



Growing Sustainable Businesses: Brokering Investment Opportunities that Support the Millennium Development Goals

September 2005

United Nations Development Programme

Contents



- Introduction to the Growing Sustainable Businesses initiative
- Case studies of GSB investments

Background



The Growing Sustainable Business initiative...

- Was conceptualized and launched in 2002 by the private sector under the Global Compact and in response to the Millennium Development Goals
- Recognizes that developing countries represent a difficult business environment but also a vast opportunity, both for increased value chain efficiencies and expanded markets
- Is housed within the United Nations Development Programme, which has as its mission to help countries achieve poverty reduction and sustainable human development
- Seeks to leverage UNDP local expertise and convening power to facilitate commercial investments in developing countries

Growing Sustainable Business



➤ Objective/Vision - A service to business

Facilitate business-led enterprise solutions to poverty reduction and advancement of the Millennium Development Goals. These enterprise solutions accelerate and sustain access by the poor to needed goods and services; and to employment and livelihoods opportunities.

By...

- Convening and connecting at national level, to explore & inspire market-based investment opportunities;
- Reducing risks to specific investments by bringing the right policymakers, CSOs, financiers and other partners together to ensure success;
- Ensuring private sector alignment with Global Compact principles and development objectives;
- Demonstrating and informing lessons for business and policymakers.



Why the GSB matters

- Commercial approaches that also address development challenges
- Importance of sustainability in design of development projects

“The idea is that if you put the viability of the business first, with potential financial returns, the development benefits will follow, rather than the other way around. Without financial viability, there is no way of scaling up these programmes to reach more of the poor.”

- Chris West, Deputy Director, Shell Foundation

“Unless there’s a rate of return, achieving the Millenium Development Goals becomes a perpetual sink on public finance. You’ve got to create income-generating schemes to meet these goals.”

- Richard Sandbrook, Special Adviser to the UNDP

Type of business activities facilitated



- New business models for engaging the “bottom of the economic pyramid”, as consumers, producers, entrepreneurs etc.
- Large – small enterprise linkages (supply chain, sub-contracting, distribution, franchising, etc)

Value Proposition to Business



➤ Opportunity to operationalize the Global Compact and contribute towards the MDGs

Local expertise

- Relationships with value-adding partners—e.g., supplier networks and service providers, communities, government, NGOs to assist with delivery and technical assistance
- Ability to identify and assist with the development of new, locally tailored business models and investment opportunities

Organizational support

- GSB projects approved and supported by local Steering Committee, comprised of relevant stakeholders and chaired by UNDP
- Resolution of specific political barriers to implementation facilitated through impartial, UN-convened sessions

Access to finance

- Help in bridging access to finance to make business case viable
- **Co-funding of market research and feasibility studies**

Technical assistance

- Ability to identify and broker relationships with partners to provide technical assistance
- **Direct assistance** as needed—e.g., skill development for partners

