



# Sustainable livelihoods

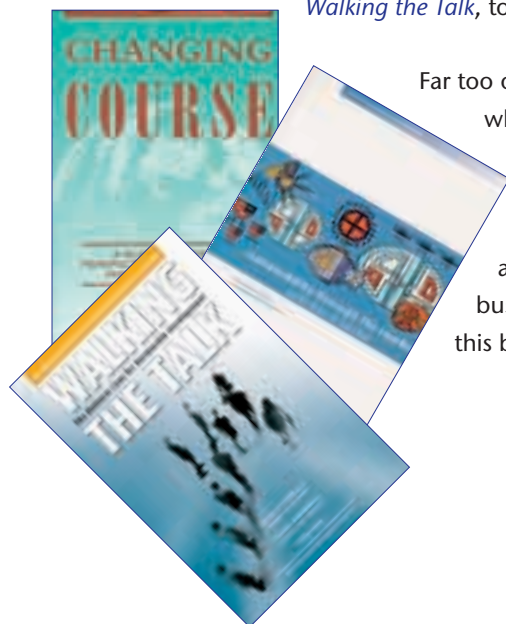
*the business connection*





**The Business Council for Sustainable Development was created in 1990 to promote sustainable business among companies and develop a message for the 1992 “Earth Summit” in Rio de Janeiro. It is fitting then that the WBCSD, its successor organization, has begun to rigorously examine one of the main issues at the heart of the World Summit on Sustainable Development (WSSD): poverty and its connection to sustainability.**

The BCSD first addressed poverty alleviation in its book *Changing Course*, which was prepared for the Rio conference. The issue was then taken up by the WBCSD through a series of scenario exercises on global governance as well as its Corporate Social Responsibility program. A later project, *Sustainability Through the Market*, explored the power of markets to promote sustainable development. The report found that marketplaces can be an instrument of positive change, but only if they are designed to maximize opportunities for all. This theme is expanded in our book, *Walking the Talk*, to be launched at the WSSD.



Far too often, those living at the base of the global economic pyramid, the two billion people who exist on the equivalent of less than one dollar a day, are excluded from functioning markets and are untouched by the benefits they can bring. The poor are prevented from taking advantage of market opportunities not just because of a lack of money, but because of many other impediments: lack of healthcare and access to safe water and sanitation drains efficiency and productivity; lack of education limits job and business opportunities; lack of infrastructure reduces market access, etc. It is poverty in this broader sense that must be dealt with if the poor are to benefit from markets.



# Project rationale

The private sector is a key provider of economic opportunities, training, education, etc. and to many offers a route out of poverty. Why are we taking a hard look at sustainable livelihoods issues now? There are several reasons:

## New roles

Deregulation and privatization mean that many companies are assuming roles that were once the exclusive domain of governments. More than 100,000 state-owned enterprises have been privatized in the last two decades. Privatizations in areas such as water and energy supply, healthcare and education have induced business to explore new ways to provide the poor with access to these services.

## Community development

As the operations of our members spread into remote parts of the globe, they can find themselves working in areas of abject poverty. In these situations, businesses are forced to examine their rights and responsibilities within the local community. More specifically, the company must determine if it should provide services, which the government and other organizations cannot. This delicate issue is getting on corporate agendas.

## “License to operate”

Companies around the world have been surprised by the wrath with which young people from the North have been demonstrating against the market and against business. The recent wave of accounting scandals and executive greed has further undermined confidence in business’ commitment to the community. Business needs to demonstrate that it is an important enabler of sustainable livelihoods for the poor, and that it can be even more effective in the future.

## Market opportunities

Very roughly, about 11% of the global population is rich; 11%, middle income; and 78%, poor. Companies focusing on the top 22% are targeting an ever more saturated, fought over market. There is opportunity in reaching the more than 4.5 billion people who form the base of the economic pyramid. These new customers could well prove crucial to a corporation’s long-term success.



## Project parameters

In order to be effective, no project can approach the issue of poverty from a single standpoint. The WBCSD's Sustainable Livelihoods project will take a holistic approach to the problems of poverty, from the actions of individual entrepreneurs to macroeconomic conditions. In addition to exploring the business case for poverty-reducing programs, work streams have been created to analyze framework conditions that allow the poor to benefit more from markets; to study synergies between official development assistance and foreign direct investment to spur additional business efforts; and to seek ways to build partnership between social entrepreneurs and businesses.

