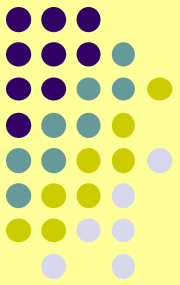


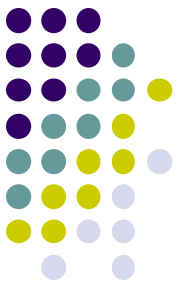
**International Development Policy**  
**Lecture #4, February 23, 2018**



# **New Partnership between Development and Business**

**Izumi Ohno, GRIPS**

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# Outline of Today's Lecture

- **Business as a development actor**
  - Why are “development” and “business” approaching for mutual partnership?
- **New partnerships btw. business and development: types, approaches & examples**
  - Partnership for poverty reduction **[MDGs]**
    - Base of the Pyramid (BoP) business
  - Partnership for sustainable development **[SDGs]**
    - Inclusive, sustainable, and responsible business
- **Role of the government, development agencies & NGOs**

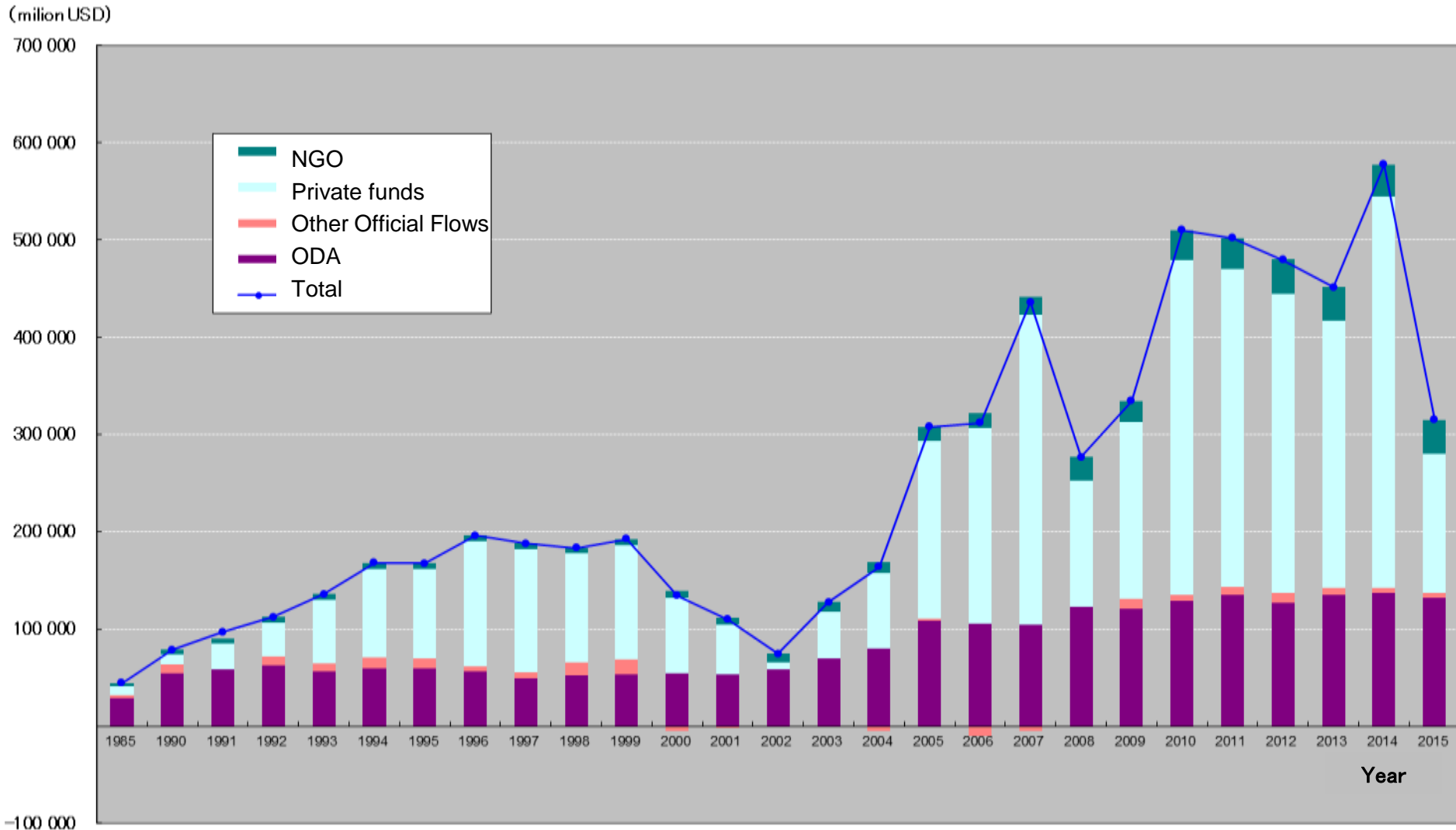
# 21<sup>st</sup> Century Development Paradigm: Why Business as a Development Actor ?



