’s health system. By improving hospitals’ physical infrastructure, training programs and working conditions, and utilizing the latest IT, the partners are expanding access to quality HIV/AIDS testing and health care for the poor.

Market capacity building

In developing countries, companies often need to deal with weak institutions or a lack of formal market mechanisms. In Unilever’s business expansion in India, the company had to work around many infrastructure and institutional challenges, such as poor transport links and high rates of illiteracy.

In this context, it is crucial for business to address certain questions:

- To what extent do “organized or well-developed markets” capture the costs and benefits of the poor?
- What access do the poor have to these markets?
- Why do the poor pay more for the same or similar goods and services than the rich?
- How can level playing fields that provide equal opportunities for the poor be created?

These are important questions, because although informal markets can facilitate commerce, they can also engender abuse, create huge income inequality and exploitation, and become a barrier to entry and growth. Examples in this issue of Development Outreach illustrate how companies like Nestléd, CEMEX, Unilever, and Sumimoto have overcome the barriers of the informal economy and the lack of institutional and physical infrastructure, and ultimately helped the poor integrate into the official economy. Unilever developed a new business model to engage local entrepreneurs to set up direct-to-consumer retail operations, with training from the company and support from self-help groups or microfinance banks. In 2007, Project Shakti estimated that 46,000 entrepreneurs (mainly female) had reached more than three million rural Indian households.

- The role of Multinational Corporations (MNCs)

It is difficult to gauge how many of the 63,000 MNCs are ready and willing to incorporate poverty alleviation issues into their business strategies. While the relatively small role of MNC’s in creating local employment has been well documented, their real contribution may be in setting performance benchmarks in developing markets. These would become the benchmarks that most local businesses would have to meet in order to gain legitimacy and trust in the communities in which they function.

MNCs need to recognize what they do well and what they do poorly in BoP markets. Large companies are typically good at integrating the poor into the global production system and facilitating market transactions for increased productivity as part of their supply chain, but not necessarily at creating jobs through direct employment. But MNCs do have the power to shape institutional environments to be more supportive of job creation, and build partnerships with government, NGOs, international financial institutions (IFIs), and donor agencies. For example, the International Finance Corporation (IFC), the private sector arm of the World Bank Group, has been successfully working with the private sector to engage local businesses in the global supply chain, as illustrated in the articles on its Lighting Africa project and partnership with BP in Azerbaijan.

The role of local companies

Productive engagement with the poor requires new business models that take into consideration both access to local knowledge and issues of trust. Business objectives should go beyond lowering the cost of doing business at the BoP and improving access to customer groups. They should also aim to build legitimacy and good will by tapping into local knowledge and leveraging social capital as a means of gaining access to market intelligence and building legitimacy in the eyes of the poor. Local companies can normally do this better than (and complement) MNCs. Of course, it is difficult to generalize, as some MNCs, such as Nestle and Unilever, have been present in many emerging economies for decades. Similarly, CEMEX has been very successful in launching an innovative housing program for low-income communities. Partnership initiatives, such as GAIN and UNICA, create space for collaborative action. The GAIN Business Alliance allows both MNCs and local companies to learn from each other, share results, and partner with development organizations. The Brazilian Sugar and Ethanol Industry Association, UNICA, jointly with the World Bank Institute, launched a capacity development program for sugar producing companies from Sao Paulo, which helps individual companies to incorporate social and environmental issues into their corporate strategy and contribute to community development.

Local companies are often best positioned to provide goods and services to the poor while at the same time helping MNCs to expand their business at the BoP. For example, the key to
Sumimoto Chemical’s success has been its partnership with a local Tanzanian company A to Z Textile Mills, which resulted in technology transfer, quality improvement, and creation of local employment for the poor who had no previous experience in manufacturing and wage-based jobs. India’s ICICI Bank initiative is based on the assumption that economically viable occupations already exist in most regions of India, and that with proper support even the very poor can almost immediately engage in them without specialized skill building. The key, they have found, is providing access to finance, which ICICI created through creative partnerships between banks and a network of local financial institutions.

Measuring impact

TO FULLY ASSESS EFFECTIVENESS, it is important to capture economic, social, cultural, and environmental impacts. Measures of success should not be limited to output and profitability indicators but should also take into account issues of equity and the balance between corporate, legal, and social obligations. It is essential to measure social values from the poor’s perspective, and to understand what is important for them in terms of quality of life, empowerment, and security. Transparency and accountability must also be part of the initiative since corruption hurts the poor the most. Companies like Unilever, CEMEX and Nestlé, through direct engagement with the poor, reduce the risk of corruption that affects the poor in their daily business transactions when operating in informal markets.

We also need to capture positive and negative cross-sectoral effects as well as improvements in market institutions. There is a growing need for companies, development organizations, and academia to create new models that capture the development multiplier effect. In Nestlé’s engagement with poor rural farmers in China, for example, the local banking system benefited when the company provided its new suppliers with cash payments, leading to a new customer base for banks in previously low-income areas.

Action agenda for the future

TO MEET THE NEEDS of 4 billion people is a daunting challenge that can only be met by taking successful models to scale. We need to look not only within existing markets, but also among countries and continents, to find solutions that “travel well”, particularly between developing countries. Companies can play an important role in transporting best practices across borders, as the ZMQ and DEFTA Partners examples illustrate for countries in Asia and from Asia to Africa.

Effective poverty alleviation requires collective action by MNCs, local companies, governments, IFIs, and NGOs. Building successful partnerships is highly complex and requires clarification of roles, responsibilities, and incentive structures. Who is in a position to change the rules of engagement with the poor? How can corporate gaming be prevented to avoid increasing poverty and environmental degradation, particularly when institutions are weak? Where does the value-creating potential lie within various stakeholder groups? How do we best organize initiatives and provide incentives to collaborate in developing more comprehensive and innovative models of engagement? And what are the most innovative ways of complementing the efforts of government, multilateral development banks, and development agencies?

To be sustainable, business initiatives need to be owned and informed by the developing country stakeholders themselves. The issues are global but most of the solutions are local. New mindsets and open dialogue with local entrepreneurs are prerequisites for collective action. The DEFTA Partners example clearly illustrates that partnership between entrepreneurs from both developed and emerging economies can play a critical role in creating innovative development solutions. DEFTA Partners, in collaboration with BRAC, a local development organization based in Bangladesh, are investing in improving the country’s communication infrastructure, thus providing access to millions of poor people.

We hope that the examples presented in this issue will be used to help local beneficiaries define the challenges, set their own agendas, and successfully implement the best possible solutions.

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Endnotes

The Next 4 Billion
Characterizing BoP Markets

BY ALLEN L. HAMMOND, WILLIAM J. KRAMER, ROBERT S. KATZ, JULIA T. TRAN, AND COURTLAND WALKER

THIS STUDY USES EMPIRICAL MEASURES to describe the behavior of low-income populations as consumers and producers. In aggregate, their purchasing power suggests significant market opportunities. By quantifying this market and describing its characteristics, we hope to stimulate business development and investment that can better meet the needs of these populations, as well as increase their productivity and incomes and empower their entry into the formal economy.

The 4 billion people at the base of the economic pyramid (BoP)—all those with incomes below $3,000 in local purchasing power—live in relative poverty. Their incomes in current U.S. dollars are less than $3.35 a day in Brazil, $2.11 in China, $1.89 in Ghana, and $1.56 in India. Yet together they have substantial purchasing power: the BoP constitutes a $5 trillion global consumer market.

The wealthier mid-market population segment, the 1.4 billion people with per capita incomes between $3,000 and $10,000, represents a $12.5 trillion market globally. This market is largely urban, already relatively well served, and extremely competitive.

In contrast, BoP markets are often rural—especially in rapidly growing Asia—very poorly served, dominated by the informal economy, and, as a result, relatively inefficient and uncompetitive. Yet these markets represent a substantial share of the world's population. Data from national household surveys in 110 countries show that the BoP makes up 72 percent of the 5.575 million people recorded by the surveys and an overwhelming majority of the population in Africa, Asia, Eastern Europe, and Latin America and the Caribbean—home to nearly all the BoP.
A BoP PORTRAIT
living at the BoP

The BoP is characterized not only by low income—below $3,000 per capita per year—but also by several other shared characteristics:

SIGNIFICANT UNMET NEEDS
Most of those in the BoP have no bank account or access to modern financial services—if they borrow, it is typically from the local moneylenders at very high interest rates. Most do not own a phone. Many live in informal settlements and have no formal title to their dwelling. And many lack access to water and sanitation services.

DEPENDENCE ON INFORMAL OR SUBSISTENCE LIVELIHOODS
Most of those in the BoP are poorly integrated into the formal economy, which limits their economic opportunities. As producers, they often lack good access to markets to sell their labor, handicrafts, or surplus crops and have no choice but to sell local employers or to middlemen who exploit them. As subsistence and small-scale farmers and fishermen, they are uniquely vulnerable to destruction of the natural resources they depend on but are powerless to protect. In effect, informality and subsistence are poverty traps.

IMPACTED BY A BOP PENALTY
Many of those in the BoP, and perhaps most, pay higher prices for basic goods and services than do wealthier consumers—either in cash or in the effort they must expend to obtain them—and they often receive lower quality as well. For some services BoP consumers lack access altogether. The high cost of being poor is widely shared: it is not just the very poor who must walk long distances for water or firewood, or who often pay more for the transportation to reach a distant hospital or clinic than for the treatment, or who face exorbitant fees for loans or for transfers from relatives abroad.

Analysis of the survey data—the latest available on incomes, expenditures, and access to services—shows marked differences across countries in the composition of these BoP markets. Some, like Nigeria’s, are concentrated in the lowest income segments of the BoP; others, like those in Ukraine, are concentrated in the upper income segments. Regional differences are also apparent. Rural areas dominate most BoP markets in Africa and Asia; urban areas dominate most in Eastern Europe and Latin America. Striking patterns also emerge in spending. Not surprisingly, food dominates BoP household budgets. As incomes rise, however, the share spent on food declines, while the share for housing remains relatively constant—and the shares for transportation and telecommunications grow rapidly. In all regions half of BoP household spending on health goes to pharmaceuticals. And in all except Eastern Europe the lower income segments of the BoP depend mainly on firewood as a cooking fuel, the higher segments on propane or other modern fuels.

A BoP portrait

THE DEVELOPMENT COMMUNITY has tended to focus on meeting the needs of the poorest of the poor—the 1 billion people with incomes below $1 a day in local purchasing power. But a much larger segment of the low income population—the 4 billion people of the BoP, all with incomes well below any Western poverty line—both deserves attention and is the appropriate focus of a market-oriented approach.

The starting point for this argument is not the BoP’s poverty. Instead, it is the fact that BoP population segments for the most part are not integrated into the global market economy and do not benefit from it. They also share other characteristics:

Addressing the unmet needs of the BoP is essential to raising welfare, productivity, and income—to enabling BoP households to find their own route out of poverty. Engaging the
BoP in the formal economy must be a critical part of any wealth-generating and inclusive growth strategy. And eliminating BoP penalties will increase effective income for the BoP. Moreover, to the extent that unmet needs, informality traps, and BoP penalties arise from inefficient or monopolistic markets or lack of attention and investment, addressing these barriers may also create significant market opportunities for businesses.

Perhaps most important, it is the entire BoP and not just the very poor who constitute the low-income market—and it is the entire market that must be analyzed and addressed for private sector strategies to be effective, even if there are segments of that market for which market-based solutions are not available or not sufficient.

Characterizing BoP markets

TOTAL ANNUAL household income of $5 trillion a year establishes the BoP as a potentially important global market. Within that market are significant regional and national variations in size, population structure, income distribution, and other characteristics.

Spending patterns

POPULATION structure by itself is not a reliable guide to market composition. Accordingly, this analysis also examines BoP spending patterns by country, sector, and income level. This analysis is based on a World Bank initiative—the International Comparison Program—to standardize the expenditures reported by national household surveys into defined categories.

BoP characterized by sector markets

SECTOR MARKETS for the 4 billion BoP consumers range widely in size. Some are relatively small, such as water ($20 billion) and information and communication technology (ICT) ($51 billion as measured, but probably twice that now as a result of rapid growth). Some are medium scale, such as health ($158 billion), transportation ($179 billion), housing ($332 billion), and energy ($433 billion). And some are truly large, such as food ($2,895 billion).

Evidence of BoP penalties emerges in several sectors. Wealthier mid-market households are seven times as likely as BoP households to have access to piped water. Some 24 percent of BoP households lack access to electricity, while only 1 percent of mid-market households do. Rural BoP households have significantly lower ICT spending and are significantly less likely to own a phone than rural mid-market households or even urban BoP households—consistent with the broad lack of access to ICT services in rural areas.

BoP market analysis

A KEY ISSUE IN UNDERSTANDING BoP markets is informality. The International Labour Organization estimates that more than 70 percent of the workforce in developing countries operates in the informal or underground economy, suggesting that most BoP livelihoods come from self-employment or from work in enterprises that are not legally organized businesses. This informal economy is a significant fraction of the size of the formal economy. According to a detailed study by economist Friedrich Schneider, the informal economy averages 30 percent of official GDP in Asia, 40 percent in Eastern Europe, and 43 percent in both Africa and Latin America and the Caribbean. Informality is a trap for the assets and the growth potential of micro and small businesses and those who work in them.

These results together suggest that a significant part of BoP income comes from activities and sources that are only indirectly reflected in national economic statistics. Household surveys, in contrast, usually seek to capture all sources of income or total expenditures. Reporting of income may not be precise, but in this report the

Source: World Resources Institute

THE NEXT 4 BILLION continued on page 26
Creating Shared Value through Basic Business Strategy

BY NIELS CHRISTIANSEN

FOUNDED IN 1866, and the world's largest milk company since the early 1900s, Nestlé has improved the quality of life for local partners and constituents in developing countries, decreased malnutrition within emerging markets, and contributed to economic development in these countries around the world. Through its 650 agronomists and 3,000 direct buyers, it provides free technical advice and 25 million dollars of micro credit to over 600,000 farmers. Nestlé built its long-term strategy around its commitment to "health and wellness" whereby it supplied milk products in developing countries while providing training in improved milk production, crop and feed management, hygienic practices, and free breeding assistance. As evidenced in Latin America as early as the 1920s, local farmers embraced the education, training, and commitment from a well-established company who, in return, provided steady income, resulting in an extremely strong brand name. Outside research has shown that no global company matches Nestlé in terms of the public rating of the company in social responsibility, in the developing world as well as globally.

By launching initiatives to ameliorate poverty and nutrition concerns in emerging markets at an early point in the...
According to Nestle's technical director of global dairy operations, Nestle valued the steady income provided by the company which was where opportunity was scarce. More specifically, Nestle entered areas prepared to train the locals, provide long-term jobs, guarantee wages, and develop a quality end-product. According to Nestle's technical director of global dairy operations, "It is always the most remote area that is the poorest and less developed. So bringing a milk collection center to an area like that is a blessing for the village, and starts the whole economic development of the place." By identifying the regions with the greatest need for assistance, Nestle fostered a mutually symbiotic relationship with partner countries. Farmers valued the steady income provided by the company which was used to increase their standard of living while Nestle valued the long-term commitment and steady supply of milk provided by local farmers.

As a result, Nestle's initiatives in developing milk districts were a first step towards social responsibility and poverty reduction. Nestle has since been distinguished for its ability to capitalize on its socially conscious behavior. As Michael Porter and Mark Kramer recognize, "If...corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed—it can be a source of opportunity, innovation, and competitive advantage." Nestle integrated its corporate objectives into one model that was responsive to poverty alleviation and malnutrition while simultaneously attaining its corporate strategic long-term revenue and profit goals.

Improved standard of living

Job Creation

A VITAL ASPECT of Nestle's long-term strategy involved economic development and job security. By the end of 2004, Nestle assisted nearly 500,000 dairy farmers supplying Nestle factories directly. Of the 500K, 130K farmers were in Pakistan, 70K in India, 30K in China, 12K in Morocco, 2K in Uzbekistan, 9K in Sri Lanka, 3.5K in Peru, and 3.5K in Panama. Mostly all the dairy farmers were small-scale producers of milk. More specifically, small-scale producers (producing less than 50 liters/day) contributed to 33 percent of Nestle's fresh milk supply in a given year, while large-scale producers (producing more than 4,000 liters/day) supplied less than 15 percent of the yearly milk supply.

As consumption of dairy products increased annually, opportunity for farmers expanded and job security became less of a concern.

Higher disposable income

Nestle's milk districts generated higher incomes for farmers and the community at large. On average, these milk districts were growing by 2-5 percent annually with some of the districts growing as much as 10 percent. In most regions, over 90 percent of the total cost of milk delivered at the factory was paid to farmers. As consumption of milk products and sales increased dramatically in most emerging markets, farmers were doubling their output and increasing their disposable income. For example, in China, milk sales per farmer had increased by 30 percent from 2002-2005, as a result, farmers earned on average $300/month, 12x the national average farm income in that country.

