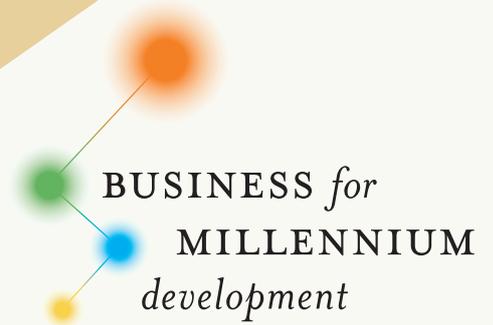


# Submission

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TO THE JOINT STANDING  
COMMITTEE ON FOREIGN  
AFFAIRS, DEFENCE AND TRADE



## The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region

## *SUBMISSION TO THE INQUIRY INTO THE ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION*

### **Business for Millennium Development (B4MD)**

B4MD is an Australian based NGO that connects poor communities to global markets in order to deliver sustainable and measurable improvements in incomes and livelihoods through private sector partnerships. B4MD was established in 2007 as an alliance between World Vision Australia and a group of leading Australian companies and became an independent Australian registered charity in 2008. We:

- Advocate for the development of Inclusive Businesses; profitable businesses which generate avenues from poverty;
- Build inclusive businesses with our member companies in Laos, Kenya, Myanmar and Papua New Guinea. Our members and clients include PepsiCo, Mondelez, GE, ExxonMobil, Syngenta and some of Australia's leading businesses including Oil Search, Cotton On, ANZ, Goodman Fielder and Visy

### **Inclusive Business**

B4MD recommend that the inquiry consider the role that *inclusive business* can play within Australia's aid program in:

- Leveraging the private sector in creating economic growth and reducing poverty in the Indo-Pacific region.
- Maximising the program's return on investment to Australia.

The World Business Council for Sustainable Development (WBCSD) defines inclusive business as:

*An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers<sup>1</sup>*

Fundamental to this idea is the belief that commercial drivers, including expanding markets for products and services and maximising profit, can be aligned with development outcomes, including creating opportunities for the poor and disadvantaged. Unlike corporate philanthropy and corporate social responsibility (CSR) programs, which are primarily driven by ethical considerations and a desire to minimise impacts and enhance reputation, inclusive business addresses development challenges through core business activities.

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<sup>1</sup> <http://www.inclusivebusiness.org>, WBCSD, 2014.

Inclusive business initiatives are different to full commercial business activities due to its greater focus on poverty alleviation and achieving development outcomes. The Asian Development Bank (ADB), for example, describes IB's as "private sector investments specifically targeting a low income market (less than US\$3 per day) with the double purpose of making reasonable profit (i.e. an internal rate of return of 8-20%) and creating tangible development impact". Rather than seeing the poor as bystanders or even victims of the market, inclusive business models aim to include poor people in value chains as producers, employees, consumers, distributors and innovators.

*Together we can help galvanise the private sector and encourage a broader set of actors to engage in inclusive business activities...There's no better way to reduce poverty than inclusive business growth that creates jobs"*

*Alistair Fernie, Head of Private Sector Department, DFID*

Hundreds of inclusive business from Papua New Guinea to India and Ghana operate worldwide, and have already created an avenue from poverty for millions of families. The UN's Business Call to Action keeps a public record of many of these businesses<sup>2</sup>.

### Why Inclusive Business?

Australia's aid program utilises a range of approaches to deliver on its objectives to promote economic growth and reduce poverty. These approaches include training public servants, health awareness campaigns and scholarships. It is our contention that the aid program should add catalysing inclusive business to this range of approaches. We offer six arguments in support of this contention:

#### 1. Families exit poverty when a family member gets a job

Poverty has a range of facets from health to education and nutrition. However, at its core poverty is linked inexplicably to inadequate incomes. It is our contention that only the private sector can provide the jobs and supply contracts (at scale) to lift incomes to a sustainable level.

The rise of India and China in just one decade provides clear evidence of what's possible when the private sector engages with low income families at scale and delivers poverty alleviation outcomes.

#### 2. The poor, when asked, want jobs

In its comprehensive study 'Voices of the Poor', which included interviews with some 60,000 of the World's poor, the World Bank concluded that jobs were a key priority for poor people themselves<sup>3</sup>.

*"That economic growth is the primary driver of poverty reduction is well evidenced. On average, four fifths of poverty reduction in recent decades can be attributed to growth in average incomes."*

*"By catalysing more private investment and deepening private sector links into communities we can multiply the reach of the private sector and increase the opportunities for poor people."*

The private sector and prosperity for poor people (DFID 2011)

<sup>2</sup> See <http://www.businesscalltoaction.org/>

### 3. Inclusive Business is being adopted by leading agencies

For governments, donor agencies and NGOs focused on achieving development outcomes, it has become increasingly clear that the world will not eradicate poverty, nor achieve the Millennium Development Goals (MDGs), unless businesses play a greater role as partners in development.

The growing interest in new enterprise-based solutions to poverty reflects, in part, the limitations of both traditional donor development programs and business models for economic growth.

