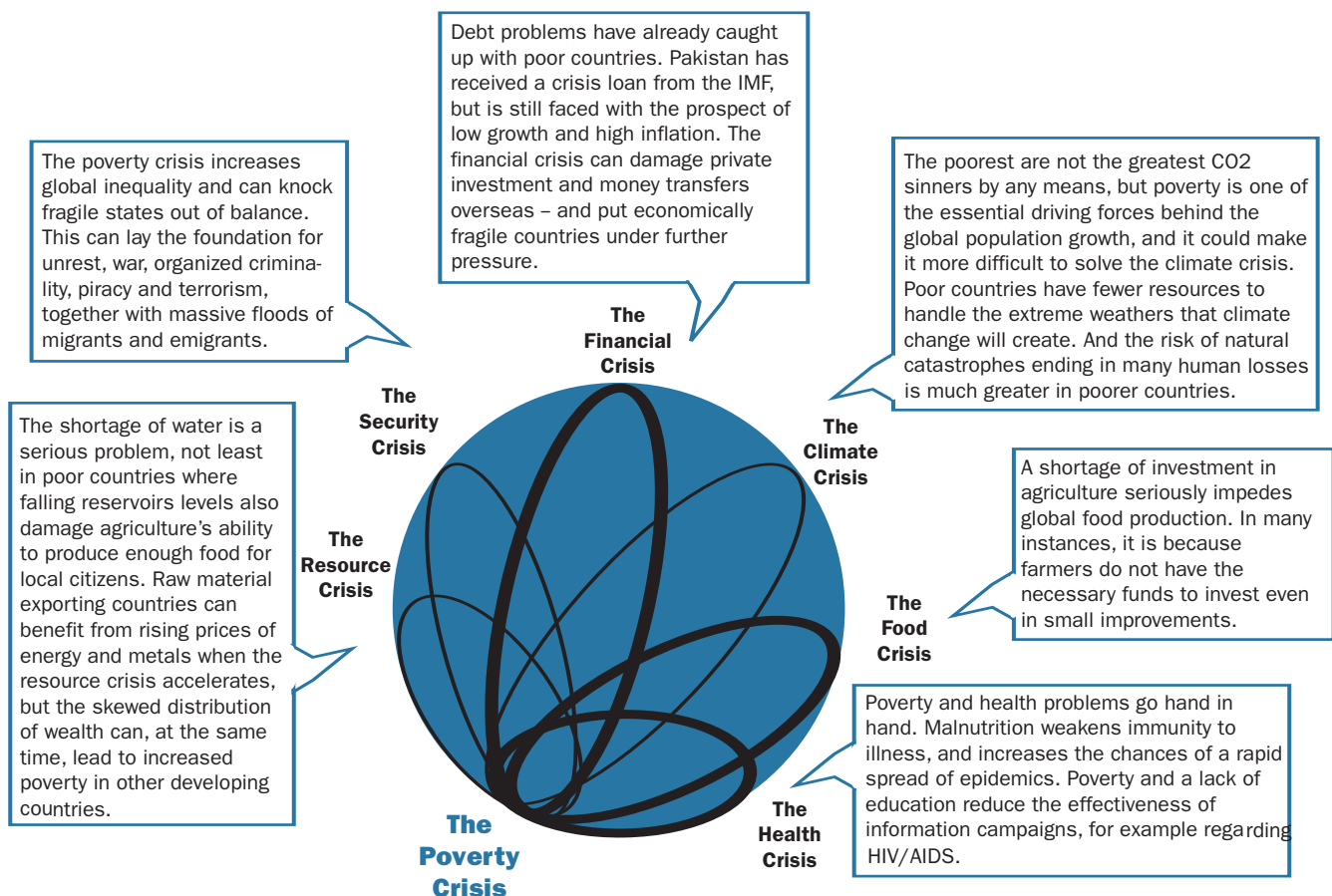


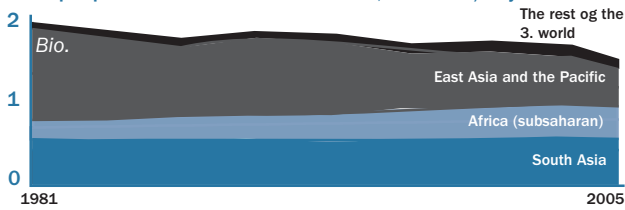
# 6 The World's Largest Market

The fight against poverty would appear to be a clear success. The number of poor has declined every year for the last twenty years. But this progress is based on a fragile foundation, which the financial crisis, economic crisis and climate crisis could quickly undermine. For every one per cent that global growth declines, twenty million more people are pushed back into poverty. If the vicious circle of poverty is to be broken and a sustainable step forward taken, traditional instruments must be combined with a new understanding of the fight against poverty. Where conventional thinking regarding aid sees the poor as needy and passive receivers of help, a large number of businesses in the fields of, for instance, energy, cell phones, foodstuffs and health, see them as potential customers, partners and entrepreneurs. This has already created a good number of surprising and promising results. Seen as a single entity, the poor are the world's largest market. Those businesses that understand how to decode these markets' needs will have access to a unique earning opportunity, and can at the same time help to improve the quality of life for millions of people.

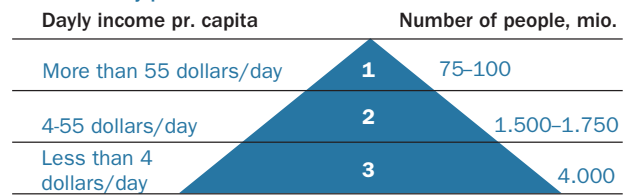


**MM | The world's poor**

Number of people with an income less than 1,25 dollars/day



**World economy piramide**



Source: The World Bank, 2008 and C.K. Prahalad.

**THE WORLD'S LARGEST MARKET**

**G**lobal poverty is on the way back. In the last two decades, the proportion of poor in the world has fallen by one per cent a year. Little by little life quality and opportunities have improved for millions of people. The UN's ambitious goal to halve extreme poverty before 2015 is within reach.

That is one side of the coin but 1.5 billion people, almost a quarter of the world's population, still survive on less than 1.25 dollars per day – The World Bank's threshold for "extreme poverty". Another 1.2 billion people exist on, or close to, that level with an income of 1.25-2 dollars per day.

The balance is extremely fragile. The last years' extremely high growth in developing countries can not be assumed to be maintained through the financial crisis. The World Bank predicts that growth will slow down by approximately 3 per cent globally, which will send around 60 million people back below the poverty line. In Africa, the financial crisis could swallow up the last seven years' growth in wealth.

Meanwhile, the poor are the hardest hit by climate change. Especially in Africa, where, for example, declining rain falls can reduce cultivable agricultural land dramatically.

The combination of an economic crisis and climate crisis can lay the foundations for criminality, terrorism and unrest.

The impressive fall in the number of poor conceals a very slanted distribution of development. In general, the fall can be attributed to the increase in wealth in China. Here the growth has trickled down in a pyramid resulting in half a billion Chinese being lifted out of poverty over the last 30 years. In many other places in Asia and, especially, Africa poverty has deeper roots.

Poverty is defined as lack of opportunities and social mobility. The poor do not have the means required to lift themselves or their children out of absolute poverty. If the vicious circle of poverty is to be broken, it will require a combination of classic instruments and a new understanding of the fight against poverty. Among the most important areas are:

- **EDUCATION.** Investment in training is a development aid classic – for good reason. The link between education and economic growth is undeniable and particularly important in developing countries.
- **AGRICULTURE.** China's unique achievement in pulling more than 500 million out of poverty is based in the countryside.

Analysis from The World Bank shows that investment in agriculture created more growth than investment in all other sectors.

- **FINANCING.** The poor are not just needy, but potential entrepreneurs. Radical rethinking of financing in the form of micro-loans and mobile banking has already created new possibilities for millions of poor the world over.
- **ACCESS TO MARKETS.** The market at the base of a pyramid, among the world's poorest, can create growth and progress. Businesses in the industrialized world can find new markets among the poorest of the third world. At the same time, new trade concessions can create markets for the poorest countries in the richer part of the world.

The most important requirement for confronting poverty is a new approach to the problem of poverty. Where conventional aid thinking sees the poor as needy and passive receivers of help, a large number of businesses in the fields of, for instance, energy, cell phones, foodstuffs and health, see them as potential customers, partners and entrepreneurs. This has already created a good number of remarkable and promising results. Seen as a single entity, the poor are the world's largest market.

**Chinese Medicine**

The face of poverty is that of a peasant in Africa or Southern Asia. Three quarters of the world's poor live in rural areas. By far the most live from agriculture, or are dependent on agricultural development.