- **Commercial imperatives:** emerging economies and developing countries becoming center of growth and market expansion
- **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.
- **Moral obligation:** external pressure from and greater scrutiny by CSOs over corporate behavior (“doing good” or CSR)

# Increased Role of Private Financing in Development

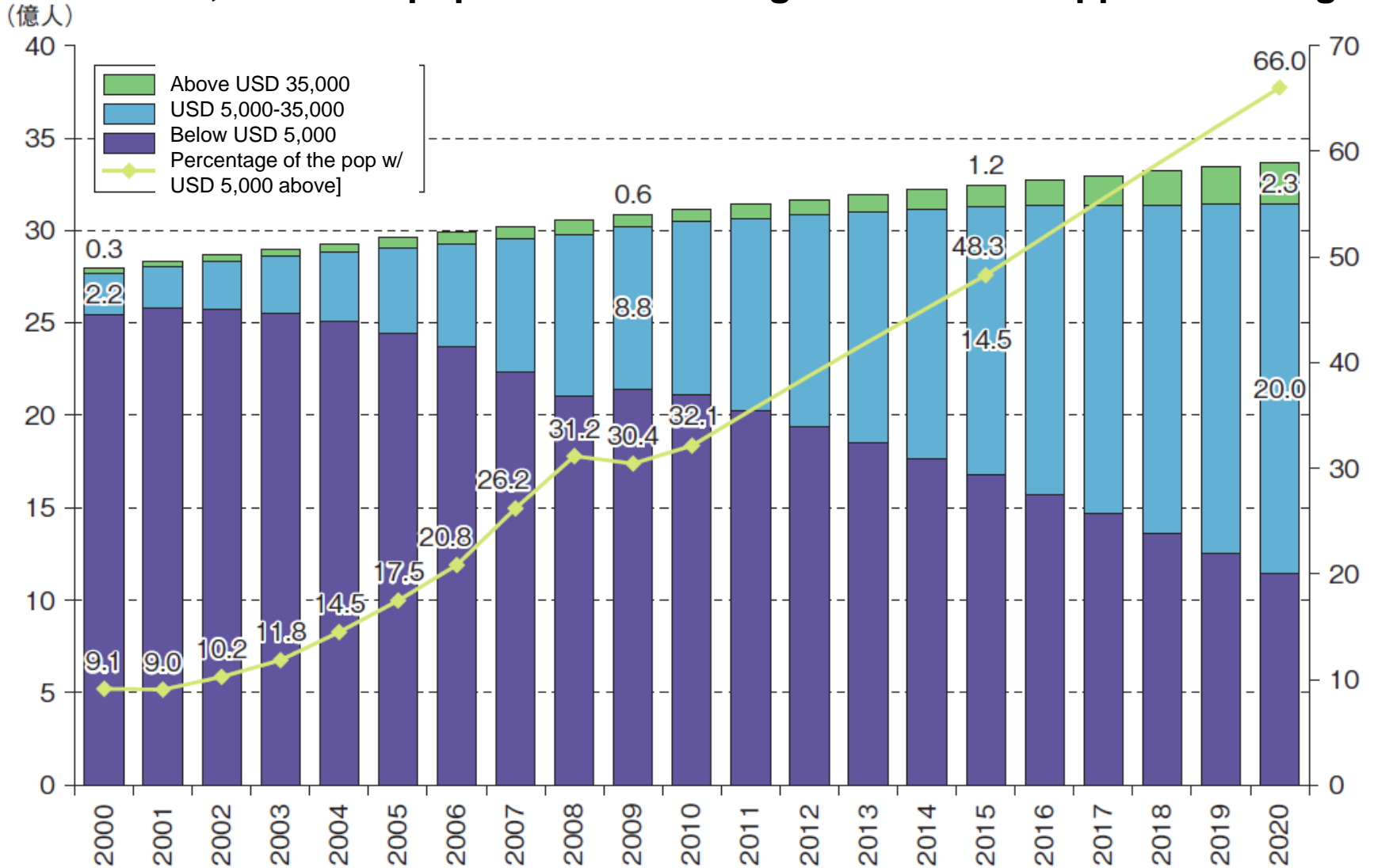
## Financial Flows from OECD (DAC) Countries to Developing Countries



