



# Meeting the MDG challenge through Inclusive Business

A submission to the Independent Review of Aid Effectiveness by Business for  
Millennium Development

February 2011

**“We choose to recognize the private sector as equal partners around key development issues.”**



Bilateral donor agencies of Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, United States of America, United Kingdom, Sweden, and Switzerland, September 2010, United Nations Headquarters, New York



**“Private sector companies bring fresh perspectives to addressing the principal development challenges of our day”**

US AID Administrator, Rajiv Shah, September 2010, New York announcing the US Government’s commitment to the Bilateral Donor Agency Statement of Commitment to the Private Sector

**“These reforms will herald a new era of private sector-led development work in DFID”**



UK Secretary of State for International Development, Andrew Mitchell, October 2010, London announcing a new Private Sector Department to be established within DFID.



**“Much more needs to be done to enable businesses to engage with poor people.”**

UNDP Report “The MDGs: Everyone’s business – How inclusive business models contribute to development and who supports them”, launched New York, September 2010.

**“Australia seeks to harness the skills and expertise of a broad set of players, beyond government. The private sector is crucial to this Call to Action”**



The Hon. Kevin Rudd’s letter of support for Business for Millennium Development Summit, October 2008



**“By including the poor in their core strategies business can find financial gains while further human development”**

UNDP Administrator Kemal Dervis letter of support for Business for Millennium Development Summit, October 2008



## **Business for Millennium Development (B4MD) Position statement in relation to the AusAID review**

In light of the review of AusAID announced by the Minister for Foreign Affairs, the Hon. Kevin Rudd, B4MD believes it is time to reflect upon recent fundamental changes in the way international donor agencies are approaching development, and realign Australia's approach by embracing Inclusive Business.

### **1. The International Inclusive Business Movement**

In a profound paradigm-shift, the key bilateral donor countries Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, United States of America, United Kingdom, Sweden, and Switzerland made the following statement at the September 2010 MDG Summit:

“We choose to recognize the private sector as equal partners around key development issues..... The private sector is a key driver of innovation, and we will work to integrate these innovations into our programs..... We encourage the private sector to commit to an ever increasing role in and responsibility for international development ...”<sup>1</sup>

The commitments of the bilateral donor agencies focus on providing funding and advisory support to “spur and leverage the creative investments of private capital” to generate inclusive business enterprises and inclusive markets. A distinctive feature of inclusive business models is to include poor people within business value chains as producers, employees and consumers in a way that significantly contributes to meeting the Millennium Development Goals (MDGs). Companies can help generate income and stimulate entrepreneurship by engaging the poorest and most numerous segments of the population – often called the “base of the pyramid” – as suppliers, distributors or other types of business partners. Similarly, companies that develop safe and affordable products for the poor and market them in innovative ways can help meet basic needs, increase productivity and raise the standard of living of the poor.

This approach to achieving the MDGs is most likely to have the most lasting effectiveness due to the confluence of two major global trends: dramatic growth in access to IT, and a fundamental realignment of the global economy.

### **Growth of Information Technology**

The emergence of 21<sup>st</sup> century information technology systems is driving a fundamental shift in development. IT systems now enable the largest multinational corporations in the world to link the poorest communities on earth into their business value chains. For example, Google provides farming advice via SMS to poor rural farmers in Ghana. Vodafone provides mobile phone banking services to millions of poor Kenyans. General Electric has recently launched a mobile ultrasound device targeting maternal mortality in the third world.

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<sup>1</sup>See: <http://www.sida.se/Global/Nyheter/Bilateral%20Donor's%20statement.pdf>



## Re-alignment of the Global Economy

The centre of the global economy is gradually shifting from the slow-growing West toward the immense potential in developing countries. This transition in economic gravity has accelerated following the global financial crisis.

The World Business Council for Sustainable Development stated in their 2006 report *Business for Development* that “by 2050, 85% of the world’s population of some nine billion will be in developing countries. If these people are not engaged in the marketplace, our companies cannot prosper and the benefits of the global market will not exist. Clearly it is in our mutual interest to help societies shift to a more sustainable path”<sup>2</sup>.

Western firms are increasingly seeking to facilitate and harness growth the consumer markets of the developing world.

An example of this shift is a B4MD-led consortium of Australian and multinational companies (including Goodman Fielder, Agility Logistics, Visy and Syngenta) which are growing their businesses by tapping into the rich resources of remote communities in the Southern Highlands of Papua New Guinea. This project is of mutual benefit for the companies in their quest for growth, and for the communities who are empowered by new income streams and increased self-determination<sup>3</sup>.

