

New Business–NGO Partnerships Help the World's Poorest

International Trade Forum, 26 September 2007 - Innovative approaches to reduce poverty through trade are bringing business, NGOs, government and aid agencies together in new ways.

"We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world's major challenges — including poverty, climate change, resource depletion, globalization and demographic shifts."

This statement does not come from a United Nations (UN) conference or a non-governmental organization (NGO) congress. It comes from companies themselves — among them Adidas, BP and Procter & Gamble — in their ["Manifesto for tomorrow's global business"](#), signed by eight major businesses, members of the World Business Council for Sustainable Development (WBCSD) Tomorrow's Leaders group.

This example of corporate social responsibility (CSR) on a collective scale is not the only sign that businesses are becoming more socially responsible. Social entrepreneurship is also on the rise. These trends reflect a rise in partnerships between the profit and non-profit sectors.

As international businesses explore the developing world to find new consumer markets, firms are realizing that long-term prosperity depends on the development of these markets. As a result, more partnerships are springing up between international companies, NGOs and development agencies. They are finding common interests and learning from each other in the process.

A number of examples show that creative partnerships and approaches to reducing poverty through trade may be even more important than resources.

- Unilever is integrating social innovation strategies in its business operations. In India, it teamed up with NGOs to create Shakti, a rural network that sells products adapted to rural customers in more than 100,000 villages, employing 31,000 women. In Indonesia, it teamed up with Oxfam to research and assess the impact of production and distribution processes on poor communities. (*Sources: Unilever, Oxfam*)
- Electricit  de France is reaching people in rural areas without electricity through a range of partnerships. Its Energy Access programme is carried out with the World Bank, UN agencies, other multilateral and bilateral donors, NGOs and civil society to create small, locally run companies to provide electricity, water, gas and telephone services that stimulate local economic activity and contribute to wealth creation. The potential is huge: worldwide, 2 billion people still have no access to electricity. (*Source: WBCSD*)
- Ashoka fellow Allan Schwartz worked with ITC to help boost exports from the wood sector in Mozambique, while allowing forest communities to preserve their environment. Local workers now produce high-quality wooden bracelets and have a reforestation plan. ITC helped with product adaptation for various markets, quality assurance, marketing and distribution. (*Source: Trade Forum*)
- Procter & Gamble worked with research institutes and other organizations to create a low-cost (\$0.01/litre) water purification product. PuR is mixed with water and filtered through a cloth to remove bacteria, viruses and parasites. One billion people lack access to safe

drinking water. Relief agencies use PuR to provide clean drinking water during emergency relief operations. (*Source: P&G Health Sciences Institute*)

- A British Young Social Entrepreneur of the Year 2006 award shows how an eco-tourism resort in Mozambique can reduce poverty through trade. Built to environmentally friendly standards using local materials, techniques and labour, the resort employs 55 local staff, who in turn support over 500 family members (a third of the village). The concept will be duplicated in other locations. (*Source: <http://www.bespokeexperience.com>*)
- Cemex, the world's third largest construction materials firm, has been working with Ashoka fellows to help more than 30,000 low-income families to build affordable, decent houses for themselves. Participants enter a savings and credit programme, get assistance to plan construction work, and benefit from services such as material storage, delivery and price guarantees for two years. This helps the company reach new customers it could not serve before, while helping poor families to improve their living conditions. (*Source: Ashoka, a global association of social entrepreneurs*)

These examples show how appealing to a market of 4 billion people living on under \$2 a day requires a radically different approach — a more socially responsible one.

Rise of social entrepreneurship

For years the work of social entrepreneurs often passed unnoticed in the outside world. Now that is changing. John Elkington is the Chief Entrepreneur of SustainAbility, a consultancy company dealing with social responsibility and sustainable development issues. "Social entrepreneurs," he says, "are set to have a profound impact on the world's most complex societal and environmental challenges. Their impact may be limited by their current scale, but could be limitless with the right business partners."

The Schwab Foundation for Social Entrepreneurship, created by World Economic Forum founder Klaus Schwab, organizes annual summits. Its latest report noted that, "Social entrepreneurs can help companies bridge the delicate balance between returning profits to shareholders and upholding their social responsibilities."

Several developments indicate the rise of social entrepreneurship in public awareness:

- **Microfinance** . The success of microfinance is highlighting social entrepreneurship as a poverty-reduction tool with global impact. Microfinance is spreading to Africa from Asia and Latin America.
- **Education** . Leading academic institutions, such as Oxford and Harvard Universities, are introducing social entrepreneurship courses and opening their own social entrepreneurship centres. Graduates from top business schools and senior business executives are starting to see the non-profit sector as an attractive career option.
- **Events** . Social entrepreneurs are invited to high-profile events such as the World Economic Forum alongside some of the world's richest and most influential people. Several awards and competitions have been set up to identify and fund the most successful social entrepreneurs.
- **Publications** . Today, there are dozens of listings related to social entrepreneurship on www.amazon.com. Many articles and books note that a decade ago there was little written about the subject.

