



The Ethics of Making Money from the Poor

*An Arthur D. Little
Environment & Risk and
Environmental Context
Discussion Forum*

PROFITS FROM POVERTY

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THE NAKED LUNCH

Sustainability Stripped Bare

A series of lunchtime discussions on key sustainability issues. The first of these tackled Profits from Poverty – The Ethics of Making Money from the Poor.

Guest Speakers

Dr Diane Osgood
Environmental Economist

Sophia Tickell
Senior Policy Adviser, GB Oxfam

Participants

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Group Public Relations, ICI

Edward Bickham
Executive Vice President, External Affairs, Anglo American plc

Dr Tom Delfgaauw
Vice President, Sustainable Development, PXR Shell

Christine Drury
NGO and Consumer Affairs Manager, Unilever

Vicki Ehrich
Head of External Relations, GlaxoSmithKline plc

Emmett Hobbs
Executive Director, Brambles UK

Hosts

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The Ethics of Making Money from the Poor

Some 4 billion people – approximately two-thirds of the world's population – live on less than \$1000 a year.

They outnumber the rich, or at least those earning \$10,000 or more, by a factor of eight to one. Though they are individually cash poor, as a group they constitute a significant target for business. Making profits from poverty may make good financial sense, but is it ethically acceptable?

This important and controversial issue was discussed at the first of a series of 'Naked Lunches', designed to strip sustainability issues down to their bare essentials. The lunch was hosted by Arthur D. Little's Environment & Risk practice and Environmental Context. Among those invited were key figures from some of the major multinational companies. Leading the debate, and putting forward the industry view, was Diana Osgood, an Environmental Economist who works for companies such as DuPont. Responding was Sophia Tickell, Senior Policy Adviser at Oxfam GB, an organisation which works with the world's poor.

This pamphlet illustrates that there is a need for businesses to sell to the poor. It identifies how a number of companies target these communities using a variety of strategies, such as reformulating consumer goods, introducing more appropriate distribution systems and adopting affordable technologies both for their own commercial benefit, but also to improve the quality of life of the poor. However, it also highlights a range of challenges that businesses face for the future.

THE BUSINESS CONTEXT

Most companies now realise that it is in their own best interest to think carefully about environmental and social issues, and in recent years we have witnessed the steady 'greening' of industry. Many companies have now set zero-emission targets, joined certification schemes which reward good practice, and involved their workforce in some of the decision-making processes.

A number of factors have encouraged them to improve their environmental and social performance. Legislation has obviously played a part, with businesses being obliged to meet increasingly stringent standards laid down by governments and international regulations. But just as significant has been the growing influence of environmental groups, human rights organisations, labour and religious groups and a host of others who collectively make up 'civil society'.

Their activities and campaigns have forced companies to take their environmental and social obligations far more seriously. The dramatic increase in global communications has also meant that companies operating in even the most distant parts of the world now come under greater scrutiny from a whole range of organisations and individuals, some of whom may be ideologically opposed to globalisation and eager to highlight anything which they see as malpractice.

Intriguingly, some sectors within civil society have not only urged business to adopt stricter environmental standards, and to produce goods and services in a more sustainable manner, they have also encouraged companies to shift their view of potential targets away from the rich, towards what are loosely known as the emerging and survival economies. The former encompass the 1.5 billion people who earn between \$1000 and \$10,000 a year, the latter consisting of the great mass of poor at the bottom of the economic pile. The argument goes like this: unless those who are currently excluded from consumer society are brought into the economy, then the divide between rich and poor will widen further, creating more social tension and undermining future development.

Targeting the Poor

Some companies are now deliberately targeting the poor, and are adopting a variety of strategies.

- A number of companies are reformulating **consumer goods**, such as detergents, to make them less polluting in countries which lack decent sewage treatment facilities. Personal products are also being sold in much smaller packages, thus making them more affordable for the poor. In India jeans are now sold in ready-to-assemble packs, which sell for a fraction of the cost of designer jeans.
- Many companies in the developing world are trying to cut transaction costs by introducing more **appropriate distribution systems** that link old and new technologies, for example by using bicycles for delivery with mobile phones for ordering.
- Some companies are **adopting technologies** to make high-quality products more affordable and socially beneficial. Solar cells, for example, are being used to generate electricity in low-income communities.
- A few companies have chosen, in certain circumstances, to reduce the price of their goods, or waive any profits, in order to help the poor and disadvantaged. For example, Merck, Stamp and Dome provided the World Health Organisation with free supplies of the drug Ivermectin, which is used to treat and prevent river blindness in West Africa.

Issues and Tensions

At *The Naked Lunch*, discussion ranged across a broad spectrum of subjects, from the pricing policy of pharmaceutical companies to the genuinely held belief that multinational companies are actually contributing towards Sustainable Development (SD). Establishing businesses ventures which benefit both producers and the poor can be fraught with difficulties, and below we highlight some key issues.

STRUCTURAL PROBLEMS

Developing countries often complain, with considerable justification, that when it comes to trading their goods and services they are at a distinct disadvantage. A leading NGO estimates that trade barriers, largely erected by the rich North to protect their own manufacturers and farmers, deny developing countries \$700 billion in potential earnings each year. Rules-based regimes should help, but the rules often benefit the rich and discriminate against the poor.

DISPLACEMENT OF LOCAL COMPANIES

Multinationals can undoubtedly be a force for the good in poor countries. They generally offer a wide range of well made products, and their working conditions and health and safety standards may well be superior to those of local firms. However, some observers fear that multinationals which operate in poor countries, and market their products to the poor, may push local firms out of business.

