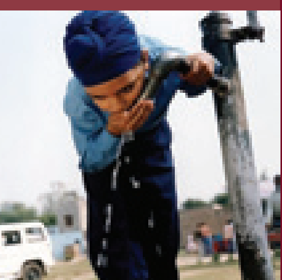

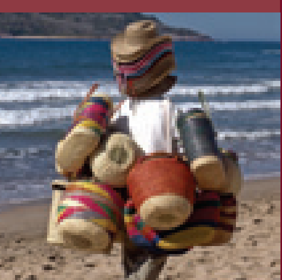

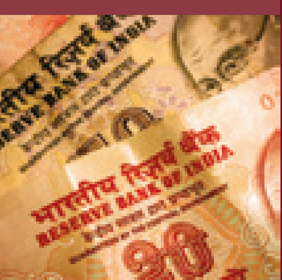

ECONOMIC OPPORTUNITY SERIES

Expanding Economic Opportunity:
The Role of Large Firms

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Executive Summary

The past fifty years have witnessed a "revolution" in global economic growth. Yet not everyone has participated in this revolution. More than 65% of the world's population, over four billion people, still lives on the equivalent of less than $4 per person per day. Even worse, the world's poor are severely constrained – and often completely lacking – in opportunity to do better for themselves.

The business community has both the capabilities and the strategic, business reasons to play a major role in creating these opportunities. The CSR Initiative's Economic Opportunity Program explores this role.

"Economic opportunity enables people to manage their assets in ways that generate incomes and options."

For the poor, livelihood choices – in employment and entrepreneurship – are constrained by a wide range of interdependent obstacles, ranging from geographic isolation to market failures to political exclusion. This suggests that when we think about eradicating poverty, we should think broadly about creating economic opportunity. Economic opportunity is not, in itself, a solution; instead it is a context in which individuals can create their own solutions. It is a combination of factors that enables the poor to manage their assets in ways that generate incomes and options.

Creating or expanding economic opportunity could rightly be considered a responsibility of governments toward their citizens. But in today's global market environment, various risks and opportunities provide reason for business to engage.

These reasons include the risks – and attendant costs – of dependence on the company, unmet expectations, conflict, and the general perception that a company is "not doing enough" to contribute to local economic development. Reasons also include opportunities to reduce cost, increase flexibility and productivity, acquire new customers, and generate innovations that can fuel strategic and competitive advantage in developing and developed countries alike.

Another reason for business to engage is to leverage its own comparative advantage in society. As Milton Friedman might say, "the business of business is business" – and this is exactly what gives firms the capability and credibility to expand economic opportunity. Business activity creates jobs, cultivates inter-firm linkages, enables technology transfer, builds human capital and physical infrastructure, generates tax revenues for governments, and, of course offers a variety of products and services to consumers and other businesses. Each of these contributions has multiplier effects on development.

In developing countries, however, companies' multipliers often fail to reach the scale or leverage of which they might be capable, due to market failures, governance gaps, and other bottlenecks. More deliberate management attention is required to unlock their full potential.

This report explores four key strategies companies can use to expand economic opportunity:

Creating Inclusive Business Models	Involving the poor as employees, entrepreneurs, suppliers, distributors, retailers, customers, and sources of innovation in financially viable ways
Developing Human Capital	Improving the health, education, experience, and skills of employees, business partners, and members of the community
Building Institutional Capacity	Strengthening the industry associations, market intermediaries, universities, governments, civil society organizations, and grassroots groups who must all be able to play their roles effectively within the system
Helping to Optimize the "Rules of the Game"	Shaping the regulatory and policy frameworks and business norms that help determine how well the economic opportunity system works and the extent to which it is inclusive of the poor

Five themes emerge for further research, experimentation, and action by the business and development communities.

1 **Inclusive business models as "strategic cornerstones" for expanding economic opportunity.** The comparative advantage of business in expanding economic opportunity is rooted in core business interests, assets, and activities and the development multipliers they catalyze, which provide the potential for impact at scale. As a result, inclusive business models are likely to be the most effective and sustainable ways companies can contribute to expanding economic opportunity.

2 **The role of complementary strategies in enhancing the commercial viability and development impact of inclusive business models.** Companies can use complementary strategies such as developing human capital, building institutional capacity, and helping to optimize the "rules of the game" to target market failures, governance gaps, and other bottlenecks in the economic opportunity system, thus enhancing both the commercial viability and the development impact of inclusive business models.

3 **The applicability of commercial, social, and hybrid funding models.** The four business strategies for expanding economic opportunity can draw upon core business, philanthropic, and public donor funding, depending on the balance of business and social benefits expected, the likely timeframe for their realization, and the level of uncertainty or risk involved. For many years, companies have used distinct tools and sources of funding for shareholder value creation versus social value creation. Today, we find leading firms increasingly using hybrid approaches to enhance both profitability and development impact.

4 **The importance of collaborative action in achieving systemic impact and scale**. Complex, systemic challenges like expanding economic opportunity present frustratingly frequent bottlenecks to unilateral action, corporate or otherwise. Even the best-resourced efforts eventually run into limitations on scale somewhere. Collaboration allows parties to share knowledge and information, pool scarce or diverse assets and resources, access new sources of innovation, create economies of scale, and enhance the legitimacy of the parties' own individual activities. In addition to assembling the necessary resources and capabilities, collaboration can generate new capabilities and change operating environments in ways that create new strategic opportunities.

5 **The public leadership opportunity for large firms and their executives.** Expanding economic opportunity is one of the most significant ways companies create "shared value" for business and society. Large firms should both demonstrate and communicate this message. Top business executives, in particular, have a critical opportunity for public leadership in articulating their firms' roles within the larger system; advocating for effective public policies and institutions; and engaging other companies, government bodies, international agencies, and civil society organizations to explore complementary, and possibly collaborative, action.

This report is part of a growing effort within the business and development communities to make the links between business activity and poverty alleviation. Experimentation and learning are happening fast. As a result, this report must be considered a work-in-progress, and readers are invited to share their experience and reflections with us. We look forward, through our Economic Opportunity Program, to being part of the dynamic growth and development occurring in this field.

1 The Challenge

The past fifty years have witnessed a "revolution" in global economic growth.[1] Global gross domestic product (GDP) has grown by 400%, nearly twice as fast as population, since 1960. GDP per capita has more than doubled.[2] Yet not everyone has participated in this revolution. More than 65% of the world's population, over four billion people, still lives on less than $4 per person per day.[3] Approximately half of formally employed workers earn less than $2 per day, no fewer proportionally than 10 years ago.[4] Even worse, the poor are severely constrained in terms of opportunities to do better for themselves.

Poverty alleviation is an urgent agenda item for governments and civil society groups around the world. At the same time, the business community has both the capabilities and the strategic business reasons to play a major role in creating economic opportunity. The role of large firms is the subject of this report.

BOX 1 VOICES OF THE POOR[5]

If you want to do something and have no power to do it, it is talauchi (poverty). NIGERIA

Poverty is lack of freedom, enslaved by crushing daily burden, by depression and fear of what the future will bring. GEORGIA

You know good but you cannot do good. That is, such a person knows what should be done but has not got the means. GHANA

It is this feeling of helplessness that is so painful, more painful than poverty itself. UGANDA

Only the well-off truly can believe in tomorrow. AZERBAIJAN

1.1 Increasing Options for Employment and Entrepreneurship

Surveys of 20,000 poor people in more than 20 countries undertaken by the World Bank in the late 1990s found that "next to illness and injury, the scope for entrepreneurial activity and the availability of jobs is the most important factor determining the fate of poor people – for better or for worse."[6] Self-employment or business and income from wages or salaries were the most frequently cited factors in upward mobility for both men and women.[7]

Starting and growing one's own business gives individuals greater levels of discretion in the way they use their time, talents, and resources to create ways forward in life. As their businesses grow, diversify, and upgrade, they create economic opportunities for others through employment and skills development. At a more macro level, the small business sector is an important contributor not only to employment, but also to gross domestic product (GDP) and economic resilience.[8]

While many poor individuals are highly entrepreneurial, it is important to distinguish between the phenomenon described above, which some have called "opportunity entrepreneurship," and "necessity entrepreneurship."[9] Necessity entrepreneurs start their own businesses not for aptitude or aspiration, but for lack of alternatives. These businesses are often informal, unlicensed, and unregistered, and employ no one other than the entrepreneur or perhaps his or her family. As University of Michigan business professor Aneel Karnani has pointed out, for many people, employment may be a more likely route to prosperity, and a preferred one as well.[10] And at a macro level, employment is "the key link between output growth and poverty alleviation."[11]

Both employment and entrepreneurship are critical sources of income generation and longer-term economic advancement. The poor must be empowered to pursue either or both, over the course of a lifetime, according to their dynamic capabilities, preferences, and needs. The point is having the choice – not only in entrepreneurship versus employment, but also what kind, and when. This is the kind of freedom that, as Nobel Laureate Amartya Sen points out, is "both the primary end and [...] the principal means of development."[12]

1.2 Overcoming Obstacles to Economic Opportunity

Economic choice, for the poor, is constrained by a wide range of interdependent obstacles:

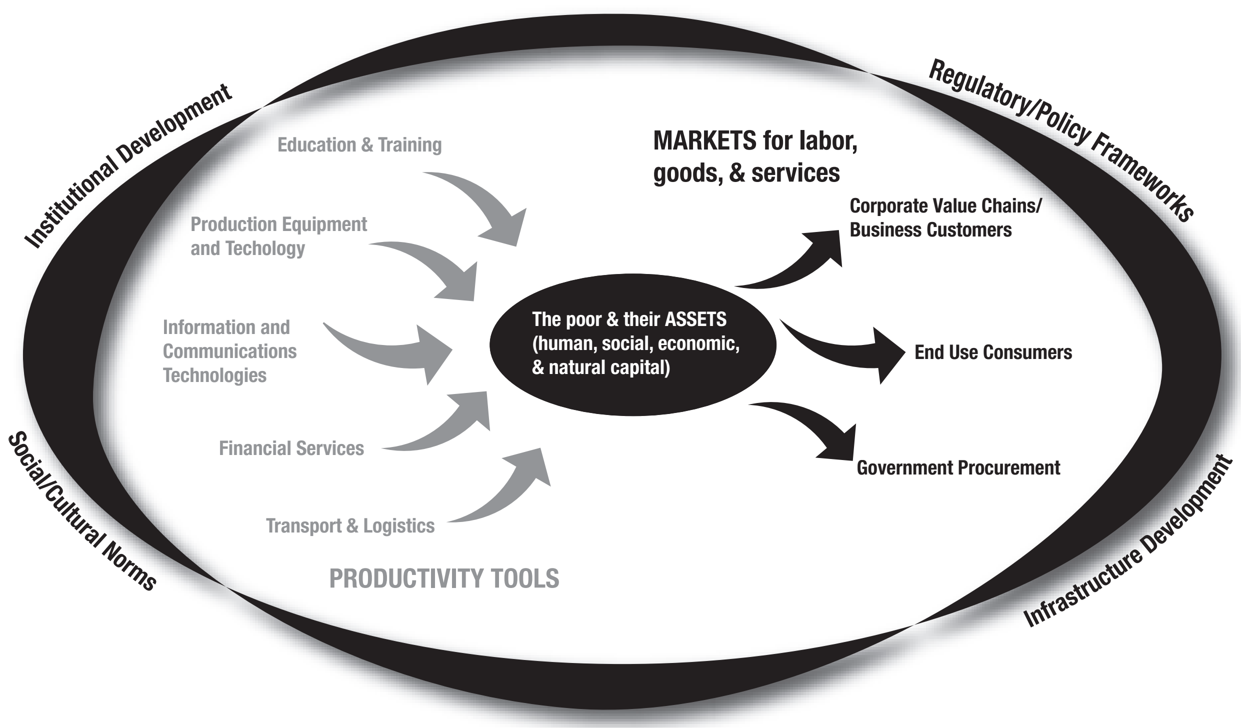
- The poor may be geographically isolated from markets.
- Lack of competition in the market may keep prices high and out of reach.
- The capabilities required for market participation, such as literacy or good health, may be in short supply.
- Regulations, policies, tax structures, and social or business norms may exclude the poor from market, political, and other institutions.
- The poor may lack property rights and other legal protections.
- With limited assets to fall back on, they may be vulnerable and risk averse.
- The default, informal systems the poor depend on every day may help them to survive, but they do not help them advance.
- The system may not offer them a political voice through which to advocate for change.

These obstacles suggest that when we think about eradicating poverty, we should think broadly about creating *economic opportunity*. Economic opportunity is not, in itself, a solution; rather, it is a context in which individuals can create their own solutions. As the Aspen Institute's Josh Weissburg has put it, "the empowering virtue of the market is that when people have access to the tools they need to gain entry, they can find their own way."[13] In this spirit, we can think of economic opportunity as a combination of factors that enables the poor to manage their assets transformatively, rather than defensively – in ways that generate incomes and options.

These factors fall roughly into four categories, depicted graphically in Figure 1 and described in more depth in Box 2:

- assets
- productivity tools
- access to markets
- enabling environments

FIGURE 1 THE ECONOMIC OPPORTUNITY SYSTEM



BOX 2 COMPONENTS OF THE ECONOMIC OPPORTUNITY SYSTEM

Assets	As the World Bank, the Ford Foundation, the World Resources Institute, the Institute for Liberty and Democracy, and others have described, while they may be meager and/or non-traditional, many poor people do have some assets on which they could, at least in theory, begin to build.[14,15,16,17] These can comprise:
Productivity Tools	As the Ford Foundation sums up, "an asset offers a way out of poverty because it is not simply consumed, it is a 'stock' that endures and can be used in many ways to generate economic, psychological, and social benefits that foster resilience and social mobility."[18] Productivity tools are goods and services that enable individuals and small businesses to work with their assets, managing and transforming them in order to generate new opportunities, increased incomes, and better qualities of life. These include:
Markets	Markets enable both individual employees and enterprises to transform productivity into income. Income, in turn, can be used to grow a base of financial and other assets, which can then be used to generate a variety of economic options and advancement paths. Key markets for labor, goods, and services are to be found in:
Enabling Environments	Enabling environments determine how well the economic opportunity system works, and the extent to which it is inclusive of the poor. As Nobel Laureate Amartya Sen has put it, "the role that markets play must depend not only on what they can do, but also on what they are allowed to do."[22] Enabling environments encompass:

- **Financial capital**, such as an informal income or a flow of remittances from a family member abroad.
- **Physical capital**, such as land, a house which can be used as a productive facility, or a motorcycle which can be used to deliver goods and services.
- **Human capital**, such as health, education, innate talent, and learned skills, which underpin people's ability to be productive.
- **Social capital**, such as the networks of friends, family, work colleagues, and others that provide information and resources – like expertise or money – helping people identify and capture business opportunities and providing a "safety net" that enables them to take risks.
- **Natural capital**, such as access to agricultural land, forests, fisheries, or system services.

- **Education and training:** Basic education, vocational training, entrepreneurial and management development programs, and specialized skills courses – for example in finance or technology – build individuals' human capital asset bases, thus increasing their options and improving their prospects.
- **Production equipment and technology:** Adequate production equipment and technologies are critical ingredients in productivity, efficiency, and quality. Most are industry-specific (for instance, small-scale irrigation systems in agriculture) but some are applicable across the board, such as electricity.
- **Information and communications technologies (ICTs):** ICTs facilitate a wide range of basic business tasks, provide access to information, and enable communication and collaboration, thus helping to increase productivity, widen business networks, and open up new opportunities.
- **Financial services:** Credit, insurance, and savings and investment products enable people to take and manage risk in order to grow their assets. Financial services are also critical in helping small businesses expand to take advantage of scale economies and create jobs in significant numbers.[19]
- **Transport and logistics:** ICTs can help identify and connect with customers; however, for those trading in goods, physical links are still important. The market will be determined at least in part by how far it is possible to transport those goods before the price exceeds customers' willingness to pay.

- **Other businesses and their value chains.** The private sector currently accounts for over 90% of employment in developing countries,[20] and the value chains of multinational corporations alone account for about 25% of production worldwide.[21]
- **Government procurement** in a wide range of agencies, from municipal to national levels.
- **Civil society organizations and the international donor community,** which – while their procurement needs may be far smaller than those of businesses or governments – have mission-related reasons to hire and contract locally.
- **End-use consumers,** from local to international.

- **Capable institutions**, such as government agencies, courts, legislative bodies, chambers of commerce, credit bureaus, investment funds, rating agencies, consumer advocacy groups, political parties, non-profit advocates, faith-based networks, and grassroots savings groups.
- **Regulatory and policy frameworks**, including business entry and exit requirements, property rights regimes, tax rates and incentive structures, labor laws, international trade rules, and fiscal policy.
- **Infrastructure**, such as roads, railways, ports, power generation facilities, electrical grids, water and sanitation systems, and telecommunications infrastructure.

These four categories of factors make up an interdependent system, in which the dynamics of interaction among them are just as critical as the roles they individually play. From the perspective of the poor, it can be difficult to obtain financing for a small business without legal title to assets that can be used as collateral, for example. Similarly, it can be difficult to land a contract with a major buyer absent the financing to scale up or improve quality in line with the buyer's standards. Business licensing, tax, labor, and a whole host of other regulatory requirements may prevent a would-be entrepreneur from starting a business in the first place. Of course, certain levels of education, experience, creativity, and confidence are also required, whether the objective is to start a business or obtain a job.

Stated broadly, the ability of any single factor to fulfill its unique, critical economic opportunity function depends on the ability of others to fulfill theirs. Underdevelopment in any one of them can act as a bottleneck to progress generally.

For example, information and communications technologies (ICTs) have been heralded as playing a systemic role across the economic opportunity picture. Not only are they critical productivity tools in their own right, they can also:

- facilitate the delivery of other inputs and productivity tools, such as financial services
- make education and training more accessible and effective
- allow families, friends, and business contacts to keep in touch, thereby enhancing social networks and social well-being
- enable market linkages between small suppliers or distributors and large firms
- enhance the efficiency and effectiveness of service provision by government agencies, NGOs, and donors, who poor individuals and SMEs often rely on for business licensing, training, market facilitation, and more

And yet, no less an ICT advocate than Microsoft points out that "in order to realize their potential, these technologies must be part of a mix of sound government policies, enhanced workforce skills, and infrastructure investments – [a] recipe of interdependent ingredients which promotes initiative and innovation."[23]

BOX 3 MORE VOICES OF THE POOR

The rich are those who are able to save and sell part of their harvest when prices rise. NIGER[24]

Life for the poor is one long risk.CARD Bank microfinance client, PHILIPPINES[25]

I wanted a loan, but they are requiring the land title, but I can't provide it. ECUADOR[26]

We needed to buy our materials – flour, oil, eggs – in bulk in order to save, but we never had the cash on hand to do this. ADMIC microfinance client, MEXICO[27]

Our objective in looking at economic opportunity as a complex system is to understand the extent to which, in a given region, the poor are able to manage their assets in ways that create paths out of poverty – and what might be done to increase that ability.

Why is this so critical to development? Economic opportunity is not only the context that enables growth and poverty alleviation to happen, it is also fundamental to peace and the realization of human rights. Of the 90 "failed states" identified by the US-based Fund for Peace, the vast majority are places where economic opportunity is limited or absent.[28] According to the International Labor Organization, those frustrated by a lack of opportunity, with little control over their own futures, can be "more vulnerable to involvement with illegal and criminal activities" and "at risk of recruitment by armed groups."[29] Similarly, it is difficult to imagine fulfilling the human rights to work, to a decent living, and to an adequate standard of living without expanding economic opportunity. There will never be enough public or philanthropic funding to substitute for human initiative and inventiveness in this regard.

And what role does the private sector play in this picture? Business activities affect the economic opportunity system in many ways, both directly and indirectly – by facilitating and magnifying (or in some cases constraining) the impacts of other firms and societal actors. More fundamentally, as British Prime Minister Gordon Brown stated in a July 2007 address to the United Nations, "for too long, we have talked the language of development without defining its starting point in wealth creation."[30] The private sector, including both large firms and micro, small, and medium enterprises, is the foremost engine of wealth creation in the world today.

2 Why Does Economic Opportunity Matter to Business?

Expanding economic opportunity is certainly a critical development theme, but why should large firms care? Some of the constraints that affect low-income individuals and small enterprises – such as inadequate infrastructure, regulatory barriers, and governance gaps – affect richer people and larger firms, too. But most large firms have found ways to work around these constraints and be profitable anyway.

Many large firms would argue that a lack of economic opportunity for the poor is not their responsibility – that enabling poor people to build skills and find employment, advance in careers, start their own businesses, and grow, diversify, or upgrade those businesses is not their job. Creating or expanding economic opportunity could rightly be considered a responsibility of governments toward their citizens. But in today's market environment, in which large firms must be both local and global at the same time, there are compelling reasons for companies to engage.

2.1 Managing Risk

A lack of economic opportunity in a company's external environment creates costs and risks. A particularly prominent one is dependence. Without other options, local actors including individual workers, small business, and even government agencies have nowhere else to look but to the company for jobs, business opportunities, or tax revenues. In this context, stakeholder expectations can run dangerously high, manifesting in various costs and risks. A company might be expected to fill in for government or other social actors in areas such as providing clean water or health care services for citizens. Governments might impose local content or local employment requirements, or direct financial obligations, in efforts to spread the wealth. Failure to comply with either expectations or obligations can cause confusion and even trigger litigation. For instance, in a recent Brazilian case, the government and the multinational mining company Companhia Vale do Rio Doce (CVRD) have brought claims and counter-claims accusing the other of failing to provide funding and services to the Xikrin indigenous community near CVRD's Greater Carajás operation in southern Pará state.[31]

Dependence and unmet expectations are key sources of social risk – they can fuel stakeholder perceptions that firms are profiting at local communities' expense or simply "not doing enough" to contribute to their economic development.[32] Stakeholder reactions can include operational stoppages, consumer boycotts, legal action, negative publicity, regulatory pressure, and even violence against company facilities and employees. In the instance described above, CVRD initiated legal proceedings when Xikrin tribesmen occupied its facilities demanding higher compensation, thus shutting down its activities. In the Papua province of Indonesia in 2006, community members protesting Freeport McMoRan's policy preventing them from prospecting in the company's waste rock shut down its Grasberg operations for days, at a cost of between $40 and $60 million.[33] Freeport ultimately resolved the dispute by allowing community prospecting to resume. These are just a few examples among many in which dependence and unmet expectations among stakeholders lead to cost and risk for the company.

Environments in which economic opportunity is limited or absent are also more prone to violent conflict. As cited earlier, of the 90 “failed states” identified by the US-based Fund for Peace, developing or transition countries make up the vast majority.[34] Operating in zones of conflict or potential conflict reduces the stability required for business planning and imposes additional costs, for example through employee absenteeism or heightened security needs. Conflict also poses operational, reputational, and even legal risks, whether the company is directly involved or merely caught in the crossfire.[35] For instance, conflict leads to violations of citizens’ human rights, in which companies are often accused of complicity. In Colombia, The Coca-Cola Company was charged in 2001 with orchestrating threats and violence against local union leaders, and though the court case was dismissed, negative publicity continues to this day. More recently, Chiquita was fined by the US government for making payments to paramilitary groups, ostensibly in order to keep its employees safe.

Finally, it is worth noting that limited economic opportunity is a primary factor in the much-discussed backlash against the spread of the global market system. Opponents of globalization feel that its benefits have not been evenly distributed within or across countries or even view it as an “exploitative”[36] or “oppressive and impoverishing force.”[37] The charges often extend directly to corporations, and to multinational corporations in particular.

2.2 Harnessing Opportunity

Expanding economic opportunity creates an environment in which new businesses are entering the market and existing businesses are growing, diversifying, specializing, acquiring, selling, profiting, and exiting. Dynamic, growing local economies multiply the possibilities for companies to create strategic and competitive advantage.

Many large firms now buy significant percentages of their inputs of both goods and services from other firms. In this context, the emergence and increasing sophistication of local businesses in developing countries widens the scope for local procurement, allowing large firms to reduce costs and improve flexibility, especially as those local businesses upgrade into more specialized or higher-skill activities such as the production of components or provision of business services. The relatively well-developed power generation industry in Peru, for example, has enabled mining firms to save the capital costs associated with setting up their own plants. These same firms have also benefited from the presence of local businesses providing high-quality technical services such as feasibility studies and civil and structural engineering.[38]

Michael Porter, in his work on clusters in an era of globalization, stresses that dynamic local business environments offer firms and their local business units the potential not only for cost reduction, but also for innovation and productivity growth.[39] Local business linkages – both upstream and downstream – can fuel these trends, allowing large firms to observe, adapt, and incorporate local product and process innovations. New business entry outside a firm’s own value chain can also fuel innovation and productivity growth. As entrepreneurial start-ups emerge and grow in both complementary and competing lines of business, they push existing firms to learn from and respond to their innovations. As other large firms enter the fray, they add to this healthy competitive pressure.

Expanding economic opportunity also brings new local customers – both businesses and end consumers – into the marketplace.[40] These customers provide additional pressure for innovation, on top of the potential for revenue growth. As Porter has found, "the presence or emergence of sophisticated and demanding home customers presses firms to improve and provides insights into existing and future needs." [41] And sophistication of demand isn't necessarily a function of purchasing power. In the consumer market, for instance, C.K. Prahalad and others have observed that those at the "base of the economic pyramid" make exacting trade-offs between price and quality.[42] In addition, "by Western standards, [developing country customers] are unusually youthful, demanding, open-minded, and adventurous. One study cited by Lieberthal and Prahalad, for instance, showed that Indian consumers sample an average of 6.2 brands a year of a given consumer product for every 2.0 brands their US counterparts buy."[43]

BOX 4 SMALL AND MEDIUM ENTERPRISES (SMES) AN IMPORTANT NEW MARKET IN ICT AND FINANCE

A sampling of recent headlines includes:

"Citi aims for 20% growth in SME business" Malaysia Star, Malaysia, August 7, 2007

"HSBC's SME banking business up 20% annually over three years" Channel News Asia, August 7, 2007

"IBM pushes SME business locally" ITWeb, South Africa, August 3, 2007

"US banks turn greenbacks flow towards Indian SMEs" Economic Times, India, July 23, 2007

And lastly, meeting the demands of emerging consumers, particularly in the difficult operating environments that characterize many developing countries, requires product, service, and business model innovations that can help companies capture market share in developed countries as well. Studies by McKinsey & Company have termed this phenomenon "innovation blowback."[44] Writing in the Harvard Business Review, Tarun Khanna, Krishna G. Palepu, and Jayant Sinha observe that "developing-country transnational corporations have entered North America and Europe with low-cost strategies (China's Haier Group in household electrical appliances) and novel business models (India's Infosys in information technology services). Western companies that want to develop counterstrategies must push deeper into emerging markets, which foster a different genre of innovations than mature markets do."[45] For instance, HSBC had to cope with the relatively small deposits of customers in Hong Kong during its formative years, so it learned to operate with a cost-to-income ratio lower than that of many US or European competitors.[46] Given the challenges in its home operating environment, Mexican cement giant CEMEX learned to operate with such efficiency that it is now challenging established players in developed countries such as the United Kingdom and United States.

To many large firms, the advantages of expanding economic opportunity described here – particularly those based on creating new business opportunities, rather than managing risk – may seem less than clear-cut, or to lack urgency. As noted earlier, many large firms have found ways to operate successfully and profitably in very poor locations. And expanding economic opportunity entails change, which requires adjustment. For instance, as people's employment options increase, labor cost advantages may erode, requiring firms to find other ways to stay competitive or to shift production elsewhere.

However, as Richard Foster and Sarah Kaplan highlight in their book on "creative destruction," change is not only inevitable, it is accelerating. Large firms will want to remain at the forefront for a variety of reasons, not least of which is that complacency puts shareholder value at risk. Foster and Kaplan found that the average number of years a firm spends on the Standard and Poor's (S&P) 500 decreased from 65 in the 1920s and

1930s to 10 in the 1990s. In a more recent study, Tomorrow's Company calculated that the number of firms from developing countries in the Financial Times Global 500 increased by 26, while the number of US firms dropped by 30.[47] Foster and Kaplan estimate that by 2020, "more than three-quarters of the S&P 500 will consist of companies we don't know today – new companies drawn into the maelstrom of economic activity from the periphery, springing from insights unrecognized today."[48] In September 2007, the World Economic Forum launched its Community of Global Growth Companies with 40% of the 125 founding members based in Asia.[49] In this rapidly-changing environment, local collaboration, competition, and customer demand in developing countries can enable companies to create strategic and competitive advantages based not on factor cost differences, but on forward-looking innovation and productivity growth.[50]

2.3 Leveraging the Comparative Advantage of Business in Development

As Milton Friedman might say, "the business of business is business" – and this is exactly what gives firms the capability and credibility to expand economic opportunity.

To date, the corporate social responsibility (CSR) community has focused primarily on efforts to help large companies understand, account for, and minimize negative social and environmental impacts. According to Ian Davis, Managing Director of McKinsey & Company, "this defensiveness starts the argument on the wrong foot." "Big business," he says, "provides huge and critical contributions to modern society. These are insufficiently articulated, acknowledged, or understood."[51] As CSR pioneer John Elkington acknowledges, "the economic bottom line – where we expected private-sector savvy to make progress easier – is in fact least understood by many of those shaping the corporate and public-policy agendas."[52]

Expanding economic opportunity is arguably where firms have the greatest potential to create what Michael Porter and Mark Kramer have called "shared value," or value for both business and society.[53] Business activity creates entrepreneurial opportunities and jobs, cultivates inter-firm linkages, enables technology transfer, builds human capital and physical infrastructure, generates tax revenues for governments, and offers a variety of products and services to consumers and other businesses. Each of these has multiplier effects on development.[54] For instance:

- Creating jobs can increase individual income and stability, which can open the door to investments in health and education for children, who may obtain more highly skilled jobs or open businesses of their own.
- Enabling technology transfer can improve the efficiency of small enterprises on the receiving end, allowing them to increase productivity and revenues, expand their client bases, enter new markets, and create more jobs.
- Cultivating business linkages with small enterprises can allow them to expand and stabilize their market bases, which can assist them in accessing financial services, which in turn can enable them to invest, grow, insure against shocks, and save for their children's futures.

The Coca-Cola Company, Unilever, and SABMiller are among a small number of companies that have undertaken formal studies attempting to quantify their economic multiplier effects. For example, academic research supported by Coca-Cola found that for every job created within the Coca-Cola system, an additional 32 were supported in China and 16 in South Africa, via upstream and downstream value chain linkages.[55] A joint study by Oxfam and Unilever found that in Indonesia, for every job created at Unilever, nearly 60 jobs were supported in the value chain.[56] More analysis of this kind would help inform both the business in society debate as well as companies' own strategies for enhancing their roles (not to mention the public policy and advocacy approaches governments and civil society groups use to encourage them).

The comparative advantage of business in expanding economic opportunity is that companies' multipliers are a function of core business interests, assets, and activities, and thus have the potential to reach sustainability and scale. Philanthropic motivations and sources of funding are not required to bring these chain reactions about; nor, in the absence of a business model, are they usually sufficient to trigger them. However, philanthropy, social investment, public-private partnership, and a host of "hybrid" approaches can be used to help unlock or optimize companies' development multipliers in environments where barriers exist. This theme will be picked up later in this report.

3 ■ Business Strategies for Expanding Economic Opportunity

As we have seen, the comparative advantage of business in expanding economic opportunity is rooted in core, profit-making business activity and the multiplier effects it engenders. Unfortunately, in the developing world, these multipliers often fail to reach the scale or leverage of which they might be capable, due to market failures, governance gaps, and other bottlenecks in the in the system in Figure 1. In these cases, more deliberate management attention is required to unlock business's full potential for shared value creation.

There is an enormous amount of variation in the roles different companies can play, depending on their industries, their particular business models and relationships, and the contexts in which they operate. They may act in different places within the economic opportunity system. For instance, a bank's biggest contribution may lie in the provision of financial services, a productivity tool, whereas a mining concern may have greater potential to expand economic opportunity by providing a market for local small and medium enterprises. Firms will also differ in the strategies they use to make these contributions. The industry reports in the Economic Opportunity Series explore this variation, offering more specific and detailed examples (see titles on page 44). However, while the specifics can and should vary from company to company, the following four strategies have applicability across firms:

- creating inclusive business models
- developing human capital
- building institutional capacity
- helping to optimize the "rules of the game"

Given the nature of firms' comparative advantage in expanding economic opportunity, business models that are inclusive of the poor – whether as employees, entrepreneurs, suppliers, distributors, retailers, customers, or sources of innovation – are likely to be the most effective and sustainable ways they can contribute.

In some cases, complementary strategies targeting market failures, governance gaps, and other barriers in the environment may be required to make inclusive business models commercially viable. For instance, as we have seen, the value proposition of ICTs will be low if the customer lacks access to reliable, affordable power sources or if there is no outlet in the job market for the skills ICTs enable them to acquire. Complementary strategies, including developing human capital, building institutional capacity, and helping to optimize the "rules of the game," can also help increase inclusive business models' development impact. For instance, providing management or financial skills training for entrepreneurs and small business owner-managers (human capital development) can increase the development impact of a local procurement program (an inclusive business model) by expanding the pool of small businesses that qualify to participate in it, or by building the capacity of small businesses to compete for larger or higher value-added contracts.

The synergy between inclusive business models and complementary strategies can also work in the opposite direction: inclusive business models can be used as platforms or "strategic cornerstones" to increase the development impact of complementary strategies compared with what they could achieve on their own. For instance, a local procurement program – or link with another company that has one – can increase the development impact of training for entrepreneurs or small business owner-operators by providing them with a way to transform their new skills into increased sales and incomes.

Complementary strategies can, of course, be pursued with or without the "strategic cornerstone" of an inclusive business model – through companies' philanthropic, community engagement, and government relations work. Pursued on their own, the impacts of complementary strategies may be less direct and therefore longer-term, with different implications for sustainability and scale. But developing human capital, building institutional capacity, and helping to optimize the "rules of the game" are nevertheless key pieces of expanding economic opportunity.

3.1 Creating Inclusive Business Models

The United Nations Development Programme (UNDP)'s Growing Inclusive Markets (GIM) initiative defines "inclusive business models" as business models that include the poor, whether as employees, entrepreneurs, suppliers, distributors, retailers, customers, or sources of innovation, in a way that furthers their human development and that is financially, environmentally, and socially sustainable.[57]

Examples of inclusive business models include:[58]

- local employment
- local sales to low-income individuals and small businesses, particularly of basic and productivity-enhancing goods and services
- local value chain linkages, both upstream and downstream – such as agricultural outgrowers schemes, manufacturing subcontracting, outsourcing non-core functions and services, distribution and retail, franchising, and leasing

Efforts to understand how inclusive business models work, distilling analytical tools and best practices, are gaining momentum. The GIM initiative's inaugural report, for instance, analyzes more than 100 case studies to identify common constraints and promising solution approaches currently being used.[59]

3.2 Developing Human Capital

Large firms can use a variety of human capital asset-building approaches. These may be fairly direct, facilitating or reinforcing the impact of a specific inclusive business model, or very indirect, generally supporting the development of an educated, skilled workforce.

Direct strategies to facilitate or reinforce the impact of inclusive business models can include lifetime learning programs for employees, basic business or financial training for small enterprise owner-operators within the value chain, technical or vocational training for their employees, company- and peer-based mentoring relationships, and more. In many cases, local small enterprises require this kind of support and more – including technology transfer and facilitated access to finance or ICT – to meet the quality, quantity, safety, and other requirements of contracting with the large firm.

Indirect strategies to support the overall development of an educated, skilled local workforce can include strengthening local basic education and public health systems; support for general vocational, technical, business management, and entrepreneurship training; sponsorship of youth enterprise programs; and promotion of local business associations and networks.

3.3 Building Institutional Capacity

As we have seen, complexity and interdependence in the economic opportunity system mean that the progress large companies can make depends to a very great extent on the capabilities and actions (or lack thereof) of other organizations and institutions involved – particularly, but not only, if those actors are to serve as formal partners. As a result, institutional capacity-building can be critical.

Large firms can participate in local institutional capacity-building through investments of mentoring time, Board service, strategic planning support, technical services, networking assistance, and financial and in-kind resources in:

- intermediary organizations supporting small enterprises and/or facilitating value chain linkages between small enterprises and large ones
- intermediaries supporting grassroots people's federations, civil society organizations, or networks of social entrepreneurs
- local chambers of commerce and national or international chamber networks
- government agencies such as Small Business Administrations, Health or Education Ministries, and Infrastructure Departments
- non-profits, civil society organizations, and social entrepreneurs working on human capital development and political and economic empowerment of the poor
- universities or other academic research centers generating and disseminating locally appropriate innovations

3.4 Helping to Optimize the "Rules of the Game"

Large firms have tremendous potential for public leadership in helping to optimize the "rules of the game" – the regulatory and policy frameworks that determine how well the economic opportunity system works and the extent to which it is inclusive of the poor.

Large companies can influence regulatory and policy frameworks in ways that promote economic opportunity by engaging individually or collectively in dialogue with policy-makers in areas such as infrastructure requirements, business entry and exit rules, government procurement policies and practices, financial services sector regulation, and trade and investment policies. Companies can even weigh in on policy regarding health, education, and social security systems.

It is important that public policy dialogue be as open and inclusive as possible. Such dialogue can be particularly effective when it is grounded in a company's efforts to develop or operate inclusive business models, which typically involve a range of partners and other collaborators in the social sector, and which generate information and learning about actual – as opposed to theoretical – constraints. This information shows a government not only how to reduce the cost and risk of doing business to the company, but also how to expand economic opportunity for its citizens. It allows companies to show that they are seeking proactively to cooperate with government in creating an enabling environment specific to local needs and conditions, rather than to impose a generic "Western" blueprint from the outside.

This kind of public policy dialogue is distinct from corporate lobbying intended to maximize short-term gains to a company regardless of its impact on the larger economic opportunity system. Rather, it is intended to help shape or drive the evolution of the "rules of the game" in ways that enable the whole system, including the company, to function more effectively. The term "optimize" does not imply that there won't still be winners and losers associated with any policy change, at least in the short term – adding to the importance of open and inclusive processes, and highlighting a complementary need for strong government leadership in making decisions and considering any adjustment assistance that may be required.

The following pages list a range of examples across the four strategies described above. These tables are illustrative only; they oversimplify greatly in that most of the examples actually span two, three, or even all four strategies. Many are explored in more depth in the industry reports in the Economic Opportunity Series, listed on page 44.

BOX 5 EXPANDING ECONOMIC OPPORTUNITY IN THE AUTOMOTIVE SECTOR

Creating Inclusive Business Models	• **General Motors, Ford,** and **DaimlerChrysler** have teamed up on a joint procurement website targeting minority-owned suppliers in the United States; the companies are also using the website to encourage and facilitate supplier diversity efforts among their large first-tier suppliers • In Thailand, **Toyota** established extensive linkages with local suppliers, having set the goal of 100% local procurement – a first for the company • **General Motors**' North America Supplier Diversity Program establishes targets for purchasing from smaller, minority-owned suppliers not only for GM itself but also for its first- and second-tier suppliers • **DaimlerChrysler** has worked with partners in South Africa and Brazil to support local farmers and manufacturers to supply sisal and coconut fibers for use in the manufacture of car seats and other components
Developing Human Capital	• **The Abdul Lateef Jameel Group**, one of **Toyota**'s largest distributors worldwide, has convened the other Japanese auto distributors and government partners in Saudi Arabia to offer a comprehensive training and job placement program for young people; the program also supports a taxi-owner initiative helping young people start their own businesses • **Toyota**'s Cooperation Club in Thailand helps strengthen the capabilities of its first-tier suppliers through annual conferences, quality assurance activities, and lectures • In Slovakia, **Volkswagen** provides supplier training in human resource management and compliance with quality standards • In Poland, **Fiat** offers all of its local suppliers the opportunity to participate in Fiat Group's internal training programs; these programs cover sales force training, management development, and production re-engineering • **Fiat** and **Ford** have both worked with the UN Industrial Development Organization (UNIDO) and other partners to provide training to small- and medium-sized auto component manufacturers in India
Building Institutional Capacity	• Part of **Fiat** and **Ford**'s partnership strategy with UNIDO to strengthen small- and medium-sized auto component manufacturers in India was to build the capacity of local industry associations and universities to provide these manufacturers with training and consulting services • **General Motors** has supported development of the National Minority Supplier Development Council in the United States, which provides certification, access to finance, and consulting services to minority-owned firms; NMSDC also operates a database of more than 15,000 minority-owned firms and facilitates business linkages with larger firms
Helping to Optimize the "Rules of the Game"	• In 2000, the World Business Council for Sustainable Development launched a global **Sustainable Mobility** project. This convenes major auto companies, suppliers, and energy companies to explore appropriate policies and business practices for ensuring that road transportation is able to serve the mobility needs of the world's population in a manner that spurs economic development, while reducing environmental impact and transport-related deaths and injuries. The "Mobility for Development" workstream looks at ways to narrow the mobility opportunity divide

BOX 6 EXPANDING ECONOMIC OPPORTUNITY IN THE EXTRACTIVE SECTOR

Creating Inclusive Business Models	• **Petrobras**, working with national SME support network SEBRAE in Brazil, has generated $113 million in transactions between oil and gas companies and SMEs • **ExxonMobil** uses a company-wide National Content Strategy to identify and adapt best practices from its global operations for replication in different contexts; the strategy has been implemented in Chad, Malaysia, and Russia • **DeBeers** and **Rapaport**, together with international development organizations and the government of Sierra Leone, have developed buying schemes that enable them to purchase fairly and competitively from small-scale miners • **British Petroleum** established two joint ventures to develop its local supply chain in Trinidad & Tobago, enabling the company to retain local engineering and fabrication firms for the construction of its two most recent offshore platforms • **Rio Tinto**'s Diavik Diamond Mines, in a largely indigenous, arctic region of Canada's Northwest Territories, has committed to surpass 70% local purchasing • **Anglo Zimele** provides loans, equity investments, and business support services to small and medium black empowerment enterprises in South Africa, often linking them to procurement opportunities in **Anglo American**'s value chain • **Alcan's Regional Industrial Development (RID)** efforts leverage the expertise of its Primary Metals Group to develop independent new businesses in sectors in which the region can demonstrate a sustainable competitive advantage, generating local economic development along with local demand for its products. After successful efforts in Canada, France, and Switzerland, RID projects are now being implemented in Cameroon, China, and South Africa
Developing Human Capital	• **DeBeers**, **Rapaport**, and their partners in the Peace Diamonds Alliance rely heavily on training small-scale miners to recognize the value of their products • **BP, Sonangol, ExxonMobil, Chevron**, and **Total** have collaborated to launch a business support center providing supplier training in Luanda, Angola • With **IFC, BP** has also established the Baku Enterprise Center in Azerbaijan, providing training in technology, contract bidding, and basic business disciplines • **Petrobras**, other oil and gas companies, and the Brazilian Labor and Science and Technology Ministries in Brazil have invested $150 million to train 113,000 people for skilled employment in the industry
Building Institutional Capacity	• **Chevron**'s Angola Partnership Initiative established NovoBanco, a private microfinance bank targeting micro, small, and medium enterprises; API is also working to strengthen the capacity of municipal governments to plan, budget, and implement projects that benefit local communities • In Kazakhstan, **Chevron** is partnering with established local, commercial banks to finance SMEs within and outside its supply chain, thus building the banks' capacity to serve this new market • In Cajamarca, Peru, **Newmont** and **IFC** are building the capacity of a new local foundation, the Asociación Los Andes de Cajamarca, to sustain SME development efforts for the long term, after the companies exit
Helping to Optimize the "Rules of the Game"	• **Phelps Dodge** and **Tenke Fungurume Mining** are advocating transparency, human rights, and alternatives to artisanal mining within the mining industry in the Democratic Republic of the Congo, with support from civil society group Pact • **The Extractive Industries Transparency Initiative** lays an important foundation for expanding economic opportunity in countries afflicted by the "resource curse" by fighting corruption in the payment and receipt of tax revenues

BOX 7 EXPANDING ECONOMIC OPPORTUNITY IN THE FINANCIAL SERVICES SECTOR

Creating Inclusive Business Models	• **Citibank** has been involved in microfinance for over 40 years, mostly on a philanthropic basis; in 2004, the company went commercial with its Global Microfinance Group offering savings, insurance, remittance products, loan guarantees, securitizations, and bonds to microfinance institutions • **Standard Chartered Bank** in Pakistan, together with farm input companies, offers consumer credit cards to small-scale farmers specifically for purchase of high-quality, certified crop inputs, leading to higher crop yields and incomes • **Deutsche Bank** has created a new microfinance investment facility, the Global Commercial Microfinance Consortium, in collaboration with philanthropists, socially responsible investors, and bilateral donors including DfID and USAID • **ICICI Bank** has partnered with social enterprise BASIX to offer weather-indexed crop insurance to small farmers in India; in East Africa, Rabobank has developed affordable risk hedging products for cocoa and cotton farmers • **ABN Amro Real** has teamed up with Votorantim Celulose e Papel to provide supplier finance to eucalyptus farmers in its value chain in Brazil • **Barclays** offers a range of financial services to the poor through 300 traditional Susu collectors in Ghana • **Tata-AIG** in India uses micro-insurance agents recommended by NGOs to form Community Rural Insurance Groups that operate like insurance agencies, obtaining licenses, doing direct marketing, and receiving commissions on the policies they sell; more than 34,000 term life insurance policies have been issued • **Banco de Oro** works with SMART Communications in the Philippines to offer deposits, payments, inward remittances, and other transactions via cell phone
Developing Human Capital	• **Citigroup** promotes financial literacy in the US and around the world; **Citibank China**, for example, produced a comic book promoting sound financial judgment • **Deutsche Bank** provides basic money management and investment training for the clients of its microfinance partners, enabling them to make better decisions • **ABN Amro Real** provides financial literacy and business management training to the Votorantim Celulose e Papel eucalyptus suppliers in which it invests • **Barclays** has not only trained the Ghanaian Susu collectors it works with, but also provided educational programs on banking, savings, insurance, and record-keeping to more than 1,000 of their clients • **Goldman Sachs** helped create the Africa Leadership Initiative to bring young professionals together in tackling the economic and social issues facing their countries • **Westpac** offers a range of services tailored to the needs of Australia's indigenous populations; the company also supports the government's Family Income Management program, helping indigenous families reach their financial goals
Building Institutional Capacity	• In India, **ICICI Bank, Standard Chartered**, and a number of national banks created the joint venture Small Medium Enterprise Rating Agency (SMERA) to streamline the requirements made of SMEs approaching different institutions for loans • **ICICI Bank** and the Center for Micro Finance at the Institute for Financial Management and Research in Chennai have catalyzed the formation of more than 100 microfinance institutions in India in approximately three years • **Tribanco** in Brazil has partnered with **IFC** to develop a wholesale capacity-building function in which its credit officers will train its retail clients, who offer customers consumer finance
Helping to Optimize the "Rules of the Game"	• **11 industry associations** have signed the **South African Financial Sector Charter**, committing to promote black economic empowerment in and through their businesses • **Visa International** helped convene financial services firms, regulators, and international donors to discuss global credit scoring and mobile banking, providing insight into policy and regulatory needs for this rapidly-evolving space

