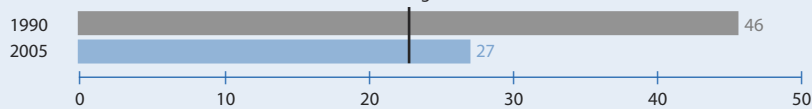




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### Target 1a: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day

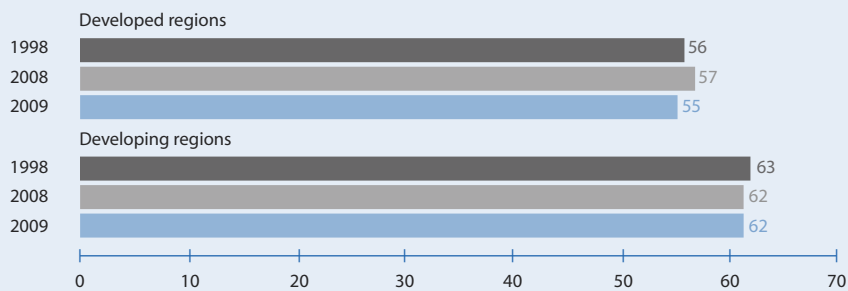
People living on less than \$1.25 a day, developing regions (percentage)



► The global economic crisis has slowed progress, but the world is still on track to meet the poverty reduction target.

### Target 1b: Achieve full and productive employment and decent work for all, including women and young people

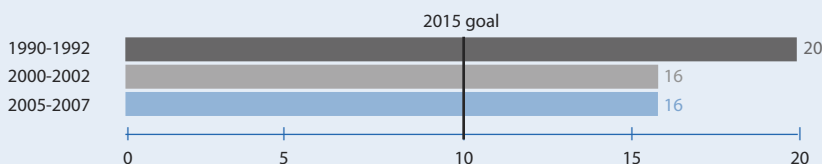
Employment-to-population ratio (percentage; 2009 figures are estimated)



► Deterioration of the labour market, triggered by the economic crisis, has resulted in a decline in employment.

### Target 1c: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Proportion of undernourished population, developing regions (percentage)



► Progress to end hunger has been stymied in most regions.

SOURCE: UN (2010).

## THE PRESENT SITUATION

Private firms are a powerful source of job creation. In Mexico, for example, the private sector created more than 12 million jobs between 1989 and 1998, the public sector only 143,000. But job creation is not merely the purview of large multi-nationals. Micro-enterprises and small and medium enterprises (MSMEs) employ 33% of formal-sector workers in low-income countries and 62% of such workers in high-income countries.<sup>10</sup>

In addition, foreign direct investment in poor markets can accelerate growth and generate income. Increased capital flows can then create incentives for governments to create further regulatory frameworks conducive for business and to spark entrepreneurial activity. Micro-finance has also helped reduce poverty by enabling entrepreneurship. Much evidence suggests that it has increased income and reduced vulnerability among the poor.<sup>11</sup>

Business also invests in water, energy and health and thus helps expand coverage of services.<sup>12</sup> Between 1990 and 2001 more than \$750 billion was invested in 2,500 private projects in developing and transition countries.<sup>13</sup>

By making valuable products and services affordable for the poor, business increases consumers' quality of life. For example, between 2000 and 2005 the number of mobile-phone subscribers in developing countries grew more than five-fold, to nearly 1.4 billion. Growth was fastest in sub-Saharan Africa. Household surveys confirmed substantial and growing use in the low-income population; poor people using mobile phones could benefit from improved access to jobs, to medical care, to knowledge about market prices, to family members working away from home and to remittances sent home by them—and, increasingly, to financial services.<sup>14</sup> Celtel International, which entered the war-torn Democratic Republic of the Congo in 2000, has since accumulated over 2 million subscribers, facilitating the exchange of information among communities previously isolated by war.<sup>15</sup>

### What are the challenges?

- Most poor people lack access to the formal economy because they cannot afford proper registration and legal documents. Accordingly, companies find it difficult to employ them, purchase from them, sell them longer-term contracts or lend to them.<sup>16</sup>
- Slums and villages in developing countries often lack a basic market infrastructure for business (such as roads and other physical infrastructure), basic market information and basic business support services.
- Many developing countries lack a robust overall regulatory and legal framework—one that ensures access to transparent, effective and honest legal systems, to affordable credit and to technology (not hampered by tariffs and trade barriers).
- Supply chains can be deep and complex, involving legions of contractors and sub-contractors. And MNCs may buy products from small workshops through several intermediaries. As a result, ensuring decent work standards throughout the supply chain is extremely challenging.<sup>17</sup>



MARK EDWARDS/UNDP

# THE PROMISE OF INCLUSIVE BUSINESS MODELS

## MNCs can, for example:

- Build operations in developing countries that create pro-poor jobs in accordance with decent work principles.
- Build the capacities of local supply chains and entrepreneurs, and enforce the MNCs' own social standards when sourcing from developing countries.
- Develop business models around improving agricultural output and nutrition that can be replicated in other countries.



ADAM ROGERS/UNCDF

## Large domestic companies can, for example:

- Make their products and services affordable and suitable for the low-income population.<sup>18</sup>
- Enforce decent work standards that ensure employees receive a decent wage, can exercise their rights and enjoy social benefits.
- Advocate for policy reform with the government, collaborate and build capacity for regulation in new industries.



TINEX

## SMEs can, for example:

- As local food manufacturers and retailers, fight malnutrition by offering foods with high nutritional value and by employing innovative technologies to improve agricultural value chains.
- Provide secure employment in their communities, particularly to marginalized people such as the disabled and elderly.
- Support their employees in financial crises and keep them from poverty.



KEVIN KLINE

## NPOs can, for example:

- Assist low-income populations in improving their skills, productivity and income-earning capacity, as well as in organizing them to promote their voice.
- Build partnerships among local populations, businesses and governments to enable agricultural value chains and functional food markets.



BERGISCHE UNIVERSITÄT WUPPERTAL

**SAFO / BASF SE ■ MNC**

Roughly 2 billion people suffer from malnutrition. By fortifying basic staples with micro-nutrients, the Strategic Alliance for the Fortification of Oil and Other Staple Foods (SAFO) provides an easy and cost-effective way to help them. Contributing to this project are GTZ, which advises the public sector and facilitates multi-stakeholder dialogue, and BASF, which produces micro-nutrients including vitamin A. To launch the initiative local decisionmakers develop a plan to fortify staple foods, such as flour and oil, and to establish standards for labelling fortified food products. For consumers the price increase is minimal—0.2%–0.3% on average—but the health benefits are considerable. SAFO has been introduced successfully in Bangladesh, Bolivia, Brazil, Cambodia, Indonesia, Tanzania and Uzbekistan, and the first sales of vitamins were completed in mid-2009.<sup>19</sup>

**Tinex ■ Large domestic company, FYROM**

Tinex was founded by Vladimir Todorovich in 1994 in the Former Yugoslav Republic of Macedonia (FYROM) after the country gained independence from Yugoslavia. It has grown from a 15-employee, 700m<sup>2</sup> grocery store to the country's second largest supermarket chain (by revenue).<sup>20</sup> Tinex became the first company in the FYROM to offer employment to every foster child turning 18. The company, with a successful placement and mentoring programme for the children, has a formal partnership with the State House for Foster Children (a government institution) and the Association of Foster Children (a non-profit organization). Selected store-level mentors support the children's transition from the State House to the store, and the State House employee responsible for the child is also present during this six-month transition period.<sup>21</sup>

**Amul Dairy co-operatives ■ Co-operative, India**

For many of India's rural poor, selling milk is essential to their income. Amul Dairy has organized almost 2.8 million dairy farmers into village-level societies in Gujarat, North India. Amul, as the umbrella organization, is large. Yet each of the more than 13,000 village-level societies is itself a small co-operative. Together these societies bring more than 10 million litres of milk to market daily, making Amul the leader in the Indian milk industry. Amul has transformed the milk value chain by organizing farmers and creating an efficient handling and marketing system. Each day milk is collected no more than 10 miles from the farmer using an automated computerized collection system that speeds up weighing, quality testing and payment processing. After Amul's success in Gujarat, the government established Operation Flood to replicate the model nationwide. As a result, in 2009 some 14 million dairy farmers in more than 133,000 village-level societies produced 110 million tonnes of milk.<sup>22</sup>

**Saraman ■ NPO, Iran**

Saraman produces affordable, earthquake-proof, pre-fabricated steel structures for houses, schools and hospitals in Iran. The NPO trains young graduates to later implement the practice. The company has 12 permanent employees in its office and more than 60 workers in fabrication and implementation sites. Many more jobs are created for the lower-income communities that engage in the construction projects.

Saraman was created by German and Iranian universities and their corporate partners. German technology was adapted to reduce the cost and time of earthquake-proof construction, using locally-available material in an environmentally-friendly way.<sup>23</sup>

## THE SUPPORTING ROLES OF INSTITUTIONS

### Policy

Policy can help spur SME growth and entrepreneurship by providing funding and market linkages.

- The **World Food Programme (WFP)** uses its purchasing power to offer small-holder farmers opportunities to access agricultural markets and become competitive players in those markets. Purchase for Progress (P4P) has been launched in 21 countries.<sup>24</sup>
- Ecuador's **Tourism, Micro-Enterprises, Micro-Credit and Poverty Reduction Program** developed a micro-finance model to stimulate the tourism sector by channelling funds to micro- and small tourism enterprises through a savings and credit co-operative.<sup>25</sup>
- Based on the only international governmental instrument on co-operatives, the International Labour Organization (ILO) Promotion of Cooperatives Recommendation, 2002 (R.193), **EMP/COOP** serves ILO constituents and co-operative organizations by focussing on evidence-based advocacy for co-operative values and principles. It ensures co-operative competitiveness by developing tools and capacity building, by promoting education about co-operative principles and by advising on co-operative-related law and policy.<sup>26</sup>

Businesses in developing countries often find it difficult to find qualified staff. Public programmes that provide training in line with local business needs can address this bottleneck and help people access qualified positions.

- In Indonesia the **Education and Skills Training for Youth Employment programme** provides training for both in-school and out-of-school youth, in line with local market demand.<sup>27</sup>

National certification and labelling schemes, thanks to the increased market value of certified products, can enable inclusive business models that incorporate small-holder farmers and implement decent work practices.

- Uganda adopted a **national organic standard** in 2003 and the **East African Organic Products Standards (EAOPS)** in 2007. Certified organic exports increased from \$3.7 million in 2003–04 to \$22.8 million in 2007–08. Studies commissioned by UNEP and UNCTAD, who supported the development of EAOPS, indicate that in 2006 the farm-gate prices of organic pineapple, ginger and vanilla were respectively 300%, 185% and 150% higher than those of conventional products.<sup>28</sup>



UN PHOTO/VIESTI

## Research and advocacy

Market and business research supports inclusive business models that create income opportunities and allow access to goods and services.

- The **BOP Learning Lab Network** brings researchers together with companies and development organizations to develop inclusive business models and share knowledge.<sup>29</sup>



STUDIO AZZURRO/UNDP

- **FinMark Trust** in South Africa does market research in the low-income market, in particular on financial services. Similar market-research institutions are Plano CDE in Brazil and the Institute for Financial Management and Research in Chennai, India.<sup>30</sup>
- The **Making Markets Work Better for the Poor (M4P) initiative** in Vietnam has three components designed to increase participation by the poor in value chains, private-sector employment and public-private partnerships for infrastructure services. These include the Action Research Funding Component, which supports research in the three areas mentioned; the Vietnam Challenge Fund, which challenges the private sector to propose innovative inclusive business models; and the Capacity Building component, which builds capacity at the policy level in Vietnam.<sup>31</sup>

Informal markets are difficult for formal businesses to interact with. Some institutions are building knowledge on how it can be done.