Nestle's business model demonstrated that providing ongoing cash flow to rural areas through private funding and sponsorship improved family living conditions, provided consistent education to children, and cultivated stronger livelihoods. Hans Joehn, Nestle's corporate head of Agriculture, confirmed that "normally one dollar flowing back to a rural area gives another three or four dollars to the local economy."
Health and wellness

THE MILK DISTRICT MODEL did not only result in higher income for farmers, but, the district’s rigid criteria played an important role in consumer health and nutrition by providing energy, protein, calcium, and other essential vitamins. An improved state of health among local residents also had a positive impact on poverty reduction.

Milk product consumption increased dramatically in most emerging markets, averaging a 2 percent increase per year. The increased consumption of healthier dairy products resulted in lower death rates and an overall improved state of health.

Prospective growth and sustainability

NESTLÉ’S EARLY PRESENCE in emerging markets gave it a first-mover advantage against its competition. Nestlé created partnerships with local dairy producers as well as farmers, which prevented competition from successfully producing milk products in the same regions. By 2005, Nestlé had sales of $68 billion, with 500 factories in 83 countries and 247,000 employees around the world.

Nestlé’s extensive global network provided the assurance of product development. Additionally, Nestlé’s commitment to education, training, and regulation guaranteed the ongoing quality assurance of its milk products.

Ultimately, prospective growth and sustainability will be determined by the company’s ability to produce milk products at the same pace as products are consumed. A potential bottleneck that many districts face is the continuous availability of cows and fresh milk. As a result, the price of cows has started to increase significantly. The availability of herds in the future will be a direct determinant of the company’s ongoing success.

Scalability and global application

NESTLÉ’S MANAGEMENT TEAM contemplates whether its success within the dairy industry can be adapted to other food systems. In the late 1990s, Nestlé diversified its business into other ventures such as cosmetics, pharmaceuticals, bottled water, pet food, and ice cream. Diversification in product type has helped balance Nestlé’s current activities and helped counter rising oil prices as well as unstable political and economic conditions.

Long-term challenge: Water scarcity and limitations on food production

A contemporary hurdle that has the potential to impede Nestlé’s success in curtailing poverty and advancing nutritional concerns is the growing crisis in water availability in many parts of the world, and the growing gap between supply and demand for basic commodities, including milk.

This can be attributed to over extraction of water in agriculture (though aggressive pumping) which is not being replaced, water pollution, wastage of water at many levels, and global warming.

For this reason, Nestlé has become a strong advocate for water preservation and proper management. It was a founding member of the United Nations Global Compact Water mandate, and has taken significant actions to reduce its own consumption of water. While increasing its food and beverage production in the last 9 years by 76 percent and at the same time reduced its water consumption by 28 percent.

To guard against the negative impact of green gas emissions on global warming, Nestlé has reduced its greenhouse gas emissions by 17 percent in the last 4 years.

While these environmental constraints can have a limiting impact of food companies, Nestlé has a very long-term approach to planning and is better able than most to take precautionary measures which cushion the impact of environmental factors.

Nestlé is also protected by negative occurrences in individual countries due to its superior global presence. It has been rated number one by Barron’s magazine for global strength and is present in virtually every country around the world, with about 500 factories in over 100 countries. With about 1 billion customers daily choosing Nestlé products, it is at the same time operating in a very competitive environment, where consumers can readily choose alternatives.

The Nestlé strategy of Creating Shared Value is one of the factors that have led to its brand strength globally, as well as a philosophy of long-term development which raises people out of poverty while creating a cadre of loyal supplies and consumers.

Niels Christiansen is Director of Public Affairs, Nestlé S.A.

Endnotes


The Shakti Revolution

How the world’s largest home-to-home operation is changing lives and stimulating economic activity in rural India

BY GAVIN NEATH AND VIJAY SHARMA

ROJAMMA is a single mother with two daughters living in Kurumurthy, a small rural village 150 kilometres south west of Hyderabad in Andhra Pradesh. Until five years ago she scraped an existence by working in her mother’s field, earning barely enough to live on herself, let alone bring up two children. Then her life changed beyond recognition. Today she earns around 650 rupees (US$16) a month, is widely recognized and respected in her community, and has become a role model for other women wanting to raise themselves out of poverty. What changed was a visit to her village by a representative from Hindustan Unilever and her decision to become a Project Shakti entrepreneur.

Hindustan Unilever, the Indian arm of global consumer goods company Unilever, is one of India’s leading businesses, with an annual turnover of US$2.3 billion and a history in India stretching back a hundred years. It markets such well-known international brands as Lipton, Lifebuoy, Surf, Vim and Pond’s, as well as local brands, such as Kissan, Annapurna, Lakme and Wheel.

Unilever has always held the firm belief that the private sector can contribute to social development by creating win-win solutions to social challenges through innovative strategies that meet both business and social objectives. It was this philosophy that prompted Hindustan Unilever to create Project Shakti, a unique micro-enterprise initiative that is both a catalyst for rural wealth creation and a successful business operation.

Meeting the challenge

ROJAMMA’S PLOIGHT before she became a Shakti entrepreneur is no different from that of hundreds of millions of others trapped in the vicious cycle of poverty. (See Figure 1) The micro-finance revolution has resulted in eight million Indians receiving micro-credit, 95 percent of whom are women, and three in four recipients crossing the poverty line.

i-Shakti provides villagers with access to computers that are housed in the homes of Shakti entrepreneurs.
While there is only enough micro-finance available to meet one tenth of the demand, micro-credit will only work over the longer term if there are scaleable and sustainable opportunities for micro-enterprise.

For decades Hindustan Unilever has held a leading position in most of the product categories in which it operates, with half its sales in India’s 5,000 towns and the other half in villages with populations of 2,000 or more. As the Indian economy opened up in the 1990s and competition increased, the company realized that to grow its business, it had to seek sales from the 550,000 villages with under 2,000 inhabitants, which account for 87 percent of the population. This was easier said than done.

The challenge of reaching these villages was immense. Poor or non-existent transport links made it impractical to set up a conventional retail distribution network and, although their collective purchasing power is considerable, most villagers are unable to afford to spend more than a few rupees on products. If that wasn’t challenge enough, most rural villages in India are inaccessible through conventional broadcast media and widespread illiteracy renders press advertising ineffective as a communications medium.

The Shakti solution

WHAT WAS NEEDED was a totally new type of business model. Hindustan Unilever’s solution, called Project Shakti (“strength” in Sanskrit), was as innovative as it was ambitious. The company decided to set up a direct-to-consumer retail operation by creating a network of entrepreneurs to sell its products door-to-door, and to produce a range of affordable products in small sizes to meet the needs and pockets of low-income consumers. These are mostly single-use sachets selling for as little as 50 paise (half a rupee) each.

The company decided to tap into the growing number of women’s self-help groups in India by making presentations at rural group gatherings, initially in Andhra Pradesh. At these meetings, disadvantaged women, including Rojamma, are identified and invited to become Shakti entrepreneurs. Considerable investment is then made in training and coaching these women from extremely poor backgrounds to become highly competent and confident business operators.

Each Shakti entrepreneur invests US$220 in stock at the outset—usually borrowing from self-help groups or micro-finance banks—and aims to have around 500 customers, mainly drawn from her village and from smaller villages nearby. Most generate monthly sales of around US$225, netting a monthly average income of US$16. After paying a few dollars a month for the loan, she is left with about $150 annually. With an average rural household income of $250, this represents a substantial increase for most families. For single mothers like Rojamma, it is a far cry from the handful of rupees she used to earn working in her mother’s field.

Shakti Vani (“Voice”) takes Project Shakti a stage further. Hindustan Unilever trains local women to give talks to villagers about basic health practices, such as good hygiene, disease prevention and pre- and post-natal care, using visual aids to overcome widespread literacy. Over the last two years Shakti Vani has raised health and hygiene awareness in over 50,000 villages.

The third Shakti component, being piloted in Andhra Pradesh, is an IT initiative called i-Shakti that is designed to meet villagers’ information needs and provide both private and public sector organizations with communications access to “media dark” areas. Village “kiosks” containing internet-linked computers, mostly housed in the homes of Shakti entrepreneurs, provide free and interactive information on a wide range of topics, including health, agriculture, education, finance, employment, and entertainment. All content is voice-enabled so that illiterate people can use it.

The economic and social impact

PROJECT SHAKTI has proved to be a great success for women in India and for Hindustan Unilever. Launched in 2000, by late 2007 some 46,000 Shakti entrepreneurs had been appointed and trained, covering 100,000 villages in 15 states and reaching over three million households in rural India. This makes it the world’s largest sustained home-to-home retail operation.

Already a multi-million dollar business, by 2010 it will represent a significant share of Hindustan Unilever’s overall

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**FIGURE 1: BREAKING THE POVERTY CYCLE**

- Micro-credit + Micro-enterprise opportunity
  - LOW INCOME
  - LOW INVESTMENTS
  - LOW SAVINGS

**INDIA’S POPULATION DISTRIBUTION**

<table>
<thead>
<tr>
<th>POPULATION</th>
<th>NUMBER OF VILLAGES</th>
<th>% OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 200</td>
<td>114,267</td>
<td>17.9%</td>
</tr>
<tr>
<td>200-499</td>
<td>155,123</td>
<td>24.3%</td>
</tr>
<tr>
<td>500-999</td>
<td>159,400</td>
<td>25.0%</td>
</tr>
<tr>
<td>1,000-1,999</td>
<td>125,758</td>
<td>18.7%</td>
</tr>
<tr>
<td>2,000-4,999</td>
<td>69,135</td>
<td>10.8%</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>11,618</td>
<td>1.8%</td>
</tr>
<tr>
<td>10,000 and above</td>
<td>3,064</td>
<td>0.5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>638,365</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Unilever
business and generate an annual combined income for Shakti entrepreneurs of over $25 million a year.

While the financial benefits are easy to measure, Shakti’s social impacts are harder to quantify. For the thousands of women like Rojamma who have become Shakti entrepreneurs, this initiative has changed their lives in ways that are much more profound than the income they earn selling soaps and shampoos. It has brought them self-esteem, a sense of empowerment and a place in society.

A recent independent study showed that Shakti women are more confident about socializing, more likely to take lead roles in public activities, and enjoy higher recognition and social status among local people. As Rojamma herself says: “Today everyone knows me. I am someone now.”

Lessons learned

**SO WHAT LESSONS CAN BE LEARNED?** Firstly, that for a project like Shakti to be scalable and sustainable it has to be commercial and profitable. This is not a corporate social responsibility program. It is a business initiative with social benefits.

Secondly, developing a business model like Shakti is not for the faint-hearted or short-sighted. It took us a long time and considerable refinement to get it right. This required unswerving senior-level commitment and considerable patience and persistence, not traits quoted companies are always noted for. Hindustan Unilever was willing to accept lower rates of return in the short-term because it was prepared to take a long view.

Thirdly, selecting the right person to become a Shakti entrepreneur was key. We learned from experience that it had to be someone for whom earning $16 a month fundamentally changed her life, rather than made life a little easier. This means that the majority of our entrepreneurs are women from families living below the poverty line. This brings its own set of challenges. It is difficult for women on low-incomes to visit the homes of those who are better off, while the caste system adds an extra layer of complexity. This meant teaching a lot of “soft” skills, such as confidence-building, as well as “hard” skills, such as selling and book-keeping.

Finally, we could not have achieved what we have without strong support from over 300 partners, including NGOs, banks and both state and local government. While many recognize the potential for economic growth through encouraging women to become entrepreneurs and are keen to partner, not all government departments and NGOs are yet comfortable about working with the private sector, and convincing them sometimes proved a challenge.

**Future plans**

HINDUSTAN UNILEVER intends to keep developing Project Shakti until it achieves its target of reaching 500,000 villages through 100,000 entrepreneurs and 600 million consumers by 2010.

Project Shakti has the potential to make an even more fundamental contribution to improving the wealth and quality of life of India’s rural poor. Shakti entrepreneurs, Shakti Vanis and i-Shakti together represent a huge inter-connected network and a major communications channel, opening up a huge flow of information and education to vast tracts of rural India. We are continually exploring ways in which Shakti can create an even bigger impact on health and hygiene and take both business and social development to the next level. We are currently talking to several potential partners, including our Lifebuoy soap brand, about creating a comprehensive health program to reduce the huge numbers of children who die every year in India from diarrheal disease, many of whose lives could be saved through hand washing with soap and water.

Shakti Vani already runs an extensive hygiene education program with Lifebuoy to create awareness about the importance of hand washing with soap. We are now looking at how Project Shakti could link together the many development agencies, health ministries, pharmaceutical companies and technical experts that deliver curative as well as preventative programs to tackle this dreadful disease. With the ambitious goal of “no child dying from diarrhea in a Shakti village,” we hope to co-create a partnership model that demonstrates what can be achieved if all actors in society apply their skills and capabilities to a task that is clearly defined and potentially achievable.
Future challenges

Now that the Shakti Network is well-established, it can be opened up to other stakeholders, including government agencies and other private sector firms. The partnerships we have developed so far to build the network have worked on the basis of mutual trust and mutual benefit. The real test will come when the network is used by many more organizations and we have no illusions about how challenging this will prove.

It will mean public sector partners having to recognize that companies involved in social development work also need to meet business objectives and make profits if their participation is to be sustainable and scalable. Similarly, private sector partners will have to appreciate that government bodies have strong political constituencies to answer to, as well as social development objectives.

Whatever the primary purpose and objectives of each partner, whether developmental or commercial, creating convergence between different activities is the key to progress. A big part of the solution to development lies in working together and using infrastructure, whether developed by the public or private sector, for the benefit of all.

Conclusion

While Unilever is intent on building its sales and market share in rural India, it is equally committed to improving the lives and livelihoods of people in India. What this project has shown is that so much more can be achieved by looking at social and commercial challenges through the same lens, rather than seeing them as distinct and separate activities.

Project Shakti’s role in creating incomes for rural women and helping to empower them is more important than sales alone. The health of our business is inextricably linked with the health of society. In the end it is in all our interests, whatever our motives, for people to have access to a better quality of life and more opportunities for personal development. For Rojamma it has not only transformed her standard of living and sense of self-worth, it has also allowed her to educate her daughters, giving them the chance in life she didn’t have.

Gavin Neath is Senior Vice-President, Corporate Responsibility, Unilever.
Vijay Sharma is the former head of Shakti, Hindustan Unilever.

For more details about Project Shakti please contact Manu Sood at Hindustan Unilever in India on 00 91 9999 021777 or at: manu.sood@unilever.com
Social Issue-Oriented BoP
Business and Japanese Companies

Case Study: Sumitomo Chemical’s Olyset Nets
Instilling the “Sumitomo Spirit”

BY MARI KOGISO, MIA MATSUO AND TOKUTARO HIRAMOTO

The Sumitomo Group requires all of its member companies and business operations to work under a business management philosophy called the "Sumitomo Spirit," which aims to generate profits not only for the company, but also for society. One of Sumitomo Chemical Co., Ltd.’s businesses involves the production of insecticide-treated mosquito nets.

All employees—from the management and technical staff to those at Group companies—have lobbied international aid organizations in promotion of the Olyset Nets project, convinced that the mosquito net could become an indispensable tool in the prevention of malaria outbreaks.

From 1993 to 2001, the staff of Sumitomo and its Group companies worked tirelessly through trial and error to develop the modern Olyset Nets, which are certified by the World Health Organization (WHO) as Long-Lasting Insecticidal Nets.
The prototype insect-resistant net was originally developed to prevent insects from penetrating the manufacturing processes at factories. Since the nets needed to be durable for use in factory environments, polyethylene was used instead of polyester, making the original nets high-quality but very costly to produce. Initially, demand for the product was not strong, so Sumitomo developed a technology to treat the polyethylene resins used on the netting material with an insect-expelling agent, eventually leading to the development of the current Olyset Nets.

Despite this, the Olyset Net business did not generate the intended results in terms of profitability, and efforts made by the marketing staff at Group companies in Africa gave disappointing results, as only small numbers of the product were sold. Despite this initial setback, Sumitomo continued to promote the business, convinced that it would become successful at some point in the future. This situation continued until the product was officially certified in 2001 by the WHO as having long-lasting insecticidal effects, which contributed to the present success of the product.

The development of Olyset Nets—designing the optimal approach for users with critical needs

The success of the Olyset Net business is due mostly to the nets' high quality and easy-to-handle form, especially among households with small children in developing countries. The creation of the product would not have been possible without the long term support from the company’s corporate philosophy, which enables it to allocate a fixed ratio of its sales profits on investments in research and development.

