

Is Business Intervention the Most Effective Solution to Poverty?

Business finding innovative ways of reducing poverty –breaking new grounds?

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Introduction

Ladies and gentleman, it is a great honour to be with you here in beautiful Accra. I would like to thank the organisers of Africa Peace Festival, specially Korsy Senyo for their kind invitation and to applaud them for the fantastic work they do in the name of promoting peace and development.

Today I am going to talk about why poor are poor, why business need to get involved in poverty reduction, what are the key concepts for serving business and society, what needs to be done and the way forward for sustainable development.

Let me start the talk by two great quotes:

“There is a sufficiency in the world for man's need but not for man's greed.”

Mahatma Gandhi

“Like slavery and apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings.”

Nelson Mandela

Why Poor are Poor

Poverty alongside with climate change and international security are the key challenges of the 21st century. Although, we are dealing with climate change and terrorism, the development agendas remains the most dormant. Time and again, Western leaders meet for summits, grand photo opportunities in which they promise huge sums of aid to the developing world. Time and again, the money never materialises. Worse than that, are the punitive system of trade tariffs imposed by the West that impoverishes Africa.

Some problems facing Africa are created by the financial crisis in Europe and US. According to Overseas Development Report June 2012, the world's poorest countries will receive a \$230 billion hit from Europe's sovereign debt crisis as the knock on effects from weak growth and austerity in the single currency zone affect trade, aid, investment and remittances. The outgoing President of the World Bank Robert Zoellick has warned that developing countries need to prepare for a renewed wave of global financial turbulence stemming from Europe, and said they should put their finances in order to face the threat.

So why are the poor still poor, while there is enough to go around? If poverty is man-made and we have the means, technology and know-how to eradicate it, then why 4 billion people are still poor, because four billion people living from \$1-5 dollars a day,

in a constant poverty trap and cannot climb the development ladder? I say poverty trap because these people are too poor, too hungry, too disease-burdened, too bereft of the most basic infrastructure even to get on the ladder of development.

However, this also presents an opportunity for socially responsible businesses to intervene in the most effective way to tackle poverty. Looking at the positive side, there is an untapped market of four billion people at the bottom of the ladder ready to be tapped. It can create jobs, wealth and millions of new consumers. I think business is one of the best hopes for alleviating poverty. Businesses are quick to take decisions and implement them. They are profit-seeking organisations who can bring accountability for performance through competition, and are better at adapting to market conditions than government and international development agencies.

The Key Concepts for Serving Society

There is a way in which the interest of business and society can be served from the base of the economic pyramid, for which the key concepts include:

- The goals of poverty reduction and economic profit can be aligned to the degree that these ventures empower the poor, either by improving their quality of life, providing them with productivity tools and services, or by creating jobs.
- The productive capacity of the poor can be leveraged in creating products and services.
- To succeed in low-income markets, NGOs and businesses must strengthen their bottom-up market intelligence. Local and community leaders should work together with people to educate investors that bringing BOP (bottom of the pyramid) initiatives to success. The scale of outcome may be a bit slower than the traditional businesses but that is expected from any holistic development.
- Businesses must strike a delicate balance, keeping in mind both their legal obligations to return profits to their investors as well as their social responsibilities. Companies cannot afford to treat their social license callously. While looking after the interest of their shareholders, businesses and multinational corporations should work on the principle of “trickled down economies” which would give the poorest work and reduce poverty.

Why business need to get involved in poverty reduction?

- Humanity cannot afford to leave millions of people to die each year of malnutrition, hunger and diseases. We need a revolution to rehabilitate the individuals in the social system.

- It is morally and ethically right to help billions of people who are poor, marginalised, and lost all hope for any opportunity to come their way.
- In desperation, the marginalised people can become terrorists and a breeding ground for extremism and conflicts. The quest for fulfilling security and peace can only be achieved if steps are taken for ending poverty and accelerating the pace of development.
- The explosion of technology and the information highway have made it easy for the poor to know how the rich live. It has motivated them to work towards a higher goal and participate in sharing growing wealth of the world. Now it is easy for businesses to get them on the ladder of growth.
- Big businesses and the multinational corporations have reached near saturation point in their businesses and here is a new market of 4 billion people where the potential for growth is huge.
- There is a push for migrants (as a result of climate change) to move to wealthier parts of the world. This could create conflicts and tensions in other countries. The wealthier countries will resist. India is building a wall to keep Bangladeshi's out. The USA is building a wall to keep Mexicans out. It is in the self interest of the rich to create opportunities for the poor so they can take advantage of reciprocal economic opportunities.

Wrong assumptions about the poor

- One of the common misconceptions businesses have is that, poor people, with low incomes, have little to spend on goods and services. The fact is, many multinationals already successfully do business in developing countries, and their experience shows that the barriers to commerce are much lower than is typically thought.
- It is also incorrect to assume that the poor are too concerned with fulfilling their basic needs to "waste" money on non-essentials. In fact, the poor often do buy 'luxury' items. In the Mumbai shantytown of Dharavi in India, 85 per cent of households own a television, 75 per cent own a pressure cooker and 21 per cent have a telephone.

Businesses also assume that various barriers to commerce—corruption, illiteracy, inadequate infrastructure, currency fluctuations, bureaucratic red tape—make it impossible to do business profitably in most poor countries. But such assumptions reflect a largely outdated view of the developing world. Several positive trends in developing countries—from political reform, to a growing openness to investment, to the development of low-cost wireless communication networks—are reducing the barriers further while also providing businesses with greater access to even the poorest city slums and rural areas.

What should be done?

- Businesses can create opportunities and open up markets to improve grim situations and turn it into economic growth and prosperity. The fact is that these marginalised people need an opening and they can apply their talents to improve their situation.
- Businesses should explore the opportunities of the youth market. At this time in the world, half the population of the developing world including Africa are under 25 years. It is a huge untapped market ready to be employed, and, if used wisely, can generate strong revenues for businesses which will yield huge benefits to society.
- For alleviating poverty, the governments of the rich world, should reduce tariffs on imports from poor countries, eliminate subsidies and open up their markets for poorer countries exports. Developed countries should also increase aid flows for economic growth and sustainable development by assisting with clean energy solutions.
- For eliminating diseases, pharmaceutical companies, in partnership with governments and civil society organisations, should provide much needed medicines for HIV / AIDS, malaria, TB in poorer countries at reasonable prices. Without eradicating global disease burden, no development in poor countries is possible.
- Businesses should invest in global technology for reducing poverty, by providing clean energy for rural people, who now use wood and dung, high-yielding drought and pest-resistant varieties of food crops such as sorghum, cassava, and lentils. Provide low cost battery operated wireless computers that open communications for rural areas with no electricity and telecommunications infrastructure. Some of the countries in Africa are biggest users of air-time and frequently payments are made by text messages. The number of mobile phone users exceeded 5.6 billion— with the majority of users living in the developing world.
- We need to understand the challenge of extreme poverty not only as a matter of ethics and politics, but also as a matter of science. We can and must achieve a much clearer understanding of how to end poverty, based on the best scientific evidence. We have powerful technologies that can be mobilized, and which can make a remarkable difference at a remarkable speed.
- Business should invest in charity and community buildings and move from value protection to value creation. Companies can create social value, while

either protecting or enhancing their own market value, through effective philanthropy or community investment strategies. These are most likely to have a positive impact on both social *and* market value when they are more aligned to community needs. Energy companies, for example supporting projects to improve access to energy, logistics companies providing distribution support for humanitarian crises, ICT companies helping to improve access to technology, healthcare companies providing medical donations etc.

- The people of African origin living abroad have an obligation to invest back in their own country for its development, regeneration for invigorating its economy and society. To change the shape of the continent, from poverty to wealth creation, it will have to be the people themselves who will lift their own countries out of the mine of poverty, corruption and poor governance.

What type of business models are needed for the poor?