We are convinced that many of these efforts involve inventive partnerships among companies; non-governmental organizations (NGOs), international and local; and governments, national and local. We would like to help set up an "honest broker" facility to bring together like-minded companies and NGOs wanting to partner in projects.

We are also interested in which framework conditions help and hinder the poor in using markets to build more secure lives. Positive conditions include democracy and the accepted rule of law; effective intellectual and physical property rights; reliability of contracts; lack of corruption; equitable trade terms and respect for comparative advantage; orderly and even-handed regulation of business, fair and transparent accounting standards; accountability in government interventions; investment in education and enabling technologies; and reform of taxation so that it funds collective investments rather than penalizes income.



These are the same conditions that tend to benefit domestic business, small and medium enterprises (SMEs) and to attract foreign direct investment (FDI), which for a small but growing number of countries is becoming a much more potent driver of development than official development assistance (ODA). Flows of FDI into developing nations jumped from \$59 billion in 1994 to \$240 billion in 2000. Though there have been recent promises to increase it, ODA has remained stuck at the \$50-55 billion level. We are examining how ODA can be used to improve framework conditions through a series of high-level meetings with aid agencies, government ministers, CEOs, inter-governmental organizations, and others. These gatherings hope to find solutions to the problems created by poor frameworks without decreasing the already too limited amounts of ODA that give the poorest access to safe water and better diets.

We have collected over 60 studies of how companies can help people create more sustainable livelihoods, and will publish a full report on these next year. While not ruling out innovative examples of corporate philanthropy, the WBCSD is gathering only examples of market-based efforts that benefit the corporation while helping the poor create more secure livelihoods. We believe that if we can help corporations to recognize the benefits of helping the poor, then they will be better able to make business investments aligned to sustainable markets. Companies will need to employ new business models, partnerships, technologies, and attitudes if they are to effectively serve the needs of the poor; they are unlikely to do so unless they will realize benefits from such changes.

## Case studies

Many corporations have already begun to explore ways by which they can help the poor construct more sustainable livelihoods. Innumerable types of strategies have been explored, based on sector, size, location, etc. The examples below are far from comprehensive and represent only a small section of the business community. Nonetheless, the cases hint at the sorts of practices businesses will need to employ; they also hint at the benefits both to companies and to the poor. The cases also demonstrate that companies can make a difference not just through selling products and services, but also through every aspect of their operations.

### With local business

Multinational corporations start operations in the developing world for a number of reasons, usually to enter a new market or make the most of a nation's resources. One such resource that is often overlooked is the network of small and medium businesses (SMEs) in a developing country.

It can be difficult for large companies to integrate into the neighboring economy. The difference in business cultures between local SMEs and large corporations can make collaboration difficult. When corporations make an effort to incorporate local businesses into operations, however, both sides stand to benefit.

#### **Key suppliers**

Pyrethrum, a daisy with natural insecticide properties, is an invaluable ingredient in *SC Johnson's* pesticide products. The Pyrethrum Board of Kenya (PBK) is a crucial supplier, controlling 70% of the world's production from the 200,000 small-scale farmers who grow the crop. Shortages of the flower in the early 1980s led *SC Johnson* to use synthetic pyrethrum, which was less costly and easier to keep stocked.

Instead of building their pesticide business around synthetic pyrethrum, *SC Johnson* chose to strengthen its relationship with PBK. The company has given advice on forecasting crop yields, warehousing, quality assurance, and R&D. As a result, PBK has been recognized as a "Partner in Quality" equal to other major suppliers to *SC Johnson*, and is currently seeking ISO certification.



#### **New supply lines**

In 1992 *DaimlerChrysler* joined a program led by the University of Pará in Belem, Brazil, to provide farmers with alternatives to slash-and-burn subsistence farming. The company decided to offer farmers an incentive to diversify their crop: *DaimlerChrysler* would buy coconut fiber from them to use in their cars. Communities participating in the program were instructed on how to extract the fibers and helped in setting up processing centers. The fiber was sold to SMEs, who then mold it into such parts as headrests, sun visors, and seats.