Sumitomo’s Olyset Net turned out to be a product capable of solving the problems associated with conventional mosquito nets since the insecticidal efficacy of the chemical agents

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### TABLE 1: OVERVIEW OF OLYSET NET BUSINESS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TECHNOLOGY</th>
<th>PRODUCTION</th>
<th>SALES</th>
<th>OTHERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>Approval by WHO as &quot;Long-Lasting Insecticidal Nets (LLN)&quot;</td>
<td>Established 1st Project team with Acumen Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>Production start in Changzhou, China</td>
<td>Sales start in Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>Licensing to A to Z Textile Mills Ltd. and production start in Tanzania</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>Olyset Net wins Time’s &quot;Most Amazing Invention&quot;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>Production start in Dalian, China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Olyset Net wins &quot;USA Tech Museum Awards&quot;</td>
<td>Production start in Vietnam</td>
<td>Provided 30 million Olyset Nets from 2003 to 2006</td>
<td>Build elementary school facilities and start education support programs</td>
</tr>
<tr>
<td>2007</td>
<td>Established Vector Health International Ltd. And production start</td>
<td></td>
<td>Olyset Net wins &quot;Asahi Corporate Citizenship Award&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sumitomo Group

### TABLE 2: OLYSET NET MANUFACTURING SCALE

<table>
<thead>
<tr>
<th>WORLDWIDE</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity of production (million nets/year)</td>
<td>500</td>
<td>1250</td>
<td>1800</td>
<td>3100</td>
</tr>
<tr>
<td>Employees in Olyset production</td>
<td>1300</td>
<td>3400</td>
<td>4300</td>
<td>6800</td>
</tr>
<tr>
<td>Employment creation (per million nets)</td>
<td>260</td>
<td>272</td>
<td>239</td>
<td>219</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AFRICA</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity of production (million nets/year)</td>
<td>100</td>
<td>400</td>
<td>400</td>
<td>800</td>
</tr>
<tr>
<td>Employees in Olyset production</td>
<td>350</td>
<td>1200</td>
<td>1200</td>
<td>2400</td>
</tr>
<tr>
<td>Employment creation (per million nets)</td>
<td>350</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: Sumitomo Group

### TABLE 3: OLYSET NET MANUFACTURING SCALE IN AFRICA

<table>
<thead>
<tr>
<th>Million nets/year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>400</td>
<td>850</td>
<td>1400</td>
<td>2300</td>
</tr>
<tr>
<td>Other Countries</td>
<td>100</td>
<td>400</td>
<td>400</td>
<td>800</td>
</tr>
</tbody>
</table>

Source: Sumitomo Group
applied to polyethylene resins in the net was guaranteed to last five years, and the insecticidal properties were also unaffected by washing. Furthermore, the use of polyethylene makes the mesh of the net resistant to stretching and tearing. With a large-sized mesh, the net breathes well, a characteristic suitable for houses built in tropical areas prone to malarial outbreaks.

Establishing joint ventures with local companies with support from governmental organizations: Quality control and the introduction of technology

**SUMITOMO’S OLYSET NET** venture has been supported by a business environment where a private-sector company can receive financial support from government organizations when launching new business in developing countries. The Olyset Net business represents a successful case of collaboration between the public sector—the party in charge of supporting fund-raising, and the private sector—the party in charge of the project’s actual business operations. Such collaborations have allowed Sumitomo to succeed in fostering local companies which can potentially take charge of the manufacturing process within the BoP market.

Sumitomo licensed its own manufacturing expertise for Olyset Nets to a local company, A to Z Textile Mills Ltd. (A to Z) in Tanzania at no charge, which led to the start of local production. According to the WHO, annual demand for LLIN amounts to 60 million to 80 million nets. To meet this demand, Sumitomo arranged loans for US$5.8 million from the Japan Bank for International Cooperation (JBIC) to finance the initial for a joint venture, Vector Health International Ltd. (VHI), with A to Z. VHI initiated production in January 2007 with an annual output capacity of 4 million nets, and the company plans to double annual production to 8 million nets in the future. Sumitomo has emphasized its commitment to completely infusing its technology into VHI.

This manufacturing process is labor-intensive, contributing to local employment with a total of 1,200 workers. Sumitomo does not intend to secure profits by collecting licensing fees for this technology, but gives priority to expanding local production by providing education and training to local production staff. In order to help local staff acquire know-how about Olyset Nets, Sumitomo has sent its own engineers to Tanzania. At the factory, the Japanese engineers are educating local employees in production management, quality control, and worker safety. This investment in employee education is a huge effort, particularly because Sumitomo had to begin the business from scratch, a situation radically different from cases where factories are built in areas where companies can take charge of the manufacturing processes which already exist.

Sumitomo decided that it was important to dispatch its engineers to the Tanzanian company and to train local workers in production technology, control of the manufacturing process, and quality control. Technological transfer usually involves less transfer costs on the side of the party that is doing the transfer, but it is quite difficult to fully transfer its quality control know-how in the manufacturing process to the recipient company. For example, at Olyset Nets, if a hole is left in a mosquito net due to an error in the sewing, mosquitoes can penetrate the net. In view of these kinds of potential risks, educating and training local workers sufficiently in order to fully introduce the relevant technology into the manufacturing company is vital, even if it entails additional costs. In the Base of the Pyramid (BoP) market, a business is required to develop not only potential consumers but also potential producers when undertaking this kind of BoP business.

The Olyset Net business and socially-oriented BoP business

**OLYSET NETS TECHNOLOGY** has directly contributed to the prevention of malaria in developing countries, and profits earned through the business have been re-invested into a plan to expand local production bases, while technological introduction has been instrumental in boosting local production capacity. This has all led to increased employment. In addition, Sumitomo Chemical and the Sumitomo Group have used a part of the profits from the Olyset Nets business to finance the establishment of elementary schools in local areas. These activities are capable of nurturing potential producers and consumers on a long-term basis.

Social BoP and Japanese business customs are compatible

**AS THE SUMITOMO EXPERIENCE** demonstrates, Japanese companies are in a good position to engage in "social issue-oriented BoP business" (social BoP), which is the ability of business to contribute to solving poverty and other social issues in a gradual manner by offering products and services to BoP households, while maintaining respect for their values. Japanese companies possess three major characteristics inherently suited to this type of social BoP business:

- the ability to conduct long-term corporate management,
- the ability to make continuing and long-term investments in research and development, and
- the ability to receive support from governmental organizations and agencies.

Long-term corporate management is closely associated with Japanese business culture and the nature of Japanese stock and financial markets, which still allow Japanese companies to conduct business with a long-term view. Although the number of shareholders who are vocal about their opinions has increased in Japan and shareholder demands have become more transparent, the relative number of shareholders focused primarily on pursuing short-term profit is still lower than in the United States and Europe, making it easier for corporate managers to conduct business with a long-term vision. Under the leadership of managers with long-term views and prospects, Japanese companies are able to engage in social BoP business, working to
resolve immediate social issues while time seeking to reap prof-
its from their efforts in the future.

The ability to make continuing investments in research and
development reflects the inclination of Japanese companies to
maintain funding for technological investments, even in diffi-
cult business climates. The ratio of research-related spending
in Japan in terms of its gross domestic product (GDP) has been
the highest among major industrial countries since the late
1980s. (White Paper on Science and Technology, 2007). Research-
related spending by the private sector accounts for about 80
percent of all such spending in Japan, which is higher than the
ratio of this area of private-sector spending in other developed
countries, suggesting that Japanese businesses are inclined to
continue to invest in research and development activities even
under difficult business conditions.

Japanese companies can receive financial support from
governmental organizations when launching new businesses
in developing countries—making it possible for companies to
use funds in a manner that suits the business terms of each
project. Such financial support is often through overseas
investment loans by the Japan Bank for International
Cooperation, whose lending scheme enables Japanese com-
panies with an eye on investing in new businesses overseas to
utilize low-interest loans on a long-term basis. It also allows
them to utilize funds for investment in social BoP business
projects that are expected to take a significant period of time
to bear profit, since it is relatively easy for them to overcome
the initial difficulty of raising funds for such businesses.

Challenges to companies engaged in
BoP business

IN ORDER TO REALIZE continued success in social BoP busi-
ness, Japanese companies need to address two major issues.
The first challenge is the need to strengthen their networks
with international organizations, nonprofit organizations
(NPOs), and nongovernmental organizations (NGOs). As a
rule, Japanese companies’ networks with international organi-
sations, NPOs, and NGOs are not strong. Companies need to
reinforce their networks with these organizations in order to
promote social BoP. In the case of Sumitomo, its Olyset Nets
business in Tanzania is being efficiently implemented as a
result of the company’s deepening networks with an interna-
tional organization. Sumitomo has also recognized that an
important challenge for the company in further expanding its
business is to increase its contact with customers, and natu-
really it is considering how to best reinforce networks with
international organizations, NPOs, and NGOs.

Japanese companies also need middle managers to widen
their management perspective through better in-house coop-
eration and avoiding organizational sectionalism. Managers
should deepen their understanding about relations between
relevant divisions from the viewpoint of corporate manage-
ment. For example, when a company tries to form a partner-
ship with an NGO, its department in charge of corporate social
responsibility (CSR) becomes the party most likely to negoti-
Lighting Africa

Lighting lives and livelihoods through market transformation

BY KATIA THERIAULT, LINDSAY MADEIRA AND PATRICK AVATO

The problem

VIEWED FROM SPACE, Africa emerges as looming in an impenetrable shadow, the portrait of a continent cast in darkness. NASA's satellite image reveals the sheer magnitude of a problem that affects an estimated 1.6 billion people, representing 1/3 of the global population. The problem is particularly acute in Africa, where more than 90 percent of the rural population and 74 percent of the total population live outside grid connectivity. Consequently, the 500 million "energy poor" are reliant on traditional forms of energy to meet their lighting needs, dominated by fuel-based sources such as kerosene, a costly and inefficient alternative that consumes 10-15 percent of annual household income. For the poorest families, the significantly high expenditures on kerosene for meeting their lighting needs affects their ability to pay for other day-to-day necessities, such as children's education, family health care and nutrition, etc. Exacerbating this problem, fuel-based lighting also produces greenhouse gases (GHGs), leads to increased indoor air pollution and associated health risks, inhibits productivity and jeopardizes human safety.

The opportunity

AFRICAN PEOPLE can neither afford to wait for electrification access rates to rise to the level of other world regions nor continue relying on expensive, inefficient, and unsafe fuel-based

Students using LED lighting at home in Accra, Ghana.
products to meet their lighting needs. Fortunately, new evidence suggests that solving Africa's lighting issues may be more achievable than ever before, largely the result of recent advances in modern lighting technologies, such as improved, efficient products like CFLs (compact fluorescent lamps) and LEDs (light-emitting diodes), coupled with new findings revealing that Africans may be willing and able to pay as much for modern lighting technologies as they are already paying for kerosene and other inefficient sources. At the same time, an increased focus by international donors on promoting energy access in Africa, for example through the World Bank and the International Finance Corporation (IFC)'s Clean Energy and Investment Framework and the Africa Energy Action Plan, provided an opportunity to develop innovative and clean energy solutions for off-grid populations of Africa.

Recognizing the opportunity at hand, supported by growing interest from the international lighting industry looking to move into new growth markets, The Lighting Africa program was conceived in 2007. Opting for a market-based approach, Lighting Africa was designed to support the private sector innovate and deliver off-grid lighting products and solutions to Africa, in turn aiming to accelerate access to non-fossil fuel-based, low cost, safe, clean and reliable off-grid lighting products with associated basic energy services, with the ambitious goal of reaching as many as 250 million people in Sub-Saharan Africa by the year 2030.

Engaging global and local private sector

The prospect of increased revenues through the African off-grid lighting market, the potential of substantive social and environmental impact in Africa, and Lighting Africa's commitment to support the industry in growing this new market area, continue to persuade global and local entrepreneurs to follow its lead. But surely, one is entitled to ask whether those 1.6 billion people lacking access to lighting really represent a promising market? The argument is exceedingly con-

- vincing: at a time when oil was $50/barrel, research indicated that approximately US$38 billion/yr was spent globally on lighting, $17 billion of which was spent in Africa alone, in a commercially viable, functioning market. For African entrepreneurs, this represents a much welcomed new opportunity to increase wealth and, concurrently, improve standards of living. It also means new partnerships with stakeholders across the global lighting industry supply chain, and for many African business developers, a first chance to step into the international business arena, and at the same time, foster economic development in their own continent.

But despite the promise of this unique opportunity, global and local entrepreneurs who are interested in this market find themselves ensnared by the inevitable hurdles and perceived uncertainties that accompany the development of a market as undiscovered and undefined as this one. The barriers they have identified are many, including a lack of information about consumer needs, product preferences, and affordability or willingness to pay; the first cost barriers associated with new product development and market entry; policy impediments such as kerosene subsidization and tariffs on imported products (such as CFLs and LEDs); absence of institutional mechanisms which would facilitate the identification of suitable partners for product sale and delivery; product standards and quality assurance; and legal concerns like protecting intellectual property rights. To help solve these and other issues, Lighting Africa has started working with global lighting companies, local private sector service providers and distributors, NGOs, and the domestic financing industry (including microfinance organizations) to develop appropriate and viable business models for delivering modern, clean and safe non-fuel based off-grid lighting solutions. The project focuses predominantly on reducing market entry costs, providing information about African markets and consumers, and developing an enabling institutional and regulatory framework.

Lighting Africa's commitment to support the private sector is carried out through various initiatives, including:

Market research

Lighting Africa is helping entrepreneurs gain a better understanding of the African consumer, providing answers to questions like, "What does the African market look like? What kinds of products do African's want? What technologies do they prefer? What are they currently spending on lighting? How do products get from manufacturer to market successfully? What modes of communication reach the African consumer most effectively and how might one market a new product in a way that attracts consumer attention?" To answer these and many other questions, Lighting Africa is sending teams of researchers to conduct surveys in households and small businesses beginning in five countries- Tanzania, Zambia, Ethiopia, Kenya, and Ghana- to gather critical insid-
er information to share with the industry. This component of the project will determine the key parameters essential to an effective market transformation.

Business to business web portal
Aimed at exposing the African off-grid market opportunity to the global industry, facilitating the exchange of market and consumer knowledge and information, and promoting business partnerships between global and local actors of the African off-grid lighting supply chain, Lighting Africa has developed an interactive business to business web portal. Navigating through one of its most popular features—a dynamic business opportunities forum which allows entrepreneurs to post and receive business leads—the Lighting Africa Web Portal has become a Mecca of online social networking activity, which has so far attracted over 1200 entrepreneurs, investors, and other stakeholders interested in pursuing new investments and establishing partnerships across the supply chain to deliver their products and services.

The Development Marketplace Grant Competition
The Development Marketplace Grant competition is a competitive grant program which plans to award up to $200,000 each to about 15 to 20 finalists for presenting the most innovative and viable ideas for designing, developing, and delivering modern off-grid lighting products and services to Sub-Saharan Africa. Based on the premise that a sustainable market is one that grows the local economy, the competition required that each project team include a partner organization based and operating in Africa. 400 proposals from 54 countries, including 38 African countries, were received in the first round, creating an extremely competitive applicant pool. Of the 54 finalists in the current second stage of the competition, about 15 to 20 winners (of the grants) will be selected and announced after final proposals have been presented to an international panel of jurors during the Lighting Africa 2008 Global Business Conference, to be held May 6-8, 2008 in Accra Ghana.

Bringing together global players from the lighting industry, international and domestic financial institutions, private developers, government agencies, non-governmental organizations, and international and bilateral development agencies, this event is, unequivocally, a defining moment for all who are interested in shaping the off-grid lighting market in Africa. The first of its kind, Lighting Africa 2008 will give participants the unique opportunity to connect with global entrepreneurs from around the world, gain key insights and exchange knowledge, view the latest technological innovations, and meet the people whose lives will be transformed by their efforts.

Quality assurance
To shield African consumers from poor-performing lighting products and avoid market spoilage for the industry,

Lighting Africa is conducting a wide range of activities to enhance consumer awareness and boost confidence in new lighting products and services. These activities range from the testing of solar lanterns in the market against existing quality standards, to the development of specifications for LED-based lanterns and to the development of a product quality assurance strategy, in collaboration with the industry.

Mainstreaming carbon finance benefits
Fuel–based lighting produces carbon dioxide, a major contributor to GHG emissions. For instance, a kerosene lantern used for 4 hours per day is estimated to release more than 100 kg of carbon dioxide into the atmosphere over the course of a year. With the objective of reducing GHG emissions and, at the same time, enhancing the financial viability of modern off-grid lighting projects (e.g. by offsetting the relatively high first costs) which substitute fuel-based lighting, Lighting Africa is helping develop both project- and program-based methodologies for the Clean Development Mechanism (CDM) and voluntary carbon markets.