BOX 8 EXPANDING ECONOMIC OPPORTUNITY IN THE FOOD & BEVERAGE SECTOR

Creating Inclusive Business Models	• **SABMiller** sources sorghum, a substitute for barley used in its Eagle Lager, from more than 10,000 small-scale farmers in Uganda and Zambia, working through farmers' cooperatives, non-governmental organizations, and commodity brokers • In Thailand, **Nestlé's** distribution chain includes 400 micro-distributors and 4,000 micro-retailers; in Brazil, the company is hiring women from low-income communities to serve as door-to-door retailers in their neighborhoods • **Coca-Cola Sabco**, an independent Coca-Cola bottler, is addressing distribution difficulties in low-income areas of East Africa and Asia through a system of Manual Distribution Centers owned and operated by local entrepreneurs • **Starbucks** is working with a variety of partners in the Conservation Coffee Alliance to source sustainable, premium coffee that can be branded on the basis of origin from small-scale growers in Chiapas, Mexico • **Danone**, together with **Grameen** in Bangladesh, is building "deskilling factories" to employ rural people in the production of high-quality yogurt for local markets • **Reliance Retail** in India procures from rural farmers through collection centers that streamline the supply chain, reducing handling charges by 50% and offering fairer, more transparent prices compared with traditional markets • Agricultural trading company **ITC Ltd.** in India procures from small farmers through Internet kiosks called e-Choupals offering market information, centralized collection hubs, and seeds, fertilizers, and other inputs for sale • In China, **InBev**, the world's leading brewer, has provided technology transfer to local breweries since 1984; through acquisitions and partnerships, the company has increased its local Chinese breweries to 33, employing more than 20,000 people in eight provinces
Developing Human Capital	• **The Coca-Cola Company** has customer development training centers throughout Latin America; these centers provided business management, marketing, finance, and other programs to more than 21,000 small, independent retailers in 2005 • **Nestlé** has approximately 850 of its own agricultural extension workers serving 400,000 farmers in India, Pakistan, Brazil, Colombia, Indonesia, South Africa, and other countries; the company provides intensive training to micro-distributors and retailers on the downstream side of its value chain as well • In Brazil, **AmBev** has established 12 agricultural production centers where the company teaches small farmers in its supply chain more efficient techniques for growing high-quality guarana, a key ingredient in its popular soft drink Guaraná Antarctica; the centers also help farmers diversify their activities – for example into other fruits, sugarcane, manioc, poultry, sheep, and bees – in order to enhance income and income security • **ECOM**, the agricultural trading company, has trained thousands of small coffee farmers to implement sustainability and fair trade certification standards, enabling them to obtain higher prices • In India, **Cargill** and **SABMiller** are collaborating to help small-scale farmers improve the quality of their barley crops so they can participate in the supply chain for barley malt
Building Institutional Capacity	• The World Cocoa Foundation, made up of more than 50 companies including **ADM, Cargill, ECOM, Hershey, Kraft, Nestlé, and Starbucks**, has together with USAID worked to strengthen the ability of cocoa farmers' organizations in Nigeria to provide effective member services and facilitate profitable trade relationships • **Unilever**'s Project Novella in Tanzania, which seeks to develop a sustainable supply of Allanblackia (AB) nuts and oil for margarine, has built institutions including an AB Board, farmers associations, rural banks, and agricultural institutes • **Danone** and **Grameen** in Bangladesh are training local non-governmental organizations to be able to work with milk farmers to improve their productivity
Helping to Optimize the "Rules of the Game"	• **ADM, Cadbury Schweppes, Cargill, Con-Agra Trade Group,** and more than 200 other companies have joined together to promote and develop criteria for sustainable palm oil production, including through oil palm smallholdings • In India, German retail company **Metro Cash & Carry** engaged with the government of Karnataka state to obtain a change in the law requiring farmers to sell through middlemen; such changes are now spreading through other Indian states allowing Metro and other companies to do business with farmers directly

BOX 9 EXPANDING ECONOMIC OPPORTUNITY IN THE HEALTH CARE SECTOR

Creating Inclusive Business Models	• **Sanofi-Aventis** transferred all production of a rifampicin-based drug used to treat tuberculosis to a site in South Africa, allowing the company to lower production cost per treatment by 35% as well as add jobs and expertise in South Africa • **Novartis** partnered with Kenya's **East African Botanicals (EAB)** to expand production of artemisinin for its anti-malarial drug Coartem®, allowing EAB to offer supply contracts to several thousand local farmers in Kenya and Tanzania • **Roche Pharmaceuticals** granted a voluntary license to **Universal Corporation Limited** in Kenya to produce generic saquinavir, an anti-retroviral (ARV) therapy for HIV/AIDS; UCL's $10 million new plant employs 280 people • **GlaxoSmithKline** has granted eight voluntary licenses to seven companies in South Africa and one in Kenya to produce generic versions of its ARVs, opening up new business opportunities for those countries and making the drugs more widely available for those who need them • **AstraZeneca** has opened two research and development facilities in Bangalore, India, investing more than $50 million and creating more than 400 jobs at a range of skill levels – in science, engineering, manufacturing, and administration • **Pfizer** has contracted with the Malaysian firm **Pharmaniaga Manufacturing Berhad**, reducing the cost to Pfizer of manufacturing tablets and at the same time providing growth opportunities for a local business, which can translate into expanded economic possibilities for local citizens • **Eli Lilly** has transferred technology for the manufacture of capreomycin and cycloserine drugs to Aspen Pharmacare, enhancing its capacity to grow by producing other products in compliance with Good Manufacturing Practices • **The Council for Scientific and Industrial Research**, the largest R&D laboratory in South Africa, has entered into a revenue-sharing agreement associated with the commercialization of hoodia, a native plant that suppresses appetite, with the indigenous San tribe that has used the plant for hundreds of years
Developing Human Capital	• Since 2001, **Abbott's** HIV/AIDS program in Tanzania has trained over 10,000 professional and community-based health care workers in HIV care, counseling and testing, equipment operation, and hospital management • In Afghanistan, **Abbott** has supported two nine-month intensive training programs for nurses, midwives, and health educators in Herat and Kabul; the program's first class achieved 100% employment upon graduation • **Pfizer** sponsors Uganda's Infectious Diseases Institute, which trains medical professionals in advanced HIV/AIDS management techniques; since 2004, more than 1,400 professionals from 26 African countries have participated • **GSK** has trained 500 nurses in Thailand; in Vietnam, the company has trained 500 rural women as birth attendants who then return to their villages to provide maternal care; they are equipped with medical packs and sometimes with motor scooters to access remote places • **Novo Nordisk**'s World Partner Project provides continuing education in diabetes prevention and care to doctors in eight developing countries; in Bangladesh, for example, more than 400 doctors and 100 nurses have been trained since 2002
Building Institutional Capacity	• **Novo Nordisk** is taking steps to build its own capacity to expand economic opportunity in developing countries through an economic footprint model that helps the company understand both its direct and indirect impacts • According to **Aspen Pharmacare** in South Africa, its voluntary licensing and technology transfer relationships with **GSK** and **Eli Lilly** have enabled the company to develop more sophisticated partnerships and to become a US Food & Drug Administration-approved drug manufacturer • A coalition of companies led by the **International Federation of Pharmaceutical Manufacturers and Associations** is working to build developing country capacity for drug registration and regulation, which is expected to lead to job creation in both the regulatory arena and the pharmaceutical business
Helping to Optimize the "Rules of the Game"	• **Merck**'s $1 million a year Competitiveness Initiative for Latin America works with local business, government, and non-profit partners to drive the development of competitive life sciences sectors in Mexico and Brazil; the company and its partners have conducted research, developed business cases, and advocated for policies and incentives that favor innovation and new business formation

BOX 10 EXPANDING ECONOMIC OPPORTUNITY IN THE INFORMATION & COMMUNICATIONS TECHNOLOGY SECTOR

Creating Inclusive Business Models	• In Korea, **Motorola** allowed employees who wanted to start up their own firms to use its facilities and equipment at low cost and offered to procure their products; this incubation approach has led to the creation of 10 new businesses • The R&D arm of **Intel**'s Emerging Markets Development Group develops technical specifications for new devices and provides the product references for free, enabling smaller firms and aspiring entrepreneurs to pick one up and decide whether there is business opportunity in it for them, partnering with Intel • **Microsoft**'s Partnerships for Technology Access are customized, multi-party deals designed to transform the ability of governments to provide public services and the ability of citizens to receive the benefits, with technology as an enabler. Microsoft is also cultivating local software entrepreneurs by offering them the opportunity to join its partner system through 110 Innovation Centers in 60 countries • **Vodacom** is offering phone service in low-income communities in South Africa via phone shops owned and operated by local entrepreneurs; in Ghana, **Adeeb-2-Adeeb** offers similar services in road-side stands and traveling vans • **Globe Telecom** and **SMART Communications** are offering low-income customers in the Philippines an array of financial services via mobile phone; through their prepaid airtime models, they have together created more than a million new jobs in the airtime retail business alone • **Vodafone** and **Safaricom** have begun to offer m-transactions, including micro-loan repayments, via mobile phone via M-PESA in Kenya; they are signing up 6,000 new subscribers per month • **Celtel's** One Network allows customers make international calls and airtime transfers between Kenya, Tanzania, Uganda, Congo, Democratic Republic of Congo, and Gabon at local rates, with no special enrollment required; this has spurred Vodacom, Safaricom, and MTN to follow. One Network and similar plan options allow migrant workers to maintain social networks and facilitate cross-border trade and financial flows
Developing Human Capital	• **Cisco Systems** is training and certifying thousands of professional network administrators by working with the UN Development Program, the US Agency for International Development, and others to extend its **Neworking Academies** in the least-developed countries (LDCs) • **Microsoft**'s five-year, $250 million **Partners in Learning** program has trained 2.5 million teachers in 101 countries to use technology and, jointly with **Intel's Teach to the Future** initiative, provided guidance on integrating technology into lesson plans and curricula. The companies also partner on the **Classmate PC** • Outside the classroom, **Microsoft** supports approximately 29,000 **Community Technology Skills Centers** in 102 countries that provide technology access and training for workforce development and other purposes • **IBM** collaborated with IFC to develop an online SME Toolkit containing free software and self-guided training in subjects such as accounting, business planning, human resource management, and marketing
Building Institutional Capacity	• **SAP** is helping build the capacity for good governance in resource-rich developing countries through software solutions that enable mutual transparency and accountability among companies and governments in the Extractive Industries Transparency Initiative • **Lenovo** is supporting microfinance institutions such as peer-to-peer lending platform Kiva.org through its Hope through Entrepreneurship program, providing donated laptops and other hardware • **Microsoft**'s Partnerships for Technology Access and **Cisco Systems**' emerging markets public sector strategies help governments develop the capabilities they need to provide public services more effectively and with greater accountability • **Intel's** Digital ASEAN initiative works with governments, educators, telecommunications suppliers, and businesses to encourage e-government and the integration of technology into education
Helping to Optimize the "Rules of the Game"	• **Vodafone, Nokia,** and **Nokia Siemens Networks** are engaging in research and public dialogue with policy-makers about regulatory and policy environments to enable innovation in the business of providing financial transactions via mobile phone • **Hewlett-Packard** has engaged with the US government offering Congressional testimony on policies conducive to innovation and trade, helping expand economic opportunity for the company itself and for citizens around the world • In India, **Skype** is advocating for the government to remove licensing restrictions on Internet service providers to allow broader access to Internet telephony, and encourage innovation in start-ups and SMEs

BOX 11 EXPANDING ECONOMIC OPPORTUNITY IN THE TOURISM SECTOR

Creating Inclusive Business Models	• Working with IFC, **Orient Express Hotels** in Peru, which operates hotels and trains in the Sacred Valley Region around Macchu Picchu, has contracted with local small businesses in agriculture and entertainment • **Starwood Hotels & Resorts**, which operates five historic haciendas in the Yucatan Peninsula owned by Mexico's **Grupo Plan,** sources 90% of fresh produce and 100% of poultry and pork from local farmers • **Wilderness Safaris** has signed a 45-year lease with the local Makuleke community allowing the company to operate in perhaps the most remote, pristine, and diverse area in Kruger National Park in South Africa; the company also facilitates access to small loans for crafts producers targeting tourist markets • Owned by the for-profit subsidiary **Aga Khan Fund for Economic Development (AKFED)** of the Aga Khan Development Network (AKDN), **Serena Hotels and Lodges** use local, national, or regional suppliers wherever possible; most food and beverages in their 26 establishments in Africa and Asia are sourced locally • **EQI**, an Egyptian consultancy, and **IFC** have established three lodges in the Siwa oasis region, offering a variety of local business opportunities including organic farming, furniture, handicrafts, and traditional Siwan building; local jewelry and garments are now exported to Italy, France, and England • In 2004, **Spier Leisure Holdings** in South Africa broadened its procurement criteria and took a proactive role in local enterprise development; by 2006, 89% of procurement spending went to small businesses of fewer than 50 employees, and over 90% went to local and regional suppliers • **Umngazi River Bungalows** in South Africa sources all of its produce locally and contracts services from over 80 local firms; its occupancy rates averaged 95% in 2004, with 80% returning guests
Developing Human Capital	• **Serena** prioritizes local hiring and training at all levels, including senior management; in East Africa, only one of Serena's 2,995 staff is an expatriate, for a virtually 100% local hiring rate • **EQI** and **IFC** trained local Siwan farmers in organic agricultural techniques, enabling them to receive premium prices for their produce in both Egyptian and export markets • **Starwood Hotels & Resorts** has established 27 enterprise development workshops associated with its haciendas in the Yucatan, enabling local communities to earn incomes reviving traditional Mayan jewelry and crafts • **InterContinental, Marriott, Pan Pacific, and other major hotel groups** in the Youth Career Initiative offer six-month trainings helping disadvantaged young people gain hospitality experience as well as transferable life and business skills
Building Institutional Capacity	• **EQI** worked closely with the Friends of Siwa Association and local authorities to engage with government on energy supply options, enhancing these groups' capacity to engage in resource discussions and effecting policy change
Helping to Optimize the "Rules of the Game"	• In Maputoland, **Wilderness Safaris** has organized joint delegations of company and community leaders to encourage government officials to accelerate the granting of legal and commercial rights to local citizens, an interest they share • **Serena**, through its membership in the Kenya Association of Hotel Keepers and Caterers, has helped shape the government's National Tourism Sector Development Strategy • The **Business Council of the United Nations World Tourism Organization** brings tourism corporations, industry associations, and consultants together to promote public-private cooperation and dialogue at local and national levels

BOX 12 EXPANDING ECONOMIC OPPORTUNITY IN THE UTILITIES SECTOR

Creating Inclusive Business Models	• **Electricité de France** (EDF) created locally-owned and operated companies to market and maintain household solar energy systems in rural West Africa • In Argentina, Brazil, and other countries, **Suez**'s Water for All program required neighborhood associations to petition for and help build water infrastructure, reducing construction costs and enhancing commitment among customers and government authorities • **COELBA**, the electric utility in Salvador, Brazil, worked with an NGO to establish an intermediary organization tasked with hiring Community Agents responsible for billing customers, reporting potential theft, and investigating grid extensions • **Manila Water** bills low-income neighborhoods in the aggregate, using a “mother meter” in addition to household meters; community groups collect payments from individual households. Manila Water has also secured access to finance for small enterprises in its value chain, such as small piping components suppliers • In Colombia, Spanish utility **Agbar** offered weekly or even daily bill payment options to accommodate poor customers' unpredictable income flows • **Eskom** allows low-income customers to pay for electric service via pre-payment meters in homes, which use pre-paid cards sold in local shops
Developing Human Capital	• As part of its strategy of creating local rural electric companies in Mali, **EDF** provided technical skills and business management training for entrepreneurs • In South Africa, **Eskom** trained local people to install its pre-paid meter systems and perform the maintenance on them; Eskom has also provided business training to black empowerment enterprises (BEEs) within its value chain • **ABB** in Tanzania trained local residents in Ngarambe to operate and maintain a local mini-grid the company installed; Suez did the same thing after installing water infrastructure in low-income neighborhoods in La Paz, Bolivia • In Touat, **Gaz de France** has trained low-income residents to become employees of the company • **Veolia Environment** has teamed up with UNICEF and the French Committee for UNICEF in Morocco to provide hygiene and health education and improve sanitation infrastructure in schools, which contributes to high drop-out rates
Building Institutional Capacity	• **EDF**'s work to establish rural electricity supply companies in West Africa highlights the potential of companies to create locally-owned and operated institutions; the company plans to sell all shares in these companies to locals • Where strong community associations did not already exist to help **Manila Water** administer its neighborhood “mother meter” system, the company helped residents to organize them • **E8**, an international alliance supported by eight leading electricity companies has conducted workshops with developing country governments to strengthen their capacity for power sector development; E8 also works directly on capacity-building with developing country utilities • Water and Sanitation for the Urban Poor (WSUP), founded by **RWE Thames Water** and others, supports developing country providers to design systems and build implementation consortia • **CH2M Hill** and USAID helped the Lyiv water authority in Ukraine maintain and improve its water system; it also helped eight Ukrainian municipalities develop strategic water plans through transparent, participatory processes
Helping to Optimize the “Rules of the Game”	• The Malian government has learned from **EDF**'s experience creating rural electricity companies, reforming the regulatory and policy environment to facilitate entry of new firms • **Severn Trent Water**, the World Bank, and government donors collaborated to help the Russian Federation address declining water and wastewater service quality, tackling issues of ownership, regulation, and private sector participation • **The Business Action for Energy** alliance enables electricity companies and industry groups provide input to the United Nations Commission for Sustainable Development with a unified voice • **Eskom'**s leading-edge BEE procurement policies helped shape the legal framework in which other South African companies now operate

4 Cross-Cutting Themes

4.1 Hybrid Funding Models

The distinction between inclusive business models and the complementary strategies of developing human capital, building institutional capacity, and helping to optimize the "rules of the game" is not a distinction between commercial and charitable activity. All four strategies can draw upon core business, philanthropic, or even public donor funding, depending on the balance of business and social benefits expected, the likely time frame for their realization, and the level of uncertainty or risk involved.

Sometimes the business benefits outweigh the implementation and management costs significantly and directly enough to justify purely commercial investment in a strategy that expands economic opportunity. The m-transactions services that SMART Communications and Globe Telecom offer to previously unbanked customers in the Philippines are two examples in the inclusive business model category. Mobile phone usage was already widespread; customers were avid text messagers; and making small payments via text was seen as a logical, comfortable extension of the technology. Similarly, most major information technology companies invest significant amounts of commercial money in human capital development and institutional capacity-building within the partner systems on which their competitive strategies depend. Microsoft, for example, has more than 750,000 business partners, ranging from original equipment manufacturers to independent software vendors, and 89% of its revenues come from this network.[60] Cisco Systems has 20,000 partners, including retailers, systems aggregators, and network consultants, and 90% of its revenues come from them.[61] These companies' partner development efforts have broad economic opportunity impacts and multipliers beyond the boundaries of the firm, and yet they are sufficiently valuable to it as to be considered business, not philanthropic, expenses.

Other times, the business benefits of expanding economic opportunity are so indirect, long-term, or just plain uncertain that philanthropic or public funding must be used. This is typically the case when complementary strategies such as human capital development and local institutional capacity-building are implemented on their own, without the strategic cornerstone of an inclusive business model. Improving primary schooling is a classic example. The social value and long-term business benefit of such an initiative may be very high – which may amply justify the expense in terms of corporate values and other intangibles, and possibly even allow companies to secure public money to complement their own contributions – but the financial model is a fundamentally charitable one.

