

Doing business with the poor *a field guide*



Learning Journeys of Leading Companies
on the Road to Sustainable Livelihoods Business



World Business Council for
Sustainable Development



WBCSD Council Project:

Sustainable Livelihoods

The project is conducted by a pool of visionary members who are prepared to share their experiences, their successes and failures in doing business at scale in the poorest regions of the world. Members of the working group span many industrial sectors and hail from our member companies as well as our regional network partners.

The WBCSD provides a 'safe' space in which companies can set aspirational targets with supportive peer input so as to 'learn by doing'. The WBCSD also has a brokering role to encourage novel partnerships between companies and in working with donors to build 'investment friendly' institutional capacity. In addition, the project delivers tools to help companies constructively work with other developments actors, such as governments and stakeholders who create the framework within which business operates.

The project focuses on four workstreams:

- > **Business Models** – 'learning by sharing' to identify the building blocks for companies to design their own profitable 'pro-poor' business strategies.
- > **Framework Conditions** – creating capability for business to work with national governments, NGOs and multilateral institutions to improve the 'rules of the game' and foster wealth creation in developing countries.
- > **Communications and Engagement** – ensuring that the potential for responsible business growth is understood deeply inside member companies. Harnessing the energy of many development actors to relate to business as a positive force for change in the battle against poverty.
- > **Pilot Projects** – delivering on the ground 'learning by doing' pieces of business that can be scaled up beyond the 'case study specimens'.

This report is a product of the business models workstream.

Project structure and resources

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Foreword

Chairs of the Sustainable Livelihoods Project

Nearly two thirds of the planet's people are poor, in many cases denied access to proper services, energy, water, health, and above all the opportunities to improve their economic and social outlook. The Millennium Development Goals set a framework for action to address this challenge, and many countries are encouraging flows of investment, technology and skills to the poorer regions of the world. Business is now accepted as a key partner and solution-provider in this endeavor, and is itself recognizing the needs and the opportunities presented by the world's poor people.

The concept of doing business with the poor and in fledgling markets calls for additional focus and significant change in the way we do business and the way we think about doing business. Success will require companies to think beyond conventional wisdom. The World Business Council for Sustainable Development (WBCSD) *Sustainable Livelihoods Project* is an endeavor to do just that.

What we at the WBCSD call *sustainable livelihoods (SL) business* is distinct from charity or philanthropy. It is strictly business, new business and new markets, business that benefits the poor and benefits the company. It is primarily about how to develop and engage in these new business opportunities and how to 'do well by doing good'.

This 'blended values' approach (blending social and financial values) is based on and rooted in the WBCSD's work on corporate social responsibility (CSR), which has to do with doing business within the norms, laws, and expectations of society. Sustainable Livelihoods also responds to our collective belief that business cannot succeed in a society that fails – and a planet of over four billion poor people looks much like a failing global society.

Most companies are competing over a minority of potential customers, ignoring a significant, dormant market. It is a missed opportunity which invites business to engage. We believe that our WBCSD members and regional partners can and should be on the front lines of efforts to bring the poor into the market, thereby alleviating poverty and increasing prosperity and opportunity for all.

This guide contains six learning journeys undertaken by WBCSD member companies, and a number of smaller examples. It is not intended as a comprehensive picture of all that is happening. We know that national companies in a number of developing economies are similarly engaged, and that many multinational companies have already experienced success in emerging economies.

These cases are well worth studying because they offer a variety of experiences, and reflect different approaches and models to doing business with the poor. They represent important steps in our individual and collective efforts to step up the initiative to create sustainable enterprises, and to bring new prosperity to companies, societies, and individuals.

We commend the work done to put together this survey. It has been carried out by a team of WBCSD member companies and reflects their perceptions. We invite you to consider these insights in the hope they will provide both an incentive to engage and an understanding of some approaches which have succeeded.



Reuel Khoza
Chairman

Eskom Holdings



John Manzoni
Chief Executive
Refining and Marketing
BP



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Executive summary

Focus

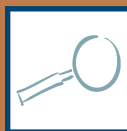


Partner



Localize





The ultimate business opportunity

Nearly two thirds of the planet's people are poor. Most companies are serving at best one third of the world population and are fiercely competing over saturated markets. Yet many corporate managers now realize that stepping up their company's presence in developing countries will be crucial to their long-term competitiveness and success.

Some prescient WBCSD members are launching into *sustainable livelihoods (SL) business*: **"doing business with the poor in ways that benefit the poor and benefit the company."** SL business is about spurring economic development and helping low-income communities and families build more secure livelihoods.

Yet the emphasis on business and profitability is important for several reasons. It means that a company's SL business becomes part of corporate mainstream thinking and activities. It also means that unlike corporate philanthropy, SL investments that realize their goal of profitability have no fixed budgetary limits.

Encouraging trends & drivers

Global trends are creating a favorable environment for companies to start engaging with the poor:

- > Many companies see a need to break out of mature market sectors.
- > Framework conditions in many developing countries are improving.
- > Communications are faster and cheaper, making the world a smaller place.
- > Public expectations of corporations are changing.
- > New and better partners are available.
- > Aid and investment are beginning to reinforce one another.

Win-win business models

All companies, regardless of their industry, can help stimulate local markets and enable the poor to become active participants in these markets, as customers and entrepreneurs. Designing clever business models to address this challenge will also open new avenues of growth for the company.

Successful SL business models reflect a combination of *Focus*, *Partner*, and *Localize*:



FOCUS on core competencies: companies that concentrate on their key strengths are better able to innovate around those strengths. This helps guarantee consistency between the company's portfolio of activities and the SL business, and will make it easier to mainstream successful pro-poor business in the future.



PARTNER across sectors: governments and NGOs are increasingly interested in working with business. By involving development organizations that share similar goals, companies can benefit from on-the-ground expertise and additional resources. Likewise, thinking across sectors might lead to innovative partnerships involving companies from different industries, addressing a bundle of needs holistically.



LOCALIZE the value creation: companies operating in developing countries often lack the usual infrastructure and support systems: market intelligence, manufacturing capabilities, or distribution channels. So they have much to gain from tapping into local networks and local knowledge.

Addressing basic business questions

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?

Going on a learning journey

What will be clear from reading this report is that there are a number of different business circumstances and relationships with poor communities. The 'starting point' may differ, but the consequence, bringing greater prosperity to these communities, can be the same. It is also clear that, despite these encouraging examples, there is a long way to go. Much additional effort and focus will be needed to translate these cases into widespread success in reaching the 4 billion or so people, whose aspirations to a better quality of life lie at the heart of this work.

The main case studies cover *GrupoNueva*, which learned how to distribute products more directly into poor markets, and held a contest to produce other pro-poor business ideas; *Suez*, who found new partners to help it deliver water to poor neighborhoods in Brazil; *Procter & Gamble*, which is committed to developing consumer products that meet the needs of the poorest; *Vodafone*, which developed a novel method of franchising telephone services among remote villages; and *SC Johnson*, which sources product ingredients from poor farmers in Kenya. The report also details how big oil and mineral companies such as *Shell*, *BP*, and *Rio Tinto* can bring business opportunities to low incomes countries and communities.

Such business activities require a delicate blend of innovation and business-as-usual. The single most radical innovation is in thinking of the poor as business partners and customers. Then companies may have to develop new ways of buying, manufacturing, packaging, marketing, distributing, advertising and charging – the same old business problems, with new solutions.

From poverty reduction to wealth creation

- Encouraging trends & drivers

Win-win business models

- Blending financial and social value
- Creating opportunities for the poor
- Every company can do it
- Integrating the poor in the company's value chain
- The three building blocks of successful SL business
- Benefits for companies and communities

Into action

- Basic business questions



FROM POVERTY REDUCTION TO WEALTH CREATION



Why did the companies described in this report start *sustainable livelihoods (SL) business* projects? They did so because many people in business are starting to consider the planet's four billion poor as part of their company's growth strategy. They realize that stepping up their company's presence in developing countries by 'doing business with the poor' will be crucial to their long-term competitiveness and success.

This guide seeks to reflect the learning processes that took place as individuals and organizations advanced into this emerging field. Yet it is not a 'how to do it' guide, because 'how to' remains company-specific, and each company will need to customize the recommendations to develop a competitive advantage in its industry. However, in describing how others are beginning to do it, we hope to inspire and show how some companies have answered the basic business questions inherent in all new business ventures and overcome the challenges linked to doing business in an unusual context.

“Business is good for development and development is good for business.”

Ian Johnson, World Bank, Vice President, Sustainable Development.

History shows that business, not government, develops a nation economically. Governments create the frameworks that encourage – or hinder – that development; but it is the private sector that generates entrepreneurship, creates employment, and builds wealth. Companies, moving beyond conventional wisdom and working with new partners, have an unprecedented opportunity to help people to lift themselves out of poverty and into market economies. These companies will be at the same time developing new, broader based markets for their businesses.

Business creates value by increasing revenues, lowering operational costs, and improving productivity. It does so by growing new markets, tapping into new revenue streams, and reducing costs through outsourcing and global supply chain management. It is increasingly looking at emerging economies and developing countries for such opportunities.

Business, working in a spirit of 'enlightened self-interest', can improve the developmental paths of billions of people, by facilitating their access to the marketplace, by finding new ways to address the needs of the poor and helping them into mainstream economic activity. A growing body of evidence indicates that intelligent engagement will also result in new revenue and profits.

“Business cannot succeed in a society that fails.”

Björn Stigson, WBCSD, President.

Business faces growing pressures from society to help ensure that the benefits of this newly globalized world are distributed equitably. Companies can choose to ignore this pressure, or fight back, or see this reality as an opportunity to do better business while demonstrating that they can be a catalyst to invigorate the virtuous cycle of human development.

Why now? Broad global trends are creating a favorable environment for companies to start engaging with the poor. There is a collective realization that business can make a difference to the lives of the four billion. Everyone is looking at business to engage and succeed in this area. Governments and the United Nations have set some ambitious targets for reducing poverty and improving living-standards (known as the Millennium Development Goals) and are aware that the private sector will have an important role to play in helping achieve these goals. Some companies are already doing business in these markets, and more could benefit from this momentum to promote business as a key solution provider.

“There are many positive ways for business to make a difference in the lives of the poor – not through philanthropy, though that is also very important, but through initiatives that, over time, will help to build new markets.”

Kofi Annan, United Nations, Secretary General.¹

This report may strike the wrong note with some, as we insist on the commercial character of SL business. But this is what is new, and potentially revolutionary. Many companies have already engaged with the poor, principally through corporate philanthropy. This is an honorable and important tradition. And business has always been the main engine of economic growth and opportunity, lifting millions out of poverty in Britain during the Industrial Revolution, and more recently in Japan, South Korea, and Malaysia.

What is new with SL business is a conscious focusing on the poor as aspiring customers and business partners. To be successful, such projects must be based on the real needs, capabilities and realities of low-income communities.²

1. Address to the World Economic Forum (Feb 2002)

2. The term ‘communities’ is used here to refer to an entity that represents aggregated buying power and needs. It can be an individual, part of a wider community or a family or a small/large group of people.

Encouraging trends & drivers

> Many companies see a need to break out of mature market sectors

Forward-looking companies see the most attractive growth opportunities in emerging markets with young, dynamic populations and economies.

> Framework conditions in many developing countries are improving

Countries across the globe are investing time and effort to strengthen their governance, legal structures, and investment infrastructure. Progress is far from uniform, but there are signs of improvement in many countries. Political Risk Services, a group that specializes in country risk analysis, reports that over the 10 years from 1993 to 2003, their average risk score in low and middle income countries improved from 59 to 64, and almost three times as many countries showed an improving risk climate as a deteriorating one. This progress is expanding the realm in which business can profitably operate.

> Communications are faster and cheaper, making the world a smaller place

Lower communications and transportation costs allow more geographically dispersed production. This can allow companies to benefit from lower labor and materials costs, and encourage them to relocate a part of their activities in developing countries. But companies must show that their presence is a force for equitable development and maximizes reciprocal benefits for the communities.

> Public expectations of corporations are changing

Rightly or wrongly, communities and civil society increasingly expect companies to become involved with social issues. Many have already realized that it is better to do so pro-actively, in partnership with others, than reactively, as was sometimes the case with the need to mitigate corporations' environmental footprint.

> New, and better, partners are available

Many not-for-profits, foundations, citizens' groups, and multilateral organizations are experiencing their own far-reaching changes, driven by their need to become more self-sustaining and to improve their effectiveness. Today, many of these groups are prepared and able to help companies operating in poor countries and poor neighborhoods. They also understand how companies can help them realize their own goals of improved sanitation, water supply, healthcare, housing, and business opportunities in the developing world.

