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Company report review

Shell Foundation

'Enterprise solutions to poverty'

Presented by: Maplecroft

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Note

This review is based on information contained in the electronic version of the Shell Foundation's report 'Enterprise solutions to poverty' published in March 2005. This document is available online at: <http://www.shellfoundation.org>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Introduction

1.1 Background

The Shell Foundation was established by the Royal Dutch/Shell Group of Companies as a UK charity in June 2000. Unlike many corporate foundations, the Shell Foundation focuses on social issues aligned to the core characteristics of its founder – an energy major and multinational group of companies. Thus the Foundation addresses social problems arising from the links between energy and poverty, energy and the environment and the impact of globalisation on vulnerable communities.

The Shell Foundation emphasizes the following aspects of its approach to grant-making:

1. The long term financial viability of the enterprises being assisted as there will never be enough aid funding available to make a big enough impact.
2. Enterprise-support interventions must also be financially viable so they can be scaled up using local capital and local capacities.
3. The most effective partners are those that can apply business principles and business thinking – assess risk, know your market, offer what your customer wants, find last cost solutions
4. Multinational corporations are a 'largely untapped source of value-creating resources' that should be harnessed to add value to civil society efforts to tackle poverty. By harnessing the practical experience and local knowledge of the Shell Group, the Shell Foundation believes it is bringing 'more than money' to the table when working with strategic partners.

1.2 Structure of the report

The report opens with an executive summary and introduction, setting out the report's twofold objectives, namely to introduce the Shell Foundation and its approach, and to offer insights as to how pro-poor enterprise can be used to promote development in poor countries.

The report is then divided into four sections. The first makes the case for putting pro-poor enterprise 'at the heart of the war on poverty'. The second explores key considerations in the creation of sustainable and effective development initiatives outlined above, (financial viability, the use of local capital and capacities to achieve scale, the application of business thinking to social projects, and harnessing the assets of multinational corporations). The third section, representing the main body of the report, presents four detailed case studies of Shell Foundation initiatives. A series of propositions for the International Development Community (IDC), and propositions for engaging the international business community are presented in the final section.

2 The case for pro-poor enterprise

'In 2005, the confluence of advocacy, political serendipity and natural disaster has pushed the plight of the impoverished up the agenda of the wealthy as never before.' The report notes the mounting pressure on governments from campaigns such as 'Make Poverty History' notable for its populist appeal and establishment backing, to raise aid budgets, expand debt relief and address trade inequities. With new and increased resources being made available to poverty reduction, it is increasingly urgent that the IDC find more effective ways to address the same challenge it has faced for years: how, when and where should it intervene to best help developing countries create conditions that facilitate sustainable and equitable growth?

The report argues that past efforts to tackle poverty are not necessarily a reliable guide to what should happen in the future. A look backwards reveals mixed evidence of development assistance, in some ways providing humanitarian relief and in others proving inefficient and ineffective, as evidenced by the 2 billion people currently living on less than \$2 a day.

The Shell Foundation is attempting to systematically explore the question of how donors and large companies can most effectively catalyse pro-poor enterprise-based solutions to poverty. The reasoning behind this focus is that a flourishing private sector, including in particular in the SME sector, is key to

delivering economic growth that will pull poor people out of poverty and 'meet the headline goals of the current campaign', including the Millennium Development Goals, fairer trade and debt relief. While acknowledging both the existence of other poverty priorities and extreme contexts where enterprise cannot function in a normal way, the report emphasizes that pro-poor enterprise offers people the hope necessary to escape from poverty: 'People must believe there's an economic ladder out of impoverishment that they can get onto and climb by dint of honest effort. If they lose sight of this goal, they lose interest in helping themselves.'

3 Case-studies of Shell Foundation initiatives

3.1 Indoor air pollution

Breathing Space is the Shell Foundation's programme for tackling Indoor Air Pollution (IAP) caused by smoke emitted from indoor cooking with biomass (such as firewood, crop residues and animal dung). In October 2004, the World Health Organization (WHO) and the United Nations Development Programme (UNDP) labelled IAP the 'Killer in the Kitchen' because it causes the deaths of about 1.6 million women and children every year in developing countries, while hundreds of millions more suffer debilitating diseases. This makes IAP the fourth largest health threat to these groups after water-borne diseases, malnutrition and HIV/AIDS.

The Shell Foundation has committed \$10m to tackle IAP through its programme *Breathing Space* and is attempting to apply business thinking to the problem. Shell's approach, the rationale for which is detailed in the report, is to identify, test and then diffuse 'market-based' mechanisms for getting killer smoke out of kitchens.

In partnership with selected NGOs, pilot studies were set up in 8 countries to explore market-related IAP solutions including the development and sale of cleaner stoves, cleaner fuels, use of consumer finance on a micro-credit model, education via sophisticated marketing strategies, reducing costs through mass production and distribution and so on. Key actions for the pilot phase included an assessment of whether the target market (rural households suffering from IAP) were interested, willing and able to pay for IAP solutions; verification of the effectiveness of proposed IAP solutions; assessment of business, financing and distribution model appropriate to IAP products. In parallel, a review of the only two other large-scale household energy programmes in the world was carried out for an understanding of lessons learned.

The most successful pilots have combined centralised component production, quality control and supply chain management with decentralised installation and assembly of products, linked to a network of social service providers, such as NGOs, which provide the link to communities, social marketing and awareness raising. Successful models include both direct cash sales to customers and sales to NGOs or public institutions which distribute the products through their own social programmes with various combinations of subsidies, micro-credit or in-kind payments.

By the end of the pilot phase, more than a million households will have been removed from risk of IAP. By 2008, the target is to get 10 million households out of risk.

3.2 Solar home systems

In Southern India, the Shell Foundation is involved in an initiative to catalyse the market for solar home systems (SHS) among the under-served rural and peri-urban population. The \$7.6m initiative is run on a day-to-day basis by two of India's largest banks, and donor money is providing a small interest-rate subsidy to a consumer loan scheme for the SHS product. This has catalysed rapid growth in the SHS market (80% between 2003 and end 2004 with 10,000 systems installed). According to the Shell Foundation, SHS consumer finance for SHS is likely to be greatly expanded by the Indian banking sector but on an entirely commercial basis, involving no further donor contribution.

3.3 Social merchant bank model

Also in Southern India, the Shell Foundation is involved in the S³IDF initiative which targets very small enterprises that require access to capital so they can offer energy, water and other basic infrastructure services to very poor customers. Typical projects are small community electrification schemes using renewable energy.

The challenges faced by entrepreneurs in this field relate not to technology, business ideas or demand, but rather the lack of availability of finance, appropriate business development assistance (BDA) and experienced intermediary agents. S³IDF operates as a small merchant bank, applying business criteria and financial expertise to assess, select and structure deals, and deliver the flexible mix of finance and BDA its clients need but is not available elsewhere.

S³IDF now has a portfolio and pipeline of more than 80 projects. Of the 20 which are in operation, all but one is producing returns as expected.

3.4 SME investment funds

The Shell Foundation is involved in a similar initiative in Africa aiming to catalyse the development of financially viable SME sector capable of supplying pro-poor energy sources and services. A programme called Investment Partnerships is now operating in Uganda and South Africa, and will soon be extended to other countries.

The report outlines some positive pre-conditions for the SME energy sector in Africa, such as evidence that very poor segments of Africa are willing and able to pay for energy services, the provision of funds earmarked for the SME sector by governments and the international development community, and the recognition by banks themselves that an expanding SME sector represents a major growth opportunity. However, banks do not have the skills and experience to provide SMEs with the necessary business development assistance (BDA). This is addressed in the Foundation's SME investment funds' approach. By providing on-going BDA to clients via the fund manager, banks are also able to lend against the business plan rather than just the value of recoverable assets.

The report highlights the role of the Shell Group in helping to set up investment funds for the SME energy sector in Uganda and South Africa, for example by identifying and persuading local financial institutions to partner with the Foundation, and providing these institutions with technical assistance related to the rural energy sector:

- In Uganda, DFCU Bank agreed to match the Foundation's \$2m investment capital and agreed to set up the \$4m Uganda Energy Fund (UEF)
- In South Africa, ABSA Bank and the Industrial Development Corporation each contributed investment capital of \$3.5m alongside \$1m by the Shell Foundation to create the \$8m Empowerment Through Energy Fund (ETEF)

The Shell Foundation is able to report considerable success. For UEF, out of 160 deals closed, non-performing investments are running at 2%. The expected net return on investment of 20% on a portfolio of deals ranging from \$10k to \$400k is above the 5% return first anticipated. At the end of 2004, ETEF was 45% committed and the 5% target rate will be 'easily exceeded'. In recognition of the creation of 80 new enterprises and 120 new jobs created, the ETEF won 'Best Initiative in Support of the MDGs' at the 2004 Africa Investor Awards. Further, the success of these pilots has led to the first scale-ups, with the creation of similar initiatives in other parts of Africa.

4 Our comment

Rating: ★★★★★

As the Shell Foundation report emphasizes, development is indeed high on the agenda in 2005. This September, world leaders will come together at a summit in New York to review progress since the Millennium Declaration, adopted by all UN member states in 2000. As a result of a campaign by the international development community, non-government organisations, as well as the public and the media, governments of wealthy countries are facing unprecedented pressure to raise their aid budgets, revise trade rules and expand debt relief significantly. There remains considerable uncertainty, however, as to the mix of policies and interventions needed to pull the two billion people still live on less than \$2 a day out of poverty.

The Shell Foundation report convincingly argues that pro-poor enterprise, particularly SMEs, is critical to economic growth and poverty reduction. Enterprise development has an obvious and key role to play in poverty reduction with the potential for both 'trickle-down', ensuring that benefits of economic growth are more equitably distributed, and for 'trickle up', stimulating economic growth and local, national and international markets. Attention has conventionally focused on micro-level assistance, particularly microfinance, which is a vital part of a pro-poor enterprise strategy. But in many contexts, stimulation of small, medium and large private sector enterprises may be more effective, providing more secure employment for larger numbers of people and with a greater influence on macro-level factors.

The Shell Foundation has developed a first-class approach to grant-making, focused on the areas of competency and harnessing the resources of its founder the Shell Group. Thus the Foundation emphasizes the application of business thinking and the financial viability of enterprises being helped and the interventions themselves. These ideas are not new and indeed are increasingly widely accepted, but the Shell Foundation is to be commended for its systematic exploration of how they can be successfully implemented.

The Shell Foundation is able to report some significant progress in all four of its initiatives. 'Breathing Space', a project aiming to tackle Indoor Air Pollution, currently the fourth largest health threat to women and children, will have removed a million households from risk by the end of the year. Programmes in Africa and India are helping small enterprises offer energy sources and services to poor people by providing both finance and, crucially, business development assistance via the fund manager so that lending decisions can be based on the business plan rather than the value of recoverable assets. These projects, however, are still in their early stages and the scale of their impact is very limited. Ultimately, their success will depend on the extent to which it is possible to scale them up to reach larger numbers of people.

It is striking that in contrast to many reports on pro-poor enterprise at the micro-level, the Shell Foundation does not consider in its report the role of gender in promoting pro-poor enterprise amongst SMEs.



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