Expected outcomes for Africans
It is easy to forget the considerable impact modern lighting has in our lives; many may even wonder how lighting relates to social, environmental and economic development. In fact, modern lighting services change how we live in more ways than one, allowing us to expand productive time, improve living and working conditions, and enhance safety and security. Similarly, modern off-grid lighting can improve lifestyle and create new opportunities for Africa’s poor, for example:

- Extending the working day for small and medium enterprises (SMEs), thus increasing production, expanding income opportunities, improving working conditions, and increasing customers.
Developing the Local Supply Chain for the Contract of the Century

BY IBRAHIM ISMAYILOV, SAMIR TAGHIYEV, OLGA GODUNOVA AND FARZIN MIRMOTAHARI

Background

IN 1994 THE MULTINATIONAL energy company BP, together with a group of other oil companies, signed a production sharing agreement with the government of Azerbaijan to develop the country’s oil and gas wealth. This agreement was officially called the Azeri- Chirag-Guneshli (ACG) oil development and Baku-Tbili-Ceyhan (BTC) oil pipeline projects, but was widely referred to as the “Contract of the Century.” It offered Azerbaijan, an independent country following the collapse of the Soviet Union in 1991, the opportunity to use its natural resources to improve the lives of its people and ameliorate widespread poverty. The International Finance Corporation (IFC) was one of the leading financiers of this project.

During the late 1980s and early 1990s, Azerbaijan had endure the collapse of the Soviet Union, economic disintegration, and a devastating war with neighboring Armenia. The scale of economic collapse was severe even by Soviet standards: In 1995 GDP was only 42 percent of its 1990 pre-independence level. Unemployment was endemic: out of a total popula-
tion of 8 million, about one million Azerbaijanis were refugees and internally displaced persons who had fled the areas occupied by Armenian forces and another 2 million Azerbaijanis had left the country, mainly for Russia to find work.

All this could change with the “Contract of the Century.” It could not only provide massive oil revenues for the Azerbaijani government, but also offer an opportunity for a large part of the Azerbaijani private sector to rebuild itself by working with BP and other major oil and gas service companies. But to do this Azerbaijani companies would have to compete with international firms for contracts which demanded international quality levels. For most local companies, this seemed an almost insurmountable obstacle.

The Enterprise Centre

TO ADDRESS THIS CRUCIAL ISSUE, in 2002 BP launched the Baku Enterprise Centre (EC) as a one-stop shop where local suppliers could obtain information, training and other forms of technical assistance, in order to bid for and win supply contracts with BP and other large companies in Azerbaijan. IFC, as the lead financier of the ACG-BTC Project hired a Small and Medium-sized Enterprise Linkages Co-ordinator who was based in the EC in order to co-ordinate BP and IFC support for SMEs. Various types of training and mentoring services in technology, tenders and bidding, basic business disciplines and other fields were launched and continue to be provided at the EC.

The Centre also built a comprehensive supplier database to help link local firms with foreign companies in need of a vendor. To this day an electronic job board lets companies know in a timely, efficient way about potential opportunities. In addition, the EC sponsors a variety of fee-based courses to enhance general economic opportunities for entrepreneurs, and to improve the chances that small local businesses will win contracts on which they bid.

The EC also encourages international contractors to invest in training and infrastructure and to source materials and services locally, and provides a forum/collaboration facility for various NGOs, international financial institutions and development agencies that contribute to business development in Azerbaijan.

In another joint project between IFC and BP, the Azerbaijan Bank Training Center (ABTC) was contracted to deliver small business courses in local languages using a fee-based system. The goal was to build up the local small business services sector, create a market for such services, and improve the skills of the local consultants providing them. Post-project, ABTC continues to provide training and consulting services to local companies in Azerbaijan in a commercially sustainable way.

In June 2007, BP and its co-venturers in the oil and gas projects in Azerbaijan also launched the Enterprise Development and Training Program (EDTP)—a new three-year multi-million initiative in support of local business development. The program is part of BP’s efforts to continue to increase the local content share of their total contracts in Azerbaijan, and is financed through the oil and gas co-venturers Regional Development Initiative and coordinated by the Enterprise Center.

The need for access to finance

DESPITE THE SUCCESS OF BP’S local enterprise development efforts, it became apparent early on that the technical and business support and training were insufficient by themselves. Without access to affordable finance, local enterprises would find it very difficult to compete with international companies for the contracts offered by the BP’s oil and gas projects. Most local SME suppliers required new technology and equipment to achieve the quality of service required by BP. Financing from local banks was not available, as they required collateral equal to 100 percent—150 percent of the loan amount and the terms were inflexible.

BP and IFC began to consider a proposal to develop the financing to improve access to finance for local SME suppliers. Out of these discussions came the concept of the Supplier Finance Facility (SFF) pilot project, to be developed jointly by IFC and BP, and implemented through a local bank in Azerbaijan. The parties agreed to start a pilot project with the objective to test the viability of supplier finance, to gain experience and identify key lessons.

In June 2006, IFC and BP launched a $316,000 pilot Supplier Finance Facility (SFF) involving the Microfinance Bank of Azerbaijan, providing medium-term funding for working capital and capital expenditures to small and medium oil services suppliers to BP and its partners in Azerbaijan. Suppliers were able to use their contracts with BP as collateral, thereby reducing the need for using fixed assets and cash (which in many cases were not available). In late 2006, the pilot was expanded to a $15 million investment project involving the three parties. So far, applications from eight suppliers in a number of industry sectors have been evaluated—from transportation services to printing, engineering and waste management. Two applications have been approved and a substantial increase in credit applications and disbursements is expected in 2008, according to IFC estimates.

Positive results to date

IN 2007, BP and its co-venturers spent approximately $111 million on procurement from local SMEs, increasing dramatically from a baseline of $13 million in 2002. During 2006 the company worked with 393 SMEs. From 2003–2006, 1606 new business contracts, worth $249 million, were awarded to local SMEs. During this same period, 562 SMEs received training on the contract tendering process, quality control, and health, safety and environment (HSE) standards.

Case study: Debet

AN EXAMPLE OF A LOCAL COMPANY which benefited from the EC and SFF was Debet. Founded in 1997, the company manufactures and supplies quality safety gloves, helmets, workwear, corporate clothing and promotional wear for BP
income data are buttressed by detailed, standardized expenditure data in a substantial subset of countries.

A new way of thinking about poverty reduction

THE BOP MARKET ANALYSIS in this study is intended to help businesses and governments think more creatively about new products and services that meet BoP needs and about opportunities for market-based solutions to achieve them. For businesses, characterizing the market in empirical terms is an important first step toward identifying business opportunities, considering business models, developing products, and expanding investment in BoP markets. Put simply, while an analysis of the depth of poverty does not generate private sector enthusiasm for investment, an analysis of BoP market size and willingness to pay might—and is thus a critical step toward market-based solutions. For governments, such an analysis can help focus attention on reforms needed in the operating and regulatory environment to allow a larger role for the private sector.

The market-based approach to poverty reduction and empirical market data described in this report are equally important for the development community. They can help frame the debate on poverty reduction more in terms of enabling opportunity and less in terms of aid. A successful market-based approach would bring significant new private sector resources into play, allowing development assistance to be more sharply targeted to the segments and sectors for which no viable market solutions can presently be found. Market-based approaches and smart development policies are synergistic strategies.

Perhaps most important, a market-oriented approach recognizes that only sustainable solutions can scale to meet the needs of 4 billion people.

Allen L. Hammond is Vice President for Innovation and Special Projects at the World Resources Institute.

The Next Four Billion: Market Size and Business Strategy at the Base of the Pyramid is an International Finance Corporation/World Resources Institute joint publication. Visit www.nextbillion.net.

Endnotes

1 In this study, current U.S. dollars means 2005 dollars. Unless otherwise noted, however, market information is given in 2005 international dollars (adjusted for purchasing power parity); for convenience, BoP and mid-market income cutoffs are given in international dollars for 2002 (the base year to which household surveys used in the analysis for the report have been normalized). U.S. dollars are generally denoted by US$, international dollars by $. World Resources Institute, World Bank, United Nations Development Programme, and United Nations Environment Programme, World Resources Report: The Wealth of the Poor, 2005, Washington DC.


Low-income housing that improves quality of life

BY ISRAEL MORENO BARCELO

CEMEX is a growing global building materials company that provides high-quality products and reliable services to customers and communities across the world. Founded in Mexico in 1906, CEMEX now operates in more than 50 countries and maintains trade relationships with more than 100 nations.

The challenge

ADEQUATE HOUSING is a basic human right enshrined in the Universal Declaration of Human Rights. Yet, like many other human rights, not everyone has experienced it. Mexico faces a severe housing shortage that affects the daily lives of more than 20 million people. Many low-income families devote their free time to building their homes. These homes are typically very basic, and construction is slow and inefficient.

The opportunity

THE LOW INCOME segment has traditionally been a great cement consumer: it consumes 30-40 percent of bagged cement produced in the country. However, high market fragmentation and dispersion, as well as the small size of purchase...
transaction, make serving this segment both complicated and costly. Additionally, it is difficult to create substantial brand differentiators that may be kept up over time.

In 1998, CEMEX decided to invest in research which made it possible to better understand the segment’s behavior and find out if it was possible to design value offers that would contribute significantly to a better quality of life for low income communities through better housing conditions.

Social research design

AN INTERDISCIPLINARY TEAM was put together in order to achieve a wider scale in the identification and analysis of the critical aspects of the construction and social patterns of low income communities. Its primary objective was to increase knowledge related to these practices, their reason for existing and their consequences. The team was given an explicit instruction to conduct an impartial observation process of community mechanisms and practices, refraining from making judgments related to what is usually expected from the cement business.

Pilot selection

THE EARLY OBJECTIVE was to develop a vision of the performance of the segment which would be representative of low-income communities in Mexico. An area situated in the northeast section of the city of Guadalajara named Mesa Colorada was selected for this purpose. The main reason was that both cultural features and construction practices could be found in a large area of the country’s western and central zones, as these comprise some of the major Mexican urban centers. It was also important to consider that the northern region of the country has traditionally included more dynamic communities in economic terms. Conversely, the southern regions of Mexico have traditionally shown weaker macro-economic indicators.

Furthermore, the size of the community under study was a highly significant factor. At that time, the population of Mesa Colorada was 90,000 habitants, which provided an ample scope for surveys and community consultations.

Initial access

COMMUNITY VISITS started by seeking direct contact with families. Team members went door to door, introducing themselves as CEMEX representatives with an interest in learning about the problems families faced when trying to go forward in the expansion of their dwellings. Families living in partially built houses were chosen.

Initial conversations were short but always pleasant. Families were asked if they were willing to go further with their building plans in the near future. The team faced several barriers such as the fact that the company was somehow unknown to the community, as well as that it was not simple to conduct the interviews with housewives—who were usually the ones available at home—given that some of the team members were men.

The team opted for a series of measures which resulted very effective: a) they started to work as couples, women and men held conversations with housewives and when this was not possible, the appointment was set up with two neighboring ladies in order to have the interview with both simultaneously; b) they kept strictly to the visit scheduled; c) the garments used visibly showed they pertained to the "cement company," as t-shirts always bore the logo of the cement brand predominating in the area.

Conditions found in the community

THE DAILY, direct and close contact with the community started bearing fruit. Once the level of trust needed for effective communication was established, the families began to speak about a variety of indicators that reflected their individual and social practices for facing life.

The traditional construction process turned out to be intrinsically intermittent and took a long time to be achieved. Periods of 20 to 25 years for the construction of a five-room dwelling are par for the course. Access to technical knowledge about building and the best way to expand a home is practically inaccessible to the families. The purchase of building materials was done under a criterion centered exclusively on price. Thus, it was common to purchase each building material from a different supplier. Given the small amount of the typical buying transaction, this process did not allow home delivery of materials needed. On the other hand, the buyer usually was unaware of the adequate proportions of a given building material one job called for versus another. The construction process was a single family activity as the community lacked the ability to create a collaborative network that could facilitate it.

Financial resources typically came weekly to those who were employed. Although those who had a trade earned money in sundry fashions,
many of the payment commitments within the community were also on a weekly basis—for instance, purchases on credit from the corner store. No formal saving practices such as banking accounts were found; for the most part, savings credit was achieved through small groups of people who delivered their earnings to one of the members of the group randomly chosen every week—a mechanism known in Mexico as a tanda.

A tanda was the savings mechanism used by many people in the community. However, it was not effective for certain purposes such as construction, due to the great number of diverters that show up once people have access to accumulated resources. Access to formal credit was practically non-existent because of the impossibility of guaranteeing payment, the fear of making long-term commitments, and finally, little familiarity with the formal processes implicated in obtaining and operating financing; all of these, insurmountable barriers.

Lastly, the inability to obtain resources, lack of knowledge and access to technical guidance, and the low buying power stemming from the attainment of a low level of service resulted in a slow building process. The building process was also very costly due to waste stemming from surplus materials that could not be stored for lack of space. Most of the families that attempted to build progressively were caught up in this restrictive cycle. This evolved into a state of resignation where the family found itself incapable of freeing itself of any of the restrictions that limited their ability to obtain more space and better housing conditions in the short term.

Proposal adaptation process

The first version of the proposal designed for communities did not work. The challenge was to produce a solution package that would solve most of the restrictions. Some of the main problems that came up were:

- Generating trust. The proposal called for the family to participate with their previous savings in order to obtain materials on credit. Verbal and written communication did not generate enough confidence for the families to deliver money in exchange for the promise of building materials on credit.

- Technical advice at home. The families were visited in order to provide counseling in situ. Complying with scheduled appointments was an indispensable requisite for an efficient process. Social practices such as "flexible" schedules, together with misgivings about housewives having to let a man enter the house to take measurements for the projected building, did not allow advising at home to be feasible.

- Keeping up the tanda groups. The traditional tanda was adapted as a savings mechanism to apply resources for the purchase of building materials. The complexity of keeping together groups of 10 to 12 people—during the 70 weeks needed for an expansion project of at least one room—could not be resolved.

- Keeping up the tanda coordinator role. It was not possible to give the tanda promoter tasks such as the timely collection and delivery of funds, as well as the forthright and consistent explanation of the building program to participants.

The adjustment process of the initial proposal was carried out in participation with members of the community, typically meetings discussed the best way to adequate the components of the program so they would make sense and show value to the community. This was a great achievement. It took almost 18 months of group work to adequate and stabilize the main features of the program.

Results

Patrimonio Hoy has become a progressive housing program serving low income communities. It provides individual technical advice to meet the needs of every family interested in improving its housing conditions. The building plan is fragmented into packages of materials that are ordered in an adequate sequence according to needs. The acquisition of these packages is facilitated by means of micro-financing. With a previous saving of 20 percent of the materials needed for completing the construction project, credit is granted for the resting 80 percent. The weekly charge per family is $163 Mexican pesos (about USD$15), $138 (about USD$13) of which pay for the materials, and the remaining $25 (USD$2) of which covers the services including:

- Free access to technical consultants
- Fixed prices guaranteed for 70 weeks (typical duration of projects)
- One year of materials storage
- Home delivery of materials packages
- Financing for 80 percent of the value of the materials received.

The program creates a collaborative network within the community: families in need of better housing conditions, CEMEX distributors with presence in the regions who are in charge of delivering materials, and CEMEX providing families directly with financial services and technical advice.

By the end of 2007, a total of 185,000 Mexican families had been benefited through the Patrimonio Hoy program, building the equivalent of 95,000 ten-square meter rooms. To this end, credits for 83 million USD had been granted, with an on-time payment rate of more than 99 percent.

The future

The program has been successfully implemented in Colombia, Venezuela, Nicaragua and Costa Rica. The idea is to assess the potential replication of Patrimonio Hoy in other markets where CEMEX operates and where the socio-economic conditions could make possible its financial viability.

Israel Moreno Barcelo is Founder and General Manager of Patrimonio Hoy for CEMEX in Mexico.
The rapid growth of information technology in India has spurred an overall economic growth in the region. India has created a new identity on the world map in this era of globalization. The country is growing with new townships mushrooming with more opportunities for youth to work in the IT industry. This is the story of all major cities of India. Indeed, India is shining. But this is not the entire story. The benefits of the IT boom still need to reach out to the grass-root level. There still exists a huge disparity among the population, and an even bigger digital divide.

ZMQ Software Systems, a Delhi based innovative software solution provider, has taken up a mission to reach out to the grass-root communities using its core competency of Information and Communication Technologies (ICTs) to provide e-learning, gaming, edutainment, knowledge management and human performance solutions. The company’s focus is on developing world class learning, training, edutainment solutions addressing basic literacy, girls and children’s
education, health, skills development, micro-finance and environment. Entrenched in ZMQ’s mission is the fervor to use its core competency to offer assistance to communities through social development projects.

ZMQ recognizes HIV/AIDS not only as a health issue but also an economic issue. As a member of Global Business Coalition on HIV/AIDS, the company has taken up a pioneering initiative to reach out to the common person in India using technology. One such initiative has been the use of mobile phone games to educate on HIV/AIDS, and create awareness of it among people. The program has been christened “Freedom HIV/AIDS” (www.freedomhivaids.in).

**ZMQ—a strategic mission**

ZMQ HAS BEEN DEVELOPING commercial software solutions for a variety of clients from corporate to government and from academic institutions to schools. The company’s prime business is developing innovative e-Learning solutions, mobile games, human performance management systems, and knowledge products. Around 80 percent of the company’s turnover comes from this source.

As a socially conscious organization, ZMQ is driven by the need to develop socially relevant information and communication technology for the benefit of the masses, and uses its experience to develop innovative solutions for the grass-root communities using ICTs. Since inception, ZMQ’s founders made a commitment to spend a substantial percentage of its profits in social development using its core competency to reduce the digital gap. One indication of ZMQ’s dedication to this cause is that 12 percent of its annual profits go into Corporate Social Responsibility (CSR) activities. It is important to point out here that funds are not earmarked for community development work, as such, but for the development of tools.

The company’s social development team, which drives its CSR strategy, works hand in hand with its marketing, business development and technical teams. The social development team identifies development issues, finds technology gaps, builds new partnerships with local organizations, and prepares blueprints of products and solutions for the social initiative programs. Then the team hands over the program to ZMQ’s core technology and marketing teams to create solutions and prepare the dissemination strategy of the social programs and initiatives. Some of the focus areas are health, education, agriculture, and skill development for the under-privileged.

The social programs and initiatives are well integrated with the core business strategy of the company. The prime objective of the CSR strategy is to empower masses with technology tools and solutions related to health and education. At the same time, it also creates environments and channels for ZMQ business for these newer markets. Apart from its pure philanthropic initiatives, ZMQ’s social team creates new programs before entering a new region or market. This exercise serves a dual purpose, it not only empowers the masses and bridge the digital divide, but also provide feedback to the business development team for creating new products, solutions and services for the region. ZMQ firmly believes that in the new market scenario, the future of any enterprise is a right blend of both business strategies and development programs.

ZMQ’s success is attributed to 3 main features: technology innovation, understanding issues related to grass-root communities and using local resources (like, multi-lingual content and local knowledge). Nevertheless, there has always been a challenge, the mammoth task of reaching out to the community for effective dissemination. This issue has been successfully tackled by collaborating with local partners, at the local, regional, and national levels.

By working closely with NGOs and local communities to identify their needs and possible solutions to developmental challenges, ZMQ is able to create tools that can be used to address these challenges. The company firmly believes that social development can be complementary, and that for a successful business to thrive in the new markets it is important to have both running in synchrony.

**Empowering communities**

ONE OF ZMQ’S VERY FIRST INITIATIVES for grass-root communities has been the development and dissemination of an educational package called the “Entry Level Literacy” program. The program is designed for three categories of people; female children, out-of-school children, and adults. Each package is
In order to successfully replicate the program in Africa, it was also important to create local partnerships. A Nairobi based local technology company Mobile 4 Good has been partnered with to manage the program in East Africa. To make the program sustainable it was important to replenish it with new mobile content and games, for which more new partner-
ships were created. NGOs and knowledge organizations were also invited to be partners, such as Mathare Youths Sports Association (MYSa), Skills for Life, and Straight Talk for excavating local content, creating new games and other mobile properties.

A revenue sharing business model was set in place for sustaining each organization. To maximize the reach of games to the last mile customers, the games were also designed for low-end mobile phones with an innovative pricing model. The games and other mobile properties like wallpapers, ring tones, and screen savers were priced at 60 percent less than the existing mobile products on the market. Seeing the success of the program, the company is planning a second phase of expansion of the business in Africa—both horizontally and vertically.

Services for people living with HIV/AIDS

Mobile devices can also be highly effective for patient management and monitoring, specially suited for those patients who are situated at remote locations. In the absence of any preventive medication against HIV/AIDS, patient management is the only effective solution to prolong the life of people living with HIV/AIDS (PLWHAs). Today, there are no ICT based tools or applications which can be used to monitor and manage the medication and medical history of patients living with HIV/AIDS.

ZMQ is developing the M-CST System (mobile care, support and treatment), which is a universal solution for treatment and diagnostics of PLWHAs. The application will be available in two modes: single patient management and group management for organizations working with PLWHAs. Now in the pilot phase, the application will eventually be made available for free to people affected with HIV/AIDS. ZMQ is currently identifying partners for scaling the application to a much larger level.

Conclusion

As a small-medium sized company, ZMQ believes that by contributing 12 percent in the form of hard cash would only be a drop in the ocean. So ZMQ churns this 12 percent of its profits for social development in form of tools, products, applications and solutions using its core competencies. As there is a huge digital divide, we believe that we can contribute by bridging the gap by developing appropriate solutions for global need.

The company has hugely benefited from this approach, and has gained global recognition for its work. This could not have been possible for a small company like ZMQ by spending that small 12 percent of its profits on promotional activities. ZMQ’s social development initiatives have been a blessing in disguise for the company’s growth.

Subhi Quraishi is CEO of ZMQ Software Systems.
Business and Malnutrition

Opportunities and challenges for the food industry in reaching the poor

BY MARC VAN AMERINGEN, BERANGÈRE MAGARINOS AND MICHAEL JARVIS

THE IMPACTS resulting from maternal and child undernutrition are enormous: 178 million children under five years of age are stunted; 55 million children are wasted of which 19 million suffer from severe acute malnutrition; and overall, undernutrition is the underlying cause of 3.6 million deaths each year. Moreover, 2 billion people suffer from vitamin and mineral deficiencies, which result in premature death, illness and impaired physical and mental abilities.

In the face of this scourge, the Global Alliance for Improved Nutrition (GAIN) is committed to reducing malnutrition through the use of food fortification and other proven strategies aimed at improving the health and nutrition of populations at risk. Created at the United Nations General Assembly's Special Session on Children in 2002, GAIN is a Swiss Foundation funded by the Bill and Melinda Gates Foundation, USAID and CIDA. GAIN builds partnerships between the public and private sector, and enables innovative solutions to improve nutrition at a large scale by providing financial and technical support. GAIN measures progress to demonstrate the return on investment, improve its program and communicate success. Furthermore, GAIN advocates for better nutrition worldwide as a cost-effective way to make people and economies stronger, healthier and more productive.
The business case for engagement

GAIN recognizes the importance of engaging the private sector if results are to be achieved on sufficient scale to eliminate vitamin and mineral deficiencies. GAIN has found great willingness within the private sector to explore how they can contribute to tackling malnutrition. This reflects growing recognition that it makes good business sense for food companies to prioritize engagement with the poorest. Knowing that some four billion low-income consumers live in relative poverty with an income below $3,000 in local purchasing power parity, food companies are increasingly open to serving this huge market. While their combined purchasing power amounts to 5 trillion international dollars (purchasing power parity exchange rates), most of that money is spent on food. Therefore, the private sector increasingly researches markets and delivers foods to those most at risk of malnutrition.

Tackling malnutrition has a high economic benefit-to-cost ratio. The public benefits are significant: it reduces health care costs, increases tax returns, and spurs the economic development of the developing world by integrating the poorest in the formal economy and reducing dead capital. A concrete example of the fact that “three billion people are prevented from achieving their full potential as students, parents, workers, and citizens due to micronutrient deficiencies” can be found in iron deficiency and resultant anemia (Bestani and Klein, 2006). The Asian Development Bank projects that the 10-year productivity loss due specifically to iron deficiency, of the five countries that it analyzed, was over US $25 billion.

Food companies are increasingly becoming nutrition companies with an expanded health agenda. The food industry significantly contributes to the goal of poverty alleviation from improved distribution that expands access to quality products that decrease malnutrition, to social marketing, to health education strategies that raise nutrition awareness about proper neonatal, perinatal, and child care amongst the poor. In fact, investments of the food industry targeted at the base of the pyramid achieve many of the same goals as governments and non-governmental agencies. For example, if the private sector is providing affordable fortified complementary foods for low income children 6-24 months of age, it is making available a critical additional component to programs addressing child survival. Generally, investment from the private sector needs to be recognized and integrated into national poverty reduction strategies and into development budgets.

Emerging business models

It is clear from the examples to date that firms face a myriad of challenges to effectively integrate poor consumers and producers in regard to supply of fortified foods. In addition to striking the balance between economic and social benefits in their operations, companies must juggle issues related to sourcing strategies, distribution networks, and issues of quality control. Companies must attempt to innovate and reduce poverty through sourcing strategies including microfinance or other financial mechanisms that empower local producers and suppliers, as well as through distribution networks. Packaging, necessary to ensure affordability and sustainability, is also a key issue. Packaging companies are under pressure to offer solutions for delivering quality products to the poor.

In the face of these challenges GAIN understands that partnerships are fundamental, and successful companies in this sector will be those companies that develop business strategies that prioritize the following challenges and lessons learned:

- Ensuring and monitoring quality products through local supply chains while managing cost in an environment where clear standards may be lacking.
- Formalizing collaboration in contracts between the formal and the informal sector.
- Developing partnership strategies that include a public health approach in the food and beverage sector to optimize company impact.
- Investing in understanding and complying with international standards and codes of conduct such as the WHO International Code on the Marketing of Breastmilk Substitutes.
- Using philanthropy to help leverage innovative business models.
- Building the capacity of company managers to understand poverty, to build partnerships and to engage with the informal sector.

Building capacity for business action

Working with business has become an important differentiation factor for GAIN and the collaboration with the private sector can take many different forms. However, the most important role of business in nutrition remains in the delivery of quality, affordable and accessible food. In the past three years of working with companies, GAIN has started to better understand their challenges in dealing with poverty. We have heard many people state that large companies will never become relevant to the poor. We have also heard a lot of business leaders telling us that they genuinely wanted to access new markets, change their traditional models and deliver healthy choices to those in need.

In response, GAIN is trying to help those firms committed to working at the base of the pyramid manage some of the externalities around the business model such as social marketing and demand creation. GAIN can help companies navigate the local soft infrastructure by facilitating partnerships that leverage resources for the non-commercial aspect of their business models serving the malnourished. One example is that of Shijiazhuang Zhenji Brew Group Co. Ltd. in China. The company agreed to participate in the "Two Wheels Turning Together" program of the China Center for Disease Control (CDC). The initiative enlisted support from manufacturers to help tackle the pervasive problem of anemia through a soy sauce fortification program. Zhenji managers saw an opportunity to benefit local public health and to expand its market for soy sauce, especially in rural areas where the brand had little presence. Although initial efforts had only limited success, a turning point was the facilitation and financial support provided when
GAIN joined the project in 2003, including a $3 million grant to China CDC to support health education and social marketing of the iron-fortification campaign from 2003-2008. This helped increase public faith in the claims of those selling iron fortified soy sauce. Zhenji has seen sales of fortified sauce double each year since 2003 (World Bank Institute/GAIN 2007).

Another key factor in the equation is the measuring of business performance and impact on improved nutrition. Investment in research and development is proving essential to ensure nutritional benefits upon consumption, and is crucial for companies in demonstrating that their efforts are having social as well as economic benefits. In that context GAIN is selecting and financing leading academic experts, such as Cornell University and John Hopkins, to conduct the studies. GAIN ensures the management of the partnership between the research teams and the companies and will ensure the dissemination of study results. This has proven invaluable in tracking the nutritional impact of a school feeding program in Nasarawa state in Nigeria, funded by the state government but with technical assistance from Tetra Pak. The company’s expertise has been crucial not just in developing packaging that allows a fortified drink for children to be stored in hot climates so it retains its nutritional value, but also in creating a local supply chain for the drink’s production.

In similar fashion, GAIN is also supporting a joint venture launched in March 2006 between multinational food company Danone and leading micro-lending institution Grameen. Grameen Danone Foods produces Shoktidoi, a yogurt designed to help meet the nutritional needs of Bangladeshi children at an affordable price (around $0.08 per pot). GAIN is managing a trial designed to measure the benefits obtained from regular consumption of Shoktidoi. This initiative brings together many features into one experimental business model—it must be profitable but also will be judged on non-financial criteria. It seeks to make up for the nutritional deficiencies suffered by local children, while also utilizing a local production and distribution system designed to create jobs for the local community, including “Grameen ladies” who will make sales door-to-door, and minimizing its environmental impact. Even the packaging for the yogurt pots are made from material that is entirely biodegradable. Muhammad Yunus, Nobel prize-winning founder of Grameen, hopes the initiative “will be an important landmark in the annals of business.”

The value of partnership approaches and the GAIN Business Alliance

TIME WILL TELL how effective such initiatives as that of Grameen Danone Foods will be, but it is clear that there is a continued need for capacity building to facilitate understanding of what works, what does not, and what gaps remain, requiring the perspective beyond that of any one firm’s operations. It was to help address some of these capacity needs, particularly in the realm of partnership and knowledge sharing, that GAIN partnered with the World Bank Institute (WBI) to utilize its experience in capacity development and private sector engagement. Following initial dialogues with industry, GAIN and WBI launched the GAIN Business Alliance (BA) in the belief that strategic alliances, which include local partnerships, can help companies overcome obstacles encountered at the base of the pyramid. Such alliances foster hybrid business strategies that have a wider-reaching impact than the public health sector could have alone, and the GAIN BA operates as a laboratory, of sorts, to help discover nutrition solutions.

Since its launch in Beijing in October 2005, GAIN has established five regional or national alliances in Africa, China, India, North America, and Switzerland. A European chapter will be launched at the next Forum in May 2008. So far the BA has mobilised more than 350 business leaders through its events worldwide. Leading private sector partners include Danone, Unilever, P&G, Cargill, Akzo Nobel, DSM, Tetra Pak, Britannia Industries and a range of Chinese, Indian and African companies from the different parts of the food supply chain, and even from outside the food sector.

Paulus Verschuren of Unilever and Chair of the global Business Alliance describes a three phase process that most companies go through when they participate in the BA:

Awareness—Through its events, GAIN creates awareness about malnutrition and about the potential for win-win scenarios.

Commitment—In the second phase, the business leader who initiated a dialogue with GAIN needs to return to his or
Accordingly, GAIN and its partners can play a useful role in leading to improved nutrition, in assisting the efforts of individual firms, and in providing a platform where companies can present their achievements and challenges in serving the poorest, and can shop for solutions and partners.

The experience to date also underscores the importance and need for development agencies and donors to continue to support business solutions and, thus, maximize productivity of the poor. GAIN can mobilize development partners from the public and non-profit sectors to create an enabling environment for companies interested in investing in nutrition for the poor. Of course, business action is only part of the solution. Grants are still very important to reach the poorest of the poor and to support government programs. Nevertheless, we can imagine positive synergies between a GAIN investment supporting a government or civil society infrastructure and a GAIN investment supporting a base of the pyramid business model. In both cases the main goal is to create long term sustainability and reduce the number of those whose health and livelihoods are undermined by malnutrition.

Marc Van Ameringen is Executive Director of Global Alliance for Improved Nutrition (GAIN).
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Bridging Gaps in Reproductive Health Care in Egypt through Private Sector Involvement

Social responsibility contributes US$1.4m towards improving maternal and child health, family planning and reproductive health care in Egypt

BY ANDY COLE, MOHAMED AFIFI AND REEM SALAH

RECENT INDICATORS show that the quality of health of Egyptians has improved, but challenges still remain for the government to reach underserved clients in isolated areas. Egypt’s Ministry of Health and Population (MOHP) has the will to undertake these challenges, and together with the United States Agency for International Development (USAID) is adopting a “business mentality” to do so. To sustain improvements in health service provision, “win-win” social responsibility partnerships with the private sector are being developed through the USAID-funded Integrated Reproductive Health Services Project—known in Egypt as Takamol.

Why Social Responsibility?

DURING THE LAST DECADE, an international movement to encourage broader involvement and social responsibility (SR) toward communities and humanitarian needs has developed. Today, corporations understand that this engagement creates a positive public image, and consequently improves investment...
opportunities, shareholder commitment and brand loyalty among customers.

As this awareness matures, companies recognize that partnerships with non-governmental organizations (NGOs) and governments can provide significant opportunities to engage in corporate social responsibility (CSR). This is as true in the arena of healthcare as in other areas. As the healthcare sector increases its international commitments in CSR, governments are presented with the unique opportunity to expand, enhance, and sustain these efforts through mutually beneficial partnerships.

The fact is that resources do exist within Egypt that can be mobilized in support of national or local development efforts, but these resources have been largely untapped to date. Business entities, for example, have considerable resources—products, funds, in-kind assistance, distribution channels, and expertise. Furthermore, many business leaders have a keen sense of public service. These include agricultural extension workers, and community members.

The Takamol project is tapping into these resources by linking the MOHP with private sector companies, and mobilizing their involvement in maternal and child health, family planning and reproductive health (MCH/FP/RH) by developing partnerships in which all parties experience mutually beneficial outcomes.

The Takamol project’s approach

THE TAKAMOL PROJECT is a five-year USAID-funded project that focuses on increasing the use of quality integrated MCH/FP/RH services in primary health care clinics and hospitals. It also gives prominence to bringing about positive behavior change while improving the government’s capacity to sustain the performance of integrated health services. The project began in March 2006, and is implemented by a Pathfinder International-led group of national and global organizations.

