Aid to Trade

Business partnerships for climate compatible development

ALDERSGATE GROUP
Leaders for a sustainable economy

CDKN
Climate & Development Knowledge Network

Contents

September 2013

Lead Authors

Andrew Raingold Executive Director, Aldersgate Group
Dan Hamza-Goodacre Chief Operating Officer, CDKN
Andy Jones Sustainability & Climate Change Specialist, CDKN

Contributions

We would like to thank the following individuals for their contributions (in a personal capacity) to the CDKN-Aldersgate Group seminar and working group meetings which provided findings for this report:

Liz Cross Head of Governance and Sustainability for Procurement, BT
James Wilde Director of Insights, Carbon Trust
Ari Huhtala Director of Policy and Programmes, CDKN
Sam Bickersteth CEO, CDKN
Amal-Lee Amin Programme Leader on International Climate Finance, E3G
Rosina Robson Senior Policy Advisor, Federation of Small Businesses
Will Andrews Tipper Head of Sustainable Business, Green Alliance
Shelagh Whitley Research Fellow, ODI
Tracy Carty Policy Adviser, Oxfam
Nasreen Rashid insurance industry expert, Pakistan
Mark Kenber CEO, The Climate Group
Peter Curley Corporate Relations Manager, The Climate Group
Mike Rundle Environment Sector Champion for the South-West, UKTI

About this report

Climate compatible development[1] requires business to operate in new ways.

Business-to-business partnerships can support climate compatible development, but establishing such partnerships can often present costs and risks.

This report builds on an extensive body of literature that considers how businesses can leverage their strengths and deepen their links with communities and local entrepreneurs to deliver the combined outcomes of greater opportunity for the poor, benefits for the climate, and resilience against physical climate changes. This report also provides examples of real life partnerships seeking climate and development outcomes.

The focus of the report is on barriers relating to knowledge, skills and networks, rather than wider systemic factors, such as governance, security and corruption. The report explores the potential role of public funds in addressing these barriers, and provides recommendations for business and policy makers.

This is a collaborative initiative between the Aldersgate Group and the Climate and Development Knowledge Network (CDKN), bringing together a wide range of expertise across the fields of business, government, the third sector and academia.

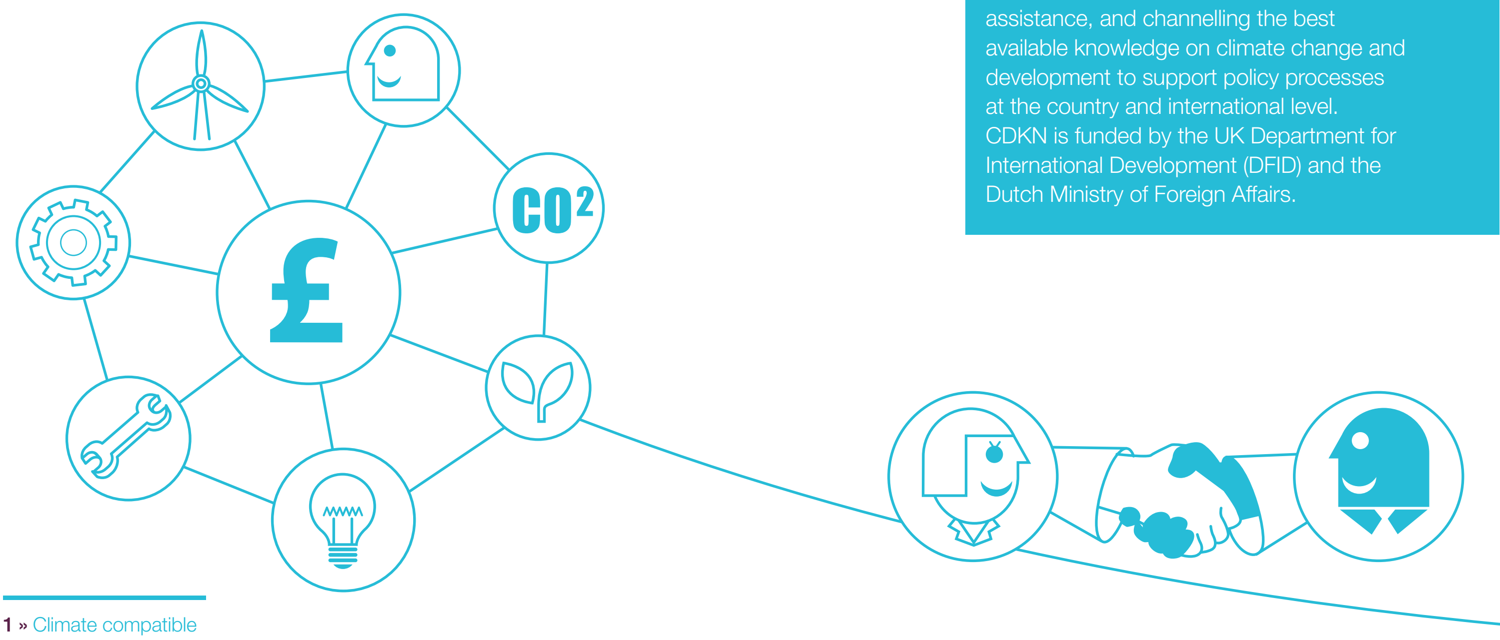
This report builds on the outcomes of a high level CDKN-Aldersgate seminar hosted at PwC's London offices on 19th March 2013. Attending were approximately 100 climate and development experts from the public, private and third sectors. Views were recorded via interactive voting technology and through roundtable discussions. The report was also informed by stakeholder consultation with Aldersgate members and CDKN partners.

Aldersgate Group

The Aldersgate Group is an alliance of leaders from business, politics and society that drives action for a sustainable economy. Its mission is to trigger the change in policy required to address environmental challenges effectively and secure the maximum economic benefit in sustainable growth, jobs and competitiveness. Its report on *Greening the Economy* (2011) argues that how each nation addresses the challenges of a resource-constrained world will increasingly determine its future economic competitiveness.

Climate and Development Knowledge Network (CDKN)

CDKN is an alliance of organisations led by PwC and comprising Fundación Futuro Latinoamericano, INTRAC, LEAD Pakistan, LEAD International, Overseas Development Institute, and SouthSouthNorth. CDKN aims to help decision makers in developing countries design and deliver climate compatible development by providing demand-led research and technical assistance, and channelling the best available knowledge on climate change and development to support policy processes at the country and international level. CDKN is funded by the UK Department for International Development (DFID) and the Dutch Ministry of Foreign Affairs.



1 » Climate compatible development is defined as low carbon and climate resilient.

Executive summary

The climate compatible development challenge

Despite significant recent progress, the world faces major climate and development challenges. Tackling poverty and lack of economic opportunity are key foci for developing countries, but these goals are often made harder to achieve by the changing climate. Conventional solutions to development needs can also lead to increased emissions, further enhancing climate risk. To avoid losing progress already made, and to make truly sustainable gains, pro-poor development needs to be 'climate compatible' – low carbon and climate resilient.

Why business has a key role to play

Climate compatible development requires action from governments, business, investors, communities and civil society. Each has their strengths and capacities. Business is expected to be a major financer and implementer of change through its knowledge, reach, networks, ability to innovate and develop technology, and drive for efficiency.

Some businesses already engage in climate compatible development, having realised the commercial opportunity it presents. Many more remain locked into business as usual, unaware of, or unable to change to, low carbon and climate resilient pro-poor practices.

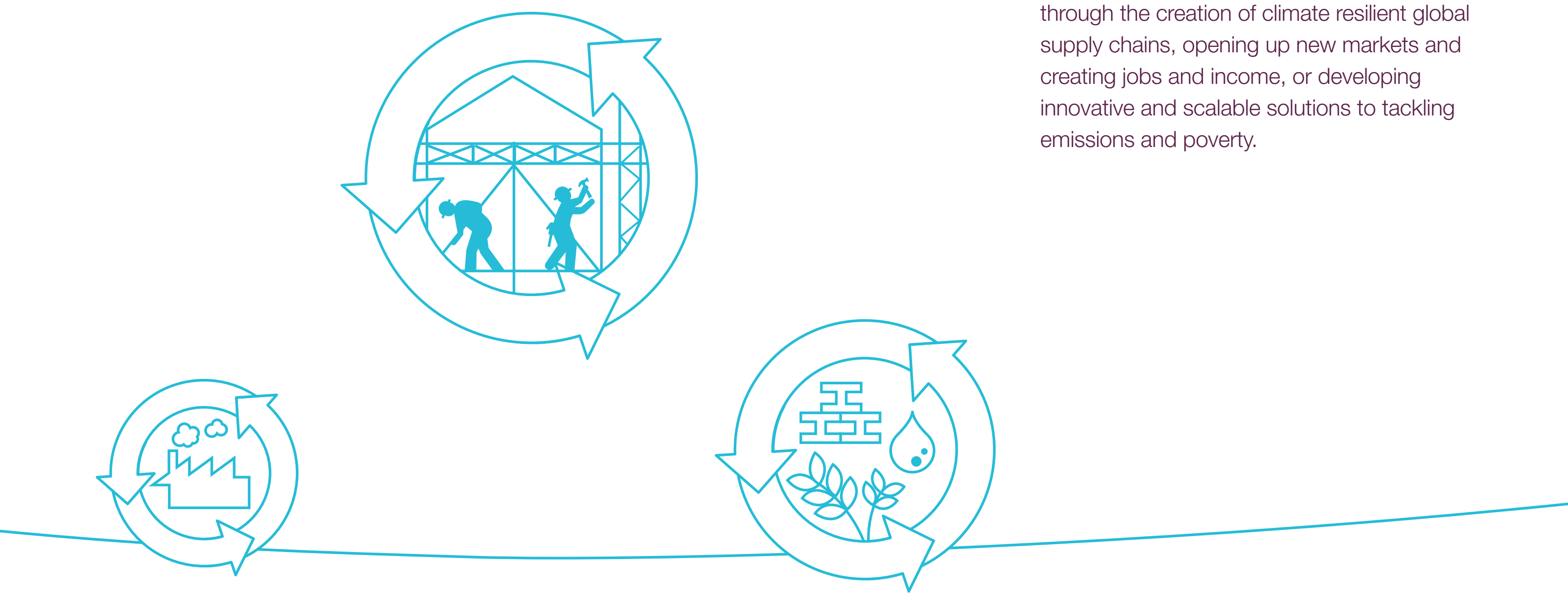
Trade and investment potential

Trade is a key contributor to economic growth and presents opportunities to businesses in their capacity as suppliers, distributors, innovators or other partners in international value chains. Opportunity is often dependent on the right enabling governance and institutional environments being in place. As businesses look to eliminate climate risk from their supply chains, climate resilience and the need for emissions reductions increasingly become enabling factors without which, gains from trade may not be realised or may simply increase inequality.

The case for business-to-business partnerships

Partnerships between businesses can present an effective means to meet climate and development outcomes. Through partnerships, businesses can benefit from sharing knowledge, technology and opportunity whether North-South, South-South or within a country. For example, a business partnership that achieves climate compatible development could see a supplier business training the employees of a distributor to sell, install and maintain its clean energy products; or partnerships to transfer climate compatible development business models and their commercial opportunities across borders. There is a variety of partnerships seeking these outcomes that already exist. Both businesses can benefit from knowledge creation and transfer, capacity building, and ultimately, enhanced growth. Such partnerships also have the potential to provide sustained economic, poverty reduction and environmental benefits, if the partnerships are lasting commercial relationships.

Business-to-business partnerships can create the conditions for transformational change, through the creation of climate resilient global supply chains, opening up new markets and creating jobs and income, or developing innovative and scalable solutions to tackling emissions and poverty.

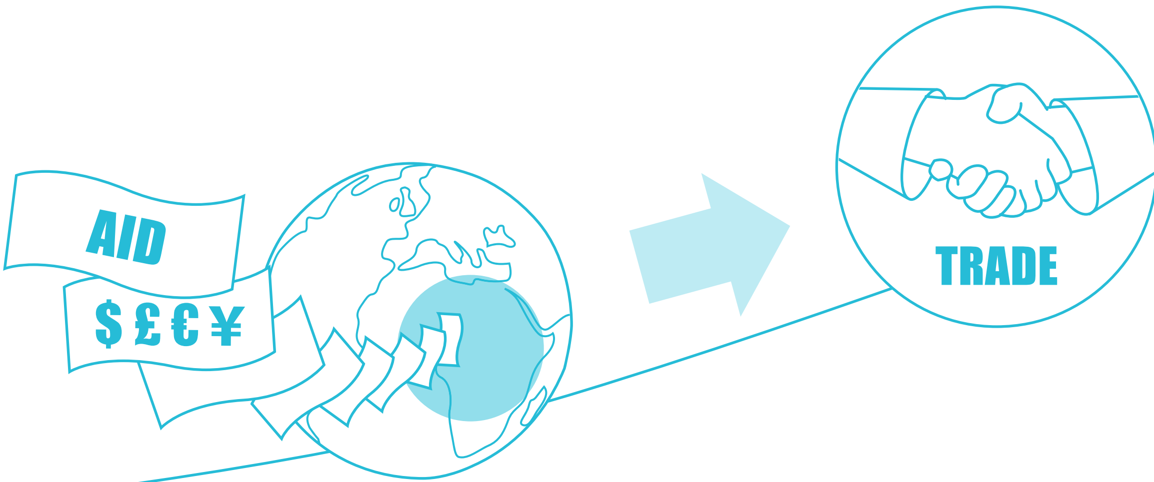


Executive summary

Barriers to successful partnerships
Partnerships designed and operated to address climate compatible development remain a rare business practice. Key barriers to successful new partnerships include poor communication and knowledge sharing among actors, lack of trust, short-term decision making, perceived or actual project risk and financial constraints.

Aid as a partnership enabler
There is an increasing focus on shifting from 'aid to trade' as a solution to development challenges. Many donor governments, including the UK, see business as a key partner in achieving development objectives, increasing the reach and implementation of development work. Aid has been used to support business initiatives, but is most common where its use can be proven to be 'additional' to business as usual, and where public and private objectives align. Business-to-business partnerships for climate compatible development can be effectively supported by strategic and targeted aid, turning climate and development opportunity into climate and development success. A recent CDKN-Aldersgate seminar provided insight into methods for aid to enable business partnerships that deliver climate compatible development benefits. These methods include: a 'matchmaking facility'; assistance with due diligence; innovative financial products and structures to reduce risk for investors; and using existing networks to empower local people and businesses.

Recommendations
We have developed recommendations for business and policy makers when considering, designing and operating business partnerships to deliver climate compatible development:



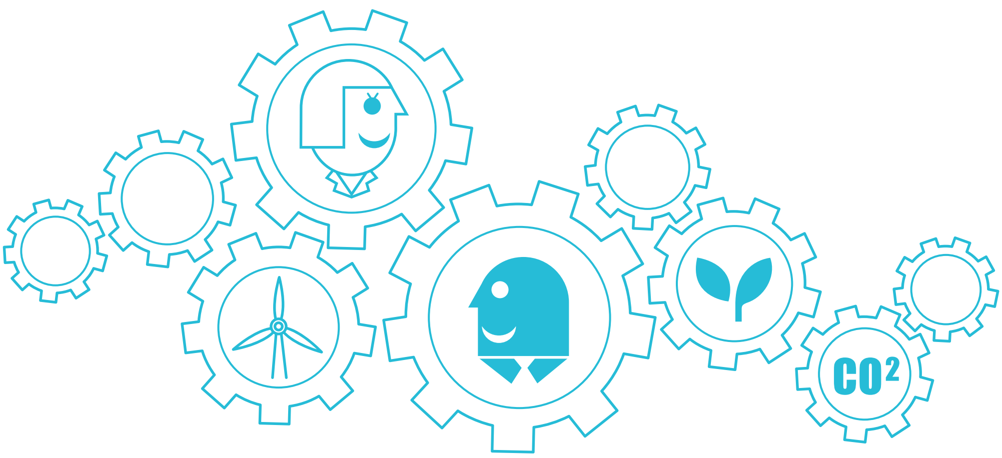
Executive summary

	Recommendations for business	Recommendations for policy makers
1	Adapt to new markets, including their cultures, customs and politics.	Develop the evidence base on the benefits of business-to-business partnerships.
2	Invest in understanding partners: plan and be open.	Develop a coherent and consistent policy framework, reflecting a deeper understanding of the commercial sector.
3	Understand climate and development impacts.	Prioritise a lasting impact in the use of aid to support business partnerships.
4	Share knowledge and communicate, based on agreed strategies.	Design a clear, evidence-based framework to justify the reasonable use of aid money for business activities, and act on it.
5	Develop long- rather than short-term partnerships.	Develop criteria for additionality, when using aid to support business activity.

Next steps: the Climate & Development Business Network

In response to the findings from the recent CDKN-Aldersgate seminar and the wider call for greater involvement of the private sector in climate compatible development, CDKN will be piloting a network to enable business-to-business partnerships.

The network will seek to support partnerships that demonstrate the potential to deliver sustained climate compatible development, addressing the concerns mentioned above such as additionality and legitimacy. CDKN will look to use the network to build evidence on how partnerships can be an effective way to engage business to deliver climate and development benefits and to show how aid may be used to lower the barriers that currently prevent progress.



1. The climate compatible development challenge

The world faces major challenges to eradicate poverty and address climate change.

> *Eradicating extreme poverty continues to be one of the main challenges of our time, and is a major concern of the international community.*[2]
>
> **United Nations Secretary-General Ban Ki-moon**

The World Bank estimates around 1.3 billion people are still living in extreme poverty[3], the eradication of which is an urgent priority for governments, international organisations and civil society. At the same time, the effects of climate change are expected to hit developing countries the hardest. Higher temperatures, changes in precipitation patterns, rising sea levels, and more frequent weather-related disasters pose physical, social and economic risks. As the World Bank puts it: "At stake are recent gains in the fight against poverty, hunger and disease, and the lives and livelihoods of billions of people in developing countries"[4].

That is why it is vital that development is 'climate compatible': minimising the harm caused by climate impacts and maximising the human development opportunities presented by a low emissions, more resilient future. Climate compatible development emphasises development strategies that integrate the risks and opportunities of a changing climate. As a result, it heralds a new generation of pro-poor development processes that safeguard development from climate impacts (climate resilient development) and reduce emissions (low carbon development) without compromising development[5].

2 » Quote taken from UN website: bit.ly/PXi2

3 » World Bank briefing: Poverty analysis (September 2012) bit.ly/Ht0ybv

4 » www.worldbank.org

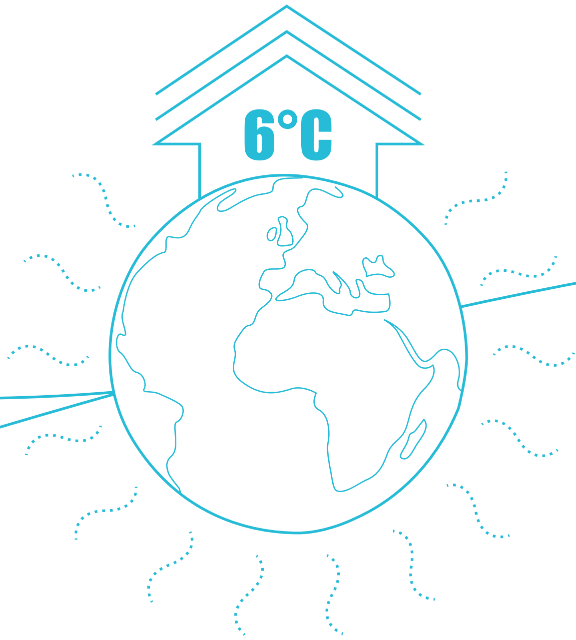
5 » Mitchell, T. and Maxwell, S. (2010). *Defining Climate Compatible Development.* London: CDKN.

1. The climate compatible development challenge

The need for climate compatible development and green growth are more pressing than ever. The International Energy Agency (IEA) warns that global carbon emissions are at a record high[6]. According to PwC analysis, a doubling of the world's current rate of decarbonisation would still lead to emissions consistent with six degrees Celsius of warming by the end of the century. The analysis of the low carbon economy highlights that businesses, governments and communities across the globe need to plan for a warming world, which at 4 to 6°C[7] – could present a catastrophic scenario for both international development and the global economy.

The recent World Bank report *Turning Down the Heat*[8] highlighted that the level of impacts that developing countries and the rest of the world experience will be a result of government, private sector and civil society decisions and choices, including inaction. All sectors of society will need to leverage their knowledge, strengths, innovation and reach to achieve the level of climate compatible development required to overcome the climate and development challenges. Several initiatives, such as the Global Green Growth Forum (3GF) and the World Economic Forum's Green Growth Action Alliance are already convening businesses to encourage action.

> *Even more important [than public debt] is the issue of climate change, which, in my view, is by far the greatest economic challenge of the 21st century. The science is sobering – the global temperature in 2012 was among the hottest since records began in 1880. Make no mistake: without concerted action, the very future of our planet is in peril.*[9]
>
> **Christine Lagarde**
> **Managing Director**
> **International Monetary Fund**



6 » International Energy Agency (November 2012) *World Energy Outlook 2012.*

7 » PwC (November 2012) *Too late for two degrees? Low carbon economy index 2012.*

8 » Report for the World Bank by the Potsdam Institute for Climate Impact Research and Climate Analytics: *Turning Down the Heat* (2012).

9 » Christine Lagarde (23rd January 2013) *A New Global Economy for a New Generation (Speech at the World Economic Forum in Davos).*

»

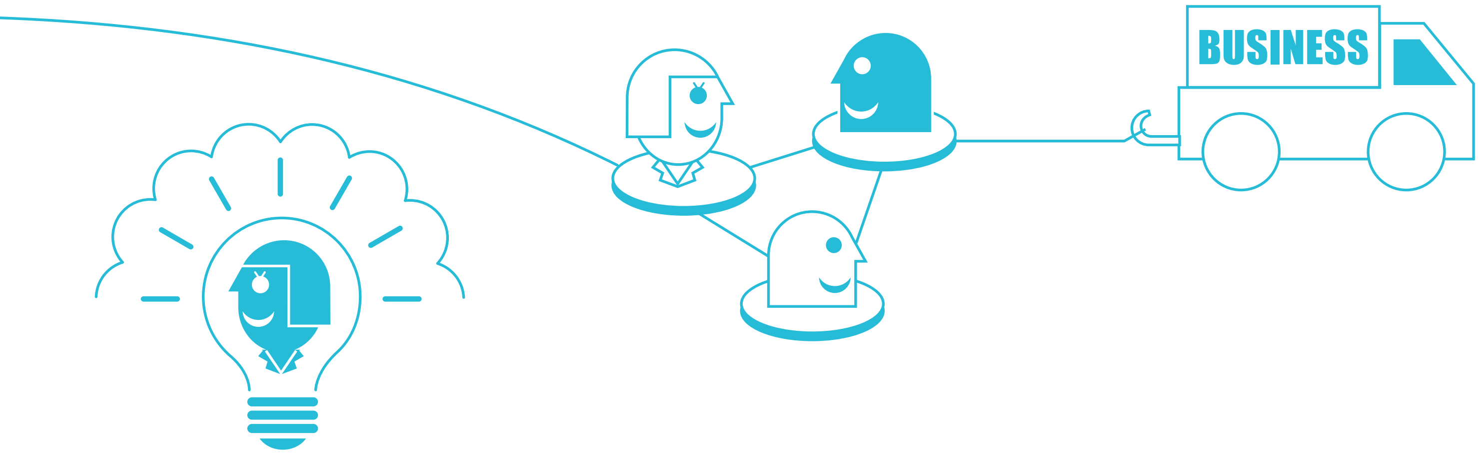
2. Why business has a key role to play

Business has the capability and capacity to make the step change required to achieve climate compatible development.

Business is not just the engine of growth but forms the foundation for sustainable development by creating jobs, providing goods and services, stimulating innovation and generating tax revenue. But business does not always serve the poor or address the issues of climate change.

Recent research and reports, such as DFID's *The Engine of Development*, and the Donor Committee for Enterprise Development (DCED)'s *Donor Partnerships with Business for Private Sector Development*, have already set out the case for business' role in international development and the low carbon, climate resilient economy. This report builds on previous work by considering how business can leverage its strengths and deepen its links with communities to deliver the combined outcomes of greater opportunity for the poor, benefits for the climate, and resilience against physical climate changes. It is in the private sector's interest to reduce the risk of operating in these new markets. Through investing in climate compatible development, businesses reduce the likelihood of economic damage caused by climate disasters and loss of productivity.

There are a number of attributes that make business such a critical force for progress on climate compatible development. These are supported by the partnership examples provided later in this report and include:



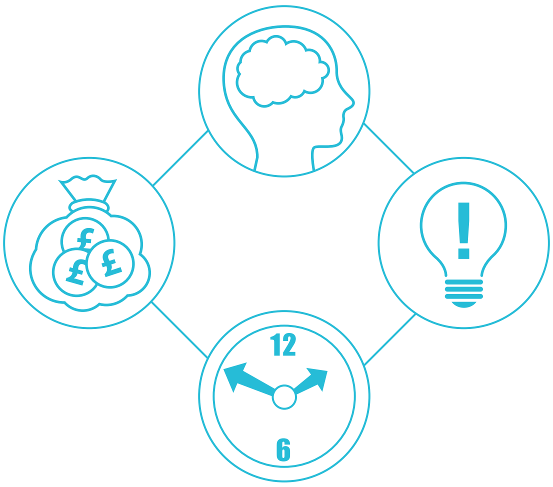
2. Why business has a key role to play

- ability to invest at scale
- expert skills and knowledge
- drive to innovate
- ability to develop technology
- efficiencies
- reach
- interest in new and emerging markets
- critical role in creating jobs (local employment)

Importantly too, business drives growth, in both overall economic activity and often in international trade.

Many businesses are already aware of the benefits that can be gained from being proactive in the changing world that development and climate change present. That is why 28 CEOs from multinational companies wrote to the Financial Times on the 10th March 2013, stating: "It isn't about corporate social responsibility; we know that developing countries will be major markets and important sources of supply in the future – in fact many already are. Developing countries become emerging economies become the engines of future global growth and prosperity."[10]

This view is often shared by governments. For example, UK DFID, states that: "Promoting wealth and job creation in the poorest countries is not just morally right, but it is in the UK's interests too. It is in the emerging markets that were poor just 10 or 20 years ago that UK companies are now winning new business and which are expanding at unprecedented rates. But many of the poorest countries have not yet reached emerging market status. Investing now in jobs and enterprise in these poorer countries means investing in the people and societies who will be the mass consumers of the future."[11] Annual investment growth rates of 10–18% are projected for parts of Asia, Africa, the Middle East, and Latin America in the next ten years[12]. Those ten years will see significant changes to trade flows, including increased South-South trade and the emergence of new key exporters and importers.



10 » Financial Times Letters (10th March 2013) *Aid and Business: crucial in healthy economies.*

11 » Department for International Development (May 2011) *The engine of development: The private sector and prosperity for poor people.*

12 » The Pew Charitable Trusts (April 2012) *Who's Winning the Clean Energy Race?*

3. Trade and investment potential

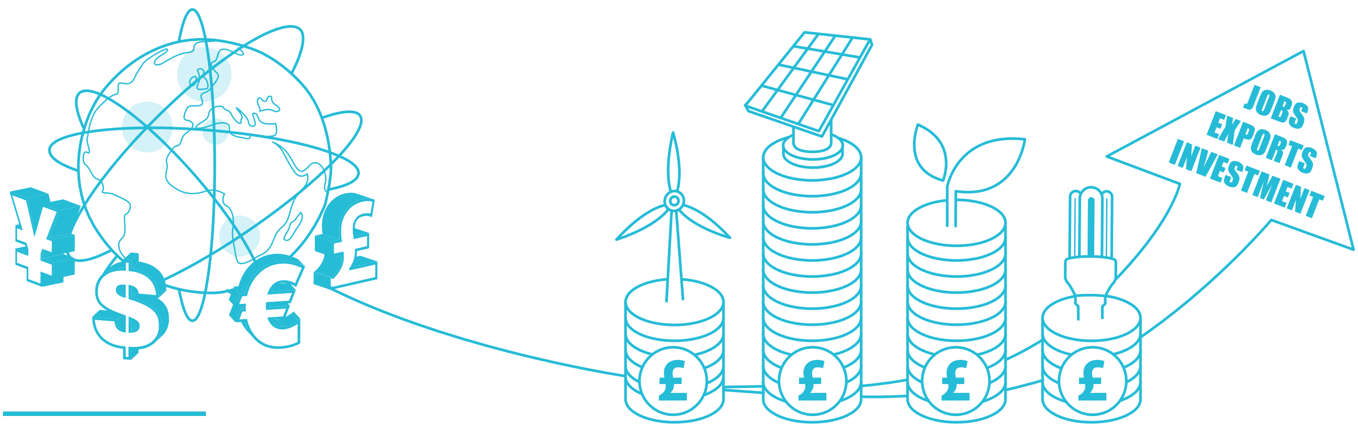
There is a prominent and growing role for business to meet development objectives through changes to trade systems.

> *Aid alone is not development. Development is helping nations to actually develop – moving from poverty to prosperity. And we need more than just aid to unleash that change. We need to harness all the tools at our disposal – from our diplomacy to our trade policies to our investment policies.*[13]
>
> **President Barack Obama**

The need to grasp the win-win opportunities of climate compatible, export-led development is recognised by the World Bank, which finds that while sustained growth is necessary to achieve the urgent development needs of the world's poor, there is substantial scope for cleaning development: "Green growth is necessary, efficient, and affordable"[15].

The global market for low carbon and climate resilient goods and services could be a golden opportunity for trade and development. For example data by Pew Environment demonstrates that in 2011 global investment in clean energy was at a record $263 billion[16]. The world is engaged in a clean energy race and acting early can ensure that countries are well positioned to attract global investment, stimulating job creation and export growth.

Trade, as the lifeblood of the global economy, is a key contributor to growth and has a direct impact on raising incomes and reducing poverty. On average, an increase in trade volumes of 10% will raise incomes by 5%. In Vietnam, export-led growth rates of 7–8% reduced poverty rates from 58% in 1993 to 16% in 2006. Other countries have not yet been as successful, for example Africa accounts for just 3% of global trade[14], but represents significant, untapped economic potential.



13 » Barack Obama (22nd September 2010) Remarks by the President at the Millennium Development Goals Summit in New York, New York.

14 » Department for International Development (May 2011) *The engine of development: The private sector and prosperity for poor people.*

15 » World Bank (May 2012) *Inclusive Green Growth: The Pathway to Sustainable Development.*

16 » Pew Environment (2012) *Who's winning the Clean Energy Race?*

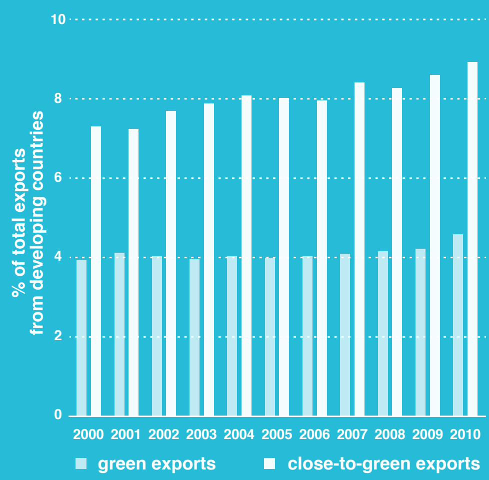
3. Trade and investment potential

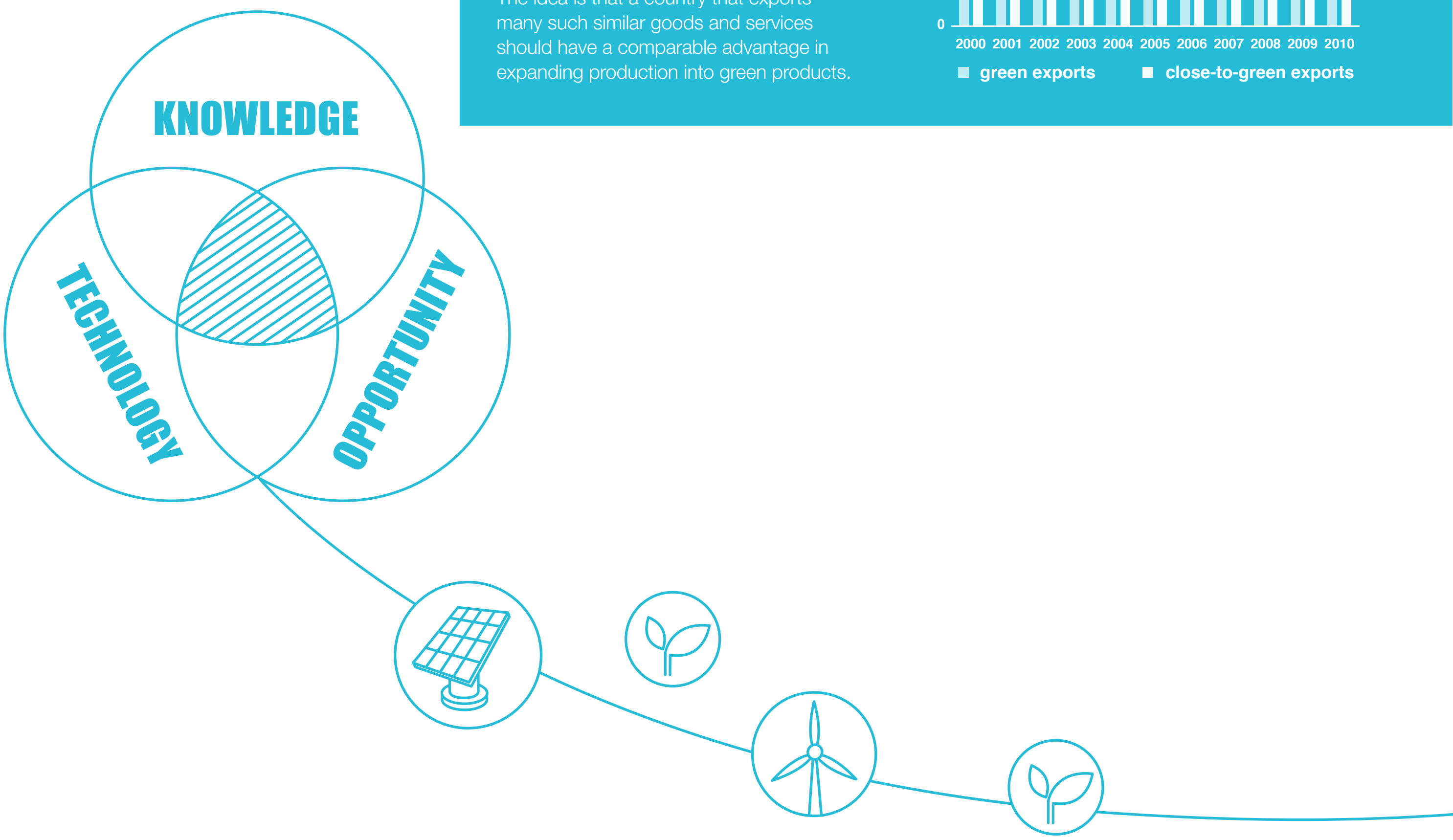
Trade presents opportunities for businesses in their capacity as suppliers, distributors, innovators or partners in other joint ventures. And both developing and developed country businesses can benefit. The CBI finds that the UK is currently in trade surplus in green goods and services to the tune of £5 billion[17], with a host of high-growth companies poised to take a slice of this global opportunity. Through partnerships, businesses can benefit by sharing knowledge, technology and opportunity.

World Bank: developing countries may have substantial unexploited potential for green exports[18]

An increasing number of countries are looking at green growth as a potential source of longer-term growth through which to create new markets. And even though not every country can become the world leader in solar panels or wind turbines, developing countries may have substantial unexploited potential in green exports.

Note: close-to-green exports are exports of goods that are not "green" but require similar skills, input requirements, or production technologies, for example turbines for uses other than wind energy. The idea is that a country that exports many such similar goods and services should have a comparable advantage in expanding production into green products.



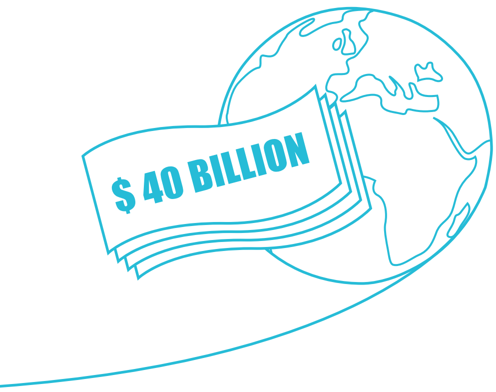


17 » CBI (July 2012) *The colour of growth*

18 » Table taken from World Bank (May 2012) *Inclusive Green Growth. The Pathway to Sustainable Development.*

3. Trade and investment potential

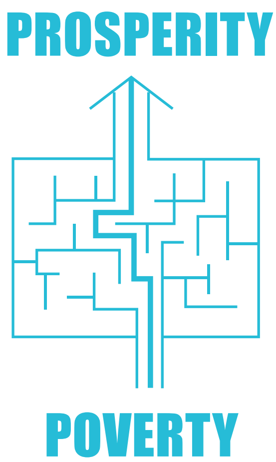
Left to the market, increased trade and growth is unlikely to address climate and development challenges fully. For example, research by Stefan Dercon from the University of Oxford highlights that the poverty reduction benefits of green growth are not a given, and low carbon growth strategies must be designed in such a way as to have a positive impact on efficiency gains, employment, sectoral transformation (such as a shift from agriculture to manufacturing and services) and mobility[19]. Putting in place the right enabling governance and institutional environments to limit barriers, and facilitate trade and growth, can deliver development and poverty reduction outcomes. The OECD reports that a reduction in transaction costs of 1% of the value of world trade, through trade facilitation measures, would drive welfare gains of "$40 billion worldwide, with all countries benefiting and non-OECD countries experiencing the biggest gains in relative terms"[20].



There is an increasing international focus on shifting from 'aid to trade'; assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access[21]. At their core, such approaches seek to make markets function better and more fairly, providing a route out of poverty for the poor. However, there are common and systemic market barriers that often prevent businesses from creating and building opportunities in developing countries; these include:

- finance (including higher upfront capital costs)
- corruption and poor governance
- human capital (such as lack of technical knowledge, skills and networks)
- poor information about markets
- economic stability
- lack of relevant infrastructure
- lack of demand for (greener) goods and services
- limited research and development

Some of these barriers, for example, corruption and poor governance, can be difficult to address. They are rooted in politics and culture and require well planned programmes of change. Others, however, such as those relating to knowledge, skills and networks, are particularly relevant to the role of business in climate compatible development. In the next chapter, we explore how business-to-business partnerships may have significant potential for leveraging the role of business in order to help progress climate compatible development outcomes.



19 » Stefan Dercon (October 2011) *University of Oxford: Is Green Growth Good for the Poor?*

20 » OECD (2009) *Overcoming Border Bottlenecks: The Costs and Benefits of Trade Facilitation.*

21 » OECD – *Aid for Trade: Is it working?* bit.ly/13U4YN5

4. The case for business-to-business partnerships

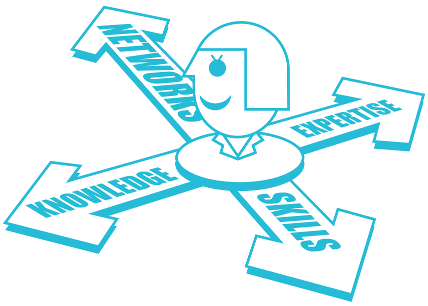
Increasing business partnerships could be an effective means to meet clearly defined trade, climate and development outcomes.

We are encouraging companies to establish partnerships overseas. It's not about exporting, that is the old way. The new way is collaborative partnerships[22].

Mike Rundle
International Trade Adviser
UK Trade & Investment

Business-to-business partnerships can be considered as those involving the sharing of costs, risks and resources for commercial benefits. For a partnership to be effective, each party must achieve its own individual objective while working to deliver the agreed common goals. It is the potential for these partnerships to also seek and achieve climate and development benefits that is the focus of this report. To achieve the goal of climate compatible development, businesses need to develop new areas of knowledge and capability, understand local issues beyond their traditional operations, and think in longer-term ways. Business-to-business partnerships are a powerful mechanism to address these needs.

The range of possible business partnership opportunities is vast and cuts across many sectors of the economy. The sectors most relevant to climate compatible development include: energy, water, agriculture, infrastructure and finance. For example, a business partnership that achieves climate compatible development could see a supplier business training the employees of a distributor to sell, install and maintain its clean energy products.



Benefits from partnerships

For the local distributor

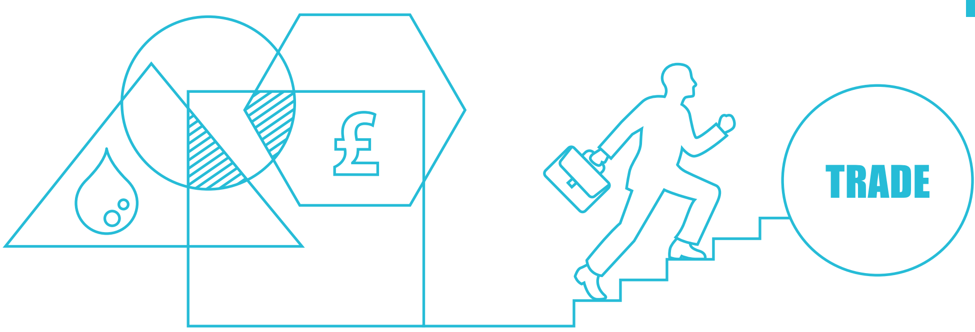
- Access to skills, knowledge and expertise that help overcome specific market barriers and develop a successful business model.
- Opening up of new markets creating jobs, revenue and growth.
- Competitive advantage, cost savings and efficiencies.
- Long-term trading relationships and a foundation for future trade-led growth.

For the supplier

- The development of new business networks, greater understanding of new markets, revenue, staff development and reputation.
- Overcoming legal, regulatory, cultural and financial barriers to doing business overseas, alongside distance, unfamiliarity with other countries, intellectual property issues and local business practices.[23]

For society

- Meeting clearly defined climate and development outcomes in a more effective and sustainable way.



22 » Mike Rundle (International Trade Adviser, UK Trade & Investment) speaking at the CDKN-Aldersgate seminar, March 2013.

23 » UKTI (May 2011) *Britain open for business – UKTI's five year strategy.*

4. The case for business-to-business partnerships

Other examples of partnership models include:

- Partnerships to transfer climate compatible development business models and their commercial opportunities across borders.
- The manufacturing and deployment of new technologies in emerging markets that have been developed elsewhere.
- Multinational companies providing training to and collaborating with their suppliers in sustainable business practices such as low carbon agriculture.
- Infrastructure companies sharing experience on working in hotter climates with companies interested in adaptation in other countries.
- Innovative finance or distribution models involving multiple stakeholders.

These partnerships present the potential for long-term development benefits by forging lasting commercial relationships. In Chapter 5, we provide a selection of real life case studies, describing how these business-to-business partnerships work, and the benefits that can be achieved.

Inclusive business models

There is an increasing trend towards 'inclusive business' models: "A business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low income communities in its value chain"[24]. Inclusive business models can include disadvantaged people, communities or entrepreneurs in the company value chain as suppliers, distributors or customers. These inclusive models are rarely business as usual. Experience from the Business Innovation Facility[25], which supports inclusive business models, finds that such initiatives "tend to sit in areas outside companies' comfort zones". They often require significant collaboration with non-business actors, and governments may be involved as a partner, client or stakeholder. When considering a more inclusive value chain, it is important to understand the true total impact of incorporating more developing and low income parties in commercial value chains. Where and how they are incorporated in the chain has implications for the number of beneficiaries, the size of the benefit for each and the sustainability and duration of the inclusion.

Business partnerships for climate compatible development: the intersection between trade and investment, climate and development outcomes

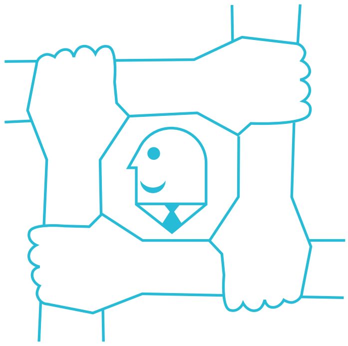
24 » www.endeva.org

25 » See the Business Innovation Facility website: bit.ly/12YDZiK

5. Partnership case studies

There are increasing examples of effective business-to-business partnerships delivering climate and development benefits.

Business-to-business partnerships present a significant opportunity through which countries can implement climate compatible development. The following case studies explore different types of partnerships, barriers and benefits.



1 Building distribution networks for solar powered mobile phone chargers

Country: Kenya

Business partners: Sunny People and local entrepreneur distributors[26]

Context: in Kenya, about 13 million mobile users lack access to grid electricity, with this figure likely to exceed 20 million by 2020. In order to charge their mobile phones, rural people currently either have to travel large distances to utilise charging facilities or employ the hazardous and environmentally damaging method of using lead-acid car batteries.

Sunny People is a provider of solar-powered mobile chargers, an innovative, inclusive and environmentally friendly solution for mobile phone charging.

Nature of the partnership: Sunny People imports the chargers and works with partners to reach and identify entrepreneurs in rural areas to sell the chargers through hire purchase agreements. This allows rural people easy access to mobile charging facilities while providing micro-entrepreneurs with a source of income.

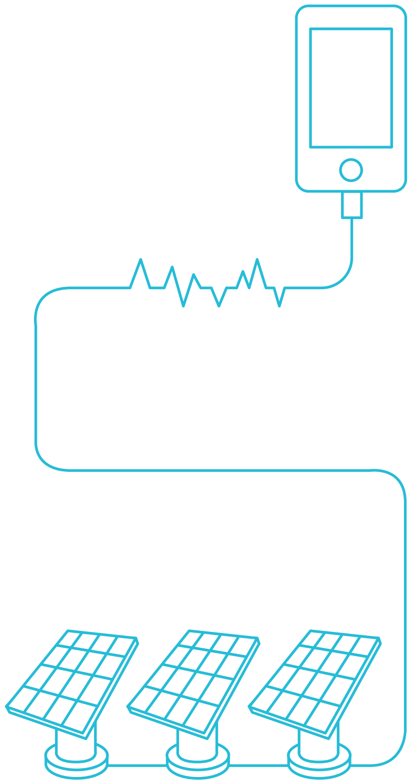
The model creates jobs and generates income in rural areas for low-income people. Entrepreneurs stand to earn nearly double the local minimum wage for unskilled work. The model also seeks to improve living conditions and the quality of rural life by enabling easy access to mobile charging and facilitating the subsequent gains from increased mobile phone usage, such as access to health services and mobile banking.

26 » See the Business Innovation Facility website: bit.ly/153OxAz

The commercial driver behind this venture is the revenue generated from selling the solar chargers. Under a business plan aiming to reach 200,000 chargers across East Africa before the end of 2020, Sunny People expects to be profitable after three years of operation. During 2010, small-scale tests of the portable solar powered mobile phone charger were performed in rural Kenya with successful results, and Sunny People has been further introducing the charger to the Kenyan market since.

Key benefits achieved

- New income stream for rural entrepreneurs, and the opportunity for them to participate in and create new businesses which rely on mobile communication.
- Indirect health, financial savings and quality of life benefits for local mobile users.



5. Partnership case studies

2 Cotton users train farmers on sustainable production

Country: various

Business partners: Better Cotton Initiative members (including producers and retailers such as IKEA, Nike, Tesco and Walmart) and cotton farmers.

Context: the majority of cotton cultivated worldwide is grown by smallholder farmers. In order to help these farmers adopt more sustainable production practices (e.g. less water, pesticide and fertiliser use), the Better Cotton Initiative (BCI) coordinates a programme of support activities.

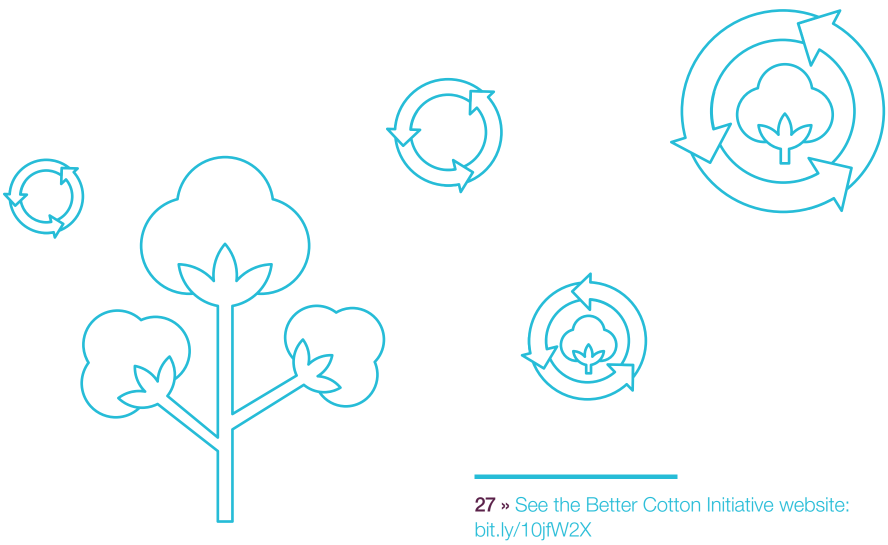
The BCI is a voluntary cooperation of stakeholders, who have identified a more sustainable way to grow cotton. Members of the global cotton supply chain are collectively addressing the negative impacts of mainstream cotton production by supporting this globally recognised definition, generating market demand for Better Cotton, and sharing information and knowledge to enable continuous improvement on everybody's part. In 2010–11, Better Cotton farmers in four countries (Brazil, India, Mali and Pakistan) produced their first harvests of this product.

Nature of the partnership: the support activities are delivered through the implementation partners, the BCI members, who have a wealth of relevant experience and contact with farmers. They, in turn, often work with additional local partners. In this way, they use existing expertise and infrastructure.

The support programmes enable knowledge sharing and skills development, help smallholder farmers to organise and advocate more effectively, and facilitate equitable access to responsible financial services.

Key benefits achieved

- By growing Better Cotton, farmers have the opportunity to reduce costs and improve the profitability of their farm through better management practices and reduced use of inputs.
- The retailers benefit by building resilience into their supply chain[27].



27 » See the Better Cotton Initiative website: bit.ly/10jfW2X

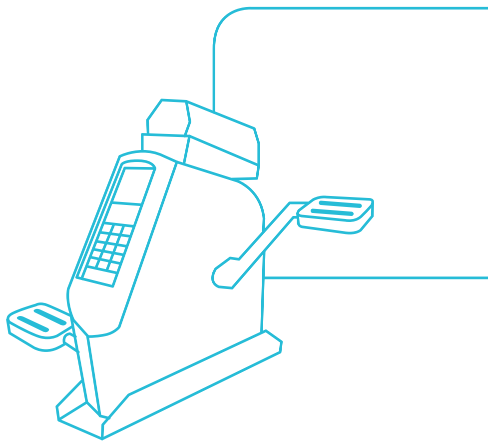
3 Training entrepreneurs in microfinance

Country: India

Business partners: Nuru Energy and village level entrepreneurs

Context: over 90% of the off-grid households in rural India rely on kerosene for lighting, which may be prohibitively expensive and damaging to both the environment and respiratory health.

Nuru Energy produces a robust and simple-to-use off-grid recharging platform, the Nuru POWERCycle™ pedal generator. The POWERCycle™ provides reliable clean, sustainable power anytime, anywhere and is hundreds of times more efficient than current solar-based solutions at a fraction of the cost. It can be used to recharge Nuru Energy's own portable, modular LED lights.



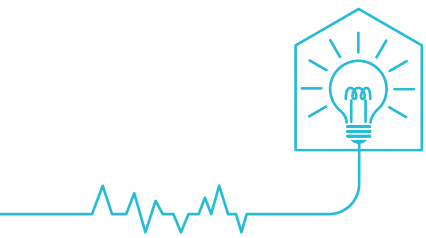
5. Partnership case studies

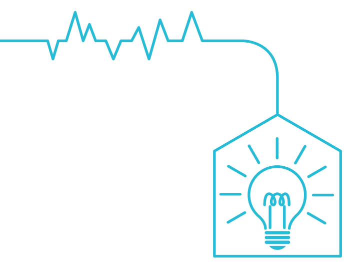
Nature of the partnership: Nuru works with local organisations to recruit and train micro-franchise entrepreneurs who sell the LED lights and provide recharging services. The village level entrepreneurs are selected and trained by Nuru Energy along with microfinance partners, NGOs and other social enterprise partners[28].

Key benefits achieved

- Increased access to light in households and reduction in carbon emissions and negative health impacts generated by traditional forms of lighting.

- Nuru Energy receives three primary revenue streams: a small margin on the products sold, micro-franchise fees from the local entrepreneurs, and carbon credits.





4 Supporting suppliers to improve farming practices

Country: Kenya (and globally)

Business partners: Marks & Spencer (M&S) and Iri-iani

Context: through creating inclusive partnerships with their suppliers across the world, UK retailer M&S drives change and strengthens its supply chain through sharing knowledge, supporting innovation, and learning from partners.

Nature of the partnership: M&S strengthened its partnership with Kenyan tea business Iri-iani[29] and the two businesses worked together to help smallholder farmers. By providing funding (from M&S and DFID), education and support to improve skills and technical knowledge the partnership has enabled farmers to start to package their tea, with the aim of creating self-sufficiency and business growth. Iri-iani have now developed a product for their local market, and understand how to supply a finished product to international standards.
For M&S, the partnership has helped ensure that they can supply quality products to the tea-loving UK consumer.

M&S is also engaging in other business-to-business partnerships in developing countries. Working with farmers, suppliers and organisations in the Lake Naivasha area of Kenya, M&S has taken part in a collaboration of businesses that have developed a Water Stewardship Standard[30]. The Standard is scalable and replicable in developed and developing regions. These activities complement M&S's wider partnerships programme for partners and suppliers, which aims to provide training and education for 500,000 individuals by 2015, covering roles and responsibilities, employment rights, healthcare and, in some circumstances, numeracy and literacy.

Key benefits achieved

Through partnership with Kenyan farmers and tea growers:

- Producers have been helped to reduce their running costs and increase productivity.

- Local producers have increased the quality of their product (through improved farming techniques or water quality), and have reduced supply chain risk, by increasing stability for the farmers and reducing environmental impact.

M&S comments: "By working together, sharing knowledge and skills, developing training materials and raising awareness, M&S will benefit from a supply base full of more successful, resilient businesses."

28 » See the Business Innovation Facility website: bit.ly/1757Zhp

29 » See Marks & Spencer Plan A website: plana.marksandspencer.com

30 » Alliance for Water Stewardship, Exploring the value of water stewardship in Africa bit.ly/12n9Puk

6. Barriers to successful partnerships

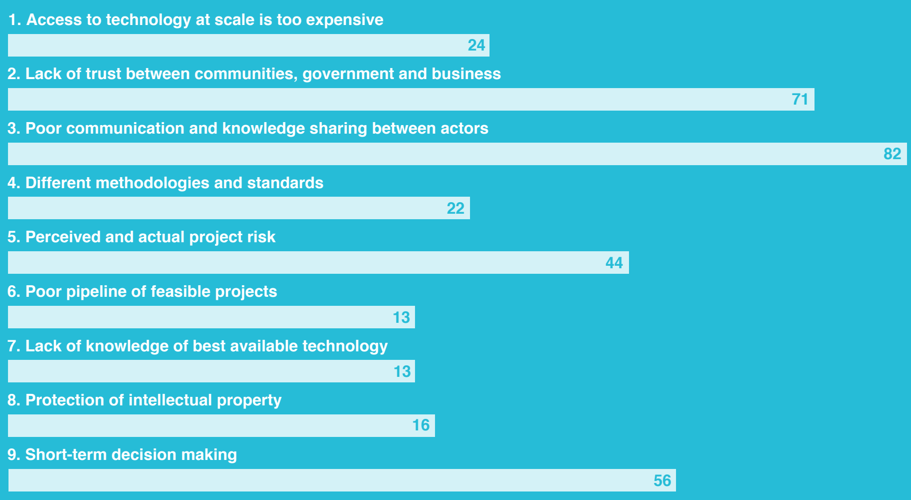
There are significant barriers to business partnerships for climate compatible development.

Partnerships designed and operated to address climate compatible development remain rare business practice. This is because several barriers exist that may deter business from taking a modified and more innovative approach to the management of value chains.

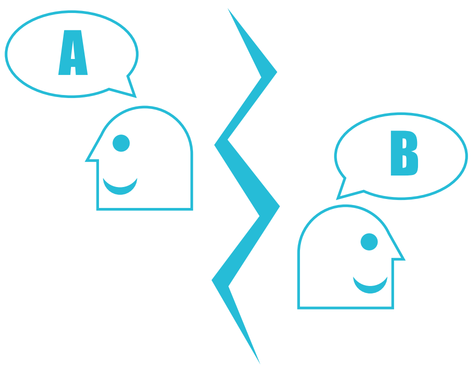
The greatest barrier to such partnerships identified by expert stakeholders at the CDKN-Aldersgate seminar was poor communication and knowledge sharing among actors (see chart). Poor communication can be a particular problem for cost-sharing arrangements where neither company has the final say. Other significant barriers include lack of trust, short-term decision making and perceived or actual project risk.

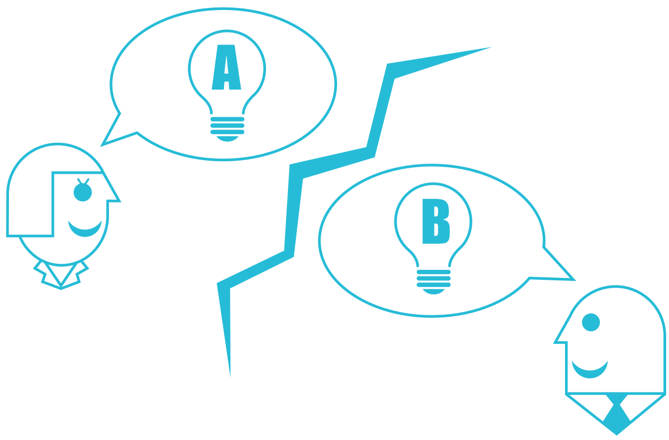
This analysis corresponds with the learning from real life projects. For example, the Netherlands' PSOM/PSI programme undertook a survey of its stopped projects, finding that problems between partners, financial constraints, the business environment and acquisition of a partner were key barriers to successful partnerships[31].

Major barriers to business partnerships for climate compatible development



Note: voting results from CDKN-Aldersgate seminar. The audience was asked to identify the three most significant market barriers for business partnerships in developing countries to deliver climate related goods or services. 1st preference received 3 points, 2nd preference received 2 points and 3rd preference received 1 point.





31 » Donor Committee for Enterprise Development (March 2013) *Donor Partnerships with Business for Private Sector Development: What Can We Learn from Experience?*

7. Aid as a partnership enabler

Aid can play a role in lowering barriers to effective business partnerships and enabling a greater business role in climate compatible development.

Joint venture partnerships can be more sustainable in the long run than traditional aid, particularly when the legal and regulatory environment has created a level playing field for foreign investors.[32]

Nasreen Rashid
Executive Advisor
EFU Group of Insurance Companies, Pakistan

Many providers of international aid, including the UK Government, see business as a key partner in achieving development objectives and seek to put business centre stage in aid policies. "By working with private enterprise and being open to new ideas, we can find ways to improve the reach and delivery of basic services, and the aid we distribute, to poor people. It is not just the private sector itself that will benefit from innovation and efficiency; it has much to teach the public sector and the aid industry about delivery, about logistics, reaching the most remote communities, nurturing talent and taking risks for higher returns"[33].

Despite the identified value of its involvement, business remains tangential to mainstream development policy and practice. Assisting the development of business-to-business networks is an opportunity to think more strategically about the links between trade and investment, climate and development.

Building stronger, more inclusive markets can provide a strategy for promoting economic growth and reducing poverty in developing countries. To be successful efforts to encourage business activity on climate change and development need to sit within wider enabling policy frameworks that encourage action, for example through tax incentives, improved duty rates or subsidies for renewables. Aid may also be used to develop tools or policies that reduce barriers and risks for private sector involvement in climate compatible development. Public funds are more likely to be used to assist business initiatives where public and private objectives align for example on climate and development benefits, and when there is a demonstrable 'return on investment' for the use of public money.

A key concern for aid providers when considering supporting business is additionality, which can be complex to define and measure. DFID also states: "We will only engage where public subsidy can add significant value. This requires us to be hard headed in our decision making. We will not invest our funds to support work that the private sector is already willing to undertake without our involvement. Scarce aid resources will only be used where we identify that markets, enterprise or institutions are significantly failing poor people and that our support could potentially offer tremendous and transformational opportunities." Additionality may be easier to demonstrate in the case of new products and services focussed more towards climate and development; i.e. to help new innovations become market ready.

These sentiments are shared more broadly in the development community.

If you can get small amounts of aid as close to the action as possible, as close to the need as possible and as close to the energy as possible, you are far more likely to have an effective return on investment.[34]

Michael Gidney
Chief Executive Officer
Fairtrade Foundation

32 » Nasreen Rashid, Executive Advisor, EFU Group of Insurance Companies, Pakistan, speaking at the speaking at the CDKN-Aldersgate seminar, March 2013.

33 » Department for International Development (May 2011) *The engine of development: The private sector and prosperity for poor people.*

34 » Guardian (25th February 2013) "Fairtrade pays dividends for farmers, but is it consumers' cup of tea?" bit.ly/13OdD9D

7. Aid as a partnership enabler

How business partnerships can be supported by aid

The Donor Committee for Enterprise Development (DCED) has highlighted[35] that multi-stakeholder coalitions tend to have larger-scale results than matching grants to an individual company or joint venture; however, simpler business linkages can in principle be more easily replicated elsewhere. Some examples exist of either internal or external replication of multi-stakeholder coalitions, but they are rare. Development partners can also use individual partnership projects to promote the development of whole sectors or clusters, for example by supporting a critical mass of projects in the same sector or geographic area.

Support mechanisms to overcome barriers to business partnerships

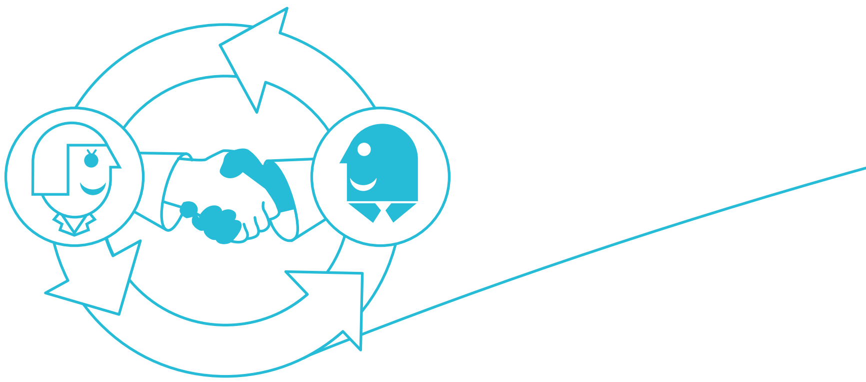
Note: voting results from CDKN-Aldersgate seminar. The audience were asked to identify the three most effective support mechanisms that could help overcome the market barriers for business partnerships in developing countries to deliver climate related goods or services. 1st preference received 3 points, 2nd preference received 2 points and 3rd preference received 1 point.

