Overseas Development Institute

Optimsing the Development Performance of Corporate Investment

Building the Case for a Core Competences Approach

Michael Warner

programme on

Optimising the Development
Performance of Corporate Investment

Funded by

Private Sector Policy Department
Department for International Development

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Introducing a New Programme of Action Research at the Overseas Development Institute

Overseas Development Institute

Optimising the Development Performance of Corporate Investment

The Overseas Development Institute (ODI) is Britain's leading think-tank on international development. The Institute is launching a new action research programme: *"Optimising the Development Performance of Corporate Investment*". The programme is intended to raise the profile of international development and poverty reduction as components of corporate social strategies and corporate investments.

The objective of the programme is quite specific: to develop and mainstream a management tool that systematically maps the full range of assets, resources and capabilities of a corporate operation onto the development priorities of the operating region. The resulting 'inventory of competencies' is then used to:

- inform the design of social performance strategies for companies and associated suppliers;
- align the social contents of competitive tenders and investment proposals with public policies for poverty reduction; and
- better prepare companies for stakeholder dialogue and partnership negotiations with government authorities, foreign development agencies and civil society organisations.

> The ODPCI programme refocuses the practice of corporate social responsibility (CSR) in developing countries, from the management of adverse social impact and risk, to the performance of corporate operations in contributing to the development of poor societies.

The approach is cost-effective because it emphasises deployment of existing resources and competencies, rather than introducing new fixed costs.

The Private Sector Policy Department of the UK Department for International Development has seed-funded the programme. Preliminary research has been completed. The main conclusions are as follows:

- in many low income developing countries, although corporations contribute to the economic development of wider society through products and services, dividends, tax and wages, the positive impact of their businesses on the poor could be enhanced;
- there could be far greater coherence between business success and the delivery of public policies for poverty reduction;
- a more systematic assessment is needed of the potential interface between poverty reduction and the full spectrum of core business competencies, including: product development, production capacity, skills (engineering, management), procurement, marketing, distribution, operational infrastructure (power, water, transportation and communications), borrowing capacity, human resource development, and investor and end-user relations;
- the current trend for corporations to build up their internal capabilities in community development runs counter to convention on business growth strategies in alien markets;
- it is a basic business principle that in such markets strategic alliances, based on a defined pooling of complementary strengths, and not internal development or acquisitions, offers a more cost-effective and less risky means to improve business performance.

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Optimising the Development Performance of Corporate Investment

The ODPCI Programme

Discussion Paper – Overview

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Purpose of the ODPCI Programme

The purpose of this Discussion Paper (*Parts 1, 2* and *3*) is to provide a rationale for undertaking a new research programme at the Overseas Development Institute (ODI).

The three-year programme will design business management tools to optimise the development performance of corporate investments in developing countries, with a particular focus on improving the range of options for business operations to contribute to poverty reduction. The UK Department for International Development (DFID) have granted seed-funding for the programme in the lead up to ODI securing participation and funding from the private sector.

The ODPCI programme will work closely with leadership corporations from a range of investment sectors (consumer goods, retail, banking, telecommunications, construction, oil and gas, power, leisure and forestry).

There is a wide, and increasing, range of pressures on corporations to demonstrate that their businesses in the developing world contribute to the development priorities of the society within which they operate.

The research is ultimately designed to re-dress the imbalance in the current debate on corporate social responsibility (CSR) and Corporate Citizenship in developing countries, from a focus on labour standards, the management of social risks and mitigation of adverse social impacts - for which many codes and compliance requirements are now in place - to the addition of 'development value', which, in the area of poverty alleviation in particular, has received less attention.

Structure of Report

Part 1 of this paper provides a rationale for this shift from the management of adverse impact and risk, to development performance. *Part 2* looks for potential linkages between corporate investments (as illustrated by foreign direct investment), the development priorities of the host society and the aid provided by international development assistance agencies. An analysis of the different business models available for embedding a development performance management tool within corporate operations is provided in *Part 3.*

Conclusions

The report draws a series of conclusions. These are summarised below under three headings:

- Mapping Business Competencies onto Development Priorities;
- Linking Corporate Investment and International Development; and
- Embedding a Core Competencies Approach to Development Performance.

Mapping Business Competencies onto Development Priorities

1) There are a wide, and increasing, range of pressures on corporations to demonstrate that their businesses in the developing world contribute to the development priorities of the wider society within which they operate. These pressures derive from, *inter alia:*

- project finance investors, securing against investment risk;
- institutional fund managers, seeking evidence that companies are meeting ethical criteria for portfolio equity investors;
- corporate headquarters, wishing to protect brand values, assure reputation, present evidence of social performance to their shareholders and the public, and recruit and retain staff;
- requirements contained in concession tender documents and Development Agreements, for example, for employment quotas and other community benefits;
- senior management at the operational business level, who value a durable 'social licence to operate' that reduces the risk of production downtimes arising from disruption by local communities;
- local government authorities, who look to investments in their region as an

opportunity to deliver on public policy commitments; and

- official and non-governmental development assistance agencies, which recognise the importance of foreign investment in regions of the country in the context of declining aid flows.

2) These pressures are beginning to widen the debate on Corporate Social Responsibility towards questions about how major businesses can make a positive economic and social contribution in poor societies, through, *inter alia:*

- improved revenue distribution;
- employment access;
- market opportunities for local companies;
- employment opportunities and training for local communities;
- provision of infrastructure (power, water, sanitation, transportation, communication, school education, health care);
- skills and technology transfer;
- use of professional project, contract and performance management techniques;
- environmental protection and management; and
- business ethics.

3) Multi-sector partnerships involving NGOs, government and/or development assistance agencies working alongside corporate operations on social issues are a relatively new strategy for corporations to deliver on their commitments to social responsibility. Despite some evidence that such partnerships add value for both business and poverty reduction, many such arrangements are short lived, or fail, because wrong assumptions are made by all parties about the resource and competencies that each should, or could, bring. Corporate operations in particular are essentially 'flying blind', often with no clear idea of what their particular role should be in such partnerships beyond the provision of funding to NGOs.

What is missing at present is a management tool that systematically identifies the full range of business resources, skills, capabilities and competencies that could add value to the efforts of others in meeting society's development priorities, and which carry a robust business-case.

4) What is missing at present is a management tool that systematically identifies the full range of business resources, skills, capabilities and competencies that could add value to the efforts of others to meet society's development priorities, and for which there is a robust business-case.

5) It will not be sufficient to design such a management tool around fixed (i.e. given) indicators of economic impact (as attempted in the 1970's and 1980's to assess the cost-benefit of direct investments). Such indicators *may* be important for development, but localised refinement is needed to determine whether, in contributing to such indicators, the company is having any lasting impact on the society's unique development priorities. This means taking due account of domestic government policy and strategies for poverty reduction, regional development plans and policies, and the priorities derived from community-based needs and livelihood assessments completed by NGOs or other civil society groups.

6) The advantage for companies of taking due account of existing development priorities is that the approach is likely to increase the chances of attracting the international development agencies, government authorities and civil society organisations, as partners. The partnership approach is important for corporate operations since it fosters a sharing of the cost burden and absorbs some of the risks associated with drawing out the core competencies of the business for developmental purposes.

7) Operating companies will increasingly place a premium on being able to demonstrate to shareholders and the wider public their performance in contributing to the development priorities of wider society. For this reason, the management tool being developed through the ODPCI programme will both:

- assess the current (or projected) positive impact of the operation on society's development priorities at the national, regional and local levels, and

- identify opportunities to enhance this 'development performance' through either company-led strategies or more closely aligning business core competencies with those of potential partners from international donors, government and civil society.

Linking Corporate Investment and International Development

In only seven of the world's 70 poorest countries is it currently justifiable to talk of annual foreign direct investment flows *"dwarfing"* those of official development assistance.

8) In *Part 2* of the paper, in the poorest developing countries, foreign direct investment (FDI) is taken as a proxy for corporate investment.

9) Much is made of how FDI currently exceeds the aid budgets of foreign governments and multi-lateral organisations. In practice 80% of FDI flows to developing nations are concentrated in only eleven countries. Further, in only seven of the world's 70 poorest countries is it currently justifiable to talk of annual FDI flows *"dwarfing"* those of Official Development Assistance (ODA), namely: Vietnam (ratio 3:1), Angola (3:1), Lesotho (4:1), Ecuador (4:1) and Turkmenistan, Azerbaijan and China (all > 5:1).

10) Between 1996 and 1999, 55 (or 79%) of the world's 70 poorest countries (ranked by GDP/capita) received flows of ODA in excess of FDI, with 60% experiencing ODA:FDI ratios greater than 2:1.

Many of the instruments of official development assistance to developing countries offer potential for synergy with the resources and capabilities of the corporate sector in the pursuit of society's development priorities.

11) With respect to the public policy priorities of the poorest developing countries, FDI currently makes a substantial contribution to a positive investment climate, foreign reserves and local market stimulation. The question now is whether there is a business-case for corporate operations to contribute to the realisation of more 'poverty-focused' development priorities, such as affordable community infrastructure, local income earning opportunities, access to renewable natural resources, food security and the prevention and resolution of violence conflict.

12) In *Part 2,* in the context of achieving a range of development objectives, the relative performance of eight different ODA instruments (budget support, sector support, project aid etc.) are compared to the current and potential performance of the core business competencies of typical corporate operations.

13) There are a number of limitations in trying to link the competencies of business to ODA instruments. The principal constraint is the shift of international multi- and bilateral development agencies towards budgetary and sector support which tends not to be geographically targeted and can be of an overtly political nature.

14) Most suited to some form of linkage with the competencies of corporate operations are those ODA flows earmarked either for specific activities within a particular sector or targeted at specific aid projects. This includes debt relief (when linked to agreed poverty reduction strategies), sector-earmarked support, most project aid (be that technical assistance or grants) and humanitarian and emergency assistance.

15) In the context of DFID's ODA, it would seem that in the medium term, whilst non-earmarked budget and sector support is a growing feature, it is unlikely to account for more than 5 to 10% of total ODA. Thus, assuming DFID is illustrative of bilateral aid, for the time being at least the majority of ODA to developing countries would seem to offer some potential for exploring synergies with the resources and capabilities of the corporate sector.

16) One factor conspiring to reduce the overall volume of FDI flowing to the poorest countries of the world, is the high investment return demanded by foreign investors, which in some sectors (e.g. banking) is approaching 25% per year:

"We need to achieve higher financial returns demanded by the private markets…Our strategy is to dispose of the investments in [our]..historical debt portfolio….which has had significant developmental value, but is unlikely to meet the financial hurdles that CDC now requires." Commonwealth Development Corporation Chairman's Statement, 2000.

17) In general terms, the following countries have both substantial FDI stocks and ratios of FDI:ODA flows that might support a partnership approach to improving the development performance of foreign corporate operations:

Africa: Angola, Cote d'Ivoire, Chad, CDR, The Gambia, Lesotho, Malawi, Mozambique, Niger, Nigeria and Zambia

Latin America: Ecuador, Guyana, Honduras and Nicaragua

Asia: Armenia, Indonesia, Kyrgyz Republic, Moldova and Vietnam.

18) In countries where the total stock of FDI is relatively low in relation to overall economic activity, it is erroneous to conclude that FDI is not important for economic development. For example, although Tanzania has only a moderate FDI stock (11.2% of GDP at 1999) the country lies in the poorest quartile of all developing countries, and in some regions of the country the population is wholly dependent on the extraction industry as the principal catalyst for economic development - an industry increasingly dominated by foreign investors.

19) In **Nigeria** both inward FDI and ODA flows are likely to increase over the next few years. The country is well placed to work with the corporate sector, through social partnering, to help meet certain poverty-focused development priorities. The dominant oil and gas industry remains a likely candidate for piloting the proposed competency-development mapping tool. In addition, anticipated growth in the tele-communications market, and open tending for concessions, provides the prospects of foreign telecom corporations looking for competitive advantage. A detailed 'map' showing how the corporation's business competencies could be integrated with those of local aid, government and civil society partners to meet national and regional development priorities could provide bidders with this advantage.

Social impact assessment and risk assessment may need to be rejected as platforms for embedding a tool that maps business competencies onto development priorities.

20) The position of the tourism as a growth sector in **Vietnam**, combined with a marked increase in Western corporate interest in the country (FDI stocks as a percentage of GDP measured just 3.6% in 1990, soaring to 55.6% by 1999) and continued liberalisation of the economy and trade agreements, suggests that Vietnam and the tourist sector in particular might provide an opportunity to pilot the new management tools being developed through the ODPCI programme.

Embedding a Core Competencies Approach to Development Performance

21) Although examples exist of successful multi-sector social partnerships involving corporate operations in developing countries, the task of replicating these good practices through some systematic management tool, and then 'embedding' or 'mainstreaming' this tool within day-to-day operations remains elusive.

Annual and departmental resource and market-based strategic planning may provide a more effective vehicle.

22) *Part 3* of the Discussion Paper looks at the ways in which the proposed competencies approach to development performance might be embedded within conventional business practices. Seven business management tools and approaches are investigated: social and risk impact assessment, resource and market-based strategic planning, scenario planning, relationship marketing, and three growth strategies: internal development, acquisition and strategic alliances.

23) Social impact assessment and local risk assessment tools may need to be rejected as platforms for embedding a tool that maps

business competencies onto development priorities. Management responsibility for these tools generally falls within the company's Health, Safety and Environment department, and thus:

- are undertaken with little reference to other departments;
- perceived by the rest of the business as little more than a compliance requirement;
- focus on managing social risk and mitigating negative social consequences, rather than seeking to optimise development performance, and
- are dominated by metrics and social reporting procedures that measure performance in terms of the quality and quantity of 'activities', such as consultation or community participation, rather than 'outcomes' such as the sustainability of community projects or improved local governance.

The current trend for businesses to build up their internal resources and capabilities in community development seems to fly in the face of the convention on business growth strategies in non-traditional markets.

24) Favoured instead are three strategic planning methodologies: scenario planning, resource/market based strategic planning and relationship marketing.

25) *Scenario planning* for new investments provides a unique opportunity to bypass the current and entrenched 'company-controlled' approach to community development. A business competencies approach to community development and development performance will require a different type of skill mix than that seen in major corporations at present. As opposed to being drawn from NGOs and foreign aid agencies, this new type of staff member will need experience, not of community participatory planning or intermediate technology, but of a core business competency, e.g. marketing or engineering, combined with knowledge about how these competencies can be dovetailed to the competencies, skills and resources of governments, NGOs and foreign development agencies. The supra nature of Scenario Planning offers an opportunity to 'leap-frog' the inertia to a business competencies/social partnering approach of development performance now prevalent in the community development departments and corporate social responsibility units of operating companies.

26) *Resource and market-based strategic planning* are annual features of many of the departments within overseas corporate operations. The approach seems to offer an obvious vehicle for systematically mapping business resources and capabilities onto the development priorities of the country, region or locality. On balance, because of the emphasis on 'adapting' the company's existing resource-base to meet market need (rather than inventing new markets to better utilise existing resources), a 'market-based' strategic planning approach would seem more appropriate than a 'resource-based' one. Companies in the Fast Moving Consumer Goods (FMCG) sectors lean towards a market-based approach to strategic planning and may offer the best chance of embedding the competencies-development mapping tool.

27) *Relationship marketing* is not in itself a management tool, serving more as a *modus operandi*. One can apply the principles of relationship marketing to stakeholders other than customers, such as local communities. In so doing one should recognise that the business benefits of the approach are likely to differ considerably. What does seem to hold constant though, regardless of the type of stakeholder, is the idea of using on-going consultation and communication to design more targeted goods and services, be these private *or* public. One can make the case, therefore, that the proposed competencies-development mapping tool is simply another form of the already accepted practice of relationship marketing.

28) Business growth strategies fall into three broad categories: *internal development*, *acquisitions* and *strategic alliances*. The current trend for businesses to build up their internal resources and capabilities in community development seems to fly in the face of the convention on business growth strategies in non-traditional markets.

29) It is generally accepted that strategic alliances based on a limited pooling of core

competencies, and not internal development or acquisitions, offers a more cost-effective and less risky approach to working in new and alien market environments.

30) Community development in the impoverished rural and urban areas of poor countries is a relatively new corporate activity. It clearly lies on the margins of core business, requiring capacities and resources alien to most existing staff. Because the new staff members bring such unfamiliar competencies (community participatory planning and business departments, such as engineering and procurement, see few opportunities for inter-mediate technology etc.), most core business see little potential for synergies with the new arrivals.

It is generally accepted that strategic alliances based on a limited pooling of core competencies, and not internal development or acquisitions, offers a more cost-effective and less risky approach to improved business performance in new or alien markets.

31) Likewise, the new staff members working on community development sometimes often know little about the core business or about business management practices in general. Tasked with pressing on with what they do best, i.e. community development planning and projects, there is a tendency to omit to explore fully what resources or capabilities might lie in other departments that could be complementary to the development priorities of the local area.

Optimising the Development
Performance of Corporate Investment

The ODPCI Programme

Discussion Paper – Part 1

Mapping Business Competencies onto Development Priorities

Rationale for a Dedicated 'Development Performance' Business Management Tool

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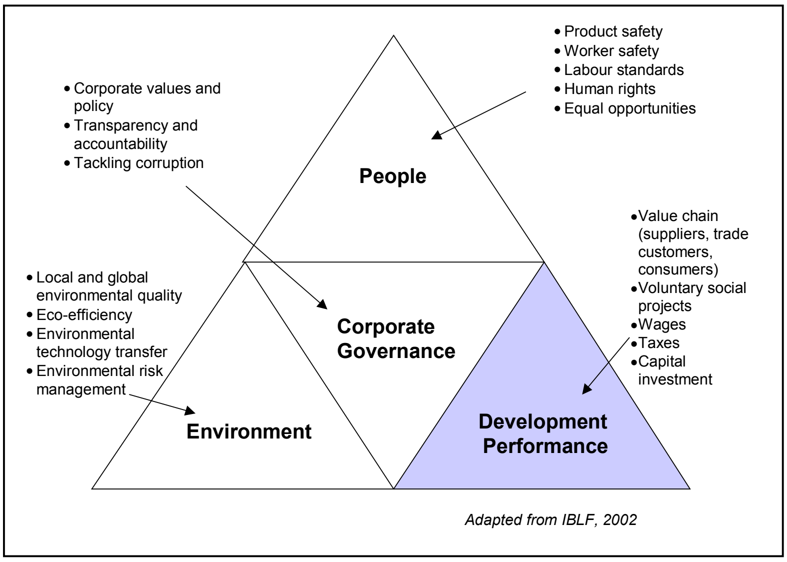
Part 1 Mapping Business Competencies onto Development Priorities

1.1 Introduction

Part 1 of this report provides a rationale for re-dressing the imbalance in the current practices relating to corporate social responsibility (CSR) in developing countries, shifting the focus from the management of social risk and mitigation of negative social impacts – for which many codes and compliance requirements are now in place – to mechanisms that add 'development' value. In the area of poverty reduction and social exclusion, in particular, the question of a company's development performance has received far less attention.[1] Specific reference is made in this paper to the World Bank Business Partners for Development programme and the importance of dovetailing the more efficient use of the core competencies of business operations with the new approach of social partnering. *Figure 1* captures the main features of corporate citizenship, including the concept of development performance.

Figure 1 Framework for Corporate Citizenship



[1] The exception to this is perhaps in the area of the supply chain. Some companies are already working systematically with local suppliers to strengthen the capacity of local small and medium scale businesses (SMEs) to exploit market opportunities presented by corporate operations.

1.2 Re-Thinking Corporate Social Responsibility

1.2.1 New Pressures

Protests against globalisation from Seattle to Genoa, and effective boycott campaigns, provide evidence of a growing discomfort with the progress of economic globalisation, and in particular with the conduct of global companies in foreign countries. Regardless of the merits of individual campaigns, this discomfort underlies some serious questions about the magnitude of the social responsibilities of corporations in some of the poorest regions of the world.

Pressures from investors, competitors, other stakeholders and new international legislation are affecting many corporations. In response, strategic decisions at the corporate level have gone beyond infrastructure concerns about access to assets, new technologies and capacity, to include ethical decisions that range from questions on the local environment, to social cohesion and good governance.

With reputation and operating environments at risk from disgruntled local communities, the challenges are real. Increasingly investment banks are incorporating environmental and social conditionality into loan terms. Pressure groups are purchasing shares to influence strategic decisions at annual meetings. Even consumers are aware of their buying power in the global marketplace. Evidence is also mounting that higher social standards may ultimately lead to improved profits, reduced cost liabilities and greater shareholder value. Despite these sticks and carrots, not all agree that corporations should join the ethical 'band wagon' of corporate social responsibility.

1.2.2 The Counter Argument

Some believe that corporate social responsibility distorts the market by deflecting business from its primary role of profit generation. David Henderson, the former chief economist at the Organisation for Economic Co-operation and Development argues that the 'fad' for corporate social responsibility is doing real harm, privatising public policy and hence removing governments from their core responsibility. A recent editorial in the Economist notes that governments increasingly use regulation to force companies to pursue "what used to be their own social ends"; and with regard to foreign operations, that "multi-nationals are now seen as tools, via fair-trade regulations, to sort out the evils of third-world poverty" (The Economist, 22nd December 2001).

It is not altogether surprising then that some commentators are beginning to question whether the time has not now been reached when governments, corporations and civil society organisations should 'step back' and re-think corporate citizenship altogether (Zadek, 2001).

1.2.3 Emerging Evidence of a Business Case

In recent years a growing body of research on the positive contribution (i.e. development performance) companies can make through greater CSR has been centred around proving the 'business-case' of voluntary social investment programmes, be that in relation to investment performance, risk management, competitive advantage, global reputation, staff moral or customer marketing (Zadek, 2001; Acutt & Hamman, 2001).

Other aspects of the positive side of CSR include empirical work on measuring the poverty reduction impact of improved labour practices (ETI, 1998), the work of Berman and Machin (2000) and te Velde and Morrissey (2001) on the effect of wages on poverty and research by McKay (2000) on the impact of trade on poverty.

1.2.4 The Need for Greater Systematisation

What seems to be missing at present, however – and a conclusion supported by the findings of the World Bank Business Partners for Development programme (BPD, 2002) – is any systematic analysis of the 'full range' of core business activities (employment practices, human resource development, marketing, distribution, infrastructure, advocacy etc.), for different types of corporate entities (foreign or domestic), in relation to the way in which they might contribute to the known pathways to poverty reduction (e.g. essential health, primary education, basic infrastructure, good governance, employment, livelihood security and resilience to 'shocks', regional and national poverty planning etc.).

Some of the work on improving the development performance of corporations depends upon corporation HQs and field operations behaving in ways that mimic best current practice in environmental management, human rights and stakeholder relationships – practices that have been designed primarily by and for multi-lateral, bi-lateral or non-governmental aid agencies. There has been little dedicated research on models of development performance designed around utilising and examining the impact of the full range of core competencies and assets peculiar to private or public sector corporations – what the BPD programme has referred to as a company's 'core complementary competencies' (Warner, 2000).

There is new evidence that the 'pooling' of complementary competencies can be cost-effective (Warner, 2001; Tull, 2001; Copeman, 2001), with each party contributing resources within their normal range of activities, thus affecting only their 'variable' costs rather than introducing new 'fixed' costs. This contrasts with some corporations who in the recent past have invested millions of dollars developing 'in-house' capacity for community development and poverty reduction competencies with which communities, NGOs and donor agencies have over 50 years of experience, and which, as new 'fixed costs' for the company, are vulnerable to cut backs in times of economic uncertainty.

1.2.5 Examples of Core Competencies

This evidence includes a partnership approach to the implementation of a health facility and outreach programme in Venezuela, which was successful and cost effective because all sectors were responsible for, and felt ownership of, a particular part of its development. The company organised the project management of construction, providing financing and building materials; the Ministry of Health sponsored training for local residents; a regional NGO supplied the medical equipment; and communities supplied voluntary labour and food.