(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



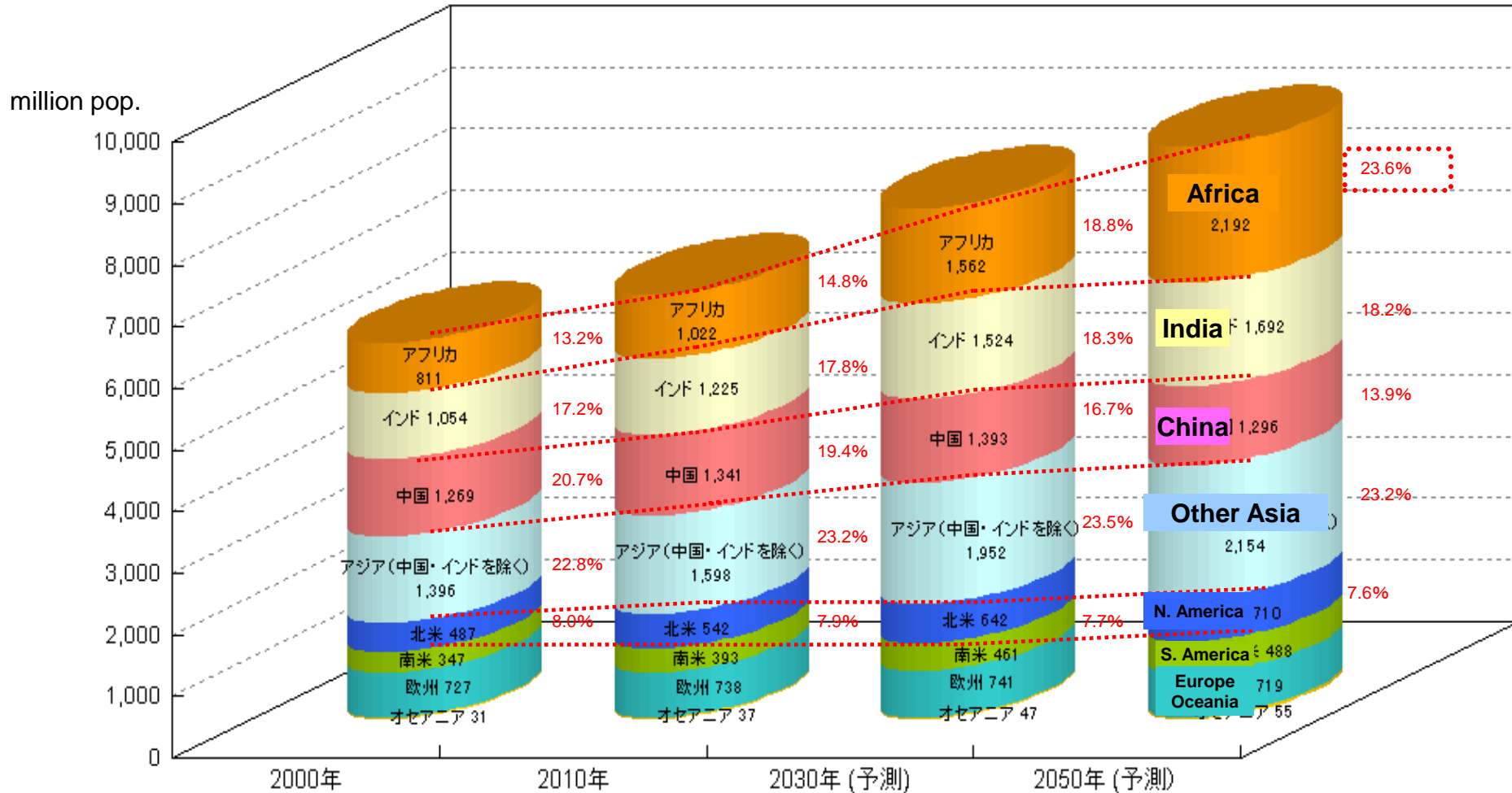
備考1：世帯可処分所得の家計人口。

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

# 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...



# 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 Sustainable Development Goals (SDGs)/ COP21



# Role of the Private Sector in Development



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

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



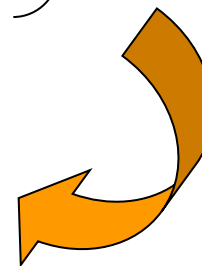
● Human Development (Adjustment with Human Face)  
● Sustainable Development, Environment & Social Consideration

● Poverty Reduction  
(Global partnership around MDGs)



● New Partnership btw. Business and Development  
(Addressing development challenges via core business, e.g., poverty reduction, sustainable development)

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



**CSV: Creating Shared Value**

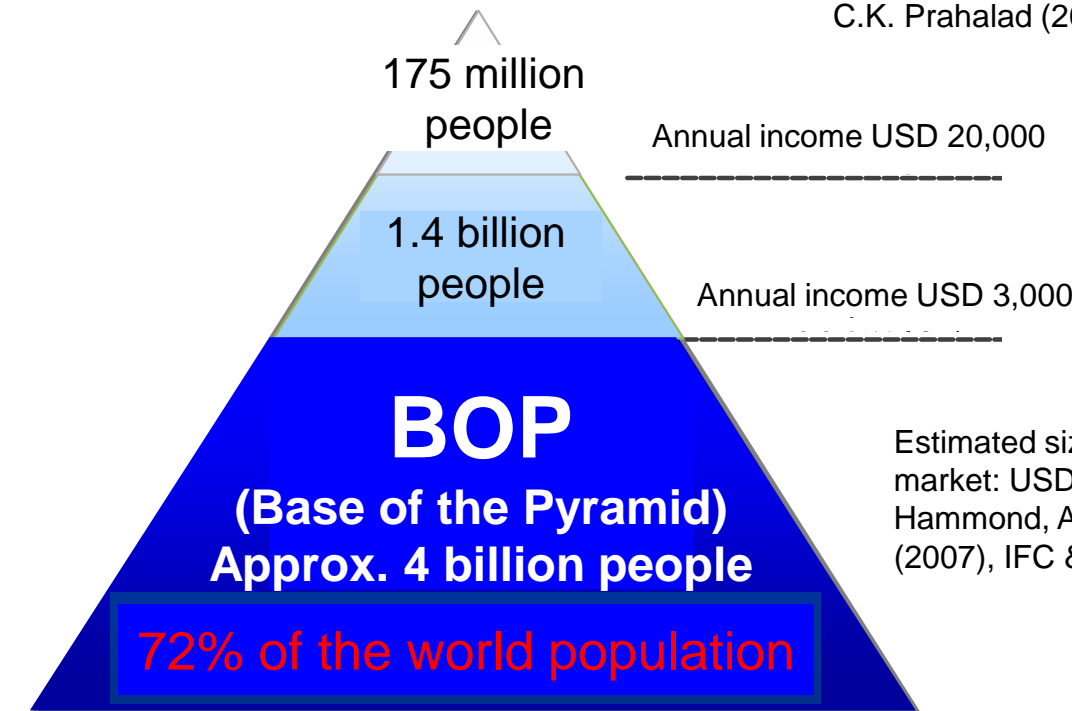
→ **MNCs:** Increased responsibility for giving attention to the local conditions and socio-environmental aspects in developing countries, as corporate behavior expands to the developing region.

→ **LDCs:** Desire to industrial catch-up, development of local business and small farmers, technology transfer, etc.

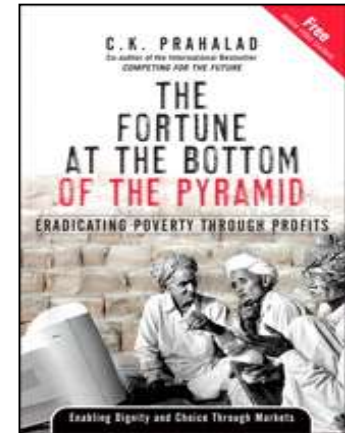
# BoP Business (partnership for poverty reduction)

— 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.

## Income Pyramid



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

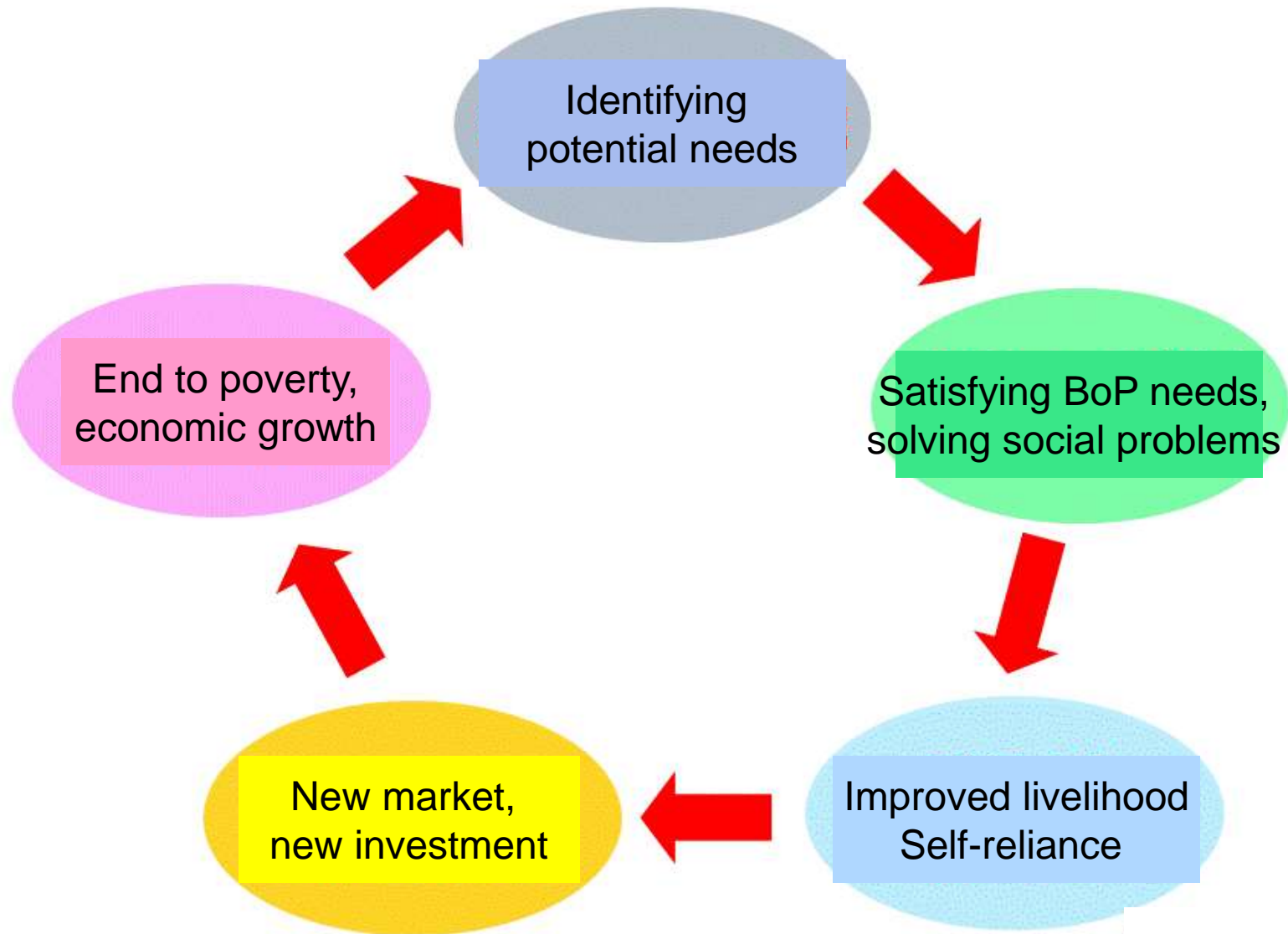


Estimated size of BoP market: USD 5 trillion  
Hammond, A. L. et al, (2007), IFC & WRI →



