

A business case for fighting poverty.

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'Business is critical in the fight against poverty. Not only do businesses constantly interact with people living in poverty as workers, producers, and consumers, but your taxes help to fund essential public services, such as health care and education, and you can influence public policies.'

'Fighting poverty is also critical to business. Poverty hits the financial bottom line, and helping to reduce it can create opportunities to do better business. Emerging markets are increasingly important for many companies, so a deeper understanding of the realities of the developing world is critical.'

'Although the benefits of incorporating an environmental agenda into business strategies are increasingly accepted, the benefits of tackling social issues seem more difficult for businesses to accept and act on. Oxfam GB is producing this series of "Briefings for Business", along with related resources on our website, www.oxfam.org.uk/business, to help to develop the debate by offering ideas and insights into topical poverty issues and what they mean for business.'

'We hope you will find this series useful, and that it will help you to consider how your business affects and is affected by poverty. Combining your business efforts with those of governments and others will make a real difference in the fight against global poverty and will help to make your business more robust for the future.'

A handwritten signature in dark ink that reads "Barbara Stocking". The signature is written in a cursive, flowing style.

Barbara Stocking
Chief Executive, Oxfam GB

A business case for action

Action on poverty can benefit business performance, as well as building a better world in which to operate.

Even in hard times, it can make commercial sense for companies to develop markets that include poor people, and business models that address poverty.

Businesses that create decent jobs, access to markets or goods and services that benefit low-income groups in emerging economies help to build healthier, wealthier, and more highly skilled communities. Those communities will provide the customers, suppliers, and employees that companies need for sustainable growth. Adopting this approach can bring the following benefits:

1 Access to resources: Companies are often constrained by shortages of human skills and materials. Low-income groups constitute a huge and potentially valuable labour resource, and a source of materials and produce. Small enterprises, many in the agricultural sector, are the largest employers of poor families. The vast majority cannot engage with commercial supply chains because of their limited access to finance, seeds, fertilisers, and good-quality land. Investing in these new supply networks can both improve livelihoods and help companies to achieve more stable and reliable supplies.

2 Employee relations: Being seen to address poverty can help companies to attract, motivate, and retain the best employees. Some businesses have successfully integrated social performance into their incentive and reward schemes.

3 Productivity: A productive workforce supports a successful business, but poverty undermines productivity. For example, people living in poverty are poorly nourished and are more susceptible to disease. Companies can improve productivity by protecting the health of their workforce, maintaining decent working conditions, and paying fair wages that enable workers to live more healthily.

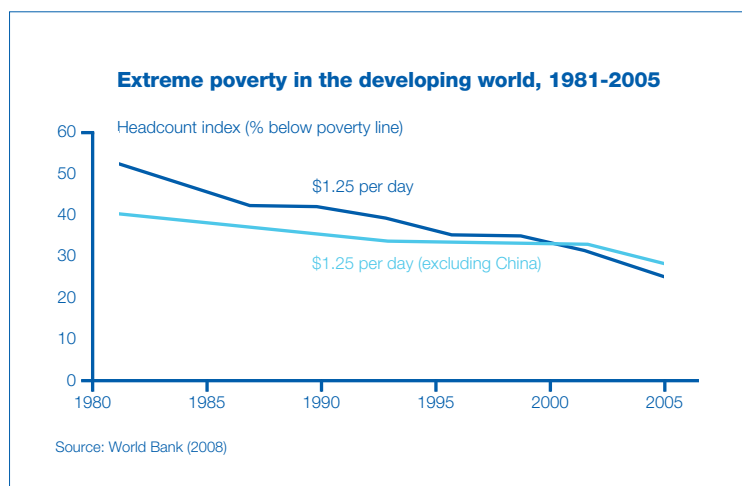
4 Market opportunities: People living in poverty constitute a vast potential market which businesses can tap into by developing products and services that meet the needs of those with low incomes. The ‘fortune at the bottom of the pyramid’ is a market worth approximately \$5 trillion per year – four billion earning less than \$2 a day – and business initiatives targeting such markets can potentially improve the general well-being of a poor community.¹ Done well, such initiatives can create a healthier marketplace and more opportunities for business to thrive.

5 Licence to operate: Doing business responsibly helps companies to manage risks. Some companies go further and look for positive ways in which they can contribute to social and environmental development. They are helping to change what is considered ‘business as usual’, and by doing so they are gaining the trust of employees, suppliers, consumers, and distributors, which will give them a real competitive advantage.

Greater prosperity means a healthier, wealthier, and more able population which will provide the customers, suppliers, and employees that companies need for sustainable growth.

The realities in emerging market economies

Poverty can be reduced The proportion of people living in extreme poverty in the developing world fell from more than half in 1981 to around one quarter in 2005. But that still leaves 1.4 billion people living on less than \$1.25 per day.²



Poverty is not just an economic issue. It is also about powerlessness, discrimination, lack of representation, and lack of freedom. Poverty means that people go hungry, lack shelter, cannot consult a doctor when they get sick, and cannot go to school.

There have been some important successes³

- The number of children of primary-school age who were not in school fell from 103 million in 1999 to 73 million in 2006.
- The number of deaths from AIDS fell from 2.2 million in 2005 to 2.0 million in 2007.
- Some 1.6 billion people have gained access to safe drinking water since 1990.

But major challenges remain, with progress threatened by the global economic crisis and climate change.

FOOD One sixth of the world's population – almost one billion people – go short of food.⁴ High food and energy prices during 2008 pushed 130-155 million additional people into poverty.⁵ Climate change could halve yields from rain-fed crops in parts of Africa as early as 2020 and put 50 million more people worldwide at risk of hunger.⁶

CHILD DEATHS Almost 10 million children under the age of five die from preventable diseases each year.⁷ Between 200,000 and 400,000 more children could die each year between 2009 and 2015 if the global economic crisis persists.⁸

POVERTY The World Bank estimates that a further 99 million people could be trapped in poverty as global economic growth slows down.⁹

WATER Climate change will make water even scarcer in some countries than it is now. Currently 500 million people live in countries that are chronically short of water,¹⁰ but this figure is expected to reach four billion by 2050.¹¹ By 2020, between 75 million and 250 million people in Africa are likely to face greater water stress as a result of climate change. Up to one billion people could face water shortages in Asia by the 2050s.¹²

How businesses interact with poverty

Companies often underestimate their impact on people living in poverty. Developing a deeper understanding of the issues benefits businesses themselves and helps them to make a bigger contribution to reducing poverty.

Forward-thinking businesses with operations in emerging markets know that global challenges such as extreme poverty, resource scarcity, and climate change require new thinking. Business models need to be based on a deep understanding of realities in the developing world.

Companies can play a key role in tackling these challenges, by taking account of how their activities affect and are affected by poverty, and by doing business responsibly. Oxfam GB believes that a responsible business:

- understands and measures how it affects poverty, and vice versa;
- minimises negative impacts and invests in establishing higher social standards;
- operates transparently and accountably.¹³

The nature and extent of an individual company's interactions with poverty will vary considerably, depending especially on the type of industry and the geographic focus of the company's operations. A good place for all companies to start is by considering the four key questions on the following page.

Measuring business impacts

The concept of 'carbon footprint' helped companies to measure the impact of their greenhouse-gas emissions on the environment. A 'poverty footprint' would help business to measure and understand its impact on people living in poverty.

There are a number of tools available to help companies to do this,¹⁴ including Oxfam's 'Poverty Footprint', which we developed on the basis of a study by Oxfam GB and Unilever in 2005 which assessed the poverty impacts of Unilever's business in Indonesia.¹⁵

Our approach is to examine a company's formal and informal effects on poor people, incorporating the views of multiple stakeholders, including producers, processors, workers, and communities in the areas where the business operates. Key findings to date from using this approach include the following.

- A study in India recognised the key role that women suppliers and customers play in one company's supply chain, and this recognition led to the development of specific strategies to meet their needs.
- The Oxfam-Unilever study in Indonesia revealed that more people were employed and more value was generated on the distribution side of the value chain than on the supply side, because of the large number of small stores and street vendors selling Unilever's products informally in rural markets and poor urban areas. Businesses often overlook the potential contribution of employment creation in the distribution sector to economic development.

A forthcoming Oxfam GB 'Briefing for Business' will focus on measuring business impacts on poverty.

For more information about Oxfam's Poverty Footprint resources, visit: www.oxfam.org.uk/business

Four key

1

How well do you treat your workers?

Employment can provide an escape from poverty, but only if workers have decent pay and conditions and an opportunity to learn and progress. Low pay, long working hours, and low productivity are often closely linked. They can undermine both the welfare of workers and the performance of businesses. Oxfam's 'Trading Away Our Rights' campaign highlighted the purchasing practices of many global producers of consumer goods and many retail companies – which require fast turnaround times, ever-lower unit costs, and greater flexibility – as a key reason why workers receive low pay for working long hours with little or no job security.

CASE STUDY In 2007, fashion retailer New Look began working with one of its biggest suppliers in Bangladesh to investigate ways to improve working conditions, for example by providing better estimates of future orders, to enable the factory to plan more effectively. After 18 months, the take-home pay of the lowest-paid workers in the factory, mainly women, had increased by 24 per cent. Furthermore, they were working 46 per cent fewer overtime hours than before. Unsurprisingly, workers are keen to continue working at the factory, and labour turnover is far lower than the average in the Bangladesh garment factory. New Look is now working to extend this approach to other suppliers.¹⁶

A RESPONSIBLE BUSINESS will ensure that international labour standards, particularly freedom of association and collective bargaining, are effectively enforced for its own workers and for those employed in its global supply chain.

2

Who is involved in your supply, distribution, and retail chains?

Opening up supply, distribution, and retail chains to micro-enterprises and co-operatives can enable large numbers of poor people to earn a living. In 2004, Unilever Indonesia's core workforce consisted of 5,000 employees, but an overall total of 300,000 people earned their living from the company's supply chain, more than half of them in the distribution and retail chains.¹⁷ Very often the poorest groups, including women and ethnic minorities and those living in remote rural areas, are excluded from markets because they have limited access to productive land, affordable credit, or appropriate technologies.

CASE STUDY Many hotels in the Caribbean import large quantities of fresh produce from the United States, while local farmers struggle to make a living. With support from Oxfam, a group of co-operatives in St Lucia has become a trusted supplier of fresh produce for hotels and restaurants, including the Sandals' and Virgin Holidays' resorts. Sandals' costs have fallen as a result of the initiative, and it benefits from customer satisfaction with an authentic Caribbean dining experience. Oxfam GB plans to support measures to scale up this model to other islands. www.oxfam.org.uk/donate/edp/st_lucia.html

A RESPONSIBLE BUSINESS will actively seek to involve poor people in its supply, distribution, and retail chains by transferring the necessary skills, expertise, and technology, and offering fair prices and other terms that will equitably share the value that is created.

questions

3

How do your environmental impacts affect poor people?

Low-income groups are worst affected by environmental changes, because they have fewer resources to help them to adapt. Environmental impacts of business that affect poor people include the use of land, energy, and water, as well as greenhouse-gas emissions, pollution, and waste disposal. Climate change is expected to bring more extreme weather events, as well as less predictable growing seasons. Over recent decades there has been a marked increase in the occurrence of climate-related disasters, and a growth in the numbers of people affected by such events. These have the potential to produce an immense increase in global poverty and inequality, punishing first, and most, the very people least responsible for greenhouse-gas emissions.

CASE STUDY Cadbury is working to support cocoa farmers and their communities in Ghana, India, Indonesia, and the Caribbean, as part of its Cocoa Partnership initiative to build a sustainable cocoa supply chain. Activities include research into the impacts of cocoa production on biodiversity, and the development of improved farming and processing techniques. Under its 'Purple Goes Green' vision for action on climate change, Cadbury aims to achieve a 50 per cent reduction in its absolute carbon emissions by 2020. It has also set targets to reduce its packaging and water use, and to mobilise its employees, suppliers, and customers to campaign for change.¹⁸

A RESPONSIBLE BUSINESS will ensure that its use of natural resources does not conflict with the needs of the wider community. It will also measure its carbon footprint, set and meet ambitious targets to cut absolute emissions,¹⁹ and support the introduction of policies to tackle climate change.
www.oxfam.org.uk/climatechange

4

Are you consistently responsible in all your business activities, including influencing government policy and paying taxes?

Companies and industry associations wield huge influence over global and national economies, as well as influencing, positively or negatively, policies on poverty-related issues such as trade, security, and climate change. Tax avoidance is widespread – legal but irresponsible – because it deprives governments of vital income and so reduces public investment in infrastructure that supports business growth in emerging markets. Research for Oxfam GB suggests that since the 1970s more than US\$ 6.2 trillion of capital has been lost from developing economies and has accumulated offshore, with the lost tax revenues more than cancelling out the value of all overseas aid.

CASE STUDY Oxfam is working with business coalitions to advocate public policies that support poverty reduction: for example, promoting a new global commitment at the UN's Copenhagen climate-change summit in December 2009. We are also involved in initiatives which explore ways to address the need for effective regulation of currently unregulated activities. As a member of the Roundtable on Sustainable Palm Oil (RSPO), Oxfam has secured agreement that new palm-oil plantations established on land previously used for other purposes must receive approval from affected communities if they are to be defined as 'sustainable'. This is just one step towards the achievement of sustainable business models; there is a long way to go.

A RESPONSIBLE BUSINESS will support governments in creating a regulatory framework that ensures respect for human rights, protection of the environment, and poverty reduction. It will not use artificial means to minimise tax bills and avoid liabilities, especially in developing countries.

Oxfam engaging with **business**

Oxfam GB has experience and knowledge relevant to businesses which want to understand and improve their effects on poverty.

Oxfam GB is widely recognised for its campaigning and relief work. What is less well known is the extent of our work on the ground to stimulate local economic development and develop more equitable markets.

Our years of experience of working with poor people and local organisations in developing countries have given us a deep understanding of the role of business in alleviating poverty. Our wide-ranging work includes developing small businesses, helping to establish the Fair Trade movement, and lobbying to change international trade rules and improve working conditions in manufacturing supply chains.

Oxfam GB has developed partnerships with a small number of companies which demonstrate a genuine commitment to delivering policies, strategies, and practices that support poverty reduction. For example, we have been involved in joint projects to develop market access for local producers and to assess the impact of a particular business on a specific supply chain or location.

We are interested in identifying further collaborations that will deliver tangible and lasting benefits for people living in poverty.

We want to share our knowledge and expertise with a wider group of businesses. We know there is a wealth of ideas in many companies, and we want publications such as this one, and our other interactions with business, to stimulate thinking and facilitate action.

Oxfam's work on business and poverty is currently focused on:

- **integrating small-scale producers in agricultural supply chains**
- **building small and medium-sized enterprises**
- **providing access to finance for rural communities**
- **reducing the impacts of climate change on poor communities.**

Businesses can engage with Oxfam GB in a number of ways:

Invite Oxfam GB to participate in management development or other business events.

Why not add Oxfam GB to your list of speakers for meetings, roundtable discussions, or conferences where you will be considering business and social trends, the situation in emerging markets, or opportunities and risks in your supply chain? You will find that Oxfam GB can bring different perspectives, information, and knowledge which will help and inspire your senior managers. Contact business@oxfam.org.uk

Take part in our Enterprise Development Programme (EDP).

We invite business professionals and investors to join Oxfam to identify, finance, and nurture a portfolio of small and medium-sized enterprises, creating economic and social benefits in emerging markets. For example, the EDP is providing a combination of start-up and loan finance to the New Farm Company, a Palestinian business which sells high-quality home-style Palestinian food, produced by local co-operatives. Oxfam GB wants business leaders, their companies, or other organisations to join the EDP board and use their skills and resources to help to develop high-impact innovative enterprises. For more information visit www.oxfam.org.uk/donate/edp/

Help to create 'Better Returns in a Better World'

Our project taps into the potential of institutional investors to contribute to poverty alleviation, through their role in allocating capital, their influence on the policies and practices of companies in which they invest, and their influence on the public policy debate. We launched the project in November 2008 with the publication of 'Responsible Investment as a Force for Development: Framing the Debate'. Oxfam GB will organise a series of roundtables for investors on a range of poverty and investment issues during 2009, and will subsequently publish findings and policy conclusions. For more information go to www.oxfam.org.uk/resources/issues/privatesector/investment

Join the 365 Alliance

The Oxfam 365 Alliance is a business partnership to provide on-going support to Oxfam's emergency work, 365 days of the year. Oxfam 365 Alliance partners – including our founding partners The Vodafone Foundation and Aviva plc – provide upfront funds which enable Oxfam to respond immediately when an emergency strikes. For more information go to www.oxfam.org.uk/get_involved/companies/365 or contact corporates@oxfam.org.uk

Oxfam is interested in identifying further collaborations with businesses that will deliver tangible and lasting benefits for people living in poverty.

Oxfam GB is building a range of resources to support responsible business. These will be available on our website from June 2009 at:

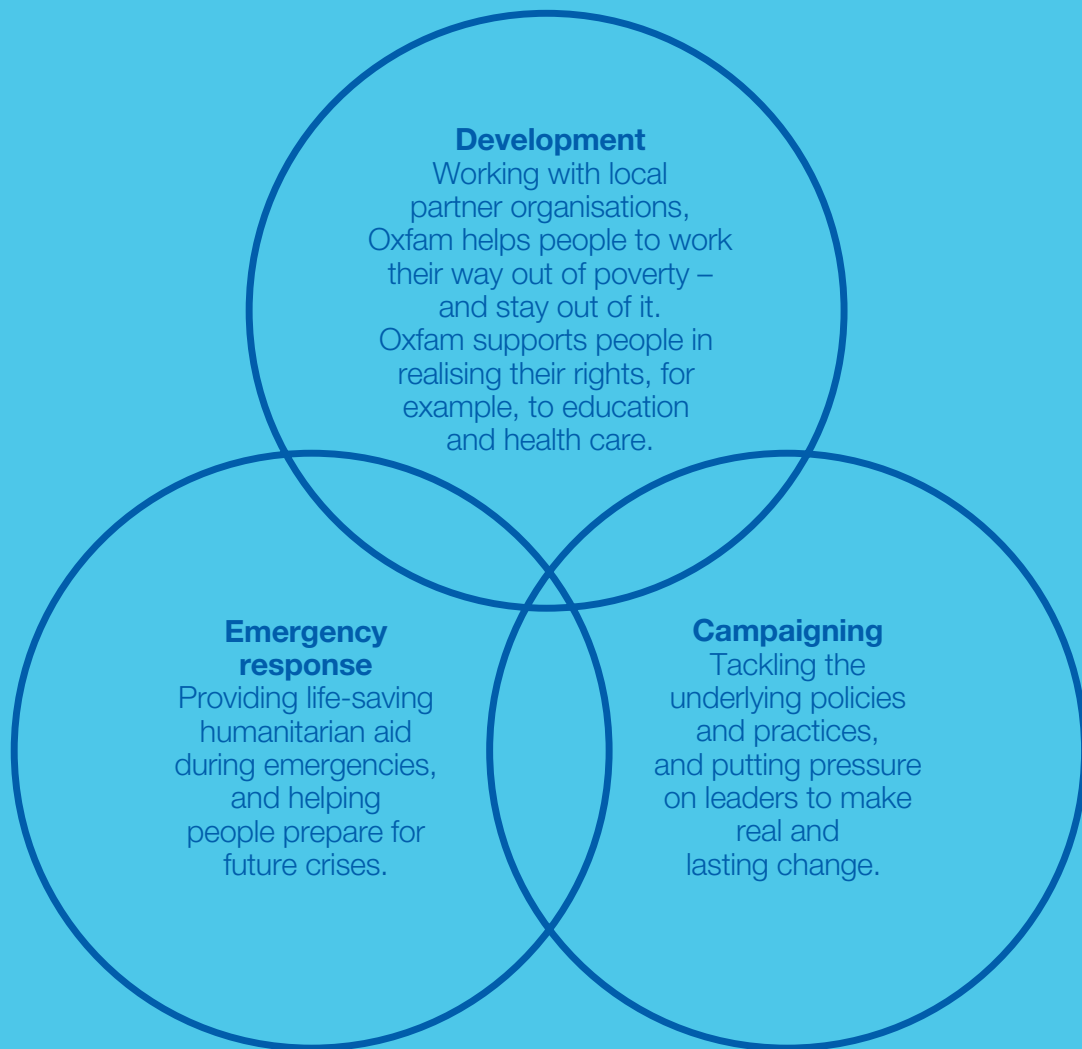
www.oxfam.org.uk/business
or contact: business@oxfam.org.uk

Endnotes

- 1 C. K. Prahalad (2005) 'The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits', New Jersey: Pearson Education, Inc. publishing as Wharton School Publishing.
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- 5 World Bank (2009) *The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens*, Washington DC: World Bank.
- 6 Intergovernmental Panel on Climate Change (IPCC) (2007), Working Group II: 'Climate Change Impacts, Adaptation and Vulnerability' Geneva: IPCC.
- 7 UN (2008) *op. cit.*
- 8 World Bank (2009) *op. cit.*
- 9 World Bank Press Release No; 2009/220/Exc 'Crisis Hitting Poor Hard in Developing World', World Bank says
- 10 A. Singh, 'A Tale of Two Trends: providing information and knowledge for decision-making in water-scarce regions through water assessments', UNEP, cited in A. Evans, 'Rising Food Prices: Drivers and Implications for Development', London: Chatham House, 2008.
- 11 R. Clarke and J. King, *The Atlas of Water*, London: Earthscan, 2007, cited in Evans (2008).
- 12 IPCC (2007) *op. cit.*
- 13 In practice, this requires business to make public commitments to meet social and environmental standards; engage in honest and open dialogue with a range of international and local stakeholders who understand how the business activities affect people and the environment; and report fully on its activities and its social, financial, and environmental performance according to internationally recognised reporting standards.
- 14 See, for example, the World Business Council on Sustainable Development's Measuring Impact Framework www.wbcsd.org, and the Overseas Development Institute's research on Measuring Business Impact: www.odi.org.uk/programmes/business-development/corporate-measuring-impact.asp
- 15 Available at www.oxfam.org.uk/resources/policy/private_sector/index.html
- 16 New Look (2008) 'New Look's Commitment to Ethical Trade', www.newlook.co.uk/images/New_Look/Images/Static_content/Ethical_Trade.pdf; R. Hurst, M. Buttle, and J. Sandards (2009) *Getting Smarter: Ethical Trading in the Downturn*, available from www.impactlimited.com/resources/getting-smarter-ethical-trading-in-the-downturn/
- 17 Oxfam and Unilever (2005) 'Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia', Oxford: Oxfam GB.
- 18 www.cadbury.com/OURRESPONSIBILITIES/Pages/ourresponsibilities.aspx
- 19 The Intergovernmental Panel on Climate Change's 4th Assessment Report indicates that global emissions must reduce by 20–40 per cent by 2020 and by at least 80 per cent by 2050.

About Oxfam

Oxfam is a vibrant global movement of dedicated people fighting poverty. Oxfam GB is one of 13 Oxfam International affiliates actively opposing poverty worldwide.



This is the second paper in Oxfam's 'Briefings for Business' series, which aims to help develop the debate on the role of the private sector in poverty reduction, by offering ideas and insights into topical poverty issues and what they mean for business.

For further details please see www.oxfam.org.uk/business

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