A further example is the CARE/Transredes S.A. partnership in Bolivia. CARE (who has been working with Transredes, a Shell/Enron pipeline operating company in Bolivia) recently agreed on a nation-wide strategy to engage with the private sector to form "*strategic alliances in order to create synergies from actors with diverse capacities*".[2] As such, the Framework Agreement reached between the two organisations includes the objective to *"take advantage of the strengths and resources of the company and generate channels of communication between the company and the neighbouring communities*." (ibid.).

In another example, in Zambia, consultants working with Konkola Copper Mine to prepare a Social Management Plan, have adapted the DFID livelihoods framework to map the impact (both positive and negative) of the core activities of the company's proposed operations on local society.[3] *Box 1* is an illustration of how the core competencies model can work. Taken from the aforementioned CARE/Transredes partnership, the table shows the strengths that each party perceived would be complementary to each other and to the overall objective of managing a community development programme to compensate communities for a major oil spill.

Box 1 Pooling of Core Competencies: *The case of an Oil Spill Compensation Programme*

CARE Bolivia

- A team with recognised technical and financial skills.
- Strong reputation in the successful planning and execution of community projects.
- Ability to attract at least equal financing to that provided by Transredes and other resources such as manpower.
- Ability to work in conjunction with local NGOs.
- Use of participatory planning techniques to promote local ownership.
- Recognition of competency from the Bolivian government, municipalities and multilateral agencies.
- Flexible and pragmatic approach

Transredes

- The support, commitment and participation of senior Transredes management to compensate affected communities.
- Access to funds to assist in the planning and execution of social investment projects.
- A strong institutional presence in Bolivia with a reputation for management of environmental and social issues
- Capacity to access the media
- Shareholders supportive of social and environmental management (particularly Shell and Enron).

The Business Partners for Development programme has begun the work of recording companies core competencies in relation to community development (Warner, 2000; Warner, 2001 and Tull, 2001). This is a good start, but the exercise has not been systematic (there is no comprehensive inventory of competencies), has only focused on extractive industries sectors and has made little progress in developing a methodology (i.e. a management tool) that will allow replication of the approach, and be embedded within the management structure of corporate operations.

1.2.6 Step Change

If we are looking for a 'step change' in the positive impact of corporate investments[4] on

[2] CARE Bolivia, 2000-2005 Long Range Strategic Plan

[3] A dedicated report has been commissioned by DFID (Sustainable Livelihoods Dept) on this case, and as has a synthesis report looking only at the company's potential 'additionality' by the Natural Resources Cluster of BPD.

[4] By corporate investment we mean any major business operation over which, due to its part or whole ownership of that business, a private corporation has a management influence. This would include all four categories of investment cited by Vodaphone: principal subsidiary undertakings, principal joint ventures, principal associated undertakings and principal investments; and likewise include the three categories of corporate investment cited by BP: subsidiary, associated undertakings and joint ventures. Examples of the composition of corporate investments include: Safaricom Ltd, Kenya's leading mobile telephone provider, 40% owned by **Vodafone** Group Plc, with the majority of the remaining shares taken by state-owned Telkom Kenya; Barclays Egypt, 60% owned by **Barclays** plc, and 40% by Banque Du Caire, the state bank; Empresa Petrolera

development priorities, and in particular poverty alleviation, then, with regard to the Corporate Social Responsibility agenda, it is to this area of core business competencies that research must now shift.

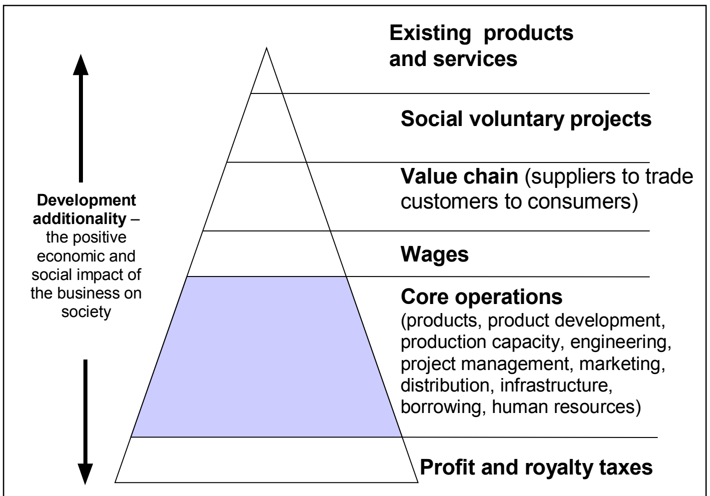
1.3 Research Output

The principal output of the ODPCI programme will be a new management tool for measuring and optimising development performance. This tool will be embedded within the conventional strategic planning activities of each business units operating in the poor countries of the world.

The tool will enable managers to systematically 'unpack' the competencies and resources inherent in their core business that could be more creatively deployed to increase the positive impact of their investment on the development of society, and in particular the reduction of poverty.

The programme builds on the way in which companies already contribute to poverty reduction through taxes on profit and production, wages, compensation and social impact mitigation,[5] and voluntary social investment. *Figure 2* provides a simplified breakdown of the different ways in which a typical company contributes to the development of a society, highlighting where the company's core business operations might be being under-utilised.

Figure 2 Development Performance in Relation to Magnitude of Impact on the Poorest in Society



Adapted from Unilever, 2001

1.4 Linking Business Competencies to New Social Partnerships

1.4.1 Social Partnering

The proposed 'competency-development mapping tool' will form the early, desk-based, component of the new methodology of social partnering, defined as "*people and organisations from some combination of public, business and civil constituencies who engage in voluntary, mutually beneficial, innovative relationships and activities to address common social aims*" (Zadek et al, 2001). It should be noted that social partnering is *not* about returning the CSR debate to the paternalistic days when companies took over responsibility for the provision of all public services and infrastructure in a region. This past approach is clearly not in the interests of either the companies (due to cost), domestic government (in that it undermines their proper role in society), nor the poor (because of the risks of creating dependency on the company for livelihood sustainability).

Emerging evidence suggests that where the operations of major multi-national corporations agree to work in multi-sector, socially-focused, partnerships with, *inter alia*, domestic regulators and government development ministries, foreign government development agencies, diplomatic and trade agencies, project finance investors and fund managers, and civil society (communities, development NGOs, trade unions etc), such 'partnering'

Chaco in Bolivia, owned 30% by **BP** (the operator), 20% by Bridas Corporation and 50% as portfolio by the Bolivian Pension Funds; Unilever Ghana Limited (the largest manufacturer and marketing company in Ghana), 66.6% owned by **Unilever** plc (through its wholly owned subsidiary Unilever Overseas Holdings) with the remaining shares owned by portfolio investors.

[5] Although compensation and measures to mitigate adverse social impacts are theoretically designed to no more than restore existing levels of livelihoods, in practice they often provide additional benefits, at least in cash terms. However, the converse is often true when taken from a livelihood security perspective.

can add value both for the operating business and for the development priorities of the host country, region or community (Acutt, 2001; PwC, 2001; Stucky et al, 2001; Caplan, et al, 2001; Zadek et al, 2001; Warner, 2000).

In support of this, the three-year strategy for the Socially Responsible Business Unit of the DFID Private Sector Policy Department notes that the private sector "*by itself will not deliver pro-poor development. That requires growth and equity"* (DFID, 2002, p3). Further that "*the regulatory and facilitatory role of governments and international organisations has increased in importance as trade barriers have come down, and foreign direct investment increased to dwarf aid budgets*" (ibid p 3).

Achieving a greater positive impact on development priorities from corporate investments will inevitably require changes in the design and management of companies' internal CSR procedures (both at HQ and project levels), including changes in:

Corporate CSR
- corporate policy on sustainable development;
- the formulation of tender documents;
- the formulation of sub-contracts;
- internal risk taking and related incentives;
- internal social reporting processes;
- environmental and social impact assessment procedures;
- approach to social investment programmes, e.g. increased use of partnerships.

But it will also require adaptation of the other procedures and incentives in society that 'enable' corporate investments to foster a greater developmental impact. *Inter alia*, this includes:

Domestic Regulators and Development Ministries
- PRSP planning and implementation;
- Regional and National development planning;
- tendering criteria;
- conditionality of regulators;
- PPP contracts.

Investors
- expectations of shareholders and related SRI fund management;
- compliance requirements and conditionality of investor institutions.

Foreign Official Aid, Diplomatic and Trade Agencies
- advice given to companies in preparing tender documents;
- role of development assistance agencies as facilitators;
- multi-lateral international codes of conduct;
- international social reporting requirements;
- trade rules, e.g. TRIMS if relevant;
- criteria adopted in of business assistance programmes, e.g. business linkage funds/ support; PPP support.

Civil Society
- leadership and organisation of employees/ trade unions;
- capacity of local SMEs;
- brokering role of NGOs;
- institutional and negotiation capacity of communities.

Regarding the business case, the value added of social partnering can be derived by comparing the business outcomes of partnering against the outcomes generated when an operating company seeks to manage social issues either alone, or through outsourcing to local NGOs consultants or a local Foundation. A summary of the range of business value drivers for social partnering is provided in *Box 2*.[6] On the development side of the equation, the potential benefits of social partnering are summarised in *Box 3*.

Table 1 provides some quantitative evidence of business and development benefits for three different partnership arrangements.

[6] Drawn from the World Bank Business Partners for Development programme, 1999 to 2002 (Mitchell, Shankleman and Warner, 2001).

Box 2 Business Case for Social Partnering

- improved **global reputation** in being more 'visible' in contributing to sustainable development across the wider region of operations;
- improved social **risk prevention** and more durable social licence to operate arising from improved knowledge of operating environment and channels of communication with government, local NGOs and community groups;
- reduced **security costs** (see above);
- reduced operational costs of meeting **compensation and social impact mitigation** requirements, due to lower costs of working through NGOs;
- **leverage** of community development resources from NGOs, donors and government (central and local);
- reduced risk of **future social liabilities** from community dependency during time of commercial uncertainty (exploration, fall in commodity prices etc.)
- cost savings on **project infrastructure** due to cost sharing (or tax breaks) with central or local government
- improved **competitive advantage** when bidding for new concessions
- improved **health** and related productivity of workforce
- secure and reliable **supply chain**
- **staff recruitment** and retainment

Box 3 Development Case for Social Partnering

- greater **political capital** and incentives to release corporate tax and royalty **revenues** to region of operations
- **support to democratic process** through alignment of business-led community development programmes with local and regional development plans and national level poverty reduction strategies
- Through involvement of NGOs**, compensation** and **impact mitigation measures** aligned closer to household livelihood security
- stimulation of local markets and greater **access to supply chains** for local SMEs through involvement of company in design of vocational training and in provision of venture capital;
- **faster time-to-benefit** for community projects;
- **access to essential infrastructure**: water supplies, roads; power and health services, through innovative PPP arrangements that incorporate civil society as partners;
- greater **sustainability of infrastructure** through transfer of maintenance and project management capacity from the company, combined with user fees regimes (established by NGOs) between communities and local government authorities
- **development of community institutions**, and their management and negotiation skills, leading to greater access to 'organs of the state'
- greater **visibility of local government** discharging its civic responsibilities
- reduced risk of disputes escalating into **violence** due to increased communication and understanding between non-traditional parties

1.4.2 Complementary Competencies

As referred to earlier, what has been missing from the partnering model to date is sufficient attention to the complementarity of competencies across the business, civil society and government sectors. Although, tools to build and manage the negotiation aspects of social partnering are now fairly well advanced. For example, the World Bank's Business Partners for Development programme and others have designed and tested a suite of negotiation and brokering tools aimed at breaking down the barriers between the three sectors of society (business, government and civil society) and building consensus for joint action. What has been lacking is any systematic assessment of the full range of competencies and resources of different corporate sectors with respect to their direct (or indirect) impact on development priorities and poverty reduction.

Currently, many social partnerships involving corporate operations fail because wrong assumptions are made by all parties about the roles each other should, or could, play. Corporate operations, in particular, are essentially 'flying blind', encouraged by official development agencies such as the World Bank, CIDA and DFID, to participate in partnering negotiations, but with no clear idea of what their particular role should be beyond the provision of funds.

1.4.3 Available Guidance

The opportunity for companies to more fully utilise their core business competencies to meet social objectives is highlighted in the most recent set of guidance on socially responsible private sector development published by the International Finance Corporation (IFC, 2000, p13). The document sites the following company business skills and resources that may contribute to effective community development:

- ability to generate incomes, jobs and wealth for local communities;
- managerial skills;
- planning skills;
- financial skills;
- market analysis capabilities;
- marketing and communication skills;
- product donation
- donation of premises/office equipment;
- human resources development;
- training.

Table 1 Evidence of the Business and Development Benefits of Social Partnering (Oil, Gas and Mining Sectors)[7]

Project	Las Cristinas, Gold mine, Venezuela $500 million (deferred)	Sarshatali coal mine, West Bengal, India $850 million	Transredes (pipeline), Bolivia $800 million
Sponsor	MINCA (Placer Dome)	ICML(RPG/CESC)	Transredes (Shell)
Partners	Health Care • MINCA • 9 x local communities • Local and regional health authorities • International NGO • local SMEs • National Guard	Resettlement and Rehabilitation • ICMLO/ESC • 3 x Communities • Local NGO • Regional NGO • District government	Oil Spill Compensation • Transredes • CARE Bolivia • Municipal govt
Most likely alternative to partnership approach	Payment of salaries for 2 x Doctors	Tube wells and vocational training implemented by in-house social team	Compensation programme managed by 'in-house' consultants
Business Benefits			
Cost-effectiveness of social investment	Leverage $2.5m (ratio 1:4)		35% cost saving ($486,000) over two years
Investment risk management	Security cost saving $700,000 (75%/y)		SLO–reduced disruptions (e.g. road blocks) arising from compensation programme
Capital infrastructure		Cost saving of $220,000 (25%) through PPP with District Government for construction of 11 km mine excavation road	
Competitive advantage	Potential social contributions a material consideration in winning new concession		Access to project finance
Corporate reputation	Zero future cost and reputation liabilities		Reversed adverse media image
Development Impact			
Access to essential infrastructure		Cost saving to government of $660,000 (75%) on road construction	
Access to primary health care	Leverage $2.5 million for health services, pop 12,000 (govt:others ratio 1:5) Community groups registered, with access to government funds		
Good governance		Local administration more 'visible' in discharging civic duties	Administrative Committee (comm + municipal govt) fosters skills transfer to govt extension staff
Conflict prevention	Reduced troop assignments of National Guard: $300,000 million (75%/y) saving		

[7] *Sources*: Warner, 2000; Copeman, 2001; Hammon and Accutt, 2001

However, the guidance offers no management tool or tools to link these competencies and skills to national or local poverty reduction priorities, nor methods for assessing the business-case for their deployment, nor how the contribution of core business competencies might be enhanced through social partnering.

Specific guidance for the extractive and water industries, generated by the Business Partners for Development programme, goes a little further, identify how competencies across different actors (regulators, local government, business, NGOs etc.) might be fitted together in the most complementary manner (Warner, 2001; Caplan et al, 2001).

However, no detail is provided on the type of management tool needed to systematically assess the merits of these different competencies, and identify which make the most contribution towards meeting particular development priorities, be these at the local regional or national level.

Building on these initial sets of guidance (IFC, 2001; Warner, 2001; Caplan et al, 2001), *Table 2* highlights some of the potentially under-utilised core competencies of corporate operations for different industrial sectors, and shows how they might be 'mapped' onto development priorities of the host country, region or community.

1.4.4 Selecting Indicators

The emphasis on national, regional and community development 'priorities' in *Table 2* is important. It is not sufficient to develop a management tool that simply lays down fixed (i.e. given) indicators of economic impact. The World Bank has long been evaluating projects on the basis of their contribution to common indicators such as: capital flows, profits and dividends, taxes, wages, staff development, new products and services, suppliers and economic multiplier effects (IFC, 2000). These indicators 'may' be important but some refinement is needed to determine whether contributing to such indicators has any bearing on the pro-poor development priorities of the country, region or locality of operations.

The ODPCI programme will therefore look for ways to measure the development performance of a business operation against indicators drawn from national level poverty reduction strategies,[8] regional development plans and community-based livelihood and needs assessments. Where possible, the internationally agreed Millennium Development Goals will also be considered.

1.4.5 From Development Evaluation to Development Enhancement

The management tool will thus enable a systematic evaluation of the current and projected contribution of the operation to development priorities. However, this is only part of its functionality. More important will be to use the assessment to identify opportunities to 'improve' the contribution of the operation to development, i.e. to enhance its development performance. This is where the systematic unpacking of the operation's core business competencies, combined with the search for value-adding partners, becomes critical.

Note that not all the opportunities identified to more fully utilise the operation's inventory of resources and competencies will carry a clear business case. In the 'marginal' cases, social partnering that may provide a means to strengthen the business benefits, either by sharing the risks or cost with business, or by leverage in resources that increase the overall development impact.

Figure 3 shows the basic building blocks of a management tool that both classifies the development contribution of a business operation and identifies an inventory of core business competencies that map onto national, regional and local development priorities and which carry a business case and optimise the use of social partnering.

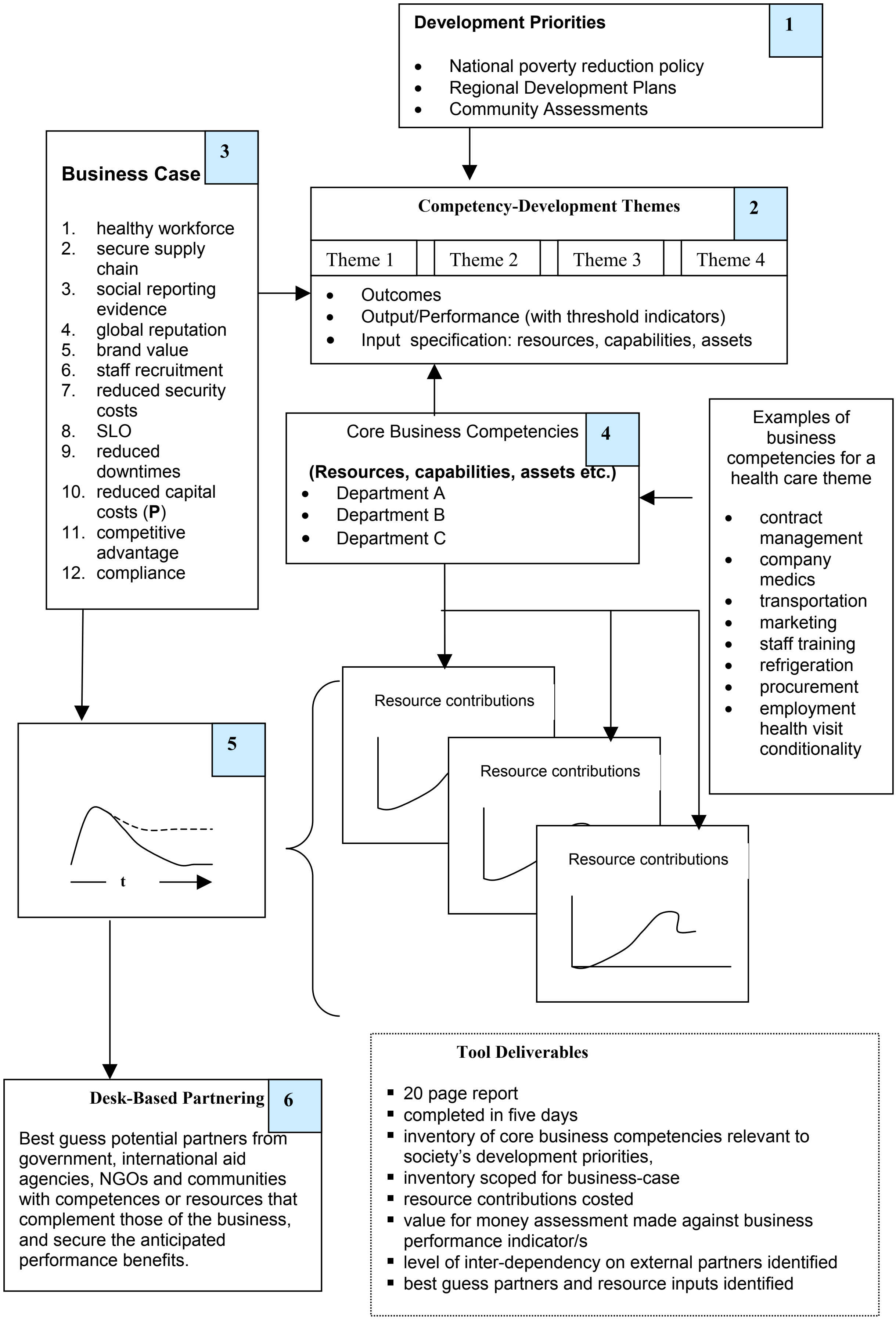
[8] The preparation of Poverty Reduction Strategy Papers (PRSPs) will increasingly be required by poor countries if they wish to access soft loans from the World Bank Group or funds allocated for debt relief to (ODI, 2001). The role of the corporate sector in contributing to the design of these plans or their implementation is currently poor. The ODPCI programme will look for imaginative ways to link the CSR practices of the corporate sector to PRSPs. For example, a recent conference on progress with PRSPs in Senegal underscored the importance of improving governance and accountability at the regional and local level, as a principal pathway to poverty reduction (Bretton Woods, 2001). Thus, for example, if the in-house health and HIV programmes of corporate operations can be aligned with the efforts of others (e.g. district health authorities and health-based NGOs), the company may provide the necessary 'trigger' to concurrently release funds through the PRSP system and improve transparency and accountability in local government.