## 2. The Role of Business in Development

The distinctive benefit of inclusive business in contrast to conventional donor programs is that, unlike organisations that must continue to rely on donor funds, a business can replicate and scale up successful approaches quickly. Business can offer immediate expertise, resources, operational capacities and management know-how. Business can keep an open timeframe and grow organically because, unlike donor-reliant actors, it creates its own revenues. Finally, by its very nature, business contains an inbuilt feedback mechanism that is self-propagating, a feature often lacking from non-business approaches. Whenever members of a target group (producers, consumers, employees) are not satisfied with a business relationship, they can very easily make their voices heard through the immediate market.

## 3. Supporting Inclusive Business – UNDP observations and recommendations

UNDP experience<sup>4</sup> suggests that inclusive businesses can be commercially viable. The UNDP recommends that the development community should reverse the attitude of the past by welcoming companies into the development space. Development actors are being asked to understand what business will require to engage with development in a commercially viable manner. The Growing Inclusive Markets (GIM) team within UNDP has already documented 300 inclusive business case studies around the world over the past five years. This suggests a rapidly growing global movement.

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<sup>2</sup>refer <http://www.wbcsd.org/web/publications/biz4dev.pdf>

<sup>3</sup> See: <http://www.b4md.com.au/videoSouthern.asp>

<sup>4</sup>refer “The MDGs: Everyone’s Business: How inclusive business models contribute to development and who supports them” <http://www.growinginclusivemarkets.org/mdgreport/>

Notwithstanding the attractiveness of inclusive business initiatives, they can require considerable investments over time before they become profitable. Also, starting up an inclusive business in a poor community can introduce risks for the investing company that it doesn't face in its traditional markets. These include logistical, intercultural and infrastructure challenges.

For these reasons, various forms of seed or venture financing are warranted, and are becoming available from donor agencies and beyond.

#### 4. UK Government supports an inclusive business approach

DFID's Business Innovation Facility was launched in March 2010 to specifically build stronger partnerships between the UK Government's development aid program and the private sector. The objective is to take advantage of market opportunities in developing countries and to maximise the transformational impact of business through including the poor as consumers, employees and producers.

The facility supports business to develop, or adapt existing supply and distribution chains so as to increase the participation of disadvantaged producers, informal traders and employees.

The Business Innovation Facility:

- Shares costs with company-led initiatives as they develop feasibility studies and plans for the implementation of inclusive business model.
- Assists companies to broker partnerships with NGOs, development agencies, other non-business partners, and local businesses or entrepreneurs.
- Shares knowledge and learning on how best to execute and evaluate such projects<sup>5</sup>.

#### 5. The Australian context

B4MD believes embracing the inclusive business model should be a key outcome of the AusAID review because Australian companies are increasingly focused on the developing economies in the Asia Pacific region. The following observations underline the fact that the opportunity for our Government to work with Australian companies to engage in inclusive business is considerable, and growing:

- emerging economies will account for about 60 per cent of global expansion this year and next<sup>6</sup>.
- bilateral trade with developing economies now constitutes over half of Australia's total international trade, primarily with China, India and Indonesia (DFAT statistics). **Error!**

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<sup>5</sup> See <http://businessinnovationfacility.org/>

<sup>6</sup> Recent Citigroup report,

Refer <http://epaper.livemint.com/Default.aspx?Id=586C6C645A3548706E6448786B7A455A366233786336704344476339324D6876423861636C6F564D506C413D>



**Hyperlink reference not valid.** Many commentators now acknowledge that "... investors are optimistic about prospects for a global economic recovery led by the developing world."<sup>7</sup>

As Australian companies move into developing countries in the Asia Pacific and elsewhere, it is essential that this trade develops in an inclusive manner to ensure the long term sustainability and continued economic prosperity for both Australia and the region at large. There is, therefore, an emerging space where the business and development interests of Australia converge.

The Hon. Kevin Rudd made the following statement at the 2008 Business for Millennium Development Summit:

*"Australia seeks to harness the skills and expertise of a broad set of players, beyond government, in a renewed effort to reduce poverty. The private sector is crucial to this Call to Action"*<sup>8</sup>

Kemal Dervis, Administrator UNDP (co-host of the B4MD Summit 2008) said:

*"By including the poor in their core strategies business can find financial gains while furthering human development"*<sup>9</sup>

Two and a half years on, and with the rapid convergence of business and development taking place around the world, we are hopeful of significant policy and budgetary alignment to enable such a convergence to take place in the Australian context.

