POINT OF VIEW / *Bruce Jenks*

Businesses can profit from helping the poor

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Doing business with the poor can be good for business. A United Nations Development Program report, co-funded by the Japanese government, released today in Japan offers compelling reasons and examples for doing so. After all, making a difference can also mean making a profit. New markets in developing countries can translate into new opportunities.

Examples of productive investments in the poor abound. In Congo, where the banking sector was decimated by years of war, a mobile phone company responded by offering encrypted short message service technology to allow customers to wire money. The company now has 2 million customers in the African nation.

In China, a company offered affordable computers and training to rural farmers via a low-cost operating system and software that are easier for customers with limited education, thus expanding its market base.

In Mexico, a construction company has helped more than 14,000 Mexican migrants in the United States build, buy or improve a house back home in Mexico. In four years, the company generated $12.2 million (about 1.23 billion yen) from construction material sales and 200 houses were sold.

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 as much as five 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 organizations. Success often requires adapting products and services to the needs of the poor and investing in infrastructure or training.

The new report, titled "Creating Value for All: Strategies for Doing Business with the Poor," contains 50 studies by researchers predominantly from developing countries. These examples illustrate that by adapting to local conditions, entrepreneurs can successfully identify new opportunities, understand complex contexts, and find innovative solutions.

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An increasing number of Japanese companies have begun doing business with developing countries. This trend has taken shape in response to evolving business needs as well as a growing recognition of corporate social responsibility. Sumitomo Chemical Co., for example, joined a global initiative to fight against Malaria in 1990s. The company provided their technology to a Tanzanian joint venture, A to Z Textile Mills, to produce Long Lasting Insecticidal Nets. The mosquito nets protect millions of people from malaria.

Beyond this important health benefit, this venture has contributed to poverty reduction in the country by creating jobs and providing incomes to local communities.

Globalization makes marketplaces competitive and pushes private companies to explore new opportunities. Japan's private sector has succeeded in developed countries through partnerships and adjusting business models to local conditions. If Japanese companies adopt inclusive business models to conduct business with the poor in developing countries, they will be able to not only develop their interests there but also contribute to growth in those countries.

Businesses cannot, however, stand alone. The Creating Value for All report suggests that business—joining forces with governments, civil society and the poor—can build the foundations to expand inclusive markets. For its part, the Japanese government is committed to promoting private sector investment in developing countries. Specifically, the Japan International Cooperation Agency (JICA) and the Japan External Trade Organization (JETRO) have launched new programs aimed at facilitating Japanese private business investments in the developing world.

With strong and effective political and social institutions in place, entrepreneurs and private companies are more likely to invest and take risks in business. By doing business with the poor, they help to promote innovation and create decent jobs.

Through the flows of income and creative energy that these jobs generate, whole communities can be lifted out of poverty, their productive capacity can be unleashed, their skills enhanced, thereby providing a solid basis for long-term development. Inclusive business models are not just good for business, they are good for the world.

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