Table 2 Mapping of Core Business Competencies onto Development Priorities

Core Business Competencies and Resources	Relevant Industrial Sectors	Development Priorities
Macro Economic Development		
• Transparency in concession bidding and facilitation payments • Ethical standards • Transparency in balance sheet accounting • Influence of project operators, and other corporate and project finance investors, over state shareholders • Leverage over regulators if all sectors agree uniform level of transparency in concession bidding and taxation regimes	• Major oil, gas and mining corporations • Major infrastructure companies (power, water, telecommunications, transportation) • Major manufacturers (with captured export market)	INVESTMENT CLIMATE • Increased flow of Foreign Direct Investment • Reduced investment risks (political and social) • Regulatory framework for fair distribution of tax revenues
• Any activity that triggers HIPC funds to be released through PRSPs	• As above	DEBT REDUCTION • Direct budget support • Access to HIPC debt relief
Regional Development		
• Products and services procurement • Contract design and management • Assurance of supply chain quality • Project and business management • Market research • Borrowing capacity • Access to land or leverage over land tenure • Technical skills applicable to local markets (e.g. electrical and mechanical engineering, service and administration etc.) • Human resource development and training	• Industries where procurement can be sourced locally, e.g. textiles, primary industry, some manufacturing • Newly privatised industries or industries with short life-cycles (i.e. where retrenchment is likely to be high) • Industries that carry out market research in-country • Industries with in-house vocational training programmes, e.g. textiles, manufacturing	MARKET STIMULATION • Regional enterprise development • Affordable venture/ working capital • Vocational training • Business management training • Managing retrenchees
• Design, construction and maintenance of major infrastructure facilities that dovetail with Local Development Plans and Policies (dams, power generation, power distribution, water & sanitation, transportation, telecommunications) • Implementation of temporary infrastructure (water, power, roads etc.) that dovetail with Local Development Plans • Design, construction and maintenance of health facilities • Procurement and contract management • Project and budget management	• All major engineering companies engaged in design, financing, building, operating or transfer major infrastructure projects • Oil, gas and mining operations that have significant infrastructure requirements • Main contractors (and principal sub contractors) whose temporary infrastructure, employment profile and skills base are likely to be more relevant to regional priorities • Industries with experience in project management and transparent budget management and accounting	GOOD GOVERNANCE • Transparency in management of public funds at regional level • Responsiveness and representativeness of public policy

Core Business Competencies and Resources	Relevant Industrial Sectors	Development Priorities
• As above	• As above	ACCESS TO ESSENTIAL INFRASTRUCTURE (power, water, transportation etc.) • Affordable and sustainable in long-term • Proximate to local communities • Services relevant to livelihood security
• Security policy • Contracting of security guards • Ethical standards • Influence of project operators, and other corporate and project finance investors, over state shareholders • Requirements for stakeholder consultation and dialogue	• Oil, gas and mining • Logging companies • Any industry located in a zone of violent conflict	CONFLICT MANAGEMENT • Resolution of economic grievances • Prevention of violence
Community Development		
• Health care for employees • Water supply and sanitation • Marketing and advertising • Distribution networks	• Pharmaceutical companies • Industries with their own distribution networks • Industries that provide health care for their employees • Industries that require water supply and sanitation provision, either long-term or through temporary construction works such as housing for construction workers	ACCESS TO HEALTH CARE • Health awareness programmes (e.g. HIV, STDs etc.) • Access to essential health care services • Access to clean water • Sanitation and safe waste disposal
• Philanthropy (scholarships and grants to schools) • Human resource development (in-house training) • Vocational training • Contract design (i.e. can require contractors and subcontractors to construct education facilities) • Marketing and advertising • Access to print or broadcast technology	• Almost any industry located in a community (urban or rural) with low education attainment levels • Industries who manage sub-contractors • Manufacturing and retail companies with marketing and advertising budgets • Industries with in-house print or broadcast technology, e.g. newsletters, radio	ACCESS TO EDUCATION • Affordable access to primary education • Long-term maintenance of education fixed facilities • Long-term funding for teaching staff and equipment • Vocational training
• Direct employment – particular of manual and semi-skilled labour • Procurement management and contract design • Indirect employment, through contractors and sub-contractors	• All industries that procure services or materials locally • Oil, gas, mining and engineering companies (that rely on contracting firms) • Main contractors and principal sib-contractors, who can elect to source labour locally	IMPROVED INCOME EARNING OPPORTUNITIES • Long-term employment • Employment for women, youth and vulnerable groups
• Land ownership • Leverage over land tenure • Banking services (deposits and loans)	• All industries that acquire or lease land on a permanent or temporary basis, especially those that utilise only a fraction of the acquired/ leased land area • Retail banks	ACCESS TO RENEWABLE NATURAL RESOURCES • Land tenure and ownership • Access to forest products • Access to lines of credit

Figure 3 Building Blocks of a Competencies-Development Management Tool



1.4.6 Comparing Social Partnering to Company-led Approaches

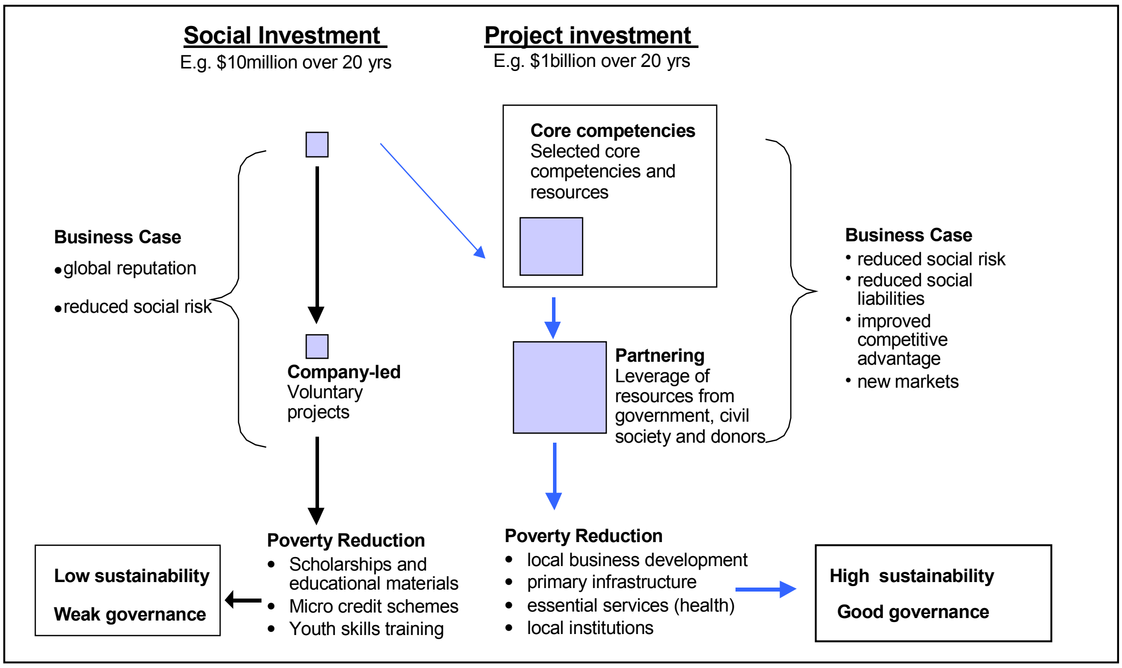
The rationale for a company contributing its core competencies through partnerships can be broken down as follows:

- **Core**: contributions by each partner that assist the company meet its business objectives, for example, compliance, marketing, competitiveness, risk management etc;
- **Competencies**: resources, skills, capabilities or behaviour that are the true strengths (sometimes hidden) of the company in contributing to the development, and in particular poverty reduction, priorities of the host country, region or community;
- **Complementary**: competencies that when pooled with the competencies of others in society (central and local government authorities, civil society organisations, multi- and bi-lateral development assistance organisations) increase the business case and/or development impact.

The advantage of linking a 'core competencies' approach to development performance, with social partnering is demonstrated schematically in *Figure 4*. The diagram shows how, in the oil and gas sector, a company electing to lead a programme of voluntary community projects (i.e. social investment), might contrast with an approach based on using the companies core competencies in partnership with government and civil society.

From the business perspective, the principal difference between the two approaches is in the range of business benefits that results. Beyond risk management and global reputation (benefits already accruing to companies such as BP and Royal Dutch/Shell where they have implemented company-led social programmes in the region of operations) the core competencies plus social partnering approach can lead to additional benefits. These include: reduced social liabilities; improved competitiveness reduced; infrastructure costs; and new market development. Illustrations of the latter two types of benefits are provided in *Boxes 4* and *5*, respectively.

Figure 4 Company-Led Social Investment vs Core Competencies/Partnering



Box 4 Reducing Capital Infrastructure Costs and Building Community Roads

In June 2000, ICML (a coal mining subsidiary of the Indian corporation RPG) instigated a partnership arrangement with the Public Works department of the District Government and local community leaders. The three parties collaborated on the design and construction of an 11km rural link road, leading to a 25% capital cost saving to the company, and a 75% cost saving to government. The company also transferred all road maintenance responsibility to the government, in return for paying a road toll for vehicle use. A remote population of 5,000 now have the prospect of rapid access to markets, schools and health services.

BPD, 2002

Box 5 Developing New Markets and Reducing Road Accidents

In Soweto, South Africa, 40 school children out of every 1000 are involved in road accidents each year. With the support of the local authorities, 3M provided reflective strips to be sewn into the uniforms of school children. A local NGO facilitated the participation of children and parents from a 'pilot' school. At low cost to the company the programme has concurrently reduced road-related injuries and opened up a new market. Together with the school, local government officials and 3M representatives, the success of this 'pilot' was showcased at Ministerial level, with the aim of promoting new government policy that would require reflective material to be incorporated into all children's clothing in 'accident hot spots' across the country.

Brett Bivans, pers comm. Jan 2002., Secretariat Co-ordinator for the Global Road Safety Programme, Red Cross, Geneva

1.4.7 Support for a Business Competencies Approach to Development Performance

Although relatively new as a concept, the idea of systemically assessing the full range of core business competencies for their positive impact on development priorities is gathering momentum. Beyond the IFC (2000) reference to unpacking conventional business skills and resources for community development, other programmes lending support to the concept include the following:

- the importance of core business competencies is captured in the synthesis report prepared on the lessons of the three-year **BPD** programme: "*As a general rule, the closer participants' activities and benefits align with their core activities, the more likely the partnership's overall chance of success*" (PwC, 2002, p3);
- a link between core business competencies and social partnering is made in a recent policy paper of DFID (Strategy for the Socially Responsible Business Unit, **Private Sector Policy Department, DFID**): "*what seems to work best is when companies' core competencies (employment practices, ethical standards, knowledge and information, human resources, supply chain, infrastructure, marketing, distribution networks, advocacy etc.) are dovetailed with the competencies of others in society*";
- in broad terms, a management tool that maps business competencies onto poverty priorities, is one way to deliver on *Policy 7* of the **OECD** Guidelines for Multi-National Enterprises (OECD, 2001), which require corporations that are publicly listed in OECD countries to abide by certain codes of good practice, including the application of "effective …management systems that foster a relationship of …mutual trust between enterprises and the societies in which they operate";[9]
- the **Commonwealth Business Council** (which promotes trade and investment in commonwealth countries), notes the importance of distinguishing between corporate citizen activity that is: (a) intrinsic to the running of the company; (b) a form of investment in assets that are mutually beneficial for both company and wider society; and (c) a form of social investment in public goods that has no direct bearing on the companies operations. The Council holds the view that "*the most important category for any*

[9] Other relevant policies in the MNE Guidelines include: *Policy 1*–Contribute to …social progress with a view to achieving sustainable development; *Policy 3*–Encourage capacity building through close co-operation with the local community including business interests; and *Policy 9*–Encourage business partners, including subcontractors and suppliers to apply the OECD Guidelines

company is [corporate citizen] activity that is intrinsic to the running of its operations" (p8), i.e. its core business competencies; and

- The **DFID Sustainable Livelihoods Department** has noted the potential for a management tool that maps business competencies onto development priorities to be developed with reference to the Sustainable Livelihoods Framework.[10] Key areas of potential include:

  - rolling-out the company's physical infrastructure (e.g. health care, water supply, energy generation, telecommunications, transportation etc.) to promote access by poor communities to 'physical capital'; the company contributing human skills development (both directly and through multipliers) to strengthen 'human capital' in the region; enhancing income generation opportunities through supply chain management and providing or facilitating access to financial services i.e. improving households' access to 'financial capital'; contributing to building social capital through improved stakeholder consultation, trade-union relations and relationship marketing; and the more imaginative use of a company's access or influence over to land and natural resources (both above and below ground) to encourage community access to 'natural capital';

  - the concept of 'transformational structures and processes' might be accommodated within the mapping tool to help identify which value-adding organisations from government and civil society need to be attracted into a partnership arrangement to ensure that the company's competencies have their optimal positive impact on poverty reduction; and

  - exploring the positive impact of business competencies on the vulnerability of poor people to external shocks such as natural disasters, conflict and economic cycles.

1.4.8 Summary

The ODPCI programme is about better preparing companies for the negotiations that lead to new forms of social partnering. The management tools developed through the programme will aim to provide companies with an inventory of business competencies and resources which not only make a positive contribution to national, regional and local development priorities and poverty alleviation, but also complement, rather than duplicate or undermine, the programmes, resources and competencies of government and civil society.

[10] A case-example of this type of use of the Livelihoods Framework has already been published by DFID (DFID, 2001). The case summaries how consultants for an Anglo American copper mining project in Zambia utilised the DFID Livelihoods Framework to investigate the positive contribution the company resources and competencies could make to local society.

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Optimising the Development
Performance of Corporate Investment

The ODPCI Programme

Discussion Paper – Part 2

Linking Corporate Investment and International Development

Scoping the Opportunities

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CONTENTS

Part 2 Linking Corporate Investment to International Development

2.1 Introduction

This part of the paper explores how the investments of corporations in the world's poorest countries might be more effectively linked to the efforts of international development agencies in delivering the development objectives of the host society. Using secondary data, and with foreign direct investment (FDI) as a proxy indicator, conclusions are drawn on the relative volume of FDI flows to developing countries; the relationships between these flows, GDP and official development assistance (ODA); the potential for synergy between the competencies of corporate operations and different ODA instruments; and the types of industrial sectors most relevant to development in particular countries.

2.1.1 Positioning the ODPCI Programme in the Debate on Economic Globalisation

A recent policy paper of the UK Department for International Development (DFID 2000) embraces the positive role that economic globalisation can make in eliminating poverty. The White Paper emphasises a dual approach to achieving this goal, combining economic growth with the equitable distribution of benefits. Specifically it emphasises the need to:

- exploit opportunities presented by private sector investments to meet the International (Millennium) Development Targets (Goals)[11] and integrate with the preparation and implementation of donor-sponsored Poverty Reduction Strategy Papers;
- create an enabling environment for private sector wealth creation that promotes poverty reduction and sustainability;
- optimise the lines of responsibility and risk between state and private sector; and
- find new ways for DFID to work with the UK private sector

The above policies are supported by the recent World Development Report (WDR) (World Bank, 2001) of the World Bank Group. This report marks a considerable shift in World Bank thinking. The pathway to poverty reduction is no longer defined in terms of a combination of labour-intensive economic growth and safety nets (the main themes of the 1990 WDR), but a more multi-functional definition of poverty which combines making markets work better for the poor, empowering state institutions to be more responsive to poor people, and reducing the risks and vulnerability of the poor by enhancing their access to assets, in particular social capital (Maxwell, 2001).

The new ODI research programme on optimising the development performance of corporate investment (ODPCI) aims to reflect this dual shift move towards continuing to support the role of markets and yet making these markets more accessible to the poor through enhancing the direct, catalytic and facilitatory role of corporate operations in achieving national, regional and local development priorities.

2.1.2 Do Corporate Operations Contribute to Poverty Alleviation?

To what extent do the normal activities of large-scale business operations benefit communities in a poor society? What is clear, is that at the local level corporate operations provide wages and related benefits, infrastructure and services, bring international standards in environmental and social management, create demand for local industry, and transfer skills and knowledge; and at the national level, contribute taxes, earn foreign exchange, and improve the overall investment climate. Thus in a number of ways corporate operations contribute to a range of public policy objectives of national governments and international development agencies.

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[11] For details of these targets see: www.dfid.gov.uk/sid/Indicators/mdgs.htm

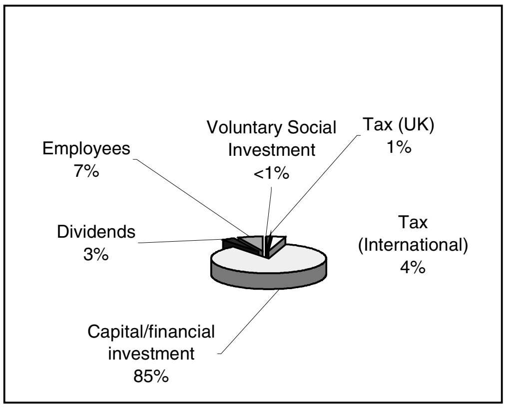
Figures 5a, b, c and *d*[12] show the static cash value that different types of corporate investment add to society in general. Voluntary social investment in local communities (at less than 1% of cash value) is contrasted with wages, profit and production taxes, dividends, capital expenditure (including acquisitions), and cash reinvested. Examples of multi-national corporations are given for the oil and gas industry (BP), telecommunications (Vodaphone); banking (Barclays); and manufacturing of consumer goods (Unilever).

What is less clear is whether the most is being made of the total value and competencies of corporate operations, in particular regarding pro-poor development, objectives such as food security, long-term employment for semi and unskilled workers, and affordable access for poor communities to transport, health, education, employment, water and sanitation services, land and renewable natural resources. Drawing on *Figure 5*, if one looks at the total value of a particular business unit through this 'poverty' lens, it can be argued that:

- tax revenues frequently fail to benefit communities living in the region of operations;
- dividends are paid to shareholders who may or may not reinvest these gains in the country or region of operations;
- the skill level required of many employees tends to exclude those from the poorest, least educated, communities;
- environmental and social management systems can be devalued within the business as a compliance requirement (as well as being founded on the western notion of minimising negative environmental impacts rather than adding social value);
- business-related local infrastructure is often conspicuously inaccessible to poor communities; and
- private sector delivery of services based on cost-recovery (health care, retail, banking, mass transport etc.) exclude those with low incomes.

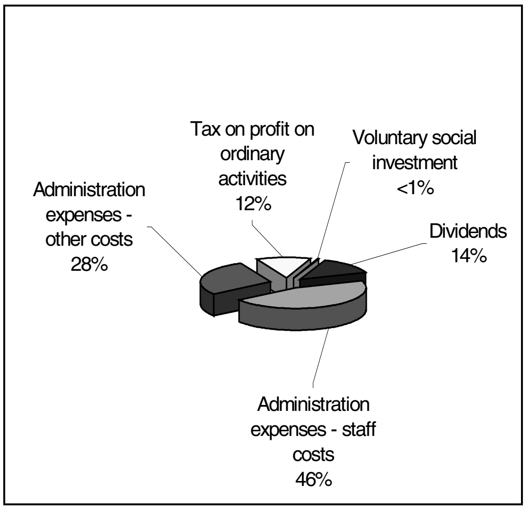
The simplified conclusion is that, in the short to medium term, if society wishes corporations to make a more substantial contribution to pro-poor development in developing countries, then either voluntary contributions to social projects need to increase, or the core business activities and outcomes of the business need to contribute more to the poverty reduction priorities of society.

Figure 5a Distribution of the Total Added Cash Value for Vodafone



Source: Vodafone (2001)

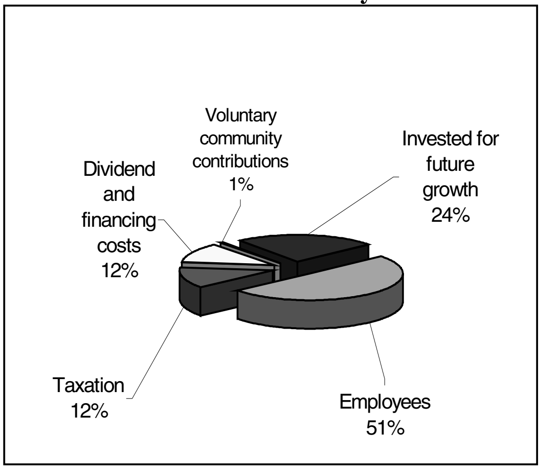
Figure 5b Distribution of Total Added Cash Value - Unilever



Source: Unilever (2000)

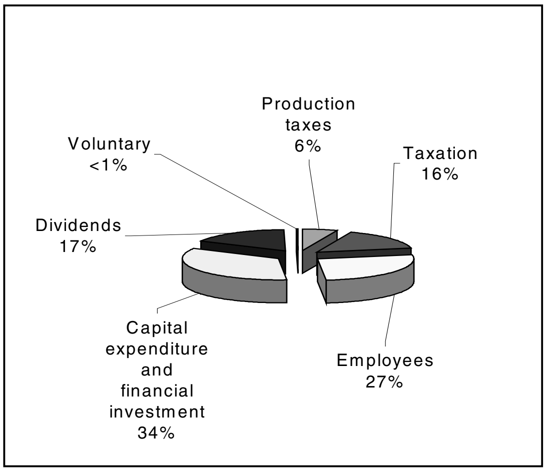
[12] All figures are based on Unilever's Cash Value Added model (Unilever 2000) which identifies five main areas of cash value: voluntary social investment; investment for growth, dividends, employees and taxation. In all cases the company's nearest equivalent to these categories is used, with the company's terminology retained.

Figure 5c Distribution of Total Added Cash Value - Barclays



Source: Barclays (2001)

Figure 5d Distribution of the Total Added Cash Value for BP



Source: BP (2001)

2.1.3 Foreign Direct Investment (FDI) as Proxy for Corporate Investment

FDI flows are important for economic growth in poor countries, and growth is important for poverty reduction. However, there is a continuing debate as to how exactly investment relates to economic growth and poverty (Rodrik, 1999; Collier and Dollar, 1999), and whether the poverty reduction impact of such investment can be improved. In the poorest countries (such as much of Africa) this foreign investment is particularly relevant. It can sometimes dominate whole industrial sectors and/or geographic regions and can have both significant positive and negative consequences for the population living in the regions affected by those business operations in which the capital is invested.

Investment by foreign multi-national companies and institutional investors can constitute a significant portion of overall corporate investment in the world's poorest countries.[13] Furthermore, although the operating company of a major business may not be the majority equity holder (as is often the case in the minerals and infrastructure sectors, depending on the investment rules in the host country) it will exert the principal influence over how the business is managed and developed, and thus how it interacts with society.

It is not in the scope of this Discussion Paper to analyse in detail the relationship between equity share and management influence. The most we can try to do here is identify those poor countries in which FDI is significant, for example by comparing to GDP, and then make the assumption that where this investment is directed towards new or existing corporate operations, the parent corporation has a significant degree of management influence over the business.

Although it is recognised that inward investment in many developing countries can be triggered by the investment decisions of domestically owned corporations, data for this is less easy to come by. It is also difficult to distinguish between domestic investment that can be considered large-scale and that associated with small and medium enterprises.

At this point in time, and with regard to the limited objectives of this Discussion Paper, we have therefore elected to use FDI as a proxy indicator for gauging the importance of large-scale corporate investment in the world's poorest countries.

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[13] To repeat the definition adopted in Part 1: by corporate investment we mean any major business operation over which, due to its part or whole ownership of that business, a private corporation has a management influence. This would include all four categories of investment cited by Vodaphone: principal subsidiary undertakings, principal joint ventures, principal associated undertakings and principal investments; and likewise include the three categories of corporate investment cited by BP: subsidiary, associated undertakings and joint ventures.

2.1.4 FDI, Growth and Poverty

The relationship between FDI, growth and poverty reduction is complex. Many studies find significant relationships between FDI and economic growth (Borensztein et al., 1998). However, the link between FDI and poverty reduction is less clear. Whilst some studies and methods examine statistical correlations between FDI and poverty variables, such as wages (te Velde & Morrissey, 2002), very few address the full scope of developmental impacts, from the effect of tax revenue distribution to the potential impact of the business operation on alleviating chronic poverty.

This point is brought home in the latest framework for measuring the positive social and economic additionality of investments prepared by the International Finance Corporation (IFC) of the World Bank. The framework recognises that the *"approach does not address specifically the impact of the project on the poor" (IFC 2001).* concentrating instead on the value added to society through employment opportunities, benefits to customers, benefits to complementary producers, opportunities for suppliers, development of new entrants, other local multiplier effects and provision of operation-related infrastructure.

2.1.5 FDI and the Decision to Invest

Another issue prevalent to linking FDI to a country's development agenda, is how to increase the overall volumes of inward investment through securing against non-commercial (i.e. social and political) risk. This, however, is not the topic of the ODPCI programme. This programme concentrates predominantly on what happens 'after' the decision is taken to invest and not the factors influencing 'whether' to invest in the first place.

Interestingly, the growing practices that corporate social responsibility (CSR) also generally focuses on corporate behaviour 'after' the investment decision is made, and not before. The difference here is that, the tools of CSR are driven for most part by the desire to manage local risk and mitigate the adverse effects of corporate investments on issues of human rights, employment standards and environmental protection. Only in the areas of fair trade, supply chain access and voluntary social programmes does the practice of CSR address the question of how corporate operations can optimise their 'positive' developmental impact on the development priorities of the host society.

2.2 FDI and ODA - Myths and Truths

2.2.1 FDI in Developing Countries

Developing countries,[14] have received approximately a quarter of world FDI flows over the period 1970-2000. Since FDI flows vary considerably from one year to the next, focusing on flows in any particular year conceals important long-run trends. A better measure is therefore the overall 'stock' of inward FDI, which, due to lack of better data, is sometimes measured as the accumulation of flows. *Figure 6* shows the regional share of global FDI stock.

Private (non-portfolio) capital flows around the world have experienced two principal waves. From 1975 to 1981, flows were dominated by commercial bank lending, involving a high proportion of petro-dollars (ODI, 1997). Between 1981 and 1984 this lending declined as the banks lost confidence in the financial stability of the borrowing countries, linked in part to the fall in oil prices and related debt crisis. A second wave emerged as markets and financial institutions integrated and countries moved towards economic liberalisation in trade and investment.[15] The recent economic slowdown in South East Asia signalled a subsequent decline in flows, though this time less pronounced, though with flows to the developing world remaining fairly constant.

