



GROWING SUSTAINABLE BUSINESS FOR POVERTY REDUCTION

– THE OPPOSITE OF POVERTY IS PROSPERITY –

Objective

To facilitate business-led enterprise solutions to poverty in advancement of the Millennium Development Goals. These enterprise solutions accelerate and sustain access by the poor to:

- needed goods and services; and/or
- employment and livelihoods opportunities.

Background and Rationale

Over the last few years, UNDP has been developing its experience in engaging the private sector to help advance the **Millennium Development Goals** (MDGs). This work was given even greater priority after the release of the report to the Secretary-General by the **UN Commission on the Private Sector and Development** in March 2004. This Commission, hosted by UNDP, recognized the critical contributions that the private sector – large and small, foreign and domestic - has been making, and could make to poverty reduction and achievement of the MDGs around the world. A core principle of the Commission's findings is that the value of engaging the private sector is maximized where it is grounded in market-based incentives, and where there is overlap between commercial and development interests.

The **Growing Sustainable Business** (GSB) programme captures this spirit by engaging the private sector in innovative partnerships, often around new business models, to accelerate progress towards the MDGs. It leverages UNDP's unique capacity to create a neutral "space" at country level where information can be shared, issues raised, and appropriate local partners brought together to attack a specific problem. It is this capacity that makes UNDP well placed for the brokerage

role that lies at the heart of the GSB – linking private sector investments and local development priorities through the development of new, cutting edge business models that engage a range of local partners. The GSB facilitates "enterprise solutions", where profit and incentives justify real investment and where financial sustainability is embedded in the design.

The GSB programme grew out of the 2002 **UN Global Compact** policy dialogue on "business and sustainable development". Conceptualized by the private sector, it was presented and endorsed in a high-level session at the **World Summit on Sustainable Development** in Johannesburg in 2002. Since then, the GSB programme has been developed by UNDP, and has been introduced in Ethiopia, Tanzania, Madagascar, Kenya, and Zambia over the past 2 years. Most recently, operations started in El Salvador, and Serbia & Montenegro. The GSB delivery mechanism established in participating countries has proven to be flexible, with the ability to facilitate a large number of investments ranging from rural telecommunications to agriculture supply chains to provision of finance for SMEs. It is equally flexible in terms of investment size, with the current portfolio supporting investments ranging from US\$ 200,000 to US\$ 23 million in size.

What is the GSB programme?

The GSB is introduced in countries where stakeholders assess the need for such a programme and where the UNDP Country Office is committed to supporting it. To meet its objective and deliver its value proposition, the GSB is built around three components:

A full time broker: For each participating country a full-time GSB Broker is recruited to act as a convenor, problem-solver, and intermediary for business, government, civil society, potential sources of finance, and development partners. S/he helps identify, develop and support specific sustainable business investment projects, leveraging UNDP's impartiality, its convening power, and its ability to facilitate and coordinate, and to create space at country level for interested stakeholders to come together and forge partnerships, raise issues, solve problems and engage government. The broker also plays a key role in conflict resolution and is the access point for engagement of the UNDP Resident Representative.

Research platform: The GSB can provide co-funding for market research and feasibility studies, which inform specific business plans related to a potential investing company's core business or value chain. Such studies are co-funded with the participating company, and the resulting information includes socio-economic data, impact assessments, and feasibility studies. As there is a publicly funded element to such findings, information gathered as part of this research is placed on the public record. Public dissemination of such research has the further benefits of increasing knowledge among government, donors and other interested stakeholders and, concretely, potentially sparking further investments in this space.

Technical assistance platform: The GSB can help prepare local stakeholders, in particular local entrepreneurs, local government and local NGOs that might be expected to play a role in the implementation of any given GSB investment. Financial support from GSB/UNDP could be considered to provide technical assistance & capacity building related to a specific investment, as a public sector funded and implemented component in support of the investment project.

UNDP is well positioned to offer these services for several reasons. **Impartial** and fair in its very nature, UNDP is the official channel for engaging host governments on behalf of the UN system and it enjoys **access to and influence with governments** in the 166 countries where we have a presence. This universal presence gives UNDP global reach and a significant level of **local understanding** and locally based development expertise. Our impartiality, **brand value**, and country-based operations also give us an ability to convene, coordinate, and create space. UNDP is furthermore the scorekeeper for, and main advocator of, the Millennium Development Goals and holds the UN Coordination Function at country level, which is important for maximising coherence, and for involving other UN agencies and development partners, e.g. Global Compact partners, IFIs.

Progress and Lessons

With operations in 5 countries currently and ambitious expansion plans, investment projects supported by the GSB include:

- **Ericsson** – Rural telecommunications
- **Tetra Pak** – Value chain development for milk production
- **Unilever** – Value chain development for Allantoin Oil
- **Holcim/Tanga Cement/Biomass Energy Ltd.** – Energy
- **Total** – Hydro-carbon transportation
- **Microsoft** – SME productivity software
- **E7 fund** – Rural electrification, US\$ 23 million
- **EDF** – Rural electrification, US\$ 13 million
- **Société Générale** – SME lending
- **SABMiller** – Cassava processing
- **Vitogaz** – Energy diversification
- **Kevian** – Fruit processing
- **Mad'Eole** – Wind Energy Centre, US\$ 4 million
- **Freeplay Energy** – Sustainable energy
- **Total** – Liquid Petroleum Gas
- **Hotel Gasy** – Franchising of restaurants, US\$ 200,000
- **Dometic** – Pro-poor stoves
- **BushProof** – Clean water
- **Water and Sanitation for the Urban Poor (WSUP)**

The most important lessons learned from introducing the GSB programme are summarized below, partly as expressed by several of the participating companies:

- The GSB Delivery Mechanism is best kicked off through a consultative, participatory and transparent process lead by an impartial convenor such as UNDP
- Participating companies should focus on core business activities
- Enterprise solutions often benefit from research and local socio-economic knowledge to inform business and financing models
- The expertise of local partners assists in developing and refining opportunities and models that are adapted to local circumstances and needs
- The GSB Delivery Mechanism provides a good platform for credible multi-stakeholder consultations, action, and decisions
- The GSB Broker can effectively unearth and inspire investment opportunities and match these with company interest, or vice versa
- The GSB Broker can broker a value-adding discussion between participating companies and financing partners such as commercial banks, IFC, and/or the donor community
- The flexibility of the GSB Delivery Mechanism allows it to broker both small and large investments
- The GSB Delivery Mechanism informs policy and reform efforts

The GSB Value Proposition across the Investment Cycle

In many developing countries, implementing business-led enterprise solutions to poverty is challenging and cannot happen automatically on a sustainable and significant scale. These challenges are often perceived as representing unquantifiable risk and additional costs to business, causing potentially interested investors to place opportunities on the “too complicated” pile. The value proposition of the GSB to busi-

ness is to help address these challenges at relevant points in the investment cycle and **reduce the risks and costs** associated with making these investments.

Below is an attempt at highlighting the most important challenges and the corresponding GSB value proposition along a typical cycle:



Challenge/Risk Factor

GSB Value Proposition

Identification of opportunities & partners

Lack of resources (e.g. no presence in country) to actively seek and respond to opportunities	Active, on-the-ground help in identifying and developing new investment opportunities
Limited ability to identify and partner with local, value-adding partners	Active, on-the-ground help in identifying and developing new partnerships with NGOs, SMEs, and financing partners
Limited access to government and development partners	Help in identifying government and donor counterparts to facilitate access & dialogue
Traditional mind-sets inhibit new models from emerging	Showcase ideas for inspiration, encourage cross-sector solutions in partnership with other GSB companies in the country or region

Market Research

Limited public information about target clients; limited financial incentives where commercial viability is highly uncertain	Co-funding of research with the private sector (e.g. feasibility studies) allows for understanding of client needs & obstacles at granular level and leads to better business plans and greater buy-in
Limited knowledge of local circumstances and needs/demand	Provision of local development expertise and skills tailored for commercial purposes
Lack of coordinated involvement and feed-back from relevant stakeholders	Organize constructive feed-back and involvement through multi-stakeholder coordinating group or similar
Difficulties in ensuring alignment with national priorities and development plans	Help in active collaboration with government and development partners

Business Model Development

Lack of appropriate information as foundation for sound business plan	Help in identifying existing data sources and in carrying out research directly linked to specific investment project
Limited ability to identify and partner with local, value-adding partners	Active, on-the-ground help in identifying and developing new partnerships with NGOs, SMEs, and financing partners
Limited knowledge on maximization of “business plus development” benefits	Help in investment design to ensure benefits based on international best-practice
Lack of coordinated stakeholder involvement and applicable feed-back to business ideas and plans	Organize and support multi-stakeholder investment alliance (implementation group) led by company
Lack of systematic exploration of possible cross-project synergies	Active support in identifying possible cross-sector synergies

Financing

Limited internal financial resources to develop investment where commercial viability not yet proven	Help bridge access to finance to make the business case viable, including loans, grants, and development finance
Capacity building or targeted public infrastructure investments not within commercial viability of business models, yet required for success	Help bridge access to finance for key partners and infrastructure projects

Implementation

Limited capacity and skills of key partners involved in planning or implementation	Active help in building capacity of key partners through technical assistance and financial support
Corruption and other obstacles such as inadequate infrastructure	Establishment of a UNDP-sponsored “comfort zone” where information can be shared, and issues raised and resolved
Political/regulatory issues or barriers to implementation	Use influence with government to actively resolve barriers, and inform policy/reform work
Limited engagement of government and other key players such as regulators and NGOs	Active brokerage to engage counterparts, showing genuine benefits and need for genuine support

Monitoring & Evaluation

Limited human, financial, and technical resources to do M&E	Provision of human, financial and technical resources
Limited incentive to monitor and evaluate development impacts	Actively encourage monitoring and evaluation to assist in replication and up-scaling best practices.