- **Philanthropy**. While development philanthropy is becoming increasingly fashionable, the ineffectiveness of some charity spending has brought onto the scene “philanthropic intermediaries”, some of them businesses, to advise donors on which organizations can best help them tackle social problems. These intermediaries often recommend social entrepreneurs as the implementing partner.

Poverty as a business challenge

New consumer and investment trends appear to have an “encouraging” effect on the new social conscience of businesses.

- Consumers and investors are becoming increasingly socially conscious and are boycotting companies who do not respect basic ethical and human standards.
- In a recent survey by PricewaterhouseCoopers of 140 chief executives of multinational companies based in the United States, 85% said they believe sustainable development will be more important to their business model in five years than it is today. The survey also found that “more than half of institutional investors and analysts believe good governance and disclosure about sustainability issues are critical indicators of a company's value”.
- Investors are showing increased interest in companies' “green credentials”. Ethical funds and ethical investment are growing. According to a recent Goldman Sachs study, companies with solid environmental, social and governance performance indicators are the best long-term investment choices.
- The chief executive officers of the world's biggest companies are taking part in the global debate on sustainable development and the role of business with statements at events such as the July 2007 UN Global Compact Business Summit in Geneva or in World Economic Forum activities.

From pilot to practice

During the course of research for this article, the following factors emerged as important for the long-term success of poverty reduction initiatives:

- Ensure local communities are active in the development of their regions and feel ownership for poverty reduction initiatives.
- Take into account cultural differences among communities and adapt projects accordingly.
- Measure impact and results systematically. Empirical evidence of positive results can be an incentive for others.
- Factor in the need to work to strike the right balance between the interests of government, social entrepreneurs and business. Social entrepreneurs and managers of corporate social responsibility programmes, for example, may find it difficult to tackle public policy aspects, such as legislative frameworks to keep initiatives from being limited in scope.
- Businesses must integrate social development in long-term business strategies, not just consider them as a way to gain publicity.

Quick glossary

Social entrepreneur

A social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture to make social change. Whereas business entrepreneurs typically measure performance in profit and return, social entrepreneurs assess their success in terms of the impact they have on society. (*Source: Wikipedia*)

Microfinance

Small loans that help poor people who wish to start or expand their small businesses but are not able to get banks to lend to them. (*Source: World Bank*)

Corporate social responsibility

Corporate social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development. (*Source: International Finance Corporation*)

Bottom of the pyramid concept

The bottom of the (economic) pyramid consists of the 4 billion people living on less than \$2 per day. C.K. Prahalad, a professor at the University of Michigan, suggests that 4 billion poor can be the engine of the next round of global trade and prosperity, and can be a source of innovations. Serving customers who are at the bottom of the pyramid requires that large firms work collaboratively with civil society organizations and local governments. (*Source: C.K. Prahalad, The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, Wharton School Publishing, 2004*)

UN Global Compact

A network of 2,900 companies, along with governments and civil society organizations, that promotes responsible corporate citizenship. See <http://www.unglobalcompact.org>

The poverty pyramid and export potential

In terms of export potential, development specialists see the poor as forming a pyramid, with several strata able to participate in exporting.

At the bottom of the pyramid are the poorest of the poor: the **ultra poor**. The contribution they make to household income is not even sufficient for their own survival. These people have few, if any, assets; have very limited chances to earn money; and often survive by scavenging and begging.

Above the ultra poor are the **labouring poor** whose main source of income is by selling their services, either in the marketplace or by themselves through some form of subsistence

production. These include farm labourers, domestics and underemployed workers who often live on the brink of destitution.

The next in the strata are the **self-employed poor**. These are poor people who meet their basic needs by running micro businesses and small cottage industries, often on a part-time basis, but have not given up waged labour or subsistence activity entirely. These poor need working capital to sustain their productive activity.

At the apex of the poverty pyramid are the people living slightly below the poverty line who can often create additional jobs. These **entrepreneurial poor** or "**e-poor**" are distinguished by the fact that they employ others, possibly family members on a part-time basis, to assist them in the conduct of their business. Here, too, working capital is often a critical need.

It can be surmised by a process of elimination that the "e-poor" would have the biggest opportunity to be brought into the export process. The "e-poor" could enter into the productive enterprise sector perhaps more as an indirect supplier of goods to the export market, selling their wares to more established wholesale buyers who are already in the exporting business.

The skilled self-employed poor could lift themselves into the export process by joining the overseas labour market if there is a skills match or by improving their craft further, and with some form of financing, may be able to graduate to the next level.

Finally, the labouring poor could also have a chance in the overseas labour market as domestic helpers or care givers as well as farm hands in big plantations abroad.

Adapted from: Financing a Sustainable Linkage: The ADFIAP Experience, a paper presented by Octavio B. Peralta, Secretary General, Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Philippines, at the 2006 ITC Executive Forum (available at http://www.intracen.org/wedf/ef2006/Global-Debate/Resource-Person-papers/Peralta_Paper.pdf).

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