

Harnessing core business for development impact

Evolving ideas and issues for action

By Caroline Ashley

‘Creative capitalism’, ‘inclusive business’, ‘doing well by doing good’, ‘harnessing core competencies’, ‘social enterprise’, ‘ethical trade’, delivering ‘shared value’ to stakeholders and shareholders. All of these terms and ideas have one fundamental idea in common. They are based on the view that, through the operation of core business on commercial terms, businesses can benefit poor people in developing countries. Beyond this statement of the obvious, there is also a normative position: the synergy between commercial value and social value should be further explored, through innovation by business, non-profit organisations and governments.

Beyond this fundamental proposition, there is an array of approaches from multi-nationals adapting supply chains and technology companies innovating for poor consumers, to local non-governmental organisations (NGOs) using market channels to deliver services needed by the poor. This Background Note outlines similarities and differences within this range, then focuses specifically on inclusive business approaches more relative to corporate businesses.

The diversity of approaches is welcome and creative. It is a time of considerable innovation, both within

business and among development organisations. This Background Note highlights some current trends, some blurring of boundaries, and issues that should be considered from commercial and development perspectives in order to carry new approaches forward effectively.

From corporate philanthropy to inclusive business

The inclusive business concept contrasts with two previous ways of business thinking. One approach was that companies could deliver their social responsibilities through corporate philanthropy or isolated Corporate Social Responsibility (CSR) programmes alone. Core business delivered shareholder value, while corporate philanthropy delivered stakeholder value. The second focused on adapting core business, but to reduce negative impacts. Requirements for large investors, particularly extractive companies, to mitigate damage and comply with environmental standards have strengthened over recent decades. Compliance is now simply part of normal operation. But the principle has been ‘do no harm’ and clean up damage, rather than create new value. Thinking has evolved considerably in recent decades (Box 1). Today it is widely understood that business can have a greater impact on development by adapting their core business practice, than through philanthropy alone, and that this adaptation can not only reduce costs to poor people but expand their opportunities.

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Box 1: The emergence of the core business approach to enhancing development impact

Corporate philanthropy has a long tradition, going back to the factories and social programmes of Victorian businessmen, such as Joseph Rowntree. Corporate Social Responsibility (CSR) evolved in the 1970s and 1980s in the post-Brandt and post-Brundtland era. In 1971, the World Economic Forum (WEF) first identified the stakeholder concept – the idea that a company has a clear responsibility to the community beyond its shareholders.

In the last two decades, ideas have developed on how commercial roles can be combined with development goals. In 1992, the Rio Conference (UN Conference on Environment and Development) created Agenda 21, promoting partnerships involving business, and in 1994 John Elkington coined the phrase ‘triple bottom line’, also known as ‘people, planet, profit’. Throughout the nineties a range of companies developed their ‘corporate citizenship’ or ‘corporate responsibility’ agenda, particularly in response to concerns for sustainability. But the focus was largely on agreeing and meeting acceptable standards (such as ethical trading standards or Sustainability Reporting Guidelines of the Global Reporting Initiative) and mitigating risk by reducing environmental damage (such as through environmental impact assessments) or contributing more to society via separate CSR programmes.

In the 2000s, initiatives to adapt core business were underway. The initial focus was on supply chains, such as the ‘linkage’ programmes of the International Finance Corporation and multi-national investors, to support the development of small and medium enterprises (SMEs) around supply chains. More recently, technological development in enabling ‘Bottom of the Pyramid’ (BOP) consumers to access goods and services have become the focus of attention.

In 2008, concepts were crystalised more clearly than ever before. When UK Prime Minister Gordon Brown and Kemal Dervis, Head of the United Nations Development Programme (UNDP) showcased the Business Call to Action with more than 80 of the world’s leading CEOs, the principle was clear: ‘By signing the Declaration, CEOs and Chairmen are committing their company to take action through their core business in a transformative and scalable manner that will enhance growth and help meet the MDGs (Millennium Development Goals)’. UNDP launched its ‘Growing Inclusive Business’ report, with its clear focus on business models that create social value, but in this case ranging across the spectrum from corporate practice to social enterprise. The social enterprise approach – harnessing markets for social deliverables – was well expounded and firmly embedded on the agenda with another publication in 2008, by Muhammed Yunus (2008) on social business.

Current concepts and terminology

Inclusive Business. A term that is replacing sustainable and responsible business, with less ethical connotation and embracing wider concepts, including marketing to the poor. Piloted in Latin America by the World Business Council for Sustainable Development and Netherlands Development Organisation SNV, it is now central to UNDP’s Growing Inclusive Markets Initiative. UNDP defines it as ‘business models that create value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organisations’ (UNDP 2008).

Creative Capitalism. A term popularised by Bill Gates at the World Economic Forum in 2008, as capitalism that works both to generate profits and solve the world’s inequities, using market forces to better address the needs of the poor.

Bottom of the pyramid refers to the market comprising billions of poor consumers. Prahalad (2004) argues that companies investing in innovation to reach BOP consumers can deliver profits and reduce poverty. Some goods and services directly enhance livelihoods or productivity (finance, health care) and some are more routine consumers goods, offered at affordable prices.

Responsible business, sustainable business and corporate responsibility are terms used to generally describe business practices built around social and environmental considerations. Consistent definitions are missing, much debated, and beyond the scope of this note (see Zadek 2001, Schwab 2008). But they increasingly look to fundamentally change the way businesses deal with social and environmental issues while also incorporating philanthropic action.

Shared Value. Creating Shared Value is an approach to CSR based on the interdependence of corporate success and social welfare, highlighted in Harvard Business Review in 2006 (Porter and Kramer 2006).

Social business is described by Muhammad Yunus (2008) as business that makes profits but reinvests them in the business, whose primary purpose is to help the poor. Similarly, ‘social enterprise’ describes any non-profit, for-profit or hybrid corporate form that utilises market-based strategies to tackle a social and/or environmental need.

Social intrapreneurship is a term shaped by SustainAbility (2008) to characterise corporate changemakers or social entrepreneurs within big business: ‘This species often works against the corporate status quo to deliver new market solutions, aligning business value with some of the sustainability challenges facing society today.’

Ethical Trade, as defined by the Ethical Trading Initiative (ETI) ‘tries to ensure that decent minimum labour standards are met in the production of the whole range of a company’s products.’ The ETI Base Code, incorporating conventions of the International Labour Organisation on labour standards, is applied not only to direct employees of signatory companies, but throughout their supply chains. In contrast, Fairtrade is primarily concerned with the trading relationship with small producers in the South, ensuring they are paid a decent price that at least covers the true costs of production, despite often serious fluctuations in world commodity prices.

Shared fundamentals, diversity in detail

Box 1 includes some of the terms and concepts being used by different organisations and companies that all build on the idea of harnessing core business for development impact. We use inclusive business as a useful shorthand, but once discussion gets into the detail of what the approaches mean, the need for clarification emerges immediately:

Motivation – self interest or social interest?

Are we talking about proactive and intentional efforts to optimise development impact, or about simply the pursuit of profits in a business that boosts development? The answer is probably both and more. The inclusive business terminology is applied to at least four different situations:

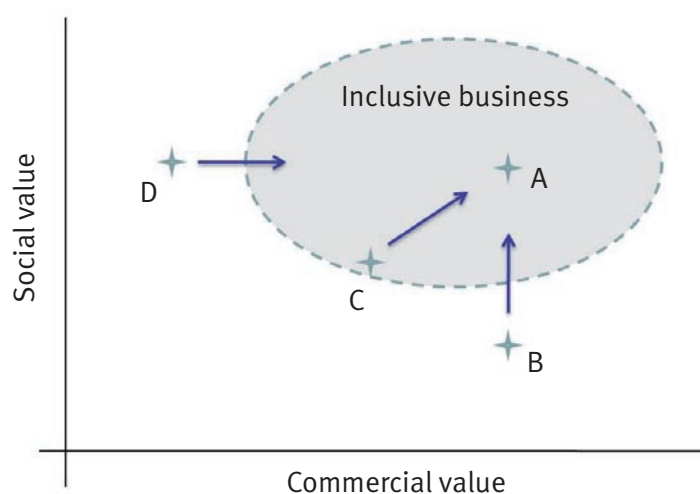
- Commercial businesses selling mobile phones, banking services, health services or other products that are needed by the poor and have high development impact. These businesses inherently combine high commercial and social value, as shown by model A on the graph in Figure 1. Companies may need to take risks and be innovative to reach markets of low-income consumers, but commercial drivers of market and product development will drive the process. Note simply selling to the poor does not qualify: beauty products containing bleach are not a model A. Danone yoghurt that contains added nutrition and is priced for poor households does.
- Large companies that have a considerable footprint

on poverty in the normal course of their business, and take deliberate action to expand development impacts through supply and distribution chains, or research and development. Several multinationals, such as in the mining and drinks industries, are now committing themselves to developing this approach. It involves additional costs compared to model A and is shown in Figure 1 as model B.