> Aid and investment are beginning to reinforce one another

The importance of foreign direct investment (FDI) as an engine for growth and

wealth creation is increasingly recognized by the development community. The increase of FDI flow to developing countries, from \$37 billion in 1990 to almost \$240 billion in 2000, is encouraging bilateral and multilateral agencies to adjust their aid policies to better facilitate FDI³ and its flow to needy countries.

“The marketplace is a new creative way to achieve societal goals. Governments and development partners want the company to succeed because they see beyond the product or the service provided and recognize that delivering on these goals will serve their objectives.”

George Carpenter, Procter & Gamble, Director, Corporate Sustainable Development.

Many companies are already targeting new customers and suppliers further down the economic pyramid. In doing so, they are gaining a first mover advantage. Companies that learn to operate in new markets and thus improve their reputations will be at a competitive advantage as countries become richer, and more business opportunities emerge. Reputation benefits can also improve corporate relations with governments and communities and improve employee recruitment, retention, and morale.

It is in response to these drivers and the evolving context of globalization that a diverse group of WBCSD member companies from a wide range of industries has been working to design new business activities and approaches that serve the needs of the poor and help them towards sustainable livelihoods in ways that are good business rather than good philanthropy.

Companies are recognizing that to engage in these markets they will need to understand not only the differences in the market and societal structures, but also need to address, in partnership with others, the deficiencies in key components such as infrastructure, skills, and financial capacity.

This publication focuses on what business can do differently to create opportunities in developing countries. This approach has some obvious limitations. Where poor framework conditions prevail, such as opaque and corrupt legal systems, complex bureaucracy, and inadequate infrastructure, business is still hampered. At the same time, terms of trade often work against poor nations. Although these aspects are not reviewed in detail here, the importance of a sound business environment is recognized as key to attracting foreign investment – and in enabling local enterprises to flourish and grow.



“New ways of doing business will soon be improving the lives of the poor in areas such as housing, nutrition, sanitation, water delivery, healthcare, and small business development. We intend to be part of that new business.”

Maria Emilia Correa, GrupoNueva, Vice President, Social and Environmental Responsibility.

Sustainable livelihoods business can be most simply defined as ‘doing business with the poor in ways that benefit the poor and benefit the company.’

The focus on business implies a focus on profitability, which is important for several reasons. It means that a company’s sustainable livelihoods business projects become part of corporate mainstream thinking and activities. It also means – if the projects do indeed realize the goal of profitability – that they have no limited, fixed budget. The new business can thus become immensely ‘growable’ and replicable, and thus lead to a much greater impact than corporate philanthropy.

“Typical donations and acts of philanthropy address a problem on a medium term basis, and there is no real sustainability. We look at needs and at ways to address those needs in a manner that will prove sustainable.”

Reuel Khoza, Eskom Holdings, Chairman.

SL business models are sometimes known as ‘pro-poor’ and ‘Base of the Pyramid’ business models. They put the poor at the heart of their approach and focus on detecting unmet needs. They are framed by the company’s corporate social responsibility (CSR) strategy. CSR refers to the ways by which a company decides to align itself with the laws, norms, expectations, and aspirations of the society in which it operates. Pro-poor business activities, like all of a company’s business activities, should be guided by a company’s CSR principles. These guidelines will assure that the projects help to provide the poor with the tools to create their own sustainable livelihoods.

The SL approach also recognizes that ‘the poor’ cannot be perceived as a single homogenous group, as the ‘four billion’ figure seems to suggest. Not only is there a wide range of resources in poor communities, but even the very poor have resources which could help them create more sustainable livelihoods if framework conditions allowed them to use them. For example, they possess houses and workshops but can rarely use these as collateral because they do not have deeds.

Doing business with the most disadvantaged means taking a huge leap to the bottom of the economic pyramid. But even moving down to the next tier and addressing the needs of the next two billion is going to require a major change in the way companies do business. Thus companies planning SL business need to learn to segment this potentially huge market, identifying the groups whose needs they can most aptly serve.

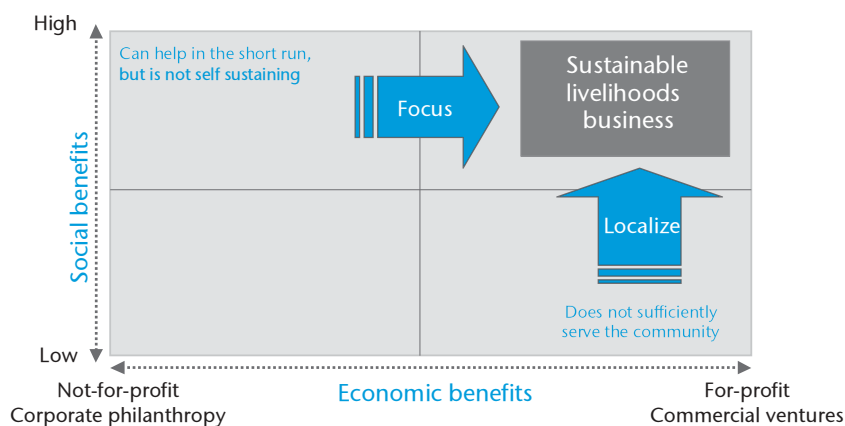
“Companies need to go through a learning process to move down the pyramid from their conventional markets (top 11% income bracket) and adapt to the next market segment.”

George Carpenter, Procter & Gamble, Director, Corporate Sustainable Development.

Blending financial and social value

In essence, SL business models try to find synergies between development goals and the company's core business operations. Sound SL business models will therefore deliver higher socio-economic value for communities while opening new avenues of growth for the company.

Maximising social and economic value



Creating opportunities for the poor

‘Sustainable livelihoods’ is a concept that emerged from academia in the 1990s, and refers to the skills and assets necessary for people to live reasonably secure lives, to cope with and recover from stress and shocks, and to provide opportunities for the next generation.

An income-generating job is the foundation of a sustainable livelihood. Access to clean water, sanitation, housing and healthcare is fundamental to enable people to maintain health and continue to work. Entering a corporation's supply chain promotes sustainable livelihoods by helping a local business to increase its income and benefit from the transfer of skills and know-how. Ultimately, SL is about empowering people and providing them with the right tools to foster their own development.

Companies can help people make their livelihoods more sustainable by creating opportunities for them to obtain the tools they need to be healthier, more secure, and more economically active. They can do so by helping develop local markets and enabling the poor to become active participants in these markets, as customers or entrepreneurs.

“Poverty is unnecessary. People are capable of getting themselves out of poverty. All they need is opportunities. They are not waiting for charity or handouts. Charity is good, but it is not good enough. If you turn it into a business proposition, then it's very powerful, because it can run on its own steam.”

Muhammad Yunus, Grameen Bank, Founder and Managing Director.

Every company can do it

The expression 'doing business with the poor' can cover a multitude of activities. The guiding principle, applicable to all industries, is that companies should engage the poor in a business relationship that relates directly to the companies' core commercial operations.

Buying from and selling to the poor



In practice, the characteristics of each industry will influence what type of business relationship will develop between a given company and the poor. Generally, these will fall into four broad categories:

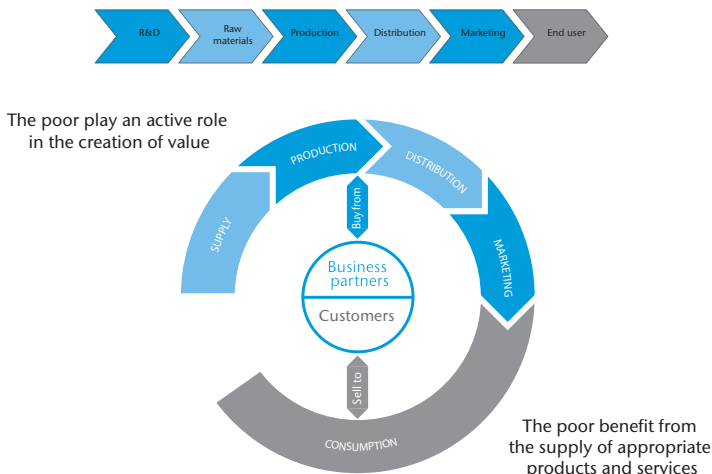
- > For some business activities, the poor will be *customers*. These companies' main contribution to market development will be to supply appropriate products and services that meet local needs at appropriate prices.
- > For others, the poor may be *business partners, suppliers, employees and/or distributors*. By bringing small entrepreneurs and local small and medium enterprises (SMEs) into their value chains, business can create employment and accelerate skill transfer.
- > *Companies addressing basic needs*, such as utilities and health care providers, can contribute significantly to local development by expanding their services to reach more low-income communities. They will involve the poor in their operations, but their main focus will be to ensure that the fulfilment of basic and often vital needs (water, electricity, sanitation, and health care) on a sustainable and cost-effective basis.
- > *Large extractive companies*, which have been among the pioneers of the WBCSD's SL work, argue that the nature of their business may make it more difficult for them to do business with the poor, in terms of having the poor as direct customers for their products or services. But they often find themselves 'doing business' with low income governments and communities through their drilling and mining contracts, licenses, fees and royalties. They can thus have a major influence on the paths of development poor countries may follow. As described in the learning journey, oil and mining companies have also found ways to help small companies become better suppliers and communities to gain long term advantage from their presence.

Integrating the poor in the company's value chain

SL business is not so much about 'targeting' the poor, as customers or as cheaper labor, but learning to see the poor as business partners who may be important throughout the corporate value chain.

The learning journeys described here show that the poor can be considered both as customers for a new product and as partners creating added value at every stage of the delivery of a service/product designed to serve their needs.

Putting the poor at the center of the value chain



The three building blocks of successful SL business

“What companies like ours are learning today is that cutting-edge innovation can result from weaving social and economic considerations into a business strategy from the start.”

Carly Fiorina, Hewlett-Packard, Chairman and CEO.

We found that companies involved in sustainable livelihoods business tended to develop the mantra of **Focus**, **Localize**, and **Partner**:



1. FOCUS on core competencies: Companies that concentrate on their key strengths are better able to tackle an issue effectively and make a viable business out of it. Building on their strengths also adds consistency in their portfolio of activities and makes it easier to mainstream successful pro-poor projects in the future.

- > *Re-examine your product line or service* and see how its characteristics and your existing business models can be adapted to suit the distinctive requirements of lower market segments.
- > *Focus on what the company does well* and plan to partner with local actors, not-for-profit organizations and other companies that offer complementary expertise, skills, and resources.



2. PARTNER across sectors: Transcend various business/NGO/government divides. Interest from many governments and NGOs in working with business is quite high; the partnership model is beginning to replace the adversarial model. Companies should involve in their business processes development organizations that share similar goals. They can bring financial and non-financial resources to the table, and they have an inherent interest in helping to make pro-poor projects a success. Similarly, cross-sectoral partnership involving companies from different industries can lead to innovative ‘packaged solutions’ that address a bundle of needs holistically.

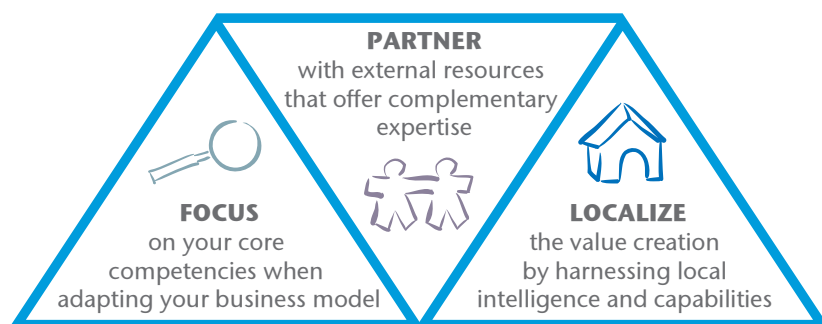
- > *Create partner networks that offset potential risks*; choose partners with a high level of local intelligence and market understanding. Look for a local partner who might bring in local political or community support and buy in.
- > *Involve partners from the very beginning*. Let them help you decide on changes to products or production processes. Be aware of differences in mandates, agenda, remits and timelines.
- > *Work together to align goals* and define a common agenda between business, governments, and civil society.
- > *Ensure that expectations on both sides are clearly set*, understood, and managed over time.
- > *Design strategies* that address problems in a holistic manner and play to each other’s strengths.
- > *Partnerships and trust are built over time*, so ensure that managers stay on site long enough to foster good relations.



3. LOCALIZE the value creation: Companies often lack the necessary infrastructure and support systems that they are used to in traditional markets. Whether it’s market intelligence, manufacturing capabilities, or distribution channels, companies operating in developing countries have much to gain from tapping into local networks and local knowledge. The old salesman’s adage fits: “You’ve got to know the territory.” But here the territory is often more social than geographical.

- > *Think of ways to harness local capabilities.* Partnerships can be either formal or informal; in either case, creating a process for accessing local intelligence and resources should be a high priority.
- > *Consider how local entrepreneurs and SMEs* can be made a part of the company's value chain (e.g., rethinking distribution channels, marketing strategies, or sourcing of raw materials) and how they can best contribute to the value creation.
- > *The assessment of demand* for new/improved goods and services is key, since our target consumer has little income.
- > *Franchising* can be attractive as a way to involve people with local knowledge in selling the product. These people will know the customer and can engage in low cost, grassroots marketing.
- > *Invest some time and effort in building the capacity of the local partners,* as this will also provide an active contribution to the creation of sustainable livelihoods in the local economy.

The three building blocks of successful SL business



Benefits for companies and communities

The Poor as a Resource Pool		Poor Communities as Consumers	
Business Benefits	Community Benefits	Business Benefits	Community Benefits
> Reduced labor costs > Shared risk > Local knowledge and capabilities > Better government relations > Fair trade branding	> Job creation > Capacity building for local SMEs > Know how and technology transfer > Improved business environment and investment climate	> New markets, revenue growth > Increased brand value, positioning to capture future market growth > Transfer product innovations to existing markets	> Greater access to quality products and services > Lower prices > Improved quality of life > Improved productivity

Some of the benefits to poor communities are listed above. Creating jobs leads to greater purchasing power and thus to greater choice. People can make use of their ability to choose when they are presented with a larger palette of products and services that are appropriately priced and serve real needs.

Indirect benefits for individuals and local enterprises include capacity-building, improved productivity, better health and education, and positive effects on the business environment and general governance. These social benefits are difficult to quantify, but many companies are developing methodologies and social indicators that will help measure the impact of pro-poor businesses.



Almost every industry that has tried has found ways of engaging the poor either as customers or as business partners. All companies, regardless of their industry, can help stimulate the virtuous cycle of market development – and emerge a sounder business for it. They can do so by supplying the right products and services to the marketplace or by stimulating local economic activities that increase the buying power of the poor and thereby contribute to growing the demand for new products and services.

“This is an investment in the future. And although I think we can have some theory and some very good demonstration projects in the next two or three years, I think it will take five-ten years before it starts making a difference on my bottom line. If I look at a company like ours of 200 years, planning to be 300 years old, this is critical. If we don’t learn how to do this, the DuPont company is not going to be 300 years old.”

Chad Holliday, DuPont, CEO.

Companies based in developing countries are exposed to vast unmet needs on an every day basis. Many have long ago developed the skill sets needed to do business in poor communities. In the course of our research, we spoke to companies in countries such as Mozambique, Tanzania, Kenya, South Africa, and Brazil. We found that we had much to learn from them with regard SL business.

In this guide, we describe journeys by WBCSD member companies: *GrupoNueva*, *Suez*, *Procter & Gamble*, *Vodafone*, *SC Johnson*, and a few extractive companies. Each journey reflects questions and challenges that companies have faced, and should provide insights to assist business managers as they begin to define their own company’s challenges, starting points, and strategies. The ‘mini-cases’⁴ portray other companies’ experiences, presenting supporting evidence or alternative approaches to reinforce the learnings in main case studies.

The guide is designed to encourage business to recognize – and help realize – the potential for ‘development through the market’ in emerging economies, and to help ‘make markets work for all’ by creating opportunities to do business that does well and does good.

Basic business questions

Below is a checklist that outlines common business questions that must be answered when developing a business plan; they apply to conventional and Sustainable Livelihoods business models alike. Of course, each company covered in this report addressed all these issues when formulating their business plans. The areas highlighted in the table below are the ones highlighted in the accounts that follow. They represent critical junctures where each company experienced a specific SL challenge and had to innovate to adapt its business model to the countries in which they operate. We have left a column for you to think about how your company might deal with these questions.

	GrupoNueva	Suez	P & G	Vodafone	SC Johnson	Extractive industry	Your SL business
1. What are our drivers and motivations?							
2. How do we shift mindset?							
3. Do we understand the real needs of the markets?							
4. Do we have the right product/service to offer?							
5. How do we finance the investment?							
6. How do we ensure that there is demand for our product/service?							
7. How do we ensure that our customers can afford it?							
8. How do we reach our customers?							
9. How do we collect revenues?							
10. How can we improve our supply chain?							
11. How can we stimulate related economic activities downstream?							
12. How do we scale up or replicate?							
13. How do we measure success							

Getting started

GrupoNueva, construction materials

Hewlett-Packard: Empowering people • *Cemex*: Encouraging community saving

Meeting basic needs

Suez, a utility

Roche: Under pressure to serve the poor • *Banco do Nordeste*: Micro-credit for millions • *Eskom*: Payment upfront

Addressing a hidden need

Procter & Gamble, consumer products

DuPont: Motivations – philanthropy or good business? • *Novo Nordisk*: Partnering around customer education

Empowering people

Vodafone, communications

Holcim: Serving a larger customer base • *Coca-Cola*: Local entrepreneurs as sales people

Base of the Pyramid suppliers

SC Johnson, consumer products

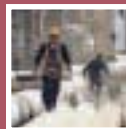
DaimlerChrysler: Seeking a 'greener' supply chain • *DuPont*: Working with government towards affordability • *Sonae/Delta Café*: Branded coffee for sustainable communities

Promoting local development

the extractive industries

BP: Working with government to diversify the local economy • *BP*: Partnering to develop local capabilities • *BP*: Managing the legacy of extractive operations • *Rio Tinto*: Linking big business with small business • *Rio Tinto*: Adapting recruitment procedures to improve employment opportunities • *Shell*: Making solar power affordable

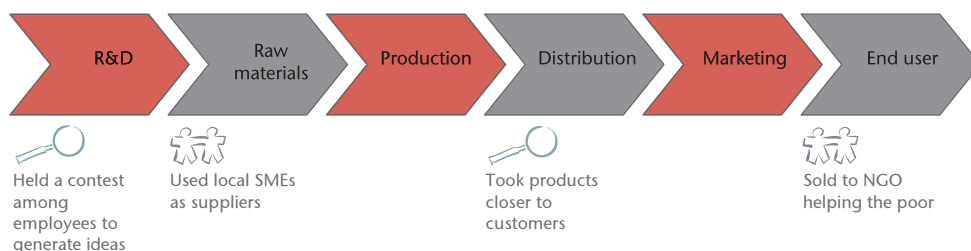




GrupoNueva, construction materials

What motivates a company to develop pro-poor business projects? For *GrupoNueva (GN)*, a holding company operating throughout Latin America, a national economic crash proved to be a very strong encouragement. But then *GN* became systematic in its approach to this type of business, and held a contest to generate ideas.

Innovations along the value chain



Adapting to a difficult economic context

GN works in the areas of sustainable forest products, water systems, and light construction materials. In late 2001, the economy of Argentina virtually collapsed, the currency plummeting over a three-month period and unemployment rising to over 18% of economically active people. *GN*'s pipe, plumbing equipment and water systems subsidiary *AMANCO* Argentina was selling few pipes or fittings to its usual big retail customers. The company was threatened with bankruptcy.

But then, according to *AMANCO* Argentina General Manager Gerardo Ourracariet, "We did not invent anything new. We simply remembered the Big Depression of the 1930s and what our grandparents had done back then: they used to buy their daily needs from street merchants, getting only small amounts they could pay for. So we developed *AMANCO* Mobile Sales."

This involved loading *AMANCO* goods onto two trucks and sending them into the poorer neighborhoods of Buenos Aires to visit the smallest plumbing and home repair storefront shops.

"This service offered our customers over 50 different items and the possibility of buying, invoicing, shipping, and delivering in one single transaction," said Ourracariet. "Mobile



Sales reached out to the small customer and provided limited amounts of our products. The small customer thus avoids the need to keep large inventories, replenishes only what he needs, and pays cash (at a fair price to him that still returns a profit to us, as there is no middleman)."

Spreading its reach

The program started in August 2002, with two trucks in the capital. Today, after the crisis and the reasons for starting the project have subsided, there are seven at work (five in Buenos Aires and one each in Córdoba and Rosario). They allow AMANCO to reach more than 1,000 customers who, because of their small size or insufficient financial resources, had previously done business with distributors or redistributors. The approach has doubled the number of plumbing fixtures customers, and these new customers are generally very prompt in their payments. Mobile Sales now represent 15% of AMANCO Argentina's total sales, but 40% of its revenue.



AMANCO does not and cannot make any claims about whether or to what extent the mobile sales help poor people meet their housing needs. But they are happy to find that they can do good business selling in poor neighborhoods where residents tend to self-build and self-repair.

These sales generated enough cash flow to keep the subsidiary from going bankrupt at the height of the crisis, and this fact got the attention of GN management. They did a study, and found that most of the more stable companies in Latin America were doing business low down the economic pyramid.

Generating new ideas

So GN recently held a contest among employees to come up with sustainable livelihoods business ideas. Some 250 were submitted; of those, nine are being turned into business plans. True success will only be visible in a few years time when the bottom lines of the new businesses have been studied.

The impossibility of importing certain products (irrigation, infrastructure and plumbing accessories) during the Argentine crisis pushed AMANCO in another SL direction, encouraging it to develop relationships with small local suppliers. Attracted by the potential sales to AMANCO, these small suppliers began to be interested in entering into business and industrial partnerships that would keep them from going under and allow AMANCO to replenish its stocks.



These alliances continue to be of great benefit to these suppliers and to *AMANCO*. Not only have the suppliers stayed afloat, but they are now implementing environmental and product standards similar to those in place at *AMANCO*.

Looking for SL business spurred *AMANCO* to work with Habitat for Humanity, a non-profit NGO that builds houses with the help of the soon-to-be homeowners and sells the dwellings to partner families at no profit, financed with no-interest loans. They plan to build 25,000 homes in Central America by 2005.

Habitat had been buying construction materials from local retailers. Working with *AMANCO*, they buy wholesale and deal with only one supplier, who knows them, so their transaction and opportunity costs are lower. *AMANCO* improves its sales volume, is serving a new line of customers, and opening new sales channels. *AMANCO* and Habitat are working together in five countries, and *AMANCO* is exploring how to extend the partnership to other countries and even other companies in *GN*.

Cemex: Encouraging community saving

How do we ensure that **our customers can afford it?**

The cement company *Cemex* has created a company called *Patrimonio Hoy* in order to deliver affordable products to the poor living in the slums of Mexican cities. After only two years, *Patrimonio Hoy* is serving 30,000 families. The company goes into poor neighborhoods and organizes people into small groups to save money, depositing it with the company. If one person suddenly has trouble putting aside the weekly amount, the others in the group carry him or her for a while. After several weeks, when an ability to save has been proved, the company begins to deliver construction products and expertise. Beneficiaries are able to make good quality additions or improvements to their homes

faster than if they had relied on normal savings accounts and at 20% lower cost.

The cost for *Patrimonio Hoy* is high: it takes them several months to find communities that are interested in working with them, and to organize the savings systems required to help people pay for their home improvements. So the company is working with the international NGO Ashoka, whose social entrepreneurs know and have access to community organizations that would be the perfect customers for the company. Through a new project, called "hybrid value chains," Ashoka is exploring ways to can join forces with companies like *Cemex* to develop business that benefit the poor.

Hewlett-Packard (HP): Empowering people

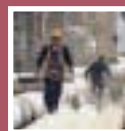
Do we have the right product to offer?

HP has developed a need-centered approach at the core of its business growth strategy. In South Africa and India, *HP* is testing new products and services that are tailored to meet local needs. When *HP* decided to pilot a new solar-powered digital camera and printer setup small enough to fit into a backpack, the company approached a self-help group of local Indian women in Kuppam, India. Through these groups, local women who aspire to become micro-entrepreneurs pool their weekly savings and take out small loans for income-generating activities. Two women were chosen to receive free equipment and training and became the official village photographers, providing photo ID for official papers and photographing formal ceremonies and social events. Word spread, and there are now 300 women making a living as roving photographers.

In partnership with the local governments, non-profit organizations, and the local community, *HP* has also set up five

Community Information Centers, which allow local residents to make calls and use photocopiers, faxing facilities, and workstations equipped with computers. A built-in “i-community” portal offers information about local services and online applications for government programs. The local entrepreneurs who run the centers were selected with the help of World Corp, an organization dedicated to generating employment in developing countries. The Centers were set up with loans from a government program and equipment provided by *HP*.

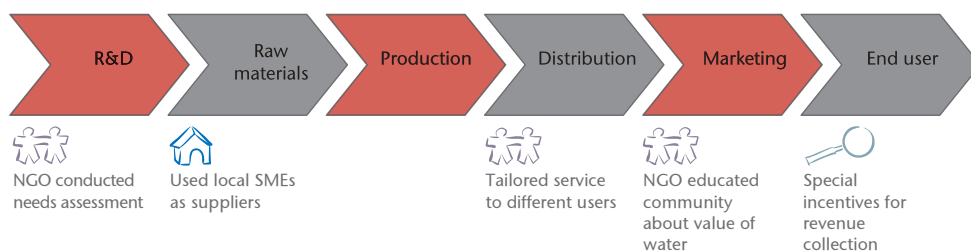
HP feels that applying a business approach to these challenges helps ensure that the company is designing solutions that address unmet needs, satisfy customers, fulfill corporate objectives, and are self-sustaining. Besides developing new products, the company is building a network of contacts and a degree of familiarity with these markets that will also help position *HP* as a better competitor in these regions.



Suez, a utility

Many utility companies, providing water, sanitation, and energy, see reaching as many customers as possible as part of their mission. And many are required by law or contract to serve poor communities. Unserved communities represent a significant business opportunity, given that an estimated 1.5 billion people lack safe drinking water, while two billion remain without basic sanitation.⁵ In addition, many governments are turning to the private sector to provide efficient, reliable, and affordable utilities.

Innovations along the value chain



Suez's Water for All Program tackles the question of how to extend water and sanitation services to poor suburban and urban areas. Over the last few years, *Suez* has been granted concessions to operate water networks in Manila (Philippines), Buenos Aires, Santa Fe, and Cordoba (Argentina), Manaus (Brazil), La Paz (Bolivia), Casablanca (Morocco), Santiago (Chile), Jakarta (Indonesia) and a management contract in Johannesburg (South Africa). The company has tested several innovative business models adapted to local conditions and to the specific characteristics of poor communities. Gathering the lessons from their experiences at the head offices, the company has tried to ensure that emerging best practices are transferred from one project to the next.

The case of *Suez* provides valuable insights into the common difficulties that utility companies confront when expanding their services into developing countries. It points to some of the main obstacles and highlights areas of innovation that can help bring success in these markets.

A vision spreading from headquarters to the field

The *Suez Group* has a clear strategy to build its competitive edge as a leader in water and sanitation solutions by strengthening its presence in developing countries. *Suez* recognizes the potential growth of emerging markets and the need to adjust its business model to suit local requirements. It aims to develop a niche expertise in serving poor neighborhoods that will help the company secure similar contracts in the future.

In 2000, *Aguas do Amazonas (AdA)*, Suez's Brazilian subsidiary, was awarded a 30-year concession to provide water and sanitation services in Manaus, a city of 1.5 million people. As part of its contractual obligations, the company agreed to expand the water network to unconnected areas, principally poor neighborhoods and informal settlements. This represented a considerable challenge, given that 60% of the population live in such areas.

Reaching out to the communities

AdA worked with ESSOR, a development NGO, on a joint pilot project targeting four communities. This helped the company identify the specific needs of poor communities and adapt its business model to meet them.

ESSOR acted as a broker between the company and the local communities. It worked with community leaders and volunteers to raise awareness of the need for clean water, assess people's ability and willingness to pay for the service, and mobilize the community to help maintain and manage the water connections. ESSOR helped convince many residents of the advantages of becoming *AdA*'s customers. The NGO understood the business objectives and imperatives and accordingly agreed to be the social interface between *AdA* and its future customers.

Service to suit the customer

AdA used its joint study to determine what type of connection communities preferred. Individual connections were installed for some households, whereas other areas were linked to the water network through collective connections. *AdA* developed a connection fee that could be paid in installments.



The company also developed incentives to encourage the communities to pay their water bills. In Manaus, each invoice is a lottery ticket, and families enter the contest by paying their bills. In Santa Fe, a local charitable association collects the payments. It receives a commission on each payment and uses the money raised to finance community development projects. This system provides an incentive for both the customers and the NGO to ensure that the bills are paid.

Looking for ‘package solutions’

The initial survey helped *AdA* realize that 20% of the water provided was lost due to leakages and technical problems. Part of the solution lay in improving the pipe system to reduce leakages. This problem was particularly severe in and around the habitations that made up the informal settlements.

The company approached *AMANCO*, the *GrupoNueva* subsidiary specializing in water systems and pipes, to explore the possibility of providing in-house pipes of higher quality at an affordable price for poor communities. Together, the companies will combine their complementary expertise to address the problem, while growing their customer base in lower market segments.

Question of financing

Expanding networks and infrastructure to service poor neighborhoods requires a considerable capital investment upfront. Building partnerships with financial institutions and donors proved essential for the realization of the project.

In Manaus, the bid for the concession amounted to the equivalent of \$70 million. Part of the investment was financed by the International Finance Corporation and by BNDES, a Brazilian development bank. This amounted to \$31.5 million available in the form of a market-rate loan. The French Ministry of Foreign Affairs provided additional financial support equivalent to \$108,000. The French Embassy in Brazil contributed a grant to help fund ESSOR’s participation. Learning from its recent experience in Buenos Aires, where a currency devaluation resulted in important losses, the company decided to borrow in local currency rather than foreign currency.

Financing issues were crucial in the project. Raising capital to finance the overall investment proved complex, partly because uncertainties of financial returns made it difficult to raise sufficient funding internally. Access to external capital is therefore often essential, and requires that companies build long-term relationships with investors. Business projects that can be shown to add social value can often attract soft ‘patient capital’ in the form of grants and long-term, low-interest loans.

Suez also worked closely with local authorities to develop appropriate tariff structures and subsidies that could help bridge the affordability gap for the poorest.

On track to deliver

In the first 18 months of the pilot project (April 2002 to November 2003) 3,700 households were connected to the water network, and the company was on track to reach its goal of connecting the targeted 5,000 households by the end of the year.

AdA has been able to grow its formal customer base, and it has also reduced costs by cutting water losses through leakages and pirate connections. The bill collection rate has been close to 80% among the poorest, which outperformed the average of 54% in Manaus.

The local communities gained a reliable service and improved water quality due to the modernization of the treatment plant. *AdA* customers paid lower prices (\$1.75 to \$4.20 per month), a significant reduction from the \$11 they were previously charged by water sellers. Lower prices meant that more households can afford safe running water, and has also meant an increase in water consumption from 4m³ to 12 m³ per family per month.

The improved water system, combined with hygiene education, improved family health. In addition, receiving a regular invoice marked a first step towards legitimizing the presence of local inhabitants and encouraged the local authorities to re-examine the status of 'illegal settlements' and consider granting them legal recognition.

Next steps

In 2000, 70% of the total population was connected to water and 4% to sanitation services. *Suez's* aim is to bring these numbers up to 96% for water and 35% for sanitation by 2006. These objectives are subject to changes if the tariff revision process started with the municipality does not allow for appropriate tariffs to be put in place.

The success of the pilot encouraged the senior management to scale up the initiative to achieve its aim of expanding the water network to the families living in poor areas by 2006. As the lessons emerge and the business model is refined, the company expects to replicate this approach in other underprivileged regions.

Roche: Under pressure to serve the poor How do we **shift mindset?**

External pressures can be a key driver for companies supplying essential products. The health activists' campaigns to increase access to anti-retroviral drugs for poor communities stricken by HIV/AIDS forced pharmaceutical companies to re-think their strategies and find new ways to make their products more affordable in these markets while covering their costs.

As part of a collaboration of six leading pharmaceutical companies, *Roche* has joined the UNAIDS' Accelerating Access Initiative and has made its anti-retroviral protease inhibitor drugs available to least developed countries (LDCs) and Sub-Saharan Africa at a 'no-profit' price, i.e., 70-80% lower than the normal price. The drugs are also provided to other low to lower-middle income countries at a reduced price.

Seen in isolation, this business model may not appear sustainable, as companies need profits to invest in research and new product development. As Chris Strutt, *GlaxoSmithKline's* spokesman, observed: "The price meets the cost of manufacture and distribution. The cost of research we will need to recoup from other markets." When considered in combination with the revenues from high-income markets, the pricing model does make good business sense, especially with regard to the companies' long-term strategy. Besides improving their reputations, their contribution to fostering healthy communities in poor countries will result in the growth of new markets and new customers in the future.



Eskom: Payment upfront

How do we collect revenues?

The South African utility *Eskom* supplies approximately 95% of the country's electricity; however, before 1994 only 12% of the rural population had access to electricity. *Eskom* pledged to connect 1.75 million homes between 1994 and 2000. Problems with meeting this goal included high cost per connection, a lack of community understanding of the program, and non-payment by recipients under the initial scheme.



The company developed better community interaction programs, pre-payment meters, and the tokens to feed them. Local shops sold the tokens, and local people were trained to install the

systems and do maintenance. Thus *Eskom* created jobs in the communities while lowering their own connection and maintenance costs.

The first contracts for pre-payment meters were issued in 1989 and every effort was made to keep the price of the meters as low as possible due to the large volumes required. Contracts were originally only for a quantity of 10,000 meters but the total number was steadily increased to a total of 300,000 meters installed per year from 1994 onward. That amounts to more than a thousand new meters installed every day (excluding Sundays). *Eskom* now has around 2.6 million pre-paid customers already and are still installing more. Today over 90% of urban areas and more than 40% of rural areas are electrified.

Banco do Nordeste: Micro-credit for millions

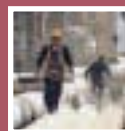
How do we shift mindset?

Some 15.7 million people in Brazil run small businesses in the informal economy. Of these entrepreneurs, 93% run profitable businesses, but 84% do not have access to credit.

When Dr. Costa de Queiroz took over as president of *Banco do Nordeste* in 1995, he saw this obvious lending opportunity. In 1997 he sent a team of senior bank managers to visit a number of established micro-credit institutions in countries such as Indonesia, Chile, and Bolivia. He sought help from ACCION, an international NGO focused on micro-lending around the

world, in designing the micro-credit program, surveying micro-enterprises, and retraining loan officers.

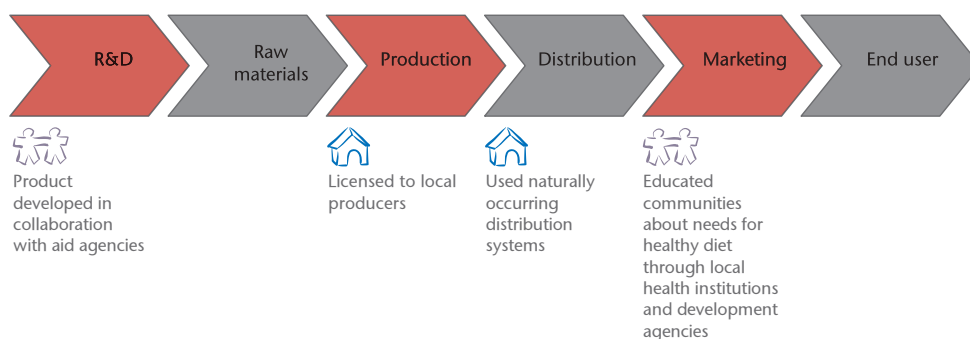
His new program, *CrediAmigo*, is already the second biggest micro-credit operation in Latin America in terms both of numbers of loans and money invested. Despite a stagnant Brazilian economy, *CrediAmigo* reached full financial self-sufficiency in July 2003. (Financial self-sufficiency is defined as the ability to pay all costs, including financial costs, from interest income.) He expects growing profitability with an improving economic environment.



Procter & Gamble, consumer products

Consumer products companies entering emerging markets find that the unfamiliar territory, differing consumer needs, low purchasing power, and an apparent scarcity of partners make doing business difficult. There is a potentially huge market, if they can find ways to offset the difficulties and to serve the unmet needs. Demand does exist for many staple products, and poor consumers do exhibit brand loyalty for quality products. Consumer products companies are exploring ways of doing their usual business in unusual ways: working with new partners, finding new resources, and changing the way products are made.

Innovations along the value chain



Looking to the developing world

In 1999, Procter & Gamble (P&G) had made a strategic commitment to sustainable development, and in particular had articulated its vision that it was looking for opportunities to use its technologies to develop products and services that improve the lives of consumers in both developed and developing countries. By the time we did our interviews in 2003, P&G was well into the process of developing its business in emerging markets.