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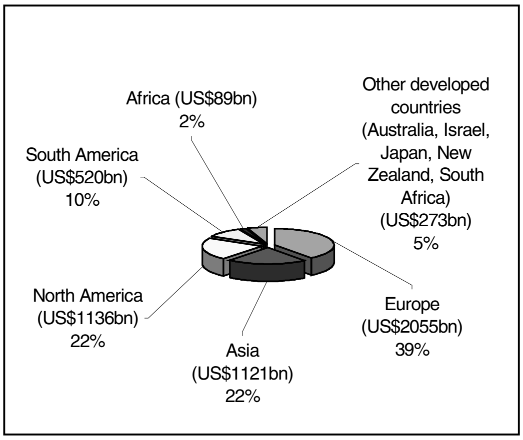
[14] Defined by UNCTAD as non-OECD countries, but including Mexico, Korea and Czechoslovakia . The rationale for this classification is as follows: "*There is no established convention for the designation of "developed" and "developing" countries or areas in the United Nations system. In common practice, Japan in Asia, Canada and the United States in northern America, Australia and New Zealand in Oceania, and Europe are considered "developed" regions or areas. In international trade statistics, the Southern African Customs Union is also treated as a developed region and Israel as a developed country; countries emerging from the former Yugoslavia are treated as developing countries; and countries of eastern Europe and of the Commonwealth of Independent States (code 172) in Europe are not included under either developed or developing regions*" (Source: http://www.un.org/depts/unsd/methods/m49regin.htm)

[15] Within this 'portfolio equity' (i.e. the purchase of shares) emerged as an important component – 13.5% of FDI in 1990s compared to 1.2% in the 1980s (ODI, 1997).

It is well known that cumulatively FDI is the largest source of external capital flows for all developing countries taken together, i.e. larger than ODA.

Figure 6 Total Global Inward FDI Stock, 1999, by Region



Source: UNCTAD (2001)

However, this is too simplistic. In reality FDI flows to developing countries are concentrated in only a handful of emerging markets (China,[16] Brazil, Mexico, Singapore, Thailand etc.). For example, in 1999, 11 emerging markets (see *Figure 7*) attracted 80 per cent of FDI flows to developing countries. In contrast, over the same period, Africa, including South Africa, attracted less than 5%.

As recently argued: "*For the vast majority of low-income countries, however, FDI is minimal. The structural weakness of these economies, the inefficiencies of their small markets, their skill shortages and weak technological capabilities, are all characteristics that depress the prospective profitability of investment…Until these constraints on possible investment are addressed, they are likely to continue to rely heavily on receipt of foreign aid*" (ODI, 1997, p4).

Figure 8 ranks all developing countries in terms of GDP per capita – one measure of a country's poverty status.[17] For each country inward total stocks of FDI flows are then given as a percentage of GDP as at 1999. *Table 3* shows those developing countries with FDI stocks greater than 40% of GDP at 1999.

2.2.2 *FDI as a Feature of Economic Activity*

Although absolute flows of FDI to the poorest countries remain low, this does not mean that we should ignore the substantial positive impact that such investment might have on the development priorities of the recipient country or region. FDI stocks may still represent a significant proportion of overall economic activity in a country, or exert political and structural influence over and above its immediate investment value, e.g. through the supply chain, or in terms of the overall investment climate.

For example, in Mozambique (one of the poorest countries in the world), one single investment (the MOZAL aluminium smelting project near Maputo) is transforming Mozambique, acting both as a 'honey-pot' for development, attracting new investment, and providing critical foreign exchange.

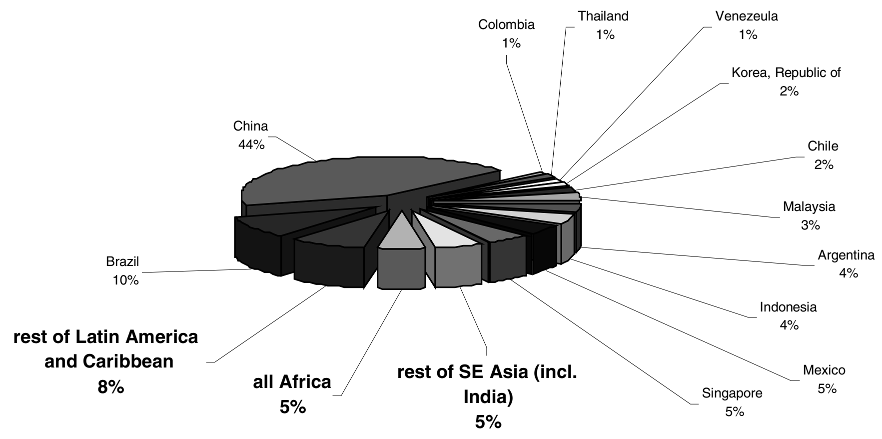
Likewise, although Tanzania has accumulated only a moderate FDI stock of 11.2% GDP (at 1999), the country lies in the poorest quartile of developing countries and, in some regions, is wholly dependent on the extraction industry – an industry increasingly dominated by foreign investors. It would therefore be erroneous to conclude that FDI is not significant to Tanzania, since in some parts of the country these investments are the principal catalyst for economic development.

Conversely, developing countries falling within the richest quartile will invariably have significant populations living in poverty. Thus, for example, whilst FDI stocks to Equatorial Guinea are 112% of GDP (at 1999), the country still suffers from poverty and high debt. The issue here then is how to increase the developmental, and in particular poverty reduction, performance of these investments so that benefits are more equitably distributed.

[16] Although a 1997 World Bank study found pointed to a 37% overestimation of total flows to China in 1994, the conclusion that China has been and continues to be the largest single recipient still holds true.

[17] GDP per capita at current US$, source: IMF website: http://www.imf.org/external/pubs/ft/weo/2001/03/data/index.htm

Figure 7 Inward FDI Stocks for Developing Countries, 1999



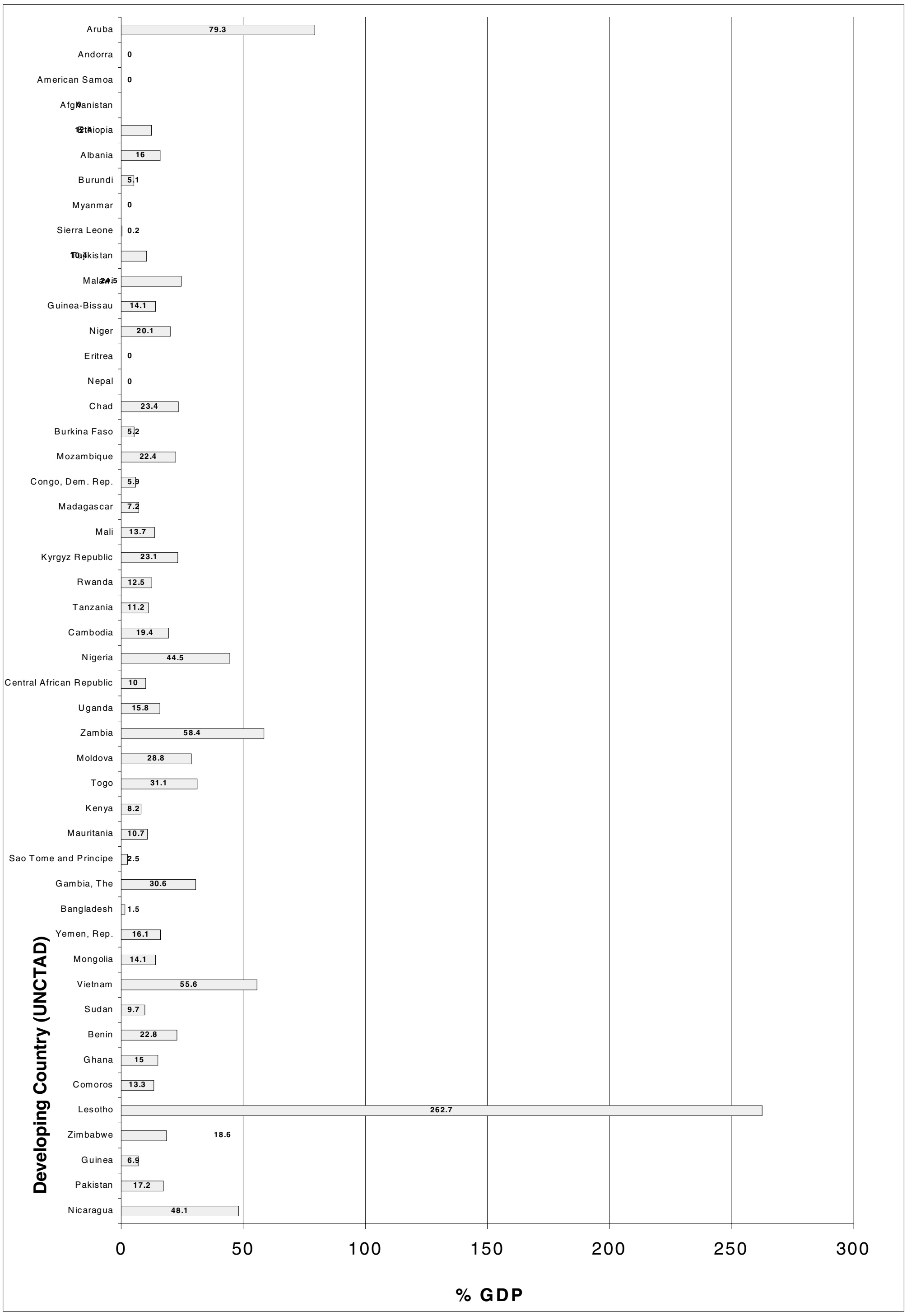
Source: UNCTAD (2001)

Table 3 Developing Countries with the High FDI Stocks Relative to GDP (1999)

FDI Stock as % of GDP at 1999	Africa	Latin America and Caribbean	Asia
>40%	Angola Equatorial Guinea Lesotho Namibia Nigeria Swaziland Tunisia Zambia	Bolivia Chile Costa Rica Dominica Guyana Jamaica Nicaragua Panama Tunisia	Azerbaijan China Estonia Indonesia Kazakhstan Lao PDR Malaysia Papua New Guinea Singapore Singapore Vietnam
20 – 40%	Benin Botswana Chad Congo Republic Cote d'Ivoire Gabon Malawi Mozambique Niger The Gambia Togo	Argentina Belize Brazil Colombia Dominican Republic Ecuador Honduras Paraguay Venezuela	Armenia China Croatia Czech Republic Hungry Kyrgyz Republic Maldives Moldova Turkmenistan
10 – 20%	Cameroon Central African Republic Egypt Ethiopia Ghana Guinea Bissau Mali Morocco Rwanda Senegal Tanzania Uganda Zimbabwe	El Salvador Guatemala Mexico Peru Uruguay	Albania Bulgaria Cambodia Jordan Lithuania Mongolia Oman Oman Pakistan Poland Qatar Romania Saudi Arabia Slovak Republic Slovenia Sri Lanka Tajikistan Thailand The Philippines Ukraine Yemen Republic

Source: Figure 8

Figure 8 Inward FDI stocks as %GDP, 1999, for developing countries ranked by increasing/decreasing GDP[18] per capita[19] (part 1 of 3)



Source: UNCTAD (2001)

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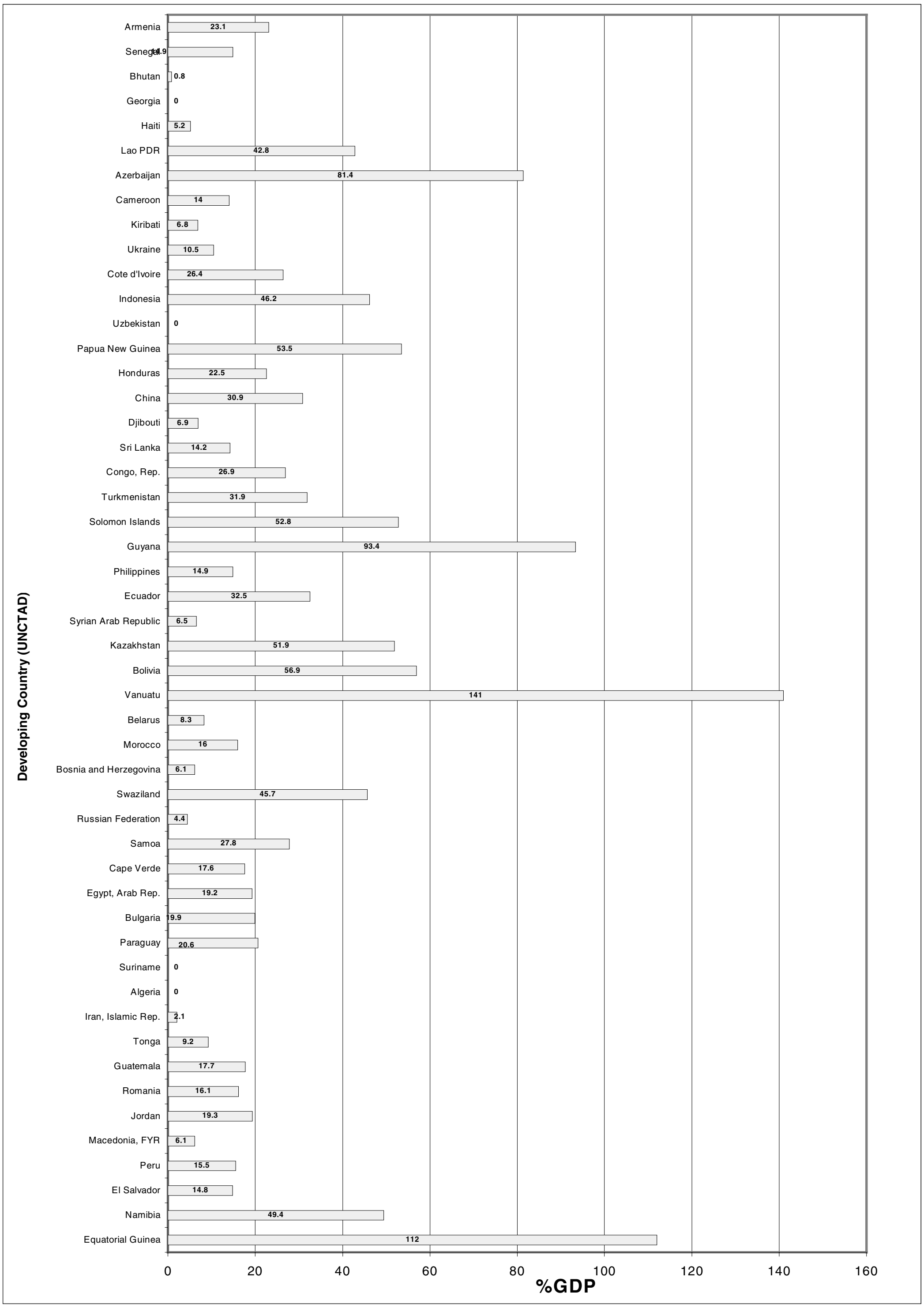
[18] GDP per capita data at current US$ obtained from IMF website, http://www.imf.org/external/pubs/ft/weo/2001/03/data/index.htm

[19] Excluding the following countries, for which data is not available: Afghanistan, American Samoa, Andorra, Aruba, Bermuda, Brunei, Cuba, Faeroe Islands, French Polynesia, Guam, Iraq, Korea, Dem. Rep, Liberia, Liechtenstein, Macao China, Marshall Islands, Mayotte, Micronesia, Fed. Sts, Monaco, New Caledonia, Northern Mariana Islands, Palau, Puerto Rico, San Marino, Somalia, West Bank and Gaza, Yugoslavia, FR (Serbia/Montenegro), Cayman Islands, Virgin Islands (U.S.)

Figure 8 Inward FDI stocks as %GDP, 1999, for developing countries ranked by increasing/decreasing GDP[20] per capita[21] (part 2 of 3)

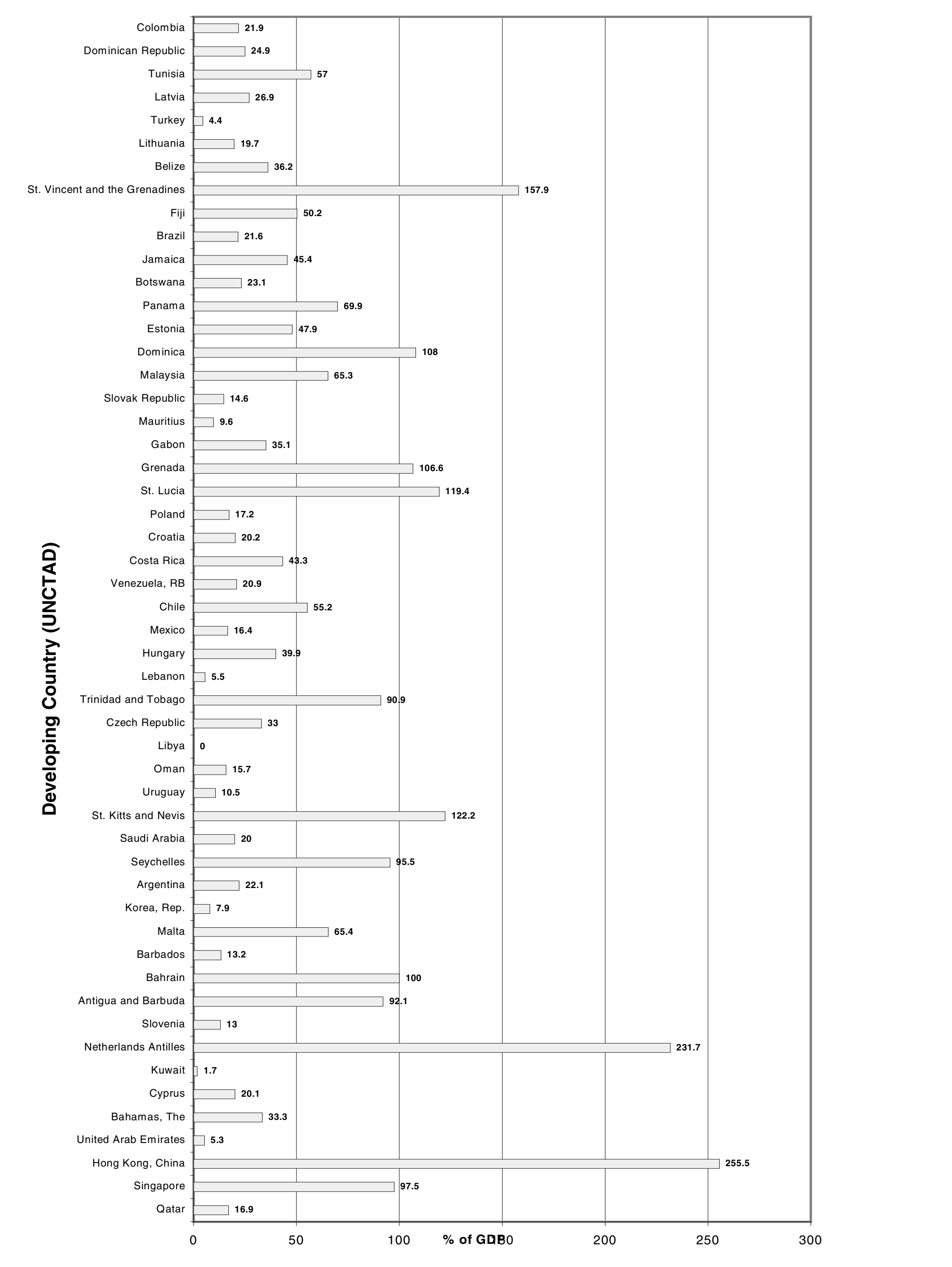


Source: UNCTAD (2001)

[20] GDP per capita data at current US$ obtained from IMF website, http://www.imf.org/external/pubs/ft/weo/2001/03/data/index.htm

[21] Excluding the following countries, for which data is not available: Afghanistan, American Samoa, Andorra, Aruba, Bermuda, Brunei, Cuba, Faeroe Islands, French Polynesia, Guam, Iraq, Korea, Dem. Rep, Liberia, Liechtenstein, Macao China, Marshall Islands, Mayotte, Micronesia, Fed. Sts, Monaco, New Caledonia, Northern Mariana Islands, Palau, Puerto Rico, San Marino, Somalia, West Bank and Gaza, Yugoslavia, FR (Serbia/Montenegro), Cayman Islands, Virgin Islands (U.S.)

Figure 8 Inward FDI stocks as %GDP, 1999, for developing countries ranked by increasing/decreasing GDP[22] per capita[23] (part 3 of 3)



Source: UNCTAD (2001)

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[22] GDP per capita data at current US$ obtained from IMF website, http://www.imf.org/external/pubs/ft/weo/2001/03/data/index.htm

[23] Excluding the following countries, for which data is not available: Afghanistan, American Samoa, Andorra, Aruba, Bermuda, Brunei, Cuba, Faeroe Islands, French Polynesia, Guam, Iraq, Korea, Dem. Rep, Liberia, Liechtenstein, Macao China, Marshall Islands, Mayotte, Micronesia, Fed. Sts, Monaco, New Caledonia, Northern Mariana Islands, Palau, Puerto Rico, San Marino, Somalia, West Bank and Gaza, Yugoslavia, FR (Serbia/Montenegro), Cayman Islands, Virgin Islands (U.S.)

This said, it is possible to broadly indicate (as in *Table 3*) those developing countries where its development priorities are, or could be, substantially influenced by FDI. For example, as at 1999, of the poorest quartile of developing countries (ranked by GDP/capita) the following countries have stocks of FDI running at over 40% of GDP: Zambia; Vietnam, Lesotho and Angola.

2.2.3 *Contributing to Development Priorities: FDI vs ODA*

Much is made of how FDI currently "*dwarfs*" the aid budgets of foreign governments and multi-lateral organisations (DIFD, 2002). As we have just seen, in practice 80% of FDI flows to developing countries are concentrated in only eleven countries.

Furthermore, the current stream of benefits contributed to society by those business operations financed through FDI, namely taxes, dividends, wages and capital investment (see *Figure 5*) are different to the outcomes achieved through the various instruments that make ODA[24] such as food security, public sector governance and access to essential infrastructure.

Table 4 identifies a generic inventory of development priorities common to many of the world's poorest countries.[25] These priorities are the 'intended' outcomes of ODA. For the most part, however, these are not the intended outcomes of FDI. For foreign companies, and their institutional and domestic government investors (i.e. those securing a management interest in corporate operations) and for sectors other than public utilities, many of the developmental objectives of ODA lie outside the original business base-case promoted by the project sponsor.

Table 5 provides a comparison of FDI against ODA in relation to how each contributes to these different development objectives. The relative contribution of eight different ODA instruments (Foster and Leavy, 2001) are summarised, and placed alongside the current and potential contributions to be made by the key resources and capabilities of the corporate sector if deployed to specifically address development priorities. The eight ODA instruments are as follows:

- **Balance of Payments Support** – usually provided by World Bank/IMF, provides finance in support of structural policy adjustment/reform for correcting debt unsustainability, trade imbalances and for exchange rate over-valuation, paid into a Central Bank and has the effect of making foreign exchange available.

- **General Budget Support** – direct financial support to the Government domestic budget aimed at increasing available domestic currency (by replacing need to use domestic currency to support foreign exchange rate) for use in either raising spending, reducing borrowing or reducing taxes. The balance between these choices is usually determined by IMF/World Bank, with main focus of conditionality, on an agenda of policy measures and budget priorities agreed to by Government.

- **Debt Relief** – financial support aimed at reducing large debt stocks. To ensure debt relief releases Government resources for poverty reduction, debt relief to highly indebted poor countries (HIPC) is conditional on the preparation of poverty reduction strategy papers (PRSPs) which earmark expenditure towards specific public poverty reduction policies. PRSPs have also become the basis for co-ordinating and leveraging much multi- and bi-lateral aid, further ensuring that resources released through HIPC debt relief are channelled to poverty reduction.

