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# Inclusive business

ESG

Sustainability Research

# The business of social business is business


Sustainability Research

## "Impact on investment" rather than "impact investing"

The social businesses set up by European companies as part of their emerging market strategies deploy inclusive business models. In this report, we look beyond companies' social impact claims to analyse the economic value, business context and associated risks of these activities, particularly at the BoP (base of the economic pyramid - i.e. people earning <USD8/day in purchasing power parity).

## BoP as a catalyst for growth: telecoms at the forefront

While most sectors' sales exposure to the BoP is still very limited and the idea that there is a tremendous low-hanging market potential remains questionable in light of the hurdles observed, we highlight European mobile carriers' ability to derive substantial revenues from the BoP.

## Valuing the hidden BoP gold: indirect business benefits

We stress the importance of taking a broad, long-term perspective, encompassing the many impacts of the BoP population on multinationals, over and above the top line. We thus examine key factors of value creation on the back of leading BoP strategies in other sectors, with the food industry striving to safeguard supply while "licence-to-operate"-related benefits and intangible upside (eg innovation) play crucial roles for pharma, utilities, cap goods, oil & gas, building mat, banks and insurers.

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## Disclaimer

The views presented in this paper are those of the author and do not necessarily represent the views of our partner, experts and companies' interviewed.

## Our approach to sources

We neither confirm nor deny allegations reported by the media and other sources in including them in this report. ESG analysis requires us to consider all stakeholders and sources in order to assess potential reputation risk for investors. In this report we use a variety of sources, including journalistic ones where we feel they reflect a relevant area of risk. Allegations often surface long before evidence is objectively presented or any official announcements are made either by the authorities or the companies themselves. They are, however, of central interest to investors as news flow, and critical within the context of reputational risk, which we examine.

# Contents

# Executive summary

**Financially self-sustainable/profitable businesses which address the needs of the BoP (base of the economic pyramid - ie people earning <USD8/day in purchasing power parity) deploy inclusive business models. In this report, we look beyond companies' social impact claims to analyse the economic value, business context and associated risks of these approaches. While most of the dedicated projects set up by European companies as part of their emerging market strategies remain small-scale, at an early stage and marked by uncertain financial returns, we stress the importance of taking a broad, long-term perspective, encompassing the many impacts of the low-income segment on multinationals, over and above the top line: in terms of supply, licence to operate, intangible benefits (eg innovation, internal commitment) etc.**

## "Impact on investment" rather than "impact investing"

We screened European companies' various activities including the low-income communities across their value chain in emerging and developing countries. We then analysed their multi-faceted role as triggers of business and social value creation in the context of two factors of particular interest to long-term equity investors: 1) the business environment driving growth, performance and sustainable shareholder value in specific sectors; and 2) the risks and unintended consequences of such strategies – or their absence – for low-income populations and the companies themselves (e.g. reputational, regulatory).

## BoP as a catalyst for growth: telecoms at the forefront

The vast majority of dedicated BoP projects and approaches we have reviewed are still at an early stage and few seem to be – or look about to be – financially self-sustainable or profitable. While most sectors' sales exposure to the BoP therefore remains very limited and the idea that there is USD5trn of low-hanging market potential (global BoP market estimates; source: IFC/WRI) is still questionable given the hurdles observed, we look at European mobile carriers' ability to derive substantial revenues from the low-income customers, which in our view constitutes the most compelling business case.

## Long-term drivers versus inclusive business: food and pharma

We stress the importance of taking a broad, long-term perspective, encompassing the many impacts of the BoP population on multinationals, over and above the top line. We thus examine how development and poverty alleviation are intertwined with long-term drivers in the food and pharma sectors, with the food industry striving to safeguard supply and address concerns about nutrition-related issues, while pharma companies have been driven to mull new business models to improve access to medicines in low-income markets.

## Beyond the nice story: providing tools for engagement on risks

Execution and reputational risks reflect the importance of partnerships and the need for improved regulation, accountability and reporting to minimise the risks and unintended consequences of doing business with the low-income brackets. We draw up a list of issues to be considered by investors when engaging with companies. We also provide a watch list of companies that are facing setbacks or controversies in these markets linked to development challenges (e.g. business ethics issues for TeliaSonera, concerns over breast-milk substitutes for Nestlé and Danone, patent disputes for pharma in India), or have the combination of an arguably significant exposure to issues related to this population and a relative lack of reporting and/or efforts in this realm (e.g. AstraZeneca, Parmalat).

## Analysing usual suspects' positioning and strategic planning

Focusing on three sectors particularly exposed to the theme (telecoms, food, pharma), we underline the momentum of companies' differentiated strategies and some promising approaches which may help address the needs of the BoP in a commercially viable way e.g. mobile financial services, food producers' engagement with smallholders, and pharma's practices (from production to the market) in the access-to-medicines field. The selection of companies we consider relatively well placed (despite mixed views on some of them) comprises: France Telecom, Millicom, Telenor, Vodafone, Danone, Nestlé, Unilever, GlaxoSmithKline, Novartis, Novo Nordisk and Sanofi, and reflects their geographical and portfolio exposure and plans to foster these activities as part of their core businesses.

## The hidden BoP gold (1/2): licence-to-operate rationale still prominent?

Demonstrating a proven capability to expand access to water, sanitation and energy in low-income urban areas is a clear long-term business challenge for utilities exposed to emerging markets. In other sectors, while innovative market-based approaches at the BoP appear to be creating somewhat tiny though meaningful commercial opportunities (e.g. for Allianz, Banco Santander, BBVA, Holcim, Lafarge, Munich Re, Schneider Electric, Swiss Re, Total), we believe that indirect business benefits, particularly the "licence-to-operate" rationale, on the whole tend to retain a prominent role, given the importance of relationships with authorities, sophisticated market-entry strategies and regulatory requirements (banks, insurers), together with possible tensions with local communities (oil & gas).

## The hidden BoP gold (2/2): don't forget the intangible benefits

The typical intangible benefits observed – internal commitment, reputation and, more importantly, innovation – should nonetheless not be overlooked. Although we do not see any "one best way" to succeed, given the specifics and complexity of business models, we conclude that, for most BoP markets still to be built, persistent and holistic efforts from multinationals targeting both direct and indirect business opportunities, including intangible aspects, seem a key factor to open up encouraging inclusive business solutions.

## Looking ahead: "hybridisation" and impact investing are stepping up

Finally, amid continued efforts from private, public and civil society representatives to collaborate further to develop these projects (building "hybdrid" value chains) and improve the associated reporting (notably on the socio-economic impact), we expect the role of private investors to ramp up. The recently defined and fast-growing "impact investing" market (USD9bn of planned commitments in 2013; source: JP Morgan) is thus a promising source of external financing for inclusive business and for multinationals undertaking dedicated projects that include environmental and social goals alongside profit objectives, notwithstanding significant hurdles down the road (e.g. lack of well-structured products, mismatch between projects' sizes and investors' profiles). Impact investing is set to be discussed in the forthcoming G8 meeting in June.

# Sector and stock highlights

## Telecom services: the forerunner

**Table 1: Operators' exposure to emerging markets and MFS**

| Company | Overall exposure to emerging markets | Mobile Financial Services |
|---|---|---|
| France Telecom | 9% of FY 2012 revenues in Africa & Middle East (AME) | 5.6m users for Orange Money at YE 2012. |
| | Targeting twofold rise in AME sales by 2015 (7.5% CAGR 2011-16) | Target: 30m customers by 2015 (8m by year-end 2013) |
| Millicom | Pure emerging market player | USD40m of revenues in 2012. 8% of customer base |
| | FY 2012 sales breakdown: 80% LatAm, 20% Africa | Target: USD600m and USD1bn of revenues in 2017E |
| | Targeting revenues of USD9bn by 2017 vs. USD4.8bn in 2012 | |
| Telefonica | FY 2012 in LatAm: 48.5% of group revenues; 50.2% OIBD | n.a. (offer launched in 2012) |
| TeliaSonera | 18% of FY 2012 sales in Eurasia | n.a. |
| Telenor | 41% of 2012 revenues in Thailand, Malaysia, Pakistan, Bangladesh, India (6 circles) | USD77m of total revenues in 2011 (total direct and indirect), with USD1bn expected by 2016 |
| Vodafone | Around a third of revenues in Africa, Middle East and Asia Pacific | 17.3m users in Kenya for Safaricom (27% YOY growth). Ongoing expansion in India and other markets. |

Source: CA Cheuvreux, France Telecom, Millicom, Telefonica, TeliaSonera, Telenor, Vodafone

**Table 2: Watchlist: risks**

| Company | Risks with ongoing implications |
|---|---|
| TeliaSonera | The fallout from investigations into allegations of potential corruption in Uzbekistan has left the company and investors in limbo, with a new permanent CEO unlikely to be in place for several months. On 1 February 2013, Swedish law firm Mannheimer Swartling published a critical review of TeliaSonera's investments in Uzbekistan, which prompted the CEO Lars Nyberg to leave the company. |
| Telenor | Telenor might be indirectly impacted by the ongoing audit of Grameen Bank (funded by Muhammad Yunus), which owns 100% of Grameen Telecom, which in turn has a 34.2% stake in Grameenphone, Telenor's most profitable venture overseas (53.3% FY 2012 EBITDA margin, 10% of Telenor's FY 2012 EBITDA, 6% of revenues, USD1.6bn total investments). Neither Telenor nor Grameenphone are involved in this controversy, however, and there is no clear timeline for future proceedings. Telenor sees these claims as fully unfounded, and believes that Grameenphone's licence renewal in August 2012 clearly proves that Grameenphone has a valid licence. |

Source: CA Cheuvreux, France Telecom, Millicom, Telefonica, TeliaSonera, Telenor, Vodafone

**Table 3: Our view**

| | |
|---|---|
| Opportunities | France Telecom, Millicom, Telenor and Vodafone combine a good long-term exposure to emerging and developing countries – including arguably significant penetration of impoverished populations in these markets (e.g. about one-third of Millicom's subscribers represent ARPU of less than USD1/month) – and mobile financial services (MFS). While all carriers are ramping up their MFS offers (e.g. Telenor targets USD1bn in total direct and indirect revenues by 2016, Millicom USD600m-1bn in 2017E), Vodafone's success story in Kenya (17.3m customers), reflected in the country's 42% total penetration rate in MFS for the BoP specifically (60% among all Kenyans; source: World Bank), has yet to be replicated on such a scale. |
| Risks | The recent problems encountered by TeliaSonera and Telenor in Asia are a reminder of the importance of business ethics (especially in the areas of bribery, corruption and human rights) and regulatory risks in these markets. |

Source: Kepler Cheuvreux

# Branded food: value chain and nutrition

**Table 4: Food producers' inclusive strategies and examples of initiatives across the value chain**

| Company | Demand side : customers and distributors | Supply side |
|---|---|---|
| Nestlé | 15% of FY 2012 sales in "Popularly Positioned Products", 11% organic growth, average margin in line with the business, whose stated objective is to address those earning between USD3 and USD22k per year (in Purchasing Power Parity) with more affordable products and strengthened nutrition aspects. | Spending: 273k farmers trained through capacity building programmes in 2012 (vs 201k in 2011), out of 690k working with the company<br>Training: over the next ten years, Nestlé plans to invest CHF 110m to help improve the livelihoods of farmers and their communities. |
| Danone | Grameen Danone Food (878 Shokti ladies at the end of 2011, 1.9m units) | Promoting upstream activity of small suppliers via the EUR100m Danone Ecosystem Fund (50% invested for sourcing), of which EUR33m allocated so far<br>Seven projects launched in various locations to support the dairy business |
| Unilever | Project Shakti in India (45k female entrepreneurs in 2011; target to reach 75k in total by 2015, no disclosure on profitability, though) | Focus on improving the quality of smallholders' livelihoods; training on agricultural practices was provided to 300k of them as of 2011, mainly to tea farmers (target to engage with 500k of them by 2020) |

Source: Kepler Cheuvreux, Access to Nutrition index 2012, Danone, Nestlé, Parmalat, Unilever

**Table 5: Watchlist: controversies relating to breast-milk substitutes**

| Company | Manufacturers of breast-milk substitutes that are not fully compliant with the International Code of Marketing for Breast-Milk substitutes (according to reports from International Baby Food Action Network, IBFAN): companies' stance |
|---|---|
| Danone | Danone claims that its practices are fully compliant with the International Code. |
| Nestlé | Nestlé has developed a comprehensive policy articulating its commitment to the Code and states that it applies a detailed global management system including internal and external audits, staff training, etc. |

Source: Kepler Cheuvreux, Access to Nutrition index 2012, Danone, Nestlé, Parmalat, Unilever

**Table 6: Watchlist: lack of disclosure**

| Company | Reporting on its inclusive business approach |
|---|---|
| Parmalat | Lack of disclosure on its strategy towards the impoverished population despite possible significant exposure to this segment through its basic product range and important presence in emerging and developing countries (e.g. 8% of FY 2012 sales and EBITDA in Africa). |

Source: Kepler Cheuvreux, Access to Nutrition index 2012, Danone, Nestlé, Parmalat, Unilever

**Table 7: Our view**

| | |
|---|---|
| Opportunities | **Customer side**<br>Danone, Unilever and Nestlé want to be at all price points in emerging and developing countries (c.38%-55% of their turnover) and have adopted distinct approaches (and related reporting) to grab a chunk of the huge potential Food BoP market (nearly USD3trn). While some of their products may serve a significant number of low-income customers (e.g. individual packaging and fortified products), we believe questions can be asked about the actual and potential affordability, penetration and related-revenues of the big food companies' products and initiatives among the BoP segment specifically.<br>**Supply side**<br>The benefits of building robust inclusive strategies should also be observed from the perspectives of their industrial, organisational, distribution and more importantly supply chain process against the backdrop of inflation and fluctuation in agricultural raw material costs. All three of the largest food manufacturers have made commitments to smallholders, with Unilever and Nestlé reporting specific quantitative targets while Danone's approach includes an innovative funding scheme. |
| Risks | **Customer side**<br>Companies' practices in these markets have raised concerns and expectations about their responsibility towards under-nutrition and obesity, in a context of growing regulatory and reputational pressure on the latter, as well as the unintended consequences of their products among the impoverished. Breast-feeding concerns (allegations of lack of compliance with the International Code of Marketing for Breast-Milk substitutes) remain topical for Danone and Nestlé.<br>**Supply side**<br>A lax domestic regulatory framework coupled with limited efforts at ensuring dialogue and training of local suppliers creates potential for violation. We welcomed Unilever's commitment to improve transparency on its supply chain which was illustrated earlier this year by the publication of a special in-depth report on labour conditions in Vietnam in partnership with Oxfam. |

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# Pharma: shifting to a longer-term approach

**Table 8: Top picks: products, r&d pipeline and overall strategy on access to medicines**

| Company | Comments |
|---|---|
| Glaxo SmithKline Sanofi | With strong exposure to emerging markets (GSK: 26%; Sanofi: 32%), these two companies have comprehensive portfolios and R&D pipelines to address the healthcare needs of developing countries, and have also shown commitment and innovation in the main areas related to access to medicines. |

Source: Kepler Cheuvreux, GlaxoSmithKline, Sanofi, Access to medicines 2012 index

**Table 9: Access to medicines at the bop: examples of best practice**

| Examples | Details |
|---|---|
| Healthcare infrastructure | GSK's business unit dedicated to Least Developed Countries reinvests 20% of its profit in host countries' healthcare infrastructure. |
| Tiered pricing | Bayer's intra-country differential pricing model along four market segments for contraceptives |
| | Novo Nordisk's tiered pricing for insulins |
| Partnerships | Sanofi's involvement in the Drugs for Neglected Diseases Initiative, GSK's ViiV Healthcare |
| Innovative inclusive business model | Novartis' Arogya Parivar programme (42m customers served in rural India) |
| | Novo Nordisk's partnerships in different locations (e.g. India, Kenya, Nigeria) |

Source: Kepler Cheuvreux, GlaxoSmithKline, Bayer, Novo Nordisk, Novartis Sanofi, Access to medicines 2012 index

**Table 10: Watchlist: products, R&D pipeline and overall strategy on access to medicines**

| Examples | Details |
|---|---|
| AstraZeneca | AstraZeneca provides lower disclosure on its access-to-medicines approach, and seems to have less commitment and fewer initiatives in the key areas observed here (e.g. tiered pricing, partnerships, efforts to build innovative distribution channels, investments in healthcare infrastructure). |
| Almirall Ipsen | Lack of reporting on access to medicines. Alimirall has no direct presence in EMs (but indirect exposure through affiliates, partnerships) while Ipsen is strongly and directly exposed. |
| Bayer Novartis | The ongoing dispute between the government of India and big drug companies over generics (the most recent, the ruling against Novartis in the Glivec patent battle in April, follows many other embroilments, including with Bayer's Nexavar earlier this year) illustrates the risk of mounting pressure on western pharma companies from authorities in EMs with regards to patents and licensing. |

Source: Kepler Cheuvreux, Almirall, AstraZeneca, Ipsen, Access to medicines 2012 index

**Table 11: Our view**

| | |
|---|---|
| Opportunities | In the context of a strong and rapid shift to "Pharmemerging" markets (USD170bn-180bn as of 2011, 9-10% expected yearly growth rate for 2012-17), we outline a number of practices – from production to the market – at GSK, Sanofi, Novartis, Novo Nordisk and Bayer (including innovative commercial pilot initiatives intended to reach out to low-income patients run by Novartis and Novo Nordisk) that in our view illustrate a shift towards a long-term for-profit and holistic approach intended to boost low-income segments in their customer base.<br><br>We also point out that efforts and commitment on access to medicines from companies broadly reflect their portfolio and geographical breakdown, with GlaxoSmithKline and Sanofi leading the way, according to the last Access to Medicines index. With their emerging market exposure (GSK: 26%; Sanofi: 32%), these two companies have comprehensive portfolios and R&D pipelines that address some of the healthcare needs of developing countries, and have also shown some commitment and innovation in the main areas related to access to medicines. |
| Risks | We believe that key concerns – essentially counterfeit medicines and clinical trials – are broadly equally affecting all companies and are not aware of any wrongdoing recently reported for any of the companies included in this report in relation to them. On the whole, as reminded by recent tensions with the Indian government regarding intellectual property rights, we see patent-related regulatory risks and the issue of big pharma's reputation in EMs, particularly the credibility of their efforts on access to more affordable healthcare, as a clear major challenge in the foreseeable future. |

Source: Kepler Cheuvreux

# Other sectors: wide range of topics and approaches

**Table 12: Utilities, Capital Goods, Oil & Gas, Building materials, Banks, Insurance: selected exposure**

| Company/Sector | Examples of initiatives/projects/activities relating to the low-income population |
|---|---|
| **Utilities: activities in low-income urban areas** | |
| Suez Environnement | Management contracts (e.g. Alger) |
| | Large existing contracts that comprise an expansion of the network to informal zones e.g. 30k informal households in Casablanca, "PALYJA Water for All" in Jakarta |
| Veolia Environnement | EUR387m contract for the Indian city of Nagpur (25-year contract) which includes 36% of residents in slums out of 3m concerned by the project |
| **Utilities: activities in rural areas** | |
| EDF | Energy Access programme including investing in local electricity companies (450k beneficiaries at YE 2012) |
| Veolia Environnement | EUR500k pilot project in partnership with Grameen in Bangladesh |
| **Capital goods: access to electricity programmes** | |
| ABB | Non-profit small-scale PPP for rural communities in Tanzania and India |
| Schneider Electric | Pilot commercial projects of electrification of rural areas (344k households concerned in 2012) including the distribution of products (e.g. LED-based Lighting System) and solutions and services to electrify villages (e.g. installation, project management, monitoring) |
| **Oil & gas: access to energy programmes** | |
| ENI | Power generation from associated gas in Africa, with four plants in Congo and Nigeria (and MoUs for four others) |
| Total | "Awango by Total" (small PV solar solutions), with 200k products sold in 9 countries so far, and a target to sell 1m solar lamps by 2015 (USD5m investment by 2015 |
| **Building materials: affordable housing programmes** | |
| Holcim | Mexico: "Mi Casa" (250k homes concerned from 2000 to 2008) |
| | Argentina: development of sustainable housing for low-income families in 2 locations involving 500 dwellings and 2,500 participants |
| Lafarge | Rehabilitation of slums in situ in Mumbai, India |
| | Microcredit (partnership with CHF): EUR10m programme over 2 years |
| **Banks: direct exposure to microfinance** | |
| Banco Santander | Business line active in Brazil (No2 microcredit institution in Brazil, the second largest market in the region behind Mexico), Chile, El Salvador for a total of 265k clients (EUR333m outstanding credit at YE2012) |
| **Banks: indirect exposure to microfinance** | |
| BBVA | USD300m donation to a foundation supporting MFIs in LatAm (USD1.2bn outstanding credit at YE2012) |
| BNPP | EUR76m support to MFIs (200k customers at YE2011) |
| CASA | EUR50m donation to a foundation supporting MFIs in 17 countries (EUR267m outstanding credit at YE2011) |
| **Insurance: direct exposure to microinsurance** | |
| Allianz | EUR78.6m gross premiums written in 2012, 17m customers |
| **Insurance: adapting to climate change and extreme events** | |
| Allianz | Supports c.125m smallholder farmers in developing countries through public-sector agro-insurance schemes. |
| Munich Re | Microinsurance for farmers in Africa |
| | PPPs in the Philippines and the Caribbean |
| Swiss Re | Insurance for smallholder farmers in Kenya |
| | PPP that provides protection against hurricane and earthquake risks directly to 16 Caribbean governments |

Source: Kepler Cheuvreux, Company data

# Inclusive business strategies in context

**While much has been written on the multi-faceted and increasingly important role of the base of the pyramid for multinational companies (MNCs), this report looks at the broad momentum of the various inclusive business approaches – i.e. initiatives that address the needs of low-income groups in a financially sustainable or profitable way – by companies under our coverage in nine sectors (Banks, Branded Food, Building Materials, Capital Goods, Insurance, Oil & Gas, Pharma, Telecom Services and Utilities). We have analysed the role of these activities as triggers of business and social value creation in the light of two factors that we believe are particularly important to investors: 1) the business context, i.e. how inclusive business projects fit into corporate strategies in emerging and developing countries and how they link to companies' sector drivers; and 2) the specific challenges and risks relating to these activities (or their absence) for both the low-income communities and companies themselves (e.g. reputational, business execution, regulatory).**

## Bringing the equity investor perspective to the BoP debate

***A widely discussed issue...***

Much has been written on the multi-faceted and growing importance of the "base of the pyramid" for multinationals and their so-called "inclusive business models". To define our terms, the "base of the pyramid" or "BoP" refers to individuals who earn less than USD3k per year (USD8/day) in Purchasing Power Parity (2002 PPP); globally, these amount to c.4bn people, according to the most widely used definition from the WRI and IFC. "Inclusive business models" is an umbrella term recently coined by the WBCSD to designate for-profit approaches by companies whose value chains include low-income segments as consumers, employees and producers[1].

***...that we have investigated from two standpoints:***

While many debates are indeed continuing on challenges involved with the growing number of companies deploying, developing and expanding BoP-related initiatives at various points of their supply chain through a wide variety of approaches, this report focuses on the implications for the companies under our coverage of two factors that we believe are of particular interest to sustainable and responsible equity investors:

***1) business context***

- **The business context, including companies' strategies in emerging and developing countries and sector-specific drivers of long-term performance.**

[1] The term "inclusive business" in this report covers a huge range of business strategies including when it comes to choices of combining and prioritising financial or social objectives (from business-as-usual to more responsible and sustainable-oriented market-based approaches) while a narrower definition is sometimes used, classifying inclusive business (sometimes also called "BoP strategy") in between mainstream business and market-based solutions to poverty and development issues which are more focused on social goals e.g. social enterprise or social business as per Muhammad Yunus' definition (non-loss, non-dividend activities). The latter form of organisation and strategy represents a somewhat tiny proportion size-wise of the total business risks and opportunities examined here.

- **Specific risks relating to these activities – or their absence – for both the low-income communities and the companies themselves; e.g. reputational, business execution, regulatory.**

*2) specific risks*

## Our approach: 1) understanding sector fundamentals

*No "one-size-fits-all" framework*

We acknowledge the large number of common traits that can be observed and recouped across sectors and themes, e.g. in terms of innovation benefits, hurdles to scale, practical issues to measure socio-economic impacts, yet we reject here largely the "one-size-fits-all" approach to the analysis of themes and projects. Instead, we believe that by factoring in the specific characteristics and fundamentals of each sector we can:

- **Gain a better understanding of the challenges relating to both the business case and intangible benefits of these initiatives, along with the multiple roles of the BoP (as customers, suppliers, producers, etc.).**
- **Avoid some of the pitfalls involved when comparing initiatives that may have little in common but the terminology used to describe them.**

## Our approach: 2) risks and unintended consequences

*Investors should keep an eye on the risks...*

There has been much talk and growing awareness of the positive contribution business can make to poverty alleviation and economic development. We believe it is also important to look at the specific challenges and risks involved with these activities and initiatives – or their absence – for both the BoP population and the companies themselves, as has been illustrated by a number of headwinds and concerns faced by companies in the context of:

- **Growing regulatory and reputational pressure and scrutiny from various stakeholders, especially on sensitive issues such as medicines and nutrition.**
- **The fact that most of these projects are still at an early stage, and some companies are entering an area – the informal economy – that is fairly new to them and was historically mainly occupied by other organisations from civil society.**
- **"Social washing": the risk of a gap between corporate communication and actual socio-economic and financial impact.**
- **The lack of regulation, legal and social consumer protection in some of these markets.**
- **Possible tensions between socio-economic objectives and the for-profit approach.**

*...that go hand in hand with key success factors*

Such approach makes it possible to stress the importance of several aspects involved in the success or failure of inclusive business models; e.g. the importance of partnerships, accountability and reporting.

*Flagging the laggards...*

Our approach to risks also involves flagging companies with what we consider to be inadequate reporting on their approach and initiatives to these low-income segments and that may be considered as laggards, in that we believe they are potentially missing business opportunities, and failing to anticipate possible regulatory changes and the shifting expectations of their shareholders and stakeholders in this respect.

*...and other social-related risks*

Finally, we also highlight some of the key – not necessarily BoP specific – social-related risks affecting these companies in emerging and developing countries that we believe could have implications at the BoP level and should be taken into account (e.g. business ethics).

## Engagement on BoP projects and approaches: taking a step forward

This work has also enabled us to draw up a broad set of – non-sector-specific – issues to be considered by investors who wish to engage with companies on this topic in order to better assess companies' level of commitment, potential challenges and risks and attempt to identify which companies have implemented best practice, and which are lagging.

*Two first steps:*

We see two preliminary steps:

*1) exposure*

- Assess the company's direct and indirect exposure and approach to this segment across all points of the value chain; e.g. in terms of revenue and input, which notably implies identifying any initiatives and projects that specifically address the impoverished population.

*2) awareness of specific characteristics*

- Question whether the company's reporting and communication adequately covers: 1) the specific multi-dimensional aspects of these – often innovative and experimental – projects; e.g. in terms of timeframe (likely to be long) and direct/indirect objectives (both tangible and intangible); 2) the company's contribution, including its limitations and risks, and the importance of other stakeholders.

**Table 13: Tool for engaging with companies on inclusive business/base-of-the-pyramid projects**

| Issues | Key points to consider |
|---|---|
| **Financing** | Use of internal or external sources of financing, and implications for the projects e.g. in terms of objectives, reporting, governance |
| **Frontier with companies' core business** | Internal structure and frontiers e.g. inclusion, links with R&D or CSR department<br>Clarity on all business objectives (direct and indirect), including on the links between both for-profit and non-profit/CSR projects and the company's business activities; e.g. between the activities of the company's foundation and its commercial interests<br>Links with the company's core business fundamentals, strategy and outlook |
| **Governance** | Leadership from the top; i.e. board and top management's involvement in the project and commitment to foster the company's contribution to development<br>Potential specific governance structure for the project, e.g. through the involvement of development experts and representatives of civil society |
| **Intangible benefits** | The search for innovation and other intangible benefits, e.g. to strengthen employee commitment (existence of mechanisms which allow them to take part in the BoP initiative) |
| **Holistic approach to poverty and development** | Efforts (especially before launching the initiative) to understand and address a global phenomenon relating to economic development and poverty alleviation, which requires a certain expertise, including consideration of:<br>– the limitations and specific nature of businesses' (and MNCs') involvement with other stakeholders;<br>– role of education (e.g. to overcome cultural barriers)<br>– other issues e.g. illiteracy, non-existent or inadequate basic infrastructure<br>– links with the company's environmental and socio-economic impact from other operations/activities |
| **Link with companies' presence in the country/region** | Timeframe of the company's presence in the country/region, efforts to ensure sustainability of the project after the company's pull-out; empowerment of local structure and organisation; limitation of dependency e.g. through knowledge and skill transfer |
| **Long-term vision and strategy** | Efforts to ensure motivation, time and commitment internally and externally, and that the appropriate timeframe is allotted, especially given the length and (experimental) nature of some projects (up to 6 years may be required before seeing financial results)<br>Efforts to develop a sustainable operating model<br>Build a long-term business plan with contingencies<br>Staff the project with a strong and capable team that has proven skills in executing the chosen scalable solution |
| **Measurement of the socio-economic impact** | Claims about the positive impact on poverty and development from any projects and initiatives to be supported by a realistic, critical and holistic analysis and monitoring, which requires time and is often difficult and expensive<br>Lessons learned from failures, setbacks or difficulties<br>Awareness of the limitations, criticisms and potential unintended consequences (e.g. consideration of local "losers" from the company's involvement, risks involved with precarious and low-paid jobs in production and distribution), notably those resulting from tensions between the for-profit approach and environmental and socio-economic objectives |

Source: Kepler Cheuvreux, Solaron, Hystra

Table 14: Tool for engaging with companies on inclusive business/base-of-the-pyramid projects - continued

| Issues | Key points to consider |
| --- | --- |
| **Partnerships and dialogue with other stakeholders** | Work with civil society organisations, the government and other businesses e.g. local companies, social entrepreneurs |
| | Acknowledgement of the role of other organisations and potential synergies or conflicts of interests, tensions with their objectives |
| | Collaboration and engagement with the community, including approach to co-creation, integration and absorption (i.e. eco-system's perspective) and efforts to strengthen relationships with the people involved |
| **Regulation and lobbying** | Transparency on influence on regulatory framework, and public policy dialogue |
| **Return** | Uncertainty and potentially lower financial returns to be balanced with the intangible benefits and positive externalities |
| **Risk mitigation** | Identification of the specific risks involved and the risk mitigation strategy; e.g. business ethics and corruption, regulatory, product quality, legal |
| **Scaling** | Prospects and challenges relating to scaling up and out, including the underlying impact on the company's financials |
| **Understanding the population and context** | Consideration of the local culture and context i.e. investment in terms of time and effort in understanding the target community ideally by immersion or ethnographic studies e.g. clarity on definition of actual needs and preferences of these populations (and the challenge of identifying the corresponding potential demand), specific levels of knowledge and skills |

Source: Kepler Cheuvreux, Solaron, Hystra

## Our universe: European MNCs strongly exposed to EMs

*Focus on emerging and developing countries*

Although this topic is obviously relevant in developed countries as well, we focus our analysis on the perspectives of emerging and developing countries – broadly taken as Africa, Asia, Eastern Europe, Latin America and the Caribbean – which represent the overwhelming share of the worldwide impoverished population and understandably the bulk of companies' business challenges in relation to these initiatives.

*Three sectors; three angles*

We look at three sectors that are particularly exposed to the theme and that provide three different and broad perspectives on the challenge of adapting business models, and the kind of material opportunities, socio-economic footprint and risks involved:

*Telcoms: mobile success story in the developing world*

- The mobile services success story in the developing world here serves primarily to illustrate the customer-oriented approach; i.e. unique revenue opportunities seized at the BoP mainly through a business-as-usual approach, as well as the potential of ICT for development through various applications such as mobile financial services, m-health and m-agriculture.

*Food: nutrition and value chain issues*

- Branded food enables us to look at the role of the BoP in all segments of the value chain (i.e. as suppliers, customers and distributors), the lessons of experimental BoP initiatives undertaken, and questions over the role of the sector in terms of contribution to nutrition (mainly through their customers) and poverty (mainly through their supply chain) in emerging markets.

*Pharma: business case for access to medicines and licence to operate*

- Pharmaceuticals provides a more complex case in point of the challenges of developing new business models with a longer-term and holistic thinking, particularly in relation to R&D, patents and licensing, partnerships, pricing and in a context of significant obstacles to the emergence of a market at the BoP and growing pressure on the sector to step up its efforts to address the health issues particularly prevalent in the developing world.

**Table 15: Overview of key sectors issues addressed in relation to inclusive business models**

| Sectors | Demand side | | Supply side | |
|---|---|---|---|---|
| | Direct revenues | Socio-economic impact | Direct business benefits | Socio-economic impact |
| **Telecom services** | Substantial revenues derived from low-ARPU customers, and good prospects | Leveraging mobiles' high penetration of the BoP to drive development including through various applications in other sectors (e.g. mobile financial services, m-agriculture, m-health) | Not addressed | Not addressed |
| **Food** | Several examples of products addressing low-income markets (e.g. individual packaging), although questions can be asked about actual and potential overall exposure to the BoP | Growing reputational and regulatory pressure to tackle under nutrition and obesity | Access to commodities: engaging with smallholders in the supply chain to strengthen input<br>Access to new customers: smallholders' increased income | Ensuring a responsible agribusiness and the financial sustainability of poor and smallholder activities |
| **Pharmaceuticals** | Very low exposure, significant market constraints and other hurdles to create a business model | Growing reputational and regulatory pressure to improve access to medicines | Not addressed | Not addressed |

Source: Kepler Cheuvreux

*Other sectors also provide useful insights*

We also outline several issues in six other sectors (Banks, Building Materials, Capital Goods, Insurance, Oil & Gas, and Utilities) that have some exposure to the theme and where a number of companies have developed a wide range of projects and approaches (mostly small-scale and still at an early stage), from anecdotal to promising business-wise, more or less anchored in the core business, and with various strategies in terms of reconciling business and social objectives:

*Low-income urban areas a long-term business challenge for utilities*

- **Demonstrating a proven capability to expand access to water, sanitation and energy in low-income urban areas is, in our view, a clear long-term business challenge for utilities exposed to emerging markets given the rising demand from authorities in that respect and the long-term trend towards urbanisation.**

*We see the "licence-to-operate" rationale still playing a prominent role*

- **While innovative market-based approaches at the BoP appear to be creating fairly small but meaningful commercial opportunities in other sectors (e.g. for Allianz, Banco Santander, BBVA, Holcim, Lafarge, Munich Re, Schneider Electric, Swiss Re, Total), we believe that indirect business benefits, particularly the "licence-to-operate" rationale, on the whole tend to retain a prominent role, given the importance of relationships with authorities, sophisticated market-entry strategies and regulatory requirements (banks, insurers), together with possible tensions with local communities (oil & gas).**
- **The typical intangible benefits observed – internal commitment, reputation and, more importantly, innovation – should not be overlooked.**

## A note on the limitations of our approach

We acknowledge that, as a result of our methodology, we are neglecting a number of factors that may contribute to an understanding of this issue, including:

*A number of factors may be somewhat overlooked*

- **Voices of the population concerned.** Information and data on low-income communities' perception, participation and views on the debate, notably regarding their priorities in terms of access to goods, services and opportunities, and, conversely, activities of multinationals that may actually not address their needs (e.g. due to the existence of local alternatives) or have unintended consequences on their livehood (e.g. displacement of local jobs).
- **Role of the public sector and civil society in poverty alleviation and economic development**. All key players involved in poverty alleviation and economic development, including academics, public entities, NGOs, consultants and specific initiatives (e.g. citizens' actions, philantropy) aimed at tackling development, contributing to the debate, make these projects work in practice, and provide the means to assess them.
- **Role of locals and the bottom-up market approach.** A number of companies from emerging and developing countries, e.g. domestic MNCs, smaller companies and social entrepreneurs, play a crucial role in driving forward BoP initiatives, including via their relations with European MNCs as partners, competitors or potential takeover targets.
- **Mature markets vs developing and emerging countries.** The issue of companies' approaches to the low-income populations is a growing one in Western countries, as are the interactions between activities in developed countries and the emerging and developing world, e.g. in terms of knowledge sharing.
- **BoP versus MoP.** Many dedicated programs including the terminology "BoP" actually mainly address population that would rather be more appropriately classified as the "Middle of the pyramid" (MoP). The terms "inclusive", "access" and "affordable" may therefore be deemed more accurate to describe these activities.
- **Philantropy and core business.** Multinationals' philanthropic programs and the broader impact of their mainstream business activities on development and poverty alleviation, including through taxes, and also via Business to Business (B2B) activities.
- **Wider context of poverty and development.** Solutions at the BoP require a holistic approach and the integration of several dimensions including economic, political and social factors and trends at global, national and local level.

# Inclusive business at a glance

**The BoP concept has moved up MNCs' agendas from the time it was defined by academics in the late 1990s up until the current debates on the role of business in the post-MDG framework. Indeed, a growing number of multinationals are implementing, developing and expanding distinct BoP-related initiatives. While there is a wide variety of projects, companies have as a whole increasingly focused on business opportunities rather than traditional non-profit, philanthropic and purely "licence to operate"-driven approaches to the low-income segment, as they accumulated experience and know-how. The early vision of a USD5trn market has also been evolving into a broader and more long-term vision of the benefits for companies of engaging further with low-income communities. This involves seeing them not only as consumers but also as business partners, and seeking a combination of direct and indirect opportunities by leveraging the multiple dimensions of the BoP, which can serve as a testbed for innovation, act as a means of strengthening supply and distribution, provide leverage to build up reputation and lead to stronger relationships with local authorities, stakeholders, etc.**

## Towards a greater role for MNCs in poverty and development

Despite debates about the definition of poverty and development, and disparities between regions and measurements, we highlight the following broad trends:

*Absolute poverty level still unacceptably high*

- **Absolute poverty level still unacceptably high.** Latest World Bank estimates released on 18 April point to a fall in the number of people in the world considered to be living in extreme poverty (less than USD1.25/day) between 1981 and 2010, from 1.9bn to 1.2bn. The rise in this number in Sub-Saharan Africa during this period, vs. a sharp decline in East Asia, is however a reminder of the sharp variations between regions.
- **There has been growing awareness that efforts to measure and address poverty need to move beyond an income-only approach** and take account of factors such as access to basic goods and services, inequality and wellbeing; i.e. the multidimensional aspects.

*Progress in development has been uneven and major challenges remain*

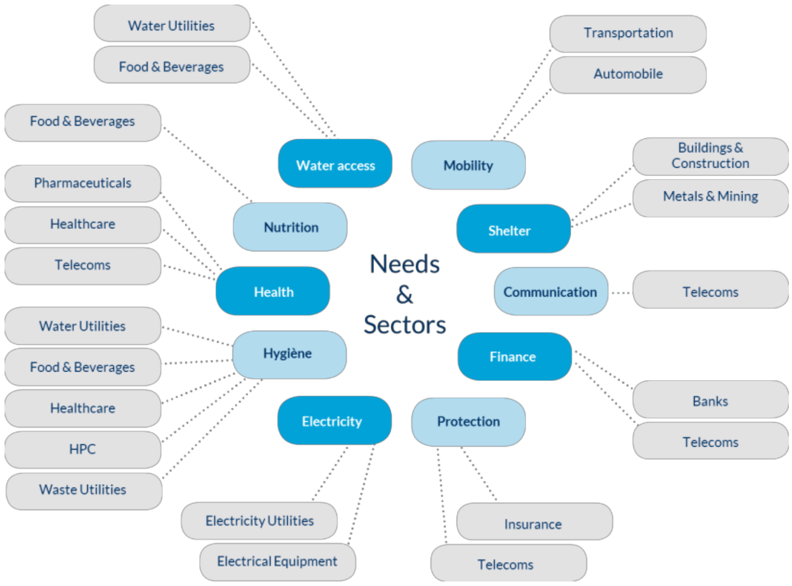
- **Progress in development, benchmarked globally by the Millennium Development Goals (MDGs) since 2000, has reportedly been uneven and major challenges remain** as most recent data suggest a mixed picture in terms of achievements of the 2015 MDGs.

### Debates on the role of business in the post-MDG framework

*Growing consensus on the importance of the private sector to advance developments*

In the context of the rapidly rising presence of multinationals in emerging and developing countries, consensus has been growing on the importance of the private sector in helping to step up these efforts, with support from those who believe that governmental and philanthropic organisations alone are not sufficient to alleviate poverty. Debates are therefore currently taking place about how to better integrate the role of business in the post-2015 international agenda as the sector was not included in the formal process of crafting the MDGs agenda. Two private sector representatives, including one from Unilever, are on the MDG High-level Panel.

**Chart 1: Sector contributions to access goods and services**




Source: Kepler Cheuvreux

## The BoP promise: alleviating poverty while driving the bottom line

***Emergence of the BoP concept***

Against this backdrop, the bottom of the pyramid (BoP) concept – which was popularised by C.K Prahalad and Stuart Hart in the late 1990s, basically to help frame the idea that the private sector could address the life and livelihood needs of the impoverished in a financially sustainable manner – has been gaining a lot of traction, with a significant number of companies, entrepreneurs and investors looking to develop market-based initiatives to alleviate poverty. The experience and research accumulated since then has, however, raised significant questions over the BoP proposition, notably in the light of the limited number of examples that have so far achieved scale and really address the BoP (and not actually higher income segments), and this has militated against the original vision of a huge low-hanging untapped market potential.

## Assessing the BoP market: data questioned, conclusions still topical

***Six years later, "The Next 4 Billion"…***

The most often quoted estimate of the BoP's market potential – USD5trn – is now six years old, having originated in the IFC and WRI's groundbreaking report *The Next 4 Billion*, published in March 2007. While the limitations of the calculations and possible underlying vision have been widely discussed (e.g. the markets do not exist as such and have to be created; they are actually too small monetarily to be profitable), and pending an update (a new report could be published later this year), we believe that the broad conclusions are still topical: a large amount of people are excluded from formal markets who could be included.

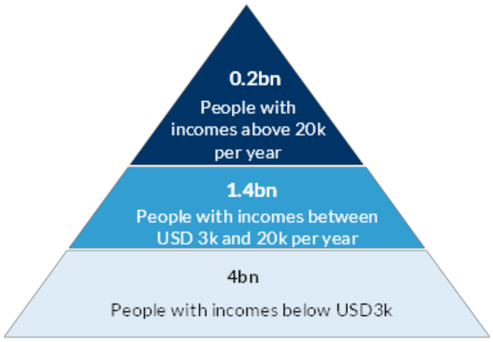
***…remains the most comprehensive data on the BoP market***

Furthermore, these estimates remain the most comprehensive set of data available, providing a broad and rough sense of this largely unexplored population and market potential by sector and geography:

- With three-quarters of the low -income group household budget dedicated to food, the Food BoP market (USD2.9trn) is by far the largest, followed by Energy and Housing.

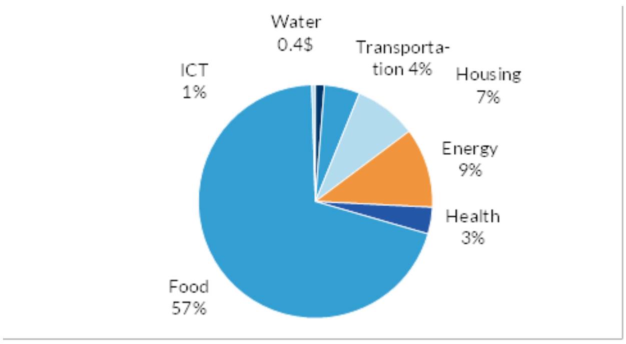
***Food the biggest sector***

**Chart 2: Economic pyramid of revenues**




Source: WRI, IFC (in 2002 international dollars, adjusted for PPP, based on 5.6bn people recorded by available national household surveys worldwide

**Chart 3: Total bop market by sector**

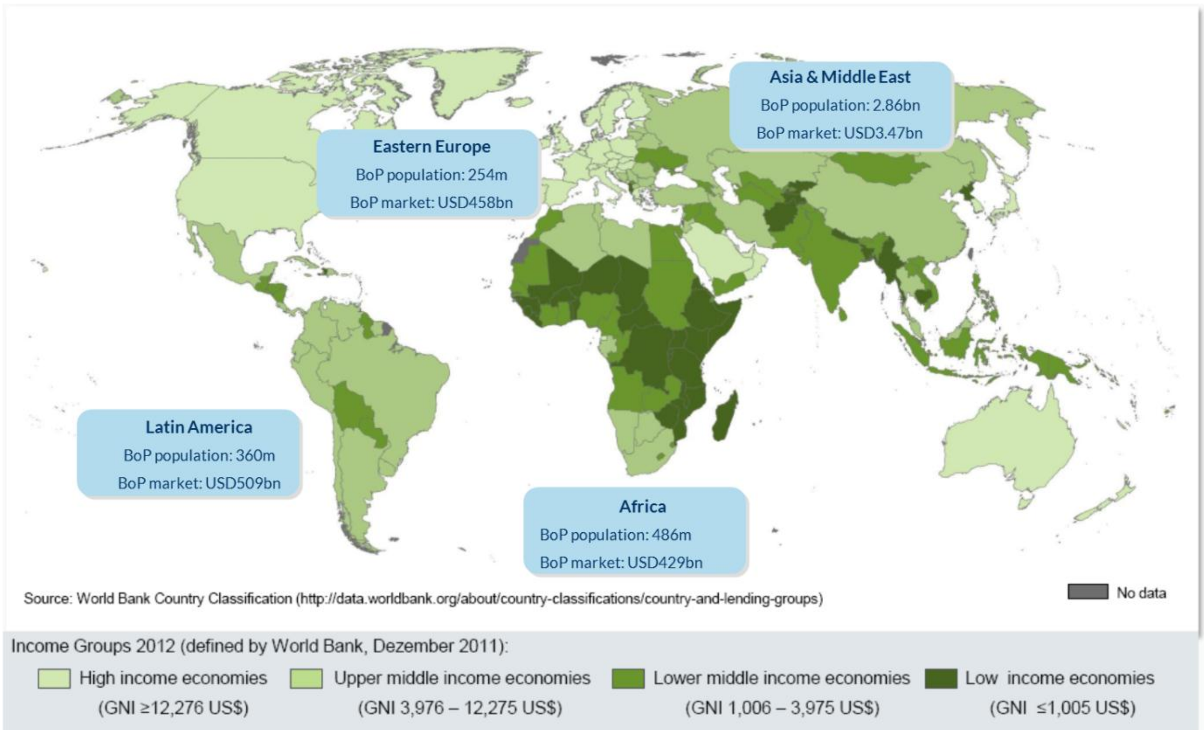



Source: WRI, IFC

- As regards the geographical spread, the bulk of the BoP population live in Asia (71%), followed by Africa and Latin America. It is also noteworthy that most of them live in rural areas (68% globally).

***Poor mainly rural and southern***

**Chart 4: Income groups (world bank 2012 classification) and BOP markets (IFC/WRI MKT estimates)**




Source: Munich Re, Geo Risks Research, NatCatSERVICE, World Bank, IFC, WRI, Kepler Cheuvreux

## Inclusive business: the new buzzword (for good reason)

Although we acknowledge the wide variety of approaches and dimensions, we can state in a nutshell that:

***Trend towards:***

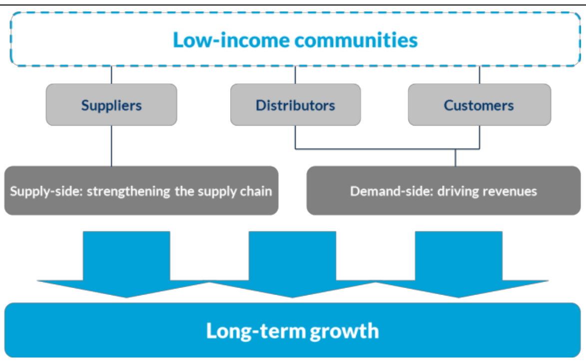
***More market-based solutions across the value chain***

- Companies' initiatives at the BoP have been shifting from traditional non-profit and primarily "licence to operate"-driven strategies to increasingly market-based approaches looking for business opportunities across the value chain; hence the relevance of the term "inclusive business", which underlines the financial sustainability objective and the underlying assumption that this population segment may play various roles, e.g. as suppliers, distributors and consumers.

***The search for indirect and intangible benefits***

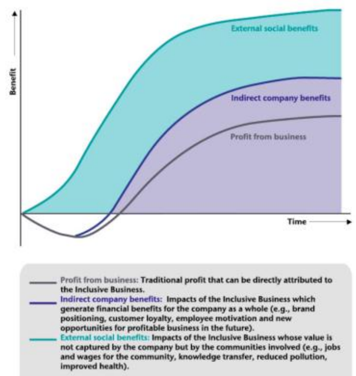
- While the business cases of these projects have so far proved clearly challenging (few of them constitute financially sustainable and profitable initiatives), companies have also been looking at various indirect (e.g. with regards to market share, competitive advantage, partnerships) and intangible benefits, mainly in terms of innovation, reputation and internal commitment, notably through attempts to make the case for positive external social benefits. *"Companies can reap three types of intangible benefit from doing business at the BoP. First they can enhance their external reputation. Second, they can improve the motivation and company pride of their employees, especially if mechanisms such as technical assistance allow them to take part in the BoP initiative. Finally, doing business at the BoP is an opportunity for reverse innovation, i.e. applying what the company learnt under constraints at the BoP to its core organization, thus improving overall practice."* (Olivier Kayser, Managing Director, Hystra)

**Chart 5: Inclusive business: across the value chain**




Source: Kepler Cheuvreux

**Chart 6: Inclusive business: direct and indirect benefits**




Source: WBCSD

***Shift to co-creation approaches***

- There has also been a shift from the vision of a huge market to be seized through business-as-usual approaches to efforts to co-create and co-share with the impoverished: in other words to see the impoverished not just as a potential market to address, but also as business partners; i.e. from BoP 1.0 to BoP 2.0, as conceptualised by Erik Simanis and Stuart Hart. Companies are thus seeking to set up structures that generate exchange and innovation by getting local populations involved in the project (also called 'eco systems'), which is also part of a response to the criticism pointing out that "the only way to alleviate poverty is to raise the real income of the poor" (Karnani).

Having said that, we underline that:

- The level of integration of these initiatives – typically run by CSR departments or foundations – within the core business is at various levels of progress.
- The distinct approaches and objectives – e.g. non-profit and profit, social business and BoP 1.0 / 2.0 – may be combined in practice.
- The licence-to-operate rationale, particularly in some sectors such as extractives and utilities, remains key given the role these projects may play in relation to regulatory requirements, combined with relationships with authorities, communities and other stakeholders.

***The distinct approaches and objectives may be combined in practice***

## Inclusive business: snapshot of key development challenges

### Financing: surfing on the "impact investing" momentum?

There are broadly four types of source that are driving this momentum and can potentially partner with companies to finance inclusive business:

- International and national financial institutions; these have been the most favoured source of funding for companies, who can thus share the risks and benefit from these institutions' expertise, technical assistance and know-how in terms of development. Among the multilateral development banks, the Inter-American Development Bank has been a pioneer in including low-income groups in its investment strategy through a dedicated operation office – its "Opportunity for the Majority Initiative" (USD250m cap for investments) – while the Asian Development Bank is also developing its strategy in this respect.
- High net worth individuals (HNWIs).
- Other private individuals, including employees.
- Institutional investors.

***International and national financial institutions favoured as a source of funding***

As regards individuals and investors, two broad types of investment vehicles have been developed to enable this offer and demand to coincide and support social business, specifically:

- **Funds intended to use individuals' savings (e.g. SICAV danone.communities).**
- **Funds dedicated to institutional investors (e.g. European Social Entrepreneurship funds).**

***Specific investment vehicles have emerged***

**Table 16: Examples of funds dedicated to support inclusive/social business**

| Company | Name | Date of creation | Type | Objective | Further details on investment strategy | Update |
|---|---|---|---|---|---|---|
| CASA | Grameen Crédit Agricole Fund (GCA Fund) | 2012 | Venture capital fund SICAV | Investments in various social business. | n.a. | Target size of EUR15m-20m over 10 years. |
| Danone | Danone Ecosystem Fund | 2009 | Endowment fund | Focus on specific community projects in 4 areas (sourcing, distribution, recycling and projects with ageing population), which aims at supporting the company's production, distribution and supply chain activities | n.a. | EUR100m, including EUR33m already invested |
| Danone | danone.communities | 2007 | Venture capital fund (SICAV) | Ambition to fund and develop local businesses with a sustainable economic model, oriented towards reducing poverty and malnutrition.<br>Danone.communities also provides technical support. | n.a. | c.70m raised so far, c.10% invested in seven projects) |
| GDF Suez | GDF Suez-Rassembleurs d'Energies | 2011 | SRI fund | Provide investment, technical assistance through skill donations and financial donations for energy access programmes | n.a. | Target of EUR100m by YE2013, including 10% invested in social business access to energy projects. |
| Schneider Electric | Schneider Electric Energy Access Fund | 2009 | SAS with variable capital. Supported by the mutual fund Schneider Energie Sicav Solidaire | Focus on: companies fostering professional integration in the energy management trade, companies enabling access to energy for BoP populations in rural or peri-urban areas, specifically in Africa and India, innovative access to energy solutions, based on renewable and dedicated to BoP populations | Target return on investment: 5%<br>Recommended investment period: 5 - 7 years | Current size: EUR3.5m<br>Objective: EUR10m |

Source: Kepler Cheuvreux, Companies

This trend should be observed in relation with debates about the so-called "impact investing" market. A distinction should, however, be made between investment products supporting social business (as per Nobel Peace Prize laureate Professor Muhammad Yunus' definition), as the latter emphasise the social mission as the organisation's priority (and not financial return) while impact investment approaches attempt to reconcile shareholder return and social impact. With impact investors' commitments totalling USD8bn in 2012 and USD9bn in 2013 (source: JP Morgan 2013 survey), this recently defined and fast growing market is seemingly a promising source of external financing for inclusive business and potentially for MNCs undertaking dedicated projects that include environmental and social goals alongside profit objectives, and seeking external funding.

***This trend should be observed in relation with the so-called "impact investing" market***

There are, however, specific challenges to the development of the impact investing market, namely the lack of market mechanisms and market infrastructure, with the most important obstacle possibly being the lack of well-structured products.

***The lack of well structured products is a key hurdle***

Nevertheless, beyond specific issues relating to the development of the impact investing market, we also see several obstacles undermining the potential for companies to engage directly with investors to finance these projects, including the mismatch between company and investor expectations. The impact investments markets encompasses a wide variety of entities, including private equity funds, HNWIs and private foundations, with different expectations for returns – from returns below market to market rate – which may not align with companies' rationale and expectations, e.g. when it comes to seeking indirect benefits for themselves in terms of image, innovation, etc.

***Debate on the potential for companies to engage with investors...***

**Table 17: Drivers of investor and company collaborations on financing BOP projects**

| Negative drivers | Positive drivers |
|---|---|
| Mismatch between company and investor expectations | Risk sharing. |
| Loss of control over project, and hurdles relating to specific governance of the project if private investors involved. | Building expertise with other players. |
| | Removing projects from financial statements. |
| Criticisms from stakeholders regarding mismatch between poverty alleviation / economic development and investor profile. | Helping achieve commitment to make projects profitable. |
| | Gaining visibility and thereby reaping reputational benefits. |

Source: Kepler Cheuvreux

An underlying question is also whether some of these initiatives should be integrated into the core business, i.e. financed by the company's shareholders, or whether having specific financing and governance structures may provide some of these projects with a more conducive environment, which takes into account their specific characteristics e.g. in terms of intangible benefits, timeframe and social and financial objectives. These products may therefore be seen as a way to align shareholders' expectations with some of these projects' low, remote and uncertain financial returns.

***...and the level of integration into the core business***

## Performance and impact measurement: still a long way to go

Making the case for external positive implications of BoP projects is a challenging, complex, long-term and costly process. On the top of companies' specific projects (essentially focused on social performance rather than social impact), there are several multi-stakeholder initiatives at international level, including the WBCSD, which is working on

***Challenging, complex, long-term and costly process***

developing a framework to assess the contribution of business to the economic and broader development goals in societies where business operates, taking into account the various tools developed so far by academics and various other stakeholders, e.g. Oxfam's Poverty Footprint, which looks at the overall impact of a company's activity on the local/national environment.

**Table 18: Examples of companies' initiatives to report on the socio-economic performance and impact**

| Companies | Partnerships (e.g.) |
|---|---|
| Allianz | Development with GIZ of a set of KPIs to better measure and control the financial and social performance of microinsurance |
| Anglo-American | Socio-Economic Assessment Toolbox (SEAT) : a framework and guidelines, including worksheets, for the identification, measurement, assessment, and prioritisation of the socio-economic impacts of local business operations for management response |
| BBVA | BBVA Microfinance foundation is developing its own social performance (measurement & management) system. |
| Holcim | Each project of the affordable housing programme includes a detailed survey about pre project housing conditions, family economics and quality of life indicators including happiness level |

Source: Kepler Cheuvreux, companies, WBCSD

We expect momentum towards further reporting on companies' socio-economic performance and impact to continue in the next few years, with growing attempts to tie reporting on BoP initiatives to both CSR disclosure and business strategy.

## Building partnerships: towards "hybridisation"

***Interest in greater collaboration comes from both sides***

The interest in greater collaboration is coming from both sides, i.e. on one hand MNCs, and on the other hand other business (e.g. competitors, local firms and social entrepreneurs) and the rest of the society, including philanthropic organisations, NGOs, governments and the local population, in order to find synergies, and as a result of a shared understanding that addressing these issues requires collaboration.

***NGOs' vital role***

Among NGOs, CARE has been active in building partnerships with companies, e.g. with Bata to sell shoes in rural areas of Bangladesh. Thanks to their knowledge, know-how and presence in these regions, NGOs may indeed play a key crucial role in helping companies foster their work at the BoP, for example to get communities involved.

Several European companies across different sectors have also developed partnerships with Muhammad Yunus' ventures, building strategies which somewhat apply the concept of social business (non-loss, non-dividend, and a clear focus on the delivery of social objectives). These partnerships, however, vary in terms of their:

***The "Grameen family"***

- **Approach to commercial interests, innovation and socio-economic objectives.**
- **Size, from the small-scale EUR500k Grameen Veolia Water to the largest and most successful in terms of financials, which by some distance is Telenor's Grameenphone in Bangladesh (USD1.6bn total investments).**

**Table 19: Examples of partnerships with grameen**

| Company | Country | Name | Creation | Status | Key financial data (as of full-year 2012)/Budget | Prospects |
|---|---|---|---|---|---|---|
| CASA | Luxemburg | Grameen Credit Agricole | 2008 | Foundation | EUR50m donation | Aim to be financially self-sustainable and pursue investments in MFIs and social business projects |
| Danone | Bangladesh | Grameen Danone Foods | 2006 | JV | n.a. | Plans to set up more plants and create several hundred distribution jobs.<br>Impact assessment on growth and cognitive performance |
| Telenor | Bangladesh | Grameenphone | 1997 | JV 55.8% owned by Telenor, 34% by Grameen Telecom and 10% traded on the Dhaka stock exchange | 10% of Telenors' EBITDA<br>6% of Telenor's revenues<br>USD1.6bn total investments | Set to remain key for Telenor's financials (most profitable venture overseas) |
| Veolia | Bangladesh | Grameen Veolia Water | 2008 | 50:50 JV between Veolia Water AMI (Africa, Middle East, India) and Grameen Healthcare | 500k invested | Ambition to reach breakeven in 2015 |

Source: Kepler Cheuvreux, Credit Agricole SA, Danone, Telenor, Veolia

## Scaling: internal and external barriers

Efficient deployment of existing solutions at scale remains undermined by internal barriers to scale within MNCs, which are generally less acknowledged than external barriers (infrastructure, business environment, etc) and for which clear solutions have yet to emerge. These include, among others:

***Internal barriers to scale within MNCs, generally less acknowledged than external barriers***

- **Competition from shorter-term, higher-return investment opportunities.**
- **Perceived lack of the necessary knowledge, skills, and capabilities.**
- **Corporate “immunity” to innovation.**
- **Legacy assets and systems that keep costs high.**
- **Confusion about “what is business” and “what is social,” leading to misalignment of objectives and delivery structures (source: WBCSD).**

The WBCSD plans to issue a comprehensive analysis of barriers to scale in mid-2013.

# Mobile services: the forerunner

**The strong growth experienced by the mobiles market in emerging and developing countries arguably represents the pioneering success story for inclusive business models when measured by revenues generated from low-income customers by European companies, including FT, Millicom, Telenor, TEF, Telenor, TeliaSonera and Vodafone.**

**The recent problems encountered by TeliaSonera and Telenor in Asia are, however, a reminder of the importance of business ethics (especially in the areas of bribery, corruption and human rights) and regulatory risks in these markets.**

**As regards the specific direct and indirect role of mobiles in economic development through various applications (e.g. agriculture, education, health), we outline here the promising opportunities of the various forms of mobile financial services (MFS) that could deliver greater socio-economic benefits in these regions while having a material impact on operators' top lines (e.g. up to 1/9th of Millicom's revenues in 2017E). While all carriers are ramping up their offers in this segment, Vodafone's success story in Kenya, reflected in a 42% total penetration rate in MFS for the BoP specifically (60% among all Kenyans; source: World Bank), has yet to be replicated on such a scale.**

**Table 20: Operators' exposure to emerging markets and MFS**

| Company | Overall exposure to emerging markets | Mobile Financial Services |
|---|---|---|
| France Telecom | 9% of FY 2012 revenues in Africa & Middle East (AME) | 5.6m users for Orange Money at YE 2012. |
| | Targeting twofold rise in AME sales by 2015 (7.5% CAGR 2011-2016) | Target: 30m customers by 2015 (8m by year-end 2013) |
| Millicom | Pure emerging market player. | USD40m of revenues in 2012. 8% of customer base. |
| | FY 2012 sales breakdown: 80% LatAm, 20% Africa. | Target: USD600m and USD1bn of revenues in 2017E |
| | Targeting revenues of USD9bn by 2017 vs. USD4.8bn in 2012 | |
| Telefonica | FY 2012 in LatAm: 48.5% of group revenues; 50.2% OIBD | n.a. (offer launched in 2012) |
| TeliaSonera | 18% of FY 2012 sales in Eurasia | n.a. |
| Telenor | 41% of 2012 revenues in Thailand, Malaysia, Pakistan, Bangladesh, India (6 circles) | USD77m of total revenues in 2011 (total direct and indirect), with USD1bn expected by 2016 |
| Vodafone | c.1/3rd of revenues in Africa, Middle East and Asia Pacific | 17.3m users in Kenya for Safaricom (27% y-o-y growth). Ongoing expansion in India and other markets. |

Source: Kepler Cheuvreux, France Telecom, Millicom, Telefónica, TeliaSonera, Telenor, Vodafone

**Table 21: Watchlist risks**

| Company | Risks with ongoing implications |
|---|---|
| TeliaSonera | The fallout from investigations into allegations of potential corruption in Uzbekistan has left the company and investors in limbo, with a new permanent CEO unlikely to be in place for several months. On 1 February 2013, Swedish law firm Mannheimer Swartling published a critical review of TeliaSonera's investments in Uzbekistan, which prompted the CEO Lars Nyberg to leave the company. |
| Telenor | Telenor might be indirectly impacted by the ongoing audit of Grameen Bank (funded by Muhammad Yunus), which owns 100% of Grameen Telecom, which in turn has a 34.2% stake in Grameenphone, Telenor's most profitable venture overseas (53.3% FY 2012 EBITDA margin, 10% of Telenor's FY 2012 EBITDA, 6% of revenues, USD1.6bn total investments). Neither Telenor nor Grameenphone are involved in this controversy, however, and there is no clear timeline for future proceedings. Telenor sees these claims as fully unfounded, and believes that Grameenphone’s licence renewal in August 2012 clearly proves that Grameenphone has a valid licence. |

Source: Kepler Cheuvreux, France Telecom, Millicom, Telefonica, TeliaSonera, Telenor, Vodafone

# The mobile success story in the developing world

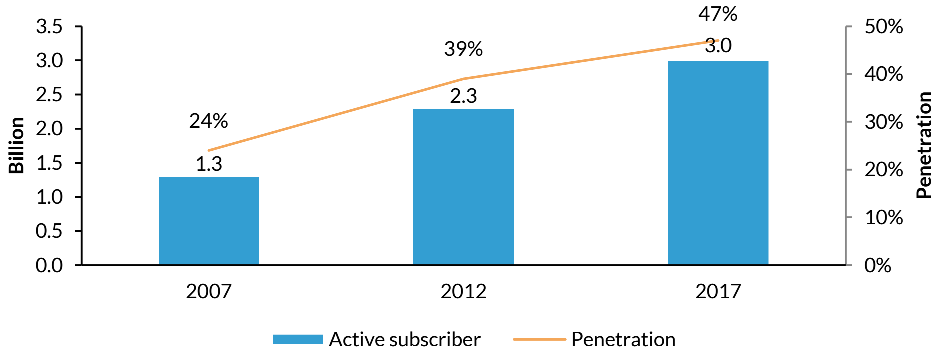
## 76% of worldwide mobile subscribers outside Western markets

Emerging economies have been driving the global mobile market for some years, helping to offset the lower growth rates experienced by European telecom operators in mature markets compared with the first decades of expansion in mobile telephony:

***Strong growth in mobile uptake in emerging countries***

- Around 76% of mobile subscribers worldwide, out of a total of more than 6.3bn (vs. less than 1bn in 2000 and 9bn expected in 2017) can be found outside Europe and North America. Growth is especially strong in China and India, which together represented 30% of estimated global net additions in Q4 2012, followed by Bangladesh, Indonesia and Nigeria, which accounted for 16% of additions.
- Mobile (SIM card) penetration remains substantially lower in China (82%), India (56%) and Africa (70%), compared with North America (103%), Western Europe (128%), Central & Eastern Europe (133%) and Latin America (112%) (Source: Ericsson).

**Chart 7: Mobile in the developing world**




Source: GSMA

- Despite a lack of global data, mobile penetration is estimated to be significant and growing among the so-called bottom-of-the-pyramid population, e.g. c.60% in Kenya and c.75% in South Africa according to two recent studies (sources: iHub Research, Research Solutions Africa, World Bank)[2].

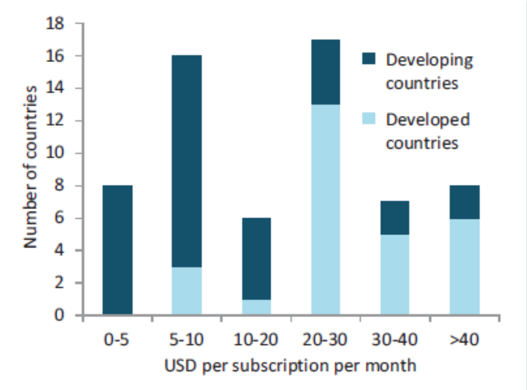
***Significant mobile penetration of the impoverished***

## Adapting the business model, not the technology

Telecom carriers have indeed managed to build up sizeable and profitable inclusive business models for mobile services addressing specifically low-income segments in developing countries which, despite differences between regions and companies, have predominantly relied on prepaid systems and lower ARPU (less than USD10 on average). This success is illustrated by the strong mobile penetration growth rate and the actual mobile revenues derived by operators in these regions, with total revenues of USD293bn in 2010 (62% of telecom sales in these countries). (source: ITU)

***Successful business model relying predominantly on prepaid and low-ARPU...***

**Chart 8: Avg. mobile revenue per subscription for developing and developed countries in 2010**




*Source: ITU*

Beyond the number of innovations introduced into business models to make this uptake possible (e.g. distribution channels, specific very low-cost product offers), this success was also driven by the relatively low cost of mobile network equipment vs. fixed line, and the significant economies of scale achieved by telecom equipment manufacturers which enabled them to sell mobile phones at significantly lower prices using the same (mature) technology that was earlier available in the developed world.

***...and driven by the maturity of the technology***

## Impoverished customers: a key driver for European carriers

Notwithstanding much lower ARPUs vs. higher-income segments, the total (and growing) amount of customers among the lowest income segments is estimated to be substantial in terms of its impact on revenues for European carriers strongly exposed to low and middle income countries (FT, Millicom, TEF, Telenor, TLSN and Vodafone). Millicom estimates for instance that one-third of its subscribers represented ARPU of less than USD1/month in 2012, and two-thirds less than USD10/month. The general decrease in ARPU worldwide

[2] Estimates for Kenya use a poverty line of USD2.50/day adjusted for purchasing power parity (PPP) using 2006 prices while estimates for South Africa use USD1.8 per person per day

between 2007 and 2010 may also be seen as a reflection of the growing importance of this population as a catalyst for growth.

***Low-ARPU customers are a key focus of European operators in developing countries***

Telecom operators also sometimes explicitly target these groups of customers given the large potential to increase both penetration and coverage among them, especially in rural areas, which contrast with the saturation of urban areas, though they face specific distribution and technology hurdles to improve coverage in remote regions. The competitive angle is indeed crucial, e.g. for Telenor in India, where it is hard to compete with other players such as Vodafone in the fiercely competitive urban areas; instead, Telenor is focusing on growing its subscriber base in more remote areas, relying on its status as the cheapest provider in these markets (current ARPU discount of 30-40% vs the rest of the markets).

**Table 22: Companies' exposure to some emerging and developing countries**

| Company | Currency | Region | ARPU (year) | FY-2012 revenues in m (as of group total) | Guidance |
|---|---|---|---|---|---|
| France Telecom | EUR | Africa & Middle East | n.d. | 4,126 (9%) | EUR7bn of revenues by 2015 |
| Millicom | USD | Africa | 4.5 (2012) | 974 (20% | Group revenues of >USD9bn and cash flow of USD1.2bn by 2017 |
| Millicom | USD | Latin America | 13.5 (2012) | 3,827 (80%) | |
| Telefonica | EUR | Latin America | n.a. | 30,520 (49%) | n.a. |
| TeliaSonera | SEK | Eurasia | n.a. | 18% | n.a. |
| Telenor | NOK | Thailand, Malaysia, Pakistan, Bangladesh, India | n.a. | 40,280 (41%) | |
| Vodafone | GBP | Africa, Middle East and Asia Pacific | n.a. | 13,868* (30%) | n.a. |

*2011/12 data

Source: Source: France Telecom, Millilcom, Telefonica, TeliaSonera, Telenor, Vodafone

***Community phones: innovative way to reach rural areas***

An interesting business model to reach out to local areas is the use of a local agent (shared access) i.e. an entrepreneur with a phone who supplies pay-per-use access to a community, which is a profitable creation of traffic for companies, and which can also be seen as a kind of BoP 2.0 business model involving distribution and relationships with the customer.

**Table 23: Examples of community phones**

| Company | Product | Key data (2012 update) | Key features | Date of launch | Key current market(s) | Prospects |
|---|---|---|---|---|---|---|
| **France Telecom** | Community Phone | Over 1,700 villages with more than 500 inhabitants concerned<br>End-2012: 2561 installations | Enable microentrepreneurrs in rural areas to act as local operators | 2010 in Mali | Mali, Niger, Cote d'Ivoire, Cameroon, Madagascar and The Central African Republic | A "Community Internet" solution developed by Orange is currently being tested in Uganda. |
| **Telenor** | Grameenphone's Village Phone programme | 210k (mainly women in rural areas) | Grapeenphone is a JV between Telenor and Grameen Telecom Corporation which is 55.8% owned by Telenor | 1997 | Bangladesh | n.a. |

Source: France Telecom, Telenor

## Economic and social role of telecoms in the developing world

*ICT: relatively lower potential market, higher actual revenues*

This mobile success story therefore raises questions about capacity to adapt and technological potential, as well as the ICT sector's ability to address the lowest income segments, as it contrasts with other sectors whose total market potential at the BoP has been estimated to be much higher but have yet to really deliver for European companies. It is worth noting that the total ICT BoP market is among the smallest and represents only about 2% of the estimated BoP food market (source: WRI).

*Socio-economic benefits of telecoms to be boosted by broadband…*

Beyond traditional voice and text services, a host of other business opportunities can be found in mobile applications addressing these customer groups, such as m-agriculture (e.g. Reuters Market Light, an agriculture information service developed by a subsidiary of Thomson Reuters in India, or Fishing with 3GNets, a programme for isolated communities of fishermen and mariculturists in regions of Brazil developed in collaboration with Telefonica; source: Solaron), mobile financial services, which are also fuelling the long-term growth potential of many other sectors. The role of telecoms and ICT sector as a whole (i.e. including other technologies) as an engine of economic growth for developing economies is also expected to be increased by broadband:

- **Developing countries see 1.4% additional growth in GDP for each 10% rise in broadband penetration (source: World Bank).**
- **Mobile broadband could potentially accelerate global GDP by 3-4% if its impact on productivity is similar to that of mobile voice services (source: GSMA).**

*…though impact on the impoverished likely to be tempered by…*

Nevertheless, we underline that the link between mobiles (and the growing use of ICT technologies) and development should be seen as dependent on several other factors, particularly adaptation to the local environment. Other dimensions that should be taken into account include the following:

*…limited use beyond voice and text…*

- The use and scalability of services, products and applications other than voice and SMS services are much more restricted among the lowest income segments.

- The share of household budgets taken up by mobile consumption may also raise concerns if other expenses get marginalised. A recent study by iHub and Research Solutions Africa in Kenya pointed out that some mobile users sacrificed some of their usual spending to purchase credit for their phones and that "*There is still high uncertainty about the impact of these substitutions and reallocation of cash resources*".

***...uncertainty over household budget...***

- The power of mobiles to drive economic development should be balanced with the inequality of access to technologies (e.g. due to lack of infrastructure, economic affordability), and the fact that a substantial share of the lowest income segments still cannot afford such technology. There will be a lag before these broadband services spread through low-income populations.

***...and inequality of access to mobiles***

### Reporting on the socio-economic impact

Despite growing literature on the link between ICT and development, we stress the lack of statistics publicly available so far on the actual socio-economic impact of mobiles specifically among the economically impoverished population (although this is understandable regarding MFS, due to the relatively recent launch) and would welcome further studies and reporting from carriers. We note, however, that Telenor has conducted several studies with the BCG on potential impacts (e.g. about MFS, mhealth).

***Lack of reporting on actual impact***

### Risks: emerging market perils for carriers

Whether it is Telenor in India (cancellation of licences by Indian government) or TeliaSonera in Uzbekistan (fallout from probe into allegations of potential corruption in Uzbekistan) and Central Asia (allegations of espionage in Central Asia), the recent period has shed light on the scale of the bribery, corruption, human rights issues and regulatory risks faced by telecom service providers in emerging markets.

***Recent period has shed light on the importance of business ethics in the sector***

In Bangladesh, Telenor might be indirectly affected by the ongoing audit of Grameen Bank (funded by Muhammad Yunus), which owns 100% of Grameen Telecom, which in turn has a 34.2% stake in Grameenphone, Telenor's most profitable venture overseas (53.3% FY 2012 EBITDA margin, 10% of Telenor's FY 2012 EBITDA, 6% of revenues, USD1.6bn total investments). A preliminary report by the commission carrying out the audit of Grameen Bank, released in February 2013, comments briefly on Grameen Telecom’s ownership in Grameenphone and indicates that Grameenphone’s initial licence award in 1996 should have been deemed invalid; it further suggests that this could be solved by Telenor surrendering a 16% stake to Grameen Telecom. Neither Telenor nor Grameenphone is, however, party in this controversy, and there is no clear timeline for further proceedings. Telenor sees these claims as fully unfounded, and believes that Grameenphone’s licence renewal in August 2012 clearly proves that Gramenphone has a valid licence.

***Telenor might be impacted by the battle between Muhammad Yunus and the Bangladeshi government***

## The mobile financial services (MFS) promise

Mobile-based financial solutions, essentially mobile banking, mobile money transfer and mobile payment, are critical for access to financial services in developing countries where it is estimated that 68% (1.7bn) of unbanked people are mobile users. According to BCG's estimates based on a sample of five countries (Pakistan, India, Bangladesh, Serbia, Malaysia), MFS may help reduce financial exclusion by 5% to 20% (depending on the country) by 2020, and thereby boost these countries' GDP by up to 5%.

***Estimated 68% (1.7bn) of unbanked people are mobile users***

## European carriers ramping up their offers

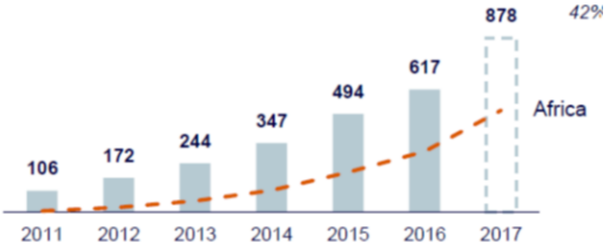
Telecom carriers look to reap both direct benefits (e.g. transaction service fees) and indirect benefits (decrease in the churn rate, rise in ARPU) from these applications, and see a rapid growth of their respective products targeting notably unbanked and underbanked populations in both urban and rural areas with very strong CAGR foreseen for both MFS users (23%) and transaction volumes (42%) in 2011-2017.

***Benefits both direct (transaction fees) and indirect (decrease in churn, rise in ARPU)***

**Chart 9: Global MFS users (m, 2011-2016)**


Source: Millicom, Gartner, World Bank, Innopay, Solon

**Chart 10: Global MFS transaction volume (USDbn)**




Source: Millicom, Gartner, World Bank, Innopay, Solon

European operators are ramping up their offers:

- Via its subsidiary Safaricom, Vodafone's M-Pesa developed a mobile phone-based electronic payments system adopted by 17.3m customers as of YE 2012 (27% y-o-y growth), whose success is largely explained by the specific context in Kenya, including Vodafone's overwhelming domination of this market (64% market share as of 2012), the infrastructure and the conducive regulatory environment.
- France Telecom's mobile payment offer, Orange Money, has also experienced fast growth, with 8m users forecast by the end of 2013 (vs 5.6m currently).
- Telenor is focusing on several countries, including Easypaisa in Pakistan. The company targets USD1bn of total revenues worldwide from financial services by 2016 (vs. USD77m in 2011) and aims to launch new products in Thailand and Malaysia this year.
- Last year, Telefonica launched its product Wanda in Latin America (through a JV with MasterCard).
- Millicom expects to generate between USD600m and USD1bn in 2017E (vs USD40m in 2012), essentially driven by strong growth in Africa, which marks the strongest target by an operator in relative terms as this represents 1/9th of total revenues guided for 2017. Millicom also intends to replicate its successful African MFS business (Tanzania so far, a country with 17% penetration for MFS, and 37% penetration for Millicom customer base) in Latin America.

***Vodafone's early success story…***

***…was followed by several other product launches***

***Ambitious 2017E revenues target for Millicom***

When it comes to the specific use of these applications for the BoP segment, most of the available data concerns M-Pesa's success in Kenya, which is the main factor behind the high (about 42%) total of the country's BoP segment using MFS (source: World Bank). We also note that M-Pesa is an exception in terms of application, in that it is the only one largely used by this customer group in the country.

***42% of Kenya's BoP group use MFS***

**Table 24: Mobile-based financial solutions in developing countries**

| Company | Product | Customer profile | Financial impact | Key data (YE 2012 update) | Key features | Date of launch | Key current market(s) | Prospects |
|---|---|---|---|---|---|---|---|---|
| France Telecom | Orange Money | n.d. | n.d. | 5.6m users. Target: 30m customers by 2015 (8m by year-end 2013) | Solution enabling users to open a payment account linked to a mobile number | 2009 (following a pilot project conducted in 2008 in Côte d'Ivoire) | 13 markets | Planned expansion in all Orange's African and Middle-Eastern markets. |
| Millicom | MFS | n.d. | USD40m of revenues in 2012. Target: USD600m-USD1bn of revenues in 2017E | | Millicom | MFS | n.d. | USD40m of revenues in 2012. Target: USD600m-USD1bn of revenues in 2017E |
| Telefonica | Wanda | n.d. | n.d. | Offer available to more than 87m Movistar customers | JV with MasterCard | Telefonica | Wanda | n.d. |
| | | | | | Mobile payment services associated with an m-wallet or prepaid account from which users will for instance be able to transfer money, top up credit, pay bills and do e-shopping | | | n.a |
| Telenor | Easypaisa | 41% of users live on less than USD2.50 per day | USD77m of total revenues in 2011 (total direct and indirect), with USD1bn expected by 2016 | 4m active users per month | Partnership with Tameer Micro Finance Bank (51% owned by Telenor) | 2009 | Pakistan | n.a. |
| | | | Contributed to 3-4% of FY-2012 revenues growth (direct revenues) | | | | | |
| | | | | Over 18 000 service agents | Branchless banking available to all mobile users (i.e. not restricted to Telenor's customers) | | | |
| | | | | | Introduction of savings products in insurance | | | |
| Vodafone | M-Pesa | 7m of users don't have bank accounts | EBITDA margin: 30% | 17.3m users in Kenya (27% YOY growth) | Payment and transfer service | 2007 | Seven markets with the majority of users in Kenya | Pilot project completed in India. Phased launch beginning in Eastern circles |
| | | Average financial transactions: USD27 Median: USD5.7 | Breakeven reached | 96 000 agents | Also provides microinsurance through partnership with insurance services companies | | | New banking product rolled out in November 2012 in Kenya: M-Shwari |
| | | | | USD1.2 monthly P2P values | | | | |

Source: Kepler Cheuvreux, company data

## Technological, regulatory and competitive hurdles down the road

*Still early days: low current impact on top line, high uncertainties*

However, despite the rapid growth of some operators' products to seize these opportunities, it is noteworthy that adult usage of mobile financial services currently exceeds 10% in a limited number of countries (e.g. Ghana, Philippines, Kenya) and these solutions are still at an early stage and need time to deliver results (e.g. Vodafone estimates it takes from c.18 months to 2 years to see the first signs of success).

*Challenge to move from transfer and payment to money*

Services deployed at scale in these countries are focused primarily on payments, transfer and remittances, which are closer to the operators' core business and therefore easier to develop and less risky than more sophisticated operations (e.g. mobile banking). We stress that this form of MFS has interestingly not required any technological breakthrough as money transfers via mobiles can be seen as a natural extension of prepaid cards.

*Conditions to achieve scale: interoperability, customer education, equipment*

Beyond the importance of market conditions and ICT infrastructure, a robust regulatory framework covering critical aspects (e.g. interoperability, illegal financing, consumer protection, data privacy), as well as customer awareness and education and the availability of the required software are key factors in order to enable higher and long-term adoption of these services.

## Risks involved with MFS

*Misuse of service and fraud are key risks for transfers and remittances*

Risks are broadly the same as for any financial service (e.g. illegal financing anti-money laundering, countering of terrorism financing) or mobile activity (e.g. consumer protection, data privacy). As illustrated by the arrest of local extortionists in Karachi (known as the bhatta mafia), using Easypaisa services to transfer illicit money to relatives, misuse of the service and fraud are key risks for transfers and remittances. Questions can be also raised about the reputation risks operators will be exposed to given the importance of customer relationships and contracts in the telecom services sector.

# Branded food: value chain and nutrition

**The largest food manufacturers, i.e. Danone, Unilever and Nestlé, want to be at all price points and have adopted distinct approaches (and related reporting) to grab a chunk of the huge potential BoP food market (nearly USD3trn). While some of their products may serve significant numbers of low-income customers (e.g. individual packaging and fortified products), we believe questions can be asked about the actual affordability, penetration and related-revenue potential of the big food companies' products and initiatives among the BoP segment specifically.**

**We underline that the benefits of building robust inclusive strategies are much greater for these companies, e.g. due to the importance of innovation and brand in the sector, and should also be observed from the perspective of their industrial, organisational, distribution and especially supply chain process against the backdrop of inflation and fluctuating agricultural raw material costs. The latter also represents the sector's largest footprint in terms of contribution to poverty alleviation and development, as three-quarters of the impoverished population live in rural areas and most of them are suppliers to the food industry.**

**Last but not least, companies' practices in these markets have also raised concerns and expectations about their responsibility in terms of under-nutrition and obesity, in a context of growing reputational and regulatory pressure for the latter, as well as the unintended consequences of their products among the impoverished: e.g. breast-feeding campaigns against Danone and Nestlé.**

**Table 25: Inclusive strategies and examples of initiatives across the value chain**

| Company | Demand side : customers and distributors | Supply side |
|---|---|---|
| **Nestlé** | 15% of FY 2012 sales in "Popularly Positioned Products", 11% organic growth, average margin in line with the business, whose stated objective is to address those earning between USD3 and USD22k per year (in Purchasing Power Parity) with more affordable products and strengthened nutrition aspects. | Spending: 273k farmers trained through capacity building programmes in 2012 (vs. 201k in 2011), out of 690k working with the company<br><br>Training: over the next ten years, Nestlé plans to invest CHF110m to help improve the livelihoods of farmers and their communities. |
| **Danone** | Grameen Danone Food (878 Shokti ladies at the end of 2011, 1.9m units) | Promoting upstream activity of small suppliers via the EUR100m Danone Ecosystem fund (50% invested for sourcing)<br><br>Seven projects launched in various locations to support the dairy business |
| **Unilever** | Project Shakti in India (45k female entrepreneurs in 2011; target to reach 75k in total by 2015, no disclosure on profitability, though) | Focus on improving the quality of smallholders' livelihoods, training on agricultural practices was provided to 300k of them as of 2011, with the bulk to tea farmers (target to engage with 500k of them by 2020) |

Source: Kepler Cheuvreux, company data

**Table 26: Watchlist: controversies relating to breast-milk substitutes**

| Company | Manufacturers of breast-milk substitutes that are not in full compliance with the International Code of Marketing for Breast-Milk substitutes (according to reports from International Baby Food Action Network (IBFAN): companies' stance |
|---|---|
| Danone | The company claims that its practices are fully compliant with the International Code. |
| Nestlé | Nestlé has developed a comprehensive policy articulating its commitment to the Code and states that it applies a detailed global management system including internal and external audits, staff training, etc. In 2010 the company submitted a detailed response to allegations in which it claims that, out of the 130 reports included in the IBFAN report, only 4 areas of concern were identified in "higher-risk countries" and that corrective actions had been implemented. |

Source: Kepler Cheuvreux, company data

**Table 27: Watch list – lack of disclosure**

| Company | Key elements |
|---|---|
| Parmalat | Lack of disclosure on its strategy towards the impoverished population despite possible significant exposure to this segment of the population through its basic product range and important presence in emerging and developing countries (e.g. 8% of FY 2012 Sales and EBITDA in Africa). |

Source: Kepler Cheuvreux, company data

## Business benefits across the food value chain

***The big three are strongly exposed to EMs***

Emerging markets are at the core of the largest food manufacturers' business developments, with the industry leaders Danone, Nestlé and Unilever currently deriving a large share of their turnover from these regions (c.38%-55%) and seeing double-digit growth rates (c.11-16%), with the same or even higher operating margins vs. mature markets' (c.13-15% for Unilever, Danone). This momentum is set to continue, given demographic trends as the 2bn rise in the global population foreseen by 2050 vs. 2012 levels is expected to come almost solely from developing countries.

**Table 28: FY-2012 results in emerging markets**

| | | | EM | | | | | Group | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Currency | Sales (bn) | Sales as of total turnover | Sales organic growth | Operating margin | Breakdown (as reported) | Key markets | Sales (bn) | Sales organic growth | Operating margin |
| Danone | EUR | 8.01 | 38% | 15.7% | 14.8% | ALMA | Russia, China, Indonesia, Mexico, Brazil | 21 | 5.4% | 14.18% |
| Nestlé | CHF | 39.3 | 43% | 11% | n.d. | Asia, Oceania & Africa | Brazil, Greater China Region, Mexico, Philippines | 92 | 5.9% | 15.2% |
| Unilever N.V. | EUR | 28.3 | 55% | 11% | 13.0% | Asia/ AMET/RUB | Brazil, India, Chile | 51 | 6.9% | 13.80% |

Source: Danone, Nestlé, Unilever

## Revenue potential: more of a myth than a reality for European MNCs?

*Products addressing significant number of BoP customers*

We believe that European food giants want to be at all price points and have been attempting to seize the lion's share of the huge potential estimated for the food market at the BoP (total of USD2.9trn, as food represents the largest share of the impoverished budget) through various projects and products, with a common objective being typically the search for high volume growth and expansion of distribution channels. Beyond product adaptation and pricing, experience has shown that the challenges of these business models lie rather on the distribution side.

Specific products that may be considered to serve a significant number of low-income customers in these markets, and ultimately translate into substantial revenues, include:

*Individual packaging and fortified products*

- Individual packaging i.e. small packs “sachet” marketing, now widely adopted by all companies, and seeing a strong growth in these regions (e.g. packaged food represents 6% of HUL's portfolio, the Indian company 53% owned by Unilever which reported USD4.1n of FY-2011/12 revenues).
- Fortified products e.g. iodine-enriched Maggi for Nestlé (100bn servings in 2012), as part of the company's "Popularly Positioned Products" (15% of its FY-2012 sales, 11% organic growth, whose stated objective is, however, to address those earning between USD3k and USD22k per year in terms of Purchasing Power Parity, and with an average margin in line with the business), or Annapurna Salt for Unilever.

Questions can, however, be raised over:

*Although questions can be raised about actual affordability, penetration and revenues*

- Revenues derived specifically from low-income customers when defined as the BoP (especially when using a lower income threshold than USD8 a day in PPP), and whether a large part of their customers would more appropriately be classified in the higher-income groups.
- The actual affordability of many of these products. The lack of reporting and data available on this, however, prevents us from assessing companies' actual commitment to increase their affordability.
- Some of these dedicated BoP projects and products have been as successful and promising (e.g. Procter & Gamble’s water purification powder failure)
- Some local competitors (e.g. Britannia is a classic example of success in India) can be considered as relatively more successful in building a compelling business model addressing this segment.

## Inclusive business: benefits more for these companies' value chains

Much has been written about food manufacturers' dedicated projects which aim to overcome key challenges from supply chain to distribution, so as to make their business models financially sustainable, including:

***Two different approaches to market and funding: Unilever vs Danone***

- **Distribution** e.g. Unilever's Shakti in India (45k female entrepreneurs in 2011; target to reach 75k in total by 2015, no disclosure on profitability, EUR80m of revenues added), an example more seen as the capture of an existing market than the creation of a new one (source: François Perrot[3]) or Nestlé's numerous distribution models for PPP (e.g. street selling programmes)
- **Partnership & funding (from supply chain to distribution):** Danone has built its inclusive strategies, notably through two funds:
  - The JV "Grameen Danone Limited Food" and the creation of the venture capital fund danone.communities in 2007/2008 (c.70m raised so far, c.10% invested in seven projects), whose stated objective is more the fostering innovation through the development of new business models and support of social business (e.g. water purification systems in Cambodia and India), rather than the search for short-term commercial opportunities. Grameen Danone's approach may be seen as the creation of new markets and development of innovative comprehensive inclusive strategies - from suppliers to distributors;
  - Danone's ecosystems (endowment) fund (EUR100m, including EUR33m already invested), including specific community projects, which aims to support the company's production, distribution and supply chain activities in 35 subsidiaries representing c.1/3rd of Danone's turnover though co-financing with NGOs various communities projects (50% of funds allotted to sourcing, mainly milk, 15% distribution, 10% recycling projects and 10% projects with the ageing population).

***Importance of integrating local suppliers***

- **Supply chain:** e.g. Nestlé's milk district model further illustrates the importance of building local clusters/intermediaries and integrating local producers. The model sources the majority of its milk locally from smallholders, a model notably based on the reduction of intermediaries and oversight of the whole value chain and which helped the company to sustain a 20% market share for several products in the lucrative Indian dairy market.

[3] PhD Dissertation on “Multinational corporations at the base of the economic pyramid: a strategic analysis framework” (2011)

**Table 29: Projects engaging with the impoverished: from downstream to upstream**

| | Nestlé | Danone | Unilever |
|---|---|---|---|
| **Distributors** | | | |
| Programmes (e.g.) | Hub Nestlé in the Amazon to deliver Nestcafe<br>Nestlé boat on the Amazon river in Brazil<br>Saleswomen in Brazil selling Nestlé products in poor areas<br>Maggi Caravan in Africa to educate on nutrition<br>Micro-entrepreneurs serving consumers in motorbikes (e.g. street ice cream sellers in Thailand) | Grameen Danone Food (878 Shokti ladies at the end of 2011, 1.9m units) | Shakti (India): 45k female entrepreneurs in 2011 (target: 75k in total by 2015); 30k men<br>100k villages<br>3m households |
| Regions | Various | India | India mainly, similar programmes running in Bangladesh, Sri Lanka and Vietnam |
| Financial impact | n.a. | n.a. | EUR80m (0.3% of Unilever's total EM revenues) |
| **Suppliers** | | | |
| Key programmes | Spending: 273k farmers trained through capacity building programmes in 2012 (vs. 201k in 2011), out of 690k working with the company<br>Training: over the next ten years, Nestlé plans to invest CHF110m in the plan to help improve the livelihoods of farmers and their communities.<br>Responsible sourcing initiatives and Cocoa Plan (27k farmers trained in 2012) | Promoting upstream activity of small suppliers via the EUR100m Danone Ecosystem Fund (50% invested for sourcing), including EUR33m already committed<br>7 projects launched in various locations to support the dairy business | Focus on improving the quality of smallholders' livelihoods, training on agricultural practices was provided to 300k of them as of 2011, with the bulk to tea farmers (target to engage with 500k of them by 2020) |

Source: Kepler Cheuvreux, Nestlé, Danone, Unilever

***Concern over raw material price inflation and fluctuation***

MNCs' engagement with all levels of their value chain i.e. production, distribution, logistics should indeed be seen as part of their efforts to lower the unit cost of business in a context of rising agricultural prices (7% average annual growth since 2000[4]), and also sometimes compliance with local sourcing regulatory requirements (e.g. for milk in Nigeria).

We also underscore several indirect benefits companies look to achieve through these products and innovative marketing process:

- **Their investment and support for smallholders and other local communities (e.g. capacity building and training) is also a way for these companies to sell them their products i.e. create and secure new markets.**
- **Image is key, given the importance of brand in the sector and with customers increasingly concerned about production processes and nutritional aspects.**
- **These initiatives can arguably also be seen as a way to reach out to the middle-income segments in the longer run.**
- **Innovation, including bringing know-how from experiences with low-income segments to the developed world (e.g. sachets, cheaper brands, principle of selling goods for one currency unit) or in the production and distribution process.**

***Indirect benefits should not be overlooked***

[4] CAGR calculated based on FAO (2012). FAO Food Price Index. (source: BMZ)

## Risks and development footprint: products and supply chain

A distinction should be made between the sector's impact on poverty and development, mainly to alleviate under-nutrition and obesity, through on one hand its products and on the other hand its supply chain, with the latter having a much wider footprint.

***Rising pressure to help combat under-nutrition and obesity***

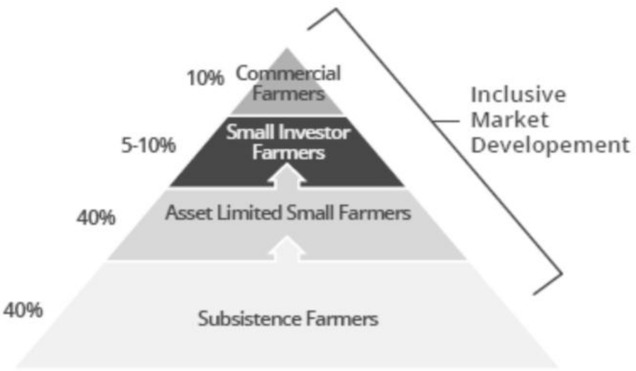
- Pressure on food producers to improve their access to nutrition strategies took a step forward with the publication of a new dedicated index in March 2013, in the context of tightening regulatory measures in several markets to promote healthier food (e.g. stricter food labelling requirements, restrictions on specific unhealthy food ingredients). When it comes to the positive impact of some of their goods e.g. fortified products, we believe their contribution to development should be seen as part of the solution to under-nutrition and obesity, but not be overestimated; it should also be seen in the context of the local environment, given the wide range of other problems affecting people (e.g. a water purifier cannot replace a clean source of water), the fact that some healthy products are already sold in poor and rural areas (therefore no need for MNCs' products specifically), the challenge of monitoring what people are actually consuming (i.e. beyond purchases) and the fact that other chunks of their portfolio should be taken into consideration, i.e. less healthy products such as snacks.

***The sector's main impact is via its supply chain***

- While it is estimated that 1.4bn people worldwide are overweight and almost 900m are chronically hungry (source: Oxfam), it is worth noting that the bulk of these people are the suppliers to the food industry as 60% of them live in poverty (75% of the world's poor live in rural areas; source: Seas of Change) and one-third of the world's population depends on small-scale farming for their livelihood (source: Ifad). Beyond its direct contribution in alleviating these two issues (undernutrition and obesity), the sector's main impact is therefore via its supply chain, as its sourcing network affects a large number of poor farmers and smallholders, whose vulnerability and status are expected to continue to suffer from rising tensions on resources, fluctuating food prices, growing scarcity of land/water, and climate change.

Out of the 525m farmers worldwide, 90% are smallholders and it is estimated that the modern agri-food market mostly relate to the top 20% of the pyramid which comprise large-scale commercial farmers and so-called small investor farmers.

**Chart 11: Agri-food market pyramid**




Source: Seas of Change

*Policies aimed at tackling social and environmental risks within their supply chains*

Unilever has committed to work a certain number of small-scale farmers, while Nestlé has promised specific investments to such groups. Nestlé and Unilever were praised by Oxfam in 2013 for having developed and published more policies aimed at tackling social and environmental risks within their supply chains. Oxfam stressed, however, that all companies in the sector could improve their practices and that room for improvement includes:

- **Commitment to ensure that small-scale producers are paid a fair price.**
- **Addressing the exploitation of women.**
- **Working to minimise land-grabbing.**
- **Achieving adequate wages for workers, fair prices for small-scale farmers, and assessing and eliminating the unfair exploitation of land, water and labour.**

## Controversies related to products

*From the baby milk scandal to today's debates about compliance with the International Code*

The first campaign started with the 1974 baby milk scandal triggered by the publication of a report from War on Want alleging that multinational milk companies were causing infant illness and death in poor communities by promoting bottle-feeding and discouraging breast-feeding. This led to Nestlé boycotts and subsequently the adoption of an international code of conduct to regulate the promotion of breast milk substitutes following recommendations by the UN World Health Assembly in 1981 (governing arm of the WHO).

Since then there have been further allegations from the International Baby Food Action Network (IBFAN) that Danone and Nestlé are marketing breast milk substitutes in a manner that breaches the International Code of Marketing of Breast Milk Substitutes. Nestlé and Danone have subsequently claimed that their practices conform with the WHO recommendations and elaborated on their policy and management systems in response to these allegations.

*Backlash risk, if objectives aren't clearly stated*

Another controversy illustrating the risk of local protests and reputational damage when project objectives are not appropriately stated is Unilever's “Health in your Hands” project in the early 2000s in Kerala (PPP between Unilever and the Indian state of Kerala). This project provoked a media campaign, as it was seen as an attempt to combine profit targets with false promises about positive impacts. Unilever subsequently modified its approach and now discloses its commercial objectives for the country in full (source: Jamie Cross).

*Concern regarding basic safety and quality standards*

Finally, concerns over basic safety and quality standards are particularly prevalent in these markets with a relatively weak regulatory framework and a complex maze of suppliers. The Chinese food industry’s reputation has for instance come under strict review ever since the milk scandal in 2008 that poisoned more than 300,000 babies and led to six deaths. From 2012-16, the industry is poised to grow by 12.4% (CAGR for retail food sales)[5] and presents a lucrative market. Both Unilever and Nestle faced some issues in these markets (e.g. Unilever's Lipton tea tested positive for banned pesticides by Greenpeace in 2012 or

[5] Packaged food in China, Agriculture and Agri-Food China, 2013

Nestlé's Hsu Fu Chi held up in 2012 by authorities for the use of prohibited anti-oxidants in two products) (source: Solaron).

## Controversies related to production and the supply chain

***Labour risks among producers and suppliers***

Food companies have a large and expanding manufacturing presence in the developing countries and can sometimes fall short of global labour standards that would indicate a holistic commitment to responsible business. Nestlé's labour policies in the developing world has for instance been criticised, e.g. at its Nescafe and Nespresso manufacturing units in Pakistan, Indonesia and Nicaragua throughout 2012 (source: Solaron).

A lax domestic regulatory framework coupled with limited efforts at ensuring dialogue and training of local suppliers creates potential for violations. An Oxfam study on Unilever's operations in Vietnam in 2011-12 criticised the company for inadequate wages, lack of a grievance redress mechanism and failure to implement its supplier policy properly. Nevertheless, we welcome Unilever's commitment to improve supply chain transparency.

## Development footprint: measuring the impact

All three of the largest food manufacturers are working on better communications on the impact of their activities. For example, Danone has set up a partnership with international academic experts to measure the impact of its Ecosystem fund key projects according to four main themes: social and economic value created, sustainability of social and economic capabilities, project potential scalability and women's empowerment.

# Pharma: shifting to a longer-term approach

**With one-third of the world's population still lacking regular access to medicines (source: WHO), and in the context of a strong and rapid shift to "pharmemerging" markets (USD170-180bn as of 2011, 9-10% expected yearly growth rate for 2012-17), we outline key progress in pharma companies' business models from production to the market: in relation to their R&D pipelines, differentiated pricing policies, patent and licensing, and other approaches (e.g. capacity building) that help facilitate access to medicines for the impoverished population in low-income markets.**

**The move towards a longer-term, more holistic and for-profit approach to this segment is marked by progress in some areas (e.g. R&D in the main communicable diseases, innovative for-profit initiatives intended to reach low-income patients run by Novartis, Novo Nordisk) and substantial room for improvement in others (e.g. R&D in tropical disease, non-communicable diseases). Nevertheless, access to medicines for the BoP population remains limited for now and is predominantly achieved via partnerships and a not-for profit approach (e.g. donations and philanthropic activities) given the significant obstacles remaining in these markets (in slums and rural areas mainly).**

**As regards the companies' strategies, we stress that their efforts and commitment in this matter broadly and primarily reflect their portfolio and geographical breakdown, with GlaxoSmithKline and Sanofi leading the way, according to the latest Access to Medicines index. Beyond business models, we underline the importance of building capacity advancements in these markets, namely through investments in the healthcare infrastructure and capacity advancements in local workers' ability, which is a crucial factor for enabling longer-term adoption of primary care products for the impoverished.**

**Table 30: Top picks: products, R&D pipeline and overall strategy on access to medicines**

| Company | Comments |
|---|---|
| GlaxoSmithKline<br>Sanofi | With a strong exposure to EMs (GSK: 26%; Sanofi: 32%), these two companies have comprehensive portfolios and R&D pipelines to meet the healthcare needs of developing countries, and have also shown some commitment and innovation in the largest areas relating to access to medicines. |

Source: Company data, Access to medicines 2012 index

**Table 31: Access to medicines at the BoP: examples of best practice**

| Examples | Details |
|---|---|
| Healthcare infrastructure | GSK's business unit dedicated to Least Developed Countries reinvests 20% of its profit in host countries' healthcare infrastructure. |
| Tiered pricing | Bayer's intra-country differential pricing model along four market segments for contraceptives |
| | Novo Nordisk's tiered pricing for insulins |
| Partnerships | Sanofi's involvement in the Drugs for Neglected Diseases Initiative, GSK's ViiV Healthcare |
| Innovative inclusive business model | Novartis' Arogya Parivar programme (42m customers served in rural India) |
| | Novo Nordisk's partnerships in different locations (e.g. India, Kenya, Nigeria) |

Source: Company data, Access to medicines 2012 index

**Table 32: Watchlist: products, R&D pipeline and overall strategy on access to medicines**

| Examples | Details |
|---|---|
| AstraZeneca | AstraZeneca provides lower disclosure on its access-to-medicines approach, and seems to have less commitment and fewer initiatives in the key areas here (e.g. tiered pricing, partnerships, efforts to build innovative distribution channels, investments in healthcare infrastructure). |
| Almirall<br>Ipsen | Lack of reporting on access to medicines. Alimirall has no direct presence in EMs (but indirect exposure through affiliates, partnerships) while Ipsen is strongly and directly exposed. |
| Bayer<br>Novartis | The ongoing dispute between the government of India and big drug companies over generics (the most recent, the ruling against Novartis in the Glivec patent battle in April, follows many other disputes, including with Bayer's Nexavar earlier this year) illustrates the risk of mounting pressure on western pharma companies from authorities in EMs with regards to patents and licensing. |

Source: Company data, Access to medicines 2012 index

## Building up a business model relying on EM potential

***Emerging markets ~22% of the global pharmaceutical market***

"Pharmerging" markets currently account for nearly one-quarter (c.22%) of the global pharmaceuticals market, having achieved a c.15% CAGR in the past few years (9-10% 2012-2017E) vs. a global total of c.5% (Source: GSK), and have understandably been a growing focus for all the largest pharmaceutical companies in the past decade (these markets represented a tiny proportion of their total business until the early 2000s). This trend is expected to continue, as two-thirds of the world's growth is set to come from emerging markets (Source: IMS Health).

***Still early stage, though***

The drive is for now to generate extra volume growth and product loyalty, so as to be ready when purchasing power and drug consumption rates improve (including government-organised healthcare coverage over time). At this early stage, there is probably no need to set up new capacities (notably for fill-finish) locally, unless requested by the authorities (as in Russia). Industrial hubs are mostly already in place for majors in Singapore, China, etc.

***Profitability broadly in line with the rest of the business***

Profitability in key emerging markets seems to be fairly similar to that in mature markets or group averages, despite lower pricing structures, because there are mostly no R&D input costs (regulatory approvals mostly derive from those in the US or EU, except in China and a few others), while personnel costs for SG&A and marginal production costs are lower.

**Chart 12: 2011 estimated pharma sales and growth by region**


Source: Novo Nordisk, IMS Health, Market Prognosis

## The new hot spots: companies' geographical focus

*China (1/4 of EMs in value) and BRIC key focus*

Pharmaceutical companies, particularly those most active in EMs so far, are preparing for the 'next China' (a quarter of EMs in value), and BRIC (44% of EMs). Other hot spots and examples of companies' positioning there include:

Novo Nordisk, which has been one of the pioneers in China, is notably investing with a long-term view in Bangladesh (where the local population is said to have a similar high prevalence of type 2 diabetes as in India), notably in providing access at low (lower) prices combined with an improved supply chain, training of physicians and local diabetes advocacy.

- **Novo Nordisk, which has been one of the pioneers in China, is notably investing with a long-term view in Bangladesh (where the local population is said to have a similar high prevalence of type 2 diabetes as in India), notably in providing access at low (lower) prices combined with an improved supply chain, training of physicians and local diabetes advocacy.**
- **Indonesia (over 250m inhabitants, local pharma leader with only USD400m sales in FY11) is also on the radar screen of Sanofi, Novo Nordisk and other majors.**
- **Likewise Vietnam (> 80m people), where Sanofi has a longstanding presence, notably via predecessor company Roussel Uclaf.**

For Bayer and Sanofi, the drive is not only in prescription pharmaceuticals, but also in consumer healthcare and animal health.

Ipsen has a large presence in emerging markets despite its small size, but has to improve the presence of its key specialty products in all key markets (BRICM, etc), e.g. Somatuline, Dysport, Decapeptyl.

## Main drivers behind the shift in pharmas' approach to developing countries

*Broad progress on access to medicines, on the back of...*

The big drug companies have made a significant shift towards emerging and developing countries in the last decade. This has coincided with broad progress (though from a very low base) in improving access to medicines for these populations (incl. low-income patients). This is reflected in their investments in institutions, partnerships and initiatives focused on access to medicines, as well as strategies, internal measures and reporting in this area.

This broad progress has come on the back of:

- **International and national regulation.** The 2001 Doha Declaration on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Public Health, which aims to ease access to medicines by supporting the right of countries to use flexibility mechanisms within TRIPS, has led many low-and middle income countries to tighten domestic intellectual property right regulations.
- **Reputation: the "South Africa turning point".** Pressure from the international community grew substantially following pharmaceutical companies' decision (subsequently abandoned) to bring a lawsuit for patent infringement against the government of South Africa in 2001 in relation to its decision to overwrite patents for anti-HIV/AIDS generics with the aim of lowering prices of medicines in the country. Moreover, the MDGs (half of which involve health) and a series of industry and stakeholders' initiatives, including the access to medicines index launched in 2008, have helped put the spotlight on pharmaceutical companies' practices and strategies with regard to access to medicines.
- **Growing competition from generics.** This is taking its toll on the big pharma companies, with many patents expiring on important drugs.
- **Headwinds in domestic markets.** Government austerity measures have driven down drug prices in several markets, while tighter safety regulations are raising the bar for new medicine approvals.
- **Growth expectations for new innovative drivers** following the end of the blockbuster drug business models; e.g. increasing investments in rare diseases.

***...a mix of regulation, reputation and business factors***

This change in approach can be illustrated by GSK's creation in 2010 of a new business unit dedicated to the least developed countries and focused on high volumes and low margins. The unit has set a cap of a 25% discount for the drug prices versus those in Western countries.

## The business model in relation to access to medicines

Pharmaceutical companies have historically relied on blockbuster drugs to generate the bulk of their profits, while most so-called access-to-medicines programmes came under the heading of philanthropic activities, as the lack of incentives has for a while been preventing the sector from heavily investing in expensive research programmes with uncertain payback.

### R&D progressively moving to needs of developing countries

There has been, however, a clear shift in the past decade with increased efforts aimed at products particularly needed in developing countries. Two broad sets of measures can be identified behind this move:

***R&D pipeline shifting away from blockbuster drugs...***

***...due to incentives in research...***

- **"Push" programmes, where investments (input) in research are subsidised via financing support and tax breaks;**
- **"Pull" programmes, which pass on the results (output) of research, for instance by committing to purchase a certain quantity of a product at an agreed price (source: Observatoire du BoP).**

*...for both communicable and non communicable diseases*

Companies' product portfolios and R&D pipelines can be broadly separated between communicable diseases, e.g. HIV/AIDS, malaria and tuberculosis, and non-communicable diseases, whose importance is set to grow because of long-term trends such as urbanisation, ageing population and economic growth, which together constitute what is often referred to as the "double burden" of low-income countries.

The most recent progress reported in the last Access to Medicines index includes:

- **HIV/AIDS, malaria and tuberculosis**. Among the major communicable diseases, significant progress has been reported in HIV/AIDS, tuberculosis and malaria, although they are still endemic in a substantial part of the world.

**Table 33: Disease pipeline and products – HIV/aids, tuberculosis and malaria**

| | Roche | Novartis | GSK | Sanofi | Bayer | AstraZeneca |
|---|---|---|---|---|---|---|
| **Disease products** | | | | | | |
| HIV/AIDS | x | x | x | | | |
| Tuberculosis | x | x | | x | | |
| Malaria | | x | | | x | |
| **Index company disease pipeline** | | | | | | |
| HIV/AIDS | | x | x | x | | |
| Tuberculosis | | x | x | x | x | x |
| Malaria | | x | x | x | x | |

Source: Access to medicines 2012 index

GSK stands out as very active in R&D efforts devoted to malaria (and infectious disease) and has the most relevant late-stage R&D pipeline in this respect, which could be a potential breakthrough.

- **Non communicable diseases**. Developing countries are suffering from a host of non-communicable diseases, while R&D pipelines focused on low respiratory infections, diarrhoeal disease, diabetes, cirrhosis, heart disease, asthma and cerebrovascular disease have been rising.

**Table 34: Disease pipeline and products – non communicable diseases**

| | Sanofi | GSK | Roche | Novartis | Novo Nordisk | Astrazeneca | Bayer |
|---|---|---|---|---|---|---|---|
| **Index company disease scope for commercial products** | | | | | | | |
| Diarrhoeal diseases | x | x | | | | | |
| Low respiratory infections | x | x | x | x | | x | |
| Diabetes mellitus | x | | x | x | x | x | x |
| Ischaemic heart disease | | x | x | | | x | x |
| Cirrhosis of the liver | | x | | | | | |
| Cerebrovascular disease | | | | | | | |
| Asthma | x | x | | x | | | |
| **Index company disease pipeline** | | | | | | | |
| Diarrhoeal diseases | x | x | | x | | | |
| Low respiratory infections | x | x | x | x | | x | x |
| Diabetes mellitus | x | x | x | | | | x |
| Ischaemic heart disease | x | x | x | | | | x |
| Cirrhosis of the liver | | | | | | | |
| Cerebrovascular disease | x | x | | | | | |
| Asthma | x | x | x | | | | |

Source: Access to medicines 2012 index

- **Tropical diseases**. Efforts to address neglected tropical diseases (NTDs) have been making progress, albeit at a slow pace, partly due to a lack of commercial incentives for R&D in NTDs. Improvements made include the development of children's formulations for Chagas disease and schistosomiasis.

***A mix of internal and partnership-based approaches***

GSK, Sanofi and Novartis have made investments specifically for these diseases as part of their pipeline. Companies have been conducting research programmes dedicated to tropical disease (and other particularly prevalent in the developing world) internally (e.g. Sanofi-Aventis has an R&D unit dedicated to communicable diseases) or via partnerships e.g. opening up research (collaborative R&D).

**Table 35: Examples of partnerships**

| Partnerships | Companies involved | Key information | Key data |
|---|---|---|---|
| **With laboratories** | | | |
| ViiV Healthcare | GSK, Pfizer, Shionogi | Specialised HIV/AIDS company set up by GSK & Pfizer in 2009 with the aim of delivering HIV medicines and supporting communities affected by HIV. Shionogi joined in 2012. | 6% of GSK's FY2012 sales |
| **With public bodies or associations** | | | |
| Drugs for Neglected Diseases Initiative | Sanofi | A non-profit organisation that aims to address unmet patient needs in the context of neglected diseases, with which Sanofi entered into a PPP in December 2004. | Sanofi's annual financial contribution ranged from EUR6 to EUR10m between 2002 and 2009. |
| Medicines for Malaria Venture | n.a. | Not-for-profit public-private partnership which is intended to reduce the burden of malaria in disease-endemic countries | n.a. |
| Global Alliance for TB Drug Development (TB Alliance) | Bayer | Clinical trial programme launched in 2005 to test whether Bayer's moxifloxacin can be used to significantly shorten the time it takes to cure TB | n.a. |

Source: Company data, organisations' websites

## Pricing policy: drugs still largely not affordable for the impoverished

***Shifting away from short-term approach to pricing in emerging markets***

Large pharmaceutical companies were initially concerned that bringing down prices in emerging markets could result in having these medicines re-imported back into their mature markets and therefore jeopardise their existing products. Companies have subsequently changed their approach by implementing:

- **Differentiated tiered pricing (inter-country and intra-country), e.g. Bayer's differentiated pricing for contraceptives or Novo Nordisk's tiered pricing for insulin, whose impact on revenues remain, however, low i.e. single digits percentage.**

- **The facilitation of intellectual property through innovative means, with GSK, Novo Nordisk, Novartis, Bayer and Sanofi among the companies now supporting at least one TIPRS flexibility.**

**Table 36: Examples of intra- and inter-country tiered pricing in place**

| Companies | Pricing mechanisms |
|---|---|
| **Intra country tiered pricing** | |
| Bayer | An intra-country differential pricing model along four market segments has been implemented for the contraceptive Microgynon®, using four separate distribution channels, differentiated branding and packaging to prevent product diversion |
| GlaxoSmithKline | Introduction of inter-country tiered pricing for 33 products (out of 33 of its products in several relevant countries) |
| **Inter country tiered pricing** | |
| GlaxoSmithKline | Introduction of inter-country tiered pricing for 32 products (out of 33 of its products in several relevant countries) |
| Novartis | Innovative inter- and intra-country tiered pricing mechanisms for the majority of product portfolio in a large number of countries. |
| Roche | Inter-country tiered pricing scheme for six medicines including HIV/AIDS, tuberculosis and diabetes treatments, and new intra-country tiered pricing for diabetes diagnostics; tiered pricing covers significant share of market in relevant countries |
| Sanofi | Inter-country tiered pricing for 28 out of its 35 products in several relevant countries |
| **Both** | |
| Novo Nordisk | Tiered pricing schemes for insulin greater than any differential disclosed by peers. |
| Sanofi | Inter-country tiered pricing for 28 and intra-country pricing for nine out of its 35 products in several relevant countries (e.g. treatments to cure 200m malaria attacks distributed since October 2008). |

Source: Access to medicines 2012 index

***Partnerships and philanthropy remain largely dominant***

Despite these significant steps forward, the overwhelming part of the impoverished population's access to medicines remains through direct or indirect product donations and philanthropic programmes, along with increasing collaboration with third parties (e.g. governments, local partners) to provide drugs to the impoverished population. On our estimates, low-cost primary-care products account for a low single-digit percentage of company portfolios, c.1 to 2%, probably more like 2-3% for GlaxoSmithKline.

***USD57bn BoP market for pharma scarcely tapped***

The estimated c.USD57bn BoP market for pharma products (out of a USD158.4bn market for healthcare) has still not really fed through to pharma companies' top lines (source: BMZ), due to a host of hurdles, including a lack of adequate regulatory framework (particularly important as Pharma is an heavily regulated sector), healthcare infrastructure and financial services. The lack of financial services in these markets is reflected in the high rate (70%) of low-income patient spending on medicines (paid for out-of-pocket) and on the whole it is hard to draw a line between the proportion of products sold and those distributed for free in these markets (source: WHO).

***Potential is there, but structural barriers to lower prices remain***

While we acknowledge the potential for inclusive business innovation and efforts which may enable these markets to emerge at the BoP (for people earning more than USD1/2 per day as philanthropic activities are the only way to reach people earning less), we highlight that improving access requires significant price cuts, which realistically are hard to implement and unlikely to happen on a large scale, while economic growth remains an important long-term factor. It is also noteworthy that bringing prices down does not necessarily mean cutting pharma companies' profits. For instance, managing medicine mark-ups via partnerships (at wholesale, retail and/or dispensing level) seems to be an interesting opportunity that Novo Nordisk is exploring in Kenya and Nigeria.

## Patent and licencing: mounting pressure from EM governments?

***Patents and licensing remain fundamental***

The ongoing dispute between the government of India and big drug companies over generics (the most recent, the ruling against Novartis in the Glivec patent battle in April, follows many other disputes, including with Bayer's Nexavar earlier this year) serves as a reminder of the crucial importance of patent and licensing and the risk of mounting pressure on Western companies in that respect from authorities in emerging markets e.g. in terms of their stance on the Doha Declaration and support for TRIPS flexibility.

*Risk of seeing the ongoing dispute in India spreading to other markets*

As a reminder, India is a relatively low-price market for the pharma sector worldwide (India's drugs market represents USD11bn vs. >USD50bn for China, despite a roughly comparable population; 1.1bn vs 1.3bn) and has historically faced several issues relating to breachments of patent protection, including after its entry into the WTO. For now, we see this dispute over patents remaining specific to India, where the federal state budget remains modest and flagging (in deficit). The Indian market is largely cash (low state coverage, and there is a need for private insurance, notably via employers). There is, however, a risk of seeing other market with limited public financial means and which are not mature (e.g. Indonesia, Sri Lanka, Bangladesh, Vietnam) following similar paths.

## The business model in relation to access to medicines: other factors

*Capacity buildout is key for...*

*...supporting product distribution and...*

*...strengthening the licence to operate*

The availability of pharma companies' products largely hinges on the importance of the physical infrastructure and qualified workforce in these markets, with tangible business benefits including the following:

- **Investments in the local workforce, e.g. training local doctors, can be seen as strategic given their role as prescribers.**
- **Training healthcare professionals is also more broadly a way for companies to strengthen their licence to operate though building relationships with regulators.**

Notable efforts in these different realms include:

- **Capacity building** e.g. GSK's business unit dedicated to Least Developed Countries reinvests 20% of its profits in host countries' healthcare infrastructure
- **Distribution** channels e.g. the Novartis' Arogya Parivar experience is a good example of an innovative for-profit approach to the BoP, with a decentralised business model based on so-called cells, "an operational unit that addresses a population of about 180,000 to 220,000 people, which provides generic medicines and various other products and reportedly addresses the impoverished (those earning USD1-5/day in rural India). The company claims that it now serves 42m customers in 10 states in India and that it plans to expand the model to several other countries in Asia (e.g. Vietnam) and Africa (Kenya). Novo Nordisk has also been experimenting with new types of partnerships and distribution channels in several locations (e.g. Kenya, Nigeria and India), with the objective of being profitable.
- **Prevention** is also key, e.g. for sex education (e.g. GIZ and Bayer HealthCare have formed a partnership to raise awareness on sexual health and family planning).

*Novartis has run a successful decentralised project in India*

*Towards a more holistic and integrated approach?*

To successfully address the BoP market, some pharma companies have acknowledged that they need a more holistic and integrated approach for all those dimensions. Many of the show-cased models in the emerging markets integrate broader product availability, training of physicians and nurses, management of pricing or mark-ups and infrastructure development.

### Access to medicines versus portfolio and geographical spread

***Product portfolio and geographical breakdown largely determine companies' approaches to access to medicines***

We point out that company strategies on access to medicines – as reflected in the index ranking – broadly reflect the composition of companies' portfolios and their presence in emerging markets (geographical spread). As regards product portfolios, GSK sells brand generics across many therapy areas and therefore has access to much larger target populations, and is also present in vaccines and broad therapy. Sanofi also has a strong vaccines business (11% of FY 2012 turnover). Conversely, Roche has made a deliberate decision to focus on specialty care products, which are not accessible to the vast majority of people, partly due to their high price. We also note that Novo Nordisk's relatively restricted portfolio (focus on diabetes) necessarily limits its ability and capacity to address BoP needs in relation to some of the diseases most prevalent in the developing world.

## Risks: counterfeit and clinical trials

### Counterfeit: monitoring the value chain

***Further control of the whole value chain is the only way to address counterfeit medicines***

Counterfeit medicines, which are often sold at a higher price than in developed countries, pose a major risk for the population of developing countries, with estimates indicating that up to 30% of drugs sold in some countries in Africa and Asia are counterfeit (source: WHO). Further control of the whole value chain, e.g. through the construction of drug testing capabilities, is the only way for companies to mitigate this risk, which is very difficult to address.

### Clinical trials: the grey zone

***Concerns over clinical trials remain***

As companies find it increasingly hard to find enough patients for clinical trials in developed countries, they are increasingly running them in emerging and developing countries, which raises concerns about whether patients are properly informed, and that their consent has been properly sought, given that medical standards may be weaker. This was another concern highlighted in the latest "Access to medicines" findings, which noted a lack of "*robust measures to ensure clinical trials conducted by contractors are safe and ethical, with the majority providing no evidence of exerting real influence over the way their contractors conduct trials*".

We believe these issues affect all companies equally and are not aware of any recent wrongdoing in these areas by any of the companies including in this report.

### Other issues to watch: marketing, lobbying and patents

***Reputational and regulatory risks relating to access to healthcare clear major issues***

There are obviously many other dimensions to be considered when looking at risks relating to pharma's business activities with the low-income brackets, including marketing and advertising practices and lobbying/advocacy activities. On the whole, as reminded by recent tensions between the Indian government and big pharma regarding intellectual propery rights, we see patent-related regulatory risks and the issue of western drugmakers' reputations in these markets (particularly the credibility of their efforts on access to more affordable healthcare) as a clear major challenge in the foreseeable future.

# Other sectors

**We outline numerous issues in six other sectors (banks, building materials, capital goods, insurance, oil & gas, and utilities) that have some exposure to the theme and where a host of companies have developed a wide range of projects and approaches from anecdotal to potentially promising business-wise, more or less anchored in the core business, and with various strategies in terms of reconciling social and business goals.**

**Demonstrating a proven capability to expand access to water, sanitation and energy in low-income urban areas is, in our view, a clear long-term business challenge for utilities exposed to emerging markets (e.g. Suez Environnement, Veolia Environnement), given the rising demand from authorities in that respect and the long-term trend towards urbanisation.**

**Most dedicated projects in other sectors remain small-scale, at an early stage, and look marked by low, remote and uncertain financial returns. While innovative market-based approaches at the BoP seemingly enable somewhat tiny though meaningful commercial opportunities to emerge (e.g. for Allianz, Banco Santander, BBVA, Holcim, Lafarge, Munich Re, Schneider Electric, Swiss Re, Total), we still see indirect business benefits, particularly the "licence-to-operate" rationale, tending to play on the whole a prominent role, due to relationships with authorities, sophisticated market-entry strategies and regulatory requirements (e.g. for banks and insurance) together with possible tensions with local communities (e.g. for oil & gas).**

**The typical intangible benefits observed – internal commitment, reputation and, more importantly, innovation – should nonetheless not be overlooked. Although more time is needed and we do not see any "one best way" to succeed, given the specifics and complexity of business models, we conclude that, for most BoP markets still to be built, persistent and holistic efforts from multinationals targeting a combination of both direct and indirect business opportunities, including intangible aspects, seem a key factor to open up encouraging inclusive business solutions.**

## Utilities & capital goods

## Oil & gas

## Building materials

## Banks

## Insurance

**Table 37: Stock and sector overview**

| Company/Sector | Examples of initiatives/projects/activities relating to the low-income population |
|---|---|
| **Utilities: activities in low-income urban areas** | |
| Suez Environnement | Management contracts (e.g. Alger) |
| | Large existing contracts that comprise an expansion of the network to informal zones e.g. 30k informal households in Casablanca, "PALYJA Water for All" in Jakarta |
| Veolia Environnement | EUR387m contract for the Indian city of Nagpur (25-year contract) which includes 36% of residents in slums out of 3m concerned by the project |
| **Utilities: activities in rural areas** | |
| EDF | Energy Access programme including investing in local electricity companies (450k beneficiaries at YE 2012) |
| Veolia Environnement | EUR500k pilot project in partnership with Grameen in Bangladesh |
| **Capital goods: access to electricity programmes** | |
| ABB | Non-profit small-scale PPP for rural communities in Tanzania and India |
| Schneider Electric | Pilot commercial projects of electrification of rural areas (344k households concerned in 2012) including the distribution of products (e.g. LED-based Lighting System) and solutions and services to electrify villages (e.g. installation, project management, monitoring) |
| **Oil & gas: access to energy programmes** | |
| ENI | Power generation from associated gas in Africa, with four plants in Congo and Nigeria (and MoUs for four others) |
| Total | "Awango by Total" (small PV solar solutions), with 200k products sold in 9 countries so far, and a target to sell 1m solar lamps by 2015 (USD5m investment by 2015 |
| **Building materials: affordable housing programmes** | |
| Holcim | Mexico: "Mi Casa" (250k homes concerned from 2000 to 2008) |
| | Argentina: development of sustainable housing for low-income families in 2 locations involving 500 dwellings and 2,500 participants |
| Lafarge | Rehabilitation of slums in situ in Mumbai, India |
| | Microcredit (partnership with CHF): EUR10m programme over 2 years |
| **Banks: direct exposure to microfinance** | |
| Banco Santander | Business line active in Brazil (No2 microcredit institution in Brazil, the second largest market in the region behind Mexico), Chile, El Salvador for a total of 265k clients (EUR333m outstanding credit at YE2012) |
| **Banks: indirect exposure to microfinance** | |
| BBVA | USD300m donation to a foundation supporting MFIs in LatAm (USD1.2bn outstanding credit at YE2012) |
| BNPP | EUR76m support to MFIs (200k customers at YE2011) |
| CASA | EUR50m donation to a foundation supporting MFIs in 17 countries (EUR267m at YE2011) |
| **Insurance: direct exposure to microinsurance** | |
| Allianz | EUR78.6m gross premiums written in 2012, 17m customers |
| **Insurance: adapting to climate change and extreme events** | |
| Allianz | Supports c.125m smallholder farmers in developing countries through public-sector agro-insurance schemes. |
| Munich Re | Microinsurance for farmers in Africa |
| | PPPs in the Philippines and the Caribbean |
| Swiss Re | Insurance for smallholder farmers in Kenya |
| | PPP that provides protection against hurricane and earthquake risks directly to 16 Caribbean governments |

Source: Kepler Cheuvreu,x, Company data

## Utilities and capital goods

**Utilities have all been accumulating experiences, including from setbacks, in developing innovative PPPs and other approaches to improve access to water, sanitation and energy in low-income urban areas mainly as part of their efforts to meet the authorities' growing expectations in a context of rising urbanisation.**

**As regards capital goods, we highlight Schneider Electric's small-scale access-to-electricity programme in rural areas, which is looking to seize innovation benefits and reach commercial sustainability through pilot projects.**

### Adapting PPPs to low-income urban areas

***Expansion in EMs has proved challenging due to political and regulatory risks***

The bulk of the largest European utilities' revenues and profitability lies in mature markets and they generally have a relatively (vs. other sectors addressed before) low exposure to emerging and developing countries partly because of their need for a stable regulatory and political framework as well as infrastructure/networks to invest. Spanish electricity providers have for instance faced particular hurdles in Latin America in the recent past (e.g. expropriation of Iberdrola's subsidiaries in Bolivia, Gas Natural's divestment in Guatemala), illustrating the acute political risks facing the sector.

***Rising demand from authorities and growing local competition***

The demand from the authorities to ensure services in low-income urban areas in these countries has been broadly on the rise given the demographic and urbanisation trends compounded by lack of access to water, sanitation and electricity. Operators have therefore developed innovative mechanisms (in terms of financing, pricing, marketing, etc) within PPPs to meet this growing demand, cope with the increasing competition from local operators and adapt their model to local challenges (e.g. complex issues of payment). Demonstrating a proven capability to expand access to water, sanitation and electricity in these areas appears to be playing a growing role in bids for management contracts or concessions.

### Water & sanitation: coping with a growing demand from authorities

Suez Environnement and Velia Environnement have both built up experience, including from setbacks, in expanding water and sanitation networks to poor users in slums and suburbs:

***Management contracts and expansion under existing contracts for Suez***

- **Suez Environnement's** typical business activities in low-income urban areas in emerging markets (c.18% of FY 2012 sales outside Europe, North America and Australia) are essentially based on management contracts (e.g. Alger) or large existing contracts that comprise an expansion of the network to informal zones (e.g. Casablanca), with the latter form of involvement potentially financed by international financial institutions such as the World Bank. The company has also undergone specific programmes such as "PALYJA Water for All" in Jakarta, Indonesia, which is intended to expand access to treated water in poor areas (e.g. via social connections or community-owned mini networks; source: Hystra).

***EUR387m contract including 36% of slums for Veolia in India***

- **Veolia Environnement** (c.17% of FY 2012 revenues outside Europe and the US) has been building its know-how in the past decade from various contracts (e.g. Morocco, Niger). A representative example is the EUR387m contract for the Indian city of Nagpur (25-year contract) which includes 36% of residents in slums out of 3m concerned by the project.

## Electricity & gas: licence to operate and combat losses

***Contractual requirements and efforts to curb losses***

Electricity providers' programmes in low -income areas, particularly slums, have been historically mainly part of contractual requirements as well as efforts to curb distribution losses in urban areas where they are already involved (e.g. due to fraud). The deployment of existing solutions at scale include Suez Environnement's expansion of electricity and other services to 30k informal households in Casablanca slums in Morocco, while also cutting USD1.4m total losses previously created by fraud (source: Hystra).

## High-risk environment for utilities

A string of setbacks shows that utilities are significantly exposed to criticism (e.g. on pricing) and a number of operational risks (e.g. in terms of fraud, insecurity for employees) when doing business in these areas, particularly for sensitive issues such as water.

## Small-scale pilot projects in rural areas

***Sharp divide between urban and rural areas***

Significant limitations remain with access to services in remote areas where a for-profit approach is hardly sustainable due to the low level of population density. Companies have mostly developed non-commercial projects in these regions, which remain largely confined to CSR-related activities, for example:

***Veolia and EDF's pilot projects***

- **Veolia Environnement** has also run a dedicated small-scale (EUR500k) pilot project in partnership with Grameen in Bangladesh (goal to reach breakeven in 2015) whose ambition is more to foster innovation and reputation than to exploit direct commercial opportunities. In fact, Veolia has no presence in Bangladesh outside this project. The company faced some difficulties during the first phase in relation to acceptability and cultural issues, and subsequently signed an academic partnership agreement intended to assess and learn from the practical challenges encountered.
- Energy Access programme of **EDF**, which operates mostly under a CSR approach, is investing in local electricity companies to generate facilities in rural areas in developing countries (e.g. ongoing projects in Botswana and Senegal), with an objective to foster sustainable structures through partnerships with local companies and stakeholders (e.g. via capacity building), before ultimately pulling out (450k beneficiaries at YE 2012, and an objective to reach 1m over the next three years, with EUR1m-2m invested per year).

## Capital goods: access to electricity projects

Among the small-scale access-to-electricity programs reviewed in the sector, we have chosen to highlight ABB and Schneider Electric's two distinct approaches:

***1.5m households covered by Schneider Electric's program since launch***

- These initiatives are non-profit for **ABB**, while Schneider is looking to seize innovation benefits and reach commercial sustainability through pilot projects. ABB does not at this stage see any commercial opportunities relating to its access-to-electricity programmes (the company has carried out small-scale PPP for rural communities in Tanzania and India).
- **Schneider Electric** aims to build up new commercially sustainable business models addressing the electrification of rural areas through a dedicated

programme (BipBop). This programme comprises the distribution of products (e.g. LED-based Lighting System), solutions and services to electrify villages (e.g. installation, project management, monitoring) and training focused on employment in the electrical trades. In 2012, 344k households received access to energy under the programme (1.5m households since launch). Schneider Electric aims to expand its electrification programmes, which are closer to its core business e.g. micro centrals in villages, and also to report on its social performance through a dedicated tool – its Planet and Society Barometer.

## Oil & gas

**The licence to operate is the key rationale for doing business with the low-income population among majors. Total has been for instance developing an inclusive business strategy through a dedicated access-to-energy programme (including USD5m to be invested by 2015 for small PV solar solutions). Eni's access-to-energy strategy is mainly based on power generation from associated gas.**

In the context of a shift away from traditional hot spots to potentially harsher and unfamiliar environments, driven by rising competition from national oil companies (e.g. in the Middle East), the business benefits of building robust inclusive strategies can be basically viewed from three standpoints, which essentially relate to their licence to operate (revenues are very marginal in terms of size):

*Tensions with communities and relationships with authorities*

- Tensions with local communities can significantly undermine production growth and Oil & Gas companies' efforts to engage better with them can therefore be seen as important factors in addressing criticism from the local population and nationalist sentiment.
- Relationships with host countries, and the credibility of the investments made in relation to the country's development (including know-how vs. competition).
- These projects are also a means to promote innovation and local development.

### Majors' access to energy programmes

While all majors carry out investments dedicated to local communities around their operations (beyond bonuses paid to governments as part of acquisitions costs), we note the following elements in their reporting on their access to energy initiatives:

*Inclusive business approach developed by Total*

- **Total** has recently been moving towards a more long-term and commercially oriented approach through the development of access-to-energy programmes specifically targeting the impoverished group with a sustainable for-profit objective, such as "Awango by Total" (small PV solar solutions), with 200k products sold in 9 countries so far, and a target to sell 1m solar lamps by 2015 (USD5m investment by 2015, turnover of EUR3.5m in 2012, breakeven objective by 2015). The project includes a partnership with GIZ to report on the social impact.

*Power generation from associated gas for Eni*

- **Eni's** access-to- energy strategy mainly relies on power generation from associated gas in Africa, with four plants in Congo and Nigeria (and MoUs for four others). As regards its gas flaring reduction ambition, Eni reports that it cut flaring by more than 30% between 2007 and 2010, and targets to reach 80% by 2014 through investments in new energy infrastructure.

- **BP** and **Shell** report few examples and details about their communities investments in relation to access to energy e.g. Shell provided USD6m the Global Alliance for Clean Cookstoves.

# Building materials

**While one might initially expect reputation and licence-to-operate to be the only rationale for cement companies to run BoP projects, we underline here the shift of both Holcim and Lafarge towards a more for-profit approach. Lafarge's ambitions for its affordable housing programme (addressing 2m people by 2020) thus appear to illustrate the emergence of business opportunities through an innovative approach.**

## Affordable housing programmes

***Permits and brands key in emerging markets***

EMs represent about two-thirds of Lafarge and Holcim's respective earnings. In order to build and expand capacity, cement companies need permits, with lobbying efforts to facilitate local approval playing a key part in that process. The brand is also more important in EMs than in developed countries given the proportion of cement sold in bags i.e. the retail business. One might therefore initially expect reputation and licence-to-operate to be the only rationale for cement companies to run BoP projects.

***From a licence-to-operate to a for-profit approach***

Indeed, programmes carried out by cement companies with low-income communities have typically fallen under the heading of licence-to-operate and CSR-related programmes. Yet Cemex's successful and profitable BoP experience in Mexico (380k families have benefitted since launch) – an affordable housing programme providing low-income population with microloans, materials, labour and technical support – has helped raise awareness of the potential substantial material benefits through an innovative for-profit approach.

***Lafarge's ambitious affordable housing plan***

Holcim and Lafarge's affordable housing programmes have also both been moving from purely CSR and licence-to-operate driven approaches towards a more commercial-oriented vision. As regards the outlook of their respective programmes, which currently remain fairly recent and small in terms of size, both are looking to multiply their projects in several locations. Lafarge has an ambitious plan for integration within its core business and the amount of people it aims to address (2m by 2020). Interestingly, although it does not report any data on the projects financials, the company explicitly includes these activities in its innovation drivers, expected to generate total EBITDA of EUR110m by 2015 on the back of a buoyant market potential (on the assumption that EUR20bn of the housing deficits where it is present is addressable via the building materials segment).

**Table 38: Affordable housing programmes overview: Holcim and Lafarge**

| Company | Initiatives (e.g.) | Partnership | Reporting on the socio-economic impact and performance | Prospects | Target (financial) | Target (impact) |
|---|---|---|---|---|---|---|
| **Holcim** | Mexico: "Mi Casa" (250k homes concerned from 2000 to 2008)<br>Nicaragua: "Edificando Vidas (Building Lives)" Pilot programme in Nagarote with target of 400 houses<br>Argentina: development of sustainable housing for low income families in 2 locations involving 500 dwellings and 2500 participants | Collaboration with Government housing institute in Argentina and local MFIs in other countries. Financing supported by IDB in LatAm | Each project includes a detailed survey of pre project housing conditions, family economics and quality of life indicators including happiness level | Planning to multiply projects in various locations in LatAm and Asia | n.d. | n.d. |
| **Lafarge** | Rehabilitation of slums in situ in Mumbai, India<br>Microcredit | Partnership with Cooperative Housing Foundation - CHF (Eastern Europe and Middle East): EUR10m programme over 2years<br>Partnership with AFD (Africa) | Objective to communicate within 5 years about impact measurement | Numerous projects in various locations including Africa, Asia (9 countries for this year) | No disclosure on the programme's financials, but Lafarge states that it is part of an innovation lever aimed at generating EUR110m of EBITDA by 2015 | Improve housing conditions for 2m people by 2020 |

Source: Kepler Cheuvreux, Holcim, Lafarge

# Banks

**Despite the huge growth in microfinance in recent decades, European banks' direct and indirect exposure to this segment remains quite limited as they are overwhelmingly focused on developing mid-income categories in these markets. Banks directly exposed include Banco Santander, where microfinance is integrated into the core business, with a total of EUR331m credits at year-end 2012 (mainly in Brazil, where it is the No2 microcredit institution, and Chile). As regards indirect exposure, BBVA stands as the most active of European banks, with a USD300m donation to its autonomous foundation investing in IMFs in LatAm where it is largely present, while CASA[6] (EUR50m through a foundation), exemplifies a social business positioning.**

## A mix of direct and indirect exposure

*Leading Spanish banks strongly exposed to LatAm*

As regards their international exposure, the leading Spanish banks' high exposure to emerging markets (around half of BBVA and Santander's business is in LatAm) contrasts with the fairly tiny share of their French counterparts (SocGen, BNPP and CASA), which are more focused on mature markets. BBVA and Santander have been expanding in LatAm to reap the benefits of the significant surge in lending penetration coupled with the development of capital markets in the region. Several of these markets have as a result seen their bank sectors converging towards that of developed economies; e.g. strong growth in lending in Brazil.

## Microfinance: limited exposure for large international banks

*Exposure to microfinance much lower than for local players*

While microfinance has been one of the first success stories among inclusive business models, when measured by total market size and fast growth (e.g. >20m in Bangladesh alone), notably in LatAm, the sector still represents a fairly tiny proportion of the largest European banks' business in these regions, as most success stories can be found among local players (e.g. Compartamos in Mexico). BBVA and Santander have for instance focused overwhelmingly on developing mid-income categories in these markets.

*From a business to not-profit positioning*

European banks' approaches to microfinance vary widely – from a business approach (e.g. Banco Santander) to a not-profit/social model via a foundation (e.g. CASA, BBVA), – while the question can be asked of whether companies may look to find links between their foundation and their commercial interests e.g. through client transfer. We also note that companies may develop microfinance activities purely in response to regulatory requirements (e.g. in India).

## The sector's image still recovering from turbulent times

The microfinance sector has been subject to a lot of criticism recently, notably in the wake of the series of suicides in rural India several years ago and some other localised crisis, with subsequent calls for further regulation and repositioning the sector to prevent wrongdoing and malpractice. None of the banks addressed in this report have been involved in these localised crises.

[6] Crédit Agricole CIB holds a 15% stake in Kepler Cheuvreux

**Table 39: Overview of banks' microfinance activities**

| Banks | % of 2012 activities in EMs | Status | Budget/ Donation | Markets | Customers in m (YE 2012) | Volume of outstanding credits | % of women as of total customers | Average loan amount | Consumer income profile | 2012 repayment failure | Financial performance/data | Expansion plan | Strategy (prospects) | Measurement of the social performance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Banco Santander | 50% (recurring attributable profit) | Business line | n.a. | Brazil, Chile, El Salvador | 0.3 | EUR333m | 77% | EUR700 | | Repayment failure (NPL ratio) 4.3% after 9 days of delays | Brazil: 2008 breakeven Return not very high | Mexico | Santander is in the process of migrating clients to the retail business e.g. in Brazil | No specific tool reported, though the company states it has some initial data. |
| BBVA | 57% (9M12 gross income) | Foundation | USD300m | Colombia, Peru, Chile, Argentina, Puerto Rico, Panama and Dominican Republic | 1.3 | USD1.2bn | 60% | USD1.3k | 40% have incomes of below USD8 a day | n.a. | n.a. | n.d. | The foundation is working to consolidate its group of microfinance entities in LatAm. | The foundation is developing its own social performance (measurement& management) system. |
| BNPP | 14% (gross commitment) | n.d. | EUR76m | 18 countries, including 13 EMs | 0.2 (YE 2011) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | A Microfinance Steering Committee will be created in 2013 with an objective to develop microfinance | Use of the Incofin Echos® tool to measure social performance |
| CASA | n.a. | Foundation | EUR50m | 17 countries (26% of MFI beneficiaries live in Sub-Saharan Africa) | 1.7 | EUR267m * | 88% | EUR218 | n.a. | n.a. | The foundation publishes its complete financial statements in an annual report | n.a. | Aim to be financially self-sustainable and pursue investments in MFIs. No plan to link to CASA's core business (only one attempt so far in Madagascar) | Partnership with CERISE to measure the social performance |

* YE 2011

Source: Banco Santander, BBVA, BNP Paribas, Credit Agricole SA

## BBVA and Santander's distinct approaches in LatAm

*Foundation vs. integration within core business*

Amid growing efforts to tap the benefits of banking sector growth in LatAm, to offset the collapse in lending in Spain, BBVA and Santander have both developed microfinance activities through two distinctive approaches: the former via its autonomous foundation; and the latter as part of its core business.

*USD300m donation for BBVA*

- **BBVA's** USD300m Microfinance Foundation invests in a number of MFIs in the region, with a portfolio totalling nearly 2m customers at YE 2012 (40% with income of less than USD8/day) for a total volume of outstanding credit of USD1.2bn. Although BBVA's involvement is through a not-profit organisation, the company has put in much more material efforts than any other European bank (USD300m) but says that its support for microfinance activities is unrelated to its commercial interests. As regards the measurement of its socio-economic impact, the company is developing its own social performance (measurement & management) system.

*265k clients for Santander, mainly in Chile, Brazil*

- **Banco Santander** has strong and thriving microfinance activities in the region, mainly in Brazil (No2 microcredit institution in Brazil, the second largest market in the region behind Mexico) and Chile (total of 219k customers in these two countries), albeit smaller than BBVA's (EUR333m total credits vs. for USD1.2bn for BBVA). The company is also looking to expand to Mexico.

## CASA: a social business positioning

*Crédit Agricole SA's social business approach...*

Crédit Agricole SA has set up a dedicated foundation with a budget of EUR50m, a unique governance system and a stated objective not to seek commercial opportunities, but to pursue social objectives while being financially sustainable. Indeed, the foundation has virtually no links with CASA's core business as CASA is present in only one of all the countries where the Grameen Foundation is active (Madagascar).

*...supported by commitment to measure the social performance*

The foundation's status drives the organisation to focus on relatively smaller and riskier microfinance institutions (MFIs) – reflected in the MFI customer profile (e.g. in terms of average loan amount, geographical location) – and it has approved 76 loans worth a total EUR46.4m since it was set up. An innovation in financing MFIs has been to develop mechanisms to exempt partner MFIs from currency risks (95% of investments made in local currency). Thus, 95% of the amounts funded are in local currency. CASA is also an example of an attempt to measure social performance by CERISE's methodology (Social Performance Indicators).

# Insurance

**Here, we highlight Allianz for its strong microinsurance activities, developed in the past few years, which are treated as a business line (EUR78.6m gross premiums written in 2012, 17m customers).**

## Microinsurance as a market-entry strategy

European insurers have various levels of exposure to emerging markets, with the most exposed including Mapfre (33% of FY 2011 premiums in LatAm) and CNP Assurances (47% of 2012 revenues outside France), and the least exposed Allianz (11%) and AXA (9%).

***Asian markets harder to penetrate***

Asian markets, where microinsurance has seen the strongest growth (81% of people covered by microinsurance as of 2011, source: KPMG), are particularly competitive. Companies must have local partners in Asia (e.g. participation in JV is capped in India), and competition from local companies is fierce. Insurers face profitability issues in these markets due to constraints on size.

***Microinsurance required to enter certain markets***

It is noteworthy that there are instances when microinsurance is a condition to access some markets (e.g. Ghana / Allianz). Regulatory authorities have implemented several initiatives, e.g. mandate on rural and social obligations, as part of licensing conditions in India. Demonstrating microinsurance experience and know-how can therefore be a positive element when negotiating with the authorities.

## Microinsurance business: Allianz' activism

***Allianz: EUR78.6m of premiums, 17m customers***

Allianz stands as a very active insurer in the micro insurance space, with strong activities developed in the past few years which are treated as a business line (EUR78.6m gross premiums written in 2012, 17m customers). Allianz has extended its PPP with GIZ and will focus on, among others, measuring the economic and social impact of microinsurance. Additionally, the PPP has resulted in an operational definition, internal assessment tools for products, as well as KPIs. AXA has not been developing a similar business line, but since 2012 it has been working on a strategy to expand in this segment.

## Adapting to climate change and extreme events

***Products relating to climate change loss: Munich Re, Swiss Re, Allianz Re***

Reinsurers have developed products that take account of the long- term impact of climate change on low-income populations. Munich Re stands a particularly active in climate change adaptation, notably in the framework of the Munich Climate Insurance Initiative (MCII), and has launched innovative products such as microinsurance for farmers in Africa and PPPs in the Philippines and the Caribbean. Swiss Re has also run several schemes e.g. weather insurance for smallholders in Kenya. Allianz Re supports c.125m smallholder farmers in developing countries through public-sector agro-insurance schemes.

**Table 40: insurers – exposure to emerging markets and microinsurance initiatives**

| Companies | Sub sector | EMs revenues (as reported) As a % of total FY-2012 revenues | Regions | Microfinance activities (e.g).) |
|---|---|---|---|---|
| Aegon | Life Insurers | 9% | New markets' (does not include LatAm) | Aegon seems to have limited exposure to microinsurance, which may be partly explained by the fact that it is mainly focused on life insurance. The company reports a partnership with the NGO Finsol in Brazil |
| Allianz | Composite Insurers | 11% | APAC, LatAm, Africa, Middle East, CEE | Allianz has significantly expanded its microinsurance activities, policy and reporting including its efforts to measure its socio-economic impact through a PPP with GIZ (EUR78.6m gross premiums written, USD40bn premium expectations (total market potential), 17m customers at YE 2012 |
| Axa | Composite Insurers | 9% | Mediterranean & Latin American Region (includes Spain, Italy, Portugal) | The company is working on developing its strategy and has a dedicated business line. Its initiatives so far have been limited and include its subsidiary Creditor in Asia (e.g. in the Philippines) as well as a partnership with Grameen Japeel in the Middle East and North Africa |
| CNP Assurances | Life Insurers | 47% (of which 36% in Brazil) | Outside France | n.d. |
| Generali | Composite Insurers | 7% of 2012 gross written premiums outside Europe | n.a. | Generali has developed microinsurance programmes in China, Colombia, Guatemala, Indonesia and India. |
| Mapfre | Composite Insurers | 33% of 2011 premiums in LatAm | n.a. | Activities through the JV BB Mapfre in Brazuk |
| Munich Re | Composite Insurers | n.a. | n.a. | Munich Re is active the framework of the Munich Climate Insurance Initiative (MCII) and has launched innovative products such as micro-insurance for farmers in Africa and PPPs in the Philippines and the Caribbean. |
| Swiss Re | Reinsurance | 61% of 2012 net premiums earned and fee income outside Europe (19% in APAC) | n.a. | Swiss Re has been partnering in several innovative microinsurance schemes including index-based weather insurance for smallholder farmers in Kenya and a PPP that provides protection against hurricane and earthquake risks directly to 16 Caribbean governments. Swiss Re has also been involved in a multi-year program with 10m ultimate beneficiaries in India |
| Zurich | Composite Insurers | n.a. | n.a. | PPP with the Swiss Agency for Development and Cooperation (SDC). Partnership with Banco Palmas in Brazil |

Source: Microfinance activities

# Appendix

## List of projects screened for the purpose of this report

### Banks

**Table 41: Banks**

| Entreprise | Project | Country/Region |
|---|---|---|
| Alpha Bank | Mainly charitable activities (more than 1% of profits given for social contributions) | Emerging and developing countries |
| Banco Sabadell | The company's foundation works with the Association for Self Financed Communities (ACAF), which facilitates access to financial and non-financial services to people with scant economic resources | Emerging and developing countries |
| Banco Sabadell | Support to Foundation Codespa (which finances micro and small enterprises in Bolivia) and many other foundations | Bolivia |
| BBVA | BBVA Microfinance Foundation, which receives EUR200m, in order to create a microfinance network initially in Latin America | LatAm |
| BBVA | BBVA Codespa Microfinanzas Hedge Fund, which lends money to international cooperatives and NGOs that provide loans to micro companies | LatAm |
| BNP Paribas | BNP Paribas supports and finances microfinance institutions in the emerging countries in which the group is present | Mexico, Morocco, Mali, Tunisia, Egypt, Guinea, India, Indonesia |
| BNP Paribas | BNP Paribas Wealth Management provides microfinance funds to its international clients to support entrepreneurs | Emerging and developing countries |
| BNP Paribas | Obi Etheis is a mutual fund that invests in micro-entrepreneurs and sustainable projects with the AFD and the European Bank for Reconstruction and Development | Emerging and developing countries |
| BNP Paribas | BNPP supports MBK Ventura, a microfinance institution in Indonesia with a loan of USD1m | Indonesia |
| BNP Paribas | Training for executives of the UBCI in Tunisia | Tunisie |
| BNP Paribas | BICI-M supports Misselini, a microfinance institution in Mali with the AFD | Mali |
| BNP Paribas | Supports social entrepreneurs in Turkey through TEB | Turkey |
| Commerzbank | The group is invested in microfinance banks in south-eastern Europe that provide loans to small and medium-sized companies | South Eastern Europe |
| Credit Agricole | Grameen Crédit Agricole Microfinance Foundation | Emerging and developing countries |
| Crédit Suisse | Founder of responsAbility: a social investment fund that offers microfinance products and technical assistance to MFI | People with low income and MFI |
| Eurobank EFG | Mainly charitable activities | Emerging and developing countries |
| ERSTE Group Bank | Good.Bee initiative: a partnership with the company's foundation that provides microfinance products and services | Central & Eastern Europe |
| ERSTE Group Bank | Erste Bank Microfinance Bond | Emerging and developing countries |
| ERSTE Group Bank | Espa Vinis Microfinance Fund to support microfinance institutions | Emerging and developing countries |
| ERSTE Group Bank | Sparinvest provides two microfinance funds in climate change protection and the environment with WWF Austria | Emerging and developing countries |
| EFG International | Mainly charitable activities | Emerging and developing countries |
| Intesa SanPaolo | Support for the development of small and medium-sized enterprises in the Balkans area | Balkan area |
| Intesa SanPaolo | A new microfinance initiative was launched in cooperation with shareholders foundations and local NGOs | Emerging and developing countries |
| Intesa SanPaolo | The Project Malawi includes loans to micro-enterprises | Malawi |
| KBC Group | Supports microfinance providers (Binhminh and Chi-Em) | Vietnam |
| National Bank of Greece | Mainly charitable activities | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

Table 42: Banks - continued

| Entreprise | Project | Country/Region |
|---|---|---|
| Natixis | Participation through its SRI fund "Natixis impact Nord-Sud developpement" in PlaNis, an alliance of PlaNet Finance and responsAbility, two microfinance specialists | Emerging and developing countries |
| Raiffeisen Bank International | Founder members of responsAbility, a microfinance institution | Emerging and developing countries |
| Raiffeisen Bank International | Raiffeisen microleasing for Ugandan farmers | Uganda |
| Raiffeisen Bank International | Microcredit loans for Roma in Bulgaria | Bulgaria |
| Santander | Microfinance (business line) | Chile and Brazil |
| Société Générale | A partnership with the French Development Agency to provide microfinance in Jordan (a credit line of EUR10m) | Jordan |
| Société Générale | Partnership with microfinance institutions in Sub-Saharan Africa and North Africa, the Middle East and eastern Europe | Emerging and developing countries |
| Société Générale | Equity participation in Sub-Saharan microfinance institutions (Madagascar, Ghana, Cameroon, Mauritania, Burkina Faso) | Emerging and developing countries |
| Société Générale | The group is a shareholder which participates to the foundation of MicroCred, a microfinance institution created by PlanetFinance group in 2005. | Emerging and developing countries |
| Société Générale | ADE Micro-Assurance with the Institution Marocaine d'Appui à la Micro-Entreprise (INMAA) | Morocco |
| Unicredit | Mainly charitable activities | Emerging and developing countries |
| UBS | Provide microfinance products from leading third-party providers | Emerging and developing countries |
| Vontobel | Voncert fund in partnership with responsAbilty, a specialist in microfinance | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

## Branded food

Table 43: Branded food

| Company | Project | Country/Region |
|---|---|---|
| Danone | 1001 Fontaines | Cambodia |
| Danone | Grameen Danone Foods | Bangladesh |
| Danone | Gizikita | Indonesia |
| Danone | La Laiterie du Berger | Senegal |
| Ebro Foods | Food donations and charity activities through the Ebro Puleva Foundation | Emerging and developing countries |
| Ebro Foods | The Ebro Puleva Foundation works with the NGO Africa Direct for the development of the least-favoured populations in Africa. | Africa |
| Ebro Foods | Support to Sauce, an NGO in Cambodia, for the setting up of a farm to guarantee supplies to two homes for deprived children and young people | Cambodia |
| Lindt&Sprungli | The company is a member of the World Cocoa Foundation (WCF), which aims to empower coca farmers and promote sustainable cocoa production | Emerging and developing countries |
| Lindt&Sprungli | Support to the Sustainable Tree Crop Programme, a public-private partnership to empower crop farmers in west/central Africa | Africa |
| Orkla | A partnership with the Norwegian Association of Chocolate manufacturers and the UNDP, to launch an international project in order to empower cocoa farmers | Emerging and developing countries |
| Orkla | Donations activities (NOK 11m in 2010) | Emerging and developing countries |
| Parmalat | Product donations and charity activities | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

Table 44: Branded food - continued

| Company | Project | Country/Region |
|---|---|---|
| Unilever | Annapurna (iodised salt) | Ghana |
| Unilever | In partnership with a local bank in Ghana; the group launched a microcredit programme dedicated to women | Ghana |
| Unilever | Swasthva Chetna | India |
| Unilever | Pureit (water purifier) | India |
| Unilever | Shakti/Aparajita | India |
| Nestlé | Popularly positioned products | Emerging and developing countries |
| Nestlé | Nespray/Everyday (milk powder fortified with vitamin A) | Emerging and developing countries |
| Nestlé | Iodine-enriched Maggi products | Emerging and developing countries |
| Nestlé | Maggi PPP (populary positioned products) seasoning and noodles | Emerging and developing countries |
| Nestlé | Maggi two-minute noodles | Emerging and developing countries |
| Nestlé | Maggi rice topping fortified in iodine and iron | Emerging and developing countries |
| Nestlé | Nescafe Street Barista (getting a loan for coffee cart) | Thailand |
| Nestlé | Sorbeteros | Philippines |
| Nestlé | In Brazil, the group has created a "multi-products" company with "popular prices" | Brazil |

Source: Kepler Cheuvreux, Company data

# Building materials

Table 45: Building materials

| Company | Project | Country/Region |
|---|---|---|
| Buzzi Unicem | Mainly donation activities. For instance, in Mexico, cement donations for the construction of school buildings in the city of Cerritos | Emerging and developing countries |
| Holcim | Sustainable affordable housing initiative started in 1990, mainly in Latin America and Asia: in 2009, an estimated 27,600 families benefited from the project | Emerging and developing countries |
| Holcim | Edificando Vidas, an affordable housing programme in Nicaragua | Nicaragua |
| Holcim | The housing programme in Nicaragua also integrates a financing option and supports the development of construction-related-micro-enterprises. | Nicaragua |
| HeidelbergCement | Mainly charity activities | Emerging and developing countries |
| Italecementi | Mainly charitable activities (1% of the group EBIT, allocated to support communities, NGOs and associations) | Emerging and developing countries |
| Lafarge | Various affordable housing projects, including the rehabilitation of slums in situ in Mumbai and microcredit (partnership with Cooperative Housing Foundation - CHF (eastern Europe and Middle East) | Emerging and developing countries |
| Titan Cement | Mainly donations | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

## Capital goods

**Table 46: Capital goods**

| Company | Project | Country/Region |
|---|---|---|
| ABB | Access to electricity: a programme of rural electrification projects in the least-developed countries. Two projects developed in Tanzania and India, based on public-private partnerships | Emerging and developing countries |
| ABB | Providing scholarships to electrical engineering students worldwide, through ABB Foundation | Emerging and developing countries |
| ABB | Support to community development projects, donating around USD4.6m in two categories: helping to raise educational standards and supporting the disadvantaged | Emerging and developing countries |
| Areva | Mainly donations through the AREVA Foundation | Emerging and developing countries |
| Alstom | Financing projects in various areas, through the Alston Foundation (created in November 2007) which receives EUR1m a year | Emerging and developing countries |
| Imtech | The group launched the Shared Success in Developing Countries (SSDC) programme to offer technological solutions related to environment, energy and water in South Africa | South Africa |
| Legrand | In 2007, it signed an agreement with the NGO "Electriciens sans frontière". This partnership brought electricity to an Indian village | India |
| Nexans | Mainly donation activities in various fields such as education, training, sports, support to disadvantaged children and people and awareness programmes on efficient use of energy | Emerging and developing countries |
| Prysmian | Bringing electricity to rural areas in southern Tanzania | Tanzania |
| Prysmian | Providing technical support and materials to the ACRA Project (Association for Rural Cooperation in Africa and Latin America) for the construction of a hydroelectric plant on the Kisongo River (Tanzania) | Africa and LatAm |
| Rexel | Social corporate activities mainly concern donation activities | Emerging and developing countries |
| Siemens | Donations, employee volunteer work and various partnerships | Emerging and developing countries |
| Siemens | REACH programme (Resources Embracing Africa with Care and Hope) in South Africa: assistance to clinician with testing equipment. | South Africa |
| Siemens | TOGAtainer: a turnkey laboratory than can be deployed anywhere water and electricity are available. This programme has been developed by Siemens and a molecular biology laboratory in Johannesburg. | Emerging and developing countries |
| Siemens | Village connection solution: a new addition to the internet kiosk of Nokia Siemens Networks that allows people who previously had no access to either internet or mobile communications, to use voice, text message and internet services. | Emerging and developing countries |
| Siemens | "Computer in a village": a communication centre for local public service providers | Emerging and developing countries |
| Siemens | Power supply in Eritrea: installation of 1,000km of lines, More than 150 distribution transformers. After the project, over 40% of the country has been supplied with electricity. | Eritrea |
| Siemens | Safe water kiosk and SkyHydrant: a mobile water purification system that uses no electricity or chemicals. Costs less than EUR0.20 per person | Emerging and developing countries |
| Siemens | Mobile clinics | India |
| Siemens | Spirit CT: a scanner for countess hospitals in the Chinese countryside. | China |
| Siemens | Refurbished systems in Siemens laboratories (scanners, ultrasound, X ray machines) | Emerging and developing countries |
| Siemens | Providing equipment and training for medical personnel in healthcare centres in China's remote areas. | China |
| Siemens | PROTOS plant oil stove: an alternative to cooking on open fires | Africa, Asia and LatAm |

Source: Kepler Cheuvreux

**Table 46: Capital goods - continued**

| Company | Project | Country/Region |
|---|---|---|
| Siemens | Energy hub: off-grid power generation system (photovoltaic panels) which also includes a water purification system. | Emerging and developing countries |
| Siemens | In India, the group provides battery-powered lamps for less than the cost of kerosene. The lamps are charged at solar charging stations | India |
| Siemens | In Bangalore, developing of a sewage treatment system without any outside power sources (specially-adapted microorganism produce the oxygen themselves) | India |
| Siemens | A Foetal Heart Rate Monitor (FHRM): this digital stethoscope offers the potential of continuous monitoring in maternity wards | India |
| Siemens | SMART (Simple, Maintenance-friendly, Affordable, Reliable and Timely to market) initiative launched in 2008, in order to participate in the growth in emerging countries, particularly in China. | China |
| Schneider Electric | BipBop Programme: (i) development of special offer dedicated to the lack of equipment, (ii) providing financial resources in order to promote company's creation in energy area, (iii) training of young disadvantaged people for jobs related to electricity | Emerging and developing countries |
| Schneider Electric | In-Diya lighting solution for the poorest populations based on a LED lighting power from solar panels or batteries | Emerging and developing countries |
| Schneider Electric | VitaWatt Programme: protection system integrated into the electrical panel to protect people against electrical accidents | Emerging and developing countries |
| Schneider Electric | Colong Programme: prepaid card system that enables customers to purchase a strict quantity of energy needed | Emerging and developing countries |
| Schneider Electric | Support to Habitat for Humanity International | Emerging and developing countries |
| Schneider Electric | Luli Programme: an international programme launched by the company's foundation in order to support training projects dedicated to young disadvantaged people. So far includes 150 local associations in 70 countries | Emerging and developing countries |

**Source: Kepler Cheuvreux, Company data**

## Insurance

**Table 47: Insurance**

| Company | Project | Country/Region |
|---|---|---|
| AXA | AXA Contigo card: a microinsurance product in Mexico which provides coverage for EUR21 a year. | Mexico |
| AXA | Three microinsurance pilot projects have been developed in India since 2009 and other projects are underway in Morocco, Senegal, India, Philippines | Emerging and developing countries |
| AXA | AXA IM supports micro banks through AXA World Fund Development Debt Fund | LatAm |
| AXA | AXA is a member of the Global Commercial Microfinance Consortium, an investment fund for microfinance institutions in India, Pakistan, Peru, Kosovo, Mozambique and Nicaragua | Emerging and developing countries |
| AXA | AXA is a member of MicroCred, supporting microfinance institutions in emerging countries | Emerging and developing countries |
| Allianz | Allianz has developed tailored microinsurance products in Colombia, Ivory Coast, Egypt, Cameroon, Senegal, Madagascar, India and Indonesia. In India, for instance, a policy covering a family of four costs about EUR5.8 a year | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

**Table 48: Insurance - continued**

| Company | Project | Country/Region |
|---|---|---|
| Allianz | In Indonesia, the group has launched a microinsurance product, in partnership with GTZ | Indonesia |
| Allianz | In south India, the group launched a microinsurance product against Tsunamis, for people leaving near the coast, in partnership with CARE | Asia |
| Allianz | Credit Life microinsurance (in partnership with Women's World Banking) | Colombia |
| Aegon | In Gambia, the group is experimenting with three microinsurance products: low-cost insurance policies covering a business's inventory; a product accompanying micro-loans and, finally, one that would encourage young people to save in order to start their own business | Gambia |
| Aegon | In Poland, the group launched a special savings programme and a pension product with a minimum monthly premium equivalent to EUR25 | Poland |
| Aviva | In India, the group has developed a special product for USD2 a year. According to Aviva, 1.4m rural people have benefited so far | India |
| CNP Assurances | The group claims that its subsidiary in Brazil offers affordable products in response to the decline in purchasing power, without giving more details | Brasil |
| Generali | Supports the creation of microinsurance projects in India through research, conference and other events | India |
| Hannover Re | Micro insurance in Asia | Asia |
| ING | Mainly charitable activities | Emerging and developing countries |
| Mapfre | Medical Expenses Micro-Insurance (El Salvador): cover targeted at micro-banks including medical consults, lab tests and medicines | El Salvador |
| Mapfre | Financial protection; premium and protected life insurance (Brazil): life insurance extended to unemployment, accidental death and death in public transport. | Brazil |
| Mapfre | Detodas Plans (Ecuador): insurance tied to micro loans including life insurance, personal accident cover, medical assistance, burial insurance | Ecuador |
| Mapfre | Life battery (Colombia): targeted at low income, unbanked segments of the population. | Colombia |
| Mapfre | In Mexico: Pronafim (insurance to cover micro-loan delinquency in the event of death, including financial damages for heirs of the deceased to handle funeral expenses | Mexico |
| Mapfre | MAPFRE Total Protection (Uruguay): life insurance where premiums vary by age and can include income cover for temporary disability | Uruguay |
| Mapfre | Final expense: life insurance including final expense cover | Peru |
| | AP Ahorro: accident insurance including accidental death cover | |
| | AP Venta: accident insurance which includes, among other things, coverage in the event of death/disability as a result of a public transport accident | |
| | Fentac: life insurance for taxi drivers | |
| | Vida Caja Piura-Optativo: life insurance for customers taking out micro loans | |
| | Hilfreich: life insurance for public school teachers | |
| Mapfre | Extended warranty: cover for damages to electric devices<br>Mobile phone theft: cover for mobile phone theft for up to two years | Brazil |