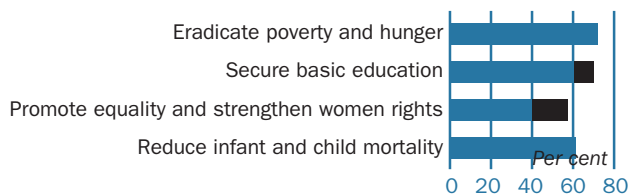
A dependency on agriculture has been a factor in keeping people in poverty. Therefore, agricultural reforms are also vital for the fight against poverty. Chinese development is a good role model. Nearly all the dramatic falls in the number of poor in the world have occurred in China, and an extraordinarily large proportion of those falls have happened in rural China. Hundreds of millions of Chinese have been lifted above the poverty line.

The main influences have been land reform, in which Chinese farmers personally receive a share in the increase in production, together with significant public investment of around 10 per cent of GDP.

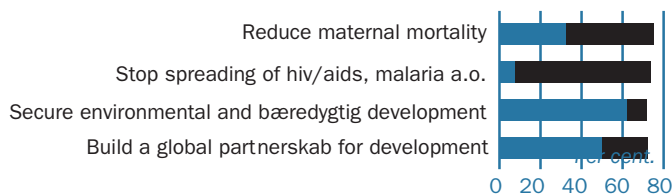
The investments have been targeted at:

**MM | FN-effort against poverty**

Millennium goals



**Progress until 2006 Distance to goal in 2006**



Source: The World Bank, Finance and Development.

**CHAPTER 6**

- **INFRASTRUCTURE**, which has given farmers the possibility to transport their products to the nearest market or the nearest manufacturing centre.
- **RESEARCH**, first and foremost developing and broadening of new, high-yield types of rice that have doubled the yield per hectare since 1980.
- **DIVERSIFICATION** of production from rice to include cattle, dairy products, pork, chicken, fish, vegetables and fruit – strongly aided by a market with greater spending power in which consumer demand has, for example, increased China’s demand for fresh dairy produce by 400 per cent in just ten years.

Agricultural progress has a knock on effect throughout society. In Southern Asia (including India), 25 per cent of men of working age are employed in agriculture, and even a small increase in their income has a major impact.

**Education is the Alpha and Omega**

Almost 90 per cent of children in developing countries now attend school. This is an increase of 10 per cent since 1991, but once again, China slants the statistics significantly upwards. In Africa, the proportion is only 70 per cent.

Basic education has a major impact on economic growth. On average, an economy will grow by 0.58 per cent for every extra year the population stays at their school desk. This relies, of course, on the fact that children are learning something. There is a direct link between a country’s economic growth and its students’ results in standardized international tests. It is especially significant in Asia’s tiger economies. A very different picture can be seen in Ghana and Zambia where only slightly over half of girls in sixth grade can read a sentence in their own language.

Investment in schools is good business. New research from The World Bank shows that this is especially the case in developing countries: Good education increases productivity and achievement in innovation and gives better employment opportunities for individuals. Well educated people also find it easier to acquire information on, for example, new farming methods.

Of course, building schools does not achieve this in itself. It is important that everyone – not least parents – can see that chil-

dren are actually learning something they can use. Particularly in the poorest countries, it can be a significant investment for individual families to send their children to school, simply because this means that the children can’t work for food. The direct link between good results in school and improved life quality for the individual is a strong motivator.

Good schools are one of the best investments if one wants to conquer poverty. But the current financial crisis risks putting a halt to the necessary expansion of the schooling system in a number of poor countries, such as Ghana and Kenya.

**Private Enterprise Backing Development**

Concealed beneath the world’s economic pyramid is a fortune, at least that’s the controversial message from the Indian-born business guru C.K. Prahalad. Together with his colleague, Stuart L. Hart, he has forged a path for a radical new interpretation of the markets in poor countries. Citizens should not be considered victims, but as potential entrepreneurs who can contribute in an important way to the development of their country, while at the same time improving life quality for themselves and their children.

By definition, a single person has an extremely low purchasing power. But, combined, the bottom of the pyramid constitutes the world’s largest market. If businesses can develop business models that satisfy the poorer markets’ needs, the poor can both contribute to improving their lives, and earn money themselves – a great deal of money.

A number of businesses and industries are fully committed to fighting poverty and generating profit by:

- Developing unique products targeted at the poor.
- Cooperating with local partners who are integrated in the Western businesses’ value chain.
- Improving the poor’s access to goods or services.
- Establishing new partnerships with governments and NGOs.

Development, which can be seen, for example, within sectors such as foods, housing, sustainable energy and cell phones, supports a new approach to the fight against poverty in which the driving force is not public aid but private enterprise.

In spite of economic crises and massive climate change, the world could experience a positive development in which new

## UNITED NATIONS MILLENNIUM GOALS

At the UN's summit in 2000 the world's leaders agreed to fight poverty, hunger, sickness, illiteracy and discrimination of women and children. They set a target to achieve this goal before 2015:

- **Eradicate extreme poverty and hunger.** Halve the number who live for less than 1 dollar a day. Halve the number of people who are hungry.
- **Ensure basic education for all.** All children shall have access to basic education.
- **Promote equality and strengthen women's rights.** Obtain absolute equality in all levels of education.
- **Reduce child mortality and infant mortality.** Reduce mortality among children under five by a third.
- **Improve maternal health.** Reduce mortality among the pregnant and women in child birth by three quarters.
- **Stem the spread of HIV/AIDS, malaria** and other sicknesses that threaten mankind.
- **Ensure global environmental and sustainable development.** Halve the number of people without access to clean drinking water.
- **Develop a global partnership for development.** Ensure increased aid, just trade deals and debt relief for developing countries.

## THE WORLD'S LARGEST MARKET

markets and trade routes spring up, and where economic growth is anchored in demand around the globe – not only in the richest part of the world's population.

Private investment in the poorest countries far exceeds public aid which, in 2007, only constituted around 15 per cent of the combined transfer to developing countries. The money which emigrants send (or remit) home to their families accounted for double that, almost 30 per cent.

Even though the economic crisis will reduce the amounts, the private transfer of money in the coming years will also deliver the greatest and most decisive contribution to the development of the poorest countries.

### Investing in Moving Minds

The Philippines is the country where emigrants' money transfers have a significant impact on the economy. One of the country's largest exports is its workforce. The Philippine government has, for many years, encouraged its people to work overseas, and out of a total population of 90 million, 8 million live in other countries. Typically, they work in shipping, building industries and the restaurant business.

It is good business for the country. Every year these overseas workers send billions of dollars home and, in total, in 2007 these earnings represented over 10 per cent of GDP. Research shows that these overseas earnings contribute to further economic growth. The transfers are to family members who invest them in improved living standards, for example in the construction of a house.

The basis of the Philippine strategy is a massive investment in training. For example, many nurses and doctors travel. The country's ministry of health calculates that up to 85 per cent of nurses work in other countries where salaries are significantly higher. It is still a profitable business for the Philippines but it also requires that there is enough trained nursing staff to meet domestic needs. Without the extra investment the Philippines risks a brain drain similar to that which has effected a number of African countries resulting in a health system that has a dire shortage of human resources.

### Cheque Book Development

The curse of poverty is that, if one is going to improve one's quality of life, it requires precisely that which the poor do not have:

money. To start up a business, or invest in some other way in changing the situation, requires capital.

With the so-called micro-loans, entrepreneurs in the poorest countries in the world are given the chance to raise capital at interest rates they have a chance of paying. The shining light in the micro-loan world, Nobel prize winner Muhammad Yunus' Grameen Bank in Bangladesh, takes between 11 and 22 per cent interest per year. That sounds excessive, but the alternative for those taking loans is often the local loan shark, who can charge interest of 20 per cent – per day.

The Grameen Bank currently loans to 7.5 million customers, nearly all of whom are women. The vast majority – 98 per cent – repay the loans. Websites like kiva.org and myc4.com enable individuals to lend money to micro-entrepreneurs globally.

Micro-loans offer a unique opportunity for the poor. Research from Sri Lanka shows that the loans are most often used to invest in tools such as sewing machines for small businesses, and that the turnover after taking out the loan increases by 60 per cent.

Micro-loans lower the price of liquidity markedly. Grameen Bank's ideas have now been copied by hundreds of banks around the world. In Bangladesh alone every tenth person has taken out a micro-loan.

But the financial crisis can have serious consequences here too. Micro-loan banks around the world are reporting that they are finding it more and more difficult to raise capital for the poorest entrepreneurs.

### From Digital Abyss to Digital Bridge

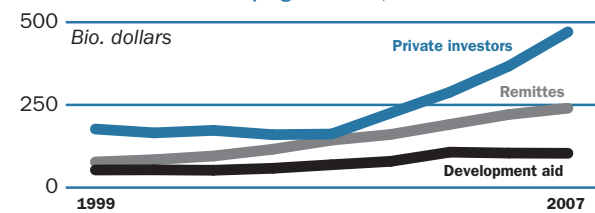
New technology is one of the most important driving forces behind long term economic growth. The UN organisation UNCTAD points, for example, to the fact that the popularity of cell phones is an important contributor.

Since 2004, the population of developing countries has bought many more phones than those in the richer parts of the world. The combined mobile market is now three times larger than in industrial countries. Africa is lagging behind, but with a growth of over 40 per cent per year the picture there is changing too. In a country such as Kenya every third person owns a cell phone – and the two largest suppliers predict that the number of subscriptions will double during the next two years.

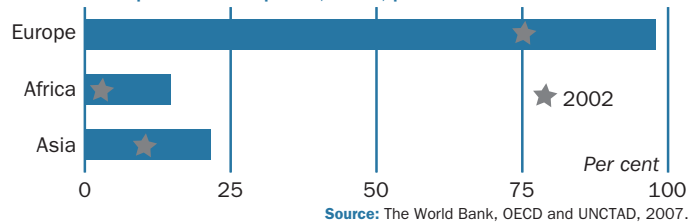
Cell phones don't just give fishermen and farmers access to important information in the form of, for example, text messages

## MM | More money and cell phones

Flow of finances to developing countries, bio. dollars



Number of cell phone subscriptions, 2005, per cent



Source: The World Bank, OECD and UNCTAD, 2007.

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about weather forecasts or market prices. They are also a growing part of the financial infrastructure.

In Kenya the mobile bank system, M-Pesa, is growing almost exponentially – a revolution in a country in which the population are largely “un-banked” and are vulnerable to loan sharks if they want to invest in new crops or develop their stock of chickens. For the first time, the mobile bank system offers liquidity way beyond the city’s service centres.

Pesa means ‘money’ in Swahili – and with M-Pesa poorer Kenyans have their own form of debit card. In a country in which crimes against property occur more often than in Western Europe, it gives extra security to small businesses in cities to receive payment via text messages SMS. Within the last years micro-entrepreneurs have been able to transfer their micro-loans to an M-Pesa account and make instalment payments via a cell phone.

The mobile company behind M-Pesa, Safaricom, earns millions every month. Vodafone, which owns a third of Safaricom, is now looking to expand the concept to other sister companies. The first license has already been issued.

Orange, which has actually overtaken Kenya’s second largest telephone operator, is also aiming to offer loans to Kenyans who do not have a bank account. Orange’s owners, France Telecom, are already participating in projects similar to M-Pesa in a range of other African countries.

The essential condition – aside from the technology – for expansion of mobile-based payment systems is a transparent public regulation of the telecommunications market, primarily low or no taxes on cell phones. There is also a job here for governments to draw up rules for how “m-bankers” should operate.

### In Partnership with the Poor

Another example of a partnership strategy is that of the Danish pump producer Grundfos. A billion people lack direct access to clean drinking water. In the poorest parts of Africa women take hours every day collecting water.

Grundfos is working its way into what is a major market, and will establish automatic water systems in 20 towns just outside Nairobi. This is intended to be the first project in a strategy that will deliver clean drinking water to the world’s poorest, and create revenue via its sister company Grundfos Lifelink.

Every town has joined together to take a loan in the water systems from a Kenyan bank which has specialized in micro-lo-

ans. Every time a user takes water, the loan is paid off via a smart card which can be recharged via their cell phones. It is estimated that the loan will be paid off within five years.

The business model breaks with a tradition of bad experiences with development projects in the third world which founded on the fact that locals simply weren’t able to maintain the equipment that was delivered from Western countries. Grundfos offers both technical equipment, financing, a secure payment system and a service pack that includes monitoring of the water system by the national monitoring centre in Nairobi. If the system breaks down, a technical assistant will be sent out with spare parts, tools and specialized knowledge.

Grundfos’ system is one example of how backwards regions can jump over a step in their development. Rural towns do not have access to the electricity grid, but instead of waiting for costly investment in power stations, the water system is powered by solar cells.