P&G had decided to focus on consumer needs in a few countries. The company firmly believed that it would be able to make money and deliver benefits to the communities in which it operated. It focused initially on products that filled critical dietary gaps while providing consumers with something that was both fun and easily available.

The United Nations Children's Fund (UNICEF), the Micro-nutrient Initiative, and Cornell University brought to P&G's attention the syndrome in poor countries known as the 'hidden hunger'. Essential micro-nutrients like iodine and iron are

mainly found in expensive foods, such as meat. So children may miss these nutrients, and their physical and intellectual growth may be stunted as a result.

A variety of development projects had already tried to deal with the micro-nutrient challenge. One notable attempt added iron to bread products and then gave the bread away. The project failed for two good reasons: it ran out of money, and – compelling from a marketing point of view – no one wanted to eat bread that ‘tasted rusty’.

Need versus demand

P&G came up with a product called NutriStar, a low-cost, powdered drink mix that contained all the vital micro-nutrients and also tasted good; it seemed to meet all the goals of what the company called ‘flavored fun science’.

NutriDelight was launched in the Philippines using strategies and business components similar to many other P&G product launches in developed markets. Given the nature of the product, P&G also spent time educating people on the benefits of micro-nutrients.

The results were disappointing, but provided an important learning experience. The product had been designed for a developing world problem, but with a developed world mindset. It included all of the latest technology, rather than being designed for a low price. P&G also found that it had insufficient in-country infrastructure to deliver its product ‘down-market’, or into the poorest communities.



P&G had spent on education, but not enough on demand creation; so people knew more about micro-malnutrition, but were not necessarily ready to buy NutriDelight. Then local competitors – unfettered by enforced truth-in-advertising or intellectual property laws – simply produced similar looking products containing no micro-nutrients, but they made elaborate nutritional claims about them.

New partnerships

P&G rebranded NutriDelight as NutriStar and launched it in Venezuela, vowing to learn from experience and do things differently. *P&G* shifted away from a ‘do everything ourselves’ approach and began to look for new partners, both business and non-business, who were well established locally.

P&G recognized that its own competencies lie in product marketing, science-based product development, quality assurance, and up-market distribution. It needed partners to handle local production, ensure down-market distribution, tackle the educational components of the business, and provide verification of the benefits of the product.

Thus *P&G* built a network of partnerships with NGOs, multilaterals, and local pediatric associations to make people aware of the need for the product. It focused each partnership around an educational need, or an informational resource that would be trusted and recognized by its customers. Without marketing the product itself, the educational campaigns helped to raise awareness among the targeted communities of the problem of ‘hidden hunger’ and create demand for a product that dealt with it.

P&G also asked itself: “What are the bits of this business we don’t absolutely need to do?” It then brought in local businesses and entrepreneurs as partners to form a chain stretching from manufacturers to distributors.

P&G licensed the product formulas to local companies, thereby spreading risk and decreasing capital investment. Local companies benefited from the transfer of technology, and *P&G* from the brand equity and the early positioning of the brand in potential future growth markets.

P&G also focused on its own abilities to get the product into up-market outlets. It looked for ‘naturally occurring distribution systems’ (chains of small companies, distributors, and shops). The local companies possessed a much better understanding of local conditions and could ensure the distribution of the product down-market.

Even so, it proved difficult to reach all of the levels where this product was most needed. This was compounded by political instability in Venezuela which prevented *P&G* from further refining and fixing its business model, eventually leading *P&G* to pull NutriStar out of the market.



Building on its experiences

Despite its rough ride with NutriStar, P&G continues to seek successful sustainable livelihoods business models. Its latest product, called PuR, is a sachet of powder that causes bacteria, viruses, dirt, and other impurities in water to coagulate and settle, making the water safe to drink.

Costing \$10 million to develop, PuR was created by building on past SL business experience and using a 'skunk works' methodology, funded from the company's core R&D budgets. The skunk works multi-national product development team that headed up the project embraced the idea of getting close to markets by holding meetings in developing countries, often visiting the homes of their poorest target clients in an effort to better understand local consumer needs.

Learning from the NutriStar experience, PuR has been designed for a price point that is realistic for the target populations. It sells for the equivalent of 10 US cents – or the price of an egg – in Guatemala, the Philippines, Morocco, and Pakistan (though this may still be too much for the poorest populations). Local manufacture is being explored to keep prices low, and partnerships have been established with national health ministries and the health infrastructure that reaches rural villages. Another partner, the US Centers for Disease Control and Prevention, has conducted clinical trials to provide credibility for claims.

P&G has discovered further challenges – such as getting consumers to change their habits when they have not previously treated water. They discovered that while the dangers of unsafe water may seem obvious to developed world mindsets, they are not so clear to people who have been drinking that water since birth.

P&G is still working to get PuR into the market in a sustainable way, learning where to set up franchise models, and studying how to create a viable micro enterprise model to distribute a single sachet product like PuR.

Thus P&G feels that it has much to learn about the sustainable livelihoods business. However, as one P&G executive commented, working on such products makes P&G feel good about itself and the public feel good about the company – and they still expect to make a profit on these products over the long term.

DuPont: Motivations – Philanthropy or good business? How do we depart from business as usual?

DuPont Thailand initiated a philanthropy program to donate lunches to needy pupils in rural locations. Soon the team was looking for ways to expand the program beyond the two schools that they were working with. They decided to view this as a marketing opportunity rather than a philanthropy project.

In 2002, the team identified 18 schools and approached the teachers and people in the local communities to help run a farming program. Its objectives were to grow additional crops on school premises to supplement pupils' lunches. *DuPont* provided seeds, material, and farming supervision. Selected schools provided the land. Communities, student, parents, and teachers provided the labor and caretaking for the farms. Local dealers and sub-dealers who are also grain traders then bought the grain from the schools' projects and sold it to feed mills.

DuPont invested \$5,600 total, and the schools earned over \$10,700, used mostly to augment their lunch programs and improve students' nutrition.

DuPont sees the program as a business success. They were the only one to supply the corn seed to the project. The varieties used for the project were recommended by the District Agronomist team according to their sales plan and field trial results. On harvesting, day farmers who participated in corn harvesting had a chance to see how the hybrids performed in their area. In their next purchase they often opted for *DuPont's* seed varieties. Initial indications for 2003 suggested that sales had exceeded forecast for the region. The program has now been expanded to 30 schools.



Novo Nordisk: Partnering around customer education

How can we ensure that **there is demand for our product?**

In China, *Novo Nordisk* and the Chinese Ministry of Health launched the National Diabetes Management Project (NDMP) to provide diabetes education and training to doctors and nurses and establish models of diabetes care in hospitals and community health centers.

China's growing urban middle class is being increasingly affected by 'Western diseases' like type two diabetes, driven by factors such as more sedentary lifestyles and diets high in saturated fat and refined carbohydrates. With the educational program, *Novo Nordisk* is assuring a rising demand for its insulin, produced in China in a new plant that can turn out 20 million units per year.

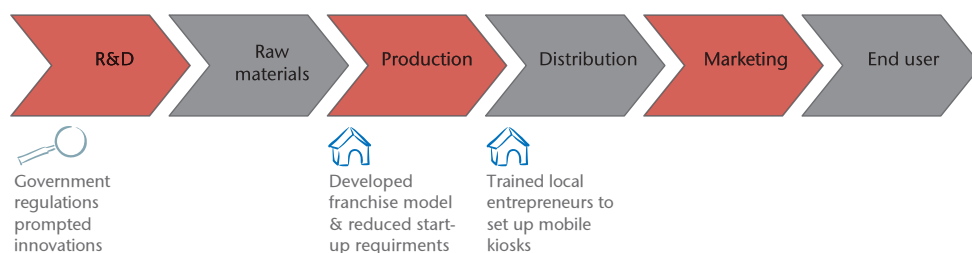




Vodafone, communications

Companies at the forefront of technological innovation need to find ways of profitably operating in emerging markets. Growth companies need growing markets. Fortunately, these companies often already have cultures that foster innovation and risk taking, two important elements of success. Additionally, many core products, technologies, and capabilities can, with some adaptation, be used in emerging markets. Examples of these opportunities are numerous, including community mobile phones, shared internet, telemedicine, and distance learning.

Innovations along the value chain



The *Vodacom* Community Services program in South Africa shows how a technology company can learn to operate profitably in a lower income market segment. The business model adjustments that needed to be made were not obvious, and took time to implement, but the business is now a success.

Vodacom, a joint venture between *Vodafone* and Telkom SA, has developed a shared service model for providing telecommunication services to poor communities in South Africa. This began with a government mandate, a required precondition for serving more lucrative market segments, but turned into an important source of learning and an opportunity for future profitable growth.

In 1993, *Vodacom* was granted a license to build and operate a cellular network in South Africa. In 1994, the new post-apartheid government in South Africa requested revised terms to the license; these included a requirement to provide affordable cellular communications to under-served areas. Specifically, *Vodacom* was to have 22,000 lines in operation within five years, but was given discretion regarding how to do this.



How the model works

Originally, *Vodacom* adopted two methods to meet its obligation. The first was to issue phones to faculty and administrators at universities and technical colleges in disadvantaged areas. The second was to set up stationary phone shops or kiosks with multiple lines, all connected to *Vodacom*'s existing infrastructure through a wireless link. While the first strategy 'transportables' was easier and faster to roll

out, it did not achieve its intended goals. Faculty used the phones for themselves, and students were rarely given access. *Vodacom* is now phasing out all of its transportables and allocating the lines to phone shops.

The phone shop strategy has been more successful. To identify local entrepreneurs to run the phone kiosks, the company looked at the phone use patterns of its existing customers. They realized that those who appeared to be using their phones a great deal were probably renting them call-by-call to friends and neighbors. This clever interpretation of data allowed *Vodacom* to identify the natural village entrepreneurs, and to hire them and train them to manage the mobile kiosks. *Vodacom* used a franchise model to promote local entrepreneurship and reduce startup capital requirements.

Like many successful sustainable livelihoods businesses, *Vodacom* saw the value of partnering to develop its community services business. It recognized the importance of tapping into local knowledge and expertise through its franchise model, in which local entrepreneurs are managers and sales people.

Vodacom found that each mobile phone shop spawned five new jobs and unquantifiable spin-off economic gains. Benefits to the community of having telecommunication services available include allowing families with a migrant worker to keep in touch and manage family affairs, helping people conduct their businesses more effectively, and allowing delivery drivers to keep in touch with headquarters.

Financing the business

The cost of setting up a phone shop is equivalent to about \$7,400. *Vodacom* pays about \$3,950 to purchase and modify shipping containers to turn them into phone shops. The individual owners are responsible for purchasing the internal equipment and paying to transport the container to its final site. The franchisee's total investment is approximately \$3,450.



Vodacom initially provided some financing to shop owners, as they found it hard to get bank loans. This has been phased out as demand among franchisees has increased. There is so much competition to be a shop owner that *Vodacom* can select franchisees who can find ways to make the initial investment.

Growth, opportunities and challenges

There are now more than 23,000 phone lines at approximately 5,000 sites. Total revenue (to *Vodacom*) in 2003 was \$129.5 million. *Vodacom* is paid two-thirds of total revenue while the phone shop owner keeps the other one-third, so each shop brings in an average of \$38,800 per year in gross revenue.

Vodacom plans to build on this success and improve growth prospects while maintaining or even enhancing profitability. There are opportunities to expand the number of sites in South Africa (demand from potential franchisees currently exceeds *Vodacom's* ability to expand), to introduce new services (such as data and fax), and to replicate the approach in other countries. The project is also good for business in that it introduces the *Vodacom* brand to many consumers and shows them the value of a telephone. As they grow wealthier, many may choose to upgrade to a standard *Vodacom* mobile phone.

Coca-Cola: Local entrepreneurs as sales people How do we reach our customers?

In 1999, *Coca-Cola's* Southern Africa division began setting up the Entrepreneurs Development Program in South Africa to help new entrepreneurs profit from new business ventures. Promising entrepreneurs are identified for the program each year and trained in basic business skills. In 2000, the program created 12,900 new jobs. The bottlers have developed creative innovations to meet

the needs of these developing entrepreneurs: sturdy transport bicycles, mobile mini kiosks, and mobile coolers for street vending. Strategically placed selling depots are being developed to service these micro entrepreneurs, and as these micro businesses develop, *Coca-Cola* is assisting the entrepreneurs to move up the supply chain and expand their profitability.

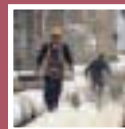
Holcim: Serving a larger customer base

How do we ensure that our customers can afford it?

