

CSR ASIA

Business
Briefing

Enterprise Based Approaches to Economic Development and Poverty Alleviation

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What is the state of poverty and development today?

The unprecedented economic growth of low and middle income countries over the past decades has contributed to a rapid shift out of poverty for hundreds of millions of people, especially in Asia. But this growth has not included everyone, millions have been left behind and societies are more unequal than ever before, which threatens to undermine the pace of progress.¹ With other factors, such as rapid urbanization, climate change, and increasing resource constraints, a new path must be forged for responsible and inclusive development.

Globally, there are still an estimated four billion at the base of the economic pyramid (BoP) earning less than US\$ 5 per day, 80% of these live in developing countries where income differentials are widening.² Statistics for access to basic human needs are staggering: 1 in 7 people globally are hungry or malnourished,³ 1.3 billion are without electricity,⁴ 2.5 billion don't have a simple savings account,⁵ and 2.5 billion do not have access to basic sanitation.⁶



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Why does poverty matter to business?

Historically, most companies have considered development issues to be outside of their realm of responsibility or influence, assuming these issues should be addressed by governments and civil society organizations. But as the complex interconnectivity between our societies, economies and the environment have become better understood, companies have started to realize that there is both a responsibility and an opportunity to play a role in poverty alleviation.

Businesses do not operate in a vacuum, they thrive if the socio-economic conditions around them are vibrant. Companies cannot succeed in societies that fail.⁷ They therefore have a vested interest in proactively addressing socio-economic and environmental concerns, providing a stabilizing force, and an important engine for responsible and inclusive development.

What are the opportunities?

Business models that engage low-income populations is a strategy successfully used by an increasing number of companies to build positions in growth markets. Benefits include:

- Raising the quality and skills of the labor force
- Raising the quality and quantity of supplies
- Reducing risk in the value chain
- Access to new markets and increased brand exposure
- Spurring innovation to meet the needs of new customers
- Improving license to operate and improved stakeholder relations
- Creation of direct and indirect employment opportunities
- Building clusters of economic activity that can benefit the business and the local economy more widely

A variety of innovative business models are emerging to harness these opportunities. They include inclusive business, base of pyramid business, and social enterprise.

Partnership for Development

“Companies are recognizing value of partnering with development agencies, governments and civil society organizations to advance or address development issues. These groups often have direct relationships with local networks and communities, and expertise on development issues from which companies benefit. Solutions to the world's development challenges may lie in the combination of the innovative and investment capacity of the private sector, with the knowledge and ambition of development agencies and the non-profit sector .” (C.K. Prahalad, 2004).

¹ Asian Development Bank (ADB). “Asian Development Outlook 2012. Confronting rising inequality in Asia.” 2012.

² Global issues. “Poverty facts and stats.” 2013.

³ Food and Agriculture Organization. “The State of Food Insecurity in the World” 2011.

⁴ International Energy Agency. “World Energy Outlook 2010.”

⁵ World Bank Global Findex. 2012.

⁶ UN Water. “World Water Development Report.” 2012.

⁷ WBCSD. “Business and development. Challenges and opportunities in a rapidly changing world.” 2010.

Inclusive business

The majority of the world's income earning population are not formally employed nor engaged in an organized value chain. Most earn their livelihoods through small scale farming or other labor intensive activities that are fraught with risk and uncertainty, and perpetuate inequality and poverty. There is an opportunity for companies to profitably engage low-income populations in day-to-day core business activities, and help improve skills, income, and longer term prospects for the poor. Main avenues for accomplishing this are:

- Supply chains: Building the capacity of small-scale, often low-income producers to be a reliable and integral part of a formal supply chain.
- Responsible employment: Providing quality local employment through the provision of fair wages and safe working conditions.
- Retail and distribution: Partnering with existing small retailers and entrepreneurs to distribute products and services. This provides new revenue streams for the retailers and helps the company reach customers that it otherwise could not.
- Clusters of local economic activity: Strengthening small businesses in the locality in order to develop local economies that can become self-sustaining.

PRAN and women smallholder chili farmers in Bangladesh

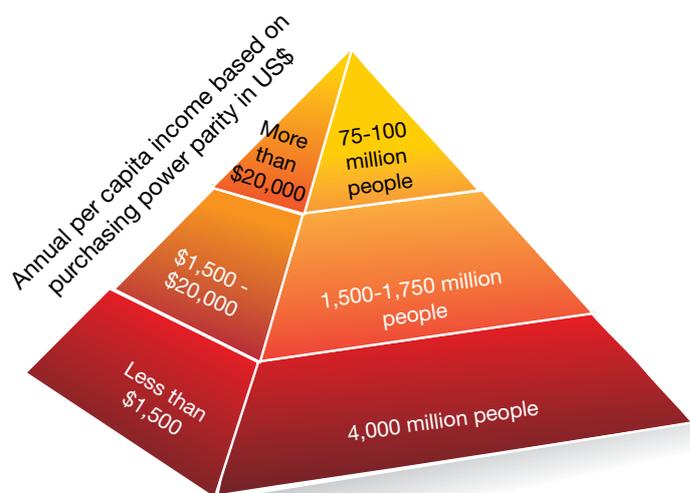
Bangladesh's largest food processing company PRAN found that demand for dried chili far outstripped its supply. To fill the gap, PRAN identified producer groups in some of Bangladesh's poorest and most vulnerable communities in the northern river island areas and engaged them in partnership with Oxfam GB. PRAN signed a contract directly with producer groups, which specified quantity, quality, production schedules, and pricing mechanisms. To support the producers' ability to meet their contractual obligations, PRAN provided training on how to increase productivity and meet quality standards.