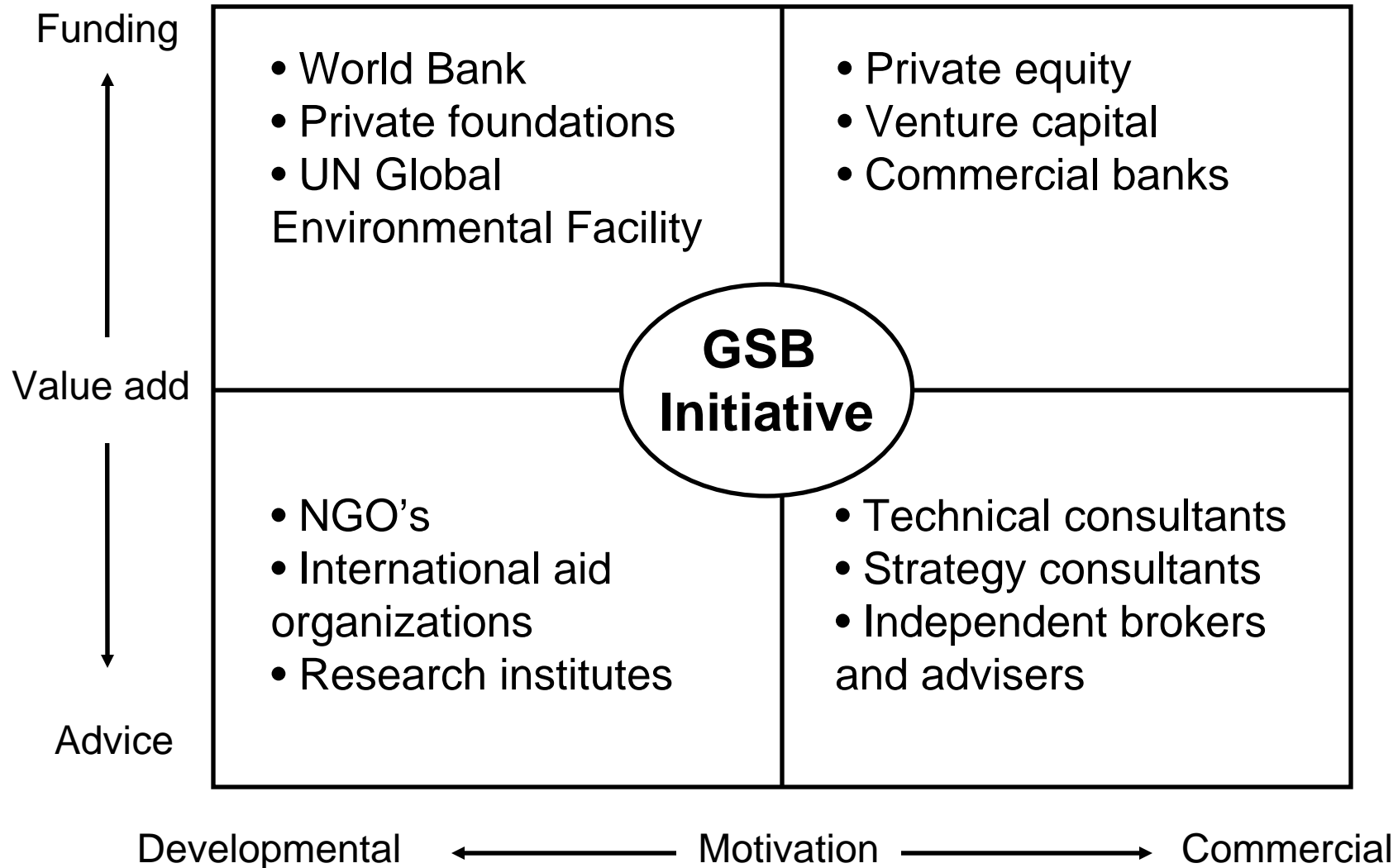
Branding

- Co-branding with the GSB initiative & Global Compact reduces project risk
- Global platform for profile-building

The GSB Niche



Brokering partnerships to reduce risk and develop new business models



Where we are



Europe

- Serbia & Montenegro (3Q '05)
- Macedonia (4Q '05)
- Albania (4Q '05)
- Moldova (4Q '05)

Latin America

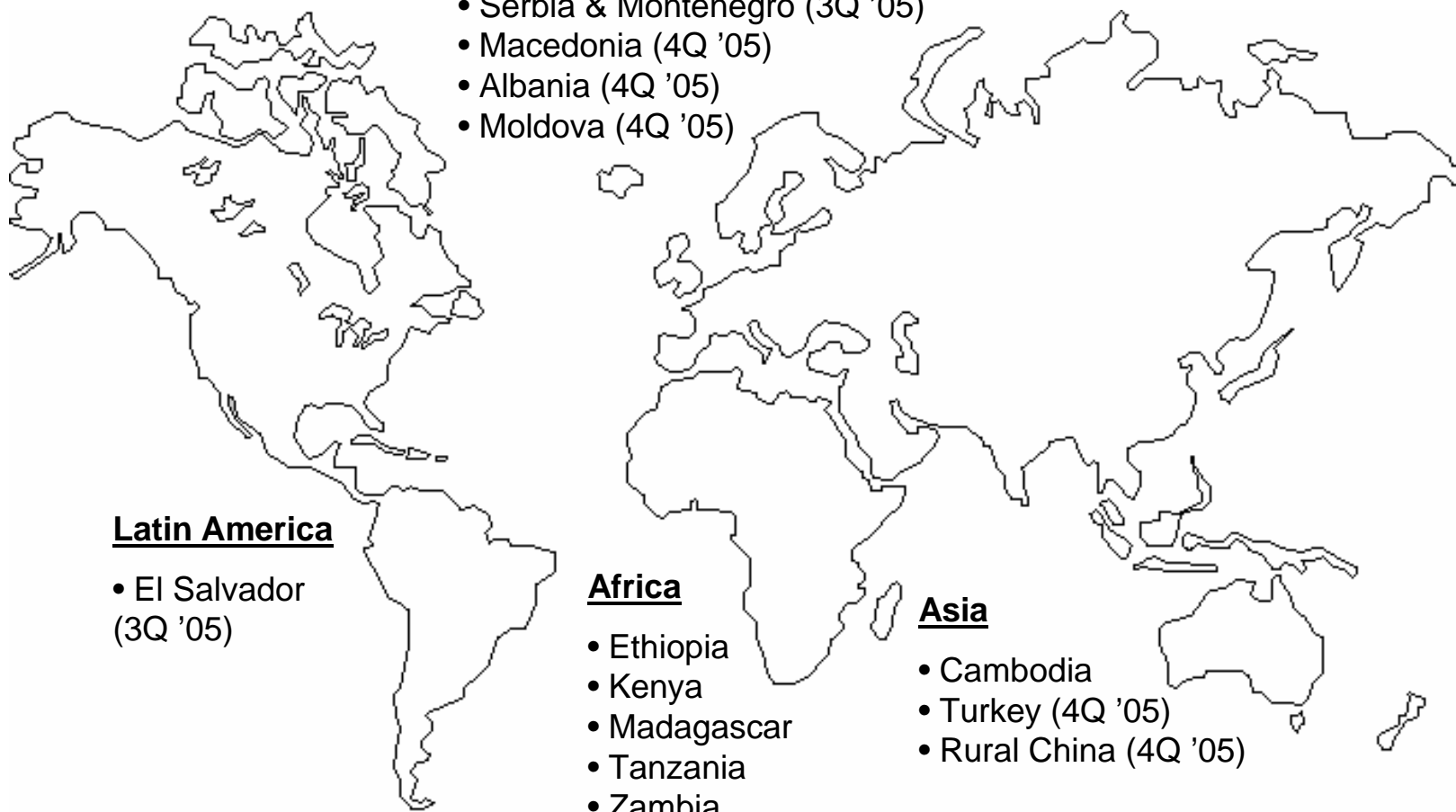
- El Salvador (3Q '05)

Africa

- Ethiopia
- Kenya
- Madagascar
- Tanzania
- Zambia

Asia

- Cambodia
- Turkey (4Q '05)
- Rural China (4Q '05)



Contents



- Introduction to the Growing Sustainable Businesses initiative at the UNDP
- Case studies of GSB investments

Case studies



- New markets
 - Rural cellphones (Ericsson)
 - Rural electrification (EDF and the E7 Fund)
 - SME lending (Société Générale)
 - Rural electrification (ABB)
 - Rural banking (ANZ Bank)

