

The business of poverty

Michael Warner

How can the corporate sector play a more effective part in tackling poverty? Can we assume that encouraging the corporate sector to invest in low-income regions results in greater access to employment for the poor and greater tax revenues directed towards social programmes? Is it practicable to position the corporate sector as an agent in the delivery of the international Millennium Development Goals and the poverty reduction strategies of national governments? Conversely, are we right to believe that progress towards poverty reduction reinforces economic and political stability, helps markets to grow, and provides a platform for private sector development?

The new business frontier

In many of the poorest countries and regions of the world there remain persistent challenges to realising the true value of corporate sector investment. The main challenges are listed in the box 'Partnerships for development'. There is also a wide range of adverse environmental and social impacts that companies often fail fully to mitigate, such as the loss of renewable natural resources, livelihood insecurity following resettlement, impacts on cultural integrity, and the management of long-term environmental risks, such as groundwater pollution.

And yet the business units and activities of corporations operating in developing countries have substantial potential to do good across whole districts and regions. New approaches need to be 'smart'. They must avoid disincentivising further investment or undermining current business performance. They must optimise the returns for both business and development.

The building blocks are beginning to be put in place, through a new action research programme at ODI – Optimising the Development Performance of Corporate Investment. The main focus is on the way in which the business units of multi-national corporations discharge their social responsibilities and contribute to economic development in the poor societies in which they market products and services, manage field operations or source supplies. The new approach (see Figure overleaf) recognises that:

- business units with a local presence are a source of

assets, resources, capabilities and competencies that may be substantially underutilised; and

- though these core business competencies may sometimes be effectively deployed alone, significant leverage can be obtained by pooling these in partnership with the competencies of other organisations (government authorities, international development agencies and civil society organisations), and in this way more closely align strategic business objectives (such as short-term reputation assurance and long-term growth) with the strategic development objectives of society (such as the Millennium Development Goals, national poverty reduction strategies, regional development plans and community livelihood priorities).

Development performance in the absence of regulation Business opportunities often lie in societies facing significant social problems, from mass poverty, disease and corruption, to conflict and human rights violations. To manage these problems, companies have largely looked to regulatory frameworks, corporate policies and

Partnerships for development

Partnerships for sustainable development between business, government and civil society are a relatively new phenomenon. Unlike out-sourcing arrangements, or public-private partnerships, these new social partnerships seek not to shift responsibility and risk from one party to another, but to share risks, pool resources and talents and deliver mutual benefits for each party. ODI is currently working on adapting the partnership model to social performance in Extractive, Construction and Telecommunications sectors.

In recognition of the complexity of brokering such multi-sectoral partnerships, ODI and the International Business Leaders Forum have launched what is believed to be the first ever professional Partnership Brokers Accreditation Scheme (PBAS). A pilot year for the scheme will run from September to December 2003 (by invitation). Accreditation will be granted to those who successfully complete a 7-day intensive residential skills training course and three months of mentored professional practice.

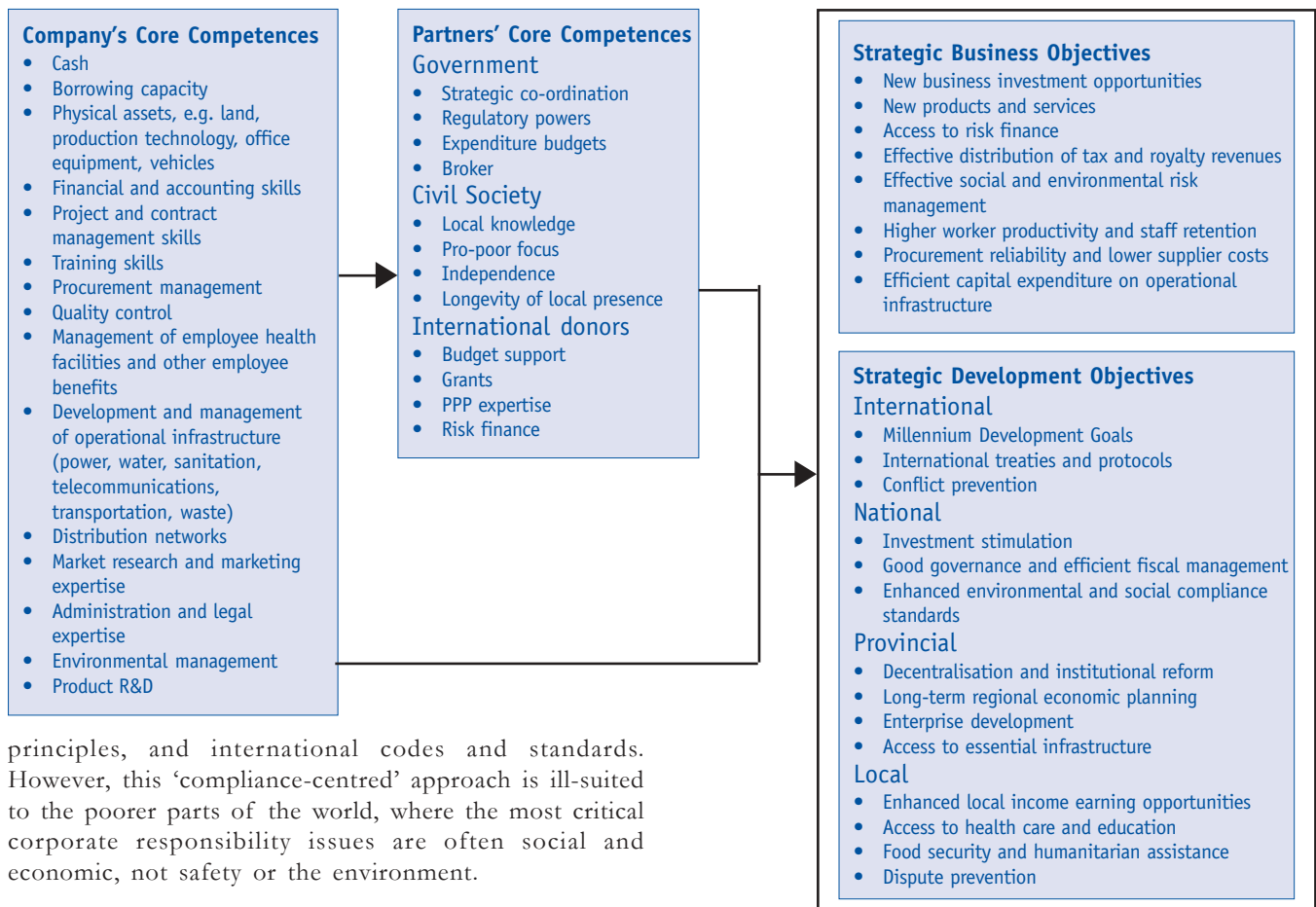
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A core competencies approach to optimising the development performance of corporate investment



principles, and international codes and standards. However, this ‘compliance-centred’ approach is ill-suited to the poorer parts of the world, where the most critical corporate responsibility issues are often social and economic, not safety or the environment.

In the absence of regulatory frameworks requiring companies to contribute to social needs and economic objectives, companies and institutional investors alike have turned to international frameworks and instruments, such as the Global Reporting Initiative, Global Compact, and Dow Jones Sustainability Index. But these are seriously lacking in consideration of development issues beyond the usual ‘safeguard measures’ of labour standards, human rights, corruption and stakeholder dialogue. International standards are needed to help businesses contribute to the reduction of poverty and, more generally, optimise the value added by the business to society’s social and economic developmental objectives.

There is a further reason for companies to begin to think about their ‘development’ performance both in financial terms and in terms of core business competencies. This is the increasing evidence of the business opportunities associated with such behaviour. Examples include: 25% capital expenditure savings by aligning operational infrastructure with government sector plans;¹ 400% resource leverage from governments and NGOs in providing combined employee and community health care;² improvements in supplier reliability by providing working capital and management support to local

businesses; and long-term business growth based in part on ensuring a positive economic and social legacy in the region of operations.³ One reason that financial benefits such as these are possible, is the cost saving and leverage gains to be had from deploying ‘existing’ company assets, resources and staff, as against introducing new fixed costs such as those required to improve safety and environmental performance in line with regulatory requirements.

Avinash Persaud sums up...

‘The biggest mismatch between what SRI (socially responsible investment) trustees say they are concerned about, and what they actually screen for in their [ethical] investments, is in the area of international development’.⁴

1. Business Partners for Development (2002) Sarshatali Coal Mine – Update, Full Case-Study, London: c/o CARE International (www.bpd-naturalresources.org).

2. Business Partners for Development (2001) Las Cristinas Gold Mining Project, Venezuela, London: c/o CARE International (www.bpd-naturalresources.org).

3. Business Partners for Development (2003) BP Exploration Company, Long-term Regional Development in Casanare, London: c/o CARE International (forthcoming: www.bpd-naturalresources.org).

4. Avinash Persaud (2003) Sixth Gresham Lecture, London: Commonwealth Business Council.