

Alleviating Hunger Without Handouts

Madhav Mehra

President, World Council for Corporate Governance

Throughout 2004 World Council For Corporate Governance has drawn corporate attention to the widening gap between rich and poor and the governance strategies required for bridging it. We have repeatedly argued that the socio-economic disparities are a serious threat to the security and sustainability of business. The business should have a vested interest in thinking of radical ways to draw the poor in to the market economy and reassure them that globalisation will equally work for them.

Tsunami has shown that the poor nations are much more disaster prone. The communities hit by tsunami catastrophe in Indonesia, Sri Lanka, Thailand, Maldives, Somalia and India are the poorest in the world. Experts refer to the 'Seismic Gap" between rich and poor countries. It is not that the nature picks on the poor. It is because the poor's habitats have no resilience to absorb nature's shocks. Teheran is a city of the size of Los Angeles with similar thrust faults. While a 7.5 earthquake in Los Angeles might kill 50,000, it would kill a million in Tehran. The tsunami death toll that exceeded 200,000 is the highest in our lifetime for a natural calamity anywhere. This disparity is because of the density of population, shabby construction, poor regulation & even poorer enforcement of existing regulations, lack of early warning systems and corrupt governance practices. Tsunami is an opportunity to use all our might to correct the imbalance.

It is the poorest who are also the worst sufferers of such calamities. The middle classes have savings, insurance policies and relatives to turn to in an emergency. The poor have no safety net. The coastline of the Indian Ocean is home to millions who eke out a meagre living from fishing. They have not only lost relatives, homes but also the only means of sustaining life by the giant tsunami waves. The worst is that they have not only lost their shanty towns but also the land on which these were built. They have no hope on earth to reclaim it because there is no system of registering their titles.

We need to examine how, with all the scientific and technological advances at our command, we can not only turn the tsunami tragedy into an opportunity for eradicating poverty from the affected region but also scale up the experience in other poor regions. The generous response to the tragedy from the over has shown that financial aid is not a problem. Ability lies in thinking of innovative ways how this aid can be used not so much for immediate relief, which can be managed anyhow, but lasting measures to eradicate poverty that can be replicated. Tsunami challenges us to think and analyse causes of poverty in a wider spectrum and examine why human institutions have failed to address this problem despite investment of vast funds. We must recognize that poor countries like the ones living on the tsunami affected coastline are rich in mineral resources. Why do they continue to be the world's poorest people?

It is five years since the UN adopted the Millennium Development Goals of halving poverty by 2015. The latest figures available on poverty show poverty has actually climbed up in 2004. Hunger, the severest form of poverty, stalks 10 million more people across the world having risen from 842 million to 852 million. Poverty is not limited to Africa or Sub Saharan desert or developing countries. It has risen by 1.3 million in US, the world's richest economy. 12.5 percent of the Americans are classified as poor compared to 12.1 percent in the previous year. Why the Millennium Project and the aid programmes that preceded have been so ineffective?

Hunger is more an issue of delivery than donation. The total expenditure required for elimination of starvation and malnutrition is \$19 billion. The incremental annual public investment needed to meet the World Food Summit goal of ensuring access to food for most needy is barely \$5.2 billion. Tsunami has received pledges of \$8 billion within 2 weeks. Tsunami experience showed food was not the problem. The problem was in distribution. There is unused donor capacity for feeding the poor. All we need is innovative ways to involve potential donors. Our challenge lies in raising public and corporate consciousness towards the cause and creating public confidence in our ability to reach the aid to the rightful. Public

are wary of large bureaucratic organisations because of the inefficiencies inherent in them. Food programmes, therefore, will be more effective when they are market based and entrepreneurially driven.

The experience has shown that the problem of poverty cannot be solved simply through handouts. No amount of hand out can help an African farmer whose milk is unable to compete with the western farmer simply because the cows of the western farmer are subsidised at the rate of \$2 per cow per day which is twice as much as he makes in the whole day. Hernando de Soto, the Peruvian economist has analysed causes of poverty in his path-breaking book "The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else" that poor countries are poor not because they lack resources or aid from rich countries, or FDI by multinational firms but because their governance systems are so poor that they lack enforceability of contracts. Consequently they develop extra legal economies ruled by slum lords, mafia and muscle men. These poor countries can be rich if we can unlock their trapped assets. He goes on to say that the proliferation of regulations makes the situation even worse because of the opaqueness of the system to anyone other than an insider. De Soto argues that his country, Peru, has more than 28,000 legislations per year at the rate of more than 100 per day. No one can keep pace with that rate of change. As a result corruption is prevalent at all levels.

Handouts suffer from lack of transparency, accountability and efficiency in the delivery system. The problem is not only with disbursing governments but also with lending agencies and funding organisations. Funding organisations have little regard for the virtues of transparency and accountability when applied to themselves. Indeed, they find it offensive if somebody even questions about them. They actually view this opaqueness as a strategic asset. Such situation is not unique for the UN where the oil for food programme is going through a scanner. This is endemic for almost every major funding organisation whether the World Bank, OECD, DTI, DFID, Commonwealth, European Commission or any of the other UN organisations.

In a recent report on the progress of Millennium Development Goals to UN Secretary General, Professor Jeffery Sachs, the noted director of the Earth Institute at Columbia University and also the director of Millennium Project, has pleaded for doubling of the development aid. He has done well by emphasising the importance of accountability and transparency to bring credibility to the Millennium Project. He has called upon governments, donors and civil societies to prepare specific compliance guidelines that include spot audits, evaluation and publication of performance indicators. Leading civil society organisations such as Transparency International and private accounting firms should help ensure that the increased aid flows to the targeted areas.

We are all for increase in international aid and admire Professor Sachs' missionary zeal. The US, the world's richest country, spends barely 0.15% of its GDP on international aid against the commitment of 0.7%. There are, however, inherent fallacies that lead to the failure of funding through governments. It lacks sense of ownership. It is regarded as easy money. Easy come, easy goes. The real constraint with international aid is not funds but the capacity to use it. Most aid remains unspent and rarely goes to those who have capacity to spend. Those who have a stake in spending are rarely involved. So whatever spending is done is through entrenched incumbents and an incestuous circle of friends and protégés. Poor rarely benefit from such aid. On the contrary the aid mechanism can work wonderfully if driven through market forces, creating incentives that create value at each stage of delivery.

Actually, the poor do not need handouts. They need healthcare, education and infrastructure. Infrastructure plays a far more important role than most people imagine in the development process. Developing rural markets by encouraging transparency in governance structures will unlock the hidden assets of the rural poor and accelerate their integration in the market economy. Business can fundamentally alter the rural landscape and stimulate commerce and development by bridging infrastructure gaps in rural areas, linking the informal economy to established markets and providing distribution channels and transaction platforms.

We think that socio economic inequalities provide imperatives that provide compelling reasons to make poverty alleviation a business issue. Business has been the greatest beneficiary of globalisation. The rapid expansion of trade and cross border capital flows made possible through the globalisation have created unparalleled opportunities for growth and financing of business. Globalisation cannot work properly if the poor are not made part of it. They need to be reassured that globalisation can benefit them equally. The biggest business challenge of today is to bring the poor into the market economy. It should be in the self-interest of corporations to do that as a matter of top priority. Business has to realise that sharpening of the inequalities as a consequence of globalisation is the greatest threat to the security and sustainability of their businesses.

Secondly, for the first time in human history business has the power and technology to make a difference in human lives. It has a social cause to make profits instead of the invisible hand of Adam Smith.

Thirdly and more importantly, businesses have to realise that throughout history businesses have expanded and multiplied only by reaching what C K Prahalad, the noted management guru calls, 'the bottom of the pyramid'. Both Microsoft and mobile telephony that spawned some of the 21st Century's most successful businesses have proved the point. Microsoft succeeded because it aimed to reach every home. IBM failed because the vision of its founder Thomas Watson was "there was to be a world market of just five computers". Reliance Infocomm, a mobile phone operator in India received one million applications in the first 10 days when it offered a mobile phone for \$10. India today has more mobile phones than landlines.

The success stories of Gramin Bank in Bangladesh, Casas Bahia in Brazil, Cemax in Mexico and ICICI Bank and Nirma in India show how accessing the poor markets have transformed both these businesses and the poor constituencies they served. No amount of handouts could have improved the lot of the poor served by these businesses. ICICI Bank has developed a new model of relationship with its customers. It has no direct contact with its half a million rural clients. It monitors their loans which are as little as 6 dollars with instalments of 20 cents each month through self help groups formed by rural women. Cardiac care and cataract operations are reaching new heights of process innovation in India. A cataract operation in Aravind Eye Hospital costs barely \$50 including stay. 40% of the patients are treated free. Yet, the hospital is debt free and has a return on capital of 120 to 130%.

ITC, a former subsidiary of British American Tobacco has transformed rural India. It had serious problem in sourcing pulp for its papermills and soyabeans for export. It organised the poor tribals of Andhra Pradesh with wastelands into self supporting farm forestry groups. It provided them with high yielding, disease resistant saplings. It claims to have greened some 26500 hectares of wastelands with 108 million saplings and ensured high quality woodbased raw material for its paperbased business. In another initiative called e-choupal linking the villages electronically through a PC kiosk, it has saved Rs 270 per tonne for farmers and the same amount for itself in procurement of soyabeans.

Another revolution has been brought by Unilever subsidiary in India, Hindustan Lever. They have created a distribution network of some 30,000 women called Shakti Ammas to distribute their products in remote villages as direct-to-consumer initiative targeted at individuals at the bottom of the pyramid. Training these women in entrepreneurial skills will have a cascading effect on the rural economy. Scaling up this model worldwide can have phenomenal results in alleviating poverty and bringing the poor into the market economy.

Our understanding of CSR needs a paradigmatic change. It has moved way beyond its philanthropic and community roots. It is today a way of doing business and needs to permeate across all departments, manufacturing, product development, business development, marketing, procurement, finance, human resources and so on. It is only through such integration that its true potential can be realized.

There is a huge debate raging about CSR and its purpose. CSR is the market response to the changing expectations of the stakeholders. CSR is not meant to benefit society at business's

cost. CSR is integral part of the business. Market valuations of companies today have little to do with their profits. These are determined by the public perception of the long term sustainability of the business which in turn is measured by its business ethics and social acceptance. It was not long ago that a survey suggested that 60% of customers would punish companies which were found environmentally and socially irresponsible.

Fortunately, the detractors of CSR have little influence on the company's sales. These are influenced by their teenaged children whose expectations from businesses are vastly different from their parents. Today's markets are driven by 2 billion teenagers and not by the great and good of the City. Adam Smith has been often misquoted and misinterpreted to subserve sections of business lobbies. He staunchly believed in the social purpose of the business and also authored a less known book "The Theory of Moral Sentiments". He was unaware of the WorldCom, Enrons, Marconi & Equitable Life or the Nixon doctrine that guides the corporate morality: "You can disobey all the ten commandments as long as you follow the eleventh one "thou shalt not be found out". Corporations continually strive not to be found out. Had Adam Smith lived in the 21 Century, I am sure, he would have been the first proponent of CSR.

This is not to say there is no pernicious element in the current practice of CSR. NGOs dissuading companies to invest in developing countries such as India and Bangladesh on the ground they are employing "sweatshop" labour are throwing the baby with the bath water and doing harm to CSR.

The true significance of CSR lies not because of its social purpose but because this is the only way for companies to make profits in a market where public expectations from corporations have undergone a sea change. The manner in which companies engaged in chemical, tobacco and mining and fossil fuel businesses have latched onto CSR is indicative of the business case of the CSR. These companies are smart and have not lost sight of the lessons from a recent millennium survey where most investors preferred companies with corporate citizenship compared to other criteria such as good management and quality.

The morphing of the industrial economy into a knowledge economy has changed all our traditional assumptions and equations. Successful businesses have learned that value is added not by opposing force with force but by cooperating to compete. Knowledge is the measure of wealth in today's economy. It is enhanced by sharing, by integrating opposing ideologies and harmonising clash of ideas. Successful companies know they will not become competitive by perfecting the same but by being different. They go for diversity because this is the only way to spur innovation. Diversity and dissent are well springs for creativity and innovation. Darwin told us back in 1859 that variety improved crops. Humans are still to recognise its importance. Nations impose their wills and unilateralism not realising that it only limits them. They declare wars and invest scarce resources ignoring lessons of history that solutions driven through force are at best temporary. Violence begets violence. People's will prevails eventually. Institutional violence whatever may be excuses thus causes permanent damage and has disastrous consequences.

We, therefore, offer a holistic solution for the problems of peace, poverty and pollution in the form of an 11 step action plan for 2005.

- i. Businesses need to integrate CSR into their business model and co-create solutions through public-private partnerships. Platforms for public private partnership should not be for form's sake. These should be value adding vehicles for constructive engagement with all stakeholders and local communities to prioritise CSR initiatives.
- ii. Radical increase in resource productivity. Living in the knowledge economy we must all realise that the natural capital is our most scarce resource. Our development effort has to be based on wringing 100 times more benefit from the same resource input.
- iii. Openness and transparency. Transparency is the key to both public and corporate decision making and our only assurance for accountable governance. Corruption should be made a high risk, low reward activity. Everyone should be involved in its eradication. Our system should reward transparency even in failures and punish opaqueness and translucence even when accompanied by success.