81%

of climate and development experts believe a shift from aid to trade is the right approach to help developing countries achieve economic growth and poverty reduction[36].

The CDKN-Aldersgate seminar provided insight into the potentially most effective support mechanisms to overcome barriers to business-to-business partnerships for climate compatible development. Stakeholders felt that the most helpful assistance would be to support a 'matchmaking facility' that would help to set up potential partnerships.

Other favoured mechanisms were help with due diligence, innovative financial products and structures that reduce project risk for investors, using existing networks differently (such as mobile phone or distribution networks) and training and advice around technology, markets, business planning and scaling up.



35 » Donor Committee for Enterprise Development (March 2013) *Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience?*

36 » Results from voting of attendees at CDKN-Aldersgate seminar.

»

8. Recommendations and next steps

Recommendations for business and policy makers when considering, designing and operating business partnerships with climate compatible development benefits.

This report highlights some of the potential that business-to-business partnerships offer as an effective route to meeting development and climate objectives. These partnerships are occurring but action is required to realise the full scale of their potential. While partnerships can be a valuable, often critical, instrument for development across all sectors of the economy, to be successful they must be robustly set up, operate efficiently and meet shared objectives.

Experience from the Business Innovation Facility demonstrates that: "Organisations from other sectors have entirely different public or social missions, they work to different timescales, have different responsibilities, accountabilities and cultures, are bound by different rules, and can have their own interests which may conflict – or be perceived to conflict – with commercial interests (particularly in the case of government which also has a regulatory relationship with companies)… All partners need to have sufficient skills and understanding of partnership in practice, and the partnership needs to go through a robust partnering process to ensure the partners are all on the same page, issues are ironed out or at least foreseen, and the partnership is set up for success."[37]

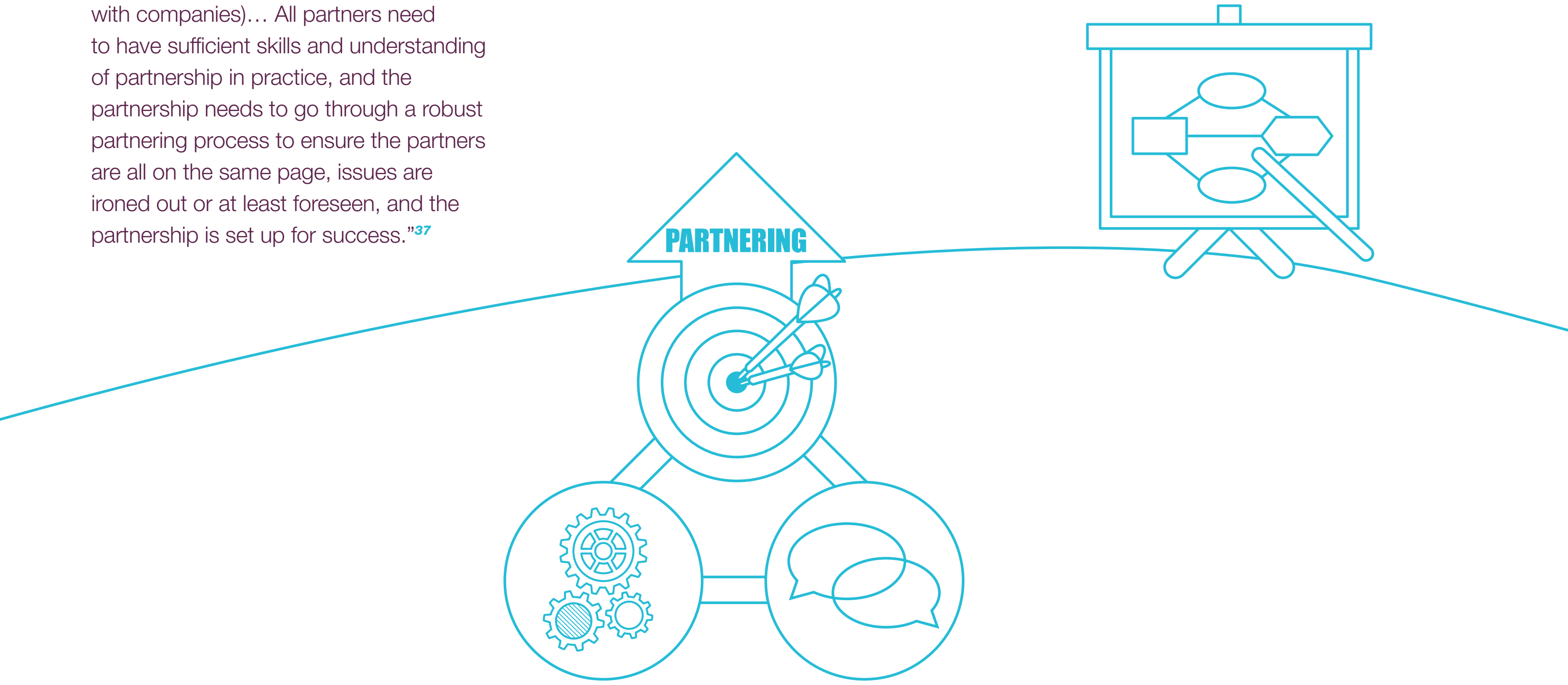
Recommendations for business

1 Adapt to new markets

Businesses entering partnerships in new markets must be prepared to adapt. They will need to build detailed knowledge of the market (including financial, economic and political factors) and the capability to operate effectively within it. This will include adopting local business customs, cultures and possibly even processes. Various global institutions and local partners can assist with adaptation by sharing knowledge on risks in new and difficult markets. However, businesses looking at commercial opportunities in new countries should acknowledge their potential need for adaptation and assistance up front.

2 Invest in understanding partners: plan and be open

To manage expectations and maximise the success of partnerships, it is important for each party to understand what is involved. The key to this is planning and openness. Key elements that should be defined early include: commercial objectives; climate and development objectives; roles and responsibilities; and resources to be committed by each party. Training and awareness raising is also likely to form a critical part of successful partnerships, and plans should be put in place to support partners to approach the challenges of climate change effectively.

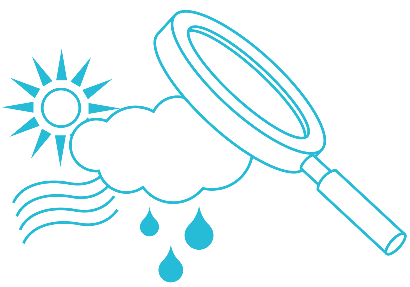


37 » See Business Innovation Facility website: bit.ly/15gKnF5

8. Recommendations and next steps

3 Understand climate and development impacts

Business-to-business partnerships for climate compatible development must be based on a robust understanding of the climate and development benefits that result from commercial activities. This should include gaining an understanding of where, by whom and for how long these impacts may be felt through environmental and social impact assessments. Partners should be realistic and open about unintended consequences and establish mitigating actions to avoid or lessen negative impacts. Gaining a robust understanding of the internal and external positive impacts can also provide a powerful story to stakeholders and within the business to build support for such partnerships.

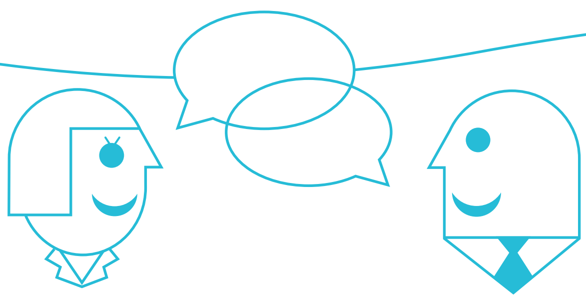


4 Share knowledge and communicate, based on agreed strategies

In any commercial relationship regular and constructive communication among parties makes good business sense, and this should apply equally to relationships that also seek climate and development outcomes. Good communication reduces the risk of problems emerging and can quickly mitigate them when they do. It can also drive efficiency by improving knowledge of when and where resources should be allocated. When planning a new business partnership, a communication strategy should be built in up front to the design and operation. Sharing knowledge and lessons learned will also be an essential part of a communication strategy. To create lasting and transformational change, businesses should look at where their partnership model could be replicated and scaled, and how they and others could benefit from sharing best practice, as well as challenges they have overcome.

5 Develop long- rather than short-term partnerships

Lasting partnerships will likely deliver the most sustainable and impactful climate and development outcomes. To be sustainable, partnerships must make commercial sense for both parties going forward and should not be based on short-term gain or viewed as a corporate social responsibility (CSR) activity. Potential partners should challenge the business plan to ensure it endures beyond the short term. This is particularly the case where livelihoods, and community and environmental health, may rely on the activities of the partnership.



8. Recommendations and next steps

Recommendations for policy makers

1 Develop the evidence base

To understand how business-to-business partnerships may be effective and how aid may act as an enabler, monitoring and evidence gathering is critical. This must include:

- Undertaking desk based research and consultation focussed on the opportunities for business partnerships in climate compatible development, identifying key areas of need and conditions for success.
- Identification and support of pilot projects covering a range of sectors, partnership types, and countries at different income levels.
- Analysis to draw out principles from the pilot projects to identify the areas of greatest potential for scaling up or replicating partnerships.
- Ensuring information is available to the businesses that need it.

This evidence collection should have climate compatible development at its heart.

2 Develop a coherent and consistent policy framework

Business partnerships are not a silver bullet to meet trade, climate and development objectives. There is a wide range of barriers which need to be addressed by policy interventions. Without supportive, wider policy frameworks in place, business partnerships will be swimming against the tide. For example, in the low carbon sector, business partnerships are likely to fail if there are sudden, unforeseen or retrospective policy changes.

It makes sense, therefore, to support business-to-business partnerships on climate compatible development where the relevant policy framework is supportive of such activities. To do this effectively will require a clear understanding of the opportunities, challenges, and limitations for the commercial sector in implementing business-to-business partnerships, and greater collaboration among donors, policy makers, and businesses.

3 Prioritise lasting impact

With limited resources, it is essential that aid money is spent where it can make the biggest difference and where the need is greatest. Not only must projects maximise trade, climate and development impacts for every dollar of aid money spent but a key focus should be on ensuring a lasting and scalable impact beyond the lifespan of any funding.

In the development stage, projects should build on existing schemes and activities, for example, targeting a supplier business that already seeks to expand in a particular market, or a distributor that is relatively advanced in developing a business model for specific goods or services. Those seeking to broker business partnerships should seek to address this knowledge gap for both parties.

There must be a clear timeline and exit strategy for when the project is entirely self-financing and a high expectation that benefits will continue to flow in the long term. Seeking match funding from the supplier business can enhance value and buy-in. Partnerships are likely to be more enduring when senior management involvement and buy-in are in place from the start.

8. Recommendations and next steps

4 Increase the legitimacy of outcomes from business-to-business partnerships

There must be robust evidence of lasting climate and development outcomes to justify the reasonable use of aid money for business activities. Increasing legitimacy should include:

A) Monitoring and evaluation

Projects must have quantifiable benefits for climate and development outcomes. This should typically include using an approved baseline (business as usual) and developing a monitoring methodology that should be validated, approved and registered. These should be linked to reward, for example, in a 'payment for outcomes' system. There must be robust appraisal for each stage of funding and strict quality assurance. Assumptions must be tested rigorously. Independent verification and transparent evaluation criteria should be considered to increase accountability.

B) Transparency

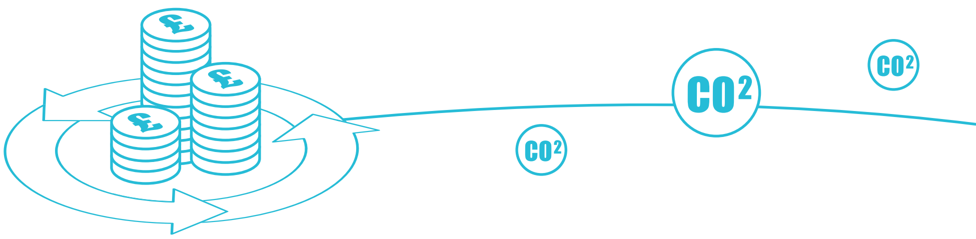
There must be clear transparency and accountability on the costs, benefits, risks and rewards of business-to-business partnerships. For example, in cases where supplier companies are foreign is there a risk that the foreign company cannibalises market share from domestic businesses after the completion of the project, with a detrimental impact on poverty reduction overall? How significant are the reputational risks if outcomes are not met or considerable financial benefits flow out of the developing country? To what degree can sensitive corporate information be shared with other parties without damaging competitiveness or contravening data protection?

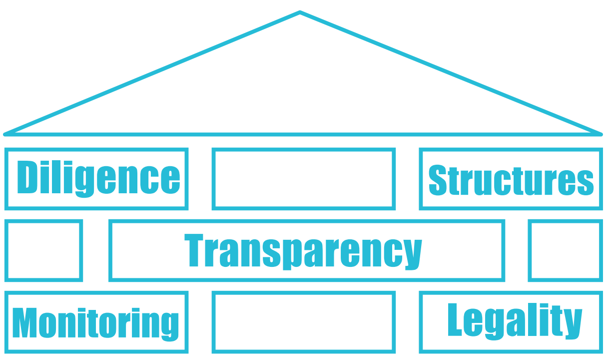
C) Contractual Obligations

All parties must sign a legally enforceable contract to ensure full co-operation and that stipulated goods and services are rendered.

D) Legality

Aid providers must ensure that any legal ambiguities are addressed. These might include whether certain projects would contravene international competition laws (such as EU state aid) or tied aid rules (such as the UK's International Development Act). It is not foreseen that there would be significant legal obstacles in this respect.





> *In each country in each sector, there are partnerships being formed, innovations underway and lives being transformed. We need to continue to foster these partnerships with the private sector and invest together in low carbon resilient growth.*[38]
>
> **Baroness Northover, Government Spokesperson in the House of Lords on International Development.**

38 » Baroness Northover speaking at the CDKN-Aldersgate seminar, March 2013.

8. Recommendations and next steps

5 Address additionality concerns

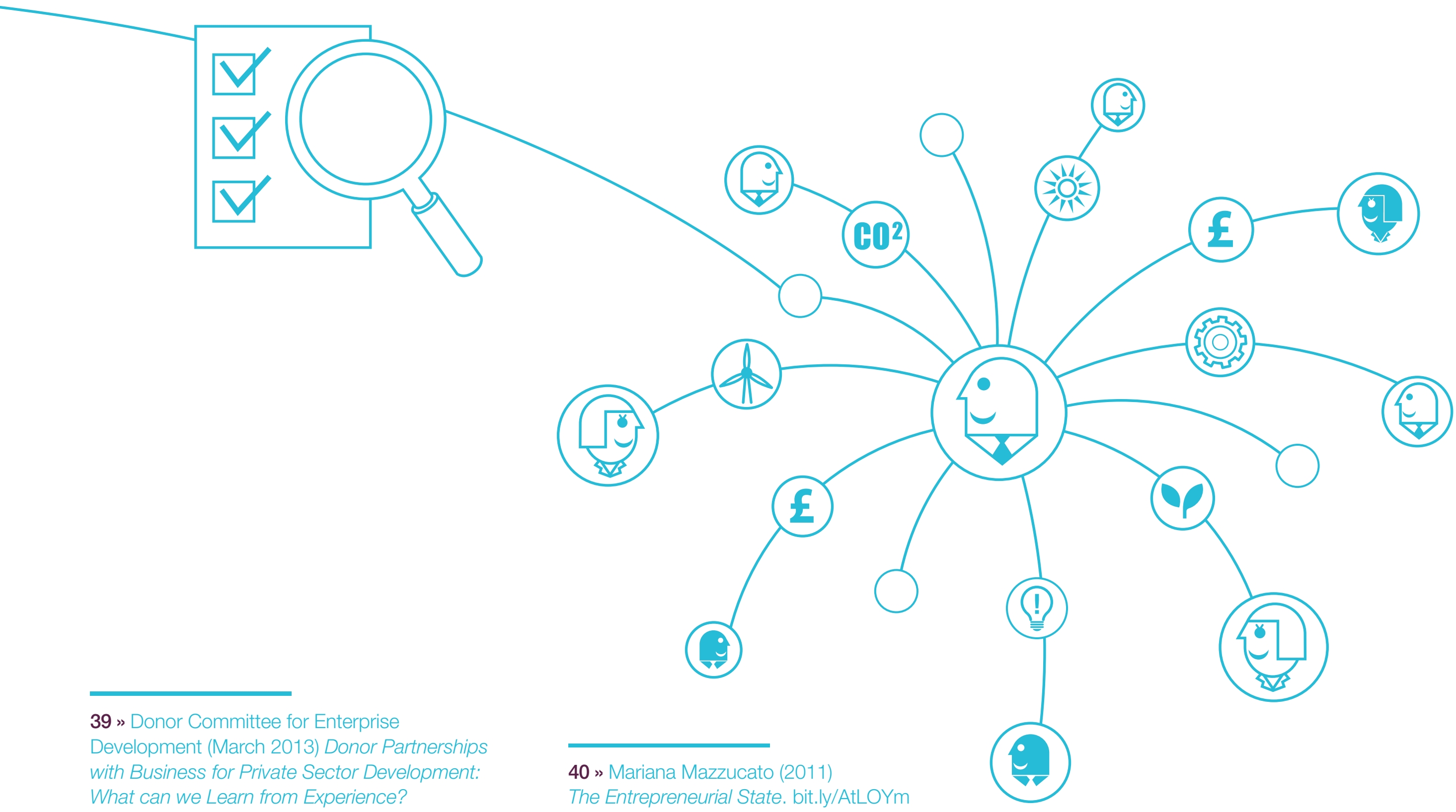
One of the core challenges of donors' partnering with business is to ensure and demonstrate that public money is used to support activities that are 'additional' to what the business would have done anyway – particularly in the context of structured mechanisms for grant support. Research by DCED finds that approaches and the rigour donors apply in such assessments vary significantly and could probably be enhanced in several dimensions[39]. A robust level of due diligence and scrutiny based on a good understanding of activities and outcomes should be applied at the start when evaluating the potential to support a business project.

An innovative solution that could be explored would be for the public institutions that bear some of the risk of the project (i.e. through the funding they provide) also to share a proportion of the potential rewards. For example, when SITRA, the Finnish Government's public innovation fund, provided the early stage funding for Nokia, it later reaped a significant return on its investment[40].

Next steps:

The Climate & Development Business Network

In response to the findings from the recent CDKN-Aldersgate seminar and the wider call for greater leveraging of the private sector on climate change and development, CDKN will be piloting a network to enable business-to-business partnerships. The network will seek to support partnerships that demonstrate the potential to deliver sustained climate compatible development, addressing the concerns mentioned above such as additionality and legitimacy. CDKN will look to use the network to build evidence on how partnerships can be an effective way to engage business to deliver climate and development benefits and to show how aid may be used to lower the barriers that currently prevent progress.

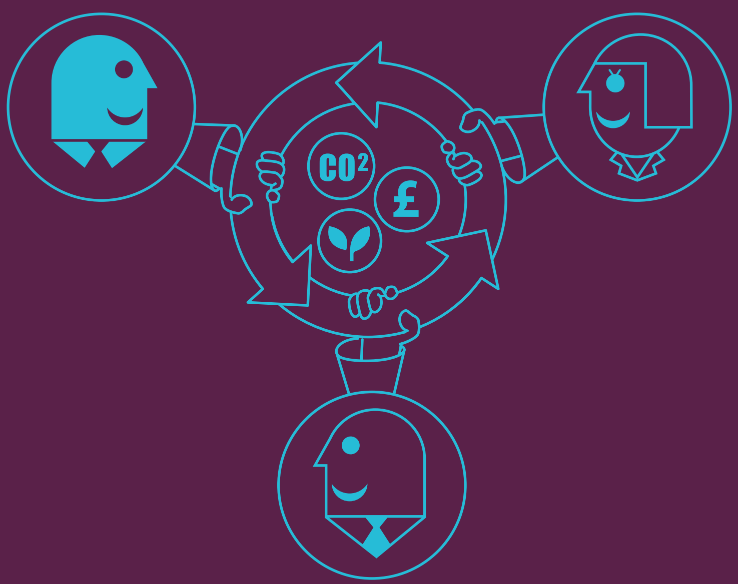


39 » Donor Committee for Enterprise Development (March 2013) *Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience?*

40 » Mariana Mazzucato (2011) *The Entrepreneurial State*. bit.ly/AtLOYm

Disclaimer

Management of the delivery of the Climate and Development Knowledge Network is undertaken by PricewaterhouseCoopers LLP, and an alliance of organisations including Fundación Futuro Latinoamericano, INTRAC, LEAD International, LEAD Pakistan, Overseas Development Institute, and SouthSouthNorth.



Printed using paper containing 50% post consumer recycled fibre and made with 100% ECF (Elemental Chlorine Free) wood pulp, that is fully recyclable and sourced from carefully managed and renewed commercial forests.