[24] Official development assistance (ODA) can be defined as support by the executive agencies of foreign governments to developing countries (Part I of the DAC List of recipient countries) or multilateral institutions, that has as its main objective the economic development and welfare of people in developing countries and is concessional in character and conveys a grant element of at least 25%. (source - www.dfid.gov.uk/sid)

[25] Taken from the categories commonly applied to the preparation of PRSPs for highly indebted poor countries (HIPC).

Table 4 Generalised Inventory of the Development Priorities of ODA in Poor Countries

Development Priorities
National Security and Good (public sector) Governance
Promote an efficient, responsive and representative democratic system at the national level: President, Executive, Parliament and political parties
Ensure a non-partisan, efficient and functional Electoral Commission, Human Rights Commission, Anti-Corruption Commission etc.
Promote the efficiency and independence of the judiciary (Supreme, Appeal and High Courts)
Restructure and retrain police, armed forces and prison officers
External Policies
Build foreign exchange reserves and maintain flexible exchange market
Reduce external debt burden and improve credit worthiness
Liberalise trade regime
Fiscal Policy
Improve fiscal/budgetary management
Strengthen tax administration and expand tax base
Improve non-tax revenue performance (eg corporate tax and tax collection)
Reallocate public expenditure to priority sectors, eg welfare
Build capacity for greater efficiency in public/civil service
Improve efficiency and attract investment into state owned enterprises/utilities
Monetary and Financial Sector Policies
Reduce reliance on reserves for domestic credit control, promote more active use of open market
Increase variety of financial investment and savings instruments
Improve scrutiny of financial system
Strengthen support of Central Bank to, and overall management of, commercial banks
Sectoral and Related Policies
Improve transparency, scrutiny and distribution of revenues from high-yielding investments, eg oil, gas, mining, privatised utilities
Develop efficient markets for land under lease and establish land management information system
Reduce government intervention in grain imports/exports and agricultural credit
Facilitate infrastructure development for agricultural sector, eg feeder roads
Promote investment in agriculture, manufacturing, tourism etc, including infrastructure.
Develop an efficient transport network, including capacity building and maintenance
Facilitate private sector involvement in electricity generation and transmission
Increase coverage and improve efficiency of health sector service and delivery, including: rural and urban potable water supply and sanitation, supply and distribution of affordable drugs, improved health care management, re-training for health care personnel, rehabilitation of regional health clinics, disease prevention education (HIV/AIDS, STDs, reproductive health) etc.
Improve access to, and quality of, education system, including: free primary education, improved school facilities and equipment, improved transport service to schools
Improve vocational training and employment opportunities for youth
Promote sound renewable natural resource management and environmental protection
Political Decentralisation
Promote representative and responsive political parties at the district level
Promote 'inclusive' preparation of regional development plans
Promote community policing, and strengthen the local (and where appropriate) traditional courts
Decentralise agricultural research and extension services to the district level
Promote revenue mobilisation at the district level, eg vehicle tolls, road tolls, vehicle license fees etc
Promote financial decentralisation and strengthen financial management systems at central and district level
Where appropriate support 'traditional' institutions and systems, eg Councils of Chiefs
Resolve regional and local economic grievances and related violence
Private Sector Development
Balance the stimulation of direct investment (foreign and domestic) with the level of tax receipts
Maximise employment opportunities and manage retrenchment
Encourage presence of financial intermediaries and risk guarantee instruments for SMEs
Stimulate market opportunities for domestic SMEs, eg business linkages to large scale companies
Reduce legal and administrative bottlenecks to business development
Improve access to basic business management and vocational skills for SMEs and micro-enterprises
Improve access to micro-financing for micro-enterprises
Encourage links between formal and informal economic sectors
Household Livelihood Security
Provide affordable access for poor communities (rural and urban) to essential infrastructure (power, water, health, education and transportation)
Refine and diversify on-going micro projects to address needs of poor households and vulnerable groups
Improve food security, including: rural and peri-urban fuelwood, market facilities, increased food output, crop diversification, livestock production, supply of agricultural inputs, access to credit, land and technical advice
Improve land and water-way access to market centres
Co-ordinate CBO and NGO delivery of community services
Integrate urban street children into mainstream schooling
Humanitarian Assistance and Conflict Reconstruction
Disaster and refugee relief (food, shelter, water, medicine, transport etc.)
Facilitate the return of refugees and IDPs
Support rehabilitation of community facilities
Rehabilitate and constrict affordable shelters
Prevent violent conflict, eg risk assessment, stakeholder dialogue
Resolve 'open' violent conflict

Table 5 Contributions to Development Priorities from Corporate Operations and ODA Instruments

Development Priorities	Resources and Capabilities of Corporate Operations (current - C; potential – P)										Instruments of ODA (performance - ⬤ high; ● moderate; ○ low)							
	Tax payments	Direct Employment/supply chain	Voluntary social investment	Project and contract management	Research and development	Technical skills – engineering, finance	Marketing/market research/distribution	Infrastructure (power, water, health etc	Human resources development	Borrowing capacity	Balance of Payments Support	General Budget Support	HIPC Debt Relief	Sector Budget Support	Sector-Earmarked Support	Project Aid through Government	Project Aid through ODA agencies	Project Aid through NGOs and private
National Security and Good (public sector) Governance																		
Promote an efficient, responsive and representative democratic system at the national level: President, Executive, Parliament and political parties																●	○	○
Ensure a non-partisan, efficient and functional Electoral Commission, Human Rights Commission, Anti-Corruption Commission etc.																●	⬤	●
Promote the efficiency and independence of the judiciary (Supreme, Appeal and High Courts)														●	⬤	●	⬤	○
Restructure and retrain police, armed forces and prison officers									P					●	⬤	●	⬤	○
External Policies																		
Build foreign exchange reserves and maintain flexible exchange market	C										⬤	⬤						
Reduce external debt burden and improve credit worthiness	C										⬤	⬤	⬤					
Liberalise trade regime	C										⬤	⬤						
Fiscal Policy																		
Improve fiscal/budgetary management						P						●	⬤			●	○	
Strengthen tax administration and expand tax base	C											⬤	●			●	○	
Improve non-tax revenue performance (eg corporate tax and tax collection)	P			P									●			●	○	
Reallocate public expenditure to priority sectors, eg welfare, infrastructure								P				⬤	⬤	⬤				
Build capacity for greater efficiency in public/civil service						P			P					●	⬤	●	○	
Improve efficiency (and attract private investment into) state owned enterprises/utilities	C					P							●	⬤	⬤	⬤	●	
Monetary and Financial Sector Policies																		
Reduce reliance on reserves for domestic credit control, promote more active use of open market													●			●	○	
Increase variety of financial investment and savings instruments													●			●	○	
Improve scrutiny of financial system												●	●			●	○	
Strengthen support of Central Bank to, and overall management of, commercial banks													●					
Sectoral and Related Policies																		
Improve transparency, scrutiny and distribution of revenues from high-yielding investments, eg oil, gas, mining, privatised utilities	P											○		●		○	○	
Develop efficient markets for land under lease and establish land management information system						P		P				○	●	●		○	○	
Reduce government intervention in grain imports/exports and agricultural credit												○	●	●		○		
Facilitate infrastructure development for agricultural sector, eg feeder roads				P		P		P				○	●	●		●	○	
Promote investment in agriculture, manufacturing, tourism etc, including infrastructure.				P		P	P	P	P			○	●	●		●	○	

Development Priorities	Resources and Capabilities of Corporate Operations (current - C; potential – P)										Instruments of ODA (performance - ⬤ high; ● moderate; ○ low)							
	Tax payments	Direct Employment/supply chain	Voluntary social investment	Project and contract management	Research and development	Technical skills – engineering, finance	Marketing/market research/distribution	Infrastructure (power, water, health etc	Human resources development	Borrowing capacity	Balance of Payments Support	General Budget Support	HIPC Debt Relief	Sector Budget Support	Sector-Earmarked Support	Project Aid through Government	Project Aid through ODA agencies	Project Aid through NGOs and private
Develop an efficient transport network, including capacity building and maintenance				P		P		P				○	●	●		●	○	
Facilitate private sector involvement in electricity generation and transmission						P		P				○	●	●		●	○	
Increase coverage and improve efficiency of health sector service and delivery, including: rural and urban potable water supply and sanitation, supply and distribution of affordable drugs, improved health care management, re-training for health care personnel, rehabilitation of regional health clinics, disease prevention education (HIV/AIDS, STDs, reproductive health) etc.				P		P		P	P			○	●	●		●	●	○
Improve access to, and quality of, education system, including: free primary education, improved school facilities and equipment, improved transport service to schools				P				P				○	●	●		●	●	○
Improve vocational training and employment opportunities for youth		P	P						P			○	●	●	⬤	○	○	○
Promote sound renewable natural resource management and environmental protection						P		P				○	●	●	⬤	●	○	○
Political Decentralisation																		
Promote representative and responsive political parties at the district level															●	○	○	●
Promote 'inclusive' preparation of regional development plans			P			P									●	○	●	○
Promote community policing, and strengthen the local (and where appropriate) traditional courts													●	●	⬤	○	●	○
Decentralise agricultural research and extension services to the district level						P		P					●	●	⬤	○	●	○
Promote revenue mobilisation at the district level, eg vehicle tolls, road tolls, vehicle license fees etc								P					●	●	⬤	●	○	
Promote financial decentralisation and strengthen the financial management systems of sectoral central ministries and district level						P							●	⬤	●	●	○	
Where appropriate support 'traditional' institutions and systems, eg Councils of Chiefs			C										●	●	⬤	●	●	●
Resolve regional and local economic grievances and related violence									P						●	○	●	⬤
Private Sector Development																		
Balance the stimulation of direct investment (foreign and domestic) with the level of tax receipts	P											●		●	○			
Maximise employment opportunities and manage retrenchment		C	C				P	P					○	●	○	●	○	○
Encourage presence of financial intermediaries and risk guarantee instruments for SMEs				P		P				P				●	⬤	●	⬤	
Stimulate market opportunities for domestic SMEs, eg business linkages to large scale companies		C	C			P	P	P	P	P				○	●	●	●	○
Reduce legal and administrative bottlenecks to business development													●	○	●	●	○	
Improve access to basic business management and vocational skills for SMEs and micro-enterprises		C	C	P			P		P				●	○	●	○	●	●
Improve access to micro-financing for micro-enterprises			C							P			○		○	●	●	⬤
Household Livelihood Security																		
Provide affordable access for poor communities (rural and urban) to essential infrastructure (power, water, health, education and transportation)			C		P			P					○	○	●	○	●	⬤
diversify on-going micro projects to address needs of poor households and vulnerable groups			C					P					○		○	○	●	⬤

Development Priorities	Resources and Capabilities of Corporate Operations (current - C; potential – P)										Instruments of ODA (performance - ● high; • moderate; ○ low)							
	Tax payments	Direct Employment/supply chain	Voluntary social investment	Project and contract management	Research and development	Technical skills – engineering, finance	Marketing/market research/distribution	Infrastructure (power, water, health etc	Human resources development	Borrowing capacity	Balance of Payments Support	General Budget Support	HIPC Debt Relief	Sector Budget Support	Sector-Earmarked Support	Project Aid through Government	Project Aid through ODA agencies	Project Aid through NGOs and private
Improve food security, including: rural and peri-urban fuelwood, market facilities, increased food output, crop diversification, livestock production, supply of agricultural inputs, access to credit, land and technical advice			P	P		P	P	P	P	P			•	•	●	●	●	●
Improve land and water-way access to market centres				P		P		P					•	•	●	●	•	○
Co-ordinate CBO and NGO delivery of community services			C										○	○	•	•	●	
Integrate urban street children into mainstream schooling			C										○	○	•	○	•	●
Humanitarian Assistance and Conflict Reconstruction																		
Disaster and refugee relief (food, shelter, water, medicine, transport etc.)			C	P		P	P							○	•	•	●	●
Facilitate the return of refugees and IDPs			C	P		P	P							○	•	•	•	•
Support rehabilitation of community facilities			C	P		P								○	•	•	●	●
Rehabilitate and constrict affordable shelters				P		P								○	•	○	●	●
Prevent violent conflict, eg risk assessment, stakeholder dialogue			C											○	•	○	●	●
Resolve ‘open’ violent conflict									P					○	•	○	•	○

- **Sector Budget Support** – financial support provided in the context of agreed Government policy and expenditure plans for a whole sector, eg health, education. The more recent Sector-Wide Approach (SWAp) is similar but aimed at co-ordinating all Government and donor assistance across a sector ('basket funding'). SWAp support generally includes budget assistance, technical assistance and project (grant) aid.

- **Sector-Earmarked Support** – similar to budget support but limits aid to some specific expenditure category within the overall sector, e.g. primary health care spending at district level. Again, this support can include budget assistance, technical assistance and project aid.

- **Project Aid through Government** – specific earmarking of financial aid to discrete sets of activities with coherent objectives, outputs and inputs, with resources disbursed through Government systems (common to World Bank projects), often includes a combination of technical assistance, human resource development and small grants.

- **Project Aid through ODA Agencies** – many bi-lateral ODA agencies prefer to disburse resources through their own management and accounting procedures. The problem is that aid can act as an 'island of excellence' lacking integration with Government structures and sector budgets. Contributions are mainly technical assistance, human resource development and small grants.

- **Project Aid through NGOs and the Private Sector** – in weak policy environments and regions, and in cases of market failure or breakdown in resource distribution, NGOs and private micro-enterprises may act as service providers to poor and vulnerable groups. However these activities tend not to integrate with the expenditure plans of public sector organisations.

The central hypothesis of the ODPCI programme is that there is merit in exploring the business-case for certain of the core resources and capabilities of corporate operations to be deployed to help achieve the developmental priorities of the host society. Looking across a range of industrial sectors, these resources and capabilities include:

- tax payments and the associated tax distribution regime;

- direct employment and supply chain opportunities;

- voluntary social investment budgets and capabilities;

- skills in project and contract management;

- research and development capacity;

- technical skills, e.g. engineering, impact assessment;

- marketing, market research and distribution networks;

- infrastructure (power generation and distribution, water supply and sanitation, housing, transportation, health services. telecommunications etc.);

- human resource development (vocational training and employee education); and

- capacity to borrow finance and guarantee loans.

In *Table 5,* FDI is replaced by the term corporate operation (taken to mean the operational activities of investments in developing countries contributed to by multi-national or domestic corporations and with a significant management influence). The table identifies the current and potential utilisation of the resources and capabilities of these operations in meeting the development objectives of society.

The table is an initial indication of the entry points for managers of a corporate operation to approach international development agencies to explore whether some form of partnership arrangement or collaboration might be possible to contribute social benefits. A hypothetical illustration of this process is given in *Box 6*.

Table 5 is in early stages of development and requires substantial refinement. However, it does show a potential pathway for managers of corporate operations and official development agencies to explore how they might collaborate to achieve development objectives.

Box 6 Linking The Competencies of Corporate Operations to the Instruments of ODA - a hypothetical illustration

A process of PRSP formulation for HIPC related debt relief identified the importance of developing feeder roads to facilitate agricultural development and improve food security. This is accompanied by an indication that two bi-lateral international development assistance agencies are intending to financially support the policy through targeted sector-support directed to various district public works departments.

A private pipeline operator opens a dialogue with these agencies, noting that its own operations will involve the construction of road infrastructure across a number of districts. The company further notes that it has expertise in coordinating processes of competitive tendering, and in contract design and project management, and that these competencies might be able to be made available to help in developing a national programme of training and mentoring for civil service engineers.

There is, of course, also no reason why such a dialogue could not be initiated by the development agency rather than the company, recognising, perhaps that the road infrastructure about to be developed in a particular region might form a 'best practice' model for a national level programme of feeder road development.

2.2.4 Limitations

There are a number of limitations in trying to link the business competencies of corporate operations to ODA instruments. In summary these include:

- the shift in multi- and bi-lateral development agency support towards non-earmarked budgetary support (at national or sector level), which:
    - affords little scope for project-level development activities, the type that might be most readily integrated with geographically-specific corporate operations; and
    - involves only periodic (three or five years) and closed negotiations over the policy reform and expenditure agreements that will accompany the budget support, thus constraining opportunities to collaborate with the corporate sector.
- the inherently political nature of much of ODA budgetary support.

More suited to a linkage with the business competencies of corporate operations are those ODA flows earmarked for either specific activities within a particular sector or geographically-specific development projects. This would include debt relief support tied to PRSPs, sector-earmarked support, most project aid (be that technical assistance or grants, and delivered via government or through parallel systems), humanitarian assistance, and in the case of bi-lateral development agencies, financial assistance provided as part of wider 'programmes', such as to the World Bank, Regional Development Banks, the GEF, EU, FAO and UNESCO.

In reaching conclusions on the potential linkage of corporate competencies with ODA, some quantitative breakdown of ODA is needed. As an illustration, and drawing on the above distinctions of different ODA instruments, *Table 7* shows the volumes and trends of ODA provided by the UK Department for International Development (including programme support).

The key question is whether, for any given development priority, there is a dual 'business-case' and 'development-case' for greater use to be made of corporate investments in contributing to the realisation of these priorities, beyond the conventional tax, wages and social investment. In the context of DFID's ODA, it would seem that in the medium term (2-10 years), whilst non-earmarked budget and sector support is possibly a growing feature, it is unlikely to account for more than 5 to 10% of total ODA.[26]

Even if one assumes that a proportion of programme aid to multi-lateral institutions such as the World Bank will be used for non-earmarked budgetary and sector support, the proportion of total ODA in the 'budget' category is likely to remain between 10 and 15%.[27]

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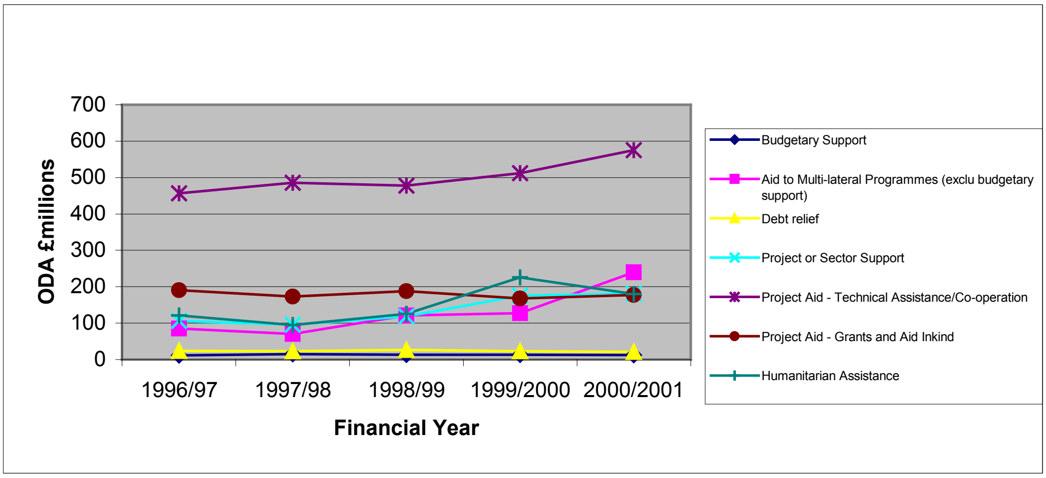
[26] It is not clear from the available data what amounts of ODA support in the category defined by DFID as 'Project and Sector Aid' includes non-earmarked budgetary or SWAp support. A very large proportion of this category is likely to be 'earmarked', either as project aid or as targeted sector aid (E.Robbins, pers comm. DFID/SIDS).

[27] E.Robbins, pers comm. DFID/SIDS, July 2002.

Table 6 Trends in DFID ODA



The recent commitment by the British Government to increase the overall resources of DFID means that, in the medium term, earmarked sector and project support, debt relief (tied to PRSPs), technical assistance, grants and in-kind resourcing are all likely to continue at present or higher levels. Increases in the available resources of other bi-lateral development organisations have also been recently pledged.[28]

Thus, for the time being at least, the vast majority of ODA to developing countries would seem to offer potential for exploring synergies with the resources and capabilities of the corporate sector in the pursuit of the development priorities of the world's poorest societies.

2.2.5 Factors Constraining the Development Performance of FDI

A number of factors currently conspire to constrain the development performance of corporate investments in poor countries. These include:

- minimum required returns for foreign investors, which in some sectors is approaching 25% per year, making investment in agriculture for example (a key sector for poverty reduction) financially prohibitive. The recent decision of the Commonwealth Development Corporation (CDC Capital Partners) to begin to offload its agricultural assets is an example;[29]
- political pressures on operators from host country governments to generate continuous corporate and profit tax contributions that seldom return to the region of operations;
- operating company reinvesting profits for expansion activities that continue to have little relevance to poor communities;
- local income earning opportunities (and some labour practices) that tend to exclude access to employment for uneducated communities;
- products and services affordable only by the few, e.g. bank loans, white goods, utility services (water, transport, electricity, secondary schooling, health care etc.), crop inputs etc;
- value chains (supplies and distribution) inaccessible to domestic small and medium scale enterprises (SMEs); and
- the poor level of sustainability of company-led voluntary community development.[30]

[28] The G8 meeting in June 2002 saw a $6 billion increase in aid, trade and debt relief for Africa, as well as a politically significant 50% increase in the US aid budget (*source: Times, July 10th 2002, p16*)

[29] "*...we need to achieve higher financial returns demanded by the private markets…Our strategy is to dispose of the investments in [our]..historical debt portfolio...which has had significant developmental value, but is unlikely to meet the financial hurdles that CDC now requires*". CDC Chairman's Statement, 2000.

[30] Company-led voluntary community programmes, though having an immediate positive impacts on poor communities, tend to benefit those populations most

Aside from a reduction in rates of investment return, the ODPCI programme is aimed at overcoming each the above constraints. The central hypothesis of the programme is that a management tool, embedded in an operating company, and which systematically maps business competencies onto development priorities in the context of partnerships with the executing agencies of ODA, host governments and civil society organisations, can improve the overall development performance of corporate investments.

Without such partners willing to share costs and pool competencies and skills, the business-case for enhanced corporate development performance in the world's poorest countries is likely to be weaker. We therefore need to identify those low income countries where the volumes of FDI coincide broadly with flows of ODA, and recognise that these ODA flows (whether earmarked as sector support, conditional debt relief or project aid) may, for the time being at least, be the deciding factor in encouraging corporations to consider contributing their business competencies to more poverty-focused priorities.

2.2.6 *Ratios of FDI to ODA*

Figure 9 compares the average flows of FDI to ODA over the four-year period 1996 to 1999, as a percentage of GDP. In the following countries, volumes of FDI coincide broadly with flows of ODA:

> **Africa**: Cote d'Ivoire, Zimbabwe, Sudan
>
> **Asia**: Armenia, Cambodia, Georgia, Moldova, Pakistan, Sri Lanka, India, Indonesia, Philippines, Ukraine, Uzbekistan

In general, any country where FDI and ODA are both significant in relation to overall economic activity offers the opportunity to explore partnership arrangements between corporate operations and development assistance agencies. *Table 8* shows the ratio of FDI for ODA for the 70 countries ranked as poorest by GDP/capita. Highlighted are those countries where the stock of FDI is greater than 20% of GDP (as at 1999). Thus, the following countries both have substantial FDI stocks, as well as ratios of FDI:ODA (assumed to be ratios less than 5:1) that might support a collaborative approach to improving the development performance of corporate operations:

> **Africa**: Angola, Chad, Cote d'Ivoire, CDR, The Gambia, Lesotho, Malawi, Mozambique, Niger, Nigeria and Zambia
>
> **Latin America**: Ecuador, Guyana, Honduras and Nicaragua
>
> **Asia**: Armenia, Indonesia, Kyrgyz Republic, Moldova, Vietnam

A second conclusion drawn from *Table 7* is that, on average, for the poorest quartile of developing countries, ODA exceeds FDI by around 2:1. This average ratio would be greater were it not for a handful of the poorest quartile countries with a high FDI:ODA ratio: Vietnam (3:1), Angola (3:1), Lesotho (4:1), Ecuador (4:1), and Turkmenistan, Myanmar, Azerbaijan, Nigeria and China (all > 5:1). Of these both Myanmar and Nigeria were under UN sanctions that limited official development assistance for much of the period of the data set, i.e. 1996 to 1999. Thus, for example, the FDI:ODA ratio today for Nigeria is likely to be lower. This leaves Vietnam, Angola, Lesotho, Ecuador, Turkmenistan, Azerbaijan and China as the only seven countries, from the world's poorest 70, where it is justifiable to talk of annual FDI flows *"dwarfing"* those of ODA.

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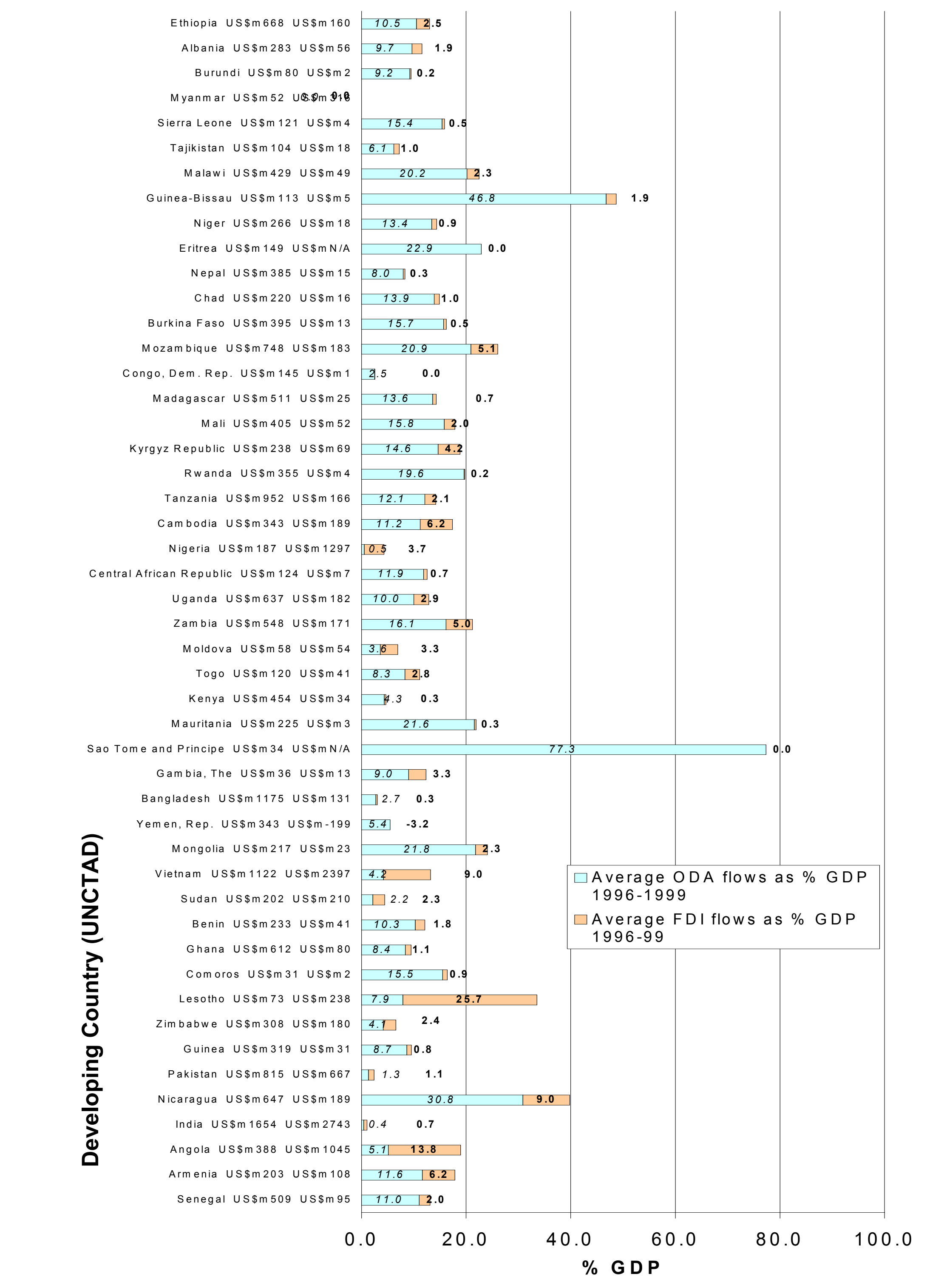
adversely affected by business operations (e.g. from land acquisition and loss of other assets). They are rarely directed at the region of operations as a whole. Further, these activities are often viewed by communities, not as 'additional' benefits, but as legitimate compensation for loss of livelihoods and security. In other words, the perceived net development value of the investment combined with these programmes is often perceived as 'zero'. Furthermore, a number of authors are raising questions over the long-term sustainability of company-led community development programmes (Warner, 2000b; CDC, 2002). The volatility of global markets (such as variable commodity prices); local commercial uncertainties (such as the reliability of supply chains, distribution networks; political risk; and the limited duration of investments in certain sectors (such as the extraction industries) mean that companies cannot assure the continuity of local presence needed to build the capacity of community and local government institutions to manage community programmes in the long-term.

Table 7 Ratio of FDI:ODA, for the 70 Poorest Countries[31]

FDI < ODA				FDI > ODA			
> 1:10	**1:10–1:5**	**1:5–1:2**	**1:2–1:1**	**1:1–2:1**	**2:1–3:1**	**3:1–5:1**	**> 5:1**
Burkina Faso	Albania	Ethiopia	**Armenia**	India	**Angola**	**Ecuador**	Azerbaijan
Burundi	Bangladesh	**Gambia, The**	Cambodia	**Indonesia**	**Vietnam**	**Lesotho**	China
Cameroon	Benin	**Guyana**	**Cote d'Ivoire**	Philippines			Myanmar
Central African Republic	Ghana	**Honduras**	Georgia	Sudan		**Nigeria**[32]	
Chad	**Malawi**	**Kyrgyz Republic**	**Moldova**	Ukraine			Turkmenistan
Comoros	Mali	**Lao PDR**	Pakistan	Uzbekistan			
Congo, Dem. Rep.	Senegal	**Mozambique**	Sri Lanka				
Congo, Rep.	Tajikistan	**Nicaragua**	Zimbabwe				
Djibouti	Tanzania	**Papua New Guinea**					
Guinea		Solomon Islands					
Guinea-Bissau		Togo					
Haiti		Uganda					
Kenya		**Zambia**					
Madagascar							
Mauritania							
Mongolia							
Nepal							
Niger							
Rwanda							
Sierra Leone							

[31] The poorest 70 classified by IMF ranking. This excludes the following countries, for which data is not available: Afghanistan, American Samoa, Andorra, Aruba, Bermuda, Brunei, Bhutan, Cuba, Eritrea, Faeroe Islands, French Polynesia, Guam, Iraq, Korea, Dem. Rep, Liberia, Liechtenstein, Macao China, Marshall Islands, Mayotte, Micronesia, Fed. Sts, Monaco, New Caledonia, Northern Mariana Islands, Palau, Puerto Rico, San Marino, Somalia, West Bank and Gaza, Yugoslavia, FR (Serbia/Montenegro), Cayman Islands, Virgin Island, Yemen (U.S.)
[32] Amended to take account of recent rise in ODA.

Figure 9 Average Annual Flows of ODA and FDI as % Gross Domestic Product for Developing Countries[33] ranked by GDP per capita,[34] 1996-99 (part 1 of 3)



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33 Excluding the following countries, for which data is not available: Afghanistan; American Samoa; Andorra; Aruba; Bermuda; Brunei; Cayman Islands; Cuba; Faeroe Islands; French Polynesia; Guam; Iraq; Korea, Dem. Rep.; Liberia; Liechtenstein; Macao, China; Marshall Islands; Mayotte; Micronesia, Fed. Sts.; Monaco; New Caledonia; Northern Mariana Islands; Palau; Puerto Rico; San Marino; Somalia; Virgin Islands (U.S.); West Bank and Gaza; Yugoslavia, FR (Serbia/Montenegro)

34 FDI values from World Investment Report 2001, UNCTAD; ODA and GFCF data from World Development Indicators 2001 CD ROM, World Bank; GDP per capita data at current US$ obtained from IMF website, http://www.imf.org/external/pubs/ft/weo/2001/03/data/index.htm

Figure 9 Average Annual Flows of ODA and FDI as % Gross Domestic Product for Developing Countries ranked by GDP per capita, 1996-99 (part 2 of 3)

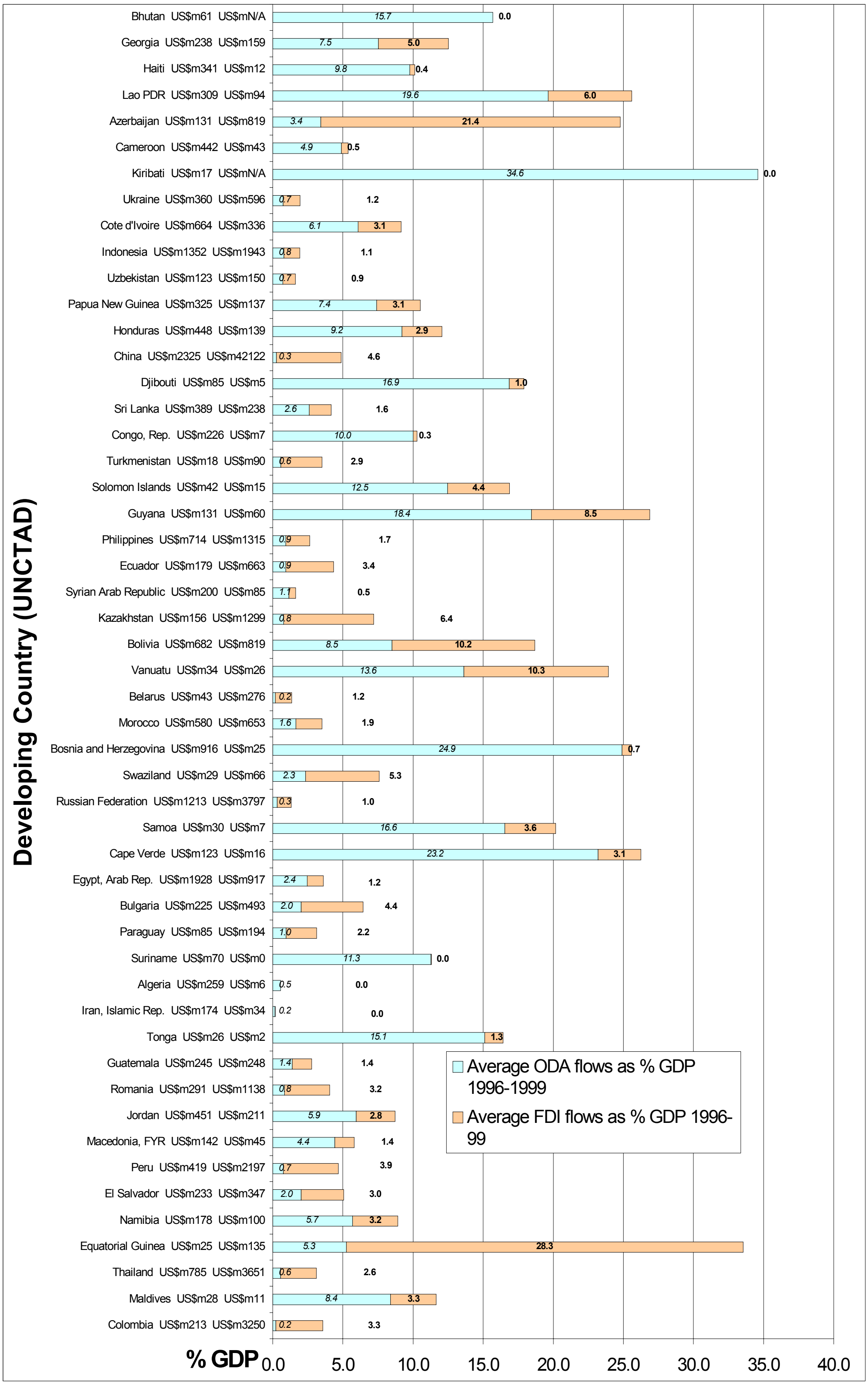
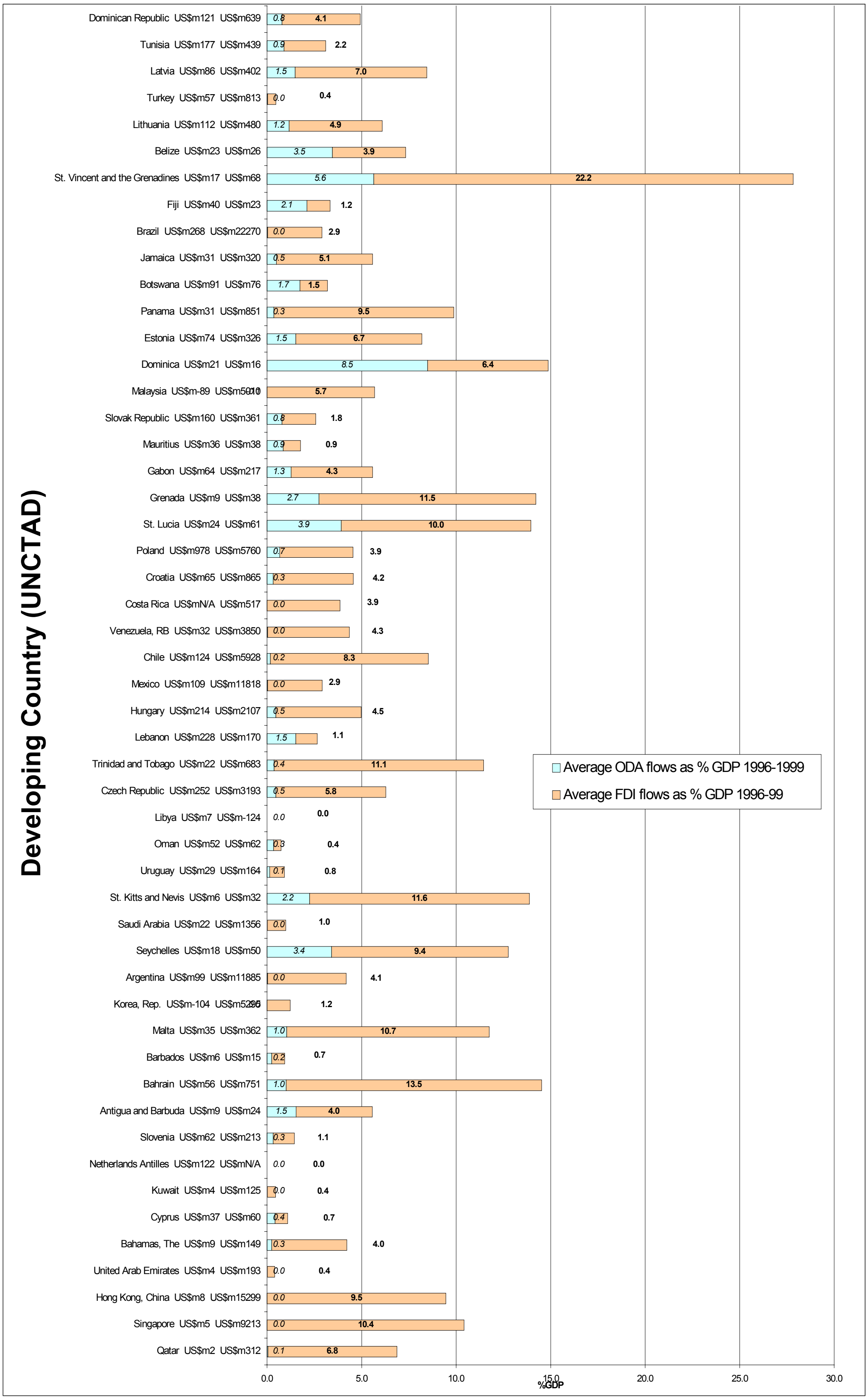


Figure 9 Average Annual Flows of ODA and FDI as % Gross Domestic Product for Developing Countries ranked by GDP per capita, 1996-99 (part 3 of 3)



2.3 Industrial Sectors

2.3.1 Introduction

The problem with aggregated data on FDI is that it does not tell us anything about the ultimate impact or quality of FDI. To this end, it would be desirable to have a sectoral breakdown of FDI. For example, efficiency-seeking FDI in manufacturing is often thought to have a more desirable impact on economic development than FDI in natural resources. Unfortunately, detailed sectoral data on FDI in developing countries is lacking. This section describes, as best we can, data drawn from various sources to try to examine the sectoral composition of FDI in developing countries.

2.3.2 Aggregated Data

Figure 10 provides an aggregate view. It can be seen that, despite the importance of oil, most FDI stock in Africa is in the secondary and tertiary sector. FDI in South and East Asia is also concentrated in manufacturing. In contrast, over 50% of Latin American FDI is in the services sector. Unfortunately, these data do not provide country detail and exclude many of the least developed countries.

2.3.3 Sectoral Composition in Selected Countries

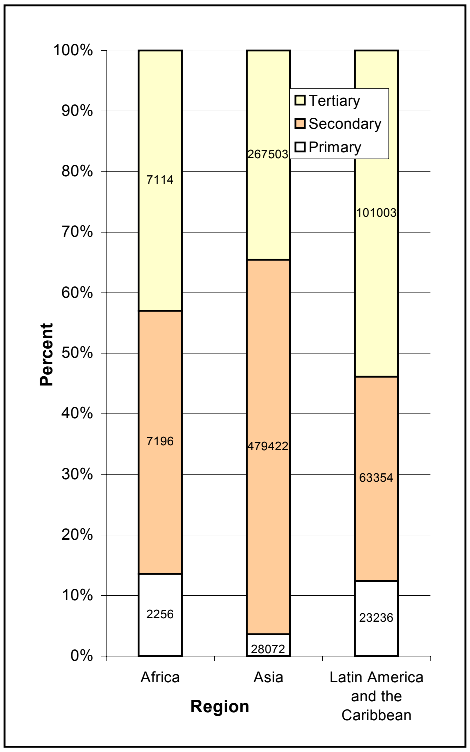
Table 8 below gives an indication of those industrial sectors most important to the poorest 50% of developing countries, identified in the previous section as recipients of both (a) substantial FDI stocks (as measured against GDP) and (b) ratios of FDI:ODA, and consequently suggests which partnership opportunities to explore in order to improve the development performance of corporate operations.

2.3.4 FDI data at Company Level

Data at company level can also be used to indicate the sectoral composition of FDI. UNCTAD (2001b) provides a table of the multi-national enterprise (MNE) affiliates, by sale, operating in developing countries.[35] *Table 9* captures data from the 30 MNEs for which data is available. This indicates that although many of the largest MNE affiliates are in the manufacturing and services sectors, the oil, gas, mining and tobacco industries tend to dominate.

Figure 11 shows the spread of MNEs across the 70 poorest developing countries, as charted by the presence of Fortune 500 businesses present. The four MNEs used as examples of their sectors earlier in *Section 2.3* have affiliates in many developing countries. *Figure 12* shows where these four major MNEs have a presence.

Figure 10 FDI Inward Stock by Industry and Region (LDCs) 1999 ($m)



Source: (UNCTAD, 2001a)

Looking across these tables and figures, the data suggests perhaps piloting a competencies-development mapping tool as follows:

- Niger – mining sector – La Compagnie Miniere d'akouta;
- Anglo – construction – Osel Odebrcht Servicos; and
- Zambia – manufacturing – Dunlop

[35] Although total sales gives an indication of percentage of total value added to society, bear in mind that this includes raw materials use as well as value cash added.

To further scope the ODPCI further research will be needed on the full range of corporate operations and affiliates presence in the countries listed in *Table 5*.

2.4 Market Projections

Because of the difficulty of finding cumulative data on corporate activity in developing countries, and the even more problematic task of accessing predictions on market opportunities by sector, two short case studies are presented below, for Nigeria and Vietnam. As the ODPCI programme develops, similar mini case studies will develop for countries where high relative levels of FDI stock coincide with close ratios of FDI to ODA.

2.4.1 Nigeria[36]

In terms of GDP per capita, Nigeria is the 22nd poorest country in the world. Nigeria combines a high relative FDI stock (44.5% of GDP), with a FDI:ODA ratio of around 3:1, as well as an increasing rate of inward ODA flows arising from a return to more political stability. Thus, in very broad terms, Nigeria demonstrates the characteristics needed for investing corporations to work with social partners to pursue the country's development priorities. Two recent detailed case-studies on the transition of the community development work of Shell Petroleum Development Company towards social partnering support this assertion (Goyder & Lander, 2002; Sullivan & Warner, 2002).

While no data is available for the number of parent corporations based in Nigeria there are 48 major foreign affiliates (UNCTAD 2001c). Nigeria has been a traditionally large oil exporting country and usually takes a major proportion of Africa's FDI inflows (UNCTAD, 1998). However, Nigeria's (and Africa's) inflows are not concentrated solely in the primary sector. For example, the primary sector as a whole accounted for little over 30% of total FDI stock in Nigeria in 1992, whilst manufacturing accounted for almost 50% and services close to 20% (UNCTAD, 1998, p.13).

As indicated in the table below, Nigeria is predicted to continue to attract FDI. Measured as a percentage of GDP, flows are forecast to increase.

Economic indicator	**1997-2000**	**2001 (forecast)**	**2002 (forecast)**
Real GDP (% change)	2.3%	3.5%	3%
FDI (% GDP)	4.4%	4.6%	7.0%

Source: Adapted from eBearsovereign, Global Debt Research, 20 August 2001, p.3

The main growth market however is likely to be the telecommunications sectors (Credit Suisse/First Boston 2002) due to recent privatisation plans. Econet Nigeria, for example, expects mobile penetration to reach over 6% over the next five years, which is expected to lead to further investment inflows (ibid.).

In summary, in Nigeria both inward FDI and ODA flows are likely to increase over the next few years. With this base, the country is well placed to work with the corporate sector through social partnering to help meet certain poverty-focused development priorities. The dominant oil and gas sector remains a likely candidate for piloting the proposed 'competency-development' mapping tool. This is so not least because a new revenue sharing formula has now passed into law. In time this will provide public sector resources alongside the resources and competencies of the operating companies, international donors and NGOs.

A second sector, which might provide an opportunity to test the proposed competencies-development mapping tool, is telecommunications. Anticipated growth in this market, and the prospect of open tendering for concessions, provides the prospects of foreign corporations looking for competitive advantage. A detailed 'map' showing how the corporation's business competencies would be integrated with those of local partners to meet national and regional development priorities, could provide bidders with just such an advantage.

2.4.2 Vietnam

Against the same measures, Vietnam is the 36th poorest country. FDI stocks are 55.6% of GDP (at 1999) and the FDI:ODA ratio for the period 1996 to 1999 is around 2:1. Like Nigeria, data is only available for number of

[36] Much of the information in parts 2.5.1 and 2.5.2 was obtained through Firstcall.com, a service of Thomson Financial, access to which was provided free as part of a broad academic program.

affiliates rather than parent corporations. Vietnam has 1,544 foreign affiliates (out of 445,929 in South, East and South-East Asia). Vietnam's exports are predominantly oil, textiles and seafood.

More recently Vietnam has begun to develop its tourism industry. For example, 2.33m foreign tourists visited in 2001, 8.9% more than in 2000. The country's low-cost tourist packages, proximity to China (a fast-growing source of tourists), and its ranking as the "safest place in Asia" by, amongst others, the Hong Kong-based Political & Economic Risk Consultancy, have helped bolster the industry (Salmon Smith Barney 2002, p.2).

Tourism's position as a growth sector, a marked increase in Western corporate interest in Vietnam - FDI stocks as a percentage of GDP measured just 3.6% in 1990, soaring to 55.6% by 1999 (UNCTAD 2001a) - and continued liberalisation of the Vietnam economy and trade agreements,[37] suggest that Vietnam and the tourist sector might provide an opportunity to pilot the ODPCI programme.

Whilst the Ministry of Planning & Investment noted that Vietnam enjoyed a 24.4% increase in FDI registered capital in 2001, amounting to US$2.4bn, actual disbursed capital increased more modestly by only 3.2% (Salmon Smith Barney 2002). Further, FDI inflows have been "disappointedly low" in recent years. After peaking at $2 billion per year in the mid-1990s, FDI has fallen back to $1 billion or less in recent years. Vietnam experienced an upsurge in interest from foreign investors a decade ago, when the country was first opened up to foreign investment. However, bureaucracy, a lack of transparency and an often arbitrary treatment of foreign investors, had a cumulative adverse impact on investor sentiment, from which Vietnam has yet to fully recover. Recent measures to streamline the FDI approval process include giving local authorities, especially those in Ho Chi Minh City, greater autonomy to improve the investment climate and ease administrative hurdles for foreign investment projects (eBearsovereign, 2001).

3 The Way Ahead

As discussed in *Part 1* of this report, missing at the moment is a systematic assessment of the full range of options for a company to optimise its development performance. The principal business argument supporting such an assessment is that forward-looking business multi-national enterprises increasingly see a commercial interest in reversing levels of poverty and social exclusion, not least because these can contribute to alienation and extremism in communities living in the proximity of their operations.

This paper suggests that a reappraisal of the current practice of corporate social responsibility in developing countries is needed to achieve this end. Some clear social (and business) benefits have arisen from the resources invested in developing codes of conduct, improving labour standards, and delivering more transparent business practices and community projects. However, in many cases:

- the costs to business are increasingly seen as disproportionate to the benefits;
- voluntary social projects are seeding liabilities associated with creating community dependency on companies and undermining the role of local government; and
- some corporations have allowed themselves to be cajoled into replicating the activities of non-governmental and donor agencies, and as such are failing to optimise the unique and complementary contributions they could make to reducing poverty through their core business.

In the least developed regions of the world, the new approach alluded to in *Part 1* requires companies to 'unpack' their full range of competencies and resources that could impact positively on poverty reduction policies and related development priorities, and implementing those for which, either by acting alone or in partnership, there is a business-case.

[37] for example, the recently ratified US Bilateral Trade Agreement (BTA)

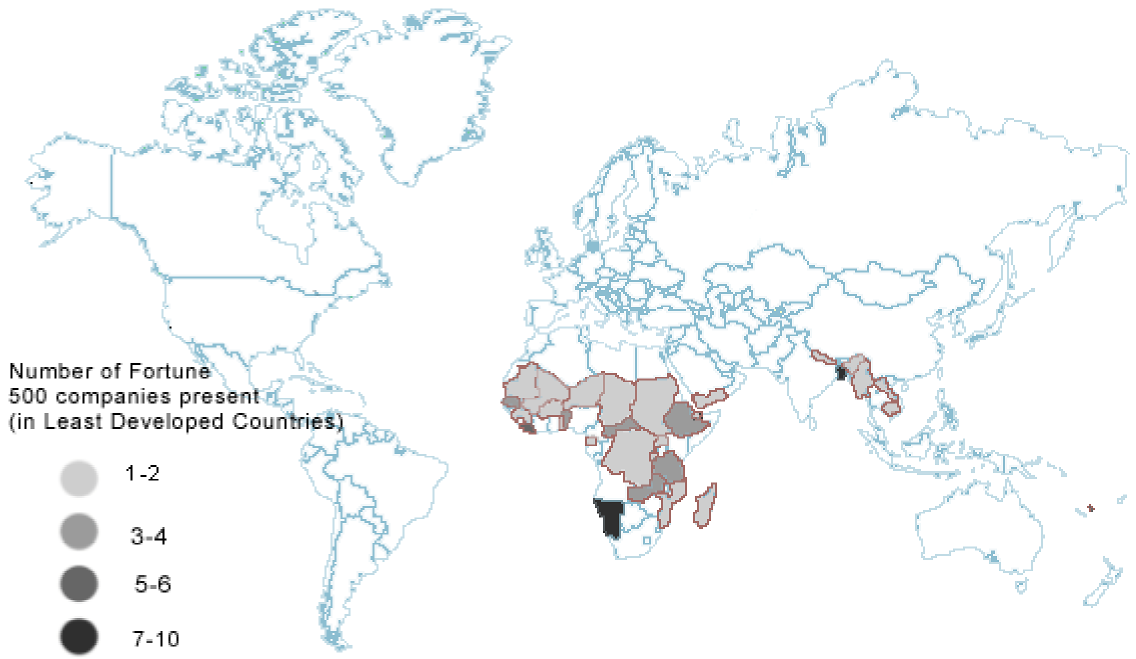
Table 8 Industrial Sectors Most Relevant to Selected Countries (based on GDP)

Country	Oil and gas	Mining and minerals	Agriculture, Forestry, Tobacco	Manufacturing	Retail	Utilities and Transport	Construction	Financial Services
Chad, 2000		(and fishing) 3.1% of GDP	35% of GDP	11% of GDP	(see financial)	0.6% of GDP (water and electricity) 24.4% (commerce and transport)	2%of GDP	9.6 % of GDP (all other services)
CDR, 1999		8% of GDP	54% of GDP	4% of GDP	(see financial)	4.5% of GDP (including telecommunications)	2% GDP	26% of GDP (all other services, including trade and commerce)
Niger, 2000 (est.) at factor cost	?	7% GDP	39% of GDP	7% GDP	(see financial)	7% GDP	?	29.4% (all services)
Malawi, 1999	?	1% GDP	38% GDP	13% GDP	?	6% (includes telecommunications)	2% GDP	8% GDP
Zambia, 1998 (Est.)		6.1% GDP	17.3% GDP	11.4% GDP	16.9% GDP (+ 2.3 % hotels)	10% (includes telecommunications)	5.1% GDP	9.6% GDP
Mozambique, 1999		0.2% GDP	30% GDP	9.6% GDP	(see financial)	12% (includes telecommunications)	8.6% GDP	37% (all services)
Cote d'Ivoire, 1999	Negligible (petroleum extraction)		23% GDP + 7% Agribusiness		(See financial)	14% GDP (includes petroleum REFINING)	5% GDP	29% GDP (all services)
Angola 1999	4.1% growth 61.5% GDP	5.9% growth / 9% GDP	1% growth / 6% GDP	7.1% growth / 3.5% GDP	?	1.3% growth / negligible (doesn't include transport	5% growth / 3% GDP	?
Lesotho 2000/01		16% GDP	Negligible	11% GDP	6% GDP	6% GDP	13% GDP	?
Nigeria								
Guyana, 2000	?	13.6% GDP	33% GDP	10.5% GDP	?	7.7% GDP	4.9%	3.5% GDP
Honduras, 1998 (Est.) at factor cost	?	2% of GDP	19% of GDP	19% GDP	?	10% GDP	5% of GDP	11% of GDP
Nicaragua, 2000	?	1% GDP	32% GDP	46% GDP	?	4.5% GDP (including telecommunications)	6% GDP	2.5% GDP
Equador, 1999	10.9%	0.6% GDP	12.2% GDP	21.3%	?	9.7% (includes communications)	4.5% GDP	5.5%
Kyrgyz Republic, 2000	(See financial)	(See financial)	36.7% GDP	21.5% GDP	(See financial)	4.7% (includes communications)	3.1% GDP	others 34%
Moldova	?	?	22% GDP (+ 13% processing)	?	13% GDP	11.5% (including communications)	3% GDP	7% GDP
Armenia, 2000	?	?	30% GDP	21% GDP	?	5% (includes communications)	10% GDP	?
Indonesia, 1999	?	?	4.5% of FDI	63% of FDI	9% FDI	21% of FDI	1% of FDI	?

Table 9 The largest 30 MNE Foreign Affiliates in LDC (1999) for which data exist

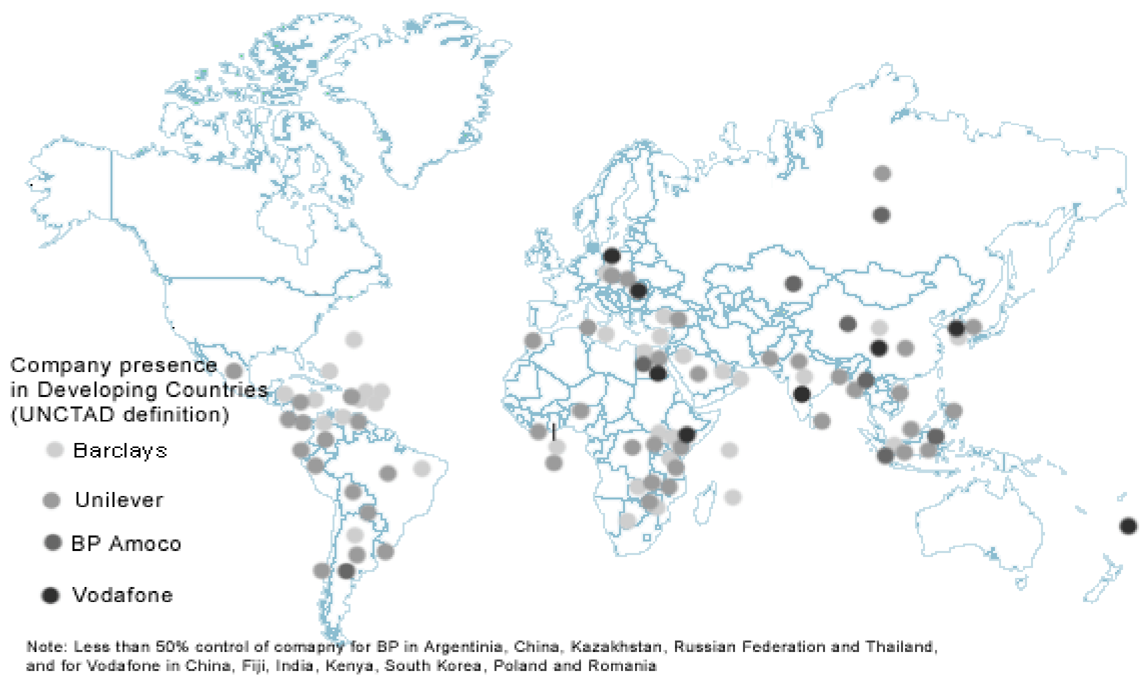
	Foreign affiliate	Host country	Home country	Industry	Sales $ million	Sales / Value added
1	Dunlop Zambia Limited	Zambia	UK	Tires and inner tubes	8771	123.5%
2	Brasseries et Limonaderies Du Rwanda SA	Rwanda	Netherlands	Malt beverages	6494	88.8%
3	Shell Exploration and Development Madagascar	Madagascar	Netherlands	Oil and gas explorations	4286	36.2%
4	Shorncliffe ltd	Solomon Islands	UK		1363	154.9%
5	Boral Gas Solomons ltd	Solomon Islands	Australia	Gas explorations	1298	147.5%
6	Osel Odebrcht Servicos	Angola	Brazil	Commercial construction	785	5.8%
7	Ashanti Goldfields ltd	Tanzania	Ghana	Gold ores	284	1.8%
8	Pacific resources ltd	Vanuatu	Hong Kong		134	24.1%
9	BHP Steel Building Products New Caladonia SA	Vanuatu	Australia	Steel	134	24.1%
10	La Compagnie miniere d'akouta	Niger	Japan	Mining	90	1.2%
11	Travel Industry Services ltd	Solomon Islands	Fiji	Transport	64	7.3%
12	Compagnie Shell de Guinee	Guinea	Netherlands	Petroleum products exp bulk terminals	50	0.4%
13	Manufacture de Tabacs de l'ouest africaine	Senegal	France	Tobacco	49	0.4%
14	Fisons Bangladesh ltd	Bangladesh	France	Pharmaceutical preparations	48	0.0%
15	Brasseries et Limonaderies Du Burundi Sari	Burundi	Netherlands	Bottled and canned soft drinks	46	1.2%
16	Myanmar Kasho co. ltd	Myanmar	Japan	Trading	41	
17	John Walkdon And Cie	Benin	UK	Piece Goods	39	0.7%
18	Cobol Shipping Co. Inc	Liberia	Japan	Transport	38	
19	The General Electric Co. of Bangladesh ltd	Bangladesh	UK	Motors and Generators	38	0.0%
20	Nestle Senegal sa	Senegal	Switzerland	Fluid Milk	27	0.2%
21	Vespers shipping corp	Liberia	Japan	Transport	27	
22	manufacture burkinabe de cigarettes sa	Burkina Faso	France	Tobacco	26	0.2%
23	Total Texaco Niger sa	Niger	France	Petroleum products exp bulk terminals	25	0.3%
24	Togo et Shell sa	Togo	Netherlands	Petroleum products exp bulk terminals	25	0.4%
25	Spie Batignolles ltd	Lesotho	France	Engineering services	22	0.4%
26	Cica Burkina	Burkina Faso	France	Cars and other motor vehicles	21	0.2%
27	Nouvelles Savonneries de l'ouest african sa	Senegal	US	Cleaning preparations	20	0.2%
28	Humolco Trans inc	Liberia	Japan	Transport	19	
29	Mic Tanzania ltd	Tanzania	Luxembourg	Electronic parts	19	0.1%
30	Mamiya-Op	Bangladesh	Japan	Sporting and athletics goods	17	0.0%

Figure 11 Number of Fortune 500 Companies Present in the Poorest Developing Countries



Source: Adapted from FDI in Least Developed Countries at a Glance, UNCTAD 2001

Figure 12 Presence of Selected MNEs in Developing Countries



Source: Barclays, (2001); Vodafone, (2001); BP, (2001); Unilever, (2000)

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Optimising the Development Performance of Corporate Investment

The ODPCI Programme

Discussion Paper – Part 3

Embedding Development Performance

Building on Existing Business Management Tools

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CONTENTS

Part 3 Embedding Development Performance

3.1 Introduction

Although there are examples of successful multi-sector social partnerships involving corporate operations in developing countries, the task of replicating these good practices through some systematic management tool, and then ‘embedding’ or ‘mainstreaming’ this tool into day-to-day operations remains elusive.

This part of the report looks at ways in which the proposed development performance management tool might be embedded within conventional business practices. Nine business management tools and approaches are investigated: social impact mitigation; dedicated community development programmes and country scenario planning; resource and market-based strategic planning; customer relationship marketing, and growth strategies (internal development, acquisitions and strategic alliances).

Each management tool is assessed against the following performance criteria:

- Extent to which activated automatically by some core business activity;
- Extent to which activated by more than one department;
- Clarity of management responsibility;
- Implementing and transaction costs;
- Pro-actively explores the additional contribution the company could make to the country, region or communities development priorities;
- Extend to which full range of business competencies and resources assessed;
- Extent to which a strong business-case is articulated; and
- Opportunities to explore partnership.

Table 10 summaries the findings. Highlighted are those tools that seem to lend themselves to embedding a competencies approach to development performance.

Table 10 Performance of Existing Business Management Tools

Management Tool/Approach	Performance Criteria							
	Auto activated	Auto activated in more than one Dept	Clear management responsibility	Low implementing costs (including Transaction)	Pro-actively explores options for development performance	Full range of business competencies and resources identified	Strong Business-case	Partnerships explored
Social impact mitigation	√√√		√√√					√
Dedicated Community Development	√		√√		√√			
Scenario Planning	√√		√√	√√√	√√	√√	√√	√√
Resource-based Strategic Planning	√√√	√√√	√√	√√√		√√	√√	√√
Market-based Strategic Planning	√√√	√√√	√√	√√√	√√√ (p)	√√√	√√	√√
Relationship marketing	√√√				√√√ (p)	√√√	√√	√√
Growth strategies • Internal development			√√		√√		√√	√
Growth Strategies • Acquisitions	n/a[38]							
Growth strategies • Strategic alliances			√√	√√	√√√	√√√	√√√	√√√

[38] The authors know of no examples where an operating company has acquired an organisation (private or non-profit) with the expressed intention of building in-house expertise in community development.

3.2 Management Approaches

3.2.1 Social Impact Mitigation and Risk Assessment

Various types of compliance requirements are aimed at mitigating the adverse social impact of business operations. These requirements are set by, *inter alia*, environmental regulators at regional or national levels (usually the Ministry of Environment), project investors, and the company itself (either the parent corporation and/or the specific business operation). Types of social compliance include:

- Requirements for studies that identify and mitigate the adverse social impacts of project operations on communities, usually forming part of the Environmental (and Social) Impact Assessment report;
- Due Diligence reports (usually prepared for investors and which include an assessment of social and political risk);
- Preparation of resettlement and rehabilitation plans and related compensation payments;
- Compliance with requirements for information disclosure and public/stakeholder consultation (again, often part of the EIA); and
- Social and political risk assessment.

Management responsibility for meeting these requirements is usually embedded within the Health, Safety and Environment department, and is invariably (a) undertaken by just one department (though others such as engineering may contribute); (b) predominantly controlled by the company; (c) focuses on managing social risk and mitigating negative social consequences rather than seeking development performance; and (d) involves metrics and social reporting procedures that measure performance in terms of the quality and quantity of 'activities', such as consultation or community participation, rather than 'outcomes' such as the sustainability of community projects or improved local governance.

With regard to costs, these are moderate to high. The transaction costs involve employing environmental and social consultants to undertake impact or risk assessment studies and prepare reports. The implementation costs involve revising project designs and schedules in response to the findings of the studies, and delivering and monitoring impact mitigation and risk management plans. The transaction costs of these studies are an accepted norm for most businesses, viewed as 'just another permitting cost', along with the costs of complying with financial, legal, construction and a host of other regulatory and permitting requirements. The implementation costs of project redesign and mitigation can be far higher, especially if the assessment procedures have been carried out to a high standard and serious attention paid to the results.

With regard to the business-case, foremost the environmental and social impact assessment is about winning formal environmental clearance from the country regulators. For the 'social' component of a risk assessment the business-case is more about securing the local social license to operate, and satisfying risk underwriters and due diligence requirements of investors. Less prominent, if at all, is recognition within the operating companies that the management of social issues might be a means to achieve competitive advantage (e.g. in tendering), improving market intelligence, marketing and brand awareness, or ensuring staff and customer satisfaction.

The social partnering approach to Corporate Social Responsibility fits only moderately well with the tools of social compliance. Most important, however, is that though social risk management, impact mitigation and activity-based social reporting are of relevance to social partnering, they are not usually the central theme of a social partnership. As indicated in a recent PwC report on the BPD programme (PwC, 2002), what matters for successful partnering is developmental outcomes for society that accentuate the positive contribution that business can make, as opposed to simply mitigating the operation's negative consequences.

The exception, and an option tested in the BPD programme, is to 'bolt' partnering onto the phase of the environmental impact assessment process at which the environmental and social management plan (EMP) is developed (Sullivan and Warner, 2002). This research, with Shell Petroleum Development Corporation in Nigeria (SPDC), recognised that the identification of mitigation measures and preparation of the EMP could be used to either trigger community development planning, where none is already taking place, or integrate with aspects of existing community development programmes where these were already on-going (either by the company or by others).

The idea is that partnering at the time of EMP preparation would bring together two sets of resources: those of the company set aside for mitigating potentially adverse social and health impacts from oil and gas development, and those from the that part of the company dedicated to community development. Joining these two pools of resources together would then act as an incentive for international development agencies, NGOs and government authorities to work in collaboration with the company, leveraging yet further resources.[39] Further testing of this approach to partnering is needed.

3.2.2 Dedicated Community Development Programmes

In addition to compliance-led social management, an alternative is to shift the responsibility for community development activities to a dedicated Community Development, CSR department or unit, or local company-led foundation. In these (essentially ‘outsourcing’) scenarios, the prospect of community development programmes being integrated with core business resources and competencies is slight. Frequently the staff in these units have NGO, public sector or donor agency employment experience. It is therefore not surprising that the ‘style’ of development performance promoted by such new units is similar to that of an NGO or aid agency.

Further, these programmes are in part driven by the need for the operating company to ‘be seen’ to be contributing to the development of local communities, not only to assure the local social licence to operate, but to provide examples for the companies Annual Environmental and Social Reports. This PR component encourages a type of contribution to community development that mirrors the expectations of those for whom these social reports are aimed, namely, international campaigning NGOs and domestic customers.

For both these reasons, although the management of dedicated community development programmes is often strong (with direct lines of communication to the CEO), the integration of core business resources and competencies into these programmes is often weak. Beyond a desire to use community development programmes to gain a local social license to operate and satisfy head office, investors and regulators, senior managers in the operating company rarely see much tangible evidence of a strong business-case. Indeed, some argue that company-led community development increases communities’ expectations, undermines the role of government as a service provider, and creates a long-term dependency on the company by communities, all of which are beginning to seed future cost and reputation liabilities for the company.

Below are some non-attributable quotations and illustrations to demonstrate these points.

- When asked to identify the single most important driver behind an oil major’s operations in Angola declaring an interest in undertaking various community development programmes, a staff member answered: *“pressure from London”*.
- Following a presentation to a group of senior social and environmental managers in the headquarters of an oil major, one of the managers remarked privately: *“interesting presentation, especially the idea of using more of the core competencies of the business to better manage community issues. Your biggest obstacle now is the Sustainable Development department inside _______”.*
- At a recent UN Global Compact meeting on ‘business and conflict’ (May 2002), the author of this report noted that only four of the 79 representatives in the debate (of which more than a third were from business) had any identifiable core business background, e.g. in engineering, marketing, sales or business management.
- *“Just what proportion of operating costs do you want us to waste on spend*

[39] Thus transforming, for example, a programme of STD awareness with construction workers, into an area-wide programme of STD awareness and prevention; or transferring funds for trucking of water supplies to mitigate against temporary siltation of surface drinking water sources, to a partnership arrangement involving local government, donors and SPDC’s Community Development department to construct permanent deep tube wells.

development" – Managing Director of a medium scale international mining company (May 2002, Global Mining Industry, Toronto).

- Observation of the author: if you add together the total funds spent by Royal Dutch/ Shell on environmental and social programmes and foundations across their global operations, the sum exceeds $300 million a year, making Shell effectively one of the worlds largest NGOs.

Despite these reservations, the dedicated community development programmes of operating companies is the principal area where the company proactively seeks to add development, and in particular pro-poor, value to society. Staffed by social and community development specialists, projects are often put in place to meet the objectives of sustainability, affordability and accessibility. What is missing in many such programmes, however, is any systematic search across other departments in the company for core business competencies that help these objectives to be achieved (see *Table 2* in *Part 1* for an initial inventory of business competencies relevant to national, regional and local development priorities).

Finally, with regard to partnerships, the landscape is slowly changing. The BPD programme has highlighted a number of companies actively seeking NGO and foreign aid agency partners to assist them in designing and managing community programmes. This shift is illustrated in an address by SPDC to the delegates of a stakeholder conference in the Niger Delta, Nigeria. In the address, the Corporate Community Development Chief Advisor, Dr. Deidre LaPin, made the following observations:

> *"A revolution is…sweeping the globe. Called the partnership movement, this revolution builds alliances across the traditionally separate sectors of business, government, funding agencies, development organizations, civil society and, of course, communities … People and organizations must co-operate, as genuine partners, – in remaking the physical infrastructure, the basic services, the natural resources, and the civic institutions that have grown weak with neglect. Now Nigeria's forefathers fully understood the idea that working in partnership with others is not an option; it is a civic obligation… Partnering puts consultation into a new light. It converts consultation into dialogue, it affirms equality between the partners, it identifies shared goals, deepens co-operation, creates a sense of mutual benefit and mutual respect, generates willingness to pool resources, and reduces risks. At the end of the process we are all winners."*

However, a recent study of partnerships involving SPDC found that very few showed the true characteristics of partnership, namely: equal power balance and control, shared costs and risks, and mutual benefits (Goyder & Ladbury, 2002). For the most part, the arrangements were more similar to outsourcing. One reason for this is that the role of the company in these partnerships has been unclear. Having set up an in-house community development department staffed principally by social development specialists rather than from core business, it is not surprising that when the community development component of a local partnership is outsourced to an NGO, a credible role for the company is missing. In summary, the question raised by the above address is not 'whether' multi-sectoral partnering is now part of the toolbox of development performance for corporate investments in developing countries, but 'how' best to make it a reality.