- iv. Abolition of all subsidies. In what is called government intervention to correct market forces, governments spend hundreds of billions of dollars annually of tax payer's money to promote inefficient and unproductive technologies that destroys natural resources and wastes both energy and material. Subsidies are the most pernicious economic instruments. They damage both the beneficiary and the benefactor. In an economy fuelled by innovation it is the surest path to ruin because they benefit entrenched incumbents locked in the old technology and stifle innovation. Today the world spends some \$ 1.5 trillion in subsidies. Even if a proportion of it is spent on infrastructure, education and health, it can transform many remote and rural economies.
- v. Price human and natural capital. Our wealth based as it is only on financial capital, does not tell us the full story. Human capital accounts for 70% of a company's assets. Natural capital is even more critical. It is impossible to measure value creation without developing means and standards for accounting the costs of human and natural capital and pricing them into the market.
- vi. Activate women groups. Women being mothers, daughters, wives and sisters are most critical to both economic and social development. Women participation was found to be a major criterion for success of the self help groups
- vii. Value 4 Ds – diversity, difference, dissent and dialogue. The equation for wealth creation has changed vastly in the knowledge economy. Value comes not for conformity but dissent, not from deference but not from homogeneity but diversity. We must vigorously pursue the diversity agenda and make sure our work groups include diverse individuals from different sex, caste, creed, religion, race and discipline.
- viii. Develop market based and entrepreneurial solutions. The lacklustre performance of international aid is an evidence of its ineffectiveness. It has neither the missionary zeal of a new convert nor the infectious enthusiasm of an entrepreneur. The aid to be effective has to be married to entrepreneurship. Only those solutions, which are market driven and based on entrepreneurship, have likelihood of success.
- ix. Conservatism and not consumerism should drive the growth agenda. The innovations should not only be poor-oriented but eco-friendly, focusing on POISED (Poor Oriented Innovation for Sustainable Economic Development). The biggest problem in poor oriented innovation is the single user packaging and its impact on environment. The rabid rate of consumerism fuelled by malls will lead to ecological catastrophe. We need to curb proliferation of products. Our planet is in danger of being cluttered up by half-baked products that leave customers half-longing and half-spoilt. We should aim towards zero waste and recycle every product. Our goal should be to turn every product into a service and innovate products with multiple uses such as a mobile phone which is a phone, radio, a TV, a camera and a computer rolled into one.
- x. Access. The problem of poor is not so much the lack of funds but equitable access to the available funds. CSR effort needs to be directed to improve the access of the poor to the state delivery system through advocacy, awareness and education.
- xi. Train, train, train. None of this will happen unless we drill and educate people in the above ten commandments. As Aldous Huxley says the great end of the knowledge is action. It is here that most programmes fail. The execution is the key to success of any programme. People should be encouraged to take time off to undergo training programmes to develop appropriate skills and effect requisite behaviour change.

One may question the relevance of CSR in this model as it makes even poverty alleviation a business driven issue. There are, however, vast expanses in Sub Saharan desert of Africa whose inhabitants will hold no appeal for any business and where it will take time for market forces to penetrate. This is where corporate philanthropy can be applied. Corporate philanthropy is distinct from CSR and ought not to be mixed up with it. International aid will always be needed but its disbursement has to be market driven and entrepreneurially based. It can be most effective if used for pump priming poor people's access to state delivery system.

CSR NGOs are doing excellent job to build the momentum and create pressure to mobilise corporate action. Their primary responsibility, however, should be to work with businesses to

find innovative ways to access poor markets within the company's core businesses. All corporations do not have the enlightened self interest and constant advocacy and education does help them to keep them at their toe. Despite its business role, CSR is still regarded by corporates as an externality and their commitment to it does not go very deep. As the Economist brought out in a recent survey, for most companies, "CSR is a little more than cosmetic treatment. The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night".

All this evidences that our main problem for far too long is of posturing instead of practicing. We are being increasingly trained to become performers, adept in acting the part. Time has come to get real with the problems of peace, poverty and ecological degradation which are critical for the sustainability of business. CSR is the business contribution towards sustainable development. To treat it as a PR exercise is to do the greatest injustice. The recent tsunami has shown that the environmental concerns are real. The coastal areas that suffered major damage were the ones where the mangrove swamps had been removed to develop tourism facilities and other infrastructure. The urgency is not because social good is a competitive differentiator and part of innate human creed but that the alternative is anarchy where nothing but violence will succeed. It was John F. Kennedy who said in his inaugural address back in 1961: "If we do not make a peaceful revolution possible we will only make a violent revolution inevitable".

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