

# Business Life

THE GOOD BUSINESS

## Partnerships that profit the poor

A UN initiative where companies invest in commercially viable enterprises in developing countries is reaping benefits, writes Sarah Murray

Teachers in Ngarambe, a small village in Tanzania, are celebrating. While last year just one student passed the secondary school exam, this year 11 students succeeded. Behind the dramatic improvement in educational achievement has been the supply of electricity to the village. "The teacher says it is because now they can do their homework and study at night," says Anders Nordstrom, senior project manager at ABB, the Swiss-Swedish engineering group that is running the rural electrification scheme in Tanzania.

The experience of Ngarambe is exactly the sort of result officials at the United Nations Development Programme hope can be repeated throughout the developing world. Through a scheme called Growing Sustainable Business (GSB), the agency is brokering partnerships between companies and non-governmental organisations or local government bodies.

In ABB's case the project partner is the World Wildlife Fund, and the UNDP hopes that, through alliances such as this, it can reduce investment risk sufficiently to encourage foreign and domestic companies to invest in commercially viable businesses that will foster growth in developing countries.

The UN's increasingly close relationship with business comes at a time when governments and international agencies are starting to reassess assistance to the developing world. In March, a high-profile report presented by the UK-sponsored Commission for Africa called for a "radical change in the way donors behave and deliver assistance" to African countries and included proposals for promoting private sector investment.

Richard Sandbrook, special adviser to the UNDP, believes that if this private sector energy is to be harnessed in the reduction of poverty, the profit-making element of the GSB, or similar schemes, is crucial. "Unless there's a rate of return, achieving the [UN] Millennium Development Goals becomes a perpetual sink on public finance," he says. "You've got to create income-generating schemes to meet these goals and that implies a private sector approach."

So far, companies such as Ericsson, Unilever, Total, Tetra Pak, Shell, Thames Water and EDF are participating with pilot schemes in Tanzania, Madagascar, Ethiopia and Bangladesh.

Geographically, much of the focus is on projects in Africa. However, the UNDP wants to extend the GSB initiative - which was spearheaded by the UN Global Compact, a voluntary corporate citizenship network - to countries in Asia, Latin America and eastern Europe.

While the business activities are commercial, not philanthropic, participating companies are structuring their projects in a variety of ways. For some, philanthropic funding does enter the picture, but as a pump-priming tool through which to develop pro-poor markets.



Spreading good news: communities are encouraged to plant seeds from the Allanblackia tree, which are used for the manufacture of soap and margarine

For other companies, the model involves what Mr Sandbrook describes as "business as usual but with a lower discount rate".

While these organisations would not run their entire business on these lines, he explains, they are prepared to operate certain projects at a lower rate of return in order to develop new markets. "It essentially gives the same return as if they put that money on the overnight market," he says.

Tetra Pak, the carton manufacturer - which is work-

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ing to improve the links between milk production, processing and consumption in Tanzania - has created a separate business unit through which to operate GSB projects and similar activities.

"The business case for us is to grow our future markets. That's why we're in this," says Ulla Holm, global director at Tetra Pak's Food for Development unit. "So we've set up Food for Development as a separate office that can work on a more long-term basis than a market-driven company."

Others are using a combination of the philanthropic

and the research and development budget. "If you take Ericsson, they're writing off [rural telecommunications provision projects] against a charitable budget, but they're also using an R&D budget line to develop the right equipment for this market," says Mr Sandbrook. "That's no different from an R&D budget to develop a new drug or a new mobile telephone for an OECD country."

Companies involved stress that, though returns may not materialise in the short term, the projects must ultimately be profitable. In Tanzania, for example, Unilever is working with the World Conservation Union, the Netherlands Development Organisation and The World Agro-forestry Centre to encourage local communities and small businesses to cultivate the seeds from the Allanblackia tree - commonly found in parts of west, central and east Africa - for the manufacture of products such as soap and margarine.

The idea is to generate income for local farmers, says Harrie Hendrickx, Unilever's project manager for the scheme. "But in the long term, it has to be a viable business for us," he explains.

The GSB scheme is not without its difficulties. Some are technical. In certain countries, for example, procurement rules mean that companies participating in public-private initiatives where projects have tapped into public funds can no longer tender for executing the project itself.

Management and commu-

nication challenges also arise when the corporate sector meets the non-profit sector. "We come from different worlds and we speak different languages," says Mr Nordstrom. "Or if we speak English, the way we say things is different. Where a company says 'profit', an NGO says 'business orientation'. So it's quite a different perspective."

And for the United Nations, striking the right balance between creating investment incentives for companies and pursuing a development agenda is tricky. "One of the real struggles of the UN having an interface with the private sector is to understand where the boundaries are between helping an individual company and helping the public good," says Mr Sandbrook.

Robert Davies, chief executive of the International Business Leaders Forum, believes a broader problem

lies in a UN culture that remains reluctant to embrace the business world.

"It's a really great approach and from the UN system. It's a complete breakthrough," he says. "But at the moment it's a very small progressive front within a UN system that otherwise is still, if anything, rather anti-business... we are completely supportive [of the GSB] but we'd like to see much more of the UN system tuning into this as a way forward rather than it just being one programme."

However, participating companies say that the brokerage role of the UN in fostering private-public initiatives has already proved its worth. Mr Nordstrom says that, without the partnership with WWF, which had spent several years in Ngarambe establishing social structures, ABB's electrification project would have been extremely difficult.

"To go out to a village and

start from scratch would be impossible," he says. "But if you go to a place where other organisations are doing things and an NGO is already working, the risk reduces considerably when you bring in other infrastructure," he says.

Risk reduction is perhaps the most important element of the GSB initiative. In the case of water provision, for example, a company would be reluctant to invest because poor communities often lack the banking systems, credit and even house addresses needed for customers to be billed. However, that company might be able to deliver a water pipe to the edge of a shanty town from where smaller businesses working with an NGO could organise local delivery and payment collection.

The UN believes that, by helping establish such partnerships, it can reduce the risk associated with investments in poor countries.

And without widespread corporate investment in pro-poor businesses, says Mr Sandbrook, achieving the Millennium Development Goals will be impossible.

"To meet the Millennium Development Goals you have, for example, to connect 300,000 people every day with water - and you need a lot of plumbers to do that," he says.

"By and large, governments don't employ plumbers and neither do NGOs, so scaling up depends absolutely on the private sector's technology and skills."

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### ALLIANCES AIM TO PUT AN END TO POVERTY

#### Rural Communications Technology Project (Ericsson)

The initiative will provide communications technology to rural poor by establishing communications centres that will typically be owned and operated by a local entrepreneur as a franchisee

#### Novella Project (Unilever)

The project aims to promote biodiversity and reduce poverty by building an oil supply chain through the use of Allanblackia nuts that will provide rural communities with a new source of income

#### Integrated Dairy Development Project (Tetra Pak)

This dairy development project addresses the value chain for milk production and aims to improve the integration of milk production, processing and consumption

#### Rural Electrification (ABB)

With the World Wildlife Fund, ABB is exploring commercial models for the delivery of electricity to rural villages. This seeks to build on a previous philanthropic project with WWF that is supplying electricity to Ngarambe, Tanzania