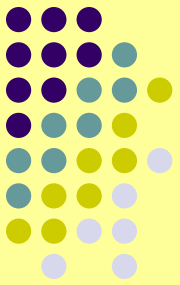


**International Development Policy**  
**Lecture #4, February 13, 2014**

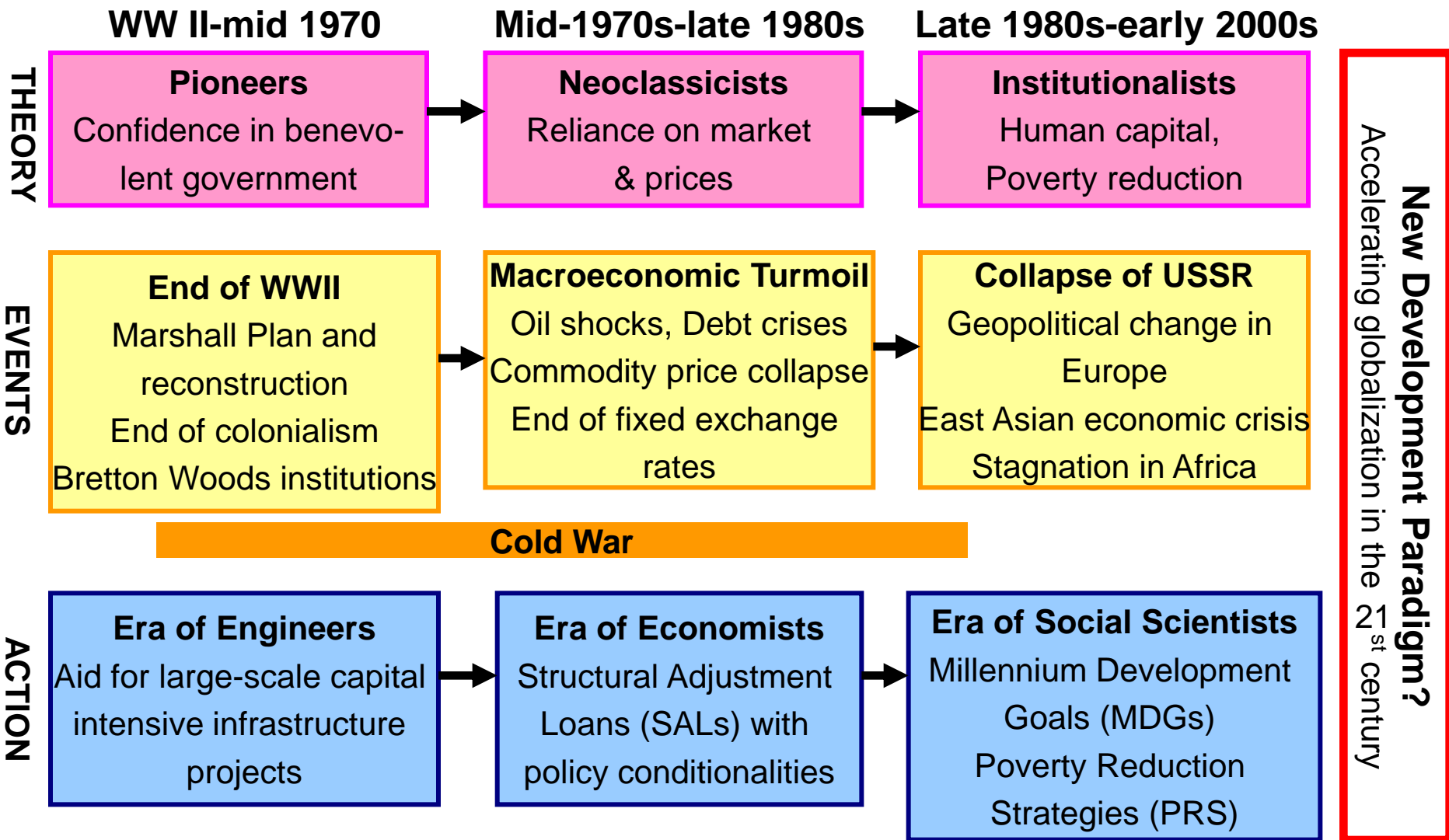


# **New Partnership between Development and Business: Inclusive Business as the After 2015 Agenda**

**Izumi Ohno, GRIPS**

[i-ohno@grips.ac.jp](mailto:i-ohno@grips.ac.jp) (Room E-411)

# Evolution of Development Thinking and Development Assistance



(Source) Adapted from Figure 2 (p.21), Takamasa Akiyama, *International Development Assistance: Evolution and Current Issues*, FASID 2006.



# Outline of Today's Lecture

- **Business as a development actor:** Why are “development” and “business” approaching for mutual partnership? Driving forces?
- **Inclusive business (IB)/ Base of the Pyramid (BoP) Business:** Concept of IB/BoP business, as one prototype of new partnership. How is it different from the conventional business?
- **Business partnership with the poor people:** What does it actually mean?
- **Types and examples of IB/BoP business,** viewed from development objectives
- **Donor approaches** to supporting IB/BoP business (incl. recent Japanese initiatives for promoting SME outward FDI)

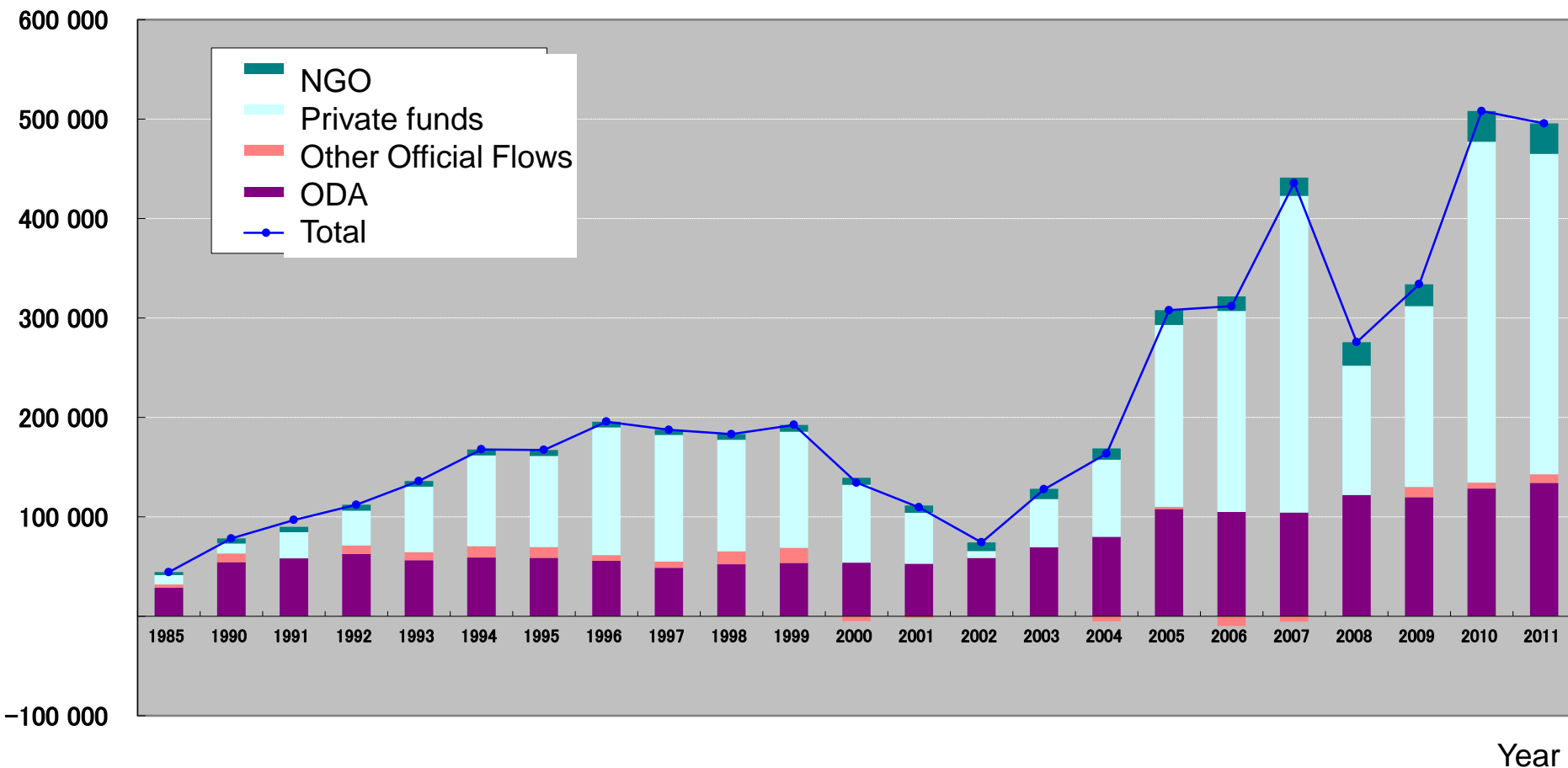
# 21<sup>st</sup> Century Development Paradigm: Why Business as a Development Actor ?



- **Commercial imperatives:** emerging economies and developing countries becoming center of growth and market expansion
- **Moral obligation:** external pressure from and greater scrutiny by CSOs over corporate behavior (“doing good” or CSR)
- **Fiscal imperatives:** fiscal constraints in developed countries driving donors and NGOs look for additional funding
- **Increasing complexity of development challenges:** new and complex global problems requiring the combined resources and capabilities of diverse stakeholders, including the private sector, and need for technological innovation.

# Financial Flows from OECD (DAC) Countries to Developing Countries

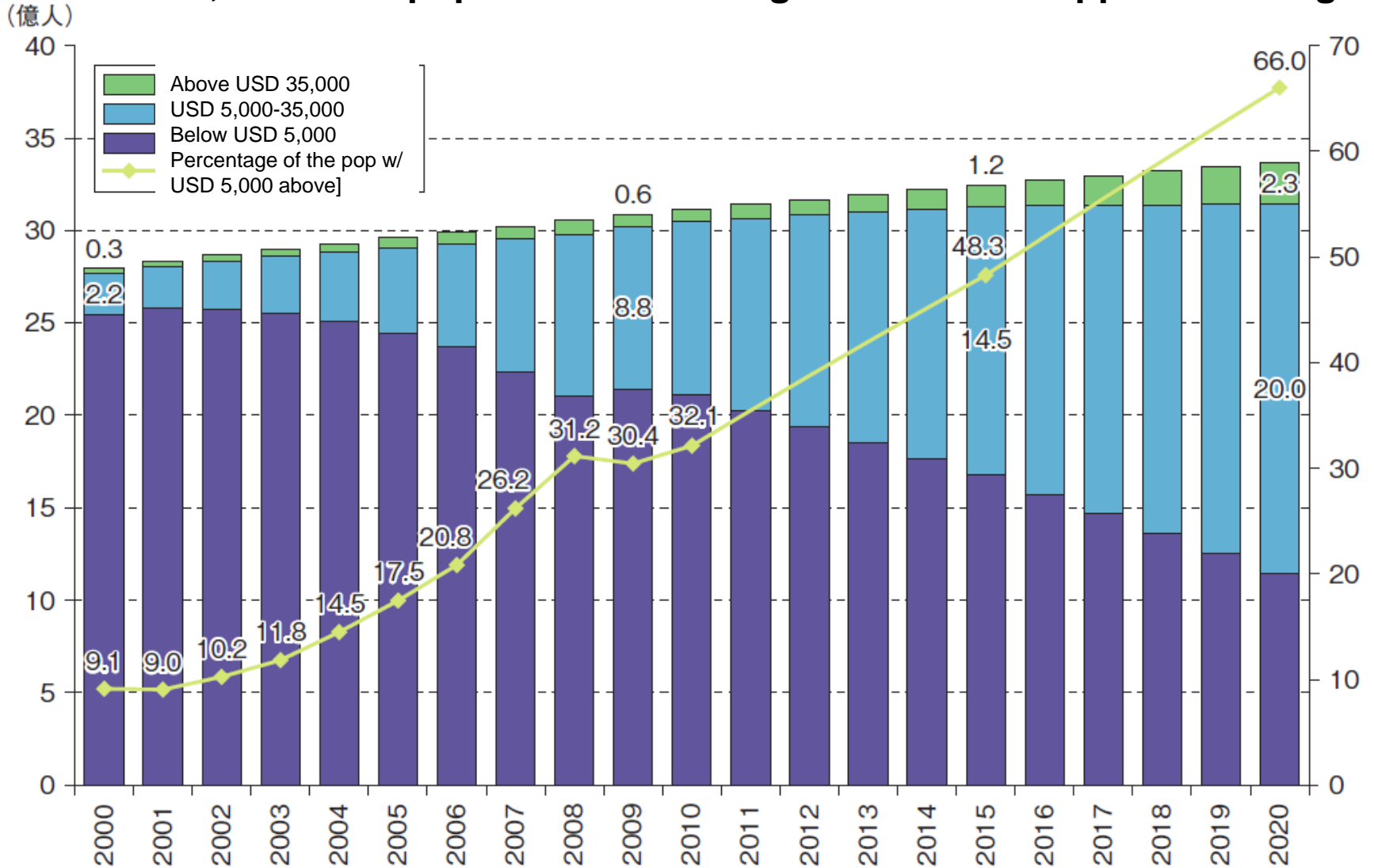
(million USD)



(Source) Elaborated by the author, based on the OECD DAC database (StatExtracts)

# Changes in the Income Groups of Emerging Asian Countries

About 2 billion, 2/3 of the population becoming the middle or upper-income groups



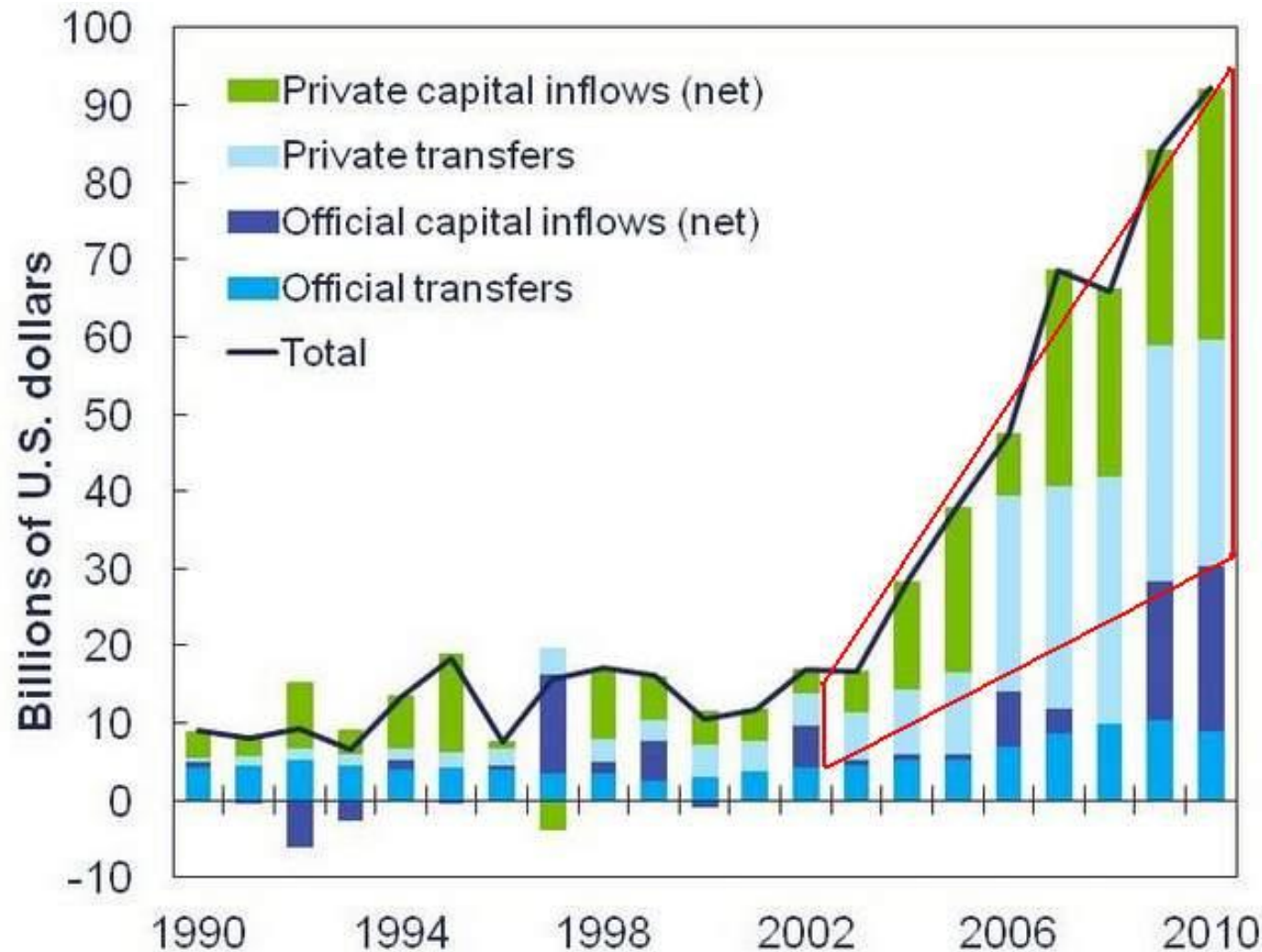
備考1：世帯可処分所得の家計人口。

備考2：2009年までが実績値。それ以降は予測値。

資料：Euromonitor international2010から作成。

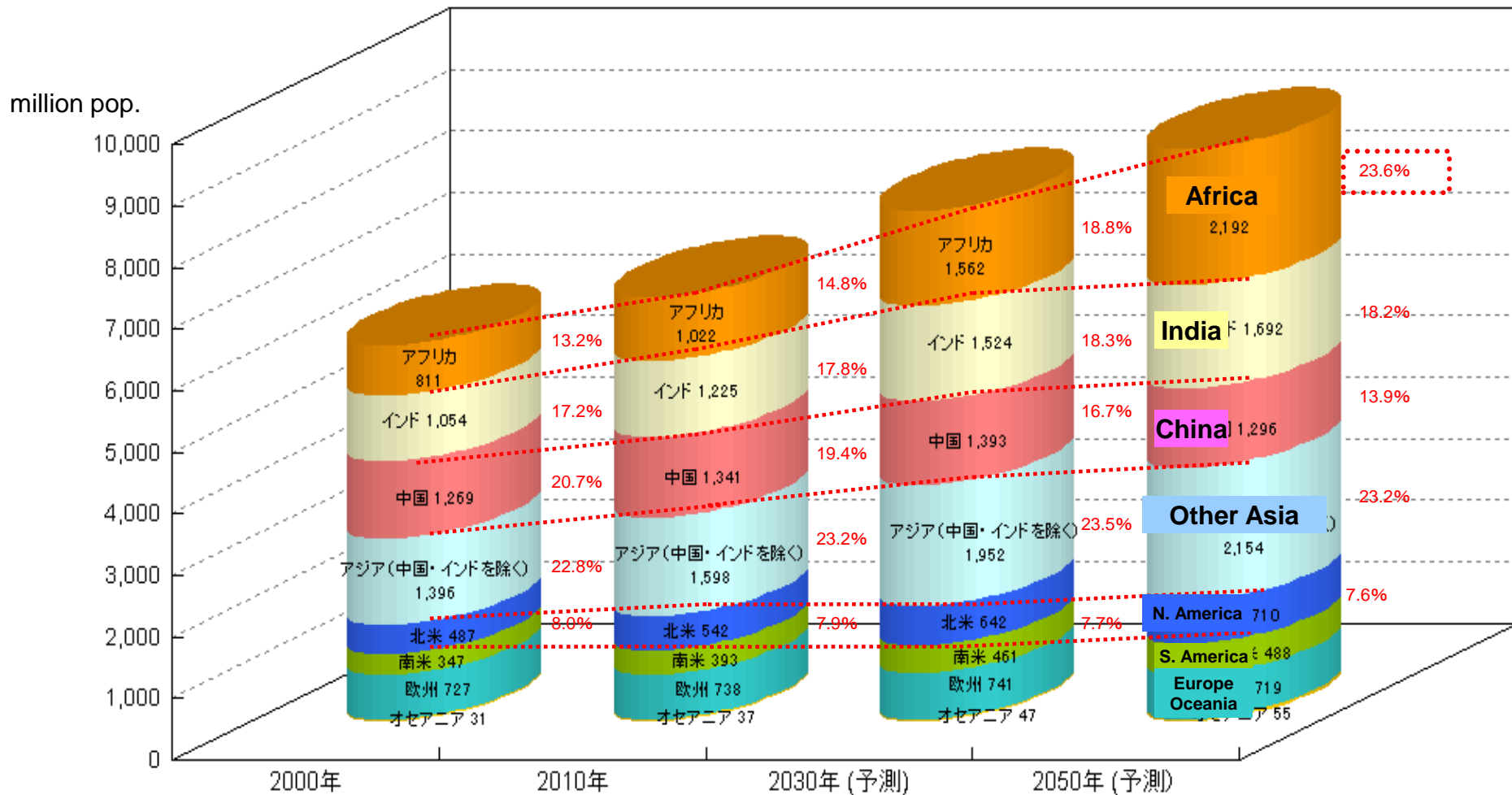
(Source) Ministry of Economy, Trade and Industry  
White Paper 2010

# Increasing Private Financial Flows to Sub-Saharan Africa (especially, after 2003)



Private versus official refers to destination of flows.  
Source: IMF, *World Economic Outlook* database.

# Projection of World Population (2000-2050)



Source: United Nations World Population Prospects, The 2010 Revision (<http://esa.un.org/unpd/wpp/Excel-Data/population.htm>)



# More Complex Development Challenges

Globalization, expanding economic activities, new threats and tensions, and increasing awareness of world citizenship...



# Role of the Private Sector in Development



● Trickle Down Theory  
(Emphasis on large-scale infrastructure, economic growth)

● Structural Adjustment Program  
(Small government, liberalization & privatization)



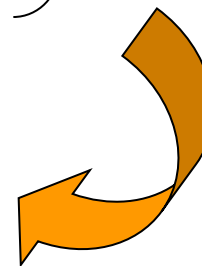
● Human Development (Adjustment with Human Face)  
● Sustainable Development, Environment & Social Consideration

● Poverty Reduction  
(Global partnership around MDGs)



● New Partnership btw. Business and Development  
(Addressing development challenges via core business, e.g., Inclusive business, BOP business.)

- Economic vs. Social Development
- Wealth Creation, as Primary Role of Private Sector



**CSV: Creating Shared Value**

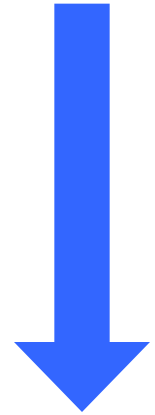
- ➔ **MNCs:** Increased responsibility for giving attention to the local conditions and socio-environmental aspects in developing countries, as corporate behavior expands to the developing region (e.g., ethical trade, fair trade / "social license to operate" for mega-projects / intellectual property rights over HIV/AIDS drugs, etc.)
- ➔ **LDCs:** Desire to industrial catch-up, development of local business and small farmers, technology transfer, etc.

# Relationship between Development Assistance and Private Sector



- Contractors of development projects (for implementation), suppliers of equipment & materials
- Advocacy for better investment climate and policies, through public-private dialogues
- Social service delivery by contracting-out to the private sector (for efficiency)
- Supporting development, through CSR, donation & charity
- **Contributing to development through core business (e.g., Inclusive Business, BoP Business)**
- **Public-Private Partnership (PPP) for infrastructure**

**Traditional  
Partnership**



**New  
Partnership**

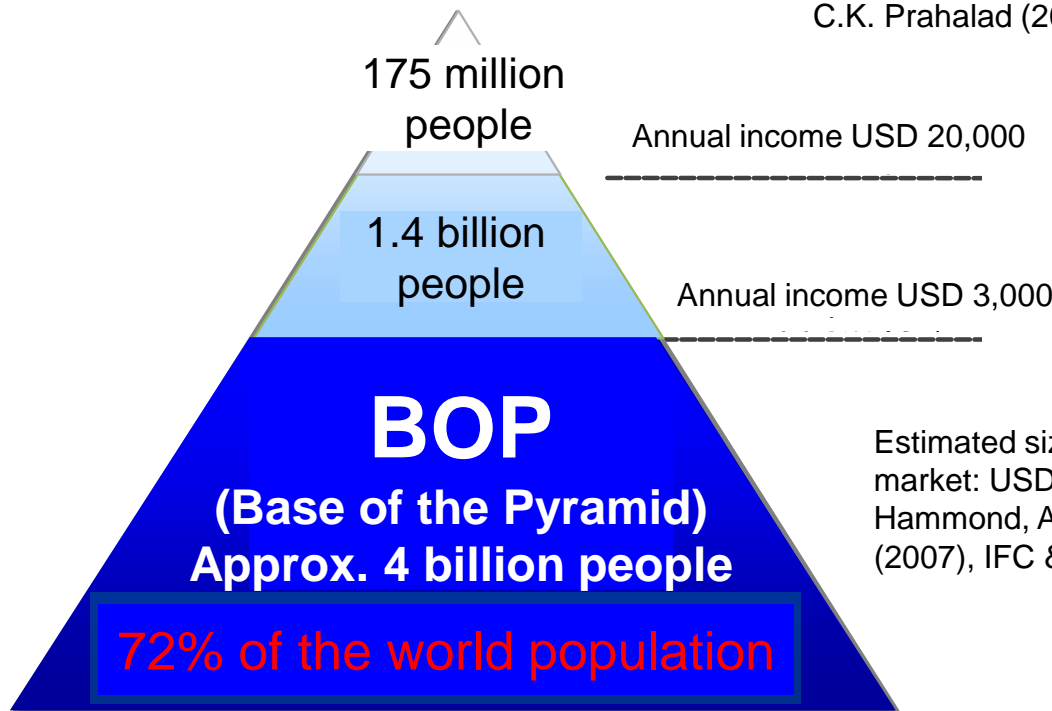
# Evolving Development Agenda and Business

1992	●UN Rio Earth Summit
1994	●UNEP Corporate Environmental Reporting report published
1996	●ISO 14001 (environmental management system)
1999	[Seattle riots @3rd WTO ministerial conference] ●Global Sullivan Principles created
2000	●UN Millennium Development Goals (MDGs) ●UN Global Compact (10 principles)
2001	●EU green paper on corporate social responsibility (CSR)
2002	●Equator Principles ●UN World Summit for Sustainable Development (WSSD) ●UN Monterrey Conference on Finance for Development
2006	●Principles for Responsible Investment (PRI) – coordinated by UN
2008	●Business Call to Action (BCtA) – UNDP, DFID and others
2010	●UN MDGs Summit – Joint statement of 11 key bilateral donor countries to support private sector partnership for development ●ISO 26000 (CSR & human rights)
2012	●UN Conference on Sustainable Development (Rio+20)
2015	●UN Adoption of Post-MDGs

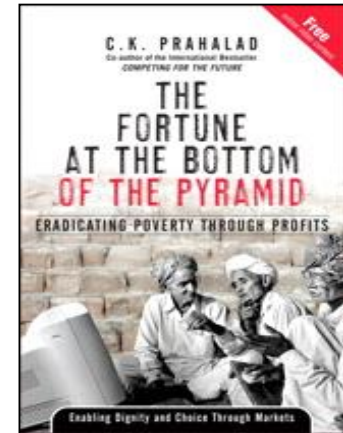
# What is “Inclusive Business”?

**Inclusive business (IB)** is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis to people at the base of the pyramid (BoP) by incorporating them in the value chain of the core business as suppliers, distributors, retailers, and/or customers (IFC website).

## Income Pyramid



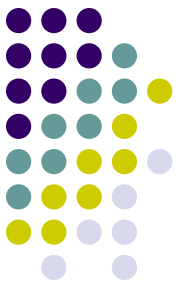
BoP as opportunities for new market & development  
C.K. Prahalad (2004) →



Estimated size of BoP market: USD 5 trillion  
Hammond, A. L. et al, (2007), IFC & WRI →



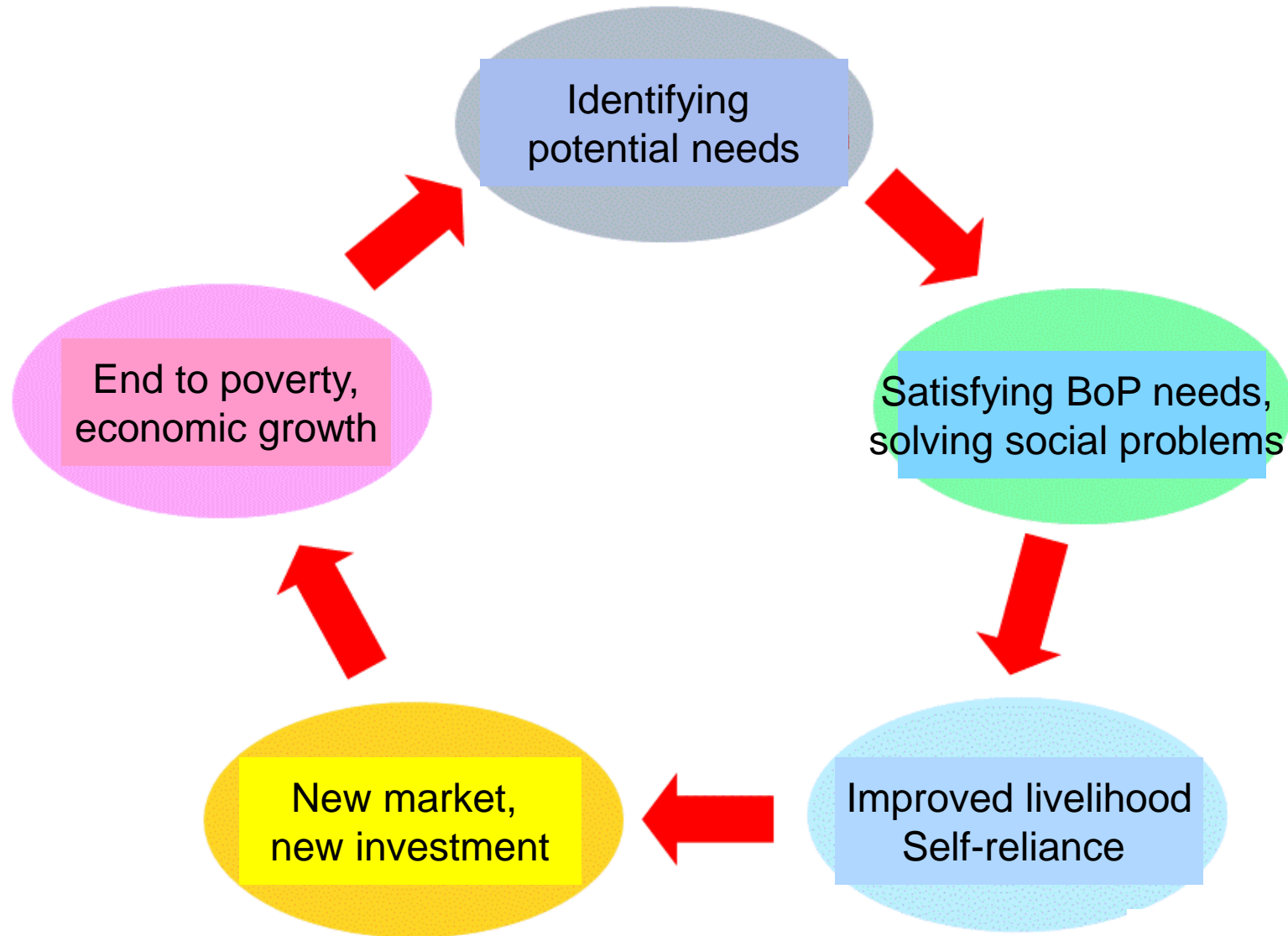
(出所)「THE NEXT 4 BILLION」(Hammond, A. L., et al (2007),  
World Resource Institute, International Finance Corporation)



# How Different?

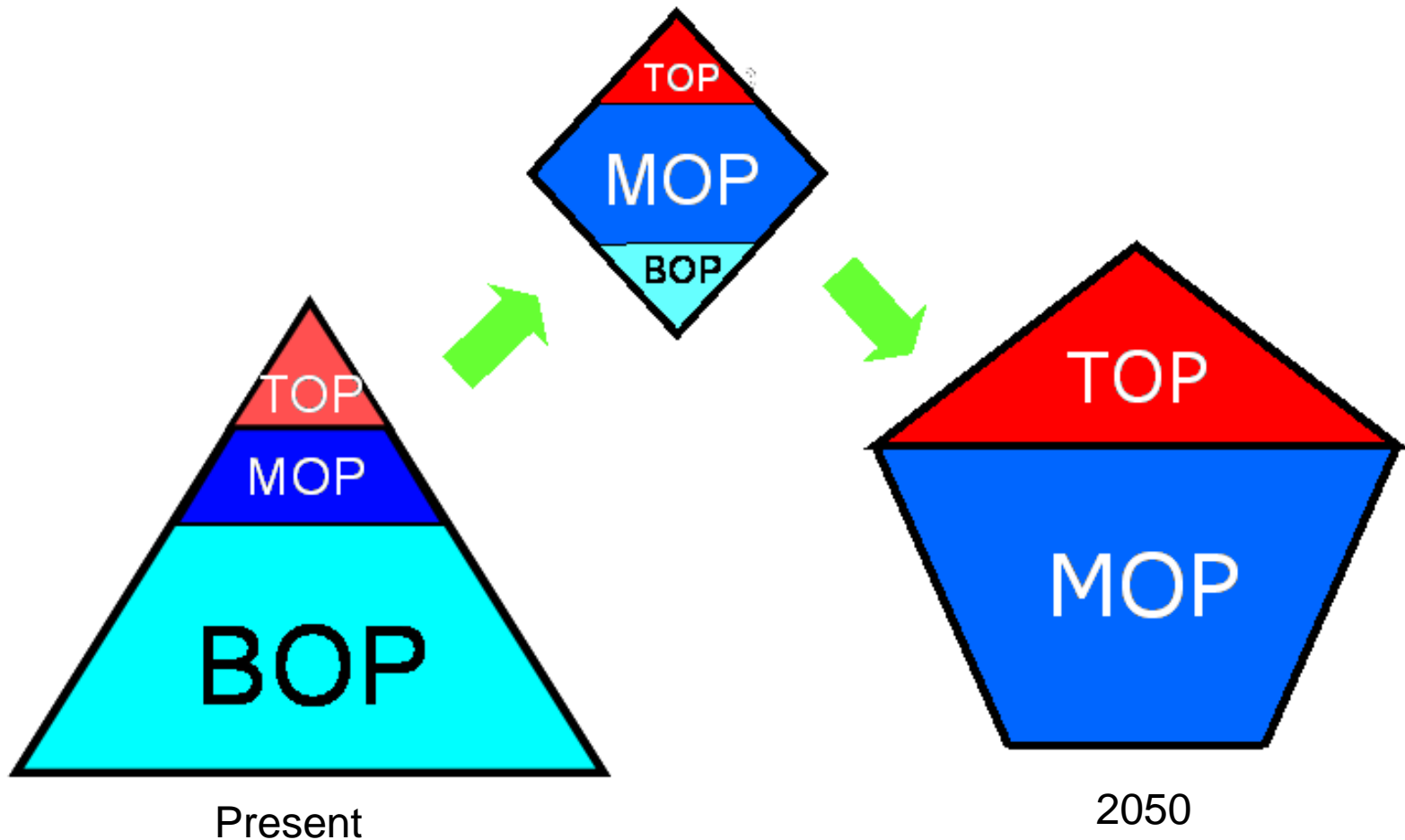
- **Perspectives:** Working with the poor people as business partners, rather than recipients of aid and charity
- **Approach:** Market-based approach to solving poverty and social problems (which are traditionally assumed by the public sector and aid agencies). Core business engagement, rather than corporate social responsibility (CSR).
- **Business Model:** Requiring FDI companies to work with new partners, such as the governments in developing countries, aid agencies, NGOs, local business, as well as the poor communities.

# IB/BoP Business: Virtuous Cycle



(Source) Hideyuki Sugawara "Why is BoP Business now?", Ch.1, *Introduction to BoP Business*, Eds. by Sugawara, Ohno, and Tsuchiya, 2011, Chuokeizaisha

# Transforming Poverty Pyramid to Happy Pentagon

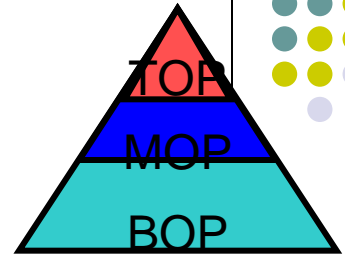


(Source) Hideyuki Sugawara, "Why is BoP business now?" Ch.1, *Introduction to BoP Business*, Eds. by Sugawara, Ohno and Tsuchiya, 2011, Chuokeizaisha.



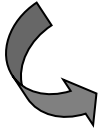
# Think Different: New Business Model

(Prof. Stuart Hart, Cornell University)



## BoP Penalties:

- Affordability
- Availability
- Accessibility



**Need  $\neq$  Demand**  
**Affordability  $\neq$  Purchase**

## Top of the Pyramid: TOP

- Creating needs in existing markets

## Base of the Pyramid: BOP

- Create markets from existing needs

# Why Partnership between “Development” and “Business” ?



- BoP markets are not unified and mass markets
- **“Market creation”** is needed (not “market entry”)
  - Focusing on business development is not enough.
- Need for **localization**
  - Need to learn from the actual lives of the BoP and design solutions.
  - Micro-level observation and learning through bottom-up approach is indispensable.
  - Attention to different culture, society and environmental aspects.
- Sharing the value with the BoP, **co-creating fortune with the BoP** (rather than finding the fortune at the BoP)

(Source) Ted London and Stuart L. Hart, *Next Generation Business Strategies for the Base of the Pyramid: New Approaches for Building Mutual Value*, FT Press, 2010.



Hindustan Unilever Limited

# Early Examples (1)

## Hindustan Unilever (HUL): Project “Shakti”

- Contributing to the improvement of health and sanitation in rural India—by selling HUL products (soaps, shampoo, water purifier, etc.) at affordable prices and small packages.
- Supporting empowerment of women—providing rural women with income-generating opportunities (door-to-door seller, or petty shops at home) and training them.
- Utilizing “Global Public-Private Partnership for Hand Washing with Soap,” in collaboration with USAID, World Bank, and UNICEF in awareness-raising campaign.



(Source) Ministry of Economy and Industry  
*Frontier of the BoP Business*, 2010.

(Photos) Hindustan Unilever, Sustainable  
Development Report 2009

# Early Examples (2)

## Vodafone (UK) and Safaricom (Kenya), mobile money for the unbanked “M-Pesa



- 「M-Pesa」: mobile-phone based money transfer and micro-financing service (started in 2007). Dramatically, expanding the poor's access to finance.
  - M=mobile, Pesa=money (in Swahili)
- Send money by SMS instruction, from M-Pesa agents nationwide (simple and low-cost method)
  - No need for bank accounts and credit cards in money transfer
  - No need to carry money in insecure areas
  - Can use as a mean to repayment of microfinance (esp. women)
  - Can send remittances overseas at low-cost
- The pilot phase of business development was supported by UK DFID



(Photos)  
Magazine Times  
(Jan. 31, 2011)

# Originated from Japan?



1909: Saburosuke Suzuki  
1st President of  
AJI-NO-MOTO

あしたのもと  
**AJINOMOTO.**

- Affordable
- Available

**Wish to contribute to improving the nutritional conditions of the Japanese people**

(Source) Based on presentation slides by Yoza Nakao, Ajinomoto, at GRIPS discussion meetings, June 25, 2009. Improve the nutritional conditions of the J. people

人も地球も健康に  
**Yakult**



**Wish to promote good health of the people in the world**

**Dr. Minoru Shirota**  
MD. Former Chairman of Yakult Honsha Co., Ltd. and Director of the Yakult Centre for Applied Microbiology and Institute for Microbiological Research

1963: Home delivery by "Yakult Lady"  
→ Healthy life + Employment generation for women  
1964: Starting overseas business (Taiwan), now operating in 32 countries.



(Source) Yakult HP <http://www.yakult.co.jp/index.html>

# Yakult Ladies

India : Motorbike Delivery



Japan : Bicycle Delivery



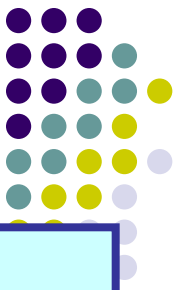
Indonesia : Motorbike Delivery



Malaysia : Home Delivery



# Why Inclusive Business (BoP business) Now?



## Development & Aid

- Need to mobilize massive resources to achieve MDGs by 2015. ODA is not sufficient.
- Charity and aid do not last (only temporary solution). Need for sustainability and scaling up.
- Expectation for efficient project management by mobilizing financial and human resources and technical expertise from the private sector.

## Business

- Need to explore new markets, as the markets in developed countries face fierce competition and are unlikely to grow.
- Potential for “Next Volume Zone” (future middle-income or MoP).
- Awareness of corporate citizenship and social & environmental sustainability.
- New opportunity for innovation (organizations, technologies, etc.)

# Millennium Development Goals (MDGs) :

Eight Goals for 2015 using 1990 as benchmark

(21 targets and 60 indicators)



**Eradicate extreme poverty and hunger**



**Achieve universal primary education**



**Promote gender equality and empower women**



**Reduce child mortality**



**Improve maternal health**



**Combat HIV/AIDS, malaria and other diseases**



**Ensure environmental sustainability**



**Develop a global partnership for development**



# MDGs Progress Chart (2012)

Goals and Targets	Africa		Asia				Oceania	Latin America & Caribbean	Caucasus & Central Asia
	Northern	Sub-Saharan	Eastern	South-Eastern	Southern	Western			

## GOAL 1 | Eradicate extreme poverty and hunger

Reduce extreme poverty by half	low poverty	very high poverty	moderate poverty	high poverty	very high poverty	low poverty	very high poverty	moderate poverty	low poverty
Productive and decent employment	large deficit in decent work	very large deficit in decent work	large deficit in decent work	large deficit in decent work	very large deficit in decent work	large deficit in decent work	very large deficit in decent work	moderate deficit in decent work	moderate deficit in decent work
Reduce hunger by half	low hunger	very high hunger	moderate hunger	moderate hunger	high hunger	moderate hunger	moderate hunger	moderate hunger	moderate hunger

## GOAL 2 | Achieve universal primary education

Universal primary schooling	high enrolment	moderate enrolment	high enrolment	high enrolment	high enrolment	high enrolment	–	high enrolment	high enrolment
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## GOAL 3 | Promote gender equality and empower women

Equal girls' enrolment in primary school	close to parity	close to parity	parity	parity	parity	close to parity	close to parity	parity	parity
Women's share of paid employment	low share	medium share	high share	medium share	low share	low share	medium share	high share	high share
Women's equal representation in national parliaments	low representation	moderate representation	moderate representation	low representation	low representation	low representation	very low representation	moderate representation	low representation

## GOAL 4 | Reduce child mortality

Reduce mortality of under-five-year-olds by two thirds	low mortality	high mortality	low mortality	low mortality	moderate mortality	low mortality	moderate mortality	low mortality	moderate mortality
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## GOAL 5 | Improve maternal health

Reduce maternal mortality by three quarters	low mortality	very high mortality	low mortality	moderate mortality	high mortality	low mortality	high mortality	low mortality	low mortality
Access to reproductive health	moderate access	low access	high access	moderate access	moderate access	moderate access	low access	high access	moderate access

## GOAL 6 | Combat HIV/AIDS, malaria and other diseases

Halt and begin to reverse the spread of HIV/AIDS	low incidence	high incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence
Halt and reverse the spread of tuberculosis	low mortality	high mortality	low mortality	moderate mortality	moderate mortality	low mortality	high mortality	low mortality	moderate mortality

## GOAL 7 | Ensure environmental sustainability

Halve proportion of population without improved drinking water	high coverage	low coverage	high coverage	moderate coverage	high coverage	moderate coverage	low coverage	high coverage	moderate coverage
Halve proportion of population without sanitation	high coverage	very low coverage	low coverage	low coverage	very low coverage	moderate coverage	low coverage	moderate coverage	high coverage
Improve the lives of slum-dwellers	moderate proportion of slum-dwellers	very high proportion of slum-dwellers	moderate proportion of slum-dwellers	high proportion of slum-dwellers	high proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	–

## GOAL 8 | Develop a global partnership for development

Internet users	high usage	moderate usage	high usage	moderate usage	low usage	high usage	low usage	high usage	high usage
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The progress chart operates on two levels. The words in each box indicate the present degree of compliance with the target. The colours show progress towards the target according to the legend below:

- Target already met or expected to be met by 2015.
- No progress or deterioration.
- Progress insufficient to reach the target if prevailing trends persist.
- Missing or insufficient data.

# While important progress has been made...



- 1.4 billion of the population live below US\$1.25 per day (2008)— although the number dropped from 2 billion (1990).
- 2.5 billion (nearly half of the population in developing regions) lack access to improved sanitary facilities (2010).
- 850 million (15.5% of the world population) live under hunger in the world (during the period of 2006/08).
- 783 million (11% of the world population) live without an improved drinking water source (2010).

# Ongoing Debates on the After 2015 Agenda (Post-MDGs)



1. **MDGs:** Maintain the present framework and goals and extend the deadline (e.g., 2020/25).
2. **MDGs Plus:** Expand the scope of the present framework, while simplifying some goals and adding new ones.
3. **One World:** Create a new framework based on the MDG 8 (global partnership for development)

## Main Points

- Role of the private sector (esp. business)
- Framework for encouraging the participation of emerging economies (for the sake of sustainable development)

# UN High-Level Panel Report on the Post-2015 Development Agenda (May 2013)



- A proposal by UN SG's High-Level Panel of Eminent Persons; co-chairs: H.E. Dr. Yudhoyono (Indonesia), H.E. Mme. Sirleaf (Liberia), Hon. P.M. Cameron (UK)
- Target year 2030: 12 Goals and 54 targets
- Five transformative shifts (**One World Vision**)
  1. Leave no one behind
  2. Put sustainable development at the core
  3. Transform economies for jobs and inclusive growth
  4. Build peace and effective, open and accountable institutions for all
  5. Forge a new global partnership
- Ensure more and better long-term finance
  - Domestic resource mobilization (tax, savings, investment, etc.)
  - Private capital (pension funds, sovereign wealth funds, private business, development finance, etc.)
  - Aid remains crucial..., but only part of development finance.

# ILLUSTRATIVE GOALS AND TARGETS

POST-2015



1. End Poverty



2. Empower Girls and Women and Achieve Gender Equality



3. Provide Quality Education and Lifelong Learning



4. Ensure Healthy Lives



5. Ensure Food Security and Good Nutrition



6. Achieve Universal Access to Water and Sanitation



7. Secure Sustainable Energy



8. Create Jobs, Sustainable Livelihoods, and Equitable Growth



9. Manage Natural Resource Assets Sustainably



10. Ensure Good Governance and Effective Institutions



11. Ensure Stable and Peaceful Societies



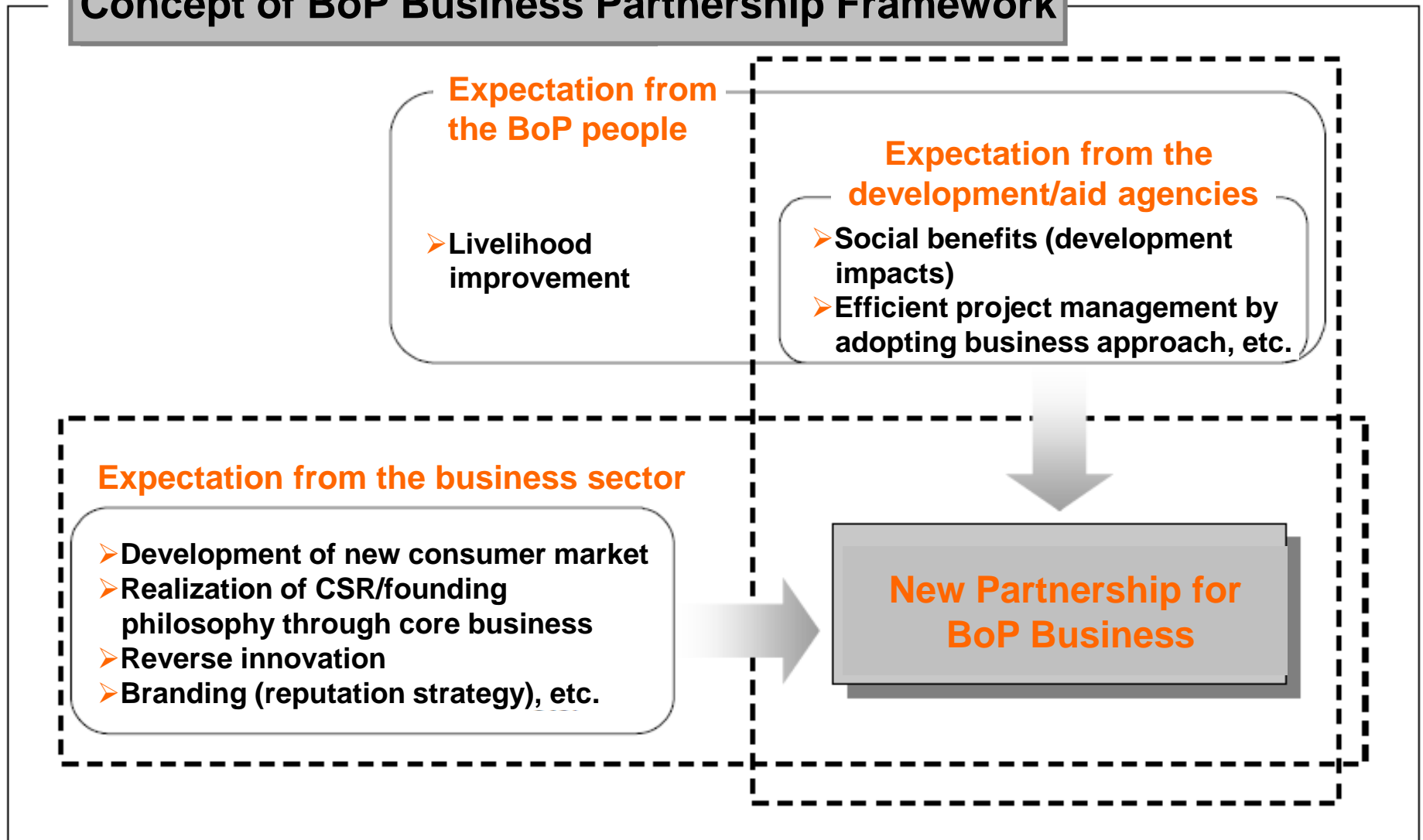
12. Create a Global Enabling Environment & Catalyse Long-Term Finance

## A NEW GLOBAL PARTNERSHIP

The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda [post2015hlp.org](http://post2015hlp.org)

# Achieving Win-Win-Win for All Partners

## Concept of BoP Business Partnership Framework



# Significance of IB/BoP Business, from Development Perspectives



- Focus on “potentiality” of the poor (entrepreneurship and purchasing power, etc.)
- Engage the poor as partners in the processes of production, distribution, sales, and co-create new value.
- “Partnership”-based new business model and approach to development cooperation, in the era of the globalization age.
- Provide opportunities for all stakeholders—firms, NGOs, governments, aid agencies and development experts, etc.—to contribute to sustainable development, based on respective strengths.

# Controversies



- Selling to the poor?
- The size of BoP market (calculated at US\$5 trillion) is overestimated?
- IB does not benefit the poorest group (beneficiaries are only the top segment of the BoP?)
- IB or BoP business may unnecessarily drive the poor into the money economy. Having purchasing power does not automatically assure their escape from poverty.



# Co-Creation of Value, through Partnership with the Poor



## From BoP 1.0 to BoP 2.0

### Next Generation BoP Strategy

#### BoP 1.0

- BoP as consumer
- Deep listening
- Reduce price points
- Redesign packaging, extend distribution
- Arm's length relationships mediated by NGOs

**“Selling to the Poor”**

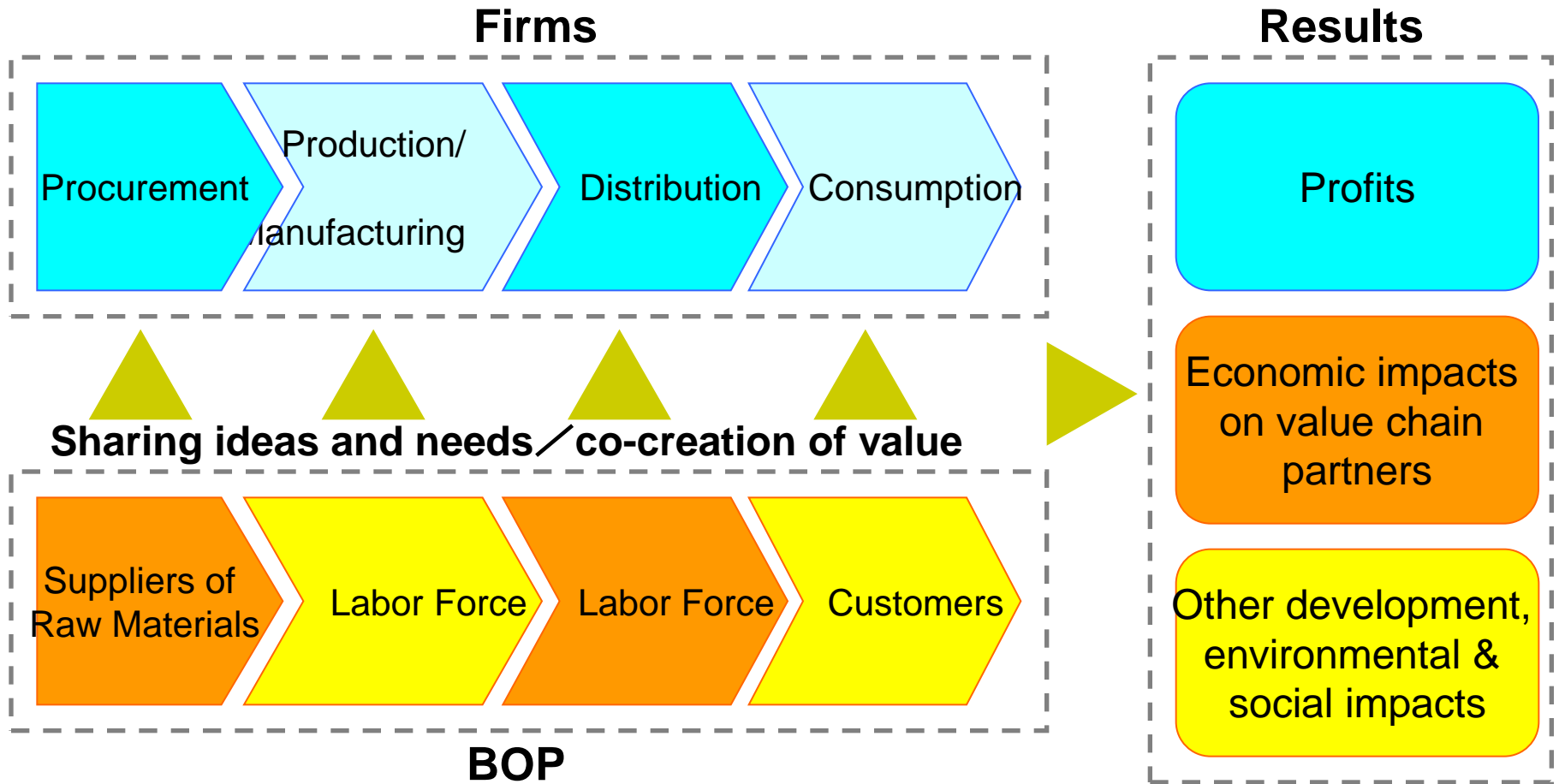
#### BoP 2.0

- BoP as business partner
- Deep dialogue
- Expand imagination
- Marry capabilities, build shared commitment
- Direct, personal relationships facilitated by NGOs

**“Business Co-Venturing”**

(Source) “The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy”  
Erik Simanis and Stuart Hart, Second Edition, 2008.

# Building Value Chain, through Partnership with the Poor

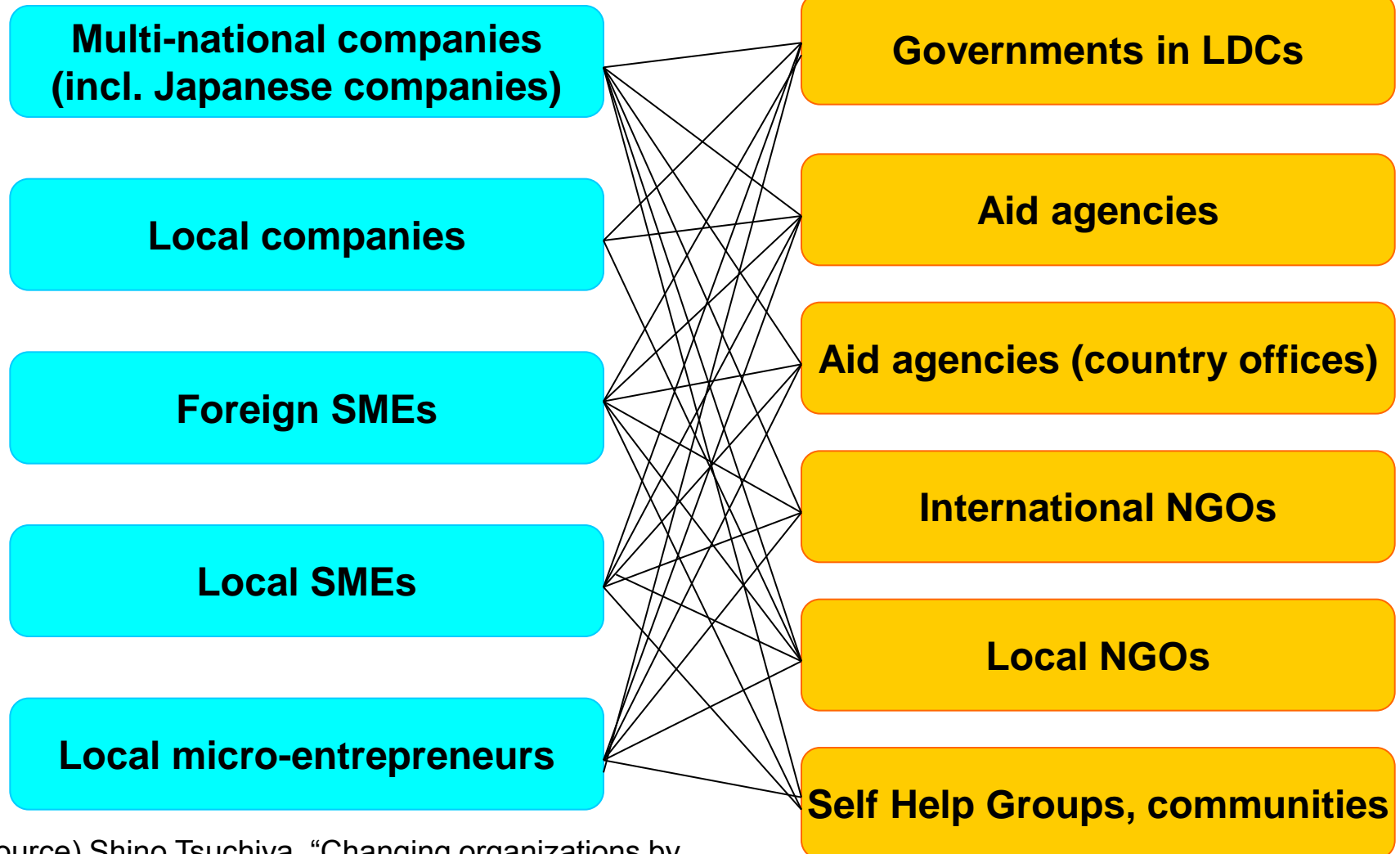


(Source) PwC Japan, "Solution Overview: BoP Inclusive Business Support" [www.pwcjp.com](http://www.pwcjp.com)

# Diversity of Partners in IB/BoP Business

## Business Actors (for profits)

## Developmental Actors (non-profits)



(Source) Shino Tsuchiya, "Changing organizations by BoP business" Eds. By Sugawara, Ohno & Tsuchiya, Introduction to BoP Business, 2011, Chuokeizaisha

# Nevertheless, There are Challenges of Building Effective Partnership . . .



- Equal and strategic partnership between “business” and “non-profit organizations” – easier said than done.
- Big difference in the scale of resource mobilization activities (MNCs are powerful....)
- Different culture and decision-making process (Business and NGOs speak very different languages !)
- Preconditions for building partnership:
  - NGOs: wish to work with companies with high ethical and moral standards
  - Business: wish to work with efficient and well-managed NGOs
- Ultimately, there is a need to share societal value among potential partners !

# Three Types of IB: From Developmental Purposes

Approach	Examples of BoP Business	Role of the Poor
(1) Satisfy the basic needs of the poor	<ul style="list-style-type: none"> <li>▪ Nutritional supplements</li> <li>▪ Water purifier, clean water system</li> <li>▪ Soap &amp; shampoo (small package)</li> <li>▪ Sanitary public latrines</li> <li>▪ Anti-malaria bednets</li> <li>▪ Small-scale, power network, solar power, etc.</li> </ul>	Consumers
(2) Increase the productivity of the poor	<ul style="list-style-type: none"> <li>▪ Mobile phone money transfers</li> <li>▪ Low-cost, durable personal computers, combined with information software (agriculture, education, health, etc.)</li> <li>▪ Production equipments, small-scale irrigation system</li> <li>▪ Micro-finance, etc.</li> </ul>	Consumers, producers, distributors, retailers, employees, entrepreneurs
(3) Increase the income of the poor	<ul style="list-style-type: none"> <li>▪ Value chain development of agriculture production and related technical assistance</li> <li>▪ One village one product, etc.</li> </ul>	Producers, distributors, retailers, employees, entrepreneurs



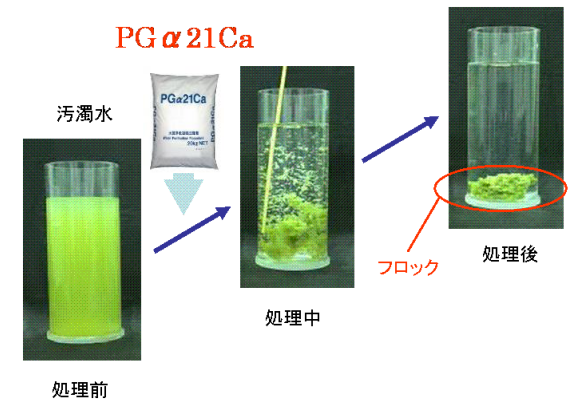
**Empowerment of the Poor**

# Type 1: Satisfy the Basic Needs of the Poor



- **Nippon Poly-Glu Co. Ltd.**

- Provision of safe water – development of inexpensive, safe water purification materials.
- Training and employing “Poly-Glu Ladies” as saleswomen, visiting house-to-house and explaining the importance of safe water.



(Photo) HP of Nippon Poly-Glu Co. Ltd.

- **Ajinomoto**

- “*Umami*” taste (deliciousness) seasoning, with one-coin sales strategy. Operating in Nigeria, by establishing direct sales network
- In addition, in Ghana, pilot testing and production of nutritional supplements underway, in collaboration with the University of Ghana, int’l NGOs, JICA, USAID, etc.



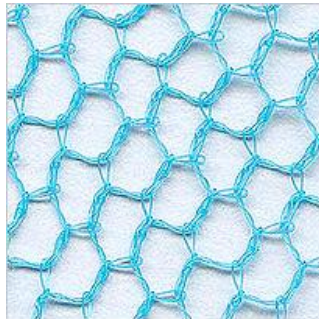
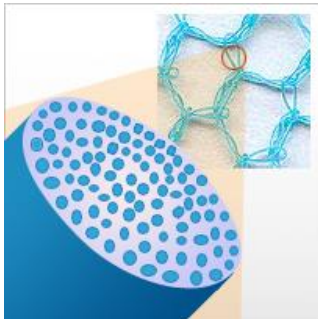
(Photo) Presentation by Yozo Nakao, Ajinomoto, at GRIPS (June 25, 2009)

# Type 1: Satisfy the Basic Needs of the Poor



- **Sumitomo Chemical**

- Development of anti-malaria bed net, “Olyset Nets” (first WHO-recommended Long-Lasting Insecticides Nets (LLIN)); contributing to global fight against malaria.
- Procured by int’l organizations and global funds (UNICEF, GFATM, etc.) and provided for free to the BoP. More recently, products for the upper BoP sold through supermarkets.
- Local production (started in 2003), providing a royalty-free technology license to A to Z Textile Mills (Arusha, Tanzania)



(Photo: Sumitomo Chemical HP)

# Type 2: Increase the Productivity of the Poor



- **Yamaha Motor**

- Supporting agriculture development in the desserts of Senegal through “**drip irrigation**” – with Yamaha water pump (in combination with Israeli tubes)
- Increasing farm income by 2-3 folds, by using new drip-feeding irrigation method
- Working with an NGO specialized in agriculture (training farmers and providing lease of equipment, etc.).



Photo: Yamaha Motor





# Type 3: Increase Income of the Poor

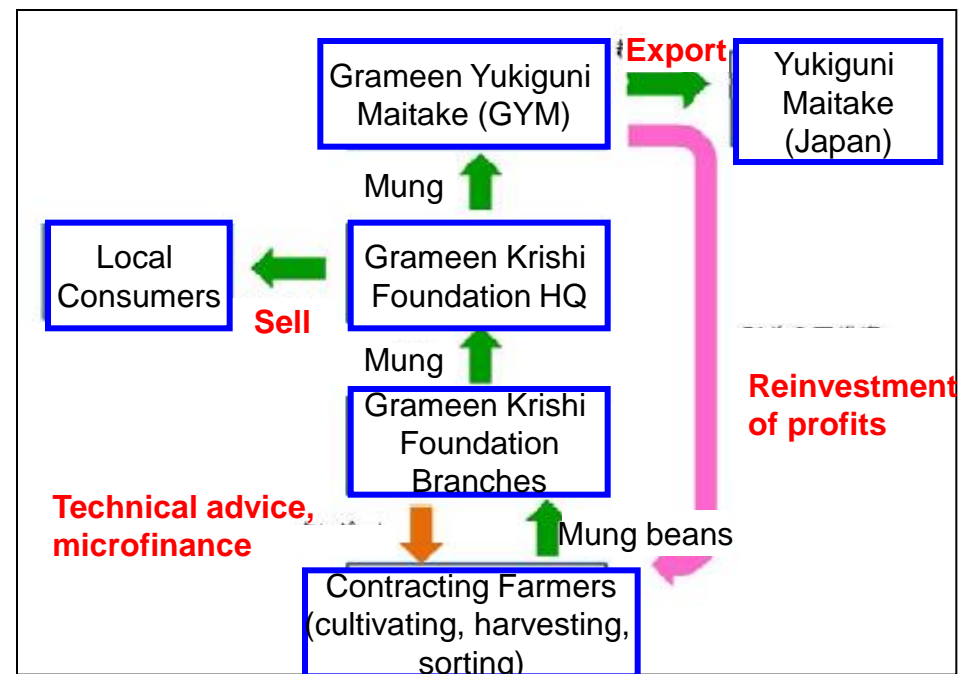


## ● Yukiguni Maitake

- Established JV with Grameen Krishi Foundation (March 2010) .
- Produce high-quality mung beans for both exports to Japan (70%, sprouts) and domestic consumption (30%), through contracting farming.
- Expected to contribute to job and income generation of local farmers in the processes of cultivating, harvesting and sorting mung beans.
- Profits will be re-invested for healthcare and scholarships for the poor people.



(Photo) Yukiguni Maitake HP



# Type 3: Increase Income of the Poor

## Originated from JICA project in Ethiopia



- JICA-supported, participatory forestry management project
- Solving equation:  
**“Forest Preservation” = “Livelihood Improvement”**
- Attention to wild forest coffee (Belete-Gera Forest)
  - Increasing market value by acquiring the certification of forest coffee accreditation (International Rain Forest Alliance), thus contributing to income generation of the local people.
  - Exporting wild forest coffee at premium prices (incl. Japanese markets)
- The JICA project team engaged in building partnerships with various stakeholders through entire value chain (int’l NGOs, Japanese and local companies, exporters, etc.)
  - Targeting at Japanese markets: Tree of Life (organic products), UCC UESHIMA Coffee, etc.



-Wild coffee without use of chemical inputs and pesticides, etc.  
 -Forestry-based, organically grown, and socially responsible, Wild Coffee



## 「UCC Cafe Nature Mocha Wild Belete-Gera 200g」

-Certified by “Rain Forest Alliance”, with the support of JICA project



「Tree of Life」  
 Hand-Roasting  
 Coffee

# Is IB/BoP Business All Mighty?



- **NO!** -- because business alone cannot solve all the development challenges
- Development agencies/experts and the business sector should work together, taking holistic approach and building strategic alliance.
- Development agencies/experts should also think and act what to complement and how to engage business for development, based on solid understanding of the strengths and limitations of the business sector.

# Potential Impacts of Business/MNCs on Development (Examples)

Area	Potential Impact of the Private Sector	Notes
<b>Investment and job creation (incl. supply chains)</b>	<ul style="list-style-type: none"> <li>• Employment generation by the private sector (incl. MNC)</li> <li>• Generation of demand for local producers, distributors and sale organizations through supply chains</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and social barriers and a lack of skills could prevent local groups, particularly at the bottom of income scale, from taking advantage of these job opportunities.</li> <li>• FDI can crowd out domestic investment as local firms struggle to compete with well-established firms.</li> <li>• A monopoly situation could arise if the domestic private sector is largely underdeveloped and institutions weak, limiting choices and increasing prices.</li> </ul>
<b>Investment in human capital and workforce development</b>	<ul style="list-style-type: none"> <li>• Positive spill-over for local labor markets, through education and training by firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and social barriers and a lack of the required skills could prevent local groups, particularly at the bottom of income scale, from taking advantage of these opportunities.</li> </ul>
<b>Provision of goods and services</b>	<ul style="list-style-type: none"> <li>• Provision of essential goods and services, and play an important role in financing and building physical and communications infrastructure. The latter is critical to make products and services accessible to both consumers and producers.</li> </ul>	<ul style="list-style-type: none"> <li>• Often the poorest are excluded as they are not perceived as a profitable market.</li> </ul>
<b>Knowledge and innovation capacity</b>	<ul style="list-style-type: none"> <li>• Private sector as a key driver of innovation and research and facilitate knowledge transfer, if appropriate policies are put in place.</li> <li>• Enhance the productivity of domestic enterprises and low-income producers, through provision of quality intermediary goods and services.</li> </ul>	<ul style="list-style-type: none"> <li>• Intellectual property protection, providing incentives to innovate, also means MNCs may be reluctant to share their knowledge with domestic firms (in specific cases like medicines some provisions can help to make this possible).</li> <li>• No R&amp;D on some of the challenges facing the poor as those with lowest incomes often do not represent a profitable market.</li> </ul>
<b>Resource mobilization</b>	<ul style="list-style-type: none"> <li>• Contribute to domestic resource mobilization through the payments of taxes and royalties.</li> <li>• Possible to reinvest a proportion of firm profits in the host economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Firms can also engage in tax avoidance and evasion, an area that has received increased attention from CSOs, OECD and G20. Lack of data and reporting means it is difficult to monitor transactions and assess how much revenue is lost because of these practices.</li> <li>• In countries with an underdeveloped private sector and weak institutions, the thirst for investment can trigger a 'race to the bottom' on tax policy.</li> <li>• Firms can choose to repatriate profits and engage in speculative investments.</li> </ul>
	<ul style="list-style-type: none"> <li>• MNCs' export and investment activities also have macroeconomic impacts on stability, exchange rates and balance of payments, which will be context-specific.</li> </ul>	
<b>Influencing the business sector and public policy and addressing externalities</b>	<ul style="list-style-type: none"> <li>• Business can influence other businesses, governments and international organizations on good causes.</li> </ul>	<ul style="list-style-type: none"> <li>• Firms can violate minimum standards of responsible behaviour, causing environmental damage and ignoring the rights of local communities.</li> <li>• Firms can engage in short-term, non-transparent lobbying, privileging short-term interests (e.g., many firms in the financial sector in developed countries have exercised influence on governments to liberalize service accounts in developing countries, often to the detriment of the latter).</li> <li>• Bribery or influence could be used to neutralize the competition. Firms have advantages over civil society in terms of access to information, resources and legal expertise.</li> <li>• In the specific case of state-owned NMCs—a growing phenomenon among emerging economies' investment—there is a risk of undue political influence.</li> </ul>

(Note) These examples are illustrative only and do not take into account of spill-over or indirect effects.

(Source) ODI Paula Lucchi (2012), "Post-2015 MDGs; What role for business?", Table A4 (Some examples of potential impacts on development), based on Clay (2005), Davies (2011), Nelson (2011), UNCTAD (2006).

# How Can Development Agencies/Experts Contribute?



- Remove bottlenecks faced by private investors and improve the business environment.
- Help increase purchasing power of the poor through job and income creation (e.g., industrial and agricultural development).
- Build local capability through HRD, technology transfer, local business development, development of agriculture value chain, etc., so that the poor can take advantages of new opportunities.
- Collaborate with business through individual projects (joint work).
- Evaluate development impacts of IB/BoP business, disseminate and publicize.

# Possibility for Building Unique Business Model, through Partnerships



Merits for Businesses	Examples of Partnership
<p><b>Cost reduction</b></p> <ul style="list-style-type: none"> <li>▪ Strengthen supply chains, secure the procurement of raw materials and intermediary inputs.</li> <li>▪ Secure stable supply of labor.</li> <li>▪ Financial support to feasibility studies (F/S), reducing initial</li> </ul>	<ul style="list-style-type: none"> <li>▪ NGO, etc. (HRD and training of BoP)</li> <li>▪ Int'l organizations &amp; aid agencies (funding F/S)</li> </ul>
<p><b>Information on the local conditions and customer needs</b></p> <ul style="list-style-type: none"> <li>▪ Obtain reliable information, tailored to the local socio-cultural conditions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local communities (BoP) , NGOs, etc.</li> </ul>
<p><b>Scaling-up, market penetration &amp; sales expansion</b></p> <ul style="list-style-type: none"> <li>▪ Establish and expand the distribution channels by utilizing local networks</li> <li>▪ Secure stable market channels by securing the procurement by int'l organizations (e.g., medicines, bednets), "Hand-washing campaign."</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local communities (BoP), NGOs, etc.</li> <li>▪ Int'l organizations &amp; aid agencies (procurement, public campaign, etc.)</li> </ul>
<p><b>Branding &amp; reputation</b></p> <ul style="list-style-type: none"> <li>▪ Get recognition by int'l organizations &amp; aid agencies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Int'l organizations &amp; aid agencies (official endorsement)</li> </ul>

# (Eg.1) Doing Business Ranking: 183 countries

## Annual Surveys by World Bank and IFC

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credits	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	4	3	5	14	8	2	4	1	12	2
Hong Kong, China	2	5	1	4	57	4	3	3	2	5	16
New Zealand	3	1	2	31	3	4	1	36	27	10	18
United States	4	13	17	17	16	4	5	72	20	7	15
Denmark	5	31	10	13	11	24	29	14	7	32	9
Norway	6	41	60	68	1	10	24	27	9	4	4
United Kingdom	7	19	22	60	68	1	10	24	13	21	6
Korea, Rep.	8	24	26	11	71	8	79	38	4	2	13
Iceland	9	37	34	1	11	40	46	35	81	3	11
Ireland	10	13	27	90	81	8	5	5	21	62	10
Note:											
Japan	20	107	63	26	58	24	17	120	16	34	1
Ghana	63	104	156	68	36	48	46	90	90	45	106
China	91	151	179	115	40	67	97	122	60	16	75
Tanzania	127	123	176	78	158	98	97	129	92	36	122
Indonesia	129	155	71	161	99	126	46	131	39	156	146
India	132	166	181	98	97	40	46	147	109	182	128

Source: World Bank-IFC Doing Business Website

Note: Top 10 countries are indicated among the 183 countries surveyed in June 2011.