- Supply chain improvements
 - Raw material diversification (Unilever)
 - Transportation and logistics reliability (Total)
 - Value-added dairy processing (Tetra Pak)
 - Fuel alternatives (Tanga Cement)



New markets: Rural cellphones

Lead company: Ericsson

Innovation: low-cost distribution model for rural cellphone users

Investment: \$8.5 million over 3-5 years to roll out cellphone base stations and handsets in Tanzania

Problem

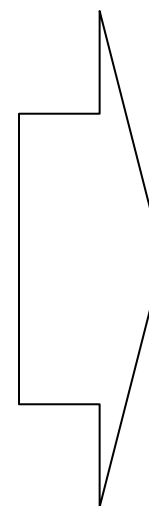
- 10 base stations required to provide effective service to the area
- Distribution model requires 1 user per phone

Solution

- Market research determined rural customers required only basic connectivity (i.e., no high-bandwidth services)
- New technology from Ericsson (“Expander radio base station”)
- Phones owned and managed by local franchisees in a communications centre model, increasing monthly usage per phone
- A local NGO will coordinate joint ownership groups of 4 people, again increasing monthly usage

Business result

- Ericsson develops business model which reduces cost per user per month from \$20 to \$1.25
- Ericsson gains strong foothold in Tanzanian cellphone market, growing at 99% per annum





New markets: Rural electrification

Lead company: e7 fund, consisting of EDF, Hydro-Quebec, and American Electric Power (among others)

Innovation: mini hydro-generators combined with differential pricing

Investment: \$20 million in creating local generating capacity and infrastructure

Problem

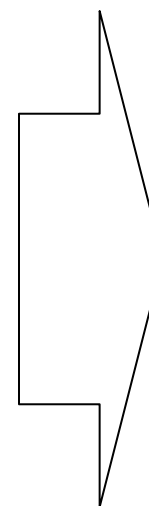
- Required investment level too high to make project commercially attractive

- Government regulation of industry (pricing, distribution models)

Solution

- New technology to leverage slow-moving river in the area (4 megawatt* mini hydro-generator)
- Public finance from international agencies sourced due to project's positive social benefits (~23% of total project financing)

- Local energy company set-up with supervision by electricity agency and government ministry
- Tiered pricing model (i.e., government, SME, and village) enables sufficient return



Business result

- 60% reduction in cost of delivering electricity
- Access to profitable market and to strong sector in particular (vanilla producers, largely located in rural areas)

*4 megawatts is enough to power 3,200 U.S. households



Supply chain: Raw material sourcing

Lead company: Unilever

Innovation: guaranteeing market price to encourage delivery of desired raw materials

Investment: \$600,000 in pilot project to procure Allanblackia oil, from a tree grown in Tanzania, as a replacement for palm oil (potential for \$7 million in regional roll-out)

Problem

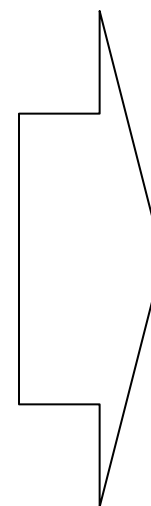
- Need for significant quantity produced and delivered in order to justify investment
- Risk that delivered product will not achieve required quality standards
- Risk of non-delivery

Solution

- Leverage external financing
- Limit size of initial project to ensure proof of concept*
- Set market price in advance for given quality level to encourage high-quality production by farmers
- Work with World Conservation Union to invest in research into high-quality oil production
- Leverage Netherlands Development Organization to help small-scale farmers to achieve quality requirements

Business result

- Unilever has potential to realize cost savings in its \$400 mm annual palm oil procurement budget
- Reduces reliance on palm oil, price of which has increased 15% per annum over past four years
- Project to achieve cash flow break-even by end of year two



*January, 2001 price: \$230/mt; January, 2005 price: \$400/mt; August, 2005 price: \$407/mt

Growing Sustainable Business



Thank You

<http://www.undp.org/business/gsb>