

Harnessing private enterprise for climate compatible development

Thursday 30th April, Overseas Development Institute, London

Chair: Simon Maxwell, Executive Chair, CDKN

Panellists: Juan Pablo Larenas, Executive Director of Sistema B; co-founder of Late!, Pedro Tarak, co-founder of Sistema B; investor and Board member of Guayaki company, Jonathan Treacher (Uganda and UK), Chairman of Africa Power, Pippa Heylings, CDKN Lead on Climate Compatible Development Policy and Practice

Climate compatible development, poverty reduction, and the private sector

Simon Maxwell, CDKN

The challenge is: how do we make sure foreign direct investment and overseas development assistance contribute to poverty reduction and the protection of the environment without undermining economic goals?

These topics are discussed in the UK media and development community and can be found on the agenda of all parties and their development manifestos in the run-up to the general election.

Climate compatible development contributes to tackling climate change in ways that do not undermine development and economic prospects. CDKN cares about how the private sector can make a contribution to it, and to find out whether we have models we can scale out to solve the economic, social and environmental challenges.

Pippa Heylings, CDKN

Climate change is the defining global public good; there is no one individual or government that can solve the issue and taking action now will not necessarily receive the full benefits straight away or even within their generation. Some will suffer the consequences of action, some will reap benefits. So whose responsibility is it to tackle this issue? CDKN is now in its 6th year of addressing the triple challenge posed by climate change without undermining economic development.

Christine Lagarde, Managing Director of the International Monetary Fund (IMF), said climate change *“is by far the greatest economic challenge of the 21st century”*, and that we need to look at the economics of it.

There is a general consensus between governments that in order to meet a global agreement to take action on climate change requires at least \$100 billion. By COP20 in Lima however, only \$10 billion of the £100 billion need had been raised, leaving a \$90 billion gap. CDKN believe that the private sector can play a major role in filling this gap. The challenge is, how do we incentivise the private sector take action?

The UK Department for International Development (DfID) and other donors are already looking into this challenge. CDKN brought together the Aldersgate group to look at role of aid in private sector initiatives, questioning whether aid funds should be used for private sector activity; isn't it for profitability? Shouldn't they be doing it anyway and pay for it themselves? What should aid be used for?

CDKN found it was very rare in the climate change field for organisations to use aid money to do things that private sector wouldn't have done anyway. Where they did, it was around knowledge sharing, innovation in technology, creating a community, bringing policy makers together around barriers, risks to capital investments, and how to bring proven initiatives to scale.

CDKN decided to embrace a more innovative approach – setting up a Challenge Fund and asking businesses how they would use small amounts of funding on the ground and to show evidence of how it might grow. This led to the creation of CDKN's [Business Partnership Programme](#) which seeks to encourage and facilitate North-South and South-South business-to-business partnerships to increase the knowledge, skills and networks needed for goods and services that deliver climate compatible development benefits.

CDKN's [Business Partnership Programme](#)

[Climate compatible development in Peru through the identification and enablement of energy efficiency measures for business](#)

[Testing synergies in distributed renewable village power in Africa](#)

[Designing a franchise model for conversion from diesel to renewable energy in rural India](#)

[Geothermal development drilling risk finance innovation in Kenya and Ethiopia](#)

CDKN's Business Partnerships Project in Peru aims to establish a group of corporate leaders to pilot real energy and financial savings (and carbon reductions), while simultaneously building capacity in the local expert services market. CDKN is now helping to link this project to Peru's national Plan CC process to achieve a more comprehensive response to the challenges of climate change and to show how cooperation between different stakeholders works, and how to redefine responsibilities.

CDKN is working towards co-operation between business and donor organisation and government about redefining profitability in the market. So far, it seems, the development community might have been talking the wrong language to fill the \$90 billion gap.

Private enterprise for common good

Jonathan Treacher, AfricaPower

"Money is like water, it will find its own way. But you have to create good conditions for it to flow."

Africa Power is working to bring more private capital into Uganda and to address the chronic lack of power inhibiting development and income growth in rural areas. The company is pursuing the ABCD model to provide electricity:

- A for *access*: to bring energy companies to areas currently without.
- B for *business*: to do something profitable with the energy.

- C for *community*: using energy to benefit communities.
- D for *domestic*: putting energy into homes.

The [Africa Power project](#) installs solar panels to provide electricity in rural areas. The company strategy is to try and build an independent power production company. Without the funding from CDKN it would not have had credibility.

85% of Ugandans are currently not on the national grid; due to technological, financial and political constraints. The solar technology allows for alternative energy sources to provide areas with electricity without the large infrastructure costs of grids, further, the battery technology available 'enables you to go to more and more remote areas'.

The capital expenditure for this can be much less but it is important to work in areas where it is economical where people are able to pay for the electricity and there are opportunities to create profitable businesses if electricity is provided at the right price. The project wants to ensure the users will trade up, for example if they buy a solar panel and a light bulb, they will upgrade when they have paid off the costs.

The project has installed solar panels on cell phone towers that previously burned hundreds of barrels of diesel every year to operate, which made it expensive and risky. Since the installation, it has used no diesel at all, generating huge savings on fuel and money. This has been driven by the ability to remotely monitor how it is working, the falling cost of solar panels, an awakening of solar tower operators that they are not in the business of buying power, and ownership by private funds who are interested in revenues. These anchor tenants are credit worthy customers and they pay regularly, as they have every interest in keeping operations going.

In Uganda farmland is incredibly productive. Rainfall is massive but doesn't always fall in the right places at the right time. Agriculture is held back because of water issues. If you could hold back the water and pump it when it is needed through drip feed irrigation, you could get 3-4 crops a year. This could potentially be very transformational without excessive costs: solar panel, pump and some irrigation equipment in a field. Farmers have raised some unexpected negative such as the increased cost in security as crop yield increase.

Africa Power is creating an infrastructure of people to see if the proposed economic model works (it does so technologically) and if people are willing to pay for it. Local support is crucial, but national level government is not required; it should be informed but should allow the private sector to make the case to invest.

There are risks involved; it relies on there being a demand for electricity and a willingness to pay for it. There could also be issues around the security of the technology. There is potential to use a model in which the risk is the basis for return; where risk capital investors provide funding, and if the project succeeds, they get their money back or some kind of equity share.

Redefining markets, the economy, and society

Pedro Tarak, Sistema B

We have a problem – the loss of biodiversity and life supporting systems (due to human activity). The Amazon forest has only 7.8% left standing; we want to see it back. By creating a community of consumers, producers, suppliers, investors, we can provide market driven restoration. By

internalising the cost of regeneration into progress we can benchmark the market notion of life regenerating business in the industry.

Guayaki, a Chilean yerba mate producer, is a Benefit Corporation (B Corps), an enterprise that aims to steward and restore 200,000 acres Atlantic forest and create over 1000 living wage jobs by the year 2020 through market driven restoration business. As a B Corps, this is in our mission statement of the corporation, but we are also subject to an independent third party scrutiny and evaluation of overall sustainability of the company. In general, if a company gets 80/100 points from this 360 degree evaluation, the company is invited to become B corps certified and belong to its international community.

Once a company is part of Sistema B, they sign the *Declaration of Interdependence* of all stakeholders and accept to re-certify every two years and to undergo random audits, make public punctuations and fines, and to make amendment to business agreement, for example expanding the fiduciary liability clause to all stakeholders which achieves the incorporation of the diversity of all stakeholders and enables to balance different dimensions of share -and stakeholders.

It links to CDKN and climate compatible development as we pay 4-6 times more to our producers to plant trees in their own land that help other species grow, and thus achieve 573g carbon *reduction* per one pound of yerba mate produced. This is not only mitigation, but being part of the solution. It enables conservationists, investors, and talents to be part of the solution. The notion of the B corps is not about making money, then putting it into nature reserves - but putting money into sustainable business; life generating business as core business purpose.

Profit is still important as indicator of purpose. Perhaps you can create a new economic sector, driven by purpose, consequences and core benefits, thus creating integrated economic value.

Juan Pablo Larenas, Sistema B

There are 1300 B Corps in 41 countries in over 100 industries, now of which 173 are in South America. Businesses range from \$3000 to \$3.6 billion and from 2 to 7000 workers. The key element is that all of them commit legally to increase shareholder benefits, and to improve the other areas too: purpose, standards, and being part of the community.

