


The Private Sector as a True Partner in Development

by Djordjija Petkoski, Michael Jarvis and Gabriela de la Garza.

The World as we know it…

We live in “a world out of balance” where one billion of the earth’s six billion people own 80% of global GDP, more than a billion struggle to survive on less than a dollar a day and another three billion live on less than two dollars per day. By 2050 there will be 9 billion people living in this planet; 8 billion of these residing in the developing world with access to only 40% of global GDP.[1]

Of the 100 largest economies in the world, 51 are corporations and only 49 are countries[2]. The combined sales of the top 200 corporations are 18 times the size of the combined income of 24% of the total world population, those living in “severe” poverty. Many developing countries currently receive much more private sector foreign investment than they do foreign aid. This represents a challenge and an opportunity for the developing world.

Our world is a fast changing one, where business and society continue to adjust to new realities and the myriad impacts of globalization. Within this increasingly “flat world,” the private sector has increased opportunities and influence but also faces new risks and responsibilities.[3] The spread of lethal diseases such as HIV/AIDS, the scourge of terrorism, or environmental damage are challenges that can no longer be ignored by any one segment of society, any one sector, or any one region of the world. Companies cannot escape the impact of core development problems – they too need a safe and stable environment in which to operate. There is growing recognition of these shared problems, prompting innovative approaches to find shared solutions.

This article lays out the case for business engagement in development issues such as the achievement of the Millennium Development Goals (MDGs).This piece will also illustrate the role of corporate social responsibility (CSR) and multi-sectoral partnerships (MSP) as tools to include business in development solutions. The article highlights the importance of corporate social responsibility and corporate governance for a firm to compete in global markets; it also provides an overview of corporate social responsibility in Latin America. Finally the article will showcase an effective multi-sectoral partnership tackling one key development issue, the “Business Alliance for Improved Nutrition” and the role of the World Bank in encouraging and facilitating CSR and MSP efforts.

---

[1] World Bank Data and Statistics. World Development Indicators 2005.
[2] Based on a comparison of corporate sales and country GDPs, World Bank Institute.
[3] Thomas Friedman, The World Is Flat, 2005

Making Business a partner in Development

> "The World Bank stands at the heart of global efforts to give the poorest people of the world the opportunity for a better future… [A] vibrant private sector is the most important engine of growth and job creation." (Paul Wolfowitz, World Bank President, 2005)

There is growing pressure on business to become engaged in sustainability issues due to the expanding global wealth and influence of the private sector. Additionally, many of the traditional development actors in the public and civil society sectors now recognize the increasing difficulty of tackling certain global problems in a unilateral manner. There are occasions when the private sector, often in partnership with government, civil society or both, can be better positioned to provide solutions because of its resources (financial and in-kind), innovation and management skills.

At the same time, the private sector is increasingly finding competitive benefits in embracing a more proactive and collaborative role in development. These benefits include risk mitigation, new market opportunities and increased value-added. At the end of the day, it is the market (society, community) that determines the success of a company; consequently this becomes an important drive for companies to contribute to society.

> *- Bono, the U2 rock star, joined the large multinationals Giorgio Armani, Converse, Gap and American Express to promote the initiative "Red Brand", which supports the fight against HIV / AIDS in Africa.-*

This initiative is only one example of the innovative and growing forms of participation of the private sector in developmental issues and the global tendency towards partnerships across sectors. Around the globe, the new role of business in society is exhibited via innovative models for sustainable business development. These are increasingly attracting the attention of different shareholders such as consumers, producers and investors.

Frannie Léautier, vice president of the World Bank Institute explains, *"We must not see the private sector as simply a source of financing, but as true partners in addressing specific development issues. Many development needs also act as barriers to sustainable business development, so there is a clear mutual interest."*[4]

The private sector remains the key driver of growth and wealth creation as employer, investor, source of finance, motor of competitiveness and in building capacity and human capital. Beyond this core role of providing opportunities for people to lift themselves out of poverty, business can contribute to resolving

[4] Frannie Leautier, Vice-president, World Bank Institute at the Business and MDGs conference in New York, September 11 – 13, 2005. Watch the video at: www.businessandmdgs.org

particular development issues. It can be the source of valuable expertise, ingenuity and capacity that help find new solutions, be it to educational needs, health needs, environmental problems, or the supply of public goods. Multinationals already have a particularly important role to play in upholding and advancing principles on human rights, labor, environmental and anti-corruption practices in countries with weak regulatory capacity.

Many business leaders increasingly understand that contributing to development translates into the creation of new markets. Per capita income is rising in the developing world, opening up vast markets at the “bottom of the pyramid” - for as employment opportunities and incomes rise for four billion people currently living in poverty, market opportunities expand exponentially.

At the same time, business can contribute to accelerating the rise in employment and income and opportunity by investing in infrastructure, research and development (R&D) and technologies for the developing world; dissemination of best practices; hiring and developing local talent; buying from developing countries; volunteering talent and time toward a particular issue; donating surplus or used equipment; and making financial donations through corporate foundations. Why? Because it just makes good business sense.

Private sector involvement in development is the most promising solution to in fact have an effect in the lives of millions who live in severe poverty. *"The integration of the four-fifths of the world that is poor with the one-fifth that is wealthy has the potential to be one of the two or three most important economic developments of the past millennium, along with the Renaissance and the Industrial Revolution"* commented Lawrence H. Summers, President of Harvard University at the World Economic Forum Annual Meeting in January, 2006.[5]

---

[5] Read more about the World Economic Forum Annual Meetings 2006 at: http://www.weforum.org/

Business and United Nations (UN) Millennium Development Goals (MDGs)

UN Millennium Development Goals

Goal 1: Eradicate Extreme Poverty and Hunger
Goal 2: Achieve Universal Primary Education
Goal 3: Promote Gender Equality and Empower Women
Goal 4: Reduce Child Mortality
Goal 5: Improve Maternal Health
Goal 6: Combat HIV / AIDS, Malaria, and Other Diseases
Goal 7: Ensure Environmental Sustainability
Goal 8: Develop a Global Partnership for Development

http://www.developmentgoals.org

The U.N. Millennium Development Goals (MDGs) are a set of targets to diminish world problems (see left box) by 2015, set by international leaders at the United Nations Millennium Summit. They commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. The goals have been commonly accepted as a framework for measuring development progress.

When the MDGs were first announced, many development professionals felt that these were simply another set of promises rife with rhetoric and set to form another set of broken promises to the poor. Upon further reflection, several key factors distinguish the MDGs from previous “commitments” to end poverty:

- Non-industrialized countries are involved in all aspects of realizing the goals, including strategic planning, implementation, and reporting.
- The goals are measurable, with reportable performance evaluation targets, dates and metrics identified and outlined for each MDG.
- Over 100 participating non-industrialized countries are involved in monitoring and reporting on those performance metrics.
- There is strong business interest and involvement.

The latter point marks an overdue recognition of what the private sector can contribute. Businesses are increasingly involved in achievement of the goals, centered on two major areas of contributions. One is through the core business contributions of creating opportunities for people to escape poverty, other through corporate social responsibility initiatives, although the development of innovative business models of firms to serve poor populations links the two. Within this framework there are a variety of ways in which the private sector can become involved in development issues and support the achievement of the MDGs. Following are some typical ways the private sector contributes to development:

- Buy – locally produced products
- Provide – cost-effective services to the poor

- Donate – surplus, used, or earlier generation products
- Give – financial support to local organizations
- Hire – recruit local talent
- Invest – in education, infrastructure, R&D, technologies
- Promote – create awareness through marketing
- Volunteer – talent and time - core-competency & in-kind giving is a huge leverage point for developing economies and strong communities.

The overall incentives for businesses to become involved in achievement of the MDGs include:

- New Markets - per capita income *is* rising, opening up markets at the "bottom of the pyramid"
- Vast Markets - as incomes rise for 4 billion people currently in poverty, market opportunities expand exponentially
- Investment - improved governance increases opportunities for investment
- Labor – a healthier workforce improves productivity and creates a more reliable workforce
- Advocate – firms can serve in a leadership position to change government policies
- Expansion – firms can provide affordable products and services while expanding into new markets
- Image – consumers increasingly want to buy from firms that care about development issues
- Lobby – firms engaged in CSR often take the lead in regulatory and financial reform
- Responsibility – firms around the globe are being held more accountable for their actions – both in terms of their financial fiduciary responsibility but also to support and not denigrate communities, countries, and regions.
- Lower costs – lower production and transportation costs can be achieved by producing in-market