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

# 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

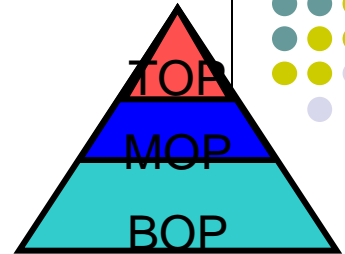


# How Different?

- **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.

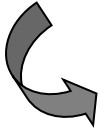
# Think Different: New Business Model

(Prof. Stuart Hart, Cornell University)



## BoP Penalties:

- Affordability
- Availability
- Accessibility



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

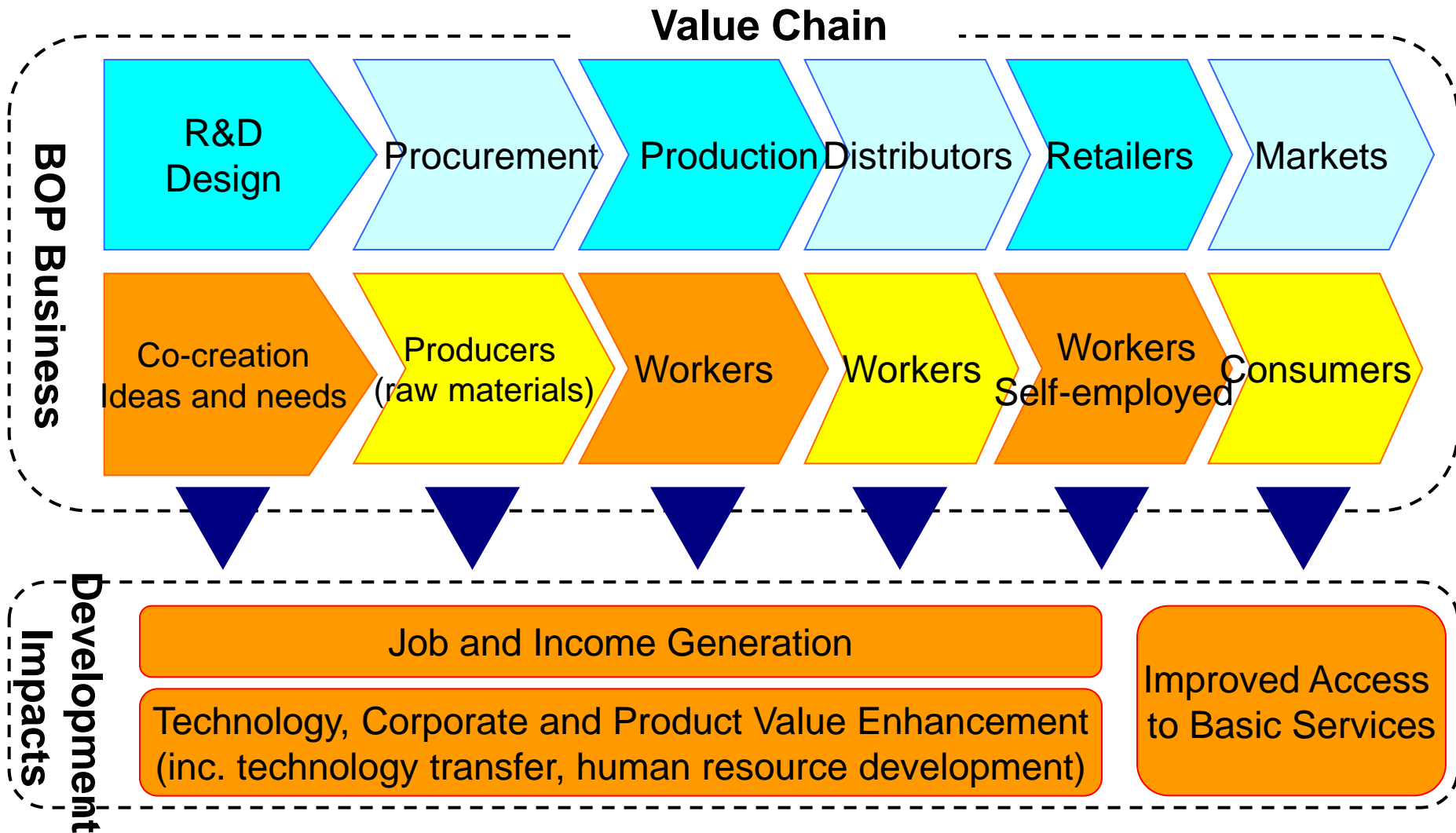
## Top of the Pyramid: TOP

- Creating needs in existing markets

## Base of the Pyramid: BOP

- Create markets from existing needs

# Value Chain Creation in the BoP Business



Source: JICA/PwC-ARUN(2013)、Figures 4-16 (p.4-14) adjusted by the author

# Three Types of BoP Business: 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**



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)

# Recent Examples from Japanese Companies



- Building partnership with the poor (low-income groups), as consumers, producers, distributors and retailers, etc.



