

- SPEECH -

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Today I am going to talk to you about something that I, myself, have been wondering about throughout the past decade of my development career - why is our progress so slow in addressing the challenges and how we can harness the power of private sector to accelerate the achievement of the sustainable development agenda. I will share with you my observations on the shift from CSR to the core business activities that we refer to as *inclusive business*, and I will provide some innovative and inspiring examples from the UNDP-hosted Business Call to Action Alliance's membership portfolio, while also explaining in the process what we can do to support the flourishing of these practices.

But let me start with a story:

The World Bank estimates that over 1.2 billion people - or 20 percent of the world's population - are still without access to electricity. Nearly all of these people live in developing countries, including 550 million in Africa. With these numbers in mind, Australia-based Barefoot Power embarked on the mission to bring affordable renewable energy and efficient lighting to 10 million people by 2015 to help to eradicate energy poverty.

The enterprise manufactures and distributes solar lighting and business development services to low-income communities across Sub-Saharan Africa, Latin America and the Caribbean, Asia, and Oceania. Barefoot pledged to reduce kerosene consumption by 100 million liters and saving 200,000 tons of CO<sub>2</sub> per year, (which would cumulatively save 1 million tons of CO<sub>2</sub> by 2018). In the process, the company will also save customers \$600 million in energy expenditures over five years.

With a solar light, families save money from reduced spending on lighting alternatives like kerosene, candles, and battery torches. Families that use solar lights report that the lamps are predominantly used by their children to do their homework after dark. With access to this safe, clean and bright light, children are doing an extra hour of homework, on average, each day, which has a huge development impact potential.

The company has achieved both business and development impact:

- **Reducing health hazards associated with burning kerosene for light.** Safe solar lamps have reduced the need for kerosene, thus avoiding fires, fumes, and other risks associated with using kerosene for light.
  - **Saving money.** The United Nations Millennium Villages Project deemed the Barefoot Power 1W rechargeable desk lamp to be among the most affordable products to reduce energy poverty. By using this product, the average consumer saves about \$5 per month or \$60 per year on kerosene - money that can be used for other necessities. Barefoot Power estimates that in the 2 million households it has reached so far, there has been a total savings of \$600 million in five years.
  - **Increasing economic and learning opportunities.** The solar kits can generate income by providing a recharging facility for mobile phones and allowing communication between off-grid villages and cities, which is important both for individuals and businesses. Men and women can continue to work at home after dark, while students can enjoy a few extra hours of study time at night or bring lanterns to school.
  - In addition, solar lamps can provide economic opportunities for the micro-entrepreneurs who sell them: on average, Barefoot Power's 2,000 micro-entrepreneurs earn between \$500 and \$4,000 of additional income per year.
  - **Expanding village infrastructure.** Villages can gradually build their power systems by expanding on the plug-and-play kits. Their savings can be used to purchase more powerful lighting products and support an expanding village infrastructure.
  - **Environmental impact.** Each lamp saves about 200 pounds of CO2 emissions per year and eliminates the need to transport and burn kerosene fuel for lighting. The energy used in the manufacture and transport of each Barefoot Power lighting kit is paid for in two months by the displaced kerosene.
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- Just like the example there is progress:

Millions of people's lives have improved due to concerted global, regional, national and local efforts to achieve the MDGs, consider this:

- Over the past 20 years, the likelihood of a child dying before age five has been nearly cut in half, which means about 17,000 children are saved every day.
  - Globally, the maternal mortality ratio dropped by over 45 per cent since 1990.
  - Over the past 15 years, an estimated 3.3 million deaths from malaria were averted due to substantial expansion of malaria interventions.<sup>1</sup>
- But challenges persist: Leaving aside major recent crises (i.e. conflicts and the recent Ebola outbreak), there are persistent gaps in basic human development drivers that we, in the development community, have been trying to address for a long time. Yet, so much remains to be done in areas of access to healthcare, nutrition, energy, technology, skills and decent jobs, among others. Consider these statistics:
    - Over a billion people - 18% of the global population - continue to live without access to electricity. Nearly 97% of those without access to energy live in sub-Saharan Africa and developing Asia.
    - Availability and affordability of technology is still preventing the widespread internet adoption and although internet penetration has doubled in last 5 years, more than 80 percent of the African continent is still unconnected.<sup>2</sup>
    - Over the 1995-2012 period, Africa has made considerable improvements on health-related MDGs and although the majority of the countries on the continent have made steady progress in reducing child and under-five mortality, only six countries were able to reduce the under-five mortality rate by two-thirds between 1990 and 2015.
  - So why are we still encountering so many bottlenecks preventing development (despite the enormous scientific and technological progress that gives us the ability to solve these challenges)?
  - There is no better time to try to answer this question: 2015 is a historic year, it marks the end of the MDGs and the beginning of a new and much more ambitious global development agenda; the Sustainable Development Goals (SDGs). This year we also hope to have a new

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<sup>1</sup> <https://www.wfp.org/stories/millennium-development-goals-achievements>

<sup>2</sup> <http://www.wired.co.uk/news/archive/2013-10/28/connecting-africa-report>

and re-energize agreement on how the SDG agenda will be financed and finally a decent global climate change agreement. When we look back to progress on the last 15 years and to the future one thing is clear: we need all hands all deck and a much more involved private sector as full partner to development.

- Tackling the current challenges on a large scale requires resources, innovation and the ability to replicate the interventions.
- While most efforts and energy around the MDGs have been concerted in the governmental, inter-governmental and non-profit sectors, the for-profit models have been largely missing from the equation. Profit is precisely what allows businesses generate the resources we need to scale innovations and solutions. If the approach makes a profit, it becomes self-sustaining and infinitely scalable.
- The conventional wisdom has historically been that actually, there is a tradeoff between economic performance and social performance. Many companies have fallen into this thinking, leading to much of the negative perception and lack of trust towards the private sector in many communities. But what has become very clear over the past few years - thanks to much thinking dedicated to this issue - there is actually a deep synergy in the interface between business and social issues, particularly if you are not thinking in a short term. In a short term, you might mistakenly think that you can build a sustainable business without addressing the social issues. But in a long run, we are learning and seeing that it is simply not true.
- Of course, there are undeniable benefits of the corporate social responsibility (CSR) practices on the company's image and ultimately its economic performance, but again, going back to the question of sustainability and scale - risk-mitigating, philanthropic investments are rarely self-sustaining or scalable in a long run. The limitations of CSR as the main organizing framework for private sector contribution to development have become much clearer over the past decade. And for most firms, most of the time, CSR is largely irrelevant to their financial performance and is therefore unsustainable in the long run at the corporate level as well.<sup>3</sup> Ultimately, this is not what business needs today either.

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<sup>3</sup> [http://www.forbes.com/2008/10/16/csr-doesnt-pay-lead-corpresp08-cx\\_dv\\_1016vogel.html](http://www.forbes.com/2008/10/16/csr-doesnt-pay-lead-corpresp08-cx_dv_1016vogel.html)

- What *does* business need today? McKinsey's research indicates that 440 emerging-market cities will account for close to half of expected global GDP growth between now and 2025.<sup>4</sup> With much of economic growth and market vitality shifting toward the global south, this means that businesses expanding within or into these markets need to develop a relationship with the local stakeholders, they need secure supply chains, they need educated and healthy work force to gain the competitive advantage, they need customers who can afford their products and services, and they need a friendly and enabling business environment that allows them to integrate themselves into these emerging markets to capture the market share.
- And thankfully we are seeing more and more that business *can* and *do* more than risk-mitigating philanthropic investments or poverty alleviation as an unintentional (or 'trickle-down') effect of growth. Many companies today employ what the UN Development Programme has called inclusive business models to consciously include the people at the base of the pyramid (BoP, or those who live on less than \$8 per day) into its core business—as producers, as suppliers, as entrepreneurs and as consumers. In thus actively creating opportunities for low-income communities, business contributes not only to their economic empowerment but also to their health, well-being and social standing.
- While the motive for doing business with the poor is not and cannot always lead to immediate profitability, what these companies gain is longer-term growth and competitiveness. For multinationals, doing business with the BoP can foster innovation—a must for companies to compete and grow. And it allows them to build brand recognition and loyalty with a growing customer base. For the emerging and maturing companies, inclusive business is fundamental to their business growth, competitive advantage and profit.
- Ultimately, inclusive business models address the needs of the business that I mentioned earlier, while showing undisputable development impact and the potential for scale. There is emerging evidence that inclusive business model practices are providing strong benefits to people at the base of the pyramid while also delivering commercial success. Because inclusive business is self-financed through revenues, it can in principle go on creating