In order to be a B Corp you must incorporate by-laws:

- To have a purpose beyond maximising shareholder value.
- Directors and executives are directed to maximise that purpose, they have the authority in the company to do that.
- Companies must report both positive and negative impacts that they generate.

Fiduciary liability is key. It means enacting amendment to by-laws on voluntary basis to grant legal clarity of a new way of doing business to incorporate long term variables. If there is no law, you can do it via a private contract. It also means a lot of investments in suppliers, titles, education and tech transfer and incorporating externalities into one's pricing system - so it is all about adopting a long term vision. It is clearly not charity however, but investment into one's own business to secure supply.

Certification is a tool to show companies impacts. In some countries like Chile and Argentina, there are big legislation gaps and changing by-laws is not enough. There are still grey areas, and you still need legislation as there are potential for conflict among shareholders and courts could be in support of shareholders who want to maximise profit.

To create change in the economy and market, B Corps are fundamental new players. They are made up of 70% social enterprises and 30% of companies that are moving from CSR to B Corps. But this is not enough, other actors need to play a role too.

This is why Sistema B is pursuing a new model to promote interdependence between shareholders through systemic approach; collective action to act in and between groups to create new code of practice and systems of influence – a new paradigm moving from critical mass to critical connection to engage key players.

- **Redefining success with Academics:** New academic network, case studies and tools to move from the narrative of what B Corps do, to what are the benefits generated and show impact. Introducing this new thinking into teaching.
- **Redefining success with policymakers:** show solutions and not only problems, 80 organisations creating initiatives to influence public policy and allow to interact with governments to create certainty to operate for businesses (for example building a platform to show the barriers to this type of business and to collect the 101 best ideas for positive social impact www.101soluciones.org).
- **Redefining success with society:** Organising the International Social Innovation Festival with 70,000 participants to show how entrepreneurs can make positive impact and engage people in a more holistic way

Discussing the role of the private sector and B Corps in climate compatible development

Would other enterprises benefit from being B Corps and what is preventing Sistema B from attracting other private sector actors?

Some initiatives do not benefit. There are also issues and potential obstacles around a firm changing from its existing company type (bylaws change) to becoming a B Corp and the cost may be a barrier to move to B Corp. There is a risk where enterprises simply attribute the 'climate compatible development part' of business to be part of being paid publicly. But maybe there is a middle ground where both sides are happy - where is this dynamic?

On the other hand, B Corps are locally grounded and need local involvement, they can provide training for locals and aim that this way of business becomes necessary. They are an interesting idea with good potential, but need to get a critical mass.

So why become a B Corps?

It is about conviction and being part of a community where interdependence is critical, and being part of the evolution of capitalism. B Corps are not trying to take away from the market the other initiatives that are quite complementary to B Corps. It is about being pioneers and leading the world in the right direction.

From a corporate perspective, it can be very attractive to be a B Corp. If being a B Corps means access to cheaper capital it would be a way to convince shareholders.

Having an economic driver where B Corps create a community of shared resources, or if (for example) banks had special conditions for B Corps, there could be added incentives. There are also market development options associated with this, the trademarking, there may be upstream benefits, in terms of credit and payment terms. The possibility of new markets in the climate compatible development space is massive.

The real added value is about:

- Changes to fiduciary liability
- national legislation
- idea of building the movement

What's the role for CDKN and governments?

It is likely that the Intended Nationally Determined Contributions (INDCs) given at the Conference of Parties (COP21) in Paris will not be ambitious enough. There is an initiative called the Energy Accelerator, which is designed to bring a critical mass of action from Lima to Paris. CDKN works in the triple win space, and with the urgency of action needed in face of climate change, CDKN looks to accelerating action. CDKN plays a role around knowledge sharing around best practice that can inspire others.

CDKN is working with governments to development goals and how they will report on their actions; getting evidence of what works, best practice and how to inspire, and how best to use ODA, the best way to use subsidies.

It is a government subsidy in the geothermal market in Kenya that reduce the risk. After reducing risk happens, then private sector will come in to do its work.