Source: Kepler Cheuvreux, Company data

**Table 49: Insurance - continued**

| Company | Project | Country/Region |
|---|---|---|
| Mapfre | Protected housing: insurance to cover the correct investment of resources allocated to the construction of protected housing | Colombia |
| | Codensa Home: household insurance targeted at low-income households | |
| Mapfre | School insurance: guaranteed school fee payments in the event the mother dies | Ecuador |
| | Pycca: unemployment insurance for customers of the Pycca department store chain | |
| Mapfre | Funeral services: final expense insurance | Mexico |
| | Basic standard medical insurance cover: payment cover for every day the policyholder is hospitalised | |
| | Basic standard personal accident cover: payment cover in the event of accidental death of policyholder | |
| Mapfre | Fashion Express: Health insurance for the female shareholders of Fashion Express | Ecuador |
| Mapfre | Final expense protection/assistance: personal accident insurance that covers final expenses and provides assistance to the deceased's family | Dominican Republic |
| | Exequias: final expense insurance | |
| Mapfre | Beneficia: assistance services for the cardholders of Pronto Uruguay, a financial institution that grants loans to low-income individuals | Uruguay |
| Munich Re | In rural southern India, the company offers a package of microinsurance products including health, accident, person, asset insurance and even cattle insurance | India |
| Munich Re | In Indonesia, the group launched a joint pilot project to insure people against the risks caused by flooding | Indonesia |
| Munich Re | In India, a family of five can access basic health insurance for less than USD1 a year. This programme is largely financed by governments | India |
| RSA | In India, the group is working with microfinance experts to provide insurance products (livestock, health and micro-enterprise insurance) to rural people below the poverty line | India |
| RSA | In Colombia, it is also working with a partner to provide life and accident insurance products for people with low income | Colombia |
| SCOR | Mainly charitable initiatives | Emerging and developing countries |
| Swiss Life | Mainly charitable initiatives | Emerging and developing countries |
| Swiss Re | Natural disasters insurance facility for Central America and the Caribbean | Central America & Caribbean |
| Swiss Re | Weather insurance solutions for developing and emerging countries | Emerging and developing countries |
| Swiss Re | Agricultural insurance in Beijing province | China |
| Swiss Re | Index-based livestock insurance programme in Kenya | Kenya |
| Swiss Re | Weather insurance for an agricultural input supplier in India | China |
| Swiss Re | ReSource Award finances projects in emerging countries | Emerging and developing countries |
| UNIQA | Mainly sponsoring initiatives | Emerging and developing countries |
| Zurich | Personal accident insurance with educational benefits for bereaved children in Bolivia | Bolivia |
| Zurich | Motorcycle and personal accident product in Indonesia | Indonesia |

Source: Kepler Cheuvreux, Company data

**Table 50: Insurance - continued**

| Company | Project | Country/Region |
| --- | --- | --- |
| Zurich | Personal accident and disability products linked to savings accounts, microloans, and covering women of childbearing age in rural areas in the province of Henan, China | China |
| Zurich | Caregiver: insurance-based solutions providing predefined benefits to clients of WWB during hospitalisation events. In partnership with Women's World Banking (WWB), a global network of 54 microfinance providers the group has launched | Various |
| Zurich | In order to expand insurance coverage to low-income populations in China, Zurich launched a microinsurance research project | China |

Source: Kepler Cheuvreux, Company data

# Oil & gas

**Table 51: Oil & gas**

| Company | Project | Country/Region |
| --- | --- | --- |
| BG Group | Microfinance programme in Egypt with Alexandria Business Association | Egypt |
| BG Group | Programme to help the Weenhayek indigenous community in Bolivia (in progress) to improve their welfare and livelihood | Bolivia |
| BG Group | Microfinance programme in partnership with Tunisian Solidarity Bank (BTS) and local MFIs | Tunisia |
| BG Group | Community development programme with the Toco Foundation | Trinidad and Tobago |
| BG Group | Partnership with the World Fish Center (WorldFish) to fight poverty and hunger | Emerging and developing countries |
| BP | Employee engagement programme (EEP) to support community development in Azerbaijan | Azerbaijan |
| BP | Enterprise Development and Training Programme (EDTP) in Azerbaijan | Azerbaijan |
| BP | Micro loan and access to financial services for small and medium-sized companies in Azerbaijan | Azerbaijan |
| BP | Sustainable programme for communities and entrepreneurs in Angola | Angola |
| BP | Paranhos solar project in Angola to provide access to electricity | Angola |
| BP | Social investment programme in the Mayaro community in Trinidad and Tobago | Trinidad et Tobago |
| BP | The Greater Plutonio microcredit programme in Angola to support farmers with the ADRA | Angola |
| BP | Social programme for Tangguh in health, education and livelihood in Indonesia | Indonesia |
| BP | "Community Investment Program" for female entrepreneurship in Georgia | Georgia |
| BP | "Farmers to Market" programme in Georgia to support local agricultural communities in gaining access to markets | Georgia |
| BP | Community and social investment in South Africa, Botswana and Mozambique | South Africa, Botswana et Mozambique |
| ENI | Sustainable local development through the Eni Foundation and Eni Enrico Mattei Foundation | Emerging and developing countries |
| ENI | Microfinance programme | Emerging and developing countries |
| ENI | Agricultural development | Emerging and developing countries |
| ENI | Community investment project for development in Nigeria | Nigeria |
| ENI | "The Green River Project" in Nigeria to improve agricultural techniques | Nigeria |
| ENI | Cassava project for agricultural development in Congo | Congo |
| ENI | Solar electrification of water wells in Algeria with the Foundatzione Sonatrach Tassili in Algeria | Algeria |

Source: Kepler Cheuvreux, Company data

**Table 52: Oil & gas**

| Company | Project | Country/Region |
|---|---|---|
| OMV | Mainly charity activities | Emerging and developing countries |
| Royal Dutch Shell | Social investment projects in Nigeria | Nigeria |
| Royal Dutch Shell | Contribution to the Niger Delta Development Commission (required by law) | Nigeria |
| Royal Dutch Shell | Shell Live WIRE programme supporting young entrepreneurs in setting up businesses | Emerging and developing countries |
| Royal Dutch Shell | Supply of electricity to local communities and help to make cleaner-burning cook stoves available | Emerging and developing countries |
| Royal Dutch Shell | In 2006, the joint venture in Nigeria (SPDC) introduced a new approach: the global memorandum of understanding (GMOU) which aims to put communities at the centre of planning and implementation | Nigeria |
| Royal Dutch Shell | SHELL Foundation seeks to tackle poverty through a market-based approach | Emerging and developing countries |
| Royal Dutch Shell | In 2002,Shell Foundation launched the Breathing Space Programme in order to develop and market affordable clean cook stoves (200,000 stoves sold) | Emerging and developing countries |
| Royal Dutch Shell | In 2010, the group helped launch the Global Alliance for Clean Cookstoves, in partnership with the UN, NGOs and other public/private partners. This initiative aims to place clean cook stoves in 100m homes by 2020 | Emerging and developing countries |
| Royal Dutch Shell | In 2002, the Shell Foundation and the World Resources Institute created EMBARQ, a global network of transport | Emerging and developing countries |
| Repsol | Social investment projects (2% of net profit in 2009) including support for community organisations, microloans, constructing infrastructure… | Emerging and developing countries |
| Statoil | In 2010, the group spent NOK202m on social investment projects in South America, Angola, Azerbaijan, Russia, Nigeria and other developed countries to develop education, healthcare, water and sanitation in partnership with government, local communities and international NGOs | South America, Angola, Azerbaijan, Russia and Nigeria |
| Total SA | TOTALGAZ in Bangladesh launched the Mobile Retail Dealers (MRDs) initiative in order to make new LPG connections and refill cylinders available at the doors of consumers who use kerosene or wood | Bangladesh |

Source: Kepler Cheuvreux, Company data

## Pharmaceuticals

**Table 53: Pharmaceuticals**

| Company | Project | Country/Region |
|---|---|---|
| AstraZeneca | Community support policy, mainly based on support to patient groups and healthcare organisations (through financial or in-kind assistance and drugs donation) | Emerging and developing countries |
| AstraZeneca | Dedicated tuberculosis research in Bangalore | India |
| AstraZeneca | Support to communities based in Central Asia (in partnership with the British Red Cross) helping to combat TB and improve the quality of life of people living with TB and HIV | Central Asia |
| AstraZeneca | A partnership with the African Medical and Research Foundation, in order to develop a model for the integrated management of TB, HIV/AIDS and malaria in Uganda | Uganda |
| AstraZeneca | In partnership with AXIOS, building local capability in managing breast cancer in Ethiopia | Ethiopia |
| AstraZeneca | Supports VSO, an international development charity that works to strengthen capabilities in the developing world | Africa & Asia |
| Bayer | The first to find a way to integrate the active substance the WHO recommends as protection against mosquitoes into polypropylene fibres. The insecticidal is scheduled to reach the market in the next few years | Emerging and developing countries |
| Bayer | Agreement signed in 2009 for three years with the Innovative Vector Control Consortium, in order to discover new compounds against malaria mosquitoes and other insects that are diseases vectors | Emerging and developing countries |
| Bayer | Supports the WHO in tackling tropical neglected diseases through drug donation. Since 2002: annually providing tablets against African sleeping sickness and Chagas disease. | Emerging and developing countries |
| Bayer | Providing Ugandan teenagers under 15 with information on basic matters of sexual and health education and contraception (in collaboration with the German foundation for world population) | Uganda |
| Bayer | Agreement with the USAID to market an oral contraceptive at a reduced price in a number of developing countries in Africa. Eight further African countries will be included by 2012. Some 110m monthly cycles of oral contraceptives will be provided annually | Africa |
| Bayer | Joining the "critical path to tuberculosis drug regimens" (CPTR) initiative, a collaboration between industry, the authorities and NGOs in order to accelerate the clinical development of TB therapies and to achieve faster regulatory approval of combination therapies | Emerging and developing countries |
| Bayer | Free access to a cancer therapy, whatever the duration. The programme started in China in 2007 and is now being extended to other countries, including India | Emerging and developing countries |
| Galenica | Support to the Swiss Aids Care international foundation, which aims to help people affected by HIV/AIDS in poor countries | Emerging and developing countries |
| Galenica | In Zimbabwe, creation of a clinic dedicated to AIDS patients. The clinic provides free medical and psychological support to children and adults | Zimbabwe |
| GlaxoSmithKline | Initiating and sponsoring a dengue fever public awareness campaign in high-risk areas | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

**Table 54: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| GlaxoSmithKline | Partnership with the PATH Malaria Vaccine Initiative (MVI) to develop a vaccine against malaria (phase III studies started in May 2009 and will run in seven countries across Africa) | Africa |
| GlaxoSmithKline | July 2010: formation of a new operating unit dedicated to expanding access to medicines for people living in the least developed countries | Emerging and developing countries |
| GlaxoSmithKline | Creation of a knowledge pool for neglected tropical diseases in the least developed countries in order to stimulate research into new treatments for these diseases | Emerging and developing countries |
| GlaxoSmithKline | Some medicines are being developed for the developing world: malaria, tuberculosis, visceral leishmaniasis and other neglected diseases | Emerging and developing countries |
| GlaxoSmithKline | Development of vaccine against malaria with a sustainable pricing model | Emerging and developing countries |
| GlaxoSmithKline | Creation of an open lab at the company's Tres Cantos R&D Campus, dedicated to research to combat developing world diseases | Emerging and developing countries |
| GlaxoSmithKline | Creation of a workshop with experts in order to get feedback on the company's initiatives in the least developed countries | Emerging and developing countries |
| GlaxoSmithKline | Making the information on more than 13,500 compounds from the group's library publicly available. These were identified through screening for activity against the malaria parasite | Emerging and developing countries |
| GlaxoSmithKline | Including projects for 12 diseases of particular relevance to developing countries in the R&D portfolio | Emerging and developing countries |
| GlaxoSmithKline | GBP50m over ten years to help prevent mother-to-child transmission of HIV and to support orphans and vulnerable children | Emerging and developing countries |
| | GBP10m seed funding to support a public-private partnership into research and development of new HIV/AIDS medicines for children | |
| | USD2m over two years to support the Elizabeth Glaser Pediatric AIDS Foundation, which works to increase early detection of HIV and improve access to lifesaving care and treatment for infants and children with HIV/AIDS in Africa | |
| GlaxoSmithKline | Royalty-free voluntary licences for the manufacture of abacavir | Emerging and developing countries |
| GlaxoSmithKline | In 2009, GSK and Pfizer jointly launched ViiV Healthcare, a company focused on the research, development and commercialisation of HIV medicines | Global |
| GlaxoSmithKline | The company has committed USD2m over two years to support the Elizabeth Glaser Pediatric AIDS Foundation, which works to increase early detection of HIV and improve access to lifesaving care and treatment for infants and children with HIV/AIDS in Africa | Africa |
| GlaxoSmithKline | Accelerating Access Initiative (AAI): a public-private partnership between international organisations and research-based pharmaceutical companies. The aim of this partnership is to accelerate access to care and treatment for HIV/AIDS | Emerging and developing countries |
| GlaxoSmithKline | Pricing of HIV/AIDS medicines: in the least developed countries, GSK has offered its HIV/AIDS medicines at not-for-profit prices since 2001. In middle-income countries, the group explores a range of pricing solutions (preferential prices) | Emerging and developing countries |
| GlaxoSmithKline | Since 2007, GSK has allowed a Canadian company to manufacture a generic fixed-dose combination ARV, containing two molecules over which GSK has patent rights, for the treatment of HIV/AIDS in Rwanda | Rwanda |
| GlaxoSmithKline | Formation of a unit dedicated to expanding access to medicines for people living in the least developed countries | Emerging and developing countries |
| GlaxoSmithKline | The company has committed to reinvest 20% of its profits made in the least developed countries back into health infrastructure projects. In 2009, six LCDs were selected for reinvestment | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

**Table 55: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| GlaxoSmithKline | Donation to many developing country governments which have limited resources to protect their population against pandemic | Emerging and developing countries |
| GlaxoSmithKline | In Ukraine, GSK launched the Orange Card Programme which gives a significant discount to all asthma and chronic obstructive pulmonary disease patients who needed financial support for purchasing the treatment. In 2009, more than 41,000 patients got this card and 237 pharmacies were registered to participate in the programme. GSK claims that the total discount given was GBP2m | Ukraine |
| GlaxoSmithKline | Flexible pricing for patented medicines in the least developed (less than 25% of the price in the UK) and middle-income countries (tiered and preferential pricing). | Emerging and developing countries |
| GlaxoSmithKline | In Lithuania and Ukraine, GSK has introduced discount cards to enable low-income patients with chronic diseases to obtain prescription medicines at a discount price | Ukraine & Lithuania |
| GlaxoSmithKline | Joint ventures and technology transfer in order to help emerging markets develop their research and manufacturing capabilities (in 2009: collaboration in Brazil and a joint venture in China). | Emerging markets |
| Ipsen | Adhesion to the Tulipe association which collects donations from the pharmaceuticals industry in case of emergencies | Emerging and developing countries |
| Ipsen | Collaboration with the Second Chance Foundation which aims to provide support to people in highly precariousness situations | Emerging and developing countries |
| Ipsen | In Mexico: creation of the Candy foundation which provides support to families whose children are affected by cerebral disability (300 children since its creation) | Mexico |
| Novartis | The company stated that where possible, it appoints local distributors in each country to create competition and more affordable products for consumers | Emerging and developing countries |
| Novartis | The group set up the Novartis Institute for Tropical Disease (NITD), a partnership with the Singapore Economic Development Board. This research institute is dedicated to new treatments and prevention methods for dengue, tuberculosis and malaria | Emerging and developing countries |
| Novartis | Creation of the Novartis Vaccine Institute for Global Health (NVGH), dedicated to the research and development of vaccines against diseases devastating developing countries. NVGH focuses on diarrhoeal diseases, considered as diseases of the poor | Emerging and developing countries |
| Novartis | Drug donation through access to medicine programmes (USD1.5 bn, 3% of annual sales; 79.5m people benefitting) which provide free leprosy, tuberculosis and malaria treatment to patients in developing countries | Emerging and developing countries |
| Novartis | Arogya Parivar: a business model to expand access to health education and affordable products for more than 40m low-income people in rural India. | India |
| Novartis | Differential pricing approach for the group's antimalarial medicine | Emerging and developing countries |
| Novartis | Providing free treatment for all leprosy patients worldwide in partnerships with the WHO | Global |
| Novartis | Providing antimalarial treatment for public sector, in partnership with the WHO and UN agencies | Emerging and developing countries |
| Novartis | Launching a child-friendly version of Coartem, the antimalarial treatment | Emerging and developing countries |
| Novartis | The Novartis Foundation for Sustainable Development (NFSD) serves as a think-tank and initiates pilot programmes with governments, NGOs and other partners to improve the health of the poor | Emerging and developing countries |
| Novartis | Development of a single vaccine against five deadly childhood diseases (Haemophilus influenza type b, diphtheria, tetanus, whooping cough and hepatitis B), in partnership with the UN and a biotechnological company. | Global |

Source: Kepler Cheuvreux, Company data

**Table 56: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| Novartis | Supporting governments and drug development partners in better aligning healthcare services with poor patients' needs. For instance, Novartis brings managers of national malaria control programmes together to share best practices | Emerging and developing countries |
| Novartis | In order to improve access to tuberculosis treatment in Tanzania, NSFD introduced a pilot initiative allowing patients to take treatment and to be monitored at home. Based on the positive results (improving treatment success rates), the programme has been extended to the entire country | Tanzania |
| Novartis | Tigray project: distribution of free malaria diagnostic tests, treatment and health education | Ethiopia |
| Novartis | NFSD: the use of social marketing to reduce stigmas associated with leprosy and tuberculosis and encourage people to come for treatment | Global |
| Novartis | In Tanzania and Mali, the NFSD tries to strengthen the quality of care provided by the public health system through the introduction of rapid diagnostic tests for malaria, regular assessments and training | Tanzania & Mali |
| Novartis | Providing health insurance, micro credit, information campaigns and viable income generation measures in rural Tanzania and Mali | Tanzania & Mali |
| Novartis | SMS for life pilot: a partnership involving Novartis, the Roll Back Malaria partnership, IBM, Vodafone and the Ministry of Health in Tanzania, to provide visibility on stock levels of antimalarial treatments on a weekly basis | Tanzania |
| Novartis | Think-tank, policy and project work | Emerging and developing countries |
| Novartis | Support to humanitarian organisations | Emerging and developing countries |
| Novartis | Programa Novartis Comunidad: a permanent programme which offers access to free counselling, healthcare and medicines to qualifying community members in Argentina | Argentina |
| Novartis | "Under the shelter of Novartis": providing healthcare, material and emotional support to poor communities in Mexico | Mexico |
| Novartis | "One Euro in solidarity": campaign to encourage employees to donate EUR1 from their monthly salary, to provide healthcare support to poor communities in western Africa | West Africa |
| Novartis | Providing free-of-charge medicines to treat patients infected with fascioliasis | Bolivia, Egypt, Madagascar and Yemen |
| Novo Nordisk | A pilot programme in Tanzania with local distributors, to lower the price paid by consumers: 50% price reduction | Tanzania |
| Novo Nordisk | Annual donation to the world diabetes foundation and the Novo Nordisk Haemophilia Foundation. In 2009: donation of DKK68m. In 2002, the shareholders obliged the company to make an annual donation of 0.25% of the net insulin sales over a ten-year period | Emerging and developing countries |
| Novo Nordisk | Diagnosed more than 400 children with type 1 diabetes in developing countries as part of the Changing Diabetes in Children programme | Emerging and developing countries |
| Novo Nordisk | Differential pricing policy: offering insulin to the least developed countries at or below 20% of the average price for insulin in developed countries | Emerging and developing countries |
| Novo Nordisk | Trained or educated 805,000 healthcare professionals and 416,000 people with diabetes | Emerging and developing countries |
| Novo Nordisk | ND made a five-year, USD25m commitment to treat children with type 1 diabetes in developing countries: the Changing Diabetes in Children programme | Emerging and developing countries |
| Novo Nordisk | ND has initiated activities to raise awareness of the impact of diabetes in pregnancy and supports community-based maternal health programmes | Emerging and developing countries |
| Novo Nordisk | In Tanzania: collaboration with associations and the Ministry of health to incorporate diabetes care into the existing healthcare system and assist with the development of a strategy | Tanzania |

Source: Kepler Cheuvreux, Company data

**Table 57: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| Novo Nordisk | In Bangladesh: in partnership with the diabetic association of Bangladesh, implementation of a certification programme for Bangladeshi physicians to treat people with diabetes: 3,000 doctors were trained through this programme | Bangladesh |
| Novo Nordisk | In 2001, ND launched the World Partnership Programme in order to develop models of care for improving treatment outcomes for people with diabetes in developing countries | Emerging and developing countries |
| Novo Nordisk | Launched a training programme in 2009 | Emerging and developing countries |
| | In 2005, it established the Novo Nordisk Haemophilia Foundation for improving care and treatment in developing countries | |
| Roche | Non-profit and reduced prices for HIV/AIDS therapies | Emerging and developing countries |
| Roche | AIDS technology transfer initiative started in 2006: sharing the knowledge to manufacture antiretrovirals and providing technical expertise to local manufactures from the least developed countries | Emerging and developing countries |
| Roche | Pan-African training seminars for local manufacturers (evolving the AIDS technology transfer initiative) | Africa |
| Roche | Partnership with Clinton Foundation to improve access to HIV testing for infants in 35 countries in Sub-Saharan Africa | Emerging and developing countries |
| Roche | The AmpliCare programme initiated in 2002 is the group's response to the challenge of HIV/AIDS and TB: price reduction, skills transfer to empower rather than donations, capacity building initiatives, public/private partnership | Emerging and developing countries |
| Roche | Partnership with the Cambodian Treatment Access Programme (CTAP) which aims to establish a local treatment centre and clinic to provide a range of services including counselling, clinical care and HIV treatment | Cambodia |
| Roche | Predicting and preventing emerging infectious diseases in East Africa through a collaboration with google.org to monitor the circulation, transmission and maintenance of arboviruses ( a large group of viruses transmitted by blood-sucking insects) | East Africa |
| Roche | R&D for diseases highly prevalent in developing countries | Emerging and developing countries |
| Roche | Roche has developed antimalarial drugs which are off-patent and available for local generic production | Emerging and developing countries |
| Roche | In 2003, Roche donated all rights and technology to manufacture the treatment of Chagas disease to the Brazilian government | Brasil |
| Roche | Partnership with the Institute for OneWorld Health (the first US non-profit pharmaceutical company) to find a medicine to treat childhood diarrhoea in developing countries | Emerging and developing countries |
| Roche | R&D to increase treatment and diagnostics for children: HIV/AIDS, influenza, diarrheal diseases | Global |
| Roche | Roche Children's Walk: an annual employee fundraising walk. The group matches the amount of money raised by employees to double the final total | Emerging and developing countries |
| Roche | Predicting and preventing emerging infectious diseases in East Africa | Eastern Africa |
| Roche | Providing funds for the Phelophepa Health Care Train, a mobile clinic in rural South Africa | South Africa |
| Roche | Patent policies: does not file or enforce any patents on its medicines in the least developed countries, particularly for antiretrovirals in Sub-Saharan Africa | Africa |
| Roche | Drug donations in case of emergency situations | Emerging and developing countries |
| Roche | Ninety-nine medicines developed by Roche are deemed essential by the WHO (meaning that they satisfy the priority healthcare needs of the population) | Global |
| Roche | Partnerships with a variety of organisations in order to benefit the healthcare structures of local communities | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

**Table 58: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| Roche | Employee secondment policy which enables Roche employees to use their skills and expertise in health-related projects across low-income countries. Each secondment lasts 3-18 months and employees continue to receive their salary during this period | Emerging and developing countries |
| Roche | Working in partnership with governments and organisations to increase awareness, screening, education, knowledge and technical expertise | Emerging and developing countries |
| Roche | Dedicated medical affairs group to develop specific programmes targeted at individual emerging markets | Emerging and developing countries |
| Roche | Collaboration with Novo Nordisk and the World Diabetes Foundation to help children with type – 1 diabetes in Africa | Africa |
| Roche | Secured five new technology transfer agreements with local manufacturers in Africa and Asia | Africa & Asia |
| Roche | Three Pan-African training seminars | Africa |
| Roche | Partnerships with physicians from Albert Einstein College of Medicine to train over 200 Ethiopian healthcare professionals | Ethiopia |
| Roche | Renewed contracts with sub-license holders who are producing oseltamivir (antiviral drug against influenza) in China and India | China and India |
| Roche | Developing a new diagnostic test for TB | Emerging and developing countries |
| Sanofi | Since 2001, a partnership with WHO to tackle some neglected tropical diseases | Emerging and developing countries |
| Sanofi | Launching an "Access to medicine programme" and creation of a dedicated department. The programme focuses on malaria, tuberculosis, sleeping sickness, leishmaniasis, epilepsy and vaccines | Emerging and developing countries |
| Sanofi | Differential pricing policy | Emerging and developing countries |
| Sanofi | Impact malaria initiative launched in July 2001: research and development of new medicines; waived the rights to patents for ASAQ, the antimalaria, special prices for people with low income thanks to the Antimalarial Drug Card Access Program (CAP). This card is provided by the pharmacist to families whose income is below the poverty line | Emerging and developing countries |
| Sanofi | Developing adapted malaria treatments sold at differentiated prices in Africa: USD1 for adult treatments and USD0.5 for children | Africa |
| Sanofi | Information, education and communication initiatives, in partnership with national antimalarial programmes | Emerging and developing countries |
| Sanofi | Creation of a practical guidebook for the corporate fight against malaria, in partnership with Total and CFAO | Emerging and developing countries |
| Sanofi | Special vaccines developed for poor countries: dengue, special vaccine developed in Argentina, that will protect against 5-6 diseases at the same time | Emerging and developing countries |
| Sanofi | Creation of the first dengue fever vaccine, which is currently in phase II of development | Emerging and developing countries |
| Sanofi | Devoting investments to neglected tropical diseases | Emerging and developing countries |
| Sanofi | Three of the four medicines against "sleeping sickness" are produced by Sanofi-Aventis | Emerging and developing countries |
| Sanofi | Regional initiatives contributing to diabetes treatment:<br>"Innovation for life" in 2009 in the Philippines and Indonesia (adapted pricing policy and services)<br>In Africa, Latin America and Asia, the Sanofi Espoir Corporate Foundation supports projects including diabetes prevention, medical care and education for diabetics<br>In 2009, investments in China to produce the insulin locally | Emerging and developing countries |
| Sanofi | The group implemented programmes to promote access to medicines and vaccines at affordable prices for people in developing countries. | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

**Table 59: Pharmaceuticals - continued**

| Company | Project | Country/Region |
|---|---|---|
| Sanofi | CSR – Humanitarian Partnership Department which aims to coordinate the group's response to humanitarian emergencies and develops partnerships to provide long-term development aid for the most disadvantaged populations | Emerging and developing countries |
| Sanofi | Contributing to control healthcare costs through generic medicines | Emerging and developing countries |
| Sanofi | Developing disease awareness programmes to improve awareness about diseases | Emerging and developing countries |
| Sanofi | Development of fixed-dose combinations (FDCs) | Emerging and developing countries |
| Sanofi | Sanofi was the first company to manufacture the fundamental ingredient in all antituberculosis treatments and remains the main producer | Emerging and developing countries |
| Sanofi | A new research and development programme, in partnership with international organisations | Emerging and developing countries |
| Sanofi | Optimisation and industrial development programme in order to extend the range of product at the lowest prices | Emerging and developing countries |
| Sanofi | The TB Free Program in South Africa, in partnership with the Nelson Mandela Foundation and the South Africa health department. | South Africa |
| Sanofi | In 2001, Sanofi-Aventis was the manufacturer of the main medicines against sleeping sickness | Emerging and developing countries |
| Sanofi | May 2001: an agreement was signed with the WHO. The group pledged USD25m over five years to support the WHO's fight at diseases | Emerging and developing countries |
| Sanofi | Supplying the treatment at a preferential price | Emerging and developing countries |
| Sanofi | A partnership with the WHO in order to improve control of diseases | Emerging and developing countries |
| Sanofi | Two of the world's most-used treatments for epilepsy are produced by Sanofi-Aventis | Emerging and developing countries |
| Sanofi | Various partnerships in order to guarantee quality training programmes for all healthcare professionals | Emerging and developing countries |
| Sanofi | Various partnerships focusing on providing the poorest countries with access to vaccines and ensuring that the vaccines are administrated properly | Emerging and developing countries |
| Sanofi | Sanofi joined the GAVI (Global Alliance for vaccines and Immunization) initiative. This partnership between the Bill & Melinda Gates foundation, international organisations and vaccine manufacturers aims to limit the discrepancy between wealthy and poor countries regarding access to the most innovative vaccines | Emerging and developing countries |
| Sanofi | Donation of 120m doses of vaccine to African countries | Africa |

Source: Kepler Cheuvreux, Company data

## Telecom services

**Table 60: Telecom services**

| Company | Project | Country/Region |
|---|---|---|
| Deutsche Telekom | Mobile emergency system (Hungary, Czech Republic) | Hungary, Czech Republic |
| Deutsche Telekom | Low priced SMS rates (Hungary) | Hungary |
| Deutsche Telekom | Subsidised rates (Croatia) | Croatia |
| France-Telecom | M- banking (Orange Money) | Emerging and developing countries |
| France-Telecom | M- Health (Pesinet project in Mali) | Mali |
| France-Telecom | Village phone | Emerging and developing countries |
| France-Telecom | Solar-based station | Emerging and developing countries |
| Millicom | Mobile agriculture information (Honduras) | Honduras |
| Millicom | Insurance via SMS (Honduras) | Honduras |

Source: Kepler Cheuvrex, Company data

**Table 61: Telecom services**

| Company | Project | Country/Region |
|---|---|---|
| TeliaSonera | Expansion of coverage in remote areas (Eurasia and eastern Europe) | Eurasie et Europe de l'Est |
| TeliaSonera | Solar-based station in Nepal | Nepal |
| TeliaSonera | Free pre-paid mobile phones | Emerging and developing countries |
| Telenor | Solar-based station (Grameenphone in Bangladesh) | Bangladesh |
| Telenor | Mobile – banking in Thailand, Afghanistan (M- Paisa), Pakistan (Easypaisa) | Thailand, Afghanistan, Pakistan |
| Telenor | Mobile – health (789 Healthline: Grameenphone) | Bangladesh |
| Telenor | anapCO business-in-box solution (Pakistan) | Pakistan |
| Telenor | Telekisan (Pakistan) | Pakistan |
| Telenor | Village phone in Bangladesh (Grameenphone) | Bangladesh |
| Telefonica | Mobile Banking | Emerging and developing countries |
| Telefonica | Extension of mobile phone coverage in Ecuador, Chile, Colombia, Peru and Mexico | Ecuador, Chile, Colombia, Peru, Mexico |
| Telefonica | Microtop – up (Latin America) | LatAm |
| Telefonica | E-health (projects in progress, in partnership with suppliers and medical specialists) | Emerging and developing countries |
| Telecom Italia | Mainly charity activities | Emerging and developing countries |
| Telekom Austria | Mainly charity activities | Emerging and developing countries |
| Vivendi/ Maroc Telecom | M – Banking (Mobi-cash) | Morocco |

Source: Kepler Cheuvrex, Company data

## Utilities: electricity

**Table 62: Utilities**

| Company | Project | Country/Region |
|---|---|---|
| A2A | Mainly charity donations in artistic, cultural, social and sporting fields | Emerging and developing countries |
| Acciona | Providing 3,500 homes in rural areas in Cajamarca (Peru) with home solar systems. This programme is the first project of the Micro-Energy foundation created in 2008 | Peru |
| Acciona | Some social infrastructures for communities, mainly healthcare infrastructures. The group intends to dedicate 5% of its dividend to its social action plan | Emerging and developing countries |
| ENEL | In Bulgaria, donation of over 55,468kg of wood to three villages for heating during the winter months | Bulgaria |
| ENEL | In 2009, the group assisted the Bulgarian Sciences Academy in publishing a book on energy strategies and development in Bulgaria | Bulgaria |
| Edison | Charitable contributions through the Edison Foundation | Emerging and developing countries |
| EDF | Since 2001, implementation of a specific programme in African villages not connected to the electrical grid | Africa |
| EDF | Creation of energy services companies dedicated to people and small-sized companies. By the end of 2009, 325,000 people benefited from this project | Emerging and developing countries |
| EDF | Partnership with local industries and players which can manage the project themselves once it is viable. For instance, in 2009, EDF sold the share it owns (70%) in KK in Mali to the company's workers | Emerging and developing countries |
| EDF | South Africa: in 2002, creation of KES, which allows 45,000 people in Kwazulu Natal to get electricity through photovoltaic kits. Since 2007, the project was extended to other areas, with the target to connect 250,000 people by 2012 | South Africa |

Source: Kepler Cheuvreux, Company data

**Table 63: Utilities - continued**

| Company | Project | Country/Region |
|---|---|---|
| EDF | Temasol programme: EDF and Total DIGS through their subsidiary TENESOL, allowing 186,200 people in Morocco to get electricity through photovoltaic kits | Morocco |
| EDF | In Slovakia, EDF's subsidiary SSE helps its customers to implement energy eco-efficiency | Slovakia |
| EDF | Poland: in Torun, the company in charge of heat production and distribution has financed the extension of the heat network | Poland |
| EDF | "Partageons de la chaleur avec vous" in Krakow (Poland): providing heat to NGOs which give support to the disadvantaged. This programme was launched in partnership with EC Krakow (EDF's subsidiary), MPEC (heat distributor in the commune) and the city. | Poland |
| EDF | Rural electrification programme in remote areas in Guyana. This programme gets public financing and additional financing from EDF. Some 3000-5000 people will gain access to electricity by 2012 | French Guiana |
| EDF | Training for jobs related to electricity in Sub-Saharan Africa in partnership with the NGO GVEP International (Global Village Electrification Partnership) | Africa |
| EDF | Programme "Accès à l'energie" | Emerging and developing countries |
| ENDESA | Nuevo Pachacutec electricity school project in Peru | Peru |
| ENDESA | Pangue power station in Chile. | Chile |
| ENDESA | Public lighting for your safety" programme in Peru. This programme aims to improve lighting in the squares, parks and streets of districts where the company operates. Electricity is also being installed in locations where people have settled, helping poorer sectors to develop and making these areas safer | Peru |
| ENDESA | "Electricity for all" programme in Brazil, which aims to ensure access to electricity supplies in the country's rural areas (in partnership with the federal and state governments) | Brazil |
| ENDESA | "Low income" programme in Brazil: giving customers with low income discounts of 65%; | Brazil |
| Endesa | Ecoelce programme in Brazil: waste for electricity. This programme aims to ensure the poorest members of society have access to electricity. It involves customers collecting waste in return of electricity credits. Launched in 2007, the project was extended to benefit a total of 189,000 people in 2009 | Brazil |
| Endesa | In Colombia, the company identifies new developed areas that need new connections, deals with applications by communities for new supplies and coordinates with local authorities to implement services in line with local development plans | Colombia |
| Endesa | In 2009, the company has implemented in each Latin American country where it operates country plans to adapt its operations to local needs and the socio-economic characteristics of each area | LatAm |
| Endesa | In 2009, the subsidiaries in Latin America invested EUR4.5m to boost rural electrification | LatAm |
| Endesa | In Buenos Aires, the company signed an agreement which guarantees electricity supply to disadvantaged neighbourhoods that are home to close to 500,000 people in Buenos Aires | Argentina |
| Endesa | In Colombia: easy credit facility project which offers customers the opportunity to purchase authorised products from different approved points of sale. At the end of 2009, 25% of electrical appliances in Bogota were acquired through this programme with 94 credit application offices in place, serving 678,903 customers. But in November, the client portfolio was sold to the Colpatria Miltibanca network | Colombia |
| Endesa | In Peru, the subsidiary installed lighting at sports facilities and fields in 12 districts, helping to create recreational and social areas which can be used at night, and contributing to building healthy, drug-free communities | Peru |

Source: Kepler Cheuvreux, Company data

**Table 64: Utilities - continued**

| Company | Project | Country/Region |
|---|---|---|
| E.ON | E.ON Czech offers to freeze all price components for a certain period of time and thus assumes the risk of possible price increases triggered by the regulatory environment | Czech Republic |
| E.ON | E.ON Czech offers its clients a 20% cost reduction on their electricity consumption compared to the tariffs in place since January 2009 | Czech Republic |
| E.ON | In 2009, implementation of a community involvement strategy group-wide: the group spent EUR40.5m on social projects | Emerging and developing countries |
| Fortum | A sponsorship programme which receives EUR2m and supports charitable purposes focused on children, young people and the environment | Emerging and developing countries |
| GDF Suez | "GDF SUEZ Rassembleurs d'énergie": a programme which aims to increase access to energy worldwide. This programme includes skill-based sponsorships, donations, microcredit and an investment fund | Emerging and developing countries |
| GDF Suez | Electrification of shantytowns in Casablanca with adapted prices | Morocco |
| GDF Suez | Electrification of shantytowns in Brazil with adapted prices, in partnership with a French NGO | Brazil |
| GDF Suez | Support to Planet Finance: microcredit in order to develop renewable energy projects in Morocco and Egypt through the programme "Microfinance & Energy" | Morocco & Egypt |
| GDF Suez | "Aquassistance": an association developed by the group's workers to support people in poor areas to get access to water and sanitation | Emerging and developing countries |
| GDF Suez | CODEGAZ: an association developed by the group's workers to support people in poor areas in various areas: access to water, health, nutrition… | Emerging and developing countries |
| GDF Suez | Energy Assistance: an association developed by the group's workers to support people in poor areas to get access to electricity | Emerging and developing countries |
| GDF Suez | Several charity activities through the Foundation GDF SUEZ | Emerging and developing countries |
| Iberdrola | Social projects to improve the living conditions of disadvantaged communities, through the Fundación IBERDROLA | Emerging and developing countries |
| Iberdrola | Provision of infrastructures and energy services through the Fundación IBERDROLA in the low-income regions where the group operates | Emerging and developing countries |
| MVV Energie | Mainly charity activities | Emerging and developing countries |
| Red Eléctrica | Social action programmes which focus on energy sustainability and efficiency among others | Emerging and developing countries |
| RWE | Main charitable activities through the RWE foundation, received EUR56m in 2010 | Emerging and developing countries |
| RWE | Support to the Desertec project, which aims to promote the large-scale generation of solar-thermal electricity and wind power in the Sahara | Africa |
| Terna | Support to initiatives with social, humanitarian and cultural value | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

## Utilities: water

**Table 65: Utilities: water**

| Company | Project | Country/Region |
|---|---|---|
| Veolia Environnement | Grameen- Veolia Water | Bangladesh |
| Veolia Environnement | 'Saqayti' (automatic standpipes that distribute a fixed quantity of water for a prepaid fee to families without their own water supply) | Morocco |
| Suez Environnement | "Eau et Assainissement pour Tous" | Emerging and developing countries |

Source: Kepler Cheuvreux, Company data

# Glossary

**ARPU.** Total revenues (including also retail roaming, interconnection as well as handset subsidies) divided by the average number of subscribers (number of subscribers at the beginning and end of the year divided by two). (European Commission).

**Base of the pyramid (BoP).** The base of the pyramid draws on Roosevelt's notion that economic reconstruction after the Great Depression required using the resources of the "forgotten men" to develop new models of doing business, which see the economic potential in the billions of people worldwide who live in poverty but are nevertheless consumers of goods and services. The term was popularised by C.K. Prahalad in his 1998 book The Fortune at the Bottom of the Pyramid and the 2005 book Capitalism at the Crossroads by Stuart L. Hart, who focused on the capacity of BoP as not only consumers but producers (World Bank). Estimates of the world's BoP population segment and market vary. It is defined in The Next 4 Billion report (WRI, IFC, 2007) as those with annual incomes up to and including USD3000 per capita per year (2002 purchasing power parity), with a global potential market of USD5trn (total household income a year).

**Community investing.** Investments in local communities, either directly or through channels such as local community development banks, credit unions, and loan funds. They focus on affordable housing, small business creation, development of community facilities, and the empowerment of women and minorities (Eurosif survey).

**Fair trade.** Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the south. Fair Trade Organisations, backed by consumers, are actively engaged in supporting producers, awareness-raising and campaigning for changes in the rules and practice of conventional international trade (World Fair Trade Organisation).

**Impact investments.** Impact investments are investments in companies, organisations and funds with the intention of generating measurable social and environmental impacts alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to market rate, depending on the circumstances (Global Impact Investing Network).

**Inclusive business.** This term refers to sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways (WBCSD). Inclusive business models include people with low incomes on the demand side as customers and consumers, and/or on the supply side as employees, producers and business owners at various points in the value chain (UNEP, GIM).

**Microfinance.** Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies. Investments in microfinance are commonly channelled through microfinance investment vehicles – independent investment funds that allow private and public capital to flow to microfinance institutions (Eurosif survey).

**Poverty penality.** Low-income people often pay higher prices than mid-market consumers for the same service or commodity (WRI, IFC).

**Social business.** Social businesses, a concept developed by Nobel Peace Prize Laureate Muhammad Yunus, are non-loss, non-dividend companies created to solve social or environmental problems (Yunus Social Business). A wider definition is sometimes used to describe any business that includes a social goal alongside a financial goal.

**Social entrepreneur.** Social entrepreneurs are individuals offering innovative solutions to society's most pressing social problems (Ashoka).

**Social enterprise.** A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners (DTI).

**Social performance.** Social performance measures how well an institution has translated its social goals into practice. Social performance is measured through the principles, actions and corrective measures implemented (CERISE).

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## Note on initiatives mentioned

The Access to Medicine Index is an independent initiative that ranks the world's 20 largest companies according to their efforts to improve access to medicine in developing countries, highlighting policies and practices that either facilitate or hinder access. It is published every two years by the Access to Medicine Foundation, which aims to encourage pharmaceutical companies to make their products more available, affordable and accessible for the millions of people worldwide who do not have reliable access to medicine. The fieldwork and initial analyses, including scoring and ranking the companies, are carried out by MSCI ESG Research.

The Access to Nutrition Index is a new global initiative that evaluates food and beverage manufacturers on their policies, practices and performance related to obesity and undernutrition. ATNI is funded by the Global Alliance for Improved Nutrition (GAIN), the Bill & Melinda Gates Foundation and the Wellcome Trust. Development of ATNI is housed in GAIN's Innovative Finance Program and involves an extensive, multi-stakeholder process that includes input from governments, international organisations, civil society, academia, and investors at every phase of the process. It is also guided by advice from an independent, multi-stakeholder advisory panel and a group of experts on nutrition. Company research and assessments are conducted by MSCI ESG Research using publicly available documents supplemented by additional information requested from each company.

# Research ratings and important disclosures

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| Stock | ISIN | Disclosure (See Below) | Currency | Price |
|---|---|---|---|---|
| A2A | IT0001233417 | nothing to disclose | EUR | 0.66 |
| ABB | CH0012221716 | nothing to disclose | CHF | 22.03 |
| Acciona | ES0125220311 | nothing to disclose | EUR | 48.54 |
| Aegon | NL0000303709 | nothing to disclose | EUR | 5.03 |
| Allianz | DE0008404005 | nothing to disclose | EUR | 121.8 |
| Almirall | ES0157097017 | nothing to disclose | EUR | 9.62 |
| Alpha Bank | GRS015013006 | nothing to disclose | EUR | 0.57 |
| Alstom | FR0010220475 | nothing to disclose | EUR | 29.2 |
| Anglo American | GB00B1XZS820 | nothing to disclose | GBP | 1,653.50 |
| Areva | FR0011027143 | nothing to disclose | EUR | 12.9 |
| AstraZeneca | GB0009895292 | nothing to disclose | GBP | 3,485.50 |
| AXA | FR0000120628 | nothing to disclose | EUR | 15.17 |
| Banco Sabadell | ES0113860A34 | nothing to disclose | EUR | 1.53 |
| Bayer | DE000BAY0017 | nothing to disclose | EUR | 85.5 |
| BBVA | ES0113211835 | nothing to disclose | EUR | 7.21 |
| BG | GB0008762899 | nothing to disclose | GBP | 1,237.00 |
| BNP Paribas | FR0000131104 | nothing to disclose | EUR | 46.05 |
| BP | GB0007980591 | nothing to disclose | GBP | 483.3 |
| Buzzi Unicem | IT0001347308 | nothing to disclose | EUR | 12.78 |
| CNP Assurances | FR0000120222 | nothing to disclose | EUR | 11.65 |
| Commerzbank | DE000CBK1001 | 10, 14, 16, 18 | EUR | 8.37 |
| Credit Suisse Group | CH0012138530 | nothing to disclose | CHF | 29.13 |
| Crédit Agricole | FR0000045072 | 2, 6, 17, 19 | EUR | 7.5 |
| Danone | FR0000120644 | nothing to disclose | EUR | 58.97 |
| Deutsche Telekom | DE0005557508 | nothing to disclose | EUR | 9.47 |
| E.ON | DE000ENAG999 | nothing to disclose | EUR | 13.34 |
| Ebro Foods | ES0112501012 | nothing to disclose | EUR | 15.74 |
| EDF | FR0010242511 | nothing to disclose | EUR | 17.77 |
| EFG International | CH0022268228 | nothing to disclose | CHF | 12.45 |
| Endesa | ES0130670112 | nothing to disclose | EUR | 17.83 |
| ENEL | IT0003128367 | nothing to disclose | EUR | 2.91 |
| ENI | IT0003132476 | 14, 16, 18 | EUR | 18.49 |
| Erste Group | AT0000652011 | nothing to disclose | EUR | 25.86 |
| Eurobank | GRS323013003 | nothing to disclose | EUR | 0.44 |
| Fortum | FI0009007132 | nothing to disclose | EUR | 15.22 |
| France Telecom | FR0000133308 | nothing to disclose | EUR | 8.3 |
| Galenica | CH0015536466 | nothing to disclose | CHF | 631.5 |
| GDF Suez | FR0010208488 | nothing to disclose | EUR | 16.5 |
| Generali | IT0000062072 | nothing to disclose | EUR | 14.64 |
| GlaxoSmithKline | GB0009252882 | nothing to disclose | GBP | 1,773.00 |
| Hannover Re | DE0008402215 | nothing to disclose | EUR | 58.56 |
| HeidelbergCement | DE0006047004 | nothing to disclose | EUR | 59.14 |
| Holcim | CH0012214059 | nothing to disclose | CHF | 78.25 |
| Iberdrola | ES0144580018 | nothing to disclose | EUR | 4.2 |
| ING Group | NL0000303600 | nothing to disclose | EUR | 7.32 |
| Intesa Sanpaolo | IT0000072618 | nothing to disclose | EUR | 1.46 |
| Ipsen | FR0010259150 | nothing to disclose | EUR | 27.14 |
| Italcementi | IT0001465159 | nothing to disclose | EUR | 5.32 |
| Lafarge | FR0000120537 | nothing to disclose | EUR | 54.46 |
| Lindt & Sprüngli | CH0010570759 | nothing to disclose | CHF | 40,335.00 |
| Mapfre | ES0124244C36 | nothing to disclose | EUR | 2.84 |
| Maroc Telecom | MA0000011488 | nothing to disclose | MAD | 110.00 |
| Millicom | LU0038705702 | nothing to disclose | USD | 86.62 |
| Munich Re | DE0008430026 | nothing to disclose | EUR | 147.65 |
| MVV Energie | DE000A0H52F5 | nothing to disclose | EUR | 22.3 |
| National Bank of Greece | GRS003013000 | nothing to disclose | EUR | 1.04 |
| Natixis | FR0000120685 | nothing to disclose | EUR | 3.66 |
| Nestlé | CH0038863350 | nothing to disclose | CHF | 67.35 |
| Novartis | CH0012005267 | nothing to disclose | CHF | 73.65 |
| Novo Nordisk | DK0060102614 | nothing to disclose | DKK | 989 |
| OMV | AT0000743059 | nothing to disclose | EUR | 37.82 |
| Orkla | NO0003733800 | nothing to disclose | NOK | 51.8 |
| Parmalat | IT0003826473 | nothing to disclose | EUR | 2.41 |
| Peugeot | FR0000121501 | nothing to disclose | EUR | 7.38 |
| Pfizer | US7170811035 | nothing to disclose | USD | 29.30 |
| Prysmian | IT0004176001 | nothing to disclose | EUR | 16.38 |
| Raiffeisen | AT0000606306 | nothing to disclose | EUR | 27.27 |
| Red Electrica | ES0173093115 | nothing to disclose | EUR | 40.8 |
| Repsol | ES0173516115 | nothing to disclose | EUR | 18.21 |

Source: Factset closing prices of 21/05/2013

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|---|---|---|---|---|
| Rexel | FR0010451203 | nothing to disclose | EUR | 17.61 |
| Roche | CH0012032048 | nothing to disclose | CHF | 258.5 |
| Royal Dutch Shell | GB00B03MLX29 | nothing to disclose | EUR | 26.41 |
| Royal Dutch Shell Plc | GB00B03MM408 | nothing to disclose | GBP | 2,141.00 |
| RWE | DE0007037129 | nothing to disclose | EUR | 27.81 |
| Sanofi | FR0000120578 | nothing to disclose | EUR | 86.43 |
| Santander | ES0113900J37 | nothing to disclose | EUR | 5.47 |
| Schneider Electric | FR0000121972 | nothing to disclose | EUR | 62.81 |
| Siemens | DE0007236101 | nothing to disclose | EUR | 82.29 |
| Société Générale | FR0000130809 | nothing to disclose | EUR | 32.13 |
| Statoil | NO0010096985 | nothing to disclose | NOK | 131.2 |
| Suez Environnement | FR0010613471 | nothing to disclose | EUR | 11.19 |
| Swiss Life | CH0014852781 | nothing to disclose | CHF | 161.3 |
| Swiss Re | CH0126881561 | nothing to disclose | CHF | 71.4 |
| Telefonica | ES0178430E18 | 14, 16, 18 | EUR | 11.01 |
| Telenor | NO0010063308 | nothing to disclose | NOK | 127.8 |
| TeliaSonera | SE0000667925 | nothing to disclose | SEK | 46.09 |
| Terna | IT0003242622 | nothing to disclose | EUR | 3.39 |
| Titan Cement | GRS074083007 | nothing to disclose | EUR | 14.32 |
| Total | FR0000120271 | nothing to disclose | EUR | 39.68 |
| UBS | CH0024899483 | nothing to disclose | CHF | 18 |
| Unicredit | IT0004781412 | 2, 14, 18, 19 | EUR | 4.33 |
| Unilever | NL0000009355 | nothing to disclose | EUR | 32.65 |
| Uniqa | AT0000821103 | nothing to disclose | EUR | 10.81 |
| Veolia Environnement | FR0000124141 | nothing to disclose | EUR | 9.98 |
| Vivendi | FR0000127771 | nothing to disclose | EUR | 15.61 |
| Vodafone Group | GB00B16GWD56 | nothing to disclose | GBP | 196.8 |
| Vontobel | CH0012335540 | nothing to disclose | CHF | 31.25 |

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|---|---|---|
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Source: Kepler Cheuvreux
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| Kepler Capital Markets, Amsterdam branch | Autoriteit Financiële Markten | AFM |
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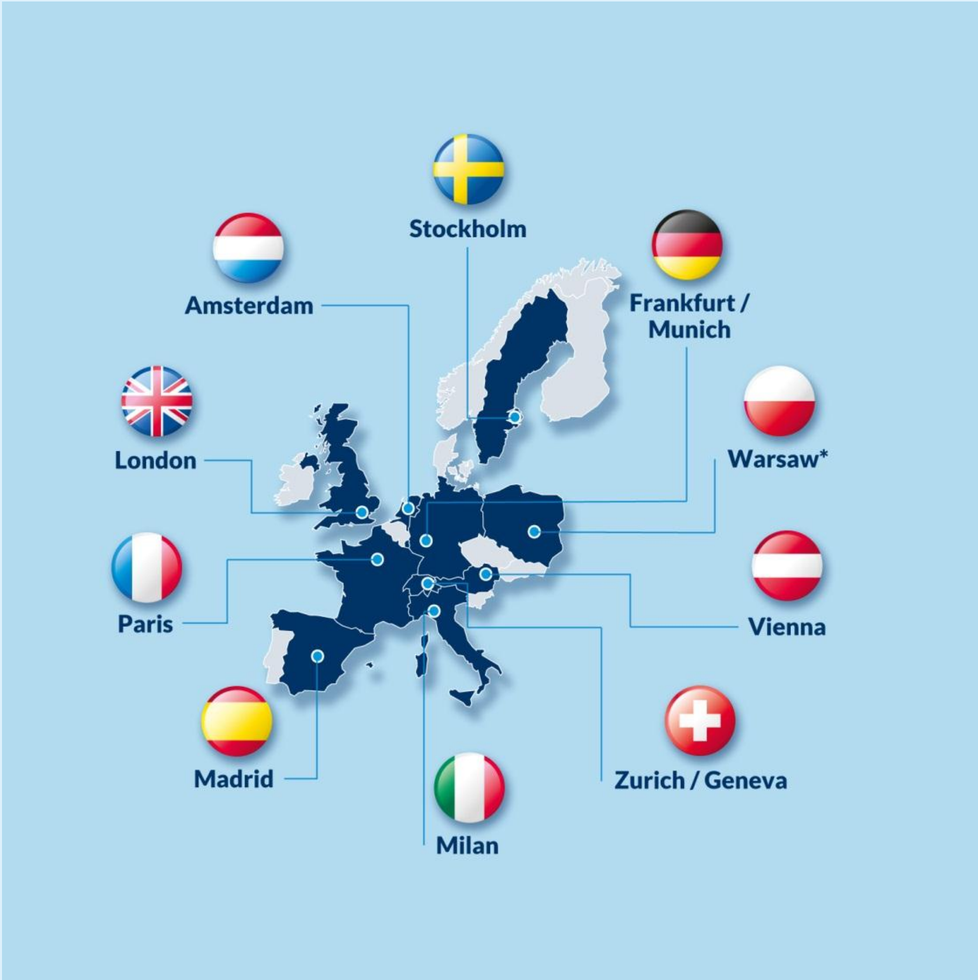


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