- Small and medium domestic enterprises that are fully commercial businesses but have local economic development as an explicit driver, because they are embedded in the local economy. In Latin America, the majority of businesses working with SNV to pilot inclusive business are domestic firms. This is shown by model C.
- Social enterprises whose core product is of high social value, and have chosen to replace the traditional non-profit model of delivery with market mechanisms and a commercial model of delivery. This is shown by point D in Figure 1.

Each model combines commercial and social value. Proponents of one may critique the other. Some argue that model D initiatives are too small to exit the niche. Others argue that models A and B cannot deliver sufficient change, or if they do, are simply sound business and mislabelled if called ‘responsible’. Wherever you stand, the similarities and distinctions are useful to understand, because the implications for how models can be further developed by business and partners are quite different.

Figure 1: Plotting inclusive business against commercial and social value



Example of A: Mobile phones and banking services appropriate for poor people

Example of B: Oil/gas/mining company supporting SME development via the supply chain

Example of C: Domestic leisure firm prioritising labour-intensive entertainment and local staff training

Example of D: Provision of essential drugs and basic health services via a microfranchising distribution model set up by a non-profit organisation.

Figure 2: Levers to use in harnessing core business for development impact

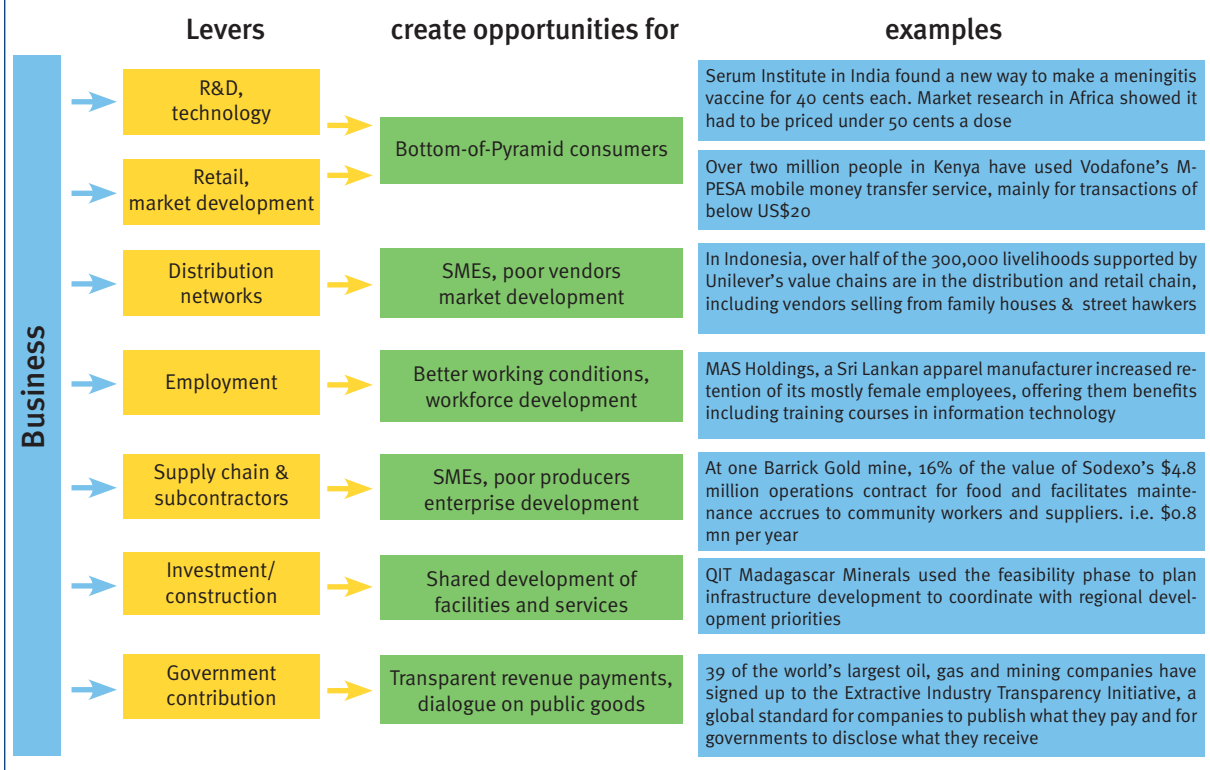
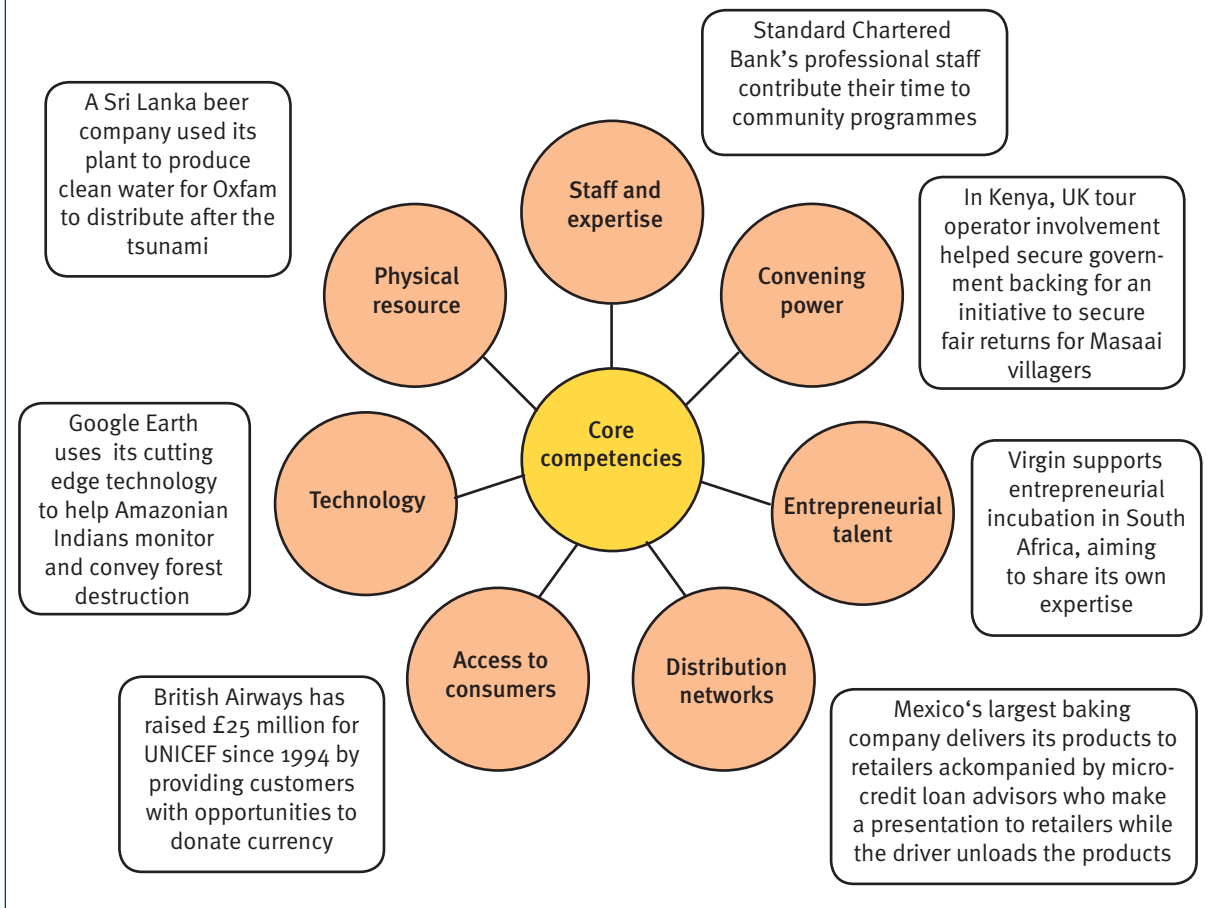


Figure 3: Harnessing core competencies for impact outside the core business



Which bit of the business? Any bit?

There are many different ways in which core business can be adapted, and potential varies considerably by sector and by company. At least seven business functions or broad ‘levers’ can be identified to deliver and boost social value, as illustrated in Figure 2. In practice, however, the boundaries between them are not rigid.

Does this differ from ‘harnessing core competencies’?

The idea of harnessing ‘core competencies’ is closely related to harnessing core business, though not identical. Both are based on the idea that companies should apply their ‘core competencies’ and ‘business assets’ to leverage development, and not just their cash. Both use corporate resources more strategically. Core competencies can be harnessed either for core business delivery or contributed in-kind for more philanthropic ends. When donated they deliver business benefits, such as competitive advantage or brand enhancement, so are not divorced from core business but are not part of delivery.

‘Big companies possess a wide-ranging set of tangible and intangible ‘assets’ that can be of huge value in the fight against poverty, especially via an enterprise focused attack.’ The assets include ‘business DNA’ that is encapsulated in people, knowledge and techniques’ and ‘convening power’ as well as physical and market knowledge-based assets.’ (Shell Foundation, 2005)

For example, DHL has warehouses, transport infrastructure and technical expertise in moving goods as rapidly as possible to where they are needed. It uses these core competencies to help the World Food Programme (WFP) deal more effectively with humanitarian responses. Assets and competencies are applied, in kind, to humanitarian purposes. This is not to say a company cannot engage in relief efforts commercially – some do – but DHL has chosen to make a contribution rather than a direct profit. Figure 3 shows how a range of core competencies can be harnessed outside core business delivery.

Does the core business approach exclude conventional Corporate Social Responsibility (CSR)?

No, not in practice. The core business approach to development goes beyond what is traditionally considered as CSR, while excluding elements that are part of CSR. Key distinctions between the core business approach and CSR tend to be drawn sharply in debate, in order to change mindsets towards the inclusive business approach and emphasise that:

- Inclusive business is not just about an ‘add-on’

that can be run divorced entirely from day to day operations in the way that some CSR can be.

- Although CSR usually requires improved business operations – such as environmental compliance or transparency – to mitigate problems, inclusive business goes further still to embrace and catalyse opportunities for the previously-excluded.

But when it comes to practice, the distinction is not so neat. There are three main reasons for this.

Firstly, inclusive business often incorporates – but builds upon – standards of responsible business practice, which is a key element of most CSR today. Responsible employment, governance and reporting principles are not sufficient to optimise development impact, but without them, grand new initiatives would have little foundation.

Secondly, other actions by companies outside the core business realm remain of strategic importance in development. In addition to conventional community investment, corporates are contributing to strategic public priorities (technological solutions, public health, consumer information) and policy dialogue. Highlighted as ‘global corporate citizenship’ by Klaus Schwab (2008) (Founder of the Davos World Economic Forum), and the third generation of CSR by Simon Zadek (2001), these may not be core business functions but they are core to the development agenda. Frameworks used to analyse corporate contributions to development, such as by the International Business Leaders Forum (IBLF) or Harvard University, have core business operations as one main strategy. Other strategies cover institution strengthening, social investment, and engaging in policy dialogue or optimising the rules of the game.

Thirdly, while inclusive business should reap commercial returns in the long run, in the short-term it often requires risk-taking, new research and development (R&D), staff re-orientation, or investment of resources in helping partners to develop. This may mean drawing on inputs from staff in the CSR department who are outside the day-to-day pressure of operational deliverables. They can develop business models to the point where they can be rolled out. CSR budgets can help partners develop to the point where they can engage with the core business. For example, several extractive projects supported by International Finance Corporation (IFC) have ‘linkage’ programmes. The company is one financial contributor, and a core function of the programme is to mentor and support business development of SMEs, to the point where they can enter the supply chain on a commercial basis.

Box 2: Inclusive business reaches poor people at scale

Products and services for ‘Bottom of the Pyramid’ (BOP) consumers are reaching millions of people:

- More than one in every four Africans, and one in every three Asians has a mobile phone. Mobile growth remains strongest in the developing world. Phone usage in Africa, for instance, is increasing at a rate of 65%, more than twice the global average (ICT, 2008). There is emerging evidence of the knock-on impact on development, including correlation between mobile phone penetration and higher GDP growth, access to financial services and to health services. Over two million people in Kenya have used Vodafone’s M-PESA mobile money transfer service since its launch, with 200,000 more on average signing up each month.
- The Grameen Bank has disbursed about \$6 billion in tiny loans to about 7.4 million Bangladeshi micro-entrepreneurs, mostly women. The Grameen-Jameel Pan-Arab Microfinance Limited is a social business providing microfinance in the Arab world, reached more than 200,000 new clients in its first year alone, while adding four partners and entering two new markets.

The number of poor people reached through supply chain initiatives varies, inevitably, with the scale of the business initiative by a company or a sector. But there are plenty of examples that reach thousands of people or generate millions of dollars of income:

- SAB Miller’s enterprise development programme brings smallholders into the supply chain. In both Uganda and India, after just three or four years, SAB is sourcing regularly from around 6,000 small holder farmers (SAB, 2008)
- Following an SME Linkages Programme around the Baku-Tbilisi-Ceyhan (BTC) pipeline, in 2006 BP was spending approximately \$77 million per year on procurement from some 444 local SMEs. (Jenkins et al. 2007)
- Worldwide consumers spent over £1.6 billion on Fairtrade certified products in 2007, benefiting over 1.5 million producers and workers in 58 developing countries.

Issues for companies

Companies need to think about both the ‘why’ and the ‘how’. On why to adopt inclusive business, there is not one business case but many (Ashley, 2009). Companies are gaining reputational and competitive advantage, market growth, and/or strong localised supply chains. The question that needs exploring is how the costs (mainly short term) of adapting core business stack up against the benefits (mainly long term).

On the ‘how’, there is plenty of experimentation and adaptation ahead. Some very practical questions facing implementers within companies include:

- How to focus on inclusive business opportunities in a downturn, when executive attention is focused on survival?
- What works? What innovation is needed?
- How much risk and internal change is required, and is it affordable?
- Should philanthropy be kept separate? Or are CSR budgets and resources well used in helping companies make the transition to high social-value business models?
- How should impact be measured and reported?
- What are the most appropriate forms of partnerships, with governments, civil society, or other firms, to deliver profitable inclusive business?

Then there is a set of ‘big picture’ questions to address in developing the strategy for inclusive business, such as:

- What is the right balance between ensuring that core operations meet basic standards of responsibility (e.g. employee security and health and safety), and taking new initiatives?
- How should the need for a strong contribution to development be combined with the greater pressure for a shift to environmentally sustainable business practice?
- For the market leaders, how can they maintain their lead as competitors catch up? For market followers, can they use the current crisis to catch up?
- How much is enough?

Issues for development practitioners

Why have development professionals embraced this idea? In essence it is to deliver development impacts at scale, create more sustainable impact for the poor, and to make better use of the complementary skills (or comparative advantage) of business and civil society.

Enthusiasm from development practitioners builds on recognition of weaknesses to date. On the one hand, government-driven poverty reduction approaches are insufficient. Investment in social development (health and education) cannot work alone, grant-funded initiatives are too often poor in the scale and sustainability of impact, and productive opportunities need to be scaled up. On the other hand, while private sector-driven growth can benefit many, there is recognition that growth does not always go

hand in hand with poverty reduction and can increase inequality. The private sector is simply too large and closely integrated into most developing economies to ignore, social needs remain pressing, so a better alignment of social investment and productive capability is needed.

Is inclusive business delivering sustainable impact at scale? Work on this is only just beginning. It is evident (as in box 2) that models are reaching thousands or sometimes millions of poor people – more than many ‘projects’. Little data goes beyond simple numbers to reveal anything more about development significance or distributional impact among poor groups. So there is insufficient data so far to draw conclusions about the effectiveness of the approach in comparison to other approaches, or as a return on effort.

As for sustainability, the core idea is that the profit motive means that innovation and delivery continue and are self-reinforcing. While the data on scale shows examples of how a successful idea is maintained and rolled out, the current downturn will also bring home the downside. Business goes down as well as up.

‘The challenge is to design a system where market incentives, including profits and recognition, drive the change. I like to call this new systems creative capitalism – an approach where governments, businesses and nonprofits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequities. This hybrid engine of self-interest and concern for others serves a much wider circle of people than can be reached by self-interest or caring alone.’ (Bill Gates at the World Economic Forum, 2008, emphasis added)

A central question for governments and donors is how to create the appropriate incentive framework to facilitate further innovation in inclusive business. Where do constraints need to be removed, should direct incentives be provided, and what forms of partnerships can work? In Ecuador, the Ministry of Social and Economic Inclusion is incorporating inclusive business into a larger business strategy. SNV works with the Inter-American Development Bank (IADB) on inclusive business and is talking to the Asian Development Bank. The agenda for governments, donors and financiers on inclusive business is not yet clear but will emerge.

Issues for new forms of engagement

The shift to inclusive business makes better use of corporate skills and assets than previous CSR approaches. Innovation around new forms of engagement is a massive positive force for change,

unleashing synergies between profit-driven and social-driven institutions. NGOs and governments are entering an array of new partnerships with corporates. Governments can create incentives for inclusive business, and NGOs can contribute the on-the-ground implementation capacity, plus the credibility and experience of working with the poor. It is clear that the mutual suspicion that once existed between NGOs and companies is beginning to be replaced with recognition of the value they bring and vice versa.

‘Through this work, perhaps the most important thing we’ve learned is the importance of partnerships in maximising the success of our smallholder projects, as opposed to fully insourcing or fully outsourcing management of these relationships’. (SAB Miller, 2008)

But for all involved, it raises the question of ‘where do responsibilities end?’

Now that core business is part of the development push, how far should business go? Businesses are concerned that limits are not clear. In the enthusiasm for inclusive business it is important to recognise that development has not suddenly become the responsibility of business. As UNDP makes absolutely clear in their Growing Inclusive Markets approach, it remains the responsibility of governments to set the context in which business can deliver and poor people can participate. While being creative, it is also important to be realistic about what commercial business can deliver. Take an example from micro-finance. The highest business returns are in debt-based credit. The poor, particularly the most vulnerable, need savings just as much as they need credit. Business innovation in the field is well known and continues, but total synergy cannot be assumed.

Defining appropriate roles may eventually be a bigger problem for government and NGOs. Companies can engage with partners, with little hindrance to their other core business operations. But governments and NGOs have two roles. One: to get on with delivering effective change, increasingly in partnership with companies, and the other: to provide a counter-weight. Governments need to set the competitive market context in which private sector growth generates the most positive development outcomes. Some, such as Robert Reich (former labour secretary under President Clinton), argue that publicity around responsible business will placate the public and actually prevent more meaningful reform (Reich, 2007). NGOs too have a role, as critic, conscience and route for social feedback. These roles may be more difficult to maintain as new forms of engagement are developed and celebrated. If they are to avoid charges of ‘collusion’ NGOs and

governments will need to be demanding, critical, and clearly principled in their engagement, and be able to demonstrate development impact. While critiques do exist, for example Karnani's (2006) critique of marketing to the Bottom of the Pyramid, they have been, to date, aimed at the idea, rather than specific practice.

Conclusion: Where are we now

The agenda is changing fast. The ideas of inclusive business and creative capitalism are well accepted. The new thinking embraces three ideas:

- Through its core activities of investment and operation, business has major and multiple impacts on developing economies and people. Through purposeful action, the business model can be adapted, not just to avoid damage, but to unleash greater development impacts, while still being driven by commerce. This in turn can have more impact than conventional CSR.
- There is not just one way to adapt the business model. Supply chains are critical for their reach down to poor producers, but a company's distribution and retail, research and development,

dialogue with consumers and policy-makers can all strongly affect its development impact.

- Delivering greater development benefits – or higher social value – can go hand in hand with building shareholder value.

In terms of action, there is a growing array of new case studies to learn from, but we are still at the start. To date, case studies have been used broadly to 'make the case' – explain the 'why'. As implementation develops, more learning on the challenges of how is needed from the field.

We are still at the stage of wide welcome for inclusive business ideas and new forms of engagement. There is enough evidence on their impact to suggest that they can deliver scale and sustainability. But the evidence is far too broad-brush or anecdotal to allow for hard-headed analysis of strengths and weaknesses, what works or does not. The nature of business is that successes grow and failures flop. As inclusive business develops, will we see such market principles apply?

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Useful resources and references

Useful resources:

ODI work on the private sector:

www.odi.org.uk/themes/private-sector/

Business Call to Action:

www.dfid.gov.uk/mdg/call-to-action-business.asp

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