This inclusive business model engaged about 1500 smallholder producers, mainly women. Average income increased by approximately US\$ 200 per hectare after training on production, post harvest techniques, and conducting basic business transactions.⁸ Through related partnerships, poor women are getting access to credit, technical services, market information and increased bargaining power. They no longer have to sell to middlemen, but receive the fair market value for their produce.



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The World Economic Pyramid



Source: UN World Development Report

Base of pyramid

The four billion people that live on less than five US dollars per day often do without life's necessities. But companies are proving that the poor can pay for essential services if they are designed, delivered, and priced in ways that are appropriate for this chronically underserved segment. In aggregate the BoP market is worth at least US\$ 5 trillion annually and growing. The poor spend the majority of their money on food, followed by energy, housing, transportation, health, telecommunications, water, financial services, and other items.⁹

Fast moving consumer goods companies were at the forefront in adapting their products to needs and incomes of BoP consumers. But many other sectors have followed suit and have innovated a variety of different delivery channels to the poor often helping to provide essential and even life saving services to traditionally hard to reach segments.

Telenor and easypaisa in Pakistan

Access to financial services in Pakistan is estimated to be one of the lowest in the world with only 10% of adults holding a basic account at a financial institution. Most of the population relies on informal services that are risky and expensive, or go without access to basic services.

Telenor Pakistan partnered with NGOs, donors and a micro-finance bank to offer a mobile money payments service called easypaisa, launched in 2009. They trained and equipped existing airtime sellers and other small retailers to act as cash-in/cash-out agents so mobile phone users could load cash into their mobile wallets that could be used to pay bills or transfer to other mobile phone users. Since Telenor had only a minority share of Pakistan's mobile phone market, it designed the system so that any person could use easypaisa's services, even those without their own mobile phone.¹⁰

Today, easypaisa has 22,000 agents across Pakistan serving around five million customers a month. It is the largest financial services network in the country, carrying out more than 100 million annual transactions through its shops in 700 cities.¹¹

⁸ Oxfam GB in Bangladesh. "Feeling the Heat: Supporting Chili Farmers in Gaibandha." Accessed April 2013. <http://oxfamblogs.org/bangladesh/feeling-heat-supporting-chilli-farmers-gaibandha/>

⁹ Allen Hammond, William J Kramer, Julia Tran, Rob Katz, Courtland Walker. "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid." World Resources Institute. 2007.

¹⁰ Telenor website, accessed June 2013. www.easypaisa.com.pk/index.php/en/about/about-easypaisa

¹¹ CGAP. Does Branchless Banking Reach Poor People? The Evidence from Pakistan. 2010. www.cgap.org/blog/does-branchless-banking-reach-poor-people-evidence-pakistan

Impact investing

Investments intended to create positive social impact beyond financial return are broadly known as impact investments. This typically involves the investment of capital into smaller enterprises or start-ups that can advance economic, social or environmental ends either through employment and market linkages for small scale farmers, or by supporting entrepreneurs develop products and services that directly address a need such as energy efficiency, as examples. Investments can take many forms – debt, equity, guarantees, and others, and can include other in-kind inputs such as skills transfer and capacity building. Impact investors expect a financial and social return on their investments, which is what distinguishes the practice from philanthropy. As a result, social and environmental performance of the investment is measured and managed just as actively as the financial performance.

Oxfam's Enterprise Development Program (EDP)

The EDP brings together a group of investors intent on helping to build sustainable businesses in some of the world's poorest communities. It has a fund of over US\$ 4.5 million and growing. The aim is to strengthen small enterprises, mainly women-led and agriculture based, which are not able to get financing from traditional banks. The fund selects small enterprises where the potential for social impact is highest - such as sectors that have high market growth, or SMEs that promote women's leadership and participation. The EDP provides an intelligent mix of loans, guarantees and grants, in addition to management skills such as business planning, marketing and financial management. Since its launch in the year 2008 EDP has supported 17 enterprises in 15 countries and in markets as diverse as dairy, vanilla, microfinance, food edible oils, sisal and vegetables. These enterprises achieved an increase in sales averaging 15 percent in 2009/10 and 40 per cent in 2010/11.¹²

¹² Oxfam website, accessed July 2012. Oxfam.org.uk/edp

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Oxfam is an international confederation of 17 organisations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty.