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# Financing pro-poor innovations

## Challenging some assumptions of the BOP approach

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# What moves the „merry-go-round of innovation“?



- Innovations are the outcome of complex interactions between public and private actors.
- The Schumpeterian entrepreneur investing in RD&I is a key actor.
- He or she takes risks when expecting high returns on investment (innovation rents).
- The BOP is a high risk / low profit market segment.
- How can pro-poor RD&I be moved beyond CSR and charity?

***Is there a case for public financing?***

# Is there a case for public financing ?



- Public financing is justified first of all, where public goods are at stake. Are improved cooking stoves public goods ?



*Non rivalry ?*

*Non excludability ?*

***Definitely not ! So...***

***Is there still a case for public financing ?***



- Access to clean energy is **not** listed as one of the Millennium Development Goals and targets, while access to water and sanitation: yes (MDG 7, target c).
- But there are many factors related to unsustainable biomass use, that directly link to the MDGs,
  - such as...



Indoor Air Pollution  
killing around 1.6 million  
people annually, among  
them many women and  
kids.

MDG 3: Reducing child mortality



## MDG 7 and Copenhagen Accord: Mitigating Climate Change

Black carbon  
contributing to  
GHG effects







Unsustainable biomass  
usage contributing to loss of  
forested area and of  
biodiversity



MDG 7, target b): Reduce biodiversity loss



Time spent on firewood collection is not available for productive and educational purposes



MDG 2: Achieve universal primary education

MDG 3: Promote gender equality and empower women





- As there is a global public interest in R,D&I in improved biomass usage, it would be reasonable to fuel the innovation systems with global (public) funds.
- Thus, the challenge might not be, how to lower costs of stoves to make them commercially accessible for BOP customers, but rather to *design global funding schemes* that,
  - provide incentives for actors in the **early phases** of the innovation cycle (R&D and not: roll-out);
  - include an adequate **contribution of beneficiaries**;
  - maintain high level **competition** among developers and producers;
  - avoid moral hazard.
- Lessons may be learned from a multitude of DC projects related to Business Development Services (BDS)



- DAC donors in 2007, ODA in the health sector:
  - 10.9 billion US-\$ in bilateral aid
  - 4.7 billion US-\$ in multilateral aid
  - 5% of total health ODA would allow to co-finance **31 million stoves** by 25\$ each, annually
  
- Bill and Melinda Gates Foundation: Grants paid in the health sector:
  - 1.8 billion US-\$
  - 5% would allow to co-finance **3.6 million stoves** by 25\$ each, annually



- **Which way ahead to stimulate R,D&I in biomass stoves for poor households:**
  - **Trust in the BOP market?**
  - **Mobilizing on global public funding?**
  - **Combined approach – how could this look like?**