Select examples of business-led enterprise solutions supported by GSB

Tanzania – Rural Telecoms Ericsson (Sweden)

Creative thinking to adapt technology to local constraints led to new business model that cut delivery costs by 75%.

Investment: To be confirmed

Context: Despite strong growth in telephony, 90% of country's area and 75% of Tanzania's population are still not reached by the existing networks. Research through GSB showed that the general knowledge about basic mobile telephone communication is very good and that the rural population is willing and able to pay for services. The economic potential and livelihoods of rural communities are severely hampered by lack of communication infrastructure (e.g. cash crop farming, SMEs).

Problem Addressed: Access to telecommunications services for the poor.

Innovation: Invest in a "shared network" which will be leased to multiple service providers to increase traffic volumes. Shift from standard model of 10 towers to 2 towers to reach same customer base with needs focused on basic connectivity not high bandwidth. Franchise rural end-user applications and service delivery to local entrepreneurs to create shared use "communication centres" in villages for affordable "once-off" usage.

Impact: Improved access to telecommunications and basic services (education, health, etc.); increased local economic development in agriculture; delivery costs cut from US\$ 20/user/month to US\$ 1.25/user/month; pioneering new business model for rural telephony.

Madagascar – Rural Electrification e7-Fund (EDF, France; RWE, Germany; Hydro-Quebec, Canada)

Using new technology and limited charge to reduce cost of delivery by 60% relative to current methods, and developing pioneering segmented pricing model to ensure reasonable ROI, the e7 Fund is creating affordable electricity in a country with a 3% rural electrification rate.

Investment: US\$ 23 million (business model estimate)

Context: The rural electrification rate in Madagascar is below 3%. The targeted region (Sava) is known world-wide for its vanilla production, but the potential benefits are far from fully reaped due to chronic energy shortages. Deforestation and indoor air pollution also remain big challenges in Madagascar.

Problem Addressed: Access to electricity.

Innovation Business model built around mini-hydro technology to allow generation from slow-moving river in North Eastern Madagascar, with limited charge & cost-efficient delivery. Differential pricing model for SMEs, government, and villages provides a reasonable return (17%).

Impact: Access to energy for productive SME sector with great potential, increased access to basic services (education, health, water, telecoms), accelerated economic development in the region, reduced use of diesel and forest wood, resulting in improved health and positive impact on climate change. US\$ 19 M investment (private and public, 23% public concessionary finance) and €3 M technical assistance grant will deliver electricity to 100,000 people & SMEs covering two towns and more than twenty villages.

Tanzania – Allanblackia supply chain Unilever (UK-Netherlands)

Guaranteeing a market price creates incentive for farmers to invest in improving their productivity; supplemented by training, Unilever can create a major impact on livelihoods while still benefiting its core business.

Investment: US\$ 600,000 (excluding US\$ 7 million needed for full expansion)

Context: Unilever research indicates that oil from Allanblackia nuts can have a much wider use than today, e.g. as substitute for palm oil in spreads and soap manufacturing. No value chain exists to provide high quantity and quality of AB oil, and Unilever supply is highly constrained. Farmers, transporters, and crushers do not currently reap potential benefits from systematic harvesting. Forest clearing in these areas has led to significant deforestation. Increased value to AB trees encourages farmers to conserve and assist in environment preservation.

Problem Addressed: Building sustainable livelihoods and ensuring forest conservation.

Innovation: Unilever guarantees market price for all Allanblackia oil produced and invests in establishing and strengthening a value chain by engaging local communities (establishment of farmers' association and provision of training to farmers and communities). Unilever lowers risks for farmers to try new techniques & invest in equipment. Co-sponsorship of research into domestication and cultivation encourages development of long-term supply of AB oil.

Impact: Farmers receive immediate increase in income from streamlined processes, with substantial gains expected once nursery business is in operation. Unilever gets increased supply of hard-to-obtain raw materials. Investment at global level in domestication and market development may create new global market for AB oil.

Kenya – Fruit processing Kevian (local)

Developing local production capacity for fruit juice makes use of existing supply of locally grown fruit, reduces costs for local small business, and provides an income generation opportunity for local farmers.

Investment: To be confirmed

Context: Despite the high quality of Kenyan mango, passion fruit, and pineapple, farmers leave a significant share of production to rot, due to lack of a local market and inability to export. Kevian, a local, family-owned juice manufacturer, currently imports concentrate to produce a variety of juices for local consumption. Purchasing a processing plant in Thika will create a local market for these fruits.

Problem Addressed: Building sustainable livelihoods for smallholder farmers

Innovation: Kevian creates a local market where none existed. Partnerships with local NGOs mobilize smallholder farmers to provide consistent quality and supply of fruit.

Impact: Smallholder farmers generate increased income and are educated in improved harvesting and pest management techniques, which improve fruit quality. Local market for fruit is created. Kevian reduces its cost base, avoids hefty import taxes on fruit juice concentrate, and gains flexibility in its production planning.