Achieving the targets, set out in the Millennium Development Goals, will require a genuine partnership between government, business and civil society. We look forward to seeing this convergence accelerate here in Australia as we close in on the fast approaching 2015 timeline for the MDGs.

## **6. Practical recommendations for the AusAID Review**

As affirmed by the UK Government, the UNDP and many other bilateral donor agencies, the private sector is a critical element in tackling global poverty. Global poverty will not be solved until Government, NGO's and business work together cohesively. While social infrastructure is vital, the role of business in creating wealth and sustainable long term income generation is equally vital.

Furthermore, B4MD believes that by linking aid projects with the objectives of Australian companies, AusAID can better deliver on its mandate to promote Australia's national interests.

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<sup>7</sup>refer <http://www.skynews.com.au/finance/article.aspx?id=550130&vld=>

<sup>8</sup>refer attached UNDP letter of support

<sup>9</sup>refer attached UNDP letter of support



**We therefore recommend:**

### **1) Private Sector Unit within AusAID**

A new Private Sector Unit (PSU) be established within AusAID to boost the role of private enterprises in the poorest developing countries, with business experts seconded in to advise the Government on how best to do this. The PSU will prompt and help catalyse change within AusAID to deepen the Agency's capability to work collaboratively with the private sector to improve the prosperity and well-being of poor people.

### **2) Advisory Group to the Minister for Foreign Affairs**

A suitably qualified Advisory Group (AG) should be established to meet quarterly with the Minister to consult on ways in which AusAID can and should create stronger business linkages with the private sector. This group would include business leaders with experience in establishing enterprises in target developing countries. Additionally, the AG will provide briefs to the Minister on external variables impacting upon business linkages with international development.

The AG will keep a watching brief on the activities and impact of the PSU and advise the Minister for Foreign Affairs on progress of change within the Agency. The AG will also offer regular advice and direction to the management of the PSU.

### **3) Inclusive Business Gateway**

Establish an Inclusive Business Gateway (IBG) to catalyse the formation of inclusive business enterprises. As pioneers of inclusive business in Australia, B4MD would be keen to take part in the formation of the IBG. The IBG's functions would include:

- Promote the idea of inclusive business to Australian companies.
- Undertake research on developing countries in our region to identify economic opportunities for Australian businesses among "bottom of the pyramid" communities.
- Assist companies in identifying countries, and specific communities, in which inclusive businesses could be launched.
- Assist in design

An example of an IBG is the Business Innovation Facility in the United Kingdom.

### **4) Create an Inclusive Business Challenge Fund**

AusAID should provide reasonable funding support for inclusive business in the form of an "Inclusive Business Challenge Fund (IBCF)" to help companies meet the expenses of starting an inclusive business, leading up to a pilot phase. Funding may be disbursed on a matching fund concept, for example at a 1:10 ratio. This ratio dramatically increases the impact of Australia's aid budget by attracting commercial funding.



## **Example of possible Inclusive Business Gateway and Challenge Fund functions:**

### **1. Market Intelligence**

The IBG could undertake a study of economic opportunities among the poor in East Timor, identifying that there is an opportunity to lift a community out of poverty by starting a prawn farming project. The project is estimated to require cost 1Million AUD in capital to initiate. The Business challenge fund provides 10% of the capital for the project, engaging an Australian seafood producer to provide the remaining \$900,000. As a commercial project the impact on the community is ongoing.

### **2. Aid Linkages**

AusAID could conclude a training project in Vietnam which has taught rice farmers in a community to increase yields and quality. AusAID passes details of this project over to the IBG. The IBG then promotes an opportunity to Australian companies to purchase this rice for import into Australia.

### **3. Project Funding**

An Australian solar company identifies an opportunity to sell solar panels in Nigeria. The company is concerned about political and cultural barriers to starting an operation in Nigeria. The company approach the Challenge Fund to provide a grant for the company to undertake a feasibility study in Nigeria to develop a business case for the project. This allows the company to enter this new market, and provide a much needed product to the poor.

### **4. Project Design**

An Australian company designs a new packaging product which is bio-degradable and very cheap to produce. The company is keen to build a market in developing countries for the product, but has a lack of experience in the developing world. They approach the IBG to assist with the design of project to produce and sell the product in Indonesia.

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