Philanthropic and public donor funding can also be critical during the early stages of inclusive business model development. Periods of experimentation, learning, and adaptation are often required before a company can reasonably ascertain whether, and when, business benefits might begin to outweigh costs. Nick Hughes, head of international mobile payment solutions at Vodafone, explains, "Many organizations use internal competition to allocate funds to their projects, and this competition is based on potential returns on investment. As a result, any initiatives that relate to the development agenda usually get squeezed out.... What if a firm could use somebody else's capital to overcome the internal competition (one hurdle down) and a compelling proposition could be shaped that would give the company some comfort that the project was addressing a market of potential future value?"[62] This is in fact what Vodafone did in developing its M-PESA mobile transactions service together with local mobile operator Safaricom in Kenya, using a grant of nearly one million pounds from the UK Department for International Development's Financial Challenge Deepening Fund (FCDF) to get started. FCDF money has also helped seed Standard Chartered's agricultural credit card business in Pakistan and the micro-insurance scheme of TATA and AIG Life Insurance in rural Andhra Pradesh in India.

Inclusive business models may also require initial periods of start-up investment in infrastructure, human capital development, or local institutional capacity-building before commercial viability becomes possible. As UNDP's Growing Inclusive Markets initiative observes, because these activities "often demand the provision of public goods and consist in the delivery of elemental services that result in positive externalities, some support through public funding may appear justified."[63] As the University of Michigan's Ted London points out, such "subsidies" are not unprecedented in profit-oriented ventures. Analogues can be found in corporate research and development investment and government grants for basic scientific research.[64]

As Jed Emerson underscores in his seminal work on "blended value," all value is multidimensional, with economic, social, and environmental components.[65] It follows that the tools and strategies we use to create value should be equally multidimensional. For many years, companies have tended to use one set of approaches to create shareholder value and another, distinct set to create social value. The distinction has been limiting. Profit-making business strategies may actually be our most promising means of meeting some social goals. Equally, social progress may be required to bring some business goals within the realm of possibility. Today, we find leading companies increasingly using hybrid funding approaches to enhance both profitability and development impact.

4.2 Collaboration

Collaboration is a common theme across all four strategies presented here. There are now fairly substantial literatures on collaboration in the business, international development, and corporate social responsibility fields, with some of the most commonly cited advantages including:[66]

- sharing knowledge and information
- pooling scarce or diverse assets and resources
- accessing new sources of innovation
- creating economies of scale, and
- enhancing the legitimacy of the parties' own individual activities

Collaboration does, of course, come with costs of its own – most notably the transaction costs involved in building trust and in initiating, managing, evolving, and exiting relationships – but it is increasingly possible to manage these costs as expertise and experience in relationship management grow.[67]

Collaboration is particularly important in the context of a systemic challenge like expanding economic opportunity. As we have seen, the economic opportunity system comprises a large number of interdependent factors, ranging from financial services to individual human capital to market access to regulation. These factors depend in turn on a large number of actors – including companies, governments, donors, civil society groups, and the poor themselves – who are collectively responsible for how well the system works.

This complexity results in frustratingly frequent bottlenecks to unilateral action, corporate or otherwise. Even the best-resourced efforts eventually run into limitations on scale somewhere in the system. At the same time, there are important positive "spillovers" to individual actors' efforts in an interdependent system.

Collaboration creates value for the parties involved by combining and leveraging their individual needs, goals, and capacities to unlock these bottlenecks and spillovers. Relevant needs, goals, and capacities may be similar or complementary, and can be found in other companies and among non-corporate actors, such as government agencies, development institutions, civil society groups, and social entrepreneurs. For instance, a company wishing to source from small, local suppliers might collaborate with a bank to ensure those suppliers have access to credit to scale up, or with a technology company to aggregate demand for business management software to improve their productivity. Alternatively, companies with a common need for qualified local transport providers may team up to identify and assess candidates, then find they need to bring in a development agency or international financial institution to share the burden of any training or financing that might be required.

The benefits of collaboration are not merely additive. In addition to assembling the necessary resources and capabilities, collaboration can generate new capabilities and change operating environments in ways that create new strategic opportunities. Indeed, as Sharon Alvarez and Jay Barney have pointed out, collaboration is at least as valuable in creating new opportunities as in discovering or tapping ones that already exist.[68]

As noted, collaboration is not cost-free. Among other things, "all parties [have] to be prepared to embrace the consequences of change – and this is not easy for naturally conservative organizations that are not accustomed to working together," as M-PESA's Susan Lonie observes. But when managed well, collaboration offers the potential to reduce overall cost and risk, increase effectiveness, and generate new capabilities and strategic opportunities. Formal partnership is not the only effective model. Innovative structures and channels to support a range of possibilities, from communication to coordination to active collaboration, are beginning to emerge. Examples include:

- **Xigi.net**, a user-driven, online network that generates and organizes market intelligence that investors, entrepreneurs, and intermediaries can use for learning, partnering, and deal-making in the "capital market for good"
- **Business Action for Africa**, a membership network that presents a unified business voice in public policy dialogue on business in Africa and supports sub-groups of companies to coalesce around specific interests and on-the-ground projects

- **The Business Coalition for Capacity-Building**, which helps US-based companies self-organize for learning and sharing with trade- and development-related departments of the United States Government, with the aim of optimizing US policy and capacity-building assistance to increase trade-related development impact
- **The United Nations Global Alliance for Information Technology and Development**, which provides an umbrella for decentralized regional networks and the bottom-up formation and dissolution of "communities of expertise" with common interests and agreed-upon deliverables

These vehicles help individual businesses, governments, and civil society groups innovate, optimize, and evolve their roles dynamically in the context of broad, societal challenges, thus greasing the wheels of systemic change – a critical function in expanding economic opportunity and many other challenges facing our world today.

5 Conclusions

This paper is part of a growing effort within the international development, business, and corporate social responsibility communities to make the links between private sector development and poverty alleviation. Other important references in this emerging and developing body of work are listed at the end of this paper. Given the scale of the economic opportunity challenge – and the vast potential to be realized in addressing it – the following key themes deserve further research, experimentation, and action within the business and development communities:

1. Inclusive business models as "strategic cornerstones" for expanding economic opportunity

The comparative advantage of business in expanding economic opportunity is rooted in core business interests, assets, and activities and the development multipliers they catalyze, which provide the potential for impact at scale. As a result, inclusive business models are likely to be the most effective and sustainable ways companies can contribute to expanding economic opportunity.

2. The role of complementary strategies in enhancing the commercial viability and development impact of inclusive business models

Complementary strategies such as developing human capital, building institutional capacity, and helping to optimize the "rules of the game" can be used to target market failures, governance gaps, and other bottlenecks in the economic opportunity system, thus enhancing both the commercial viability and the development impact of inclusive business models.

3. The applicability of business, social, and hybrid funding models

The four business strategies for expanding economic opportunity can draw upon core business, philanthropic, and public donor funding, depending on the balance of business and social benefits expected, the likely timeframe for their realization, and the level of uncertainty or risk involved. For many years, companies have used distinct tools and sources of funding for shareholder value creation versus social value creation. Today, we find leading firms increasingly using hybrid approaches to enhance both profitability and development impact.

4. The importance of collaborative action in achieving systemic impact and scale

Complex, systemic challenges like expanding economic opportunity present frustratingly frequent bottlenecks to unilateral action, corporate or otherwise. Even the best-resourced efforts eventually run into limitations on scale somewhere. Collaboration allows parties to share knowledge and information, pool scarce or diverse assets and resources, access new sources of innovation, create economies of scale, and enhance the legitimacy of the parties' own individual activities. In addition to assembling the necessary resources and capabilities, collaboration can generate new capabilities and change operating environments in ways that create new strategic opportunities.

5. The public leadership opportunity for large firms and their executives

Expanding economic opportunity is one of the most significant ways companies create "shared value" for business and society. Large firms should both demonstrate and communicate this message. Top business executives, in particular, have a critical opportunity for public leadership in articulating their firms' roles within the larger system; advocating for effective public policies and institutions; and engaging other companies, government bodies, international agencies, and civil society organizations to explore complementary, and possibly collaborative, action.

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In 1961, at the International Industrial Conference in San Francisco, California, Neil H. McElroy, then Chairman of Procter & Gamble, asked, "As businessmen… how can we best help to reduce the starvation, disease, and illiteracy that are stifling the majority of the earth's population?" His answer was "by furnishing [mankind] the opportunity to develop and maintain his own dignity and to work toward his own personal aspirations."[69] Today, large firms are increasingly explicit and deliberate about this role. Says Julio Moura, Chairman and CEO of GrupoNueva, "Development is our business as much as that of governments and aid agencies."[70] With new technologies, management techniques, and attitudes – as well as accumulating experience – promoting collaborative approaches among business, government, civil society, and the donor community, large-scale expansion of economic opportunity seems increasingly within our reach.

Experimentation and learning are happening fast. As a result, this report must be considered a work-in-progress, and readers are invited to share their experience and reflections with us. Through our Economic Opportunity Program, we at the CSR Initiative look forward to being part of a dynamic and collaborative growth process.

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About the Corporate Social Responsibility (CSR) Initiative

Under the direction of John Ruggie (Faculty Chair) and Jane Nelson (Director), the CSR Initiative at Harvard's Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on the role of business in addressing global development issues. The Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors and is now also supported by Abbott Laboratories, Cisco Systems, Inc., InBev, InterContinental Hotels Group, Microsoft Corporation, Pfizer, Shell Exploration and Production, and the United Nations Industrial Development Organization (UNIDO). Visit the Initiative's homepage at **http://www.ksg.harvard.edu/m-rcbg/CSRI**

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