UNDERMINING EXISTING BUSINESS MODELS

Companies may have to adopt new business models if they are to successfully tap into the 4-billion-strong survival economy. This may mean producing cheaper goods, or selling in smaller quantities. However, many would argue that companies cannot afford to have their

business strategy dictated by the 'moral imperative.' For example, most drug companies argue strenuously against differential pricing, or reduced patent protection for different markets, as this would reduce their ability to recoup their huge research and development investments, and thus reduce the incentive to invest in new research.

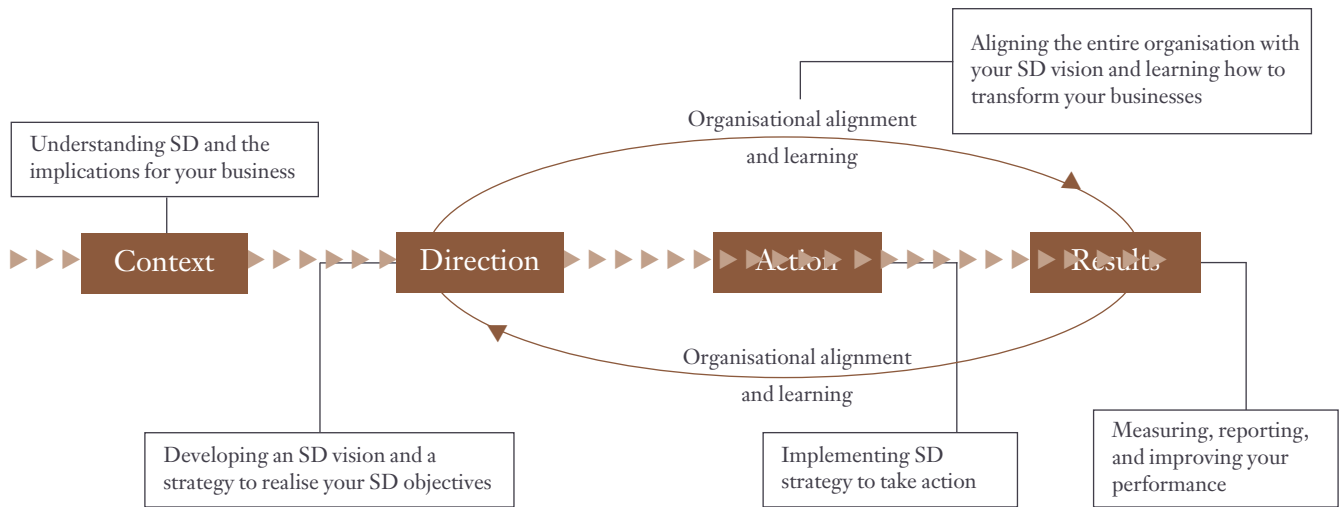
DIFFICULTIES IN OPERATING IN POOR COUNTRIES

Operating in poor countries can be exceptionally difficult. On a prosaic level, a lack of good infrastructure may make the transportation of goods very expensive. A more serious concern for many companies is how, and whether, they should operate in countries with corrupt and weak governments. Some non-governmental organisations argue that when the political situation makes it difficult or impossible to do business without being party to exploitation, and possibly human rights abuse, then companies should withdraw. However, some business people at *The Naked Lunch* were adamant that multinationals should continue to operate even in corrupt environments, arguing that it is better to be in situ providing employment and contributing to the local economy and setting a good example of how businesses should behave than to withdraw to avoid criticism.

Conclusion

Business does have a role to play in selling to the poor. It can be profitable for the companies involved, and it can help to improve the quality of life of the poor, however they cannot and should not take on the role of government. Operating in poor countries is not straightforward and may require a different business model, new alliances and partnerships and the development of innovative mechanisms to formulate, distribute and sell their products.

The Sustainable Development Pathway



Arthur D. Little offer a range of services to help organisations achieve genuine progress towards sustainability, to win business value and stakeholder support by doing so. These services are focused around the SD pathway outlined above. Experience has shown us that the integration of SD into business, should focus around four key areas: context, direction, action and results.

- Before companies embark on this pathway, they must understand SD in the **context** of their own organisation. This involves understanding the business case for SD and its potential for the organisation.
- Companies must then establish **direction**, where vision and strategy should integrate the principles of sustainability and facilitate the realisation of the desired objectives.

- This then means the company can implement their sustainable strategies by taking **action**. This will be through activities that increase efficiency, generate new business or product options or increase cooperation with key stakeholder groups.
- Such action should have **results** that are measurable, published to relevant stakeholders and useable to continuous improvement.
- Finally, SD objectives must be aligned with business processes. Alignment and learning are essential to developing and sustaining competitive advantage.

Arthur D. Little provides support to businesses at each stage of the SD pathway. Examples of our clients include, Anglo American, Baxter, Body Shop, BP, Du Pont, Electrolux, Henkel, Ikea, Interface, Novo Nordisk, Nutreco, PEMEX, Proctor & Gamble and Royal Dutch Shell.

About Arthur D. Little Environment & Risk

We are part of Arthur D. Little's global consulting business. We work with companies and governments to help them deal with the toughest existing and emerging environmental, social, safety and risk problems, and in so doing to move further along the path to sustainable development.

ABOUT ENVIRONMENTAL CONTEXT

Environmental Context is a London-based communications consultancy that helps business understand the sustainable development agenda.

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