The project has recently expanded to the point that a \$3.7 million factory, POEMatec, was built to increase production capacity from the nearly 80 tons of fiber produced annually. The 900 families and 5,500 people directly involved in POEMA have seen a 15% increase in their monthly earnings, while *DaimlerChrysler* has realized a 5% savings by using fibers. The project model has also been implemented in South Africa.

#### **Subcontracting**

The Mozal aluminum-smelting complex in Mozambique was expected to have a huge impact on the national economy: the \$1.34 billion complex earns 7% of the nation's GDP. Its impact at the local level, however, could have been very limited. The project has required a high degree of engineering precision, and there were few SMEs that could bid for the various subcontracts.

Melbourne-based *BHP Billiton*, the main shareholder in Mozal, realized that building a local base of subcontractors would be crucial to the long-term success of the plant. The company began a SME mentoring program that offers technical and commercial mentors for potential contractors, in addition to classes on the tendering process. As a result, Mozal has been able to double the number of contracts for exclusive local bids to 25, worth a total of \$80 million.



## With civil society

Some issues are best attacked by a combination of the skills and visions of more than one sector: business, civil society, and government. Over the past decade, corporations have formed partnerships to work with multilateral organizations, foundations, NGOs and other groups to bring the strengths of each group to bear on the problems of poverty.

### [Vaccinations]

Three million people die annually of diseases for which vaccines already exist. This huge loss is not due to a lack of medicine, not even in many cases to a lack of purchasing power. The limiting factor in most countries is the lack of a proper infrastructure to warehouse, ship, and administer the vaccines.

The Global Alliance for Vaccines and Immunization (GAVI) brings together the World Health Organization (WHO), World Bank, rich and poor nation governments, companies, and NGOs to make vaccines more accessible. GAVI has so far raised \$1 billion – and more remarkably, disbursed \$600 million to 29 nations in only three years of existence. For member companies such as *Aventis*, *Glaxo SmithKline*, and *Merck & Co.*, GAVI also serves to guarantee a business rationale for researching vaccines aimed at developing world diseases by providing a buyer.

### [Hygiene]

Hindustan Lever Limited (HLL), a branch of *Unilever*, has already made the base of the pyramid a key market for its soaps and detergents through smaller, cheaper packets. However, there is a substantial obstacle to continued growth for the company's soap products. About one-quarter of urban and three-quarters of rural Indians do not use soap on a regular basis. Far from being simply a corporate problem, this lack of hygiene also has serious consequences for the nation's health.

To help solve this problem, HLL has joined the London School of Hygiene and Tropical Medicine, the World Bank, local governments, and NGOs to promote hand washing in the state of Kerala. As part of the international Water and Sanitation Program, the group is undertaking a pilot project to teach the value of good hygiene. HLL has planned a \$41 million campaign to expand the program to three other states.



### [Climate change]

Central Tanzania does not seem to have much to teach large corporations about managing climate change. Thanks to TIST (Tanzania International Small Group and Tree Planting Program), however, *Dow* is using the region for exactly that purpose while learning how to work with the base of the pyramid. TIST was founded in 1998 by local churches and the Clean Air Action Corporation (CAAC), an international consulting firm, to promote sustainable farming and to fight erosion. The program organizes and trains small groups of farmers in conservation techniques. Central to the groups' activities is the planting of trees, both to fight erosion and to help finance the project: the trees could be "sold" as greenhouse gas reduction credits to firms in the developed world.

The idea of creating another mechanism for reducing carbon emissions appealed strongly to *Dow*, which has already made efforts to lower its carbon intensity. In 2001 company decided to explore the model offered by TIST by joining the program. *Dow* has since provided funding and technical assistance with systems that monitor the tree planting; this technology will create the verification necessary to "commodify" the carbon credits. By the end of 2004, *Dow* expects to see the planting of four million new trees, maturation of a micro-credit scheme, and potential expansion of the program into other nations.

## With the markets

Businesses can adapt their current practices in ways that benefit local communities, but to meet the challenges of the “base of the pyramid” will require innovative new approaches. Helping to meet the needs of those trying to survive on the equivalent of \$1 a day or less while also making a profit is not easily done. However, companies that can do so could benefit immensely.