In most countries, cement companies sell to wholesalers and retailers to sell on to builders. But in developing countries, the builders are people who build their own homes. *Apasco*, a Mexican subsidiary of the global cement company *Holcim*, realized that selling cement in bulk through a chain of middlemen dramatically raises prices. By opening new distribution centers in remote areas where cement could be purchased bag-by-bag and providing technical and safety advice to builders, *Apasco* was able to sell

responsibly to the poor. The benefits to the local communities included a facilitated access to building materials at affordable prices. *Apasco* staff also offered consulting services on 'do-it-yourself' building techniques. This additional support helped ensure that the houses were built to a good and safe standard. It contributed to providing local people with sound construction skills. Lessons learned in Mexico are being studied at headquarters to see if this model can be replicated elsewhere.

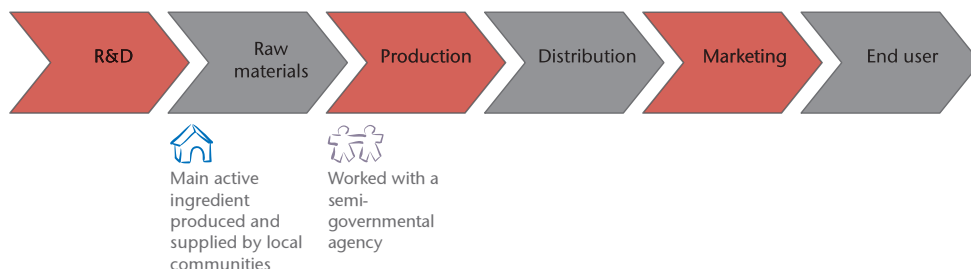




SC Johnson, consumer products

SC Johnson has focused on sustainability for many years. In its efforts to build sustainable development and production into its global business, the company has faced several challenges including the management of unpredictable suppliers in unpredictable political climates.

Innovations along the value chain



Over the past 50 years, US-based consumer products manufacturer *SC Johnson* has become one of the biggest users of natural pyrethrins in its household insect control products. A daisy known as pyrethrum is the source for a naturally occurring insecticide that degrades quickly in the environment. The pyrethrum flower is grown and supplied to *SC Johnson* by small-hold farmers in the highlands of Kenya.

Naturally preferred

When *SC Johnson* launched Raid® in 1950 as the world's first commercial aerosol insecticide, the family-owned and managed company chose to use environmentally benign natural pyrethrum as the active ingredient. The company became important to the highland community, providing livelihoods for over 200,000 Kenyan farmers and their families. When lower cost synthetic alternatives emerged, *SC Johnson* chose to maintain natural pyrethrins in their product mix, valuing the long relationship it had built with the Pyrethrum Board of Kenya (PBK) and the highland farmers. *SC Johnson* focused efforts on assisting PBK to become a more efficient producer of natural pyrethrins.

Working with government

The PBK, a parastatal agency that controls and operates the entire pyrethrum business in Kenya, manages the country's total supply of pyrethrum through a network of farmer cooperatives. *SC Johnson* has worked directly with PBK since 1970. This relationship has extended considerably beyond that of a normal supplier-purchaser relationship, characterized increasingly by a strong degree of knowledge and technology exchange.

SC Johnson has helped PBK develop planning and forecasting abilities through the sharing of best practice examples and ongoing advice regarding the establishment and maintenance of a safety stock to help offset harvest shortages. *SC Johnson* has also provided technical assistance to PBK.

As a result of this long-term, capacity-building effort, there has been a notable improvement in product quality and a rise in production standards. PBK has made continuous improvements in its quality control programs, and it has passed supplier audits from *SC Johnson* as well as by European buyer Aventis. Standards continue to rise, and PBK is now seeking ISO certification.

Challenges and opportunities

The framework conditions necessary for doing business – such as transparent, effective legal systems, low levels of corruption, and efficient government bureaucracy – remain poor in Kenya.

At different times, PBK's existence as a parastatal agency reporting to the Ministry of Agriculture has presented challenges to the business relationship with *SC Johnson*. Changes in government cause changes in appointments within the ministry of agriculture, which in turn affect the management of PBK. Recently the new ministry officials publicly questioned a negotiated agreement between *SC Johnson* and the PBK, without first conferring with PBK management. PBK needed time to explain to government officials why the agreement was in both PBK's and the farmers' interests. The issue was eventually resolved, but only after causing a disruption in the supply flow to *SC Johnson* and exacerbated inventory problems for PBK.



Challenges have not been limited to Kenya. The US Environmental Protection Agency does not currently support the branding of products made with natural pyrethrum as 'natural' insecticides, thus making it difficult for *SC Johnson* to cover the higher costs of natural pyrethrum in the US market by leveraging a 'natural' label claim.

In both cases, the company is working on strategies to circumnavigate these governmental obstacles.

SC Johnson's work in Kenya forms part of its ongoing African strategy. This involves building its business in the region through the three lenses of social equity, environmental stewardship, and economic success. *SC Johnson*, which sells products in more than 110 countries, is developing local products and strategies to help increase sustainable livelihoods in the region.

Sonae/Delta Café: Branded coffee for sustainable communities

How do we improve our supply chain?

Delta Café buys raw materials from poor communities in East Timor, creating sustainable livelihoods and gaining market rewards for producing a socially responsible product.

Delta Café is part of the Nabeiro Group of food companies, and is the market leader for coffee in Portugal, with a market share of 38%. In 2000, East Timor gained independence from Indonesia, and found that its coffee farms had suffered 20 years

The company developed the Delta Timor brand and marketed it as 'socially responsible' coffee after getting involved with the growing communities in the remote hills of East Timor, a former Portuguese colony.

This project is already turning a profit, thanks to the popularity of the new Delta Timor brand among Portuguese consumers, promoted strongly by its partner *Sonae*, the country's biggest retailer. *Delta* welcomes competition in the region from other coffee-producing companies, as this will improve the coffee-producing techniques of all farmers.

of neglect; their poor farming methods produced a poor product.



DuPont: Working with the Government towards affordability

How do we ensure that **our customers can afford it?**

DuPont has tried to ensure that Colombian corn farmers can afford its agricultural products by helping them to get credit, or more precisely, forward payment for their harvests. The company went into partnership with the Ministry of Agriculture, Finagro (the agrarian bank), the National Agriculture and Livestock Board, and the State House of Compensation and Security, among others, to develop a program that allows for upfront financing so that farmers can afford

to purchase the inputs that they need for the season to maximize their yields.

DuPont introduced the Integrated Agricultural Plan (PAID, in Spanish) in 1999 to provide farmers with financial and commercial solutions, as well as technical assistance. The plan enables farmers to maintain financial liquidity through the growing season.

Through the use of forward contracts with agro-industry companies that buy the harvests, farmers are guaranteed a fixed price and payment date in advance, and the buyers are guaranteed a supply at a fixed price. The PAID system provides farmers with money to buy inputs required for crop production, and technical assistance throughout the cultivation period. The farmers do not have to buy *DuPont* products, but the company has got in early with training and advice systems to get the attention of this market.



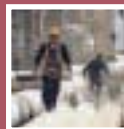
DaimlerChrysler: Seeking a 'greener' supply chain

How do we **improve our supply chain?**

In Brazil, *DaimlerChrysler* found that coconut fibers work well in filling headrests and seat cushions. Local firms were contracted to grow, extract, and supply the fibers to other small companies that process them and mold them into their finished shape. The local enterprises benefit from the diversification of their

crops, the creation of additional sources of income, and technology transfer.

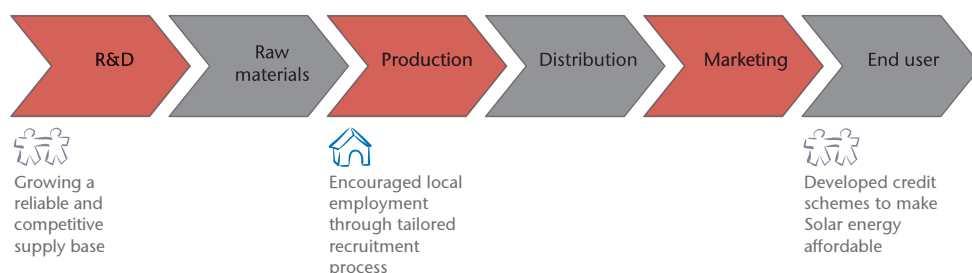
DaimlerChrysler increased its eco-efficiency performance through the use of renewable and recyclable material and helped the local population to improve their living conditions.



BP, Rio Tinto, and Shell

Companies in the extractive sector (oil, gas, and mining) are driven to a particular geographical region by the geology. These companies may operate in remote regions among poor people. Their prime purpose may not be to develop local markets for goods and services, but the scale of their activities can bring significant revenue, employment and resource benefit to the host communities, be this at local, regional or national level. Many companies have made it an explicit objective to try to maximize these benefits.

Innovations along the value chain



Extractive companies are increasingly involved in the development of employment and sustainable economic activity, for example by helping local SMEs become suppliers to the company and to be better, more effective business partners; or by collaborating with others to help small or start-up local businesses. As a result, employees and SMEs will have a better chance to sustain their business after the oil, gas, or mining operation has diminished or moved away.

Additionally, many industry leaders have started to look for solutions to improve access to energy and are developing innovative product offerings in solar power and liquefied petroleum gas, to serve the energy needs of the two billion people worldwide without access to electricity.

Lastly, through their interaction with those countries' governments when negotiating licenses, tax, and royalties, they can have an influence on whether and how those revenues are used to help poor communities develop.

Building a sustainable local economy in Trinidad & Tobago

BP: Working with government to diversify the local economy

Focusing on the macroeconomic impact of its operations, *BP* is working with the government in Trinidad & Tobago to stimulate the local capital markets and encourage wider business ownership, as the company develops the country's natural gas reserve. The aim is both to promote good governance and to create a pool of businesses that can not only supply *BP*'s operations there but also compete on a world scale, beyond the present gas boom. Trinidad & Tobago is the largest liquefied natural gas (LNG) exporter to the United States, and *BP* aims to double its share of global LNG business by 2010.

The amount of taxes and royalties collected in 2003/04 from *BP* by the government corresponds to nearly \$3 billion, a considerable portion of the government's total revenue. Thus, by moving to local sources of supply, *BP* has a significant impact on the country's economy.



Helping locally-owned contractors develop global scale capabilities and become significant part of *BP*'s current supply chain contributes to the government's aim of achieving a dynamic and sustainable economy through the building of knowledge-based skills. This will in turn allow the overall economy to continually evolve and recreate itself beyond oil and gas.

Success will also allow the government and people to see themselves, perhaps for the first time, not merely as exporters of gas, but exporters of intellectual capital. This could become reality as a result of local learning

institutions, workforce and companies becoming global experts in the industry. Finally, these can become the sources of multipliers of wealth derived from the production of a non-renewable commodity, natural gas.

Improving the supply chain in Azerbaijan

BP: Partnering to develop local capabilities

BP sees projects to promote local development near its areas of operations as part of its remit. Such projects also help build good relations with local and national governments and add to *BP*'s credential when negotiating to move into new areas. In its recent investments, *BP* has sought ways to do business with local people from the outset of operations.



The South Caspian region contains 10 billion oil equivalent barrels of proven oil reserves. Yet the number of people living in poverty in Azerbaijan and Georgia grew substantially during the 1990s. The 1997 World Bank Poverty Assessment found that over 60% of households could not afford the standard 'food basket'.

BP is managing an investment of around \$20 billion to develop oilfields and pipelines in the region. With its partners, it is designing a mechanism that brings local SMEs more effectively into the oil industry supply chain. An enterprise center in Baku established in May 2002 already forms an integral part of *BP*'s business interests, providing a focus for the drive to develop local SMEs' skills and reliability. Thus the SMEs' development of skills and reliability becomes a crucial part of *BP*'s business interests.

By October 2003, WBCSD members Statoil and *BP*, with their business partners and development partners, were supporting in Azerbaijan a fund to stimulate capability among contractors in the oil industry, which would both improve *BP*'s business and create jobs in the community.

BP, Statoil, and Unocal have announced a \$650,000 joint program with German Technical Co-operation (GTZ) and the International Finance Corporation (IFC), the private sector arm of The World Bank Group, to establish the Supply Chain Technical Assistance organization. *BP* contributed \$200,000 to the program, GTZ provided another \$200,000 from Public-Private Partnership funds, IFC contributed \$100,000. *BP*'s partners, Statoil, Unocal and McDermott, contributed \$75,000, \$50,000 and \$25,000 respectively.

This program will help equip Azerbaijan's local businesses to participate more actively in business opportunities related to major oil and gas field development projects. The program will engage local companies in a variety of sectors identified as providing long-term opportunities in the oil and gas industry and other industries.