- The issue of cultural distance between corporate decision makers and the poor should be addressed. Executives tend to come from the upper economic classes and primarily interact with people like themselves. Because of this difference in world view, corporate leaders may overlook crucial business opportunities in low-income markets if they do not transform their organizational culture. Companies which have succeeded in low-income markets were ones that strengthened their bottom-up market intelligence—finding novel ways to integrate the preferences and habits of the poor into their business development—and had a corporate leadership that set a tone of engagement and commitment from the top.
- There is a serious lack of infrastructure in poor markets that can make operating potentially costly. For instance, a basic lack of physical connectivity is typical in many rural markets in developing countries, which is a real barrier for companies trying to deliver goods and services efficiently. Just as important, companies must contend with a lack of formal institutions regarding the "rules of the game." This means that company success may rely on local leaders and community agents who have the social capital to bring people together and build incentives for everyone to play by the rules. The role of social capital is also key to overcoming obstacles related to weak economic institutions.
- Businesses will be required to have a long-term investment, beyond the time frames dictated by traditional targets. Often the true profit driver lies in volume rather than in profit margins. However, few countries can be expected to reach scale at the pace seen in many richer countries. Indeed, those ventures that do quickly reach scale often credit some of their success to support from governments, multilateral donors, and nonprofit organisations. There are profits to be made, however, this is likely to come about in the longer term.

- Business need partnerships which have made a number of surprising but positive developments over the last ten years or so, in terms of progress against debt relief, aid initiative, the Millennium Development Goals, the creation of the Global Fund to Fight AIDS, TB, Malaria and many more similar initiatives.
- The developing world needs venture/risk capital and micro-finance, which can be used as a form of equity to develop an idea to turn into a business which can promise a better life for them and future generations. Business in rich countries should invest in new small to medium-sized ventures which can be started with a few hundred dollars. This way you not only help develop businesses, but also open up opportunities and social entrepreneurship for an untapped market of millions.

Examples of successful business initiatives in different countries

The wind of change is blowing in most parts of Africa. World Bank says, "Africa could be on the brink of an economic take off, much like China was 30 years ago." Businesses are flourishing in the markets from Senegal to Swaziland, new traders are setting up mini super markets, stalls, selling everything from mobile phone SIM cards, to washing power and other consumer goods. Big businesses like America's Walmart are rushing in to get a stake in the upcoming market in Africa. More examples of successful African businesses are African Breweries, Netflix for Nollywood, the South African Mobile Provider MTN etc. Global Operators are adding more and more routes to meet the booming demand as African flights are so full. New hotels are rising out of the ruins of shacks. 10 new 5 star hotels are built in Lagos alone.

Business should engage in economic development through core-business practices, public-private partnership, philanthropy and social investment and public policy dialogue. Some of the examples are as follows:

Sourcing from small-scale producers

In Nigeria, Tetra Pak is working with state and federal government and local entrepreneurs to expand cassava, maize and sorghum production to replace imported ingredients in its heavily fortified NutriSip drinks. The drinks are distributed to 75,000 children through a school feeding pilot programme, fully funded and administered by the Nasarawa state government. The project plans to reach 450,000 children.

Developing and supporting small and medium enterprises (SMEs) for production, processing and distribution of food and agricultural products

In India, Hindustan Unilever's Shakti micro enterprise initiative trains underprivileged rural women to become distributors and salespersons for low-cost personal care and hygiene products, securing market share in India's large rural market while creating

economic empowerment for the women involved. The i-Shakti initiative provides villagers with information on health, agriculture, education and other relevant topics that can be downloaded from computers in small kiosks.

Expanding farmers' access to new and existing products

Since World War II, Nestlé's milk has by and large been produced by thousands of small farmers in developing countries. And their supply chain efforts have gone way beyond just sourcing. Nestlé has provided the technology, training, and supply-chain investments to make it possible for the small farmer to produce good-quality milk, transport it, and sell it to the company. This makes sense for the company because it needs fresh, locally produced milk, and for the small farmer, an assured steady source of income.

Extending essential services and infrastructure to hungry areas

In Tanzania, since 2003, **Ericsson** is working with the United Nations Development Programme's Growing Sustainable Business initiative to develop a new business model to expand its telecommunications infrastructure to rural areas. Cashew farmers in the area, who used to hike to distant hilltops to use their mobile phones, no longer need to do that to use this service.

Enabling and educating women and girls

In India, **the World Economic Forum's** Rajasthan Education Initiative has engaged a group of IT companies (including Microsoft, Cisco, AMD, Infosys, Wipro and Intel) and the state government to provide improved curricula, teacher training and school meals in 100 girls' schools.