What does business need to do? Offer products of comparable quality to those sold in the developed world, but with the specific characteristics of the poor in mind. Lower not only purchase prices but also transaction costs so that it does not cost companies a great deal to do business with the poor. This may involve selling in smaller packets or using “smart cards” instead of person-to-person deals. Augment purchasing power by providing credit or using “village economics.” Create new business models that are profitable at lower margins or with more sporadic payments.

### [ **Electrification** ]

Providing power to poor communities in a sustainable manner is a basic condition for improving lives at the base of the pyramid. It also presents a huge challenge for companies that want to provide such a service. How can areas with low purchasing power and little infrastructure become reliable, long-term customers?

In 1997, Casablanca-based Lydec, a branch of *Suez*, was charged with providing electricity to the 400,000 people living in slums in the city. Lydec approached the problem by making connections on a street-by-street basis, and contracting local SMEs to maintain the infrastructure. Neighborhood associations were created to manage the electricity for blocks of roughly 20 houses. Municipal groups and governments provided advice on tariff rates to ensure flexibility and economic sustainability. The result has been the electrification of 17,000 households and the creation of 200 jobs, as well as a reduction in pollution from inefficient power sources.



### [ **Agriculture** ]

*DuPont* saw Colombia as a growth market for its agricultural products, but one that was limited by small-scale farmers’ lack of money to make purchases when they were planting and tending their crops. They only had money after selling their crops. And their being unable to afford fertilizers and pesticides kept yields low.

In collaboration with the Ministry of Agriculture, the National Livestock and Agriculture Exchange Board, and banks, *DuPont* organized the PAID program in 1998. Farmers in PAID can buy inputs and seeds on credit, backed by forward contracts from the national purchaser for each crop. *DuPont* also provides technical advice to farmers on how to use the inputs in an efficient and environmentally sound manner. Farmers can rely on a steady price for their crops, increase productivity, and avoid the uncertainties that existed outside of the plan.

### [ **Microcredit** ]

The Northeast of Brazil is a region with a huge demand for micro-credit and other financial services; 61% of the area's workforce is employed by over two million micro-enterprises. However, 73% of these businesses could not get any type of credit in 1997, and those who could overwhelmingly borrowed from suppliers, families, or moneylenders. Among the problems cited by entrepreneurs were difficulties in meeting guarantee requirements, inflexible programs and the inconvenience of using banks.

In 1997 *Banco do Nordeste* created the Crediamigo program in order to serve this market. The program uses mobile loan officers to reach entrepreneurs who live in more distant locations where there are no banks. By mid-2001, the mobile bank had made 101,177 stops and served more than 3.7 million clients. Technical and managerial capacity building precedes all loans, so that entrepreneurs can invest and manage their businesses more efficiently.

Despite initial difficulties, Crediamigo has become a major success story. After three years, the program was the second largest in Latin America and the largest in Brazil both in terms of the number of loans and the amounts invested. The bank now has 1.3 million customers – up from 46,000 in 1995 – representing a 78% market share in the region. Crediamigo has also been a success financially; it became fully self-sufficient in 2001, and enjoys a late payment rate of only 2.5%.



## Conclusions

Despite the variety of the cases listed above, there are some common threads in these examples. Capacity building and the sharing of technical knowledge can help create a class of consumers that can better use products, businesses that can innovate to find ways of offering quality goods and services, and communities more aware of how to improve their own lives. Partnerships can bring to projects a range of skills and knowledge that businesses lack, from detailed understanding of community conditions to funds to improve local infrastructure. New business models, from in-depth consulting to innovative distribution models, can bring billions of new customers into the market for a company's products and stimulate sustainable economic activity that improves social conditions.

Our work on the private sector and sustainable livelihoods is just beginning. There are many tough questions that still need to be answered about the interactions between businesses and the poor in the developing world. The WBCSD would like to find these answers, and we call on any other group that can offer input, collaboration, or criticism to share their opinions with us.



### About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of 160 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Our members are drawn from more than 30 countries and 20 major industrial sectors. We also benefit from a Global Network of 40 national and regional business councils and partner organizations involving more than 1,000 business leaders globally.

### Our mission

To provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility.

### Our aims

Our objectives and strategic directions, based on this dedication, include:

**Business leadership** • to be the leading business advocate on issues connected with sustainable development.

**Policy development** • to participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development.

**Best practice** • to demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members.

**Global outreach** • to contribute to a sustainable future for developing nations and nations in transition.

### Ordering publications

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