The assistance will be tailored to their needs, addressing issues such as business planning, access to capital, management training, and the attainment of standards required by the international business community based in Baku.

Developing related economic activities in Indonesia

BP: Managing the legacy of extractive operations

BP is doing something similar as it develops a gas field in Indonesia, the world's fourth most populous nation. It is working with local government and other stakeholders to create better suppliers by implementing a Distributed Growth Strategy through capacity-building partnerships. The difference is that this partnership is also meant to keep small companies and employees from moving into the remote drilling area, because the site cannot support large-scale migration by those seeking jobs and other benefits.

The strategy promotes business development in areas that have sufficient supporting infrastructure: the major towns throughout the Bird's Head Peninsula of Papua. These Regional Growth Centers will serve as the project's transit gateways, recruitment centers and payroll sites.

Under the provisions of the Special Autonomy Law for Papua, production from the Tangguh Project will lead to a dramatic expansion of fiscal resources for the provincial and district governments. The capacity to manage these earnings transparently, efficiently, and equitably is critically important for BP and international donors and will be the subject of assistance with training and capacity-building.

Growing a reliable supply base in South Africa

Rio Tinto: Linking big business with small business

Richards Bay Minerals (RBM) is a Rio Tinto managed mining and smelting business situated in northern KwaZulu-Natal, South Africa. RBM has implemented a successful program to create real business opportunities for historically disadvantaged Black Economic Enterprises (BEE's) to supply goods and services to the company.

The scheme has involved:

- > Initiating new business ventures, and identifying and approaching small black-owned businesses and helping them establish themselves as viable suppliers of goods and services to RBM, through a process of guidance, assessment, and accreditation;
- > Seeking RBM requirements that can be sourced from this sector, unbundling main supply contracts, and planning new projects with a view to BEE participation;



- > Promoting an understanding of *RBM's* procurement procedures, and simplifying documentation and structured terms and conditions to accommodate the difficulties experienced by emerging BEE's, without detracting from accepted business procedures and quality standards.

The program has been hugely successful, with *RBM* now directly sourcing over \$9 million dollars worth of goods and services from local BEE's annually. This in turn has resulted in the creation of over 1,200 new jobs, strengthened *RBM's* social license to operate, and through the outsourcing involved, helped to improve the business's overall management efficiency.

This policy has supported the development of black South African SME's into the organization's supply chain, with significant positive mutual benefit for both the company and the community.

Encouraging local employment among Australian Aboriginal communities

Rio Tinto: Adapting recruitment procedures to improve employment opportunities

A large number of *Rio Tinto's* mining operations are in remote, rural parts of Australia, on or adjacent to Aboriginal territory. Although every Aboriginal community is different, many are highly disadvantaged when compared with non-Aboriginal Australia, having poor health statistics, low levels of mainstream education, limited access to employment opportunities, and associated elevated levels of welfare dependency.

Consistent with *Rio Tinto's* global policy commitment to sustainable development, *Rio Tinto* believes that its mineral resource projects should encourage local employment by involving the company, governments, and communities working together. Thus *Rio Tinto* has over recent years tried to provide for better economic participation of local people near its mines. This has

lead to a range of initiatives in areas such as education, training, small business development, and in particular, towards achieving improved levels of direct employment.

As a result of these efforts, local indigenous employment levels at *Rio Tinto's* Australian operations have increased ten-fold since 1995.





Rio Tinto's Argyle Diamond Mine is located in the remote East Kimberly region of Western Australia. Until recently, efforts to recruit locally have been largely unsuccessful; the majority of the 500-strong workforce was recruited over 1,500 km away from the operation, commuting via commercial jet to and from the mine on a weekly or two-week rotation.

As part of an effort to increase economic partnerships with neighboring communities, Argyle reviewed its recruitment and selection methods. This resulted in the development of a new recruitment process that fully involves the community and takes into account cultural and individual differences. Results of the modified process have led to significant win-win outcomes for both the mine and neighboring indigenous communities.

In the past, large wordy advertisements were employed to advertise job vacancies, and the selection process relied heavily on written applications and standard interviewing methods. The new approach is characterized by 'hands on assessment'. Argyle instituted weeklong assessment workshops that provided the opportunity for groups of around 20 applicants to see what it is like to live and work on a mine. Instead of having the recruitment process conducted only by staff from human resources, the assessment workshops are monitored by a team comprising community specialists, personnel from human resources, and superintendents from the department that is recruiting. Over the week, applicants work in teams on a variety of activities including outdoor problem-solving exercises, instead of largely abstract psychometric testing tools. For jobs where proficiency in using machinery is required, Argyle has set up a small quarry, and an instructor guides applicants through a range of exercises using the machinery to determine their aptitude for advanced machinery training. Small group discussions are held to air issues arising from living onsite during the week, and applicants have an opportunity to discuss any concerns.

As a result of these changes, over half of the indigenous people who have attended the assessment workshops have been offered employment, and Argyle has lifted its ratio of local indigenous employees from 4.5% to over 18% in three years. A mark of success is that 90% of those people recruited through the program remain employed. Argyle's target is to achieve 30% local indigenous employment by 2005. There are also business benefits associated with this transformation in local recruitment and workforce diversity, greatly improving the mine's community interface and providing a more flexible workforce. Over time, local employment will also lead to reduced workforce commuting costs.



Developing appropriate energy products in Sri Lanka

Shell: Making solar power affordable

Through its Solar Rural Operations, *Shell Solar* is bringing solar electricity and equipment directly to remote households in six developing countries (India, Sri Lanka, Philippines, South Africa, China, and Morocco).

In Sri Lanka a typical solar electricity system powers seven lights and sells for around \$550-600. With 10,000 units sold by *Shell Solar*, benefits have included: 300 new jobs, mostly in rural areas; significant reduction in undesirable emissions by replacing kerosene lamps and diesel generators; bright light, making reading, cooking, and education easier; and convenient power to connect with the world via television and radio.

This distribution model works, reaching break-even in 2001, a first for *Shell* and a watershed for the industry. Two barriers were overcome: availability of systems and the ability of householders to pay.

The Global Environment Facility (GEF) provides a grant-per-connection subsidy to companies through a local channel, a subsidy available to all companies, whether international or national. *Shell Solar Lanka* has benefited from this grant system. Initially, it used part of the subsidies to help create a market for solar energy, by raising awareness of the merits of solar systems and building the basic infrastructure needed. Once it became clear that the model worked, local companies also entered the market. Today, nine local companies are supplying solar systems. *Shell Solar* retains 30% of the market share.

The subsidies also enabled the company to reduce the average cost of each solar system to \$ 500. However, even with this reduced cost, many rural households are not in a position to purchase a solar home system on an outright cash basis. So the company has developed a credit scheme in conjunction with The World Bank and local banks, including Sarvodaya Economic Enterprise Development Services (SEEDS), a micro-finance organization. Under the scheme, customers pay an initial deposit of approximately \$100, and \$10 per month over five years. Over a period of 5 years, the total price paid by the customer amounts to \$700, since the loan granted by the financial institution has an 18%-20% interest rate, which enables the bank to cover its operation and collection costs.

Overall, the subsidy and the credit scheme have ensured the success of the program.

Recommendations to address basic business questions

- What are the motivations and how do we shift mindset?
- Do we understand the real needs of the market?
- 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?
- How can we improve our supply chain?
- How can we stimulate related economic activities downstream?
- How do we measure success?
- How do we scale up or replicate?

Key messages

- Focus, Localize, Partner





After looking at a number of examples, both in depth and in snapshot form, it may be useful to go back to the original basic business questions that a company ought to be asking about any new project, and certainly a pro-poor business project (refer to page 23).

What are the motivations and how do we shift mindset?

We have listed different motives for changing mindset toward doing business with the poor. Most companies will be guided by a mix of motivations. Some may start from an 'it's the right thing to do' attitude. This has been a driving force in keeping *SC Johnson* working with Kenyan farmers to grow pesticide products. Others may be moved more by a sense of business opportunity, which was the case with *GrupoNueva* – the 'opportunity' being the survival of a subsidiary. Other companies may feel pressured by society's expectations, while others may be in reality required by government contracts to do business with the poor.

Once a company, part of a company, or a leader within a company decides to change the corporate mindset, then a real push is needed to spread the new thinking throughout the corporation. If the vision stops at the CEO/board level, then nothing fundamental changes inside the company. Companies wanting to do business with the poor will need to get this new thinking into the business units, where the corporate rubber meets the road, particularly the rough roads of the developing world.

It is very hard for the average employee to see the poor as business partners and customers, and to begin to think, design, and work to ensure that both the company and low-income people and communities benefit from that partnership.

GrupoNueva held a company-wide contest to find ideas - and to spread the new thinking. From headquarters to the field, *Suez* articulated a vision for providing water for the poor that fitted into the Group's core strategy. To change business mentality, *P&G* created a multinational product development team to work on the PuR product line. They held product meetings in the field to gain a deeper contextual understanding of local market needs. *Banco do Nordeste* sent senior managers on 'learning journeys'. This *Field guide* is meant to be a way of circulating sustainable livelihoods thinking.

- > Help disseminate this *Field guide* and other relevant publications and tools throughout your company.



- > Allocate resources for R&D into these new business models; test multiple ideas on the ground. Some companies can use their foundation arms to experiment with strategic corporate philanthropy and test pilot projects based on sustainable livelihoods business models.
- > Prepare business plans, not grant proposals. Business plans must be clear, rigorous, and debated in the toughest business terms. It is important that early attempts be well-planned enough to succeed, as success is the best argument in business – and failures do not encourage second attempts.

Coming up ...

The WBCSD is producing a separate report on various development actors that could be potential partners in pro-poor business ventures (*Business Guide to Development Actors*), produced in collaboration with IBLF and Deloitte.

Do we understand the real needs of the market?

Traditional market surveys and market segmentation might fall short of providing the company with an accurate picture of real needs and priorities in low-income communities. It certainly might miss people who are just outside markets but almost ready to come in.

You cannot do successful business without understanding the needs of the market and how to meet them in a commercially successful manner. One way to get market intelligence is to work with partners who are also concerned with those needs. *Suez*, *P&G*, *SC Johnson*, and *Banco do Nordeste* have all used non-business partners to improve their pro-poor businesses by better understanding the market. In selling to Habitat for Humanity, *GrupoNueva* is reaching the poor by selling to a not-for-profit.



- > Interact with local community leaders, representatives, or development NGOs. Their local knowledge can provide valuable insights into undocumented social habits and customs.

Do we have the right product/service to offer?

Once a company has acquired a better understanding of the real needs of its markets (not the perceived needs), it may want to either adapt an existing product or develop a new one to suit the specific characteristics of its target audience. Adopting a needs-based approach (or a customer-oriented approach) often means thinking laterally about providing integrated solutions rather than isolated products.



- > Customize products for more shared access, lower up-front costs, more 'do-it-yourself' (let customer supply some of the labor); sell the service provided by the product rather than the product itself.

- > Set up a multinational product development team with emerging market experience to better understand potential customers' needs. Engaging directly with communities as well as local governments or development agencies helps to define the right product or service offering. As with the above question and examples, work with non-business partners.



- > Think laterally. Consider integrated solutions rather than isolated products. This can be done in-house or by developing new products/services jointly with partners (up or down supply chains or across different industries) to address needs holistically.

How do we finance the investment?

Pro-poor projects sometimes require a large investment up front. If the project is relatively straightforward and the business plan anticipates an acceptable rate of return, then managers can probably mobilize internal capital to finance it. If it requires complex partnerships and presents uncertain rates of return, then external capital is required, and managers will want to talk with financial institutions to define loan terms that would meet the specific characteristics of pro-poor projects.

Financial resources are available that offer attractive terms in exchange for social benefits. However, this market is nascent and hard to navigate. Be prepared to spend significant amounts of time to attract these resources. *Suez* managed to get investment help from multiples sources: the IFC, a Brazilian development bank, the French Ministry of Foreign Affairs, and the French Embassy in Brazil for its efforts to bring water to the poor in Manaus. *P&G* found product development help for its NutriStar/NutriDelight products from external sources.

The public sector increasingly supports business-led, poverty reduction initiatives and advocates for public-private partnerships as a good mechanism to augment their chances of success. The participation of not-for-profit organizations in the implementation of sustainable livelihoods projects often brings non-financial resources (such as expertise, human resources and networks) to help reduce operating costs and deliver on business objectives.



- > Work with financial institutions to design creative financial instruments to fund pro-poor projects that require a large capital investment upfront, produce below-the-market rates of return, but generate a high social value over the long term.

Coming up ...