3.2.3 Scenario Planning

For major new investments, for example, entry into new markets, countries or regions, corporations may voluntarily undertake a form of Scenario Planning. Due to their size and complexity, and because they are not a regulatory requirement, these planning exercises tend to be carried out on an ad hoc basis rather than automatically triggered by events, and managed by a combination of senior managers from headquarters and field operations.

Scenario Planning for new investments is a process that promotes analysis of future outcomes. It is in effect, "crystal ball gazing" – asking critical political, economic and social questions around "what if?" A number of realistic scenarios are envisaged, articulated often by experts with particular perspectives on politics, economics etc. From these future scenarios different corporate strategies are applied incorporating elements both internal and external to the proposed business.

The result may vary from contingency plans for managing probabilistic events, to a preferred investment strategy based around the 'most likely scenario'. Contingency plans prepare the company for eventualities, but not necessarily the correct timing. In contrast, investment strategies will require a schedule, though may also contain a dynamic emergent element, to account for variations in the expected scenario. Strategies are the most likely outcome when the most likely scenario can be managed through factors under the control of the company, i.e. internal factors. *Figure 13* illustrates the types of internal and external information deployed to undertake scenario planning.

Using models such as PEST (political, economic, social and technological) or SWOT analysis, corporations can identify external and internal influences. Both of these tools lend themselves to identifying synergies (and tensions) between different actors (company, government authorities (regulators, central and local service providers), NGOs, community groups, suppliers and foreign aid agencies. There is even the opportunity of inviting potential social partners to join the Scenario Planning process, thereby providing the future operating company with early knowledge of the underlying interests of key players and, in turn, rendering the operating environment more predictable.

Since 'risk' is a key component of investment Scenario Planning, it is increasingly likely that some type of political, and possibly even social (i.e. community and NGO), risk component will be included in most Scenario Planning procedures. Hence development performance (i.e. contributions beyond conventional taxes, dividends and wages made by the operating company towards a country or region's development priorities) might in itself be considered as a form of contingency planning or risk management. It seems unlikely at the moment that corporations are considering development performance within Investment Scenario Planning in any form other than philanthropy or company-led community development programmes.

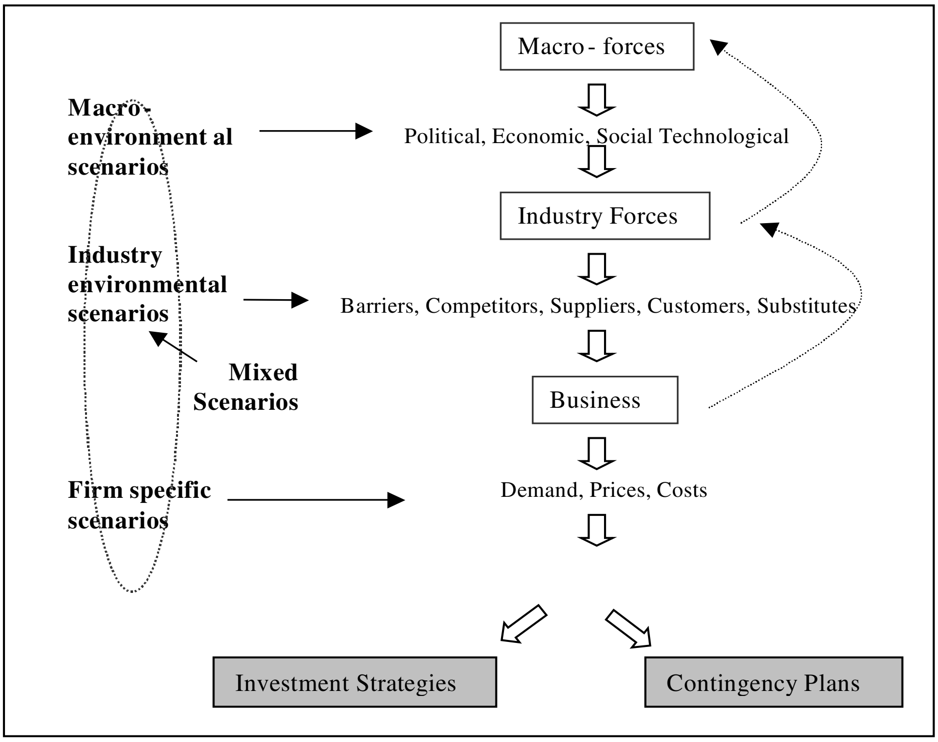
In the future, though, it is not inconceivable that corporations looking at medium- to long-term market opportunities (such as the acquisition of state-owned industries, where public expectations of social benefits from corporate investments tend to run high) might begin to factor more innovative development performance approaches into their overall investment strategies, not least in order to gain competitive advantage. Just this type of scenario is unfolding in Colombia. Here BP recognises that it can gain a competitive advantage in winning the rights to new oil and gas assets by proposing a development performance strategy that leaves a long-term sustainable, non-oil dependent, development legacy in the region of operations. Learning from its efforts at multi-sector partnering in the region of Casanare, the company is considering adopting more of a core business competencies approach to development performance, combined with social partnering.

Another reason why Scenario Planning of new investments might provide an appropriate management 'hook' for promoting a core competencies approach to development performance, is that the approach will likely require new staffing skills. From the experiences of the BPD programme, it is clear that once a company establishes an internal community development department or team, it is difficult to change staff culture to either a core competencies or partnering ethos.

The business competencies approach to development performance will not require the same type of community development skills and staff that we see in major corporations at present. Instead, staff will be needed with experience of a particular business competency, e.g. marketing, or engineering, combined with knowledge about how these skills can be dovetailed with the competencies, skills and resources of governments, NGOs and foreign development agencies. Recognising that such a team may need to be built from scratch is more likely to be identified at the level of investment Scenario Planning than at the level of operational risk assessment.

This framework can be linked with the following frameworks (Schoemaker, 1992) to create a more holistic approach to the strategic thinking.

Figure 13 Types of Internal and External Information Deployed to Undertake Scenario Planning



Source: (Adapted from Schoemaker, 1991)

3.2.4 Resource and Market Based Strategic Planning

Resource-based strategic planning (Segal-Horn, 2002) looks at the business's resources and capabilities and uses these as the starting point for developing the business. What can be termed 'inside-out' logic. In contrast, market-based strategic planning ('outside-in' logic) is led by the demands of the market and looks to the business to adapt.

Naturally all business development strategies will have an element of both approaches, though with an emphasis on one.

In general, a manufacturer with a narrow product range and well established patterns of distribution, such as Coca Cola, will lean towards resource-based growth strategies, whilst businesses with a wide range of products and services, and a competency for rapid structural change and/or product development, such as some software manufacturers and major retailers, will lean towards market-based strategies.

In resource-based strategic planning, the aim is to both identify innovative opportunities to combine existing resources[40] and more creatively apply market knowledge and management skills, in order to add value to products and services from the perspective of the end-user. Successfully used, this combination creates a differential advantage to the business as well as greater barriers to entry for competitors. Evidence has shown that two organisations with a similar resource base will exploit the market more or less successfully depending on their capabilities[41]

[40] Tangible resources include: land, buildings, materials, low cost manufacturing, production facilities, research and development expertise, cash etc. Intangible resources include: ownership of raw material sources; long-term supply contracts; distribution coverage, access to finance.
[41] Capabilities include: orientation to customer service, design expertise, application experience, trade

in management and knowledge of markets. In summary, the success of resource-based strategic planning depends on 'resources + capabilities'.

In market-based strategic planning the business has to be far more flexible. The approach identifies (and sometimes anticipates) new market opportunities. The speed of reaction of the business to these opportunities is the central theme, with the resulting business strategy emergent rather than deliberate. In this approach more emphasis is placed on building up the necessary resources and capabilities needed to exploit an identified the market opportunity. This contrasts with resource-based strategic planning where the emphasis is on better exploiting existing resources.

An example of a resource-based strategy would be Coca Cola. The business has a strong distribution network in most countries of the world. It also has a management capability able to recognise and exploit new market opportunities based on the same customer base. Part of the strategic planning of the company will therefore include looking at how to use its existing distribution network to deliver a wider range of products to the same customers.

In contrast, the Fast Moving Consumer Goods (FMCG) sector is very much market driven. The fickleness of the consumer has ensured that the speed and flexibility of the businesses is paramount. In this scenario the marketing teams are the principal strategic assets, with capabilities in developing new marketing strategies that require no or only minimal changes to the company's resource base.

With its emphasis on product innovation and yet strong presence in the FMCG sector, the 3M corporation epitomises a company that relies on both resource and market based strategic planning.

In the context of the ODPCI programme, what is particular interesting about these variations on strategic planning, is that they are analogous to the two options for developing new social partnerships. The first option is to recognise that corporate operations, governments and aid agencies have not worked collaboratively before there is likely to be significant innovation and synergies to be gained from exploring the complementarity of the resources and capabilities of each. This exploration identifies a suitable social theme and intervention strategy. This is analogous to resource-based strategic planning. The alternative is to identify the most urgent development priority theme and the broad parameters of a social project or programme to address this need (analogous to identifying the market opportunity), then work backwards to find or build the necessary resources and competencies necessary to deliver this project/programme. This is an approach analogous to market-based strategic planning.

In most corporate operations some type of strategic planning exercise will be undertaken annually in each of the key departments of the business, be that engineering, finance, human resources, contract management, marketing and sales, R&D etc. These exercises often use either a resource or market-based strategic planning approach. Given the similarity between these management tools and the way in which social partnerships are formed, resource and market based strategic planning may provide an opportunity to embed a core competencies approach to development performance. It is plausible that the key success factor to adopting this approach will be to recognise whether a particular business sector (or even an individual department within an operation) is more inclined to a resource-based or market-based approach.

So, for example, if one is working with Coca Cola, a starting point for developing social partnerships might be for the company to share with potential partners from government, NGOs and donors its distribution network and market analysis capability, and then asking the question: how can these competencies be used more creatively, perhaps with partners, to address development and, in particular, pro-poor priorities in the host country, region or locality?

However, if one is working with an FMCG manufacturer, the starting point might be to identify the urgent development priorities in the country or region of operations, agree the design parameters of a project intervention, and then ask the participating company to use its marketing and product re-packaging capabilities to transform its existing

relationships; ability to utilise relevant technologies, systems design capability, speed of management response, brand reputation, staff attitude.

resources, products and services into something tailored to the needs of the social project.

Looking across the range of social partnership projects sponsored by the BPD programme, it would seem that the resource-based strategic planning approach has dominated. Thus, 3M in South Africa has provided existing reflective strips for school children (rather than adapt the design or apply innovation in marketing), and ICML in India has shared the cost of road construction with local government, rather than offer to redesign the road to better meet the needs of local communities. The exception is Anglo American in Zambia, where they recognised that a key competency was the company's ability to borrow new money, and so, in addition to contributing business management expertise for local companies to better access the company's supply chain (as might be expected), it also set up a dedicated venture capital facility to provide affordable working capital to local companies, a resource that was entirely new to the company.

Other characteristics of embedding a core competencies approach to development performance within conventional approaches to resource/market based strategic planning are as follows:

- The contributions made by the company are likely to be drawn from existing, budgets lines, thus increasing variable costs, rather than introducing new fixed costs, and keeping transaction costs to a minimum.
- Because of this, it will be a simpler matter to cost any contributions made to social partnerships, which in turn will allow a more credible business case to be compiled.
- Management responsibility will fall to the heads of each department applying the new competency-development tool, although some co-ordinating part of the company may be needed to create the synergies or competencies between departments.
- As discussed above, a market-based approach will provide opportunities to pro-actively explore options for development performance.
- A resource-based approach may carry the danger of the company contributing only those resources that it considers as 'spare capacity', and which may, or may not, be relevant to pro-poor development priorities.

In conclusion, both resource-based and market based strategic planning techniques offer an opportunity to embed a business competency model of development performance. On balance, because of the emphasis on the businesses' capabilities to adapt its existing resource base to market needs, a market-based approach would seem the more appropriate. Companies in the Fast Moving Consumer Goods sectors lean particular towards a market approach. In practice however, the practice of strategic planning in most companies combine elements of both resource and market based strategic approaches.

3.2.5 Relationship Marketing

Relationship marketing has shifted the business emphasis from a short-term, profit-driven, impersonal transaction of goods and services, to a concern for long term sustainable interaction with clients, focusing on continuous satisfying of customer need. Relationship marketing is principally about supplier/end-user interaction. It focuses on the collaboration and expectations between a supplying company and the company it serves. The objective of relationship marketing is to achieve a 'win-win' situation for all parties and, for the supplying business, to retain and build the loyalty of clients, customers or end-users, from which to maintain and grow profits.

Frederick Reichheld (1996) identifies six reasons why loyal customers are more profitable and as such why relationship marketing is so important. First, the acquisition cost of obtaining new customers is high relative to servicing them over time. Second, the longer a client is retained the greater the total sum of profit. Third, loyal customers will spend more as they learn more about the variety of company services. Fourth, as customers become more familiar with a supplier, the transaction cost of doing new business with them falls. Fifth, satisfied customers recommend business and enhance company reputation. And sixth, established customers are less price conscious.

The link between the practice of relationship marketing and its benefits are as follows:

- *Knowledge transfer*–improved dialogue between parties leading to better understanding of the customer needs and new opportunities;
- *Trust*–improved communication creates improved levels of trust;
- *Commitment*–working together creates an opportunity to agree common goals and objectives, which gives greater commitment and dependency on the relationship;
- *Resource sharing*–sharing tangible and intangible resources creates cost efficiencies;
- *Efficiency*–joint planning improves efficiency;
- *Lower transaction costs*–negotiating time reduced, transactions more predictable and consistent reducing costs;
- *Reduced risk*–better access by suppliers and customers to each other's data lowers risk of both misunderstandings and uncertainty.

The benefits of relationships based on more targeted marketing go beyond the supplier and customer. Companies now realise that they need to build up a network of satisfied stakeholders including end-users, employees, regulators, local communities, bankers and shareholders. However, as the number of stakeholders increases, so there is increasing instability and complexity in satisfying their needs, a situation further complicated by rapidly changing business environments. Interestingly, well-managed stakeholder relationships can themselves provide the knowledge needed to better manage and target marketing. For example, supermarkets now invariably offer loyalty cards, not only to retain customers, but also as a means to capture detailed information about changing customer preferences form which to develop new marketing strategies.

The 'Dell Direct' model (Rangan & Bell, 1998) is a useful example. Dell recently changed its strategy from a manufacturer supplying computers to wholesalers and retailers in the established fashion, to dealing directly with the customer, initially via call centres, later through the Internet. As Dell established direct access with its customer base it was able not only to reduce its transaction costs, but also build a database on client needs. This in turn enabled Dell to re-focus yet again on 'computers to order'. The company further applied the principals of relationship marketing to its own supply chain. For example, Dell suppliers have access to the Dell central order system, enabling them to retrieve information on anticipated customer supply schedules, ensuring the more timely delivery of parts and a supplies with faster response times.

In developing countries, some companies have already applied the principals of relationship marketing to the way in which they interact with local communities in the region of operations. Although there is rarely a customer base within such local communities, maintaining good relationships with communities by, for example, satisfying their needs through social partnerships with communities, NGOs, local government and donors, is increasingly seen as good for business. A summary of how the principles of relationship marketing might be translated to the task of managing social issues, is as follows:

- Improved dialogue with communities and other local society stakeholders leads to better understanding of the local operating environment which, inter alia: enables social programmes to be targeted at the true development priorities of local society; reduces the risks of sabotage, theft and related adverse publicity caused by hostility from local communities; and generates information on opportunities for partnering with civil society and government organisations;
- Continuous two-way communication between the operating business and communities creates improved levels of understanding – of particular importance when the operating business is a technology alien to the experiences of the local population, and the ecological and social environment alien to the business;
- Meeting the true development priorities of local communities (be that through the company acting alone or through social partnerships) creates greater loyalty of the communities towards the business,

thereby improving its reputation and potentially its competitiveness;[42]

- As relationships and/or partnerships with communities, negotiating times (e.g. over site access, facilities expansion, or accident management) reduces, along with the antecedent transactions costs.

Relationship marketing cannot in itself be classed as a management tool. These days, for many major corporations, it is an engrained modus operandi. Though one can apply the principles of relationship marketing to stakeholders other than customers and end-users, such as local communities, one should recognise that the business benefits of the approach are likely to differ considerably. What does seem to hold constant, regardless of the type of stakeholder, is the idea of using on-going communication to design more targeted products and services.

There is a potential downside to relationship marketing, be that in association with customers or communities. The cost of maintaining relationships can be high. This is due not only to the exercising of continuous communication and re-targeting of products and services, but also to meeting the raised expectations of the new, more 'loyal', customer or community. Thus, a customer who always chooses Tesco over other supermarkets, will perhaps expect preferential treatment at the checkout tills, to the detriment of less frequent customers whose loyalty the company would like to secure.[43] Or, local communities who, because they have already been prioritised for employment by the oil and gas operating company, expect the same type of preference from the company's main contractors, an outcome the contractor is not obliged to deliver.

3.2.6 Growth Strategies

To sustain success, businesses need to be able to respond to competing pressures within the wider industry: "When the rate of change inside a company is exceeded by the rate of change outside the company, the end is near" (Jack Welch, Ex Chairman of General Electric). As market requirements change organisations need to decide how to reconcile their resources and capabilities with that of the market. In the section on resource and market-based strategic planning, we noted the importance of the company being able to use its existing internal capabilities to better use or adapt its resources. However, the approach is always limited by the capabilities it has in the first place, along with its resource base, be that product range, R & D capacity, or distribution network. Where the need to respond to market opportunities cannot be met through innovation between its existing capabilities and resources, the company is faced with three broad options:

- Internal development
- Acquisitions
- Strategic alliances

Internal development is about building the resources (tangible or intangible) and/or management capabilities from within the company. Acquisitions build resources and competencies by taking these over for other businesses. Strategic alliances are where two or more organisations pool their resources and/or capabilities in pursuit of the same strategy.

The advantage of internal development is that the company grows its capacity to meet market needs without the political and cultural complexity involved in merging or collaborating with others. Such internal organisational change can be a slow process, particularly in the more established corporations where staff inertia to changing work practices can be a significant obstacle. Acquisitions, in contrast, are attractive specifically because of the speed at which new capabilities can be gained. However, making acquisitions successful can be complex. The initial price paid needs to be a fair reflection of both the additional value and the complexities of integration. Studies show that acquisitions often fail to add the degree of anticipated value on three counts: first, because the parent company has been unable to predict the precise way in which the combined capabilities will be used to manage the full portfolio of the acquired business (both those business assets that lie at the heart of the acquisition and those more peripheral); second, because of the lack of true synergies between the two businesses; and third, because of cultural differences and staff inertia to change.

[42] For example, the indigenous communities affected by the involvement of Royal Dutch/Shell in the Camesea project, Peru in the late 1990's, wrote a letter to the government regulators requesting that other oil companies treat them in the same manner.
[43] M. Jones, pers. comm.. 2001.

With regard to the first of these, Grand Metropolitan (Diageo) initially implemented a very successful acquisition strategy, only for the strategy to drift away from a focus on core business. The result was a downturn in their business fortunes associated to a lack of capabilities to manage those aspects of the acquisitions unrelated to their core business.

Strategic alliances provide a third alternative. These are growing in importance as a means to manage and exploit the increasingly complex global economy. The great advantage of strategic alliances is that there is no bid premium involved and they usually involve only parts of a company, thus minimising risk to shareholders.

The types of benefits commonly brought by strategic alliances include:

- Economies of scale designed to yield the critical mass needed to facilitate entry to a new market;
- A means to explore remote geographical markets, with local companies providing the local market knowledge and distribution networks;
- Access to a specialist capability or resource identified as critical to retain customers or access a new market;
- Shared risks and costs of new ventures;
- Complementarity of capabilities or resources, which replace the need for turning to internal development or acquisition as a growth strategy.

Lufthansa recognised in the early 1990's that it needed to make dramatic changes in its strategy if it was to survive in the increasingly competitive airline industry. Through structural, operational and strategic methods the company managed a very successful turnaround. One of the key elements of the success was their formation of The Star Alliance. The network included eight airlines operating in 720 destinations in 110 countries. Their strategy was growth through partnerships and not dominance. Initially they focused on code sharing, but important synergies were leveraged in other areas of the business. The alliance used joint sales and travel agency activities, advertising, market research and shared facilities (lounges). There were also operational advantages through the shared technology, platforms, training and the Alliance global brand.

Both these last two criteria – new business area and new geographical region – apply to many of the investments corporations make in developing countries. In order to grow their business in these markets, the operating company needs to develop new resources and competencies in order to deliver development performance (in particular benefits aligned with the development priorities of local communities). It is surprising then to find that the principal growth strategy of the extractive industries sector, is principally internal development. Thus many companies have 'bought-in' capabilities in community development. For example, staff from CARE International (one of the world's largest humanitarian relief and community development NGOs) recently moved to take up permanent jobs with Rio Tinto and Shell International. Similarly, the chief advisor to SPDC in Nigeria previously worked for the UNDP and was a senior Environmental Advisor at the UK Department for International Development. SPDDC now has a $50 million budget and an entire department dedicated to providing community development. Its foray into this area has gone as far as supporting the recent comment by the aforementioned advisor, that "community development is now a core competency of SPDC". (LaPin, D., pers comm. 2001).

This pattern of business development seems to fly in the face of the convention on business growth strategies. Strategic alliances, and not internal development or acquisitions, would seem to offer a more cost-effective and less risky approach to providing community benefits. Community development as an activity is clearly on the periphery of the core business of natural resource exploration, development or production, and as such requires capacities and resources alien to existing staff. For these reasons, most companies would rather buy in the new skill sets than try to develop their existing staff, many of whom have engineering or business management backgrounds and lack the incentives and patience needed to work directly with poor communities.

However, precisely because these new staff bring such alien competencies, most core business departments, e.g. engineering or procurement, see very few opportunities for synergy. Likewise, the new staff members tend to know little about the core business or business management in general, and prefer to press on with what they know best – i.e. community participatory programmes – rather than look across at other departments for resources or capability that might be complementary to the development priorities of the local area.

There is, however, mounting evidence that strategic alliances may be a better way to work. As concluded by the Business Partners for Development programme (PwC, 2002), a strategic alliance approach to community development, based on partnering between corporate operations, NGOs, local business, governments and multi and bi-lateral development agencies, can deliver many of the same benefits currently attributed to conventional strategic business alliances, namely:

- A means to explore remote geographical markets, e.g. with local NGOs providing the local knowledge about communities and their development priorities;

- Access to a specialist capabilities or resources. These might be community participatory planning skills from NGOs, or funds from local government or foreign aid agencies, both critical to the business retaining its informal social license to operate with local communities, and in some cases, to gaining a competitive advantage when bidding for new concessions;

- Shared risks and costs of new ventures, in particular reducing the business risks of long-term cost and reputation liabilities for the provision of public goods and service that should properly be the responsibility of government; and

- Complementarity of capabilities or resources where the core competencies of the business (e.g. distribution network, project management skills) are applied (or adapted) to increase the geographic reach, time-to-benefit or quality of NGO or government community programmes.

3.3 Conclusion

For a competencies/partnering approach to development performance to work in practice, a new management tool is needed which investigates where, across the full range of departments within a business operation, lie the most relevant resources and competencies for contributing to the development priorities in society. For this reason the ODPCI programme will concentrate on adapting existing business management tools to the task of mapping competencies onto development priorities. Though the HSE Department of a business operation may remain involved in driving the application of the resulting 'competency-poverty mapping tool', the tool will be embedded across each of the operation's departments, and not just one department.

In one way, the proposed 'competency-poverty mapping tool' will hold greater similarity to the practice of Environmental Impact Assessment (EIA), than it will to the voluntary social investment programmes of companies. In the former, although the HSE department leads the EIA study, other departments across the business input data on sources of potential negative environmental or social impact, as well as contributing ideas for mitigation such as changes to engineering design. In the latter, through the HSE department (or some dedicated Community Development department or unit) may drive the process, there is very little input from the rest of the business.

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