The project’s scope is to implement an integrated MCH/FP/RH model in 200 villages and more than 25 hospitals in the neediest areas of 11 Upper and Lower Egypt governorates. The principle focus of Takamol’s efforts—to improve the quality of health care—includes the renovation and equipping of clinics and hospitals as a focal point for the community, and integrated clinical, management and on-the-job training for service providers. Meanwhile, providing capacity building to MOHP stakeholders from national to grassroots levels is expected to increase their ability to provide, manage and sustain quality health services.

The project emphasizes community mobilization and participation in health as driving forces for change. For example, the project includes training of a number of key groups to allow them to disseminate accurate health messages in the natural course of their interactions with others. These include religious and civic leaders, government officials, local NGOs, outreach workers, media professionals, literacy facilitators, agricultural extension workers, and community members.

- Negotiating win-win partnerships to achieve success

THE TAKAMOL PROJECT has played a significant role in negotiating a number of agreements between the MOHP and the private sector. Where possible, it has also ensured that negotiated partnerships are long-term. The results of Takamol’s CSR work can be seen through the increased involvement of business partners and through changes in the attitude of the different stakeholders.

To encourage private sector involvement in Takamol’s integrated model, and thereby the MOHP’s efforts, the project first conducts extensive market research to identify prospective partners, and then designs a formal, customized presentation highlighting areas of common interest. The project explains the efficient, accountable mechanism through which contributions are channeled, which is welcomed by the private sector. Following a period of negotiation, the MOHP and Takamol collaborate with companies and organizations on mutually-beneficial partnerships. Takamol serves as the “mediator” for the partnerships.

Central to the sustainability of this approach was the establishment of a social responsibility working group within the MOHP. The working group has been charged with advancing the MOHP’s recognition, connection and collaboration with under used resources from other sectors. Working group members receive training on the concept of CSR before joining the process of negotiating social responsibility partnerships with Takamol staff. Through hands-on experience, working group members acquire the necessary skills to identify areas of common interest between the project and private sector companies, and how to seek and negotiate win-win partnerships with them. Areas that need strengthening are identified by Takamol’s CSR team and become the focus of training workshops that are aimed to create a cadre of SR professionals within the MOHP.

The project employs a number of strategies to encourage companies to become involved in social responsibility. In rural areas, following orientations on SR, individuals and small businesses have stepped forward with unprecedented collaboration to demonstrate their social responsibility. In addition, clinic management boards that have received orientation on the concept of CSR are also adopting a business mentality to look at other ways to meet community needs, and generate income for the health facilities.

At the national and governorate levels, Takamol and the MOHP approach corporations and large businesses, from both health and non-health sectors. At the local level, Takamol conducts orientations in SR for the democratically elected health facility management boards. An added advantage of public-private partnerships is that health facilities can learn to operate more cost-effectively and with more transparency through interactions with the private sector, which gives priority to good governance and accountability.
Donor appreciation of the need for SR

International donors are well aware of the benefits of private sector involvement in social development. In Egypt, USAID advocates for public-private partnerships that encourage healthy behaviors. Thus, SR components were incorporated from the very outset of the Takamol project’s planning phase. The project tracks resources leveraged from corporate and community contributions that support related health services and calculate the amount as a proportion of the project’s total operational expenses.

It has been proven that private firms and NGOs in Egypt are ready and willing to support initiatives of the MOHP if they find these to be of good quality and of high importance. USAID understands that sustainable relationships between the MOHP, local communities, and private companies, will contribute to the sustainability of program interventions as well as the commitment of all stakeholders.

US$1.4 million leveraged

More than US$1.4 million has been leveraged to date by companies, business organizations and individuals through partnerships with the Takamol project to support health initiatives in Egypt. Contributions range from the large-scale contributions of multinationals (US$181,754 from Procter & Gamble Egypt) to the more modest, but no less valued, contributions of small community businesses and philanthropic community members. Whatever the source, all contributions indicate a growing desire to become involved at some level to improve local health services.

Examples include:

- **Barclays Bank Egypt.** The Bank “adopted” a clinic in a poor urban area of Cairo—covering all renovation and equipping costs—and transforming the clinic into a community health center providing quality health care services. Barclays staff then returned to the clinic a year later as part of Barclays’ “Make a Difference Day”—a global community service and volunteering initiative. Barclays’ collaboration with the Takamol project was also used as a case study at a national CSR conference in Cairo in 2007, to highlight how the private sector can become engaged in improving health outcomes in Egypt.

- **Procter & Gamble (P&G)/Egypt** P&G utilized the MOHP’s existing platform of outreach workers to deliver generic hygiene messages to women in hard to reach areas. In return, P&G includes reproductive health messages in a range of marketing materials targeting adolescent girls and women, and contributes towards clinic renovation costs.

- **PriceWaterhouseCoopers (PWC).** The Egyptian franchisee of PWC donated funds to purchase income-generating equipment for women’s clubs in clinics renovated under the Takamol project.

- **Mentor Graphics.** This local Egyptian company provided funding to furnish women’s clubs in three renovated clinics.

- **RWE Dea.** The German petroleum company covered the renovation costs of two classrooms under a joint initiative between Takamol and Egypt’s National Council for Childhood and Motherhood.

- **Multipharma and Future Pharma.** These local Egyptian pharmaceutical companies provided free of charge condoms and medicines.

The key to the success of these partnerships was to ensure that true “win-win” agreements were reached during the negotiation stage. The fact that members of the MOHP’s social responsibility working group were involved in the negotiations means that further agreements with the same partners after the project phases out are a very real possibility. The Takamol project also ensures that the contributor is part of the implementation and follow-up process—they see where and how their money is being spent through regular feedback, monitoring and evaluation.

Overcoming the challenges

One of the key challenges the project faced in trying to facilitate CSR partnerships in support of the MOHP was a lack of shared vision between the private and public sectors, and no real sustainability mechanisms to maintain the momentum for collaboration. A solution was found in the form of the Egyptian Finance Executives Foundation (EFEF). The foundation is a reputable, registered NGO whose members include financial officers of many leading Egyptian and multi-national businesses. With a mutual interest in expanding the role of CSR in supporting better health outcomes through the Egyptian health sector, the EFEF adopted an intermediary role between the MOHP and the private sector, encouraging member organizations to become more involved in health-related CSR initiatives. The involvement of EFEF provided credibility to the initiative, and is expected to contribute towards sustaining private sector support for health initiatives in the future.

B R I D G I N G  G A P S

Continued on page 51.
Improving Health Improves Economic Well-being
One company’s experience

BY CHRISTY L. WISTAR

Overview

FROM A MACRO POLICY PERSPECTIVE, governments, economists and organizations working in international development have recognized that investments in education, health care, nutrition, infrastructure, transportation and other sectors of development contribute to economic growth. At an individual level, access to improved healthcare services and educational opportunities provides new options and opportunities to improve livelihoods and economic status. While these conclusions seem intuitive, finding a direct correlation between health interventions and economic outcomes remains largely elusive.

In part, this gap of knowledge may be due to a lack of appropriate metrics, complexity and costs of measuring relationships between health and economic growth, or because economic indicators fall outside the stated purpose of a particular program. Hence, organizations that may attempt to assess the broader economic impact of their programs are largely left with anecdotal evidence.

Abbott Fund is a private foundation founded in 1951 by Abbott, a global health care company. The Fund’s mission is to create healthier global communities by supporting four major program areas: global AIDS care, access to health care, science
and medical innovation, and community vitality. Programs have ranged from health care worker training and infrastructure modernization to support of community-based organizations, creation of referral networks and specific interventions to reverse trends in malnutrition and maternal and infant mortality. The HIV/AIDS-related programs concentrate on improving accessibility and quality of HIV testing, counseling and treatment services to patients.

These programs, whether in urban or rural settings, were conceived with a high degree of local community input and based on assessments of community needs. Program-related measures were created and tracked in alignment with the health objectives of the programs. In many of the communities, there is tangible evidence that health improvements have created an enabling environment for individuals to return to work, seek employment, care for their families and for children to return or remain in school. The improvements have been noted at every level, from the individual up through national health systems.

One of our greater program investments has been in modernizing the health systems of Tanzania. This paper will provide an overview of the Tanzania program and examine its perceived economic benefits as well as propose how economic impact could be better captured in the future.

Health needs in Tanzania

TANZANIA HAS APPROXIMATELY 38 million residents. According to most recent World Bank estimates, Tanzania has a GNI of $12.4 billion, and GNI per capita of $340. In the past decade, expenditures on health as percentage of GDP have been low, rising to about four percent. Health infrastructure was largely neglected due to lack of available funds.

HIV/AIDS is the leading cause of death among adults 15-59, with a recorded prevalence of seven percent (Tanzania National AIDS Control Programme). Infectious diseases, many avoidable, account for most premature deaths and up to one half of all deaths occur among adults in the productive years of life, between 15 and 54. With more than 80 percent of its workforce employed in agriculture, forestry or fishing, industry has been persistently affected by health factors resulting in low productivity and incomes. There currently is only about one doctor per 25,000 Tanzanian residents.

Abbott Fund and the Government of Tanzania formed a public private partnership in 2001 to modernize the country's health system and expand access to HIV testing and treatment services. This partnership has coincided with an influx of global HIV donor funds and the implementation of a national HIV/AIDS treatment program. With outdated infrastructure geared towards emergency inpatient services, and a crippling lack of trained health care professionals, the country faced many challenges.

"When we first began our discussions with Abbott Fund, I am sure we regarded each other with a certain amount of distrust," said Anna Abdallah, former Minister of Health, United Republic of Tanzania. "They were wondering if Tanzania was a worthwhile investment and we were apprehensive about entrusting such an important part of our health system to a group that works very differently than we do. But more than five years later, the results speak for themselves."

• Strengthening Tanzania's health systems

THE FIRST PHASE of the Tanzania program centered at Muhimbili National Hospital, the country's leading teaching and reference hospital, with the understanding that changes in Muhimbili would trickle down to the rest of the system.

Physical changes at Muhimbili included the building and equipping of a modern three-story outpatient clinic at Muhimbili, which provides health care services to all patients, reducing stigma for those seeking HIV treatment. The hospital's laboratory has been modernized, allowing patients to get test results on the same day, rather than coming back days or weeks later to receive a diagnosis. One of the most extensive hospital IT systems in East Africa has been installed at Muhimbili to track health history, referrals, test results and drug prescriptions, and hospital staff have been trained to operate the system.

"For the first time, we have the systems in place so we easily locate records, track the progress of our patients, access their laboratory tests and know what medications they are taking. This has made a tremendous difference in our work environment as well as the patient's care and experience at the hospital," said Professor Leonard Lema, Chief Executive Officer, Muhimbili National Hospital. "On an administrative level, it helps us to maximize the valuable hours of each of our doctors and nurses. We are also able to be more effective managers because of rapid access to financial, human resource and supply records."

In addition to Muhimbili Hospital, the Tanzania program has extended to more than 90 hospitals, clinics and rural health facilities across the country. This includes both training and physical renovations at more than half of the country's regional hospitals. These 90 sites are now offering voluntary counseling and testing services for HIV, allowing testing to reach some rural areas for the first time. More than 150,000 patients have now accessed testing services at the improved facilities, and today about one in three people enrolled in the government's national HIV treatment program are receiving services at a facility that has benefited from Abbott Fund improvements.
Training of healthcare professionals has been integral to the scale up of programs across the country. To date, more than 10,000 health care professionals and community health workers have been trained through this partnership.

In 2007, Abbott Fund and Ministry of Health recognized that outdated laboratories around the country remained a key impediment in improving patient health. In response, Abbott Fund has committed to modernizing the laboratories of all 23 regional hospitals across Tanzania. The first phase of this program began in 2008, with the renovation of four rural and urban hospital laboratories.

Economic benefits

THE PROGRAM HAS NOTED a number of anecdotal reports about the economic impact of these health system improvements. Executive directors at several hospitals, including Muhimbili, have reported that improved working conditions have enhanced staff morale and productivity. They believe that upgraded facilities, training, and updated tools will positively impact staff retention at their institutions.

"We believe that the recent changes at Muhimbili will result not only in better care for the patients, but in greater staff retention," said Dr. Deodatus Mtasiwa, Chief Medical Officer, Ministry of Health & Social Welfare, United Republic of Tanzania. "At the Ministry of Health, we have done our part by improving the incentives scheme. The Abbott Fund has contributed by creating a work environment where the staff wants to come to work and feels better able to do their jobs."

Based on feedback from patients and health workers, the availability of health care services and same-day tests results and prescriptions saves them multiple return trips and lost wages. In rural and semi-urban centers, access to testing and medical services where people live and work appears to be a stabilizing factor within communities, reducing the time and expenses required for individuals to travel great distances to receive medical services. As a result of medical treatment and services, it is presumed that many people living with HIV are returning to work and able to lead productive lives and support their families.

One impact that can be measured is that strengthened hospital management practices at Muhimbili Hospital increased hospital-generated revenues by more than 50 percent in the first two years of the program. The hospital is now focusing on continued operational improvements to its modernized central pathology laboratory that will attract referrals and external research funding.

Last, the work that has been done encourages other funders to invest in Tanzanian health. Those who contribute training or goods are met with a working system that can handle the influx.

"When the Elizabeth Glaser Pediatric AIDS Foundation embarked upon an ambitious HIV care and treatment program in Tanzania, we learned that there were already systems in place in several health facilities that would allow us to reach more of the people we wanted to serve more quickly," said Anja Giphart, Country Director for EGPAF in Tanzania. "Abbott Fund support already had improved the facilities where we would be working, providing an excellent foundation for us. This was extremely encouraging for our work in Tanzania."

Discussion

IT IS EVIDENT that economic and health improvements appear to be inextricably linked, although not easily quantified. Abbott Fund’s programs have gone beyond their original health-related goals, and have helped to create an enabling environment for economic growth. These programs have been a catalyst that attracted resources of other private sector organizations, facilitated in retention of valuable health care workers and contributed to a more productive and healthier workforce.

In order to have a more comprehensive understanding of the economic impact of these programs, it would be interesting to document the following indicators:

- Number of jobs created by programs
- Number of people trained that resulted in employment
- Number of trained healthcare workers who stay in their home countries rather than seek employment abroad
- Number of people on medical treatment returning to the workforce
- Productive work hours gained as a result of efficiencies in health system.

While there are many economic impacts that can be transformational at the individual and family levels, many cannot be easily measured. For example, there is a tremendous qualitative household benefit for a mother who is able to care for her entire family rather than concentrating on a sick child or a spouse. Likewise, a child who is able to stay in school versus dropping out to support the family will have better livelihood options in the future as a result of an education. People living with HIV who have to travel a day each way to a hospital suddenly gain a productive day of work when they no longer have to keep returning to get test results.

Measuring economic impact goes well beyond current program resources of individual donors or private sector actors. This is a much larger enterprise requiring the expertise of academia, health economists and international development organizations to create new models to capture the economic multiplier effect. Capturing these economic benefits may encourage the governments of developing countries to invest in their own health care systems if it contributes to a growing, healthy economy. It would also help guide policy makers to best target health care spending that may also multiply the economic impact of their resource allocations. The data could also help governments attract public and private funds, by showing the potential impact from investing in a healthy work force.

Christy L. Wistar is Vice President of Abbott Fund Tanzania.

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Access to Finance and Markets as a Strategy to Address Poverty

BY NACHIKET MOR AND BINDU ANANTH

Introduction

A KEY AND ALMOST AXIOMATIC belief in our work on creating access to financial services is that almost all regions of India possess a set of economically viable occupations (such as buffalo rearing, running a rural provision store, fruit and vegetable vending and engaging in simple home based craft) that even the very poor can almost immediately engage in without the need for any specialized inputs or skill building. Since these occupations essentially rely on public goods (such as public grazing lands) to provide raw materials and "in-home under-employment" to provide labor, at the margin they have very high rates of return—well in excess of 100 percent per annum (Helms and Reille 2004).

An important guiding principle is that the only input required to leverage these sets of economic opportunities is access to basic financial services, which include savings, credit, insurance and tools for risk management. This is in contrast to the view that access to financial services can impact poverty alleviation only if accompanied with other complementary inputs, typically training and skill development interventions. For example, micro-loans (typically amounts less than USD 250 per household), in a region as poor as the Mirzapur District of
Uttar Pradesh, can allow families, too poor to afford even two meals a day, to start with extremely low-skilled occupations such as buffalo rearing and gradually reach a level where they can afford minimal meals and withdraw their children from the workforce for attending school. Even where the micro-loans are not used to finance new income generating activities but to refinance higher cost debt, this immediately releases new resources for the household to finance existing consumption or incremental production activities. Micro loans also provide an important source of liquidity to meet fixed commitments (such as school fees) despite income flows being extremely seasonal.

The pathway to universal financial services access

If one accepts the premise of the centrality of "access to finance" in providing a pathway out of poverty for several households, then the first challenge to be addressed would be how such access may be universalized with every individual being able to avail a basic set of financial services. To provide this access, the following steps appear necessary (Mor 2006):

1. Development of a network of community based financial institutions, which have the ability to provide these financial services. This network of institutions could include Cooperative Banks, Non-Banking Financial Companies (NBFCs), local bank branches of commercial banks, Civil Society Organizations or Producer Cooperatives, as the case may be. The requirement is that these institutions are able to develop operating models that draw on local information and operationalize sufficiently low cost structures that make the business of serving the poor sustainable over the medium term. Within India, the belief is that a network of over 200 such entities, each with the capability to serve a million households, would be needed (Ananth et al 2004).

2. The participation of one or more main-stream financial institutions that are willing to partner with these entities to provide:
   - Financial resources for on-lending: ICICI Bank's Partnership Model is an example of a financing model that uniquely leverages the local presence of these entities with the ability of the bank to diversify risk and provide wholesale lending funds in large quantum.
   - Access to equity capital for growth.
   - Direct links with capital markets as the entities mature (www.gfusa.org/programs/india_initiative/grameen_capital_india/).

3. Creation of an enabling environment that can support the continued growth in the number of entities that make up this network in India. The following steps have thus far been taken in India in this pursuit:

   - Creation of Venture Capital Funds engaged in the task of identifying and providing equity finance, and mentoring new entrepreneurs desirous of creating such entities. This combined with Takeout Finance where a bank is prepared to automatically partner with a successfully created entity and permit it to repurchase the equity invested by the Venture Capitalist (VC) at a pre-agreed minimum rate of return to the VC. Once the process of creation is successfully completed, mezzanine equity of the type provided by ICICI Bank's Partnership Model referred to earlier is a cheaper and a more appropriate source of equity for successful entities relative to equity capital being provided by VCs.
   - Creation of specialized institutions such as the Centre for Micro Finance (CMF) at IFMR (www.ifmr.ac.in/cmif) and the Centre for Insurance and Risk Management (CIRM) IFMR (www.ifmr.ac.in/cirm) and the Centre for Innovative Financial Design at IFMR (www.ifmr.ac.in/cifd) to provide research and product design capabilities both at a basic level and at an advanced level.
   - Launch of FINO, an Application Services Provider (ASP) that seeks to provide front-end (smart card, point-of-sale terminals), back-end (banking software, performance management and reporting, MIS) and information services (credit bureau) to these institutions (www.fino.co.in). This architecture of technology ASPs enables micro-banking operations to enjoy the same transaction quality and cost as is the case with a large bank.
   - Launch of MicroFinanceJobs.com to provide access to human resources to these entities so that their expansion is unconstrained (www.microfinancejobs.com).
   - Regulation that permits the use of business correspondents for extending access to basic banking operations. It is expected that with these three broad strategies it should be possible to scale the access to finance quite rapidly. In the case of ICICI Bank in India; operating with this three pronged approach, it has catalyzed the creation of over 100 micro finance partners and in three years has been able to go from USD 1.2 million in micro-loans extended to about 20,000 clients to over USD 522 million being provided to about 3 million clients in a three-year period (www.icicibank.com and Anand 2006).

Addressing other missing markets

Financial services for the poor have long been considered a "missing market" owing to the information constraints that characterize it. Once the "access to finance" challenge has been overcome through the mechanism described in the previous section (and even while it is in the process of being overcome), the belief is that most of these households would be able to come up to a minimum level of subsistence. A basic premise of the first phase of work described earlier, is to let individuals choose a set of activities based on their capabilities and the context in which they operate and focus exclusively on the rapid universalization of the provision of financial services. However, it is very likely that such households would continue to be poor and therefore vulnerable to even moderate levels of
systemic shocks to their economic environment (Khanna 2006). This is when "missing markets" in other services for the poor start to become important. These may be in several areas including skill building, quality control and productivity improvement.

In our view taking clients to the next level of economic activity needs a much more concerted effort and one that builds on the fact that a large population of economically active poor now have access to basic financial services and have "revealed" their preference for certain activities. The challenge is to build effective linkages to mainstream markets. For example a majority of microfinance clients are engaged in dairying. Given this, any intervention in dairy productivity enhancement, while being consistent with a bank's business objectives, also provides access to such services to those clients that have already indicated their willingness to undertake this activity. Along the same lines, it may now be possible to think of other interventions that, while not being distortionary, improve value realization within the occupations that individuals are already engaged in. The fact that clients are willing to pay for these value-added services by taking loans provides a powerful signaling device to providers. Traditional models of technical assistance and livelihood development are unable to resolve whether the phenomenon of clients not paying for the services delivered is due to affordability constraints or lack of perceived value.

Towards this goal of addressing missing markets for livelihood services to clients, one promising strategy appears to be to complement the existing work of MFIs in financial services access with supply chain strengthening for various activities that the same client group is engaged in. One such architecture is being innovated by the IFMR Trust's Network Enterprises Fund (www.ifmrtrrust.co.ins).

IFMR Trust is creating a series of specialized "Network Enterprises" (NEs), which will be able to improve producer realization within specific value chains. Network Enterprises will be prioritized in areas that can add targeted services to the livelihood that clients are already engaged in. Each of these NEs will address specific supply chain problems and ensure adequate supply of finance by making available to banks opportunities for structured debt.

There are other opportunities for MFIs to positively impact client livelihoods. A couple of these are detailed below:

**1.** Developing carefully structured partnerships between grass-roots organizations and large companies so that at terms of trade that are fair, inputs such as commodity marketing and hedging services, cattle feed supply and fruit and vegetable procurement services can be provided to the clients of these grass-roots organizations. Once again, the belief is that clients will be willing to pay for these services if the links to price realization are directly apparent. The scalability of micro-enterprises of micro finance clients is often limited by credit constraints faced by the individuals/enterprises higher in the value chain. Business models to provide finance to Small and Medium Enterprises on a very large scale might serve to increase the market potential of the entire chain.

**2.** Working closely with micro-finance institutions (MFIs) and other grass-roots organizations on health and productivity interventions that are paid for directly or indirectly by the MFI's client. Examples of interventions in this category include distribution of smokeless cooking ovens, treated bed nets and iron pills to cure anemia. While these have been viewed as important interventions for several years, the mechanism of distribution through MFIs has the advantage of being able to meet financing requirements to pay for these interventions as well as leverage the high frequency of client contact that MFIs enjoy.

The belief in all these cases is that in order to provide these "goods and services" at a scaled level and to actually deliver value to both ends of the supply chain, highly competitive and large entities would be required which would seek to link small rural producers and service providers with some of the largest markets in the world. MFIs represent an important customer aggregation channel but may not be effective as a multiple services provider.

**Conclusion**

In the preceding paragraphs it has been argued that there exist a set of market-based approaches that have the potential to address poverty on a scaled basis. At the heart of this approach is building universal access to financial services as a starting point. It is suggested that such access is best provided in a commercial and sustainable manner through creative partnerships between banks and a network of local financial institutions. The information gained from observing the unconstrained livelihood choices of clients, the scale of financial access created and the implementation capability of local financial institutions then provide the unique opportunity to conceptualize well targeted livelihood enhancement interventions for this population. The belief is that interventions that build systematically on an "access to finance" component and subsequently include an "access to markets" component have the potential to provide large positive income shocks. The appeal of this approach is that it is fundamentally rooted in a commercial proposition both for the participating client as well as for the service providers. Therefore, the promise of scalability is higher than in traditional grant-led livelihood development programs.

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A more comprehensive version of the article with a complete list of references is available at WBI's Business, Competitiveness and Development website: www.devandbiz.org.
Bringing Bangladesh into the Digital Age

BY DEFTA PARTNERS GROUP, THE ALLIANCE FORUM FOUNDATION, AND GEORGE HARA

"IT IS PART OF OUR CORPORATE MISSION to utilize our expertise in technology in order to increase the standard of living in developing countries." George Hara, Group Chairman and CEO of DEFTA Partners, shared his vision of improving the quality of life in developing countries through improved technology and communication infrastructure. Representing a simple and intuitive concept in a modern cyber world, these remarks engender a revolutionary approach to creating an inextricable link between capitalism and social responsibility.

Mission

HAVING ESTABLISHED various successful ventures in the post-computer technology market in developed economies such as the United States, Europe, Israel, and Japan, Mr. Hara has endeavored to bring cost effective information infrastructure technologies to less developed countries in many continents such as Asia, Africa, and Latin America. In 2005 DEFTA Partners launched its first initiative towards reducing poverty
through bracNet, a pilot project geared to bring Bangladesh into the digital age.

**Pilot project: Bangladesh**

**WHY BANGLADESH?** The United Nations recognizes 50 countries as the “Least” among Less Developed Countries (LLDC), of which per capita gross national income is less than 2 USD a day, the literacy rate is less than 50 percent, and infant mortality is more than one of six. As DEFTA expands into emerging markets, Mr. Hara has identified specific criteria that are deemed to be integral to the success of this initiative. Perceiving location to be a vital element of his endeavor, Mr. Hara focused his attention on politically stable regions void of sectarian conflicts with a large population base (typically greater than 20 million). (In his view, this would yield optimum results because DEFTA’s technological efforts would benefit a large percentage of the world’s population).

Given the criteria outlined, Bangladesh appeared to be an ideal location to launch DEFTA’s first enterprise to use modern technology in an emerging market. The country has the eighth largest population in the world with roughly 150 million people, a 50 percent literacy rate, and per capita GDP of approximately 400 USD. Additionally, Bangladesh was experiencing a current account surplus and has maintained a stable economy that was growing at 5-6 percent a year. The country’s high population density was advantageous to the roll-out of the network infrastructure.

In addition, there was the Bangladeshi intangible: that the country was undergoing dramatic transformation that had not yet appeared in the “statistics”. Over 15 million micro-credit borrowers, each of whom were small entrepreneurs or business operators in their own right, and the growth of the garment business had transformed the country into one that never sleeps—constant economic activity is a hallmark of the Bangladesh of today, a characteristic duly noted during project feasibility investigation.

Another key element that contributed to Mr. Hara’s decision to launch in Bangladesh was his encounter with Bangladeshi-American entrepreneur Khalid Quadir. Mr. Quadir’s entrepreneurial spirit, tenacity, and enthusiasm coincided nicely with Mr. Hara’s vision to transform the country through the internet—to connect the village with the city, the school to a remote learning center, the farmer to a national market, the urban worker to his relatives at home and abroad, the household to the community, the local business to its global customer.

**Critical partnership**

**THE BANGLADESH BRACNET PROJECT** focuses on the deployment of WIMAX, a next generation wireless infrastructure technology that enables low cost broadband communications.

DEFTA realized that the entire country could be covered with access points at a capital cost in the range of $10 million, versus the 25-50 percent higher cost of rolling out a cellular or fixed line network. The ultimate goal of the Bangladeshi proj-

ect was to use this new technology to increase literacy and enhance education and health care. Establishing the core partnerships of the project was critical. DEFTA needed core local partners to better understand the country’s current communication position. The consortium of partners was brought together for technology, investment, and general management.

More importantly, DEFTA created a joint venture with BRAC, one of the world’s largest social development organizations based in Bangladesh, to form bracNet, for bracNet, a jointly held company for the express purpose of connecting the country. DEFTA and BRAC shared a common vision that a sustainable business could be built on the premise of providing connectivity services to the underserved in Bangladesh. BRAC’s core NGO activities focus on lending to the less fortunate or providing micro-credit, and currently it lends to over 5 million borrowers and has achieved a repayment rate in excess of 99 percent. BRAC also has first-hand experience in Bangladesh’s education and health care systems: it operates 52,000 schools in the country and provides essential health care coverage to 31 million people through its 68,000 volunteers. BRAC also operates a number of “for-profit” enterprises in retail, dairy, printing, banking, seed processing and other commercial operations that support its clientele. Commercial operation profits are re-invested into further growth of its NGO operations. By partnering with a local organization like BRAC, bracNet benefits from having access to local resources and contacts, long-term experience with Bangladeshi education and health care, and a comprehensive understanding of the domestic landscape and regional challenges.

Mr. Hara and BRAC’s shared vision and alignment of interests has meant that the company bracNet could be effectively run on a joint venture basis. BRAC appointed the Chairman, Mueed Chowdhury, one of Bangladesh’s most distinguished civil servants, former Advisor to the 2001 Caretaker Government and then Executive Director of BRAC, while DEFTA appointed its core management team and board members. DEFTA has arranged with BRAC to share the ownership of bracNet; BRAC currently owns 40 percent of the company and DEFTA Partners owns 60 percent of it.

**Implementation strategy**

BRACNET’S ULTIMATE GOAL is to be the largest wireless IP-based communications company in Bangladesh by 2010. In order to achieve this, the company is utilizing cutting edge technology and following a disciplined strategic path for building an integrated, solutions oriented business for the country. The initial year of operation was spent on testing the relatively new WIMAX based network technology and rolling out network coverage in major urban areas of the country. Currently the company is focused on building the network into Bangladesh’s rural heartland.

BRAC, DEFTA and the bracNet management team have created the strategy for building a national network. However, the parties recognize that in a country like Bangladesh, there is a need for low cost communications, and content and appli-
cations which are suitable and relevant for the mainstream user. Accordingly, bracNet is developing a suite of communications and content services that fit the needs of its low-income customers. Such services include IP-PBX which enables low cost voice communications technologies for large groups or communities, video services for security, education, health care and other technology programs such as classified ads and auction sites that enable the creation of "micro" national markets.

With the development of these services bracNet can create a more lasting impact for Bangladeshi residents. Additionally, the company can leverage the DEFTA portfolio companies for advanced technology. For example, XVD, the most efficient real-time imaging compression engine, can be used for live video applications such as distance learning and health care applications. Using XVD, less bandwidth is needed for live video transmission, leading to lower cost applications. Fortinet, another DEFTA portfolio company, can provide advanced network security systems and devices. DEFTA’s experience in developing and accessing technology, coupled with BRAC’s brand and deep national roots, bracNet has a clear advantage towards achieving its objectives.

Job creation

A VITAL ASPECT of bracNet’s strategy is human resource development. In Bangladesh, as in many other developing economies, skilled personnel—whether in the technology or general business arena—are in high demand and are fairly scarce. To this end, bracNet has focused on recruiting the right people and providing a learning environment for technical training. Fortinet, another DEFTA portfolio company, can provide advanced network security systems and devices. DEFTA’s experience in developing and accessing technology, coupled with BRAC’s brand and deep national roots, bracNet has a clear advantage towards achieving its objectives.

Prospective growth and sustainability

BECAUSE DEFTA PARTNERS is comprised of an extensive international network of corporate partners, investors and advisors, it has created accountability and strong vested interest for multiple global players. Accordingly, it has drawn financial interest from a variety of sources including Japanese, American, and European corporations, financial institutions, and foundations. In addition to financial capital, bracNet is also supported by a strong management team who shares in its vision of improving the livelihood of Bangladeshi residents and ensuring sustainability of the project.

Ultimately, prospective growth and sustainability are based on customer satisfaction and competitive advantage. The initial year was spent assisting Bangladeshi companies of all sizes to connect to the internet; and through proper training and management of internet usage, each company’s customer base using internet capabilities has tripled in the past year. From a competitive standpoint, DEFTA Partners’ experience in developing technology has given bracNet an overwhelming advantage over other IT firms to establish a national network based exclusively on fiber-optic technology. Consequently, DEFTA optimizes its investment by avoiding the need and the high costs associated with building new infrastructure.

bracNet recognizes the high costs associated with having access to internet connections. Consequently, the company has strategized on how to make the internet accessible to individuals of all income levels. The bridging of this divide will be accomplished through a highly specialized network of distribution partners. One tier of the distribution will reach households through local neighborhood access providers, typically run by an entrepreneur. These providers, known as bracNet Partners, are trained in connecting households and small businesses who cannot afford a full broadband connection at a nominal cost of USD 15-18 per month; the bracNet Partner will install a basic internet connection.

A second channel of partnerships is focused on public access, particularly in rural areas. bracNet has developed a franchise of digital centers called "e-huts" to cater to local communities, enabling individuals and small businesses to access the internet from the center for less than 50 cents. Additionally, bracNet is offering computer training certification programs in most of these rural settings. The centers also provide other digital tools that are typically used in conjunction with the internet such as copiers, scanners, and digital

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**PRODUCT APPLICATION FOCUS**

BracNet strategy is focused on bringing functional utilities and applications to Bangladesh that will bring life to internet connectivity.

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<tr>
<td>Classified Ad Services</td>
<td>Portal Content</td>
<td>IP Data and Voice Capability</td>
<td>Wimax-based Data and Internet Services in Dhaka</td>
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<tr>
<td>B2B Classified Service for SME's POS Payment Services</td>
<td>National Directory Services Launch POS Payment Services</td>
<td>IP Based data, voice and video services</td>
<td>National Expansion Begin Connecting BRAC Schools</td>
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Source: DEFTA Partners
cameras. The recently initiated program has twelve such digital centers today and the goal is to develop several hundred of these centers in the next 12-18 months.

