

# Creating Value for All

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Photo: ITC Limited

With more than two billion people living on less than \$2 a day, 1.6 billion lacking access to electricity and another one billion without access to safe drinking water, it is imperative to find a way to meet these needs in a rapid, effective and sustainable manner. In the race to achieve the Millennium Development Goals (MDGs) by 2015, one of the greatest untapped resources at our disposal is the enormous potential of the private sector.

The working poor, while lacking many basic goods, do not lack ideas, energy or the desire to take care of their basic needs themselves. Businesses that engage with the poor not only on the supply side as producers, employers and business owners but also on the demand side as clients and customers can reap vast benefits beyond mere income generation. The first and groundbreaking report from the United Nation's Development Programme's Growing Inclusive Markets Initiative (GIM), *Creating Value for All: Strategies for Doing Business with the Poor*, presents examples of organisations that have successfully and simultaneously pursued both revenue and social impact.

In 2006, then UN Secretary-General Kofi Annan requested a commission headed by Paul Martin, the former prime minister of Canada, and Ernesto Zedillo, Mexico's former president, to produce the report, *Unleashing Entrepreneurship*. That report was a strong argument in favour of more private sector involvement in alleviating poverty.

However, it was only the beginning of the GIM Initiative, which has continued since then to work towards its aims: raising awareness, through demonstration, of the mutual benefits of doing business with the poor; inspiring the private sector to action; and clearly presenting ways in which businesses, governments and civil society organizations can help facilitate more inclusive markets.

The GIM team achieves these aims by focusing on developing world businesses and by promoting business models that create value through incorporating the poor. These models are not so focussed on philanthropy that they become commercially unsustainable, valuable though such purely philanthropic ventures are to development. In addition, the initiative has a multi-stakeholder approach, with an advisory group that comprises an extensive network of development agencies, global business organizations and some of the world's foremost research institutions.

*Creating Value for All* draws from 50 specifically commissioned case studies from researchers and academics in predominantly developing countries from across the globe, including studies based in Peru, Kenya and the Philippines to name just three.

Entrepreneurs have been able to successfully implement strategies from the report to overcome constraints that have hampered the ability of both local and international small and medium-sized companies to do business in a developing region. The report also explores strategies for multi-national companies. This bottom-up process, anchored in local knowledge, is producing a growing network of development practitioners, policy-makers, business people and civil society actors.

Drawing from these studies, we have identified the five main constraints to creating inclusive markets, both for the businesses and for the poor themselves. These are: limited market information, ineffective regulatory environments, inadequate physical infrastructure, missing knowledge and skills, and restricted access to financial products and services.

To overcome these constraints takes creativity from and co-operation between many actors. In the report we note five of the most consistent and effective strategies: to adapt products and processes, to invest in training or infrastructure to remove constraints, to leverage the strengths of the poor to increase labour and management pools and to expand local knowledge, to engage in policy dialogues with governments, and to work with similarly-minded businesses, non-profit organizations or public service providers.

By using a more inclusive business model businesses drive innovation, develop new markets, enlarge the labour pool and strengthen supply chains, and at the same time are helping the poor to meet their basic needs, increasing their incomes and empowering them.

Moreover, business with the poor can be profitable, sometimes even more profitable than more traditional businesses. The Narayana Hrudayalaya (NH) hospital group, a cardiac health care provider to the poor in India, uses a business model that attracts full-price paying patients who, along with the NH foundation, subsidize surgeries for the poor. No one is denied health care even if they are unable to pay.

Yet profits are 20 per cent — higher than the leading comparable traditional hospital. Such financial self-sustainability allows enterprises like NH to increase their reach and thus their impact, particularly with regard to achieving MDGs.

A closer look at several of the case studies demonstrates the direct impact inclusive business models have on the MDGs (see Delivering the MDGs, left, to discover how companies from across the globe are using business acumen with a social conscience to create drivers of MDGs in their local communities).

Creating Value for All, by presenting these case studies, is intended to encourage the development of more inclusive business models like these. It also presents practical tools to enable businesses to see this through. One tool is the strategy matrix, which is designed to help identify market constraints and also to look at various strategies to address them. Another effective tool consists of so-called 'heat maps', which identify business opportunities by visually presenting geographical overviews of access to water, credit, electricity or telephone service for specific regions; see Tools for the job (page right) for a more detailed example.

Even when these tools are employed and the private sector is ready to engage with the poor, private businesses alone cannot meet the needs of the poor. Examples such as A to Z Textiles in Tanzania show without doubt that businesses, non-governmental organizations, donors and local governments must all be involved.

Local governments can remove many of the constraints in the domestic market environment. For example, they can reduce the amount of red tape surrounding the upgrading of basic infrastructure such as transportation, electricity, water and data transmission. In addition governments can improve the living conditions of their poorest populations and encourage local business development by ensuring a functional and inclusive financial market, and by providing access to the legal system for the poor. In this way they can unleash the power of business.

But local governments cannot stand alone in fostering inclusive business models. Donor countries can also raise awareness among business and development practitioners about the opportunities and benefits of doing business with the poor.

Moreover, donor countries are in a unique position to facilitate dialogues between businesses and governments or other partners. And they can encourage development from the ground up by providing 'patient capital' and other appropriate forms of financing. One such form is the challenge fund for innovative inclusive business models that can be used to donate to international development programmes.

Challenge funds associated with the UK Department for International Development include the Business Linkage Challenge Fund and the Financial Deepening Challenge Fund, which offer grants for preparatory phases and for investments including investments to remove constraints on poor people's markets.

A great example of the success of such funding is Vodafone's mobile transactions service in Kenya, a country that has fewer than two million bank accounts serving 32 million people. In partnership with Vodafone, Safaricom Kenya developed M-PESA, an electronic money transfer product to make financial transactions faster, cheaper and more secure through the use of short message service (SMS). Now more than 6,000 people a day are signing up, helping Kenya and the UK meet MDG 8: developing a global partnership for development.

UN Secretary-General Ban Ki-moon recently issued a call to action on the Millennium Development Goals, urging an international effort to accelerate progress and to make 2008 a turning point in the fight against poverty. On September 25, the Secretary-General will reaffirm this call at the UN General Assembly. 'Doing well' and 'doing good' can be mutually reinforcing ideals. Inclusive business models create more independence and interdependence by recognizing the poor not only as consumers but also as drivers of growth. Such models lead to greater wealth as well as progress in human development. In short, when markets include poor people we all win.

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*Creating Value for All and more information on GIM can be found at [www.growinginclusivemarkets.org](http://www.growinginclusivemarkets.org)*