Inclusive business models have unique attributes and capabilities that enable businesses - in partnership with governments, donor agencies and civil society – to contribute directly to achieving development outcomes.

The US, UK, Swedish and German aid programs together with the IFC and ADB have adopted inclusive businesses strategies, providing evidence based models and learning for the Australian aid program. DFID and USAID have both established dedicated private sector divisions focused on facilitating the creation of inclusive business.

The below table provides snapshot of financial contributions and numbers of inclusive businesses supported by key donor agencies that have specific inclusive business programs. The programs outlined below give an indication as to some of the lead investments being made in inclusive business around the world.

Organisation	Program	Period	Financial contribution (US\$)	Number of IBs supported
IFC <sup>4</sup>	IFC Inclusive Business Models Group	Since 2005	> \$7 billion	> supported 300 clients in 80 countries through investment
ADB <sup>5</sup>	Promoting Inclusive Growth through Business Development at the Base of the Pyramid	2010 - 2013	\$700,000	n/a focused on market studies, investment forums, country policy notes and development of IB Funds
ADB, Government of Sweden, Credit Suisse	Inclusive Business Support	2014 – 2017	\$3.6 million	<ul style="list-style-type: none"> <li>- Increase by 50% of inclusive business projects in selected countries, of which at least 15 are from ADB</li> <li>- Tailored advice and technical support provided to at least 20 companies</li> <li>- Inclusive business impact assessments conducted for at least eight companies</li> <li>- 50 companies benefiting from IB training</li> <li>- Sector Workshops</li> </ul>
UNDP <sup>6</sup>	Facilitating & Brokering Private Sector Partnerships	Since 2004-2010	n/a	creation of 23 business linkages, brokered 75 IB partnerships

<sup>3</sup><http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20622514~menuPK:336998~pagePK:148956~piPK:216618~theSitePK:336992,00.html>, Voices of the Poor, 2011

<sup>4</sup>[http://www.ifc.org/wps/wcm/connect/AS\\_EXT\\_Content/What+We+Do/Inclusive+Business](http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business), IFC, 2013.

<sup>5</sup><http://www.adb.org/projects/41258-012/main>, ADB, 2013

<sup>6</sup><http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>, UNDP, 2013.

SIDA <sup>7</sup>	Innovations Against Poverty	Since 2011	€5,420,265	66 organisations received grant funding
DFID <sup>8</sup>	Business Innovation Facility	2010 – 2013	n/a	> 300 IB's supported across five countries through technical assistance

#### 4. Business is increasingly ready to partner

The calls of leading business leaders such as Prahalad and Porter are being heard by business. Executives from a range of companies are seeing the role that trading with the world's poor can play in helping them realise their growth aspirations. Three prominent examples are:

- **Nestlé's creating shared value program** under which the company sold 167 billion fortified products in 2013 and trained 300,000 farmers<sup>9</sup>.
- **Vodafone's mobile money programs**, which are offering basic financial services to millions of previously unbanked families in Kenya, Fiji and India<sup>10</sup>.
- **Syngenta's Good Growth Plan**, which will see the company train some 20M farmers globally<sup>11</sup>.

*"Employing one person changes the lives of 15 to 20 others."*

Terry Davis, Group Managing Director, Coca-Cola Amatil

These leading companies have already moved beyond the limits of CSR and have built profitable inclusive businesses that provide poverty alleviation at scale. They, together with hundreds of other companies worldwide are positioned to partner with DFAT to establish inclusive businesses.

In 2012 our research showed that ninety-three percent Australian executive believed business can play an important role in alleviating poverty<sup>12</sup>.

#### 5. Inclusive Business provides leverage and scale

The challenge of poverty is extensive. In Indonesia alone 32 Million people live in poverty, earning less than \$264 a year<sup>13</sup>. Doubling their income requires a total of \$8.5 billion of new wealth, some 16 times the value of Australian aid to the country. To see this challenge met requires the Australian aid program to act as a catalyst for others to co-invest. B4MD believe the missing actor is business, and that inclusive business is the framework under which businesses can work with the aid program to see this challenge met.

<sup>7</sup> <http://www.sida.se/English/Partners/Private-sector/Frequently-asked-questions/>, SIDA, 2013.

<sup>8</sup> <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>, BIF, 2013.

<sup>9</sup> <http://www.nestle.com/csv>

<sup>10</sup> [http://www.vodafone.com/content/index/about/about-us/money\\_transfer.html](http://www.vodafone.com/content/index/about/about-us/money_transfer.html)

<sup>11</sup> <http://www.syngenta.com/country/au/en/news/releases/Pages/Syngenta-launches-The-Good-Growth-Plan.aspx>, 2014

<sup>12</sup> Business in Development Study, B4MD & Accenture Development Partnerships, 2014

<sup>13</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/0,,contentMDK:23191612~pagePK:146736~piPK:146830~theSitePK:226301,00.html>, World Bank, 2014

## 6. Inclusive Businesses maximise Australia's return on investment from aid

That Australia business must consolidate its foothold in emerging Asian markets is broadly accepted. In fact many of these companies recognise the business opportunity that exists in these markets at the Base of the Economic Pyramid (BoP). BOP refers to the world's poorest socio-economic group; the 4 billion people who live on less than US\$2.50 per day. BOP has emerged as focus of business strategy researchers and practitioners<sup>14</sup>, who believe that

"One of the better ways to poverty alleviation is by creating jobs, improving education and leaving a lasting impression. It is much more powerful than corporate social responsibility alone."