Ajinomoto: Nutrition improvement



Yamaha Motor: Clean water system

**Meeting Basic Needs of the Poor**



Nippon Poly-glu:  
Water purification PGα21Ca

**Increasing Income of the Poor**



Saka No Tochu:  
Organic vegetables (agriculture VC)



Panasonic: Solar Lantern

**Improving Productivity of the Poor**

(Source) Photos are from official websites of respective companies.





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



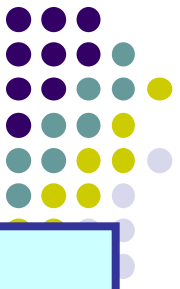
**「UCC Cafe Nature Mocha Wild Belete-Gera 200g」**

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



**「Tree of Life」  
 Hand-Roasting  
 Coffee**

# Driving Forces of BoP Business



## 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.)

# Significance of 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.

# 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 !



# Moving Forward: Partnership for Sustainable Development

- Broader business engagement for sustainable development, by addressing environmental & social concerns
- **Inclusive and sustainable business**—providing business solutions for global & developmental challenges (e.g., clean energy, food & land use productivity, smarter cities)
- **Responsible business**—ensuring CSR and accountability in global value chains (GVCs)

# The 2030 Agenda for Sustainable Development



**From MDGs to  
SDGs**



# (1) Providing Biz Solutions for Global and Development Challenges



Indian govt. "Smart City Mission": comprehensive development of physical, institutional, social & economic infrastructure, in collaboration with the private sector.



**Smart Cities**

**Recycling**

(Source) Website of the Govt. of India

Japanese SMEs are also becoming actively engaged in offering their technology for sustainable development

(Source) Photos are from official websites of respective companies.

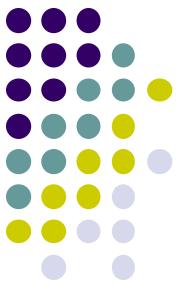
**Waste Mgt. Service**

Shirai Eco-Center: Providing medical waste mgt. services



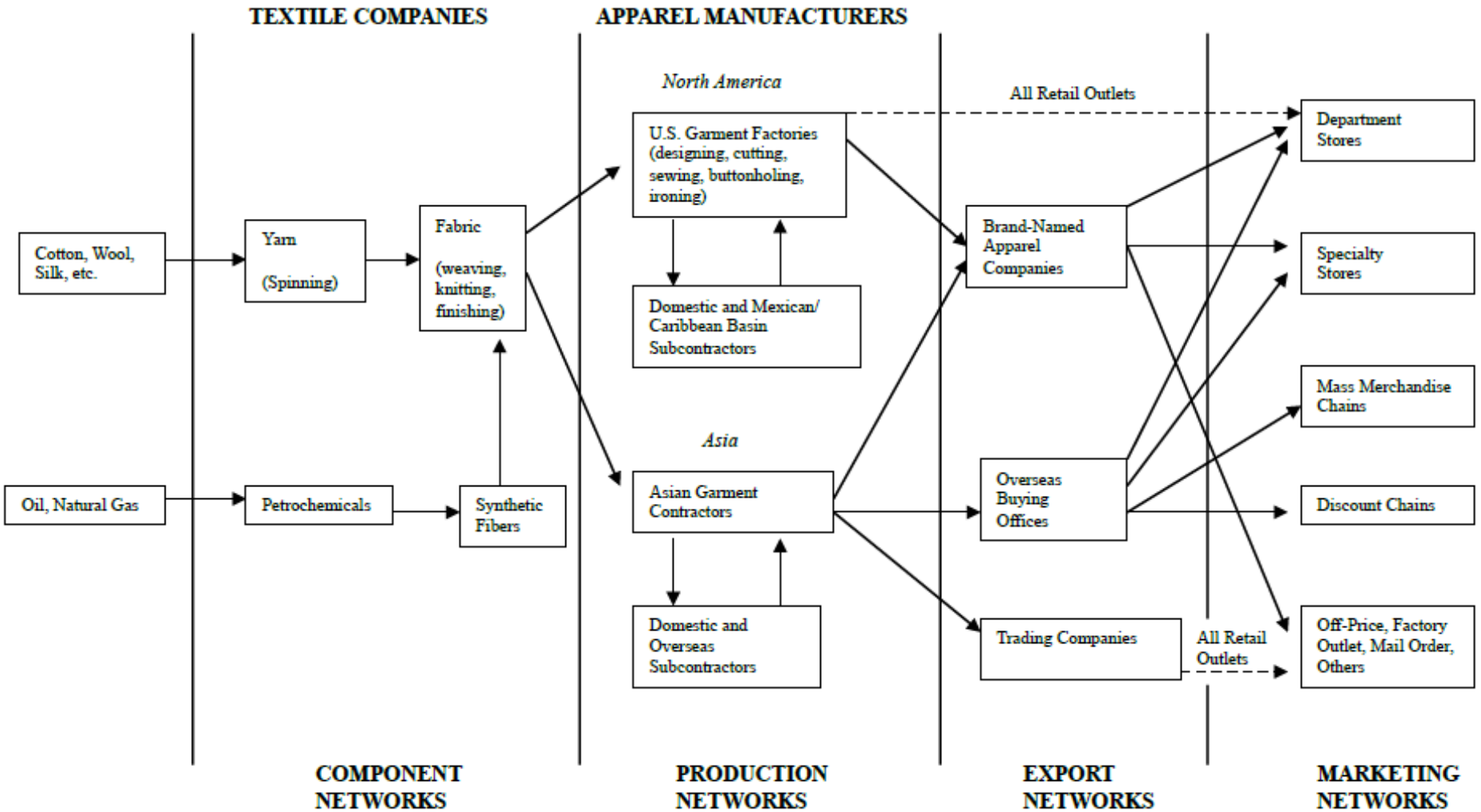
Kaiho Sangyo: Building VC for recycling used cars