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<sup>4</sup> [http://www.mckinsey.com/insights/winning\\_in\\_emerging\\_markets/unlocking\\_the\\_potential\\_of\\_emerging-market\\_cities](http://www.mckinsey.com/insights/winning_in_emerging_markets/unlocking_the_potential_of_emerging-market_cities)

positive impact indefinitely. Businesses can thus have a major impact not just in one community but across a whole country or region, and can even be replicated by others elsewhere.

- Recently published BCtA flagship report, *The Breaking Through: Inclusive Business and the Business Call to Action (BCtA) Today*, confirms this potential for impact and scale. Our research finds that over 40 million households, or 200 million people, have benefited from 94 BCtA initiatives to date (in 2014). People at the BoP benefit from earning an income or gaining access to a market as suppliers or employees of the companies. For low-income households that lack basic human needs, gaining access to clean energy, quality healthcare, and saving and credit products help improve their quality of life.
- Let me tell you another story from **Changamka MicroHealth**, a Medical Insurance Provider that utilizes an electronic platform, accessible by mobile phones, to facilitate the financing of healthcare services for the working poor in Kenya.

As we are all aware, women still die in childbirth at alarming rates in the developing world. In Kenya, one in 14 Kenyan children do not live to see their fifth birthday, and nearly 60% of infant deaths occur during the first month of life. Generally, the cause is poverty and lack of resources, but key issues are a low use of basic health care facilities and limited access to urgent care. Ensuring that women can afford proper and necessary maternity care before, during and after delivery is essential to improving maternal and child health. It is estimated that over 95% of the Kenyan population is not covered by any form of insurance. Kenya-based Changamka MicroHealth stepped in with a goal to more than double the rate of institutional/facility deliveries in a population of 40,000 women through a combination of mobile technology based solutions comprising of a comprehensive registration of all pregnancies; a mobile phone e-voucher subsidy plan to finance the costs of delivery; an electronic payment platform MPESA linked plan to finance transport and an integrated multimedia behavior change and communications campaign comprising targeted text messaging, village dialogue forums, radio and open air cinema to both users and key influencers in the society.

What's more, the company is rigorously addressing cultural and gender based constraints by integrating traditional birth attendants as creators of demand for services and engage husbands, to ensure timely decision making to seek care. The output based financing

mechanism through e-vouchers will be built on government financing mechanisms to expand coverage and ensure long-term sustainability. With an estimated annual pregnancy rate of 20,000 in the County, this approach will at the end reach 40,000 indigent women, with antenatal, delivery and post-natal services and save lives of mothers, and newborns every year by reducing maternal and neonatal mortality by half.

Overall, this inspiring enterprise has pledged to use these savings and insurance products to increase number of attendant births to at least 20,000 by 2016 and number of low-income households covered by health insurance to at least 40,000 by 2018.