Phil Craig, Executive General  
Manager - Corporate Affairs, Origin

tremendous benefits exist for companies that choose to serve BOP markets and are responsive to their development needs. It is our view that inclusive businesses can meet part of the need for Australian companies to engage in the BoP markets of the Indo-Pacific. By catalysing inclusive business (with Australian corporate partners) DFAT can therefore provide a return on investment to Australia.

### How can DFAT catalyse inclusive business?

It is important to note that as a government agency it is not DFAT's role to *start* inclusive businesses. Rather, the department can act as an influencer; inspiring, resourcing and motivating business to act. This approach is already modelled through Austrade, which acts as a catalyst for Australian businesses<sup>15</sup>. We propose that DFAT extend similar approaches to catalyse Inclusive Business including:

#### **Inclusive Business events and conferences to inspire corporate Australia**

Events and conferences provide an important opportunity for company executives to hear first-hand accounts of the opportunities and challenges of inclusive business from leading companies and thought leaders. These events have proven successful in inspiring companies to further explore inclusive business opportunities relevant to their business and progress to the early development of an inclusive business concept.

#### **Exploratory and validation missions to inspire companies to act**

Exploratory and validation missions have proven a key source of inspiration for companies considering launching an inclusive business. Missions allow companies to see business conditions and development challenges first-hand, and have proven critical in building awareness of the challenges and opportunities BoP markets.

"Engaging the private sector is not about how we feel about business; it's about how high our aspirations are for poor people. If we rely only upon foreign aid, then our aspirations are far too low"

*World Bank President - Jim Kim*

<sup>14</sup> Strategies for the Bottom of the Pyramid: Creating Sustainable Development, C.K. Prahalad and Stuart E. Hart, 1999.

<sup>15</sup> See Austrade Export Assistance: <http://www.austrade.gov.au/Assistance>

### **Build the capabilities of inclusive business brokers to guide and educate companies**

At this early stage in the evolution of the inclusive business concept, many companies lack the experience necessary to identify opportunities in the market and overcome the challenges of operating in bottom of the pyramid markets. Globally inclusive business brokers have been shown to play a critical role in guiding and educating companies through the early phases of IB development.

### **Support the establishment of an Indo-Pacific Inclusive Business regional alliance**

The establishment of such an alliance could represent collaboration between governments, business, NGOs and multilateral organisations focused on the scale up of inclusive business in the Indo-Pacific region. Specifically, the alliance could act as a catalyst to accelerate inclusive business activity in the region by creating synergies between key stakeholders, with a view to delivering long-term and sustainable alleviation of poverty.

In 2014 B4MD submitted our Inclusive Business Landscape Report to DFAT. The report identifies six strategies that DFAT could use to play a role in catalysing inclusive businesses, including the three listed above. The report also details the strategies used by other leading aid agencies globally, and considers the drivers and decision making processes companies' use when creating an inclusive business.

### **What Policies should guide this engagement?**

As the Committee considers the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region, B4MD recommends four key policies to guide DFAT's future engagement in this area. These policies reflect learnings from our 2012 Business in Development Study, which included interviews and surveys of over 90 Australian corporate leaders, including CEOs of ASX companies. The report concluded that in engaging with business the Australian Government through DFAT should:

**Be strategic** - Different industries and indeed companies have a varying propensity to undertake business activities that alleviate poverty. The department should "Push on open doors" and target those sectors, activities and geographies that align with DFAT's priorities".

**Be action oriented:** Establish activities with organisations as quickly as possible by starting small and then advertise success to build momentum.

**Target established businesses:** Focus on robust businesses that have an established track record of delivery.

**Make priorities transparent:** Ensure businesses understand DFAT activities and priorities in their countries of operation.

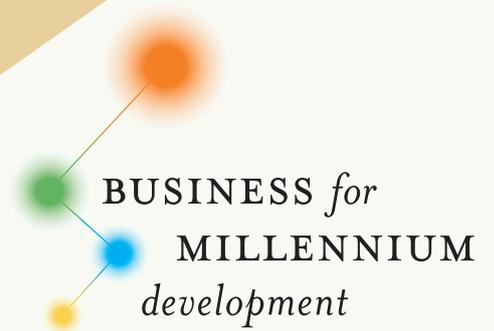
B4MD commend the following reports to the committee as a means to better understanding the vital role inclusive business will play in poverty alleviation and economic growth within the broader Indo-Pacific region:

- 2014 Inclusive Business Landscape Study, B4MD (attached)
- 2012 Business In Development Study, B4MD & Accenture Development Partnerships (attached)

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