### Trade Deals for the Poorest

Businesses’ and entrepreneurs’ exploitation of market potential in poor countries is an important factor in reducing global poverty. But the decisive leap first comes when businesses in poor countries get access to markets in more well off countries.

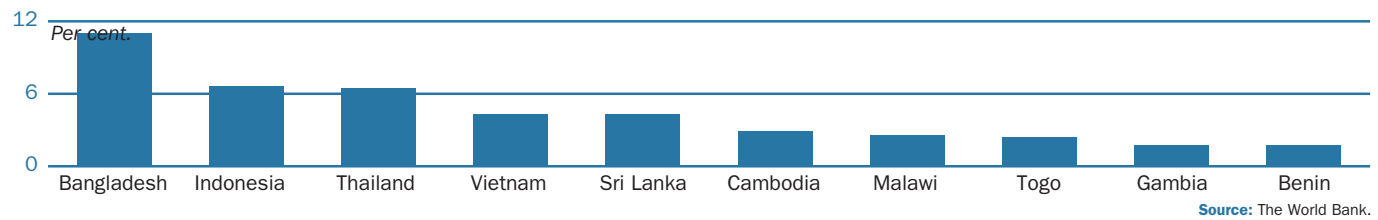
This is the thinking behind a new global trade agreement by the World Trade Organisation (WTO). First and foremost, this aims to open the markets in the richer countries for agricultural products produced in developing countries. The agreement could represent a break from decades of agricultural protectionism. Breakdowns in trade talks last year, however, make agreement on the Doha round remain a seemingly distant prospect.

But while the agreement will have a major impact in countries such as Brazil and Argentina which have fostered competitive farmers, the poorest countries will find it difficult to exploit the opportunity that a new agreement could offer. Especially agriculture in poor countries can be exposed to tough global competition. There is a need to take particular care of the poorest in the form of weighted agreements which offer them the chance to sell their products, unhindered, in the rich part of the world – but have permission to protect their farmers and industry during a transition period.

This could take the form of reform and investment programs

## MM | Capital for the poorest

Microloan takers, per cent of population in selected countries



## THE WORLD'S LARGEST MARKET

which protect these countries from direct competition from producers in the richer countries.

Global trade agreements or not, in a number of areas world trade is ready to break from established north/south patterns to change to new trade patterns from south to south. In South Eastern Asia (ASEAN), Latin America (Mercosur) and in West Africa (UEMOA), exports of processed goods to neighbouring countries are much higher than exports to Western countries.

As traditional trade barriers are scaled down, other barriers gain greater meaning. This applies, for example, to technical standards for goods, health standards and patents, which can seriously slow the transfer of knowledge and technology to poorer countries.

Businesses patent their knowledge and products for a good reason. But a complex web of overlapping patents can hinder research and development in the poorest countries, where in particular the all-important agricultural research is threatened. Even just the development of a new strain of rice with a higher content of Vitamin-A involved 70 patent holders.

It is striking that China and India, who for decades have ignored Western patents and permitted unrestricted copy production, have now changed their attitude to international patent rights. This indicates that patents from earlier stages of development constitute a hindrance for development. Following intense media pressure in connection with the fight to allow South Africa's importing of generic medicines for the treatment of AIDS, pharmaceutical companies around the world have now accepted a model in which patented medicines in poor countries can be sold for a much lower price than Western users pay.

A corresponding asymmetrical model could be applied to other patents.

### Poverty Confronted

One by one, millions of individuals are slipping free from poverty. If this progress is to be permanent, it requires a dedicated effort from a wide range of participants – from businesses to governments and NGOs, otherwise the risk is that millions will be plunged back into poverty. The decisive element in this effort is a new view of poverty in which the poor are not perceived as passive receivers of help, but partners in a process that improves their possibilities.

- **INDIVIDUALS** must themselves seek out the possibilities available through micro-loans or other financing to establish or develop their economic potential.
- **BUSINESSES** must regard the poorest people as clients with specific needs – whether it is drinking water and electricity, or cell phones and ice lollies.
- **RICH COUNTRIES** ought to break from The World Trade Organisation's founding premise that all countries shall have access to the same advantages – and offer the poorest countries special favourable conditions for access to markets and technology.
- **DEVELOPING COUNTRIES** must themselves invest in the elements that bring long term gains. First and foremost, education.