



OPINION: Innovative business linkages to help poor

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LILEI CHOW takes a look at ways and means to improve the lot of the poor in business ventures and the innovative measures taken to build bridges between business and the poor for mutual benefit. FOR many children of longhouses in rural Sarawak, their favourite day of the week is when the kapal bandung arrives, bringing with it an array of biscuits, kaya buns and sweets. Within minutes, the entire longhouse is down at the riverbank, stocking up on essential sundries and other groceries.

The operators of the kapal bandung, usually family-owned, have been able to eke out a living because they spotted a niche market for supplying groceries to longhouse communities who would otherwise have to travel for almost half a day to the nearest town.

With the recent hike in fuel prices making transportation for the rural poor increasingly expensive, communities in the interior are a captive market.

For all the wealth that globalisation and trade have generated, about 2.6 billion people existing on less than US\$2 (RM6.70) a day are still excluded from the global economy.

Over a billion people do not have access to drinking water, 1.6 billion do not have access to electricity and 5.4 billion have no access to the Internet.

As the physical infrastructure is often underdeveloped where they live, they remain poorly connected to markets, basic amenities and opportunities.

Their lack of resources discourages businesses from offering them basic goods and services such as consumer products, banking and tele-communications that would improve their lives.

Limited market information, ineffective regulatory environments and weak law enforcement, inadequate transportation links and restricted access to financial services are barriers that further discourage businesses from venturing into markets for the poor.

Yet the poor, roughly half of the world's population, harbour a potential for consumption, production, innovation and entrepreneurial zeal that remains largely unrecognised.

The global movement to end poverty, more popularly known as the Millennium Development Goals (MDGs), has created fresh opportunities for new forms of public-private partnerships, clever business models, and stunning product and service innovation.

But what are the linkages between corporate strategy and development? How can business realise gains in the difficult market conditions that so often characterise poverty while simultaneously alleviating the problem?

The answer perhaps involves getting the private sector to do what it does best -- to innovate.

It was with this conviction that the Growing Inclusive Markets (GIM) Initiative, was born in 2006.

At the heart of this philosophy is the inclusive business model, with the poor on the demand side as clients and customers, and employees, producers and business owners at various points in the value chain on the supply side. The aim here is to build bridges between business and the poor for mutual benefit.

The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and social and economic empowerment.

Currently, one of the biggest barriers for business is the void of information on markets for the poor.

Among other things, the GIM has come up with a set of tools such as market heat maps that identify potential business prospects by depicting access to water, credit, electricity or telephone service. These maps are supported by information on the structure of those markets, such as the various kinds of providers operating in those areas.

Many product adaptations can successfully reach the poor through what seem like steps down on the technological ladder. But their accessibility to the intended beneficiaries allows businesses to make leaps in growth and profitability.

A case in point is Tsinghua Tongfang (THTF), a Beijing-based IT company that was able to find a rich new market in a low-tech sector -- China's vast rural agriculture industry.

The company conducted three rounds of market research and identified several challenges. In 2005, a basic computer cost the equivalent of three months' income for a farmer -- a prohibitive expense even before adding the monthly cost of Internet service. And farmers who could afford a personal computer usually did not know how to use one. Moreover, the quality of agricultural information available online was fairly low.

The solution for THTF was to tailor a product to farmers' needs and resources. Prospective customers made it clear that the most appealing product would offer what THTF called a "systematic solution": a versatile, durable, easily repairable platform, with value not just for agriculture but also for children's education and for broader capacity building.

Using the open-source Linux operating system, THTF fit its product to the new market by contracting local vendors to replicate more expensive, brand-name programmes.

To help its products work well in a difficult environment, THTF embedded electricity cables with rat-repellent materials. It adapted a specialised package of programmes for rural users, including agriculture, distance education and vocational skills training.

The experience of THTF showcases how, by thinking outside the box, businesses can make inroads into markets of the poor and realise big profits. But the private sector and market approaches in isolation cannot eliminate poverty.

As Nobel laureate in economics, Joseph Stiglitz, has observed, governments can enhance growth by increasing inclusiveness and by creating an enabling business environment.

The many facets of poverty need diverse, context-specific solutions, which require the leadership of a

strong and able government.

Although it is commonplace for governments to provide seed funding for science and technology enterprises, ultimately, a truly competitive economy gives entrepreneurs and businesses strong incentives to create and apply innovative technologies and processes, which is essential for continued productivity growth.

In Malaysia, we are not without success stories. The positive experiences of some of our local companies could pave the way for a more sustainable and active corporate citizenship.

For years, the microfinance sector in Malaysia has been able to provide services for the many bankable yet unbanked Malaysian entrepreneurial poor. The industry is now being met by increased commercialisation that is leading the way for more viable institutions, higher standards of operation, more responsive products and lower costs to clients.

Living up to his name as one of Malaysia's most successful entrepreneurs, Datuk Ameer Ali Mydin, I am told, has deliberately structured the procurement and supply management policies of Mydin stores to support local entrepreneurship.

Many of the products on the shelves of the discount retailer are from micro, small and medium entrepreneurs.

Store managers are also on hand to offer advice to aspiring entrepreneurs on how they can improve their products so that they can meet the grade. Pricing within the store is kept low to appeal to price-conscious consumers and to maintain high turnover.

Looking towards the future, an increasingly popular means for poverty alleviation is to train the poor in ICT for income-earning purposes.

A grassroots effort called eHomemakers has created a virtual support group that connects thousands of work-from-home mothers and promotes the use of ICT such as mobile phones, computers and web-to-mobile applications to sharpen their businesses.

It also runs a training and mentorship programme built on fair-trade principles for urban poor women to help steer them towards self-reliance.

These stories show us how businesses can do good and do well, while supporting pro-poor growth in the long run.

We know that poverty corrodes the foundations of healthy business. Taking ownership of the development agenda makes sound business sense as it helps to build markets that are more stable and prosperous.

The key lies not in bringing the top down, but lifting the bottom up.

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