A third indirect channel to the end user will be the education sector. BRAC has over 52,000 schools that educate 1.5 million students. bracNet has already connected several schools in the Dhaka metro area with the internet, and has a detailed plan to serve all of the remaining schools in the near future. bracNet will face ongoing challenges as internet connections within schools require a more powerful infrastructure. bracNet will be working with the public and private sectors to develop a long-term plan to improve current standards.

DEFTA Partners’ global presence has saved Bangladesh over $500 million in capital investments. By 2009, bracNet is expected to earn $60 million in revenue, with approximately $17 million in pure profit.

Scalability and global application

DEFTA’S LONG-TERM VISION is to use the experience in Bangladesh to apply a similar model to other developing countries lacking broadband connection. DEFTA Partners is already planning its second phase in determining the next project. A number of countries have expressed interest in developing new communication systems to help alleviate poverty within their respective countries. At the ASEAN meeting in June, 2007, CLMV (Cambodia, Laos, Myanmar, and Vietnam) representatives were enthusiastic in deploying the application in their regions. Additionally, countries in the Caribbean and African regions have also expressed their interest in implementing this technology to improve local infrastructure. DEFTA Partners has tested its model and its ability to be replicated within new environments; as a result, DEFTA Partners is prepared to start deploying similar technology in other countries.

The double bottom line: Incentive, opportunity, alliance

SHAREHOLDERS HAVE QUESTIONED DEFTA Partners’ recent interest in developing countries, and whether it is in the best interest of the company, or whether the new initiative maximizes shareholder value. As with most corporations, long-term business plans involve expanding overseas, and Mr. Hara believes his company needs to follow suit in order to remain competitive. To this end, Mr. Hara has satisfied his shareholders by sharing with them the profit potential and business opportunities in Bangladesh and other developing countries. The Bangladesh project shows strong promise as demonstrated by its growth and stable returns. DEFTA Partners has truly achieved a “double bottom line”—a win for its investors and a win for the country—through its work with bracNet. It also represents an innovative model for economic development—bottom line orientation to achieving sustainability, profitability and social responsibility—and a marked departure from “grant” oriented projects. DEFTA Partners is looking to expand its project work to other developing countries in order to maximize company profits while reducing poverty globally.

DEFTA Partners Group www.deftapartners.com
Alliance Forum www.allianceforum.org

Endnote
1 2003 WSIS (UN World Summit on the Information Society) symposium in Switzerland

George Hara is Group Chairman and CEO, DEFTA Partners;
Prime Minister's Government Special Commissioner on Tax Reform;
Special Advisor, Ministry of Finance; Ambassador, IIMSAM Permanent Observer Mission to the United Nations Economic and Social Council;
WAFUNIF Representative Ambassador.
Lessons learned

ONE KEY LESSON from this project shows that health and non health-related organizations and individuals can be motivated to participate in health-related social responsibility activities. In presenting an effective proposal to a prospective SR partner, it is essential for the partner to understand that the partnership is mutually advantageous.

The impact of Takamol’s SR activities has been enhanced by its relevance to the various components of the Takamol integrated model, which provides a mutually-reinforcing structure for SR at the community, governorate, and national level.

Stakeholder benefits

THE TAKAMOL PROJECT has mediated a range of successful health partnerships in Egypt. In these partnerships, each stakeholder reaps benefits. For example, in the case of Barclays Bank Egypt, the people of the urban poor area have benefited from a clean, well equipped clinic that provides quality care.

Meanwhile, Barclays has benefited through its exposure to new potential clients, through contributions that have been efficiently and effectively used and had measurable impact. In addition it has an enhanced reputation as a socially responsible business.

Everybody wins!

THE VALUE CREATED for all parties when social responsibility programs are implemented is enormous. The Takamol project has successfully started a trend that an increasing number of businesses and individuals are now following. At a recent CSR conference in Cairo, Barclays Bank Egypt’s Finance Director made it very clear why his organization became involved in CSR with the Takamol project; and why others should also. In summarizing he simply stated, “because everybody wins!”

Andy Cole is Reporting and Documentation Specialist of Takamol Project.
Mohamed Afifi is Monitoring, Evaluation and Reporting Team Leader of Takamol Project.
Reem Salah is Corporate Social Responsibility Specialist of Takamol Project.

Endnotes

1 In 1996 Cashpor Financial and Technical Services began providing microcredit in the Mirzapur District of Uttar Pradesh. For more details refer to www.fao.org/DOCREP/004/AC154E1AC154E03.htm.
2 Centre for Micro Finance at IFMR in Chennai, India (www.ifmr.ac.in/cmfr) is engaged in the task of researching this carefully. Data on the Indian microfinance market are hard to come by. One estimate puts the demand for these basic micro-loans with an average size of no more than USD 200 per loan at over USD 20 billion annually in India with close to 100 million households without access to these loans.
4 ICICI Bank has recently tied up with three venture capital funds to extend seed capital to start-up microfinance institutions. These three funds include Bellwether Microfinance Fund (www.bellwetherfund.com), Avishkar- Goodwill Fund (www.avishkaar.org), and Lok Capital Fund (www.lokcapital.com).
5 One such example is the partnership between ICICI Bank and Spandana, wherein, with the help of the Bank, Spandana negotiated with different cattle-feed companies for improving the yield of buffaloes and therefore the income of poor households. For more details refer to http://ifmr.ac.in/cmfr/newsletter/CMF-EOMF-01.pdf.
6 IFMR has set up the Small Enterprise Finance Centre (SEFC) (www.ifmr.ac.in/sefc) to overcome the limited and untimely access to finance for SMEs.
**NEXTBILLION.NET** is a website and blog about how business drives positive social and environmental change in low-income communities. It serves as a discussion forum, networking space and knowledge base for individuals and organizations interested in the “next billion”—the next billion people to rise from the base of the economic pyramid (BOP), and the next billion in profits for businesses that strive to fill market gaps by integrating the BOP into healthy economies. Its goal is to promote the development and implementation of business strategies that open opportunities and improve quality of life for the world’s 4 billion low-income producers and consumers.

http://www.nextbillion.net/resources/links

**THE PRIVATE SECTOR DEVELOPMENT BLOG (PSD Blog)** gathers together news, resources and ideas about the role of private enterprise in fighting poverty. The blog is informal and represents the quirks and opinions of the bloggers.

http://psdblog.worldbank.org/psdblog/

**THE INTER-AMERICAN DEVELOPMENT BANK (IADB),** also known as Banco Interamericano de Desarrollo (BID), is a multilateral development Bank that comprises forty-six members and was established on December 30, 1959, to promote economic and social development in Latin America. The Bank recently developed a new web portal on “Opportunities for the Majority” which applies sustainable, market-based strategies to bring the benefits of economic and social development to the majority of the population of Latin America and the Caribbean.

www.iadb.org/om/

**THE SNV-NETHERLANDS DEVELOPMENT ORGANIZATION,** with more than four decades on-the-ground experience, helps people overcome poverty in developing countries worldwide. SNV provides strategic advisory, knowledge and advocacy support through 900 technical advisors and 90 offices in 33 developing countries to more than 1,800 public, private and social sector organizations in Africa, Asia, the Balkans and Latin America to accelerate, scale and sustain their fight against poverty and inequity.

www.inclusivbusines.org, developed in partnership with the World Business Council on Sustainable Development (WBCSD).

www.snvla.org

**THE CSR INITIATIVE** at Harvard’s John F. Kennedy School of Government is a multi-disciplinary, multi-stakeholder program that seeks to study and enhance the public role of private enterprise, with a focus on business and global development. Under the direction of Faculty Chair John Ruggie and Director Jane Nelson, the Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors.

www.hks.harvard.edu/m-rbg/CSRI

**INFODEV** works to promote better understanding and effective use of information and communication technologies (ICTs) as tools of poverty reduction and broad-based, sustainable development. infoDev’s work focuses on three main themes: Access for All; Mainstreaming ICT; and Innovation, Entrepreneurship & Growth.


**THE EGYPTIAN INSTITUTE OF DIRECTORS (EIOD)** was established in 2003 as the first institute focusing on corporate governance in the Arab region. It aims to spread awareness and to improve good corporate governance practices in Egypt, the Middle East, and North Africa (MENA region). The activities of the EIoD are targeted at directors, key executives, shareholders, and other stakeholders of corporations, financial institutions, as well as state-owned enterprises.

www.eiod.org
inWEnt—Capacity Building International, Germany, is a non-profit organization with worldwide operations dedicated to human resource development, advanced training, and dialogue. Its capacity building programs are directed at experts and executives from politics, administration, the business community, and civil society. It is commissioned by the German federal government to assist with the implementation of the Millennium Development Goals of the United Nations. In addition, it provides the German business sector with support for public private partnership projects. Through exchange programs, InWEnt also offers young people from Germany the opportunity to gain professional experience abroad.

http://www.inwent.org

SCOJO FOUNDATION is a social enterprise that takes a market-based approach to the distribution of reading glasses, an essential and affordable product that is currently not available to the rural poor of the developing world. Scojo Foundation creates local, permanent, and financially viable systems to solve this global market failure.

www.scojofoundation.org

THE BLENDED VALUE PROPOSITION states that all organizations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market-rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations. The outcome of all this activity is value creation and that value is itself non-divisible and, therefore, a blend of these three elements.

www.blendedvalue.org

EQUILIBRIUM CAPITAL GROUP, LLC is an investment firm committed to funding and growing leading companies in the area of sustainability. The company plans to invest in privately held, growth-stage companies with an emphasis on: Green

Building, Resource Efficiency (Energy and Water), Reuse and Recycling, Carbon Management, Healthy Consumer Lifestyles.

http://eq-cap.com

THE CENTER FOR SUSTAINABLE GLOBAL ENTERPRISE views solutions to environmental and social problems as business opportunities, not a cost of doing business. We frame the solutions to these complex issues as new business growth rooted in innovation and enterprise development. We maintain a global network engaged in collaborative research and field work focused on strategy formulation and implementation in two domains: sustainable innovation and base of the pyramid enterprise development.

www.johnson.cornell.edu

ASHOKA strives to shape a global, entrepreneurial, competitive citizen sector: one that allows social entrepreneurs to thrive and enables the world’s citizens to think and act as changemakers.

Ashoka envisions a world where Everyone is a Changemaker: a world that responds quickly and effectively to social challenges, and where each individual has the freedom, confidence and societal support to address any social problem and drive change.

www.ashoka.org

The EGADE graduate business school of Mexico’s Monterrey Tec Institute has convened a multi-disciplinary team of investigators and industrial experts to identify and develop opportunities Base of the Pyramid (BOP) markets.

www.itesm.edu

GREENBIZ.COM is the leading online news and information resource on how to align environmental responsibility with business success. It offers more than 8,000 resources, including daily news and feature stories, reports, checklists, case studies, and links to organizations, technical assistance programs, government agencies, and recognition programs. Its free e-newsletter.

www.greenerworldmedia.com
BUSINESS SOLUTIONS FOR THE GLOBAL POOR: CREATING SOCIAL AND ECONOMIC VALUE, Rangan, V. Kasturi, John A. Quelch, Gustavo Herrero, and Brooke Barton, John Wiley & Sons, Inc., 2007. Based on research presented at The Harvard Business School’s first-ever conference on business approaches to poverty alleviation, Business Solutions for the Global Poor brings together perspectives from leading academics and corporate, non-profit and public sector managers. The contributors draw on practical and dynamic how-to insights from leading BOP ventures from more than twenty countries worldwide. This important volume reflects poverty’s multi-faceted nature and a broad range of actors—multinational and local businesses, entrepreneurs, civil society organizations and governments—that play a role in its alleviation.

THE NEXT 4 BILLION: MARKET SIZE AND BUSINESS STRATEGY AT THE BASE OF THE PYRAMID, The International Finance Corporation and World Resources Institute, 2007. This report, based on unique access to the household income and consumption surveys of developing and transition countries, offers a new perspective on low-income communities worldwide. Drawing on income data from 110 countries and standardized expenditure data from 36 countries across the globe, The Next 4 Billion is an important first look at the market opportunity at the BOP. The analysis for the first time provides a quantitative assessment and characterization of BOP markets, by country and sector.

BUSINESS ENGAGEMENT FOR GOVERNANCE, InWEnt gGmbH, Capacity International, Germany, World Bank Institute, 2008. The 12th International Business Forum (IBF), organized by InWEnt-Capacity Building International and by the World Bank Institute, brought together over 300 participants from the private sector, government, civil society and multilateral agencies worldwide to debate business engagement for improved governance in relation to today’s pressing global challenges. Under the overarching theme of the Millennium Development Goals (MDGs) the 12th Forum dealt in more depth with two issues high on the international development agenda: climate change and corruption. The report includes background analysis of the issues discussed during the Forum, viewpoints of the plenary session experts and working group participants as well as extracts from the blog which provided regular Forum updates.


BUILDING LINKAGES FOR COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP: INNOVATIVE PARTNERSHIPS TO FOSTER SMALL ENTERPRISE, PROMOTE ECONOMIC GROWTH AND REDUCE POVERTY IN DEVELOPING COUNTRIES, Jane Nelson, 2007. Improving the access of small enterprises to finance, skills, technology, information, responsible business practices, legal rights, and markets is critical to economic growth and therefore to poverty alleviation. This report analyses different models of public-private partnership and collective corporate action that support competitive and responsible small enterprise development, making recommendations for increasing their scale and effectiveness.

OUTSIDERS?, Inter-American Development Bank, 2007. Who are the millions of people in Latin America and the Caribbean who have suffered economic and social exclusion? How do factors such as gender and race influence exclusion? Why is inequality growing? These and many other questions are answered in the IDB’s 2008 Report on Economic and Social Progress, which offers a detailed description of new forms of exclusion in the region and the danger they present to social cohesion and democracy.

The global context for business continues to change at an unprecedented rate, and Stuart Hart has effectively captured important insights into the nature of this contextual shift in this updated edition of *Capitalism at the Crossroads*.


This report applies some basic business questions to SL business projects. It shows how leading companies are answering them and innovating to overcome the barriers to doing business in this new territory. Questions include: What are the motivations? Do we understand the real needs of the markets? Do we have the right product/service to offer? How do we finance the investment? How do we ensure that there is demand for our product/service? How do we ensure that our customers can afford it? How do we reach our customers? How do we collect revenues? And how do we scale up or replicate?


As Milton Friedman might say, “the business of business is business”—and this is exactly what gives firms the capability and credibility to expand economic opportunity in developing countries. This report, drawing on the results of eight industry-specific reports in the same series, identifies four key strategies companies use to expand economic opportunity: creating inclusive business models, developing human capital, building institutional capacity, and shaping public policy.


“The Executive” is a quarterly business magazine issued by the Egyptian Institute of Directors (EIoD). The EIoD is an affiliated entity in the Ministry of Investment working on corporate governance and corporate social responsibility issues in Egypt and the MENA region.


The work presented in this report highlights some of the key challenges and ways forward for Saudi Arabia corporate social responsibility for it to be an effective driver for the long-term sustainable development of the Kingdom. The report emphasizes the need for more creative frameworks and ideas that help companies identify, prioritize and address the social and environmental issues that matter most, and where the private sector can make the biggest impact individually and/or in partnerships with the public sector.


This book brings together the latest thinking about poverty dynamics from diverse analytic traditions. While covering a vast body of conceptual and empirical knowledge about economic and social mobility, it takes the reader on compelling journeys of multigenerational accounts of three villages in Kanartaka, India, twelve years in the life of a street child in Burkina Faso, and much more. Leading development practitioners and scholars from the fields of anthropology, economics, political science, and sociology critically examine the literature from their disciplines and contribute new frameworks and evidence from their own works.


This book examines the economics of the Middle East, with the aim of identifying changes to economic policy that could address at least the economic component of the challenges facing this part of the globe. The authors analyze the interaction of trade, productivity growth, and the political difficulties that may ensue as these countries move towards greater openness. Relevant comparisons are drawn from the experience of the transition economies and India on potentially successful policies and those likely to exacerbate existing problems.
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Guangzhou, China
www.nextbillion.net/event

9-11 The Annual Bank Conference on Development Economics (ABCDE)
Cape Town, South Africa
http://web.worldbank.org/

19-21 XXII Annual Conference of the European Society for Population Economics
London, UK
www.econ.ucl.ac.uk/espe2008/

**JULY 2008**

7-9 Knowledge for Growth: European Strategies in the Global Economies
Toulouse, France
www.knowledge-conference-france2008.eu

13-25 Making Markets Work (two-week training program)
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www.nextbillion.net/node/5214

**SEPTEMBER 2008**

Kampala, Uganda
wafsl@stlrega.org
http://www.worldagforum.org/index.php?section=1

15-26 Achieving the Millennium Development Goals: Poverty Reduction, Reproductive Health and Health Sector Reform (Global Course)
Bangkok, Thailand
Michelle Morris, mmorris1@worldbank.org
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