From 2003, the company's Indian subsidiary refocused its efforts on the country's rural poor in the face of growing competition from new market entrants. By training and hiring low-income, community-based saleswomen, the company successfully expanded the reach of its products to an additional 60,000 rural villages. By relying exclusively on low-income women as their frontline sales force, it also provided a significant source of income to a traditionally marginalized group.⁵

Building public and political support for increased investment in hunger reduction

Walk the World is the world's largest annual global fundraising event and was first launched by TNT in 2003.

Walk the World is a global advocacy and fundraising event to end child hunger. Taking place across 24 time zones in 24 hours, the day aims to put a spotlight on the problem of child hunger. Since Walk the World began eight years ago, it has mobilised over two million participants and fed over 200,000 children in school.

The aim of Walk the World is threefold: to raise awareness about hunger and WFP's work, to create employee engagement among TNT, Unilver and DSAM, and to raise funds for WFP's school feeding problem. The funds are used to support WFP's School Feeding Programme in Nicaragua, Cambodia, The Gambia, Tanzania and Malawi.

Partnering with public agencies and NGOs to strengthen their capacity

Accenture Development Partnerships collaborates with organizations working in the international development sector by delivering innovative solutions that truly change the way people work and live. It fosters collaboration and partnerships between the public, private and non-profit sectors in order to address global development challenges.

The Way forward

The efforts of the international development and international business communities should be to address the following three questions:

- First, how to increase the scale and effectiveness of pro-poor enterprise.
- Second, how to make the objective of pro-poor enterprise growth an integral part of poverty reduction strategies advanced by the international development community and pursued by developing countries;
- Third, how to more effectively engage the private sector, small and big business in efforts to tackle poverty through enterprise, both directly and as a source of insight, advice and skills transfer.

The business opportunities at the bottom of the pyramid have not gone unnoticed. Over the last decade, we have seen nongovernmental organisations (NGOs), entrepreneurial start-ups, and a handful of forward-thinking multi-national commercial experiments in poor communities. Their experience is a proof of concept: Businesses can gain three important advantages by serving the poor – a new source of revenue, greater efficiency, and access to innovation.

We have to work in a way that our ability to solve the world's problem can ultimately lead to equity, fairness, in which everyone is a change-maker. We have to involve committed citizens, maybe 10-20 per cent of the planet, who can understand the complexity of society and accelerate the rate of change for a better world. Let us bring together leaders in technology, social media and governments to find solutions and act on them to reduce global poverty.

Conclusion

The key to success is partnership of entrepreneurs with investors and philanthropists who can find common ground to start projects.

Big businesses are not going to solve the economic ills of developing countries by themselves, of course. It will also take targeted financial aid from the developed world and improvements in the governance of the developing nations themselves. But it's clear to us that prosperity can come to the poorest regions only through the direct and sustained involvement of businesses. And it's equally clear that business intervention can enhance their own prosperity in the process of helping the poor.

One of the biggest advantages Africa has is its growing youth population. Young people are full of energy, optimism and idealism. They have been the driving force of many revolutions. They are the future leaders of a country. They can make a forceful impact by taking actions which can change the course of history. With the help of social media, technology and science, young people can help reduce poverty drastically.

What Africa needs is to shake off its dependence on primary commodity exports, a narrow range of agricultural and mineral products, and invest in areas which will yield export earnings like harnessing technology and producing high value goods.

To understand how Africa might diversify we must look elsewhere, to the experience of east and south-east Asia. Not only have these countries revolutionised their trade performance in the last four decades to become world leaders in everything from clothing to computers, they have also achieved the holy grail of broad-based growth. The "Asian miracle" has seen countries poorer than their African counterparts in the 1960s virtually eradicate \$1-a-day poverty today. It is this transformation that Africa must grasp.

What we need is a real commitment by businesses and civil society to a social change, which aims at addressing key national and international challenges, including effective solutions to poverty. Extraordinary events in history - the civil rights movement, ending of slavery, the women's and environmental movement - did not start because of the policies of the governments, but by extraordinary, careful, long-term planning for social change by determined and committed citizens initiatives and organisations.

Building local, community centred, small scale, economic centres with low environmental impact still hold the best chances of economic renewal and making poverty a thing of the past.

The good news is, that the wealth is trickling down. Africa has the fastest growing middle class in the world. entrepreneurs are seizing opportunities creating by new technologies to start businesses.

It is fitting to recall the words of John F. Kennedy, whose vision of what is the possible is inspiring, at his Inaugural Address in 1961.

"To those peoples in the huts and villages across the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required - because it is right. If a free society cannot help the many who are poor, it cannot save the few who are rich."

Thanks for listening.

The full version of this talk can be downloaded from:

Uniting for Peace www.unitingforpeace.org

Notes:

During writing this speech, excerpts have been taken from the following sources:

1. Sean Silverthorne, 'Business and the Global Poor,' Harvard Business School (5 February 2007), p.1-3
2. Vijay Mehta, "The Economics of Killing: How the West Fuels War and Poverty in the Developing World", Pluto Press, 2012
3. Vijay Mehta, "Development in Africa – Shaking the Curse of Poverty Hunger and Disease", Edinburgh, 2005
4. C.K. Prahalad and A. Hammond, 'Serving the World's Poor, Profitably,' Harvard Business School (September 2002), p.5-6
5. BBC Radio 4, Reith Lectures 2007, 'Economic Solidarity for a Crowded Place.' 2 May 2007
6. Vijay Mehta, "The Role of Global Institutions in Tackling Poverty" Magdalen College, Oxford, 2008.
7. Harvard University, 'Leveraging the Development Impact of business in the fight against global poverty,' Working Paper of the Corporate Social Responsibility Initiative (April, 2006), p.10
8. Vijay Mehta, "We Can End Poverty", Friends House, London, 2010
9. Shell Foundation, 'Enterprise Solutions to Poverty,' (March 2005), p.5 <http://www.shellfoundation.org/download/download.html>
10. J.S. Mathur, Ailing World Gandhian Alternatives, 1997, Bharatiya Vidya Bhavan
11. Sarah Bracking, Money and Power, 2009, Pluto Press

This speech can be downloaded from www.unitingforpeace.com

Please watch our 4D for World Peace film:

“Change the World” - <http://www.youtube.com/watch?v=V9GEK4FFrXk>

And The Economics of Killing Book Launch at Hilton London Euston:

<http://www.youtube.com/watch?v=LISJZEECvrE>

Vijay Mehta is chair of Uniting for Peace (www.unitingforpeace.org), renowned author and global activist for peace, development and human rights. He is also the Founding Trustee of Fortune Forum Charity (www.fortuneforum.org) which was founded by his daughter Renu Mehta. Fortune Forum held summits (2005 and 2006) where Former US President Clinton, Former US Vice President Al Gore and Actor Michael Douglas were keynote speakers. The summits raised over a million pounds for charity and attracted a worldwide audience of 1.3 billion people (one fifth of humanity) including print and media coverage.

Vijay Mehta’s books include *The Economics of Killing* (2012), *The Fortune Forum Code: For a Sustainable Future* (2006), *Arms No More* (2005) and *The United Nations and its Future in the 21st Century* (2005).

He has appeared in various TV programmes including BBC World, Press TV, Ajjak-24 hour Indian news channel, and Think Peace documentary, Canada, among others. The Sunday Times, Independent, Observer and Guardian newspapers, among other journals have written about him. His life is devoted to the service of peace, humanity and our planet.

Vijay Mehta’s new book **“The Economics of Killing: How the West Fuels Wars and Poverty in the Developing World”** is published by Pluto Press (UK) / Palgrave Macmillan (USA) / Amazon (Worldwide). For reviews and endorsements of the book, please visit:

www.theeconomicsofkilling.org

“Vijay....a long standing activist for peace, development, human rights and environment”
The Sunday Times Magazine, London 1st February, 2009

“Vijay Mehta lends intellectual credibility to the project and wrote ‘The Fortune Forum Code for a Sustainable Future’, a sort of manifesto that will underpin the group’s future activities.”
The Independent, London 26 September 2006