

Executive Summary

# Enterprise solutions to poverty

Opportunities and Challenges  
for the International Development  
Community and Big Business

A Report by Shell Foundation

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# Enterprise solutions to poverty

**Opportunities and Challenges  
for the International Development  
Community and Big Business**

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## Executive summary

### **A moment in history?**

The modern world has always encompassed extremes of affluence and poverty. But in 2005 the confluence of advocacy, political serendipity and natural disaster has rapidly pushed the plight of the impoverished up the agenda of the wealthy as never before. The sharpness of the challenge being thrown down on behalf of the poor and the pressure on the rich to take action in response is unprecedented, as is the level of debate on a topic previously all but ignored by the public and mainstream media.

As a result of this campaign by the International Development Community (IDC) and non governmental organisations (NGOs), rich governments are likely to raise their aid budgets and expand debt relief significantly while hopefully revising international trading rules in a more pro-poor direction.

This is good news. The more sobering side of this story is that deploying this political and financial capital effectively in the war against poverty will be a complex and difficult undertaking – as a look backwards tells us. Over the last 50 years, the international community has spent more than a trillion US dollars, and many times that amount in effort, exhortation and emotion, to relieve human suffering and create the starting conditions for poor people to escape poverty.

Clearly, this assistance has brought much short-term relief, achieved real breakthroughs against devastating diseases and the scourge of famine and contributed to the long-term development prospects of poor countries. But at the same time, much aid has been ineffectively and inefficiently used and failed to deliver the broad-based gains in growth and quality of life that had been promised.

This means past efforts to tackle poverty are not necessarily a reliable guide to what should be done in the future. And precisely *how* the international development community will use the new opportunities on offer to eradicate poverty is a vitally important question for many reasons.

There's a great deal of public money at stake and bold claims are being made about using it to 'Make Poverty History'. More importantly, there remains great need. After fifty years of international development assistance, two billion people still live

on less than US\$2 per day. Great uncertainty remains about the mix of policies and interventions needed to stimulate equitable economic growth. Yet set against this great need and the doom and gloom that still inform the aid debate, there are positive signs of progress in Africa, and elsewhere, that demand to be acknowledged and supported.

### **Enterprise first**

So the question of what to do now to most effectively overcome poverty is challenging. Much advice is being tabled by commentators and expert committees such as the UN Millennium Commission and the UK Commission for Africa. The ultimate focus of all of the wisdom on offer today is the same basic issue the international community has been struggling with for many years. And that is this: how, when and where should the international development community intervene to best help developing countries create the conditions that facilitate sustainable and equitable economic growth?

This is where the recent experience of Shell Foundation may be of value. Since 2000, we've been exploring systematically the questions of how to catalyse and scale-up market and enterprise-based solutions to poverty – and how to harness to the same task, the value-creating assets of multinational corporations

There are sound reasons for this focus. History demonstrates that a flourishing, responsible private sector, built on a broad base of enterprise, including small and medium sized enterprises (SMEs) and well-regulated foreign direct investment (FDI), has been key to delivering the sort of economic growth in developing countries that we know pulls poor people out of poverty.

Going forward, common sense suggests the SME sector in particular must grow on a massive scale if the Millennium Development Goals are to be achieved and sustained and if lasting gains are to be secured from the opportunities created by debt relief and fairer trade.

Most importantly, the growth of enterprise offers poor people the hope that there's an economic ladder to personal betterment they can climb by dint of honest effort. If this hope does not exist, there is a danger they stop looking up and forward and resign themselves to poverty – permanently.

To be sure, there are many other poverty priorities that need to be addressed. But what the poorest developing countries absolutely need in order to make poverty history is the growth of enterprise.