## (2) Ensuring CSR and Accountability in Global Value Chains (GVCs)



- GVCs formed by the geographical dispersion of productive activities across firms and countries are becoming an important feature of global production (← technological progress, reduced costs of transportation & ICT).
- GVCs are usually driven by lead firms which coordinate design, logistics, component supply, assembly, marketing & branding in multiple locations around the globe for the purpose of optimizing the sourcing strategy.
- In today's world, **private sector engagement in responsible management of GVCs** have become essential:
  - Sustainable sourcing and management of natural resources
  - Improving the quality of employment (decent work)
  - Integrating local SMEs in GVCs (knowledge, skill transfer, environmental & social standards, etc.)

# Textile and Apparel GVC



# Ethiopia: Aid – Business Partnerships in the Textile & Apparel Sector

## Certification

Cotton Made in Africa,  
Better Cotton Initiative,  
etc.

## Decent Work

Improvement of work  
Environment, etc.  
(by ILO, SIDA etc.)

**H&M, PVH  
Tchibo, Tesco  
etc.**

OEM suppliers  
Producer assoc.,  
etc.

## Vocational Training

Skill development  
GIZ, DFID, WB, UNIDO,  
etc.

## Industrial Parks

Social & environmental  
standards  
(by GIZ, WB, UNIDO,  
ILO, etc.)

### International Trade Centre Annual Report (2015)

- Apparel export destination from Ethiopia: Germany (76%), US (14%), Sudan (6%), UK (3%)
- Textile export destination from Ethiopia: Turkey (58%), Germany (14%), Italy (13%), China (11%), US (2%)



# Example: Kanoria Africa Textile

(located near Addis Ababa, Ethiopia)



- Established in 2015 by an Indian conglomerate (Kanoria Group), as the first GREEN denim mfg. plant in the world
  - Operating from mid-2016, 850 staff (as of Nov. 2017); expansion of apparel production planned
  - Integrated denim mfg. —spinning, knitting, dyeing, weaving, etc.
- Strong commitment by the Group's leadership to make it a model plant in Africa, with social & environmental responsibility and use of the latest technology
- Vision: **sustainably produce high quality denim of contemporary fashion** to meet the exacting standards of the leading international brands.
- Main buyers: ZARA, H&M, Velocity, etc.