The WBCSD is producing a separate report on strategies for accessing various types of capital and co-financing, often on generous terms (*Finding Capital for Sustainable Livelihoods businesses*), available to those getting involved in pro-poor business ventures.



- > Franchising can also be a way to spread capital risk. This should be approached with caution given that the underdeveloped nature of the capital markets in many low-income countries restricts people's access to credit.



- > Foundations, whether corporate or otherwise, are often willing to invest in pro-poor projects.

How do we ensure that there is demand for our product/service?

Education and awareness-raising can highlight an existing need, point to a solution, and explain what there is to gain from addressing the problem. Letting development organizations lead these information campaigns can bring additional credibility to the product or service offered, and lower marketing costs.

In the case of *Suez*, ESSOR's involvement helped build the necessary trust between the company and the poor, showing local inhabitants the advantages of being treated as customers and convincing them that the company was striving to adapt its services to best serve their needs. Its skills proved essential to bridge the communication divide between them.



- > Leverage partners' expertise. Development NGOs and other non-profit organizations can play a key role in reconciling the needs of the communities and that of business.

How do we ensure that our customers can afford it?

Contrary to the myth that ‘the poor are too poor to afford anything’, there is a significant amount of capital available in informal economies that is not always accounted for in official statistics. The poor do have buying power. If you provide a valuable enough product/service in an affordable manner, they will find a way to pay for it.

The poor aspire to become active participants in local market development, rather than recipients of charity. “Poor people want to become customers and receive a bill. They also want to pay for their bill. This is an important signal to them that they belong to society,” according to Alain Mathys, managing director of Suez’s, Water For All Program.



- > Selling in smaller chunks may be crucial to ensuring affordability. With some products, this is a straightforward physical process of dividing the product into smaller pieces. Many other products cannot be physically sub-divided and require more creative thinking about shared ownership or sales based on a service rather than a product itself (as with *Vodacom* selling the service of telephone use rather than selling telephones).



- > Consider ways to offer financial support such as government subsidies, micro-loans, or credit schemes. Partner with micro-credit institutions.

How do we reach our customers?

Inadequate infrastructure and lack of distribution networks may make it hard to reach customers, especially in remote communities. These difficulties mean that a large part of potential markets might remain in the company's blind spot.

You may need to develop different, more informal distribution systems. These may not be able to cover their costs based on one product alone, so cooperation and leveraging of existing resources become even more important than usual.



- > Look for 'naturally occurring distribution mechanisms' (wholesalers, small shops, kiosks, etc.) where traditional means of reaching markets do not exist. Identify suitable entrepreneurs and help to strengthen their capacity and reach, as *Coca-Cola* and *Vodacom* have done in South Africa.

How do we collect revenues?

Traditional payment schemes may not be suited for communities lacking postal addresses, phones, credit cards, or bank accounts. However, depending on communities' needs, companies can develop innovative methods of collecting revenue.



- > Prepayment for ongoing services (through token, prepaid cards or similar mechanisms) can reduce credit risk and give customers flexibility.
- > Provide incentives to encourage payments (e.g., a discount on the next bill for payment in due time).



- > Establish a collective billing system that allows the community to make a common investment and decide how to split the costs among themselves.

How can we improve our supply chain?

Local resources are available in the shape of natural resources, local knowledge, and human capital. Any of these can be integrated into the company's mainstream business if it identifies how to make the best use of it, in ways that add value or reduce operating costs. Local businesses can benefit from the company's expertise and know-how, and supply chain management can help them become more competitive in the global market. New local businesses might also be created as a result of a company's presence, to supply it with the raw materials, workforce and other resources needed.



- > Examine your full value chain; look for outsourcing opportunities that could be met by local contractors.
- > Tap entrepreneurial capacity in nearby communities. Help existing local businesses to benefit from the company's know-how and strengthen their capacity to become more competitive in the global market. Partner with organizations whose mission is to strengthen small and medium businesses.

How can we stimulate related economic activities downstream?

The mere presence of a company can encourage the development of related economic activities. For instance, the outputs of a given company's production (e.g., aluminum) can be used by small business ventures downstream (e.g., to manufacture furniture, kitchen utensils, auto parts, etc.) to serve the local market.



- > Promote linkages. Help build the capacity of local SMEs that use your output as input for their business activities. Their success will translate into growing sales for your company.

How do we measure success?

Measuring and reporting on the benefits generated for the company and the community involved is essential, but it is not easy. It's a key factor for our license to operate. Measuring impact is important for an efficient communication but also to improve or fine-tune our activities.

Companies' metrics can be fairly straightforward (sales volumes, profits, returns on investment, and growth of market share). Indirect benefits are notoriously harder to measure (enhancement of brand value, improved reputation, positioning, or easier entry into new markets).

Measuring the benefits to communities poses an even greater challenge. Social indicators that measure the societal value created are being developed. They include the number of jobs created, training, new taxes, technology transferred, etc.

The return dilemma

There is much debate about the potential financial returns from sustainable livelihoods businesses. Some point to the significant market opportunity and to some cleverly designed business models that have been developed. They note that this is a business like any other and that returns ought to be commensurate with risk.

Others emphasize the obstacles facing SL business: poverty, lack of basic services like health and education, political instability, poor security, ambiguous rule of law, and lack of infrastructure and effective market mechanisms. They suggest that a financially viable model or a modestly positive return is more realistic and that, considering the significant social benefits, such a return should really be considered a success.

The companies surveyed recognize the potential for profitability in the medium to long term. As it has been the case with China, far-sighted companies have sought to enter this potentially huge market long before it was truly profitable. For over 20 years, they made important investments with losses or modest returns at first. Today, some are starting to see more significant returns and to benefit from their first mover advantage.

How do we scale up or replicate?

Business will reap greater the benefits from engaging in sustainable livelihoods business if it is able to transfer the lessons and successes to other areas of operations or to enter new markets.

Vodacom plans to spread its 'phone shops' through South Africa and to other countries, adding other communications services as it expands. *SC Johnson* plans to go regional in East Africa with its work with pyrethrum farmers. *GrupoNueva* simply added more trucks to its mobile sales force. *Suez* has established a team to look at replicability and is using its company university to filter some of these lessons into executive training programs.



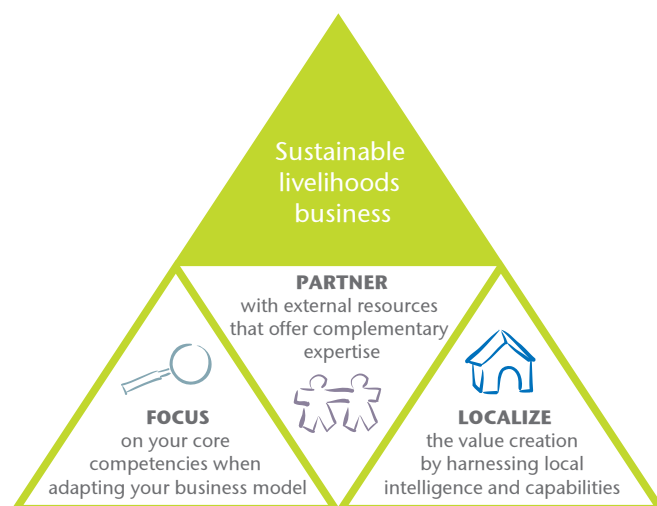
- > Establish a bottom-up process to share lessons from field offices across the company and determine generic guidelines from successful approaches. Consider using a franchise model in countries where the company is not represented.



Focus, Localize, Partner

We have found that doing business with the poor in ways that benefit the poor and benefit the companies requires a delicate blend of innovation and business-as-usual. The single most radical innovation is in thinking of the poor as business partners. Then companies may have to develop new ways of packaging, marketing, distributing, advertising and charging – the same old business problems, with new solutions. But sustainable livelihoods business usually reflects the company's core business and business strengths: providing water, selling commercial goods, extracting minerals, etc. Normal business principles apply and are essential to the success of SL ventures in the same way that they are for conventional businesses.

The sound foundations of sustainable livelihoods business



The main cases in this report suggest that three major elements are present in every successful corporate effort to generate sustainable livelihoods business:

- > A strong focus on core company competencies;
- > An active participation of the local workforce and local SMEs and entrepreneurs;
- > A strategy of partnering with external resources, whether the expertise of a development organization or the complementary skills of another corporation.

“Making the changes you need to stay competitive and stay ahead of course is hard, but the consequences of not making them are much harder.”

Carly Fiorina, Hewlett-Packard, Chairman and CEO.

Appendix 1

Suggested reading

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Appendix 2

Millennium Development Goals

Goal and Targets (from the Millennium Declaration)	Indicators for monitoring progress
Goal 1: Eradicate extreme poverty and hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1. Proportion of population below \$1 (PPP) per day 2. Poverty gap ratio [incidence x depth of poverty] 3. Share of poorest quintile in national consumption
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	4. Prevalence of underweight children under-five years of age 5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	6. Net enrolment ratio in primary education 7. Proportion of pupils starting grade 1 who reach grade 5 8. Literacy rate of 15-24 year olds
Goal 3: Promote gender equality and empower women	
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	9. Ratio of girls to boys in primary, secondary and tertiary education 10. Ratio of literate females to males of 15-24 year olds 11. Share of women in wage employment in the non-agricultural sector 12. Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate 14. Infant mortality rate 15. Proportion of 1 year old children immunized against measles
Goal 5: Improve maternal health	
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio 17. Proportion of births attended by skilled health personnel
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 7: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	18. HIV prevalence among 15-24 year old pregnant women 19. Condom use rate of the contraceptive prevalence rate 20. Number of children orphaned by HIV/AIDS
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria 22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures 23. Prevalence and death rates associated with tuberculosis 24. Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)
Goal 7: Ensure environmental sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	25. Proportion of land area covered by forest 26. Ratio of area protected to maintain biological diversity to surface area 27. Energy use (kg oil equivalent) per \$1 GDP (PPP) 28. Carbon dioxide emissions (per capita) and consumption of ozone-depleting CFCs (ODP tons) 29. Proportion of population using solid fuels

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water	30. Proportion of population with sustainable access to an improved water source, urban and rural
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	31. Proportion of urban population with access to improved sanitation 32. Proportion of households with access to secure tenure (owned or rented)
Goal 8: Develop a Global Partnership for Development	
Target 12: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally	Some of the indicators listed below will be monitored separately for the Least Developed Countries (LDCs), Africa, landlocked countries and small island developing states. <u>Official Development Assistance</u> 33. Net ODA, total and to LDCs, as percentage of OECD/DAC donors' Gross National Income 34. Proportion of total liberal, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 35. Proportion of bilateral ODA of donors that is untied 36. ODA received in landlocked countries as proportion of their GNIs 37. ODA received in small island developing States as proportion of their GNIs
Target 13: Address the special needs of the Least Developed Countries Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction	<u>Market Access</u> 38. Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs, admitted free of duties 39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries 40. Agricultural support estimate for OECD countries as percentage of their GDP 41. Proportion of ODA provided to help build trade capacity
Target 14: Address the special needs of landlocked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of 22nd General Assembly)	<u>Debt Sustainability</u> 42. Total number of countries that have reached their HIPC decision points and numbers have reached their HIPC completion points (cumulative) 43. Debt relief committed under HIPC initiatives, US\$ 44. Debt service as a percentage of exports of goods and services
Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	
Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	45. Unemployment rate of 15-24 year olds
Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries	46. Proportion of population with access to affordable essential drugs on a sustainable basis
Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	47. Telephone lines and cellular subscriber per 100 population 48. Personal computers in use per 100 population and Internet users per 100 population
The Millenium Development Goals and targets come from the Millenium Declaration signed by 189 countries, including 147 Heads of States, in September 2000 (www.un.org/documents/ga/res/55/a55r002.pdf - A/RES/55/2).	

About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of 170 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress.

Our members are drawn from more than 35 countries and 20 major industrial sectors. We also benefit from a global network of 48 national and regional business councils and partner organizations involving some 1,000 business leaders.

Our mission

To provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility.

Our aims

Our objectives and strategic directions, based on this dedication, include:

- > **Business leadership:** to be the leading business advocate on issues connected with sustainable development
- > **Policy development:** to participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development
- > **Best practice:** to demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members
- > **Global outreach:** to contribute to a sustainable future for developing nations and nations in transition

Disclaimer

This report is released in the name of the WBCSD. Like other WBCSD reports, it is the result of a collaborative effort by members of the secretariat and executives from several member companies. Drafts were reviewed by a wide range of members, so ensuring that the document broadly represents the majority view of the WBCSD membership. It does not mean, however, that every member company agrees with every word.

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