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“What role for business in fostering social inclusion?”**

Introduction

- I welcome this opportunity to look at the social side of the public and private sector working together. I was particularly pleased to learn about Telefonica’s “pro-Niño” programme over lunch today which shows how such are making progress to address the Millennium Development Goals – signed up to by heads of State in 2000 – which is important for tomorrow’s world.
- However, the financial crisis that we are experiencing has the potential to reverse 8 years of steady progress in many countries towards the achievement of the Millennium Development Goals, especially in halving extreme poverty and hunger by 2015.
- We have a moral imperative to prevent the financial crisis becoming a human crisis. Strengthened public and private investment is needed to boost economic demand and employment. But the investment needs to include everyone, to avoid a widening gap between rich and poor, who represent 2.6 billion people (of the world’s 6.4 billion) living on less than \$2/day. We will have failed if we are not able to factor in the consequences of the social and economic impact of the credit crisis for developing countries.
- The poor – including ethnic minorities, people with disabilities, children, women, the long-term unemployed and people living with HIV/AIDS – are often excluded from accessing basic social services like water (more than 1 billion) and electricity (1.6 billion) and employment opportunities. And in today’s opening I welcomed the reference to the UN day for people living with disabilities.
- What can business do to tap the potential of the poor and socially-excluded?
 - On the demand side the poor are clients and customers
 - On the supply side the poor are employees, producers and business owners.
- Earlier this year, UNDP launched a report under its Growing Inclusive Markets initiative focusing on “inclusive business models”, profiling a large number of cases where the private sector include poor and excluded groups in their commercial business activities in different ways, allowing them as companies to innovate, become more competitive, reach new markets, lower costs etc.
- Much of what I say today stems from the findings of this report.
- I have 3 key messages for today’s debate:

- Business with the poor can be profitable
- Risky and poor market conditions can be overcome
- Labour markets need to be more inclusive

Key messages

A) Business with the poor can be profitable:

- The 4 billion people at the bottom of the income pyramid (living on less than \$8/day) have a combined income of \$5 trillion, similar to the gross national income of Japan. They are a huge market; however they often pay more than the rich for basic goods and services.
- Emerging markets are increasingly more attractive for business expansion opportunities. Including the poor into the global consumption and production networks is a common agenda for business and the UN, whereby companies' expansion and involvement in developing markets go hand in hand with alleviation of poverty and increased international security.
- Business with the poor can also yield higher rates of return than business in developed countries. For example Sulabh, a low cost sanitation provider in India had a \$5million economic surplus in 2005.
- The poor are not only a source of labour but with some training and local knowledge the poor can deliver high-quality products and services, and for business the challenges in meeting the poor's preferences and needs, can lead to new innovative and competitive products.

B) Risky and poor market conditions can be overcome

- UNDP identified 5 constraints in the report: limited market information, ineffective regulatory environments, inadequate physical infrastructure, missing knowledge and skills and restricted access to financial products and services.
- Taking a series of case studies from around the world, the report puts forward 5 strategies to overcome the constraints, through inclusive business models that: i) offer affordable goods and services to low income consumers; and ii) include the poor and excluded groups as producers, entrepreneurs and employees in global business value / supply chains.
- **1st strategy: adapting products and processes:** this can be through: information and communication technology (mobile banking, smart cards to buy water, and telemedicine), or by restructuring business processes (adjusting to cash flows of the poor).
- **2nd strategy: investing to remove market constraints** – not only do governments need to invest but also businesses. It can create private and public value through doing market research, building financial products

or services, building infrastructure, improving supplier performance, and raising awareness and training consumers.

- **3rd strategy: leveraging the strengths of the poor** – to reduce transaction costs for business and increase income opportunities for the poor.
- **4th strategy: combine resources and capabilities with others** – including other businesses, nongovernmental organizations and public service providers to gain access to capabilities and pool resources to work around constraints in the market.
- **5th strategy: engage in policy dialogue with governments** – regulatory constraints rest with government but the private sector can help governments to identify bottlenecks and improve the market context for inclusive business models, through individual engagement, through demonstration and collectively.

C) Labour markets need to be more inclusive

- One of the main challenges is to make labour markets inclusive, overcome discrimination and increase the integration of people with disabilities, ethnic minorities and immigrants. Human resource policies that actively engage vulnerable groups as potential employees as one concrete action that can be taken.
- This is particularly important in the EU with the arrival of new Member States. Countries can learn from experiences in other Member States. And action is needed fast before it is too late. For example, based on my experience as Minister for Social Affairs and Employment in the Netherlands in the second part of the nineties, it took us 15 years to address long-term unemployment generated by the crisis in the early 1980s.

Conclusion

- How do we make this all happen? The role of CEO is key. Companies represented at this conference today have a huge potential to step up Corporate Social Responsibility initiatives. However, it should not be a philanthropic approach because that won't make structural differences in developing countries.
- There is a need to step up dialogue between the main actors; between the public and private sectors and ensure that the poor are part of the market. They need to be part of globalization – an inclusive globalization.
- We risk a public backlash against globalization, and not just in developing countries. For example there is the potential for social unrest in the car producing states of the USA. The challenge for President-elect Obama will be how to address failing car manufacturers while living up to his commitment of universal healthcare. In Central America we see a surge of street criminality which threatens the investment climate and in China social unrest appears to be simmering beneath and sometimes above the

surface. The answer to all this is to create social safety nets that keep incomes at a level where people keep spending, a la Keynes' thinking.

- The engagement of the private sector has to be a long term commitment because development results cannot be achieved overnight. We must avoid that part of the world is side-lined; that we remain short-sighted and not inclusive.

Thank you.