# How Can the Govt. and Development Agencies/Experts Contribute?



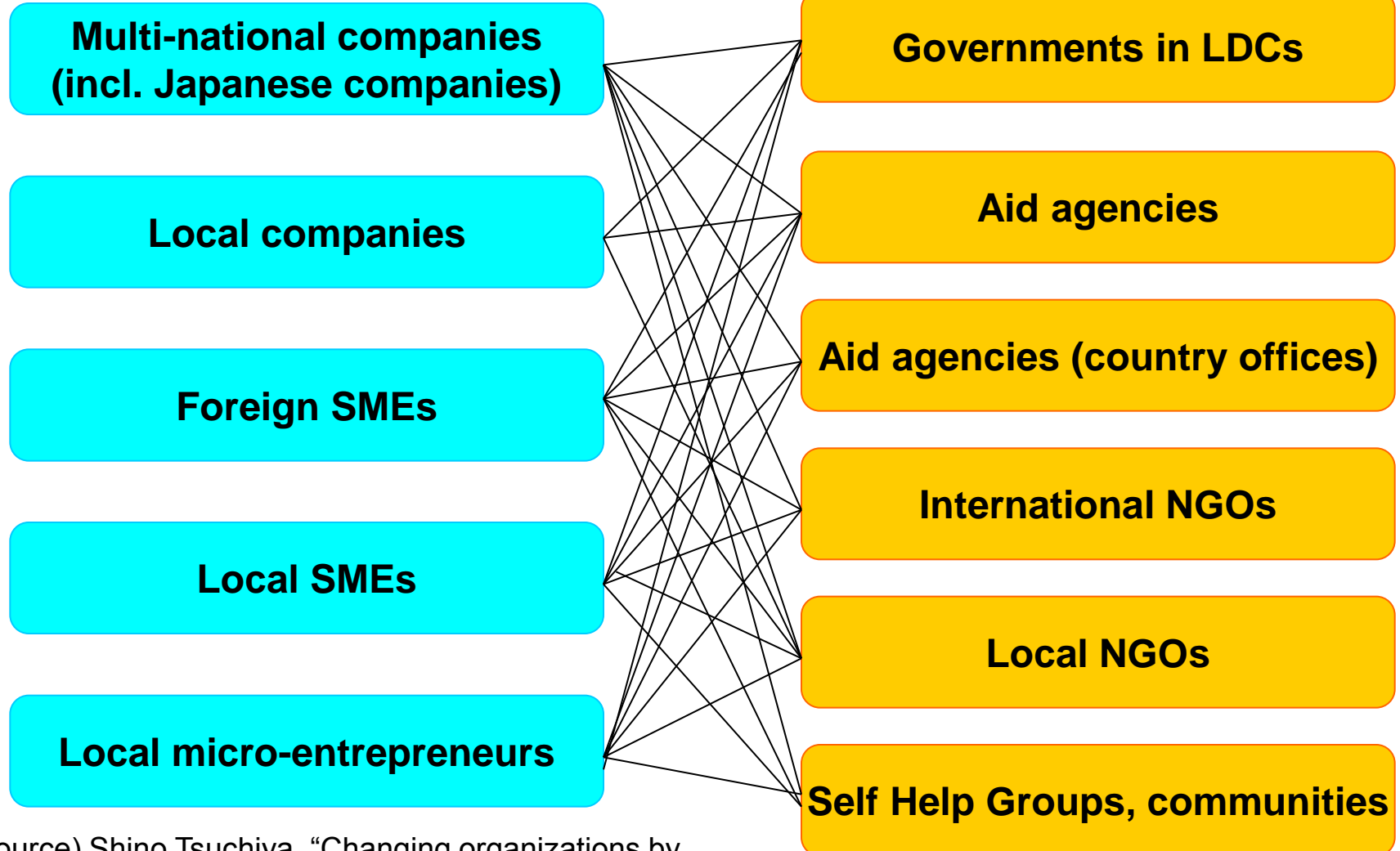
- Remove bottlenecks faced by private investors and improve the business environment.
- Help increase purchasing power of the poor through job and income creation (e.g., industrial and agricultural development).
- Build local capability through HRD, technology transfer, local business development, development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



# Diversity of Partners

## 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

# (Eg.1) Doing Business Ranking: 189 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 Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	10	1	6	17	19	1	5	41	1	27
New Zealand	2	1	3	31	1	1	1	22	55	15	31
Denmark	3	29	5	12	9	28	20	12	1	37	9
Korea, Rep.	4	23	28	1	40	42	8	29	31	2	4
Hong Kong, China	5	4	7	9	59	19	1	4	47	22	26
United Kingdom	6	17	23	15	45	19	4	15	38	33	13
United States	7	49	33	44	34	2	35	53	34	21	5
Sweden	8	16	19	7	11	70	14	37	17	24	19
Norway	9	24	26	18	13	70	14	14	45	8	6
Finland	10	33	27	16	20	42	66	17	32	30	1
Japan	34	81	68	14	48	79	36	121	52	51	2
Thailand	49	96	39	11	57	97	36	70	56	57	49
Rwanda	62	111	37	118	12	2	88	48	156	127	72
China	84	136	176	92	43	79	134	132	96	7	55
Brazil	116	174	169	22	130	97	29	178	145	45	62
India	130	155	183	70	138	42	8	157	133	178	136
Tanzania	139	129	126	83	133	152	122	150	180	64	99
Ethiopia	146	176	73	129	141	167	166	113	166	84	114
Myanmar	167	160	74	148	145	174	184	84	140	187	162
Afghanistan	177	34	185	156	184	97	189	89	174	172	160

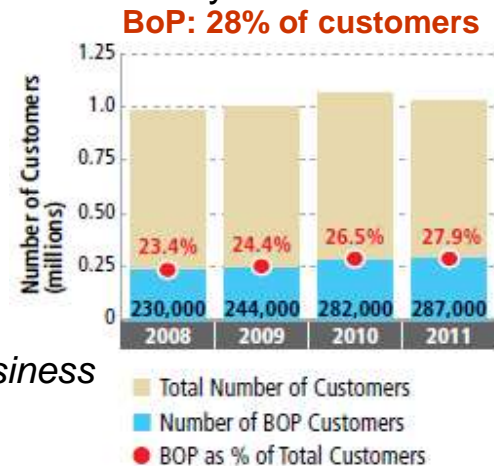
Source: World Bank & IFC Doing Business Website

Note: Top 10 countries are indicated among the 189 countries surveyed in June 2015.

# (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. 5) Building Multi-stakeholder, Int'l Platform with Business (Donors & NGOs)



- **Better Cotton Initiative**

- Launched in 2005, proposed by the World Wildlife Fund (WWF) to make global cotton production better for producers and the environment
- Funded by donor agencies (US, Germany, Sweden, Switzerland etc.) and brands & retailers
- Promoting better standards in cotton farming and practices globally, by training farmers (e.g., use of fertilizer, water & soil management, irrigation practices)
- Raising awareness of buyers and manufacturers on the importance of environmental & social sustainability of the entire supply chains

- **Cotton made in Africa (cmIA)**

- Initiated by the Aid by Trade Foundation (Otto Group), supported by Gates Foundation, German agencies, etc.





# 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.
- 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.