### The Shell Foundation experience

The Shell Foundation, through pilots and partnerships, success and failures, has been evolving an approach to the promotion of 'pro-poor' enterprise that has five key features:

- First, our concept of pro-poor enterprise is inclusive and encompasses productive entities that supply goods and services to poor people, employ poor people or are owned by poor people.
- Second, the prime concern of all actors involved in the intervention must be the long-term financial viability of the enterprises being assisted. Socially or environmentally sound projects or enterprises that fail or remain permanently dependent on subsidy help nobody.
- Third, the enterprise-support interventions must themselves have a financially viable business model that can be scaled up using local capital and local capacities. There will never be enough aid funding available to support enough pro-poor enterprises to make an appreciable dent on the scale of poverty that still exists.
- Fourth, the most effective partners are those who can apply *business principles* and *business thinking* – assess risk, know your market, offer what your customer wants, find least-cost solutions – to the challenge of catalysing pro-poor enterprise.
- Fifth, multinational corporations are a largely untapped source of value-creating resources such as skills, knowledge and networks that if accessed and deployed appropriately can add enormous social value to civil society efforts to promote enterprise and tackle poverty.

### Promoting pro-poor enterprise on the ground

Four case studies of Shell Foundation initiatives are described in detail. These include efforts to pilot and then scale up market-based mechanisms for reducing substantially the nearly two million extremely poor women and children who die every year from inhaling smoke from indoor cooking fires.

Another explains how an innovative consumer financing mechanism funded and jointly launched by Shell Foundation, other donors and commercial banks has catalysed rapid expansion of the market for solar home systems (SHS) among the underserved rural and peri-urban population in south India.

The third explains the way a 'social' merchant bank also operating in south India is using flexible finance, financial engineering skills and business development expertise to assemble a series of bankable, pro-poor energy and water infrastructure projects run at a profit by barefoot entrepreneurs with capital requirements as low as from \$1000 to \$20,000 dollars.

And the fourth case study describes successful SME investment funds being piloted in Uganda and South Africa whose 'clients' are entrepreneurs with little collateral and limited business experience, previously unable to access finance of any kind, for projects in the \$10,000 to \$500,000 range. Set up with local banks and supported by the skills and infrastructure of local Shell companies, more than 300 hundred SMEs have received finance and business training from these funds. More than a thousand jobs have been generated by the 170 enterprises in which investments were made, while the funds overall are delivering commercially attractive rates of return to investors.

### Propositions for change

The final section draws on the Shell Foundation experience – and the efforts of others working in a similar way – and invites the international development and international business communities to address three questions:

- First, how to increase the scale and effectiveness of pro-poor enterprise interventions;
- Second, how to make the objective of pro-poor enterprise growth an integral part of poverty-reduction strategies advanced by the international development community and pursued by developing countries;
- Third, how to more effectively engage the private sector but especially big business in efforts to tackle poverty through enterprise, both directly and as a source of insight, advice and skills transfer.

Proposals for change are tabled that relate to the ways donors concerned with enterprise promotion operate, challenging them to act more like investors and less like charities. This would involve them seeking, as accountable returns, measurable growth in the pro-poor enterprise sector – targets which grantees could be incentivised to achieve and penalised if they do not.

Donors are also encouraged to enter into new arrangements with big business in order to enlist its support in ‘re-engineering’ the international development supply chain via the injection of business thinking along its entire length.

Propositions are also made that aim to get big business to engage much more effectively with public-private partnerships tackling poverty issues. The key to this is the restructuring of the risk-return profile of such partnerships, ensuring empowered players really are able to deliver change and participate in the partnerships, and that these provide ‘returns’ to partners commensurate with their risk and expectations.

There are, of course, many other actors who have long been pioneering ways to harness the power of business and business thinking to the challenges of overcoming poverty. In that sense, most of the propositions advanced in this paper complement and reinforce the efforts of others.

Given the scale of the problem to be tackled and the encouraging signs that results can be delivered, the IDC, developing country governments and the big business community need to explore the enterprise-poverty territory together, robustly and urgently.

This does not mean more talking. Action must be agreed to pilot new ways of working together to tackle both the direct and the business-environment obstacles to pro-poor enterprise development and growth. The Shell Foundation over the coming months will be doing what it can to catalyse such initiatives and we invite others to join us.

# Over to you...

As part of the Shell Foundation's commitment to engage in 2005, we would like to know what you think. So if you have any comments and suggestions relating to the contents of this paper, please write to us at:

[info@shellfoundation.org](mailto:info@shellfoundation.org)

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