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Potential of the poor to power growth, private businesses

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For too long, private businesses have not been seen as key drivers of human development. Yet as the world becomes more interdependent, doing business with the poor can not only boost firms' competitiveness, but also help in the fight against poverty.

A UNDP report released on Monday offers compelling examples of opportunities that create value for all: both achieving the Millennium Development Goals that have galvanised unprecedented efforts to address the needs of the world's poorest, and attracting business returns.

Take the case of Celtel, a pan-African telecommunications group. Celtel began offering mobile-banking in the Democratic Republic of Congo in 2003, when security in that country was still poor and the banking sector debilitated . Celpay, the service they offer, uses encrypted message technology to allow customers to wire funds across the country.

As a result, Celtel now has over two million subscribers, and has created thousands of jobs and trained local technicians and a sales force throughout the country. The innovative financial service it provides has allowed many formal and informal businesses to grow – businesses that were previously hampered by inadequate banking infrastructure.

While such opportunities for inclusive growth are abundant, so are the challenges. Entering into the markets of the poor is uncharted territory for many companies. It is one where tough obstacles remain, including limited market information, underdeveloped regulatory environments, inadequate physical infrastructure, missing knowledge and skills, and restricted access to financial products and services.

These obstacles often translate into a 'poverty penalty' for the poor. People in the slums of Jakarta, Manila and Nairobi can pay up to 5 to 10 times more for water than people in high-income areas of those cities—and more than consumers in London or New York.

This 'poverty penalty' is similar in credit, health care and electricity supply. Meeting these challenges in ways that benefit the poor takes creativity, and often requires pooling the skills and experience of private companies, donors, policymakers, philanthropists, public service leaders and nongovernmental organisations. It often involves engaging in a policy dialogue, adapting products and services to the needs of the poor and investing in infrastructure or training.

The report contains 50 specifically commissioned case studies by researchers predominantly from developing countries. These case studies show that by adapting to local conditions, entrepreneurs have successfully identified new opportunities, understood complex contexts, and found innovative solutions.

In Mali, for instance, roughly 64% of the population lives below the national poverty line, and only 10% of the country's 12 million inhabitants have access to electricity . This number drops to only 2% to 3% in some regions of the country – making economic activity much more challenging. Seeing an opportunity, Électricité de France and its partners set up rural energy services companies .

By the end of 2008, these companies will provide electricity to about 5,000 households in more than 20 villages in the southern cotton region. While they are in partnership with European companies, they are truly independent Malian companies, run by local managers and employees.

Their low-cost electricity, based on solar home systems or small low-voltage village micro-networks supplied by diesel generators, led to new income-generating activities, which have in turn improved the quality of health care and education, increased access to clean water, and reduced CO_2 emissions by up to 80% to 90% compared with traditional energy sources.

Work in the area of private sector involvement in less developed markets has so far mainly focused on large multinational firms. Certainly with their influence, global reach and resources, multinationals can effectively scale and replicate successful business models. Yet smaller, local or regional businesses also have much to teach us about strategies that work. They create most of the jobs and wealth required to meet the Millennium Development Goals.

Businesses cannot, however, stand alone. The report suggests that business—accompanied by the skills of governments, donors, civil society and the poor—can build the foundations to grow more inclusive markets.

Governments can unleash the power of business by improving market conditions where poor people live and removing barriers to their economic participation. Notfor-profit organisations, public service providers, microfinance institutions and others already working with the poor can collaborate and pool resources with businesses to help seize opportunities. Donor countries can facilitate dialogues between businesses and governments or other partners.

Socially minded investors and philanthropists can supply the funds to make these time-intensive and uncertain ventures possible. Business models that include the poor require broad support, but they offer gains for all.

With strong and effective political and social institutions , entrepreneurs, firms and households will invest and take risks that promote innovation and create decent jobs. Through the flows of income and creative energy that these jobs generate, people can be lifted out of poverty: their productive capacity can be unleashed, their skills enhanced – providing a solid basis for sustainable development.

The poor are not powerless, nor should they pay a poverty penalty on the products and services that we can so easily take for granted. By recognising them as both potential consumers and drivers of growth, inclusive business models can create greater independence and interdependence – to the benefit of all.

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