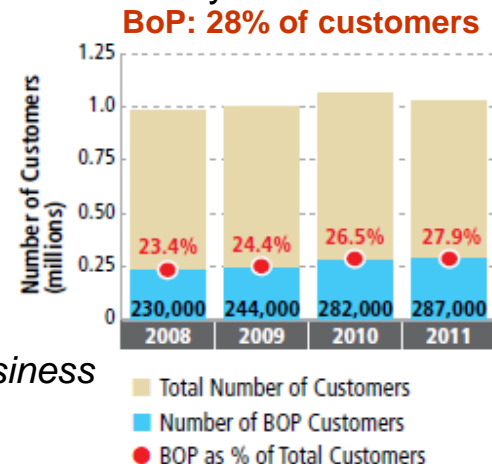


# (Eg. 2) Better Regulatory Environment Enabled Private Participation in Inclusive Water Business

## (Manila Water Company: MWC)



- Operate a 25-year concession for water and waste water system in the east service zone of Metro Manila, following the government's decision on privatization of SOE in the sector (MWC was established in 1997).
  - Consortium of the Ayala Group, Mitsubishi and IFC, etc.
- Providing safe water and wastewater services to 6.1 million people in Manila (23 municipalities and home).
  - Population with 24-hour access to safe water: 26% ('97) → 99% ('2011)
  - Non-revenue water level: 63% ('97) → 11% ('2011)
  - Provide low-income households with safe and affordable water (cross-subsidization scheme; mobilizing grants (Output-Based Aid of the World Bank/IFC) to connect individual households with central metering points)
  - Customers pay 20 times less per cubic meter than they did for trucked
- Profit-making from 2001; dividend payment from 2002.
- Received IFC investment US\$60 million in loans and US\$15 million in equity.



(Source) IFC (2012), *G20 Challenges on Inclusive Business Innovation*

# (Eg.3) Need for Capacity Development of Local Organizations



## **Pilot Testing of Clean Water System, supported by Solar Power (Rural Villages in Indonesia)**

### **—Company H & its affiliated research institute**

- The result of pilot test reveals the importance of local community organizations in ensuring the sustainability of business.
- The need for the local people to manage water and power associations, responsible for O&M of equipment, water quality testing, tariff setting (water & power), sales of water and fee collection, accounting & financial reporting, etc.

(Source) Case study from METI/AOTS Pilot Projects (March 2011)



## (Eg.4) Evaluating Development Impacts Oxfam: Poverty Footprint Methodology

Developed based on Unilever / Oxfam Joint Study (2002-05, Indonesia)

Value chain analysis	● How a company's value chain and its procurement, manufacturing and distribution policies and/or practices influence the ability of poor people to access good-quality employment, earn a living wage or sustain a business, and participate in the market?
Macro-economy	● How a company's economic contributions, including distribution of profits, shareholder dividends, taxes, and employment affect the standard of living of poor people, or the balance of payments in countries of operation?
Institutions and policy	● How the company's actions regarding social institutions and policy affect the well-being of people living in developing countries?
Social implications of environmental practices	● How a company's environmental practices affect the livelihoods and health of poor people, their ability to access natural resources, and their risk of being affected by a natural disaster?
Product development and marketing	● How a company's products and services and its marketing strategy influence the cultural practices of indigenous and local communities, affect their health and well-being, and shape their ability to obtain essential goods and services?

(Source) Oxfam (2009) Oxfam Poverty Footprint: Understanding Business Contribution for Development

# Comparison of BoP Business Support by Major Donors

	UK	Germany	US	Japan
<b>Initiated</b>	1999	1999	2001	2009
<b>Responsible Agencies</b>	DFID(Dept. for International Development)	BMZ (Ministry of Economic Cooperation and Development): policy GIZ, DEG, and SEQUA: implementation	USAID (US Agency for International Development)	Ministry of Economy, Trade and Industry, Ministry of Foreign Affairs; JETRO and JICA etc.
<b>Programs</b>	<ul style="list-style-type: none"> <li>• Challenge funds (various kinds)</li> <li>• Business Innovation Facility to support business model development and partnership building at the local level (2010–)</li> </ul>	<ul style="list-style-type: none"> <li>• develoPPP de (by refining the former PPP facility in 2009)</li> <li>• GIZ to initiate Integrated PPP to mainstream business partnerships in its operations (2004–)</li> </ul>	<ul style="list-style-type: none"> <li>• Global Development Alliance (GDA)</li> <li>• Recently, mainstreaming GDA and business partnership into the operations of country offices</li> <li>• Development Innovation Venture (DIV) launched in 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Support to business model development (e.g., feasibility studies)</li> <li>• Country visits</li> <li>• Support to build local partnership</li> <li>• BoP Business Support Center as an information hub</li> </ul>
<b>Targeted Firms</b>	Unspecified	Germany and EU firms (incl. local partner firms)	Unspecified	Japanese firms
<b>Objectives</b>	Poverty reduction through business partnership	<ul style="list-style-type: none"> <li>• Poverty reduction through business partnership</li> <li>• Industrial policy</li> </ul>	Poverty reduction through business partnership	<ul style="list-style-type: none"> <li>• Poverty reduction through business partnership</li> <li>• Industrial policy</li> </ul>

(Source) Izumi Ohno, "BoP Business from Development Perspectives", Ch.2, *Introduction to BoP Business*, Eds. By Sugawara, Ohno & Tsuchiya, 2011, Chuokeizaisha

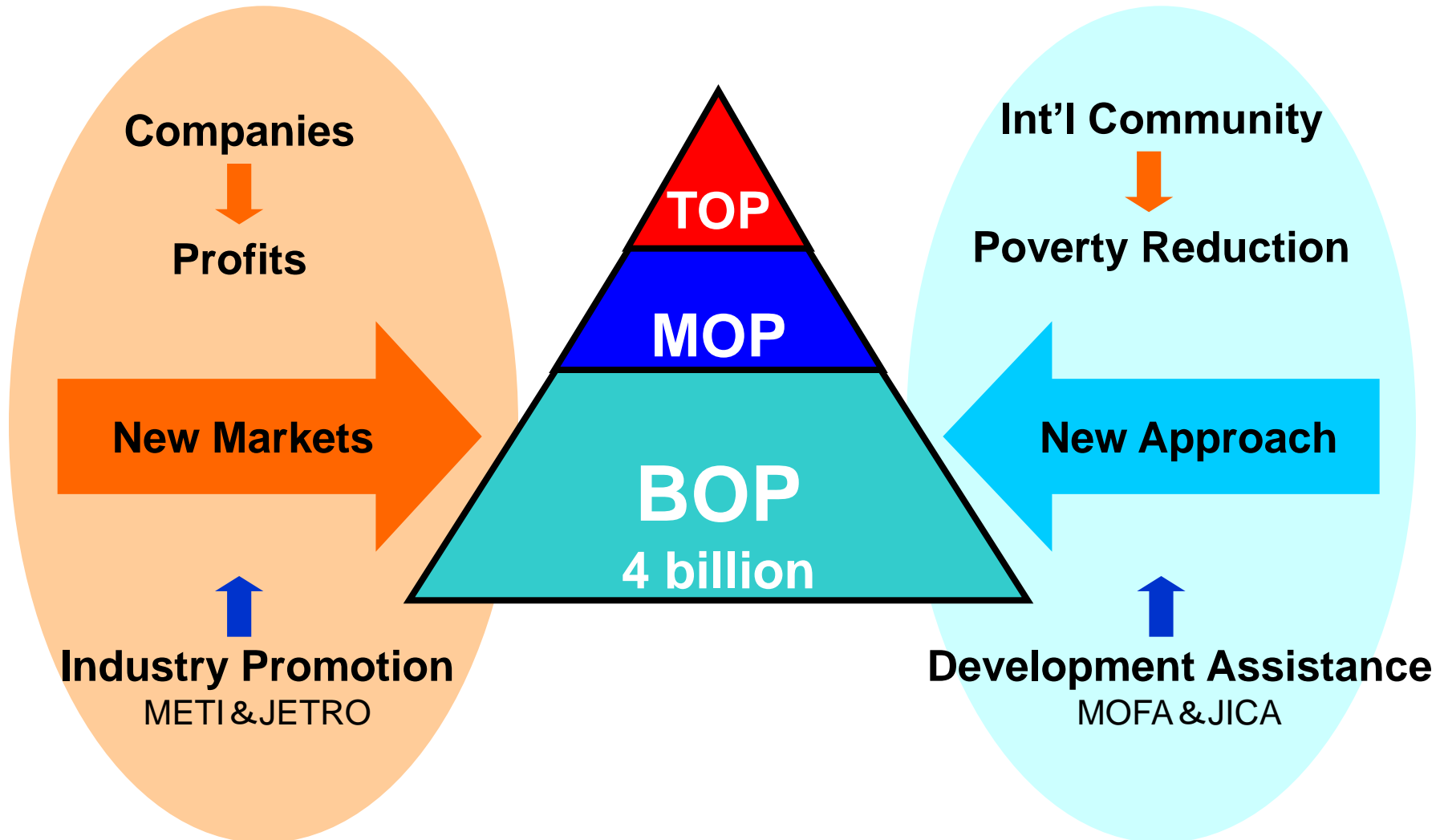
(Note) These support measures are largely at the stages of business model development and initial stage of operations, and do not include financial support at the stage of scaling-up the business.

# Japan: Measures to Support IB/BoP Business (launched in 2009)



- Ministry of Economy, Trade and Industry (METI): lead promoter of BoP business, working with JETRO
- Combining industrial policy with economic cooperation policy
  - Awareness raising & dissemination, needs assessment, support to business model development (F/S): FY2009-
  - Inclusive Business Support Center (information hub and knowledge platform): FY2010-
  - JETRO support to fact-finding missions, support to in-country partnership building: FY2011-
- JICA, primarily supporting business model development (needs assessment, F/S, etc.): FY2010-
- Ministry of Foreign Affairs: MDGs PPP Network: June 2011
- JBIC: F/S, financing (full-fledged implementation stage)

# Japan's Support to IB/BoP Business: Two-way Approach



(Source) Hideyuki Sugawara, "Why is BoP Business Now?" Ch.1, *Introduction to BoP Business*, Eds. By Sugawara, Ohno & Tsuchiya, 2011, Chuokeizaisha



# Final Remarks

- It is increasingly difficult for business to operate without consideration to developmental and social impacts of corporate behavior — as business activities are expanding rapidly in developing countries (regardless IB/BoP business or not).
- If incorporated into “core business,” development impacts can be enhanced significantly — compared to CSR (which operates within the limit of the CSR budget).
- Development actors and corporate actors should build partnership, based on respective strengths. — differences may be a driver for change, producing synergies.