- In addition, what makes inclusive business even more unique is that it creates impact through an ecosystem beyond a specific value chain. In order to build a sustainable business in a low-income market, companies almost always need build this market first or enhance existing market conditions. The story I just told you, would not be possible if M-PESA, a money transfer service that was able to operate on a basic mobile phone using SMS technology. Originally designed as a service to help loan borrowers pay off microfinance loans, M-PESA was quickly adapted to serve as a money transfer service to tens of millions of unbanked consumers, ultimately also improving their capacity as telecommunications customers.
- Hence, it becomes much easier for others to enter the same market, build on the improved market environment and replicate the successful model. By building new markets, inclusive business models improve the market environment for everyone. As a result, these innovative practices not only expand opportunities for millions of low-income people worldwide, but also create systemic impact that contribute to multiple development objectives.
- To give you an idea of the potential scale of inclusive business, let me talk a bit more about the Business Call to Action and its portfolio of member companies.
- Supported by key five donor governments, BCtA is a unique partnership is contributing to the formation and growth of inclusive business ecosystems by channeling and articulating the needs of the private sector. BCtA is building on its existing service portfolio of networking, peer-to-peer learning, results reporting and advocacy to support companies in their ambition to improve the ecosystem for inclusive business around them.

- Over 100 businesses ranging from small enterprises to national and multinational corporations have made commitments to the BCtA platform and are championing inclusive business models in over 50 countries. The pledged development impact includes improving access to sustainable energy for 90 million people, improving health outcomes for 63 million people, and increasing access to financial services for 59 million people, all often through access to innovative and affordable technologies. Consider these examples:
- While inclusive business has been gaining momentum across sectors and geographies in recent years, still, relatively few of these ventures exist and have achieved the potential for scale. Taking up an inclusive initiative at the corporate level implies undergoing major internal changes that may be unwelcomed and opposed. It may be seen as too risky and also not too rewarding in the short run. Internal organizational barriers may include opportunity cost of investment, as these investments may have lower expected rates of return because the cost or risk of doing business in base of the pyramid markets is often high, while anticipated margins are low, and/or a long time horizon is needed to break even. There may also be internal capability gaps when inclusive business models are very different from existing business models. Finally, many companies are simply not willing to change their ‘business as usual,’ thus often neglecting the BoP markets, or falling into the trap of thinking and planning in short term.
- But for companies that are willing to change, what we see is that they often cannot do it alone. Externally, at the country level, reliable market information is often absent, the regulatory environment is often inadequate, physical infrastructure is lacking in many places, low-income people initially lack the knowledge and skills required to participate in value chains productively, and access to financial services is frequently minimal. When enabling conditions are absent or fall short, transaction costs rise, as businesses have to fill the gaps themselves. Despite the enormous potential awaiting inclusive business endeavors, the obstacles are often daunting.
- In order to harness the potential of inclusive business, entrepreneurs require ecosystems conducive to this type of activity. Here I am talking about ecosystems specific for IB, not the generic enabling environment for private sector development. Sometimes the two might be the same, but not always. An inclusive business ecosystem is made up of a network of interconnected, interdependent players, whose actions help inclusive businesses succeed,



generate impact and grow to a larger scale. These ecosystems can include all types of actors, including companies, governments, development partners, CSOs, research institutions and intermediaries. Public-private partnerships at the country level play a vital role in enabling effective inclusive business initiatives.

Governments have a particularly important role to play in the success of inclusive businesses. They can create the conditions for functioning markets by providing information, rules, financial resources and capacity (such as by providing certain services like physical, legal and financial infrastructure). Governments can also actively counterbalance market failures (such as by providing guarantees). Recognizing this importance, UNDP, together with the World Bank, is working with Turkish Presidency of the G20 to develop an evidence based inclusive business framework, which will offer both G20 and non-G20 Governments a set of policies to support and accelerate inclusive businesses.

- On the eve of the approval of the new and more ambitious global development agenda, we need to ensure that the private sector fully maximizes its contribution to development. Companies need to learn from those that are leading the way in developing new and innovative inclusive business models. But they can't do alone: it is time for governments to step up to the plate and establish a set of inclusive business policies. It has been said that we are the first generation that can end poverty, and the last to be able to stop the worst consequences of climate change. We can only do these if the private sector is wholly engaged as a fully pledged partner.

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