- **UNDP's Initiative on Legal Empowerment of the Poor (ILEP)** supports national, regional and global efforts to expand poor people's access to legal and institutional mechanisms. The initiative also guides businesses in reducing the transaction costs of working with the poor informally through legal inclusion.<sup>32</sup>

Some institutions help develop and control social standards in the supply chain.

- **Social Accountability International (SAI)** has established SA8000, a standard that employers use to measure their own performance and responsibly manage their supply chains. Affiliate Social Accountability Accreditation Service (SAAS) accredits qualified audit organizations to certify compliance. More than 1.2 million workers are employed in over 2,100 SA8000-certified facilities in 63 countries, across 66 industrial sectors.<sup>33</sup>
- In the **4C Association** producers, trade and industry and civil society from around the world work towards greater sustainability in coffee. The initiative targets coffee producers with limited or no access to markets for certified coffees. 4C increases coffee producers' net income through improvements in quality, marketing conditions and efficiency.<sup>34</sup>
- In 2002 Nestlé, Unilever and Danone created the **Sustainable Agriculture Initiative (SAI) Platform**, a non-profit organization designed to support sustainable agriculture practices involving various food chain stakeholders. The SAI Platform today counts 25 members, with estimated sales of \$300 billion.<sup>35</sup>



## Financing

Banks and investors fund SMEs to expand operations and create employment.

- The **International Finance Corporation's (IFC) Linkage Programs** are designed around selected IFC investments, to increase participation in a project by local firms and to bring additional benefits to surrounding communities.<sup>36</sup>
- **MYC4** is an online marketplace that connects small-scale investors directly with African entrepreneurs who lack capital.<sup>37</sup>
- In Pakistan **Standard Chartered** focuses on the needs of small businesses. Its SME Training Programme gives entrepreneurs primer on finance and accounting and customer service delivery in a two-day workshop.<sup>38</sup>
- **Anglo Zimele** is the enterprise development and empowerment initiative of the mining and natural resource company Anglo American in South Africa. Its Supply Chain Fund has supported more than 150 businesses since 1989.<sup>39</sup>

A number of donors and development banks support large domestic companies, MNCs and others in inclusive business model development through loans and co-funding.

- **Opportunities for the Majority**, through a \$250 million special funding facility, provides loans and partial credit guarantees to companies interested in supporting inclusive business models in Latin America and the Caribbean.<sup>40</sup>

ERICK RABEMANANORO/UNDP



ADAM ROGERS/UNCDF



## Capabilities

Development-oriented organizations can help train local producers and organize them into co-operatives or groups that facilitate the interface with larger businesses.

- In Uganda **TechnoServe** has been working with the **Uganda President's Initiative on Poverty Alleviation** to make the *matooke* (green banana) industry more efficient and beneficial to the rural poor. TechnoServe is organizing 9,000 *matooke* farmers in groups, transforming the groups into marketing companies and linking them to urban wholesalers. TechnoServe applies a similar model with some 6,000 organic and 500 conventional cotton farmers in Uganda.<sup>41</sup>
- In Nicaragua and Honduras **SNV** connects large coffee companies with small-scale coffee growers to increase income for all parties. By giving the companies tools and training, SNV has enabled staff to help 850 farmers increase the efficiency and quality of their production and gain Utz certification for their organic coffee beans.<sup>42</sup>

Labour organizations can help businesses implement good labour standards and provide assistance to MNCs to manage their supply chains with regard to social standards.

- **Better Work** is a partnership programme between IFC and the ILO that aims to improve both compliance with labour standards and competitiveness in global supply chains. It involves the development of both global tools and country-level projects, with a focus on solutions that build co-operation among governments, employer and worker organizations and international buyers.<sup>43</sup>



MARTA REMONEDA/UNDP