Four different organizations based in different parts of the world share one philosophy of how to make significant advances towards the MDGs: get the drive, innovativeness and efficiency of the business sector in the game. In order to do so, the World Bank Institute, InWEnt International Capacity Building, UN Global Compact and Instituto Ethos hosted the 10th International Business Forum: Business and the Millennium Development Goals, an Active Role for Socially Responsible Companies[6] September 11-13, 2005. This event gathered 200 international business leaders, and top level government and civil society representatives driven by the idea of *development as an opportunity for business:* the future development of our world is seen as no less than a vast opportunity for corporations' core businesses.

---

[6] Download the forum report: Business Action for the MDGs: Private Sector Involvement as a Vital Factor in Achieving the Millennium Development Goals at: http://siteresources.worldbank.org/CGCSRLP/Resources/business_mdgs.pdf or watch the videos at: http://www.businessandmdgs.net

The ChevronTexaco, Nigeria YES Alliance is an excellent example of private sector support to the achievement of the Millennium Development Goals. The Nigeria YES Alliance utilizes corporate experience and expertise to emphasize business skills training among Nigerian in-school youth. The alliance helps teenage secondary school youth build literacy and math proficiency while introducing real world business skills applications and problem-based learning through community service. By linking traditional formal education with business and entrepreneurship, the alliance is structured to create greater youth leadership and community ownership in Nigeria while fostering social and economic development. Though the Nigeria YES training is currently conducted only with youth who attend school, ChevronTexaco is now bidding to extend the program to out-of-school youth. ChevronTexaco is the primary resource partner, and also plays a role in implementation through linking education with employment.[7]

Business and economic development reinforce one another; they are infinitely compatible. "Business is good for development and development is good for business" and many private sector leaders are acutely aware of this linkage. The MDGs represent the overarching action framework of international development policy, and it is not surprising that private sector is included in reaching the targets and expected to take an active role.

Socially Responsible Business Practices

Into the twenty first century, the private sector has increased opportunities and influence but also faces new risks and responsibilities. Adjusting to the myriad impacts of globalization is a complicated process. Around the world, public attitudes are shifting with concerns ranging from climate change to business-community relations to corruption. Pressure from the media, and a more aware and organized civil society demand increased corporate transparency and accountability. No firm wishes to be exposed for use of sweatshop labor, for pollution, or corruption. Consequently, more and more companies feel the need to demonstrate that they are good corporate citizens. CSR is now firmly established in the lexicon of business, NGOs, government, and multilateral institutions.

“Business as usual” is no longer an option, but sustainable business practice and competitive success can go hand in hand. The “business case” for CSR has long been espoused – in addition to reduced reputation risk; it can create greater efficiencies, innovation, improved employee retention and loyalty, and a stronger license to operate. These increasingly influence business decisions. Multinational firms are using CSR as a significant factor in deciding where and with whom to invest. According to a World Bank survey released in 2003, over fifty percent of multinationals would choose one partner over another due to CSR

---

[7] Additional examples of how the private sector is already working in multi-sectoral partnerships to support the achievement of the MDGs are available at: http://www.businessandmdgs.org

concerns. Over 45% would choose a host country over another on the same basis.[8]

CSR is impacting not just entry to supply chains, but access to capital. Increasingly institutional and international investors are looking beyond just cost, and considering also the reputational risks and long term factors for sustainable production. Socially responsible investment (SRI) has become an established sector of the investment market, and while there remains a challenge on how to mainstream SRI, the adoption of responsible criteria has now extended into project financing. The World Bank Group has its own environmental, social and even human rights safeguards, the Equator Principles. These are now being adopted by leading commercial banks in partnership with the International Finance Corporation (IFC) – private sector arm of the World Bank. The IFC estimates that the principles will be applied to $100 billion in global investment over the next ten years, influencing project financing decisions for dozens of industries.

CSR at a glance

Over the past decade, CSR has risen in global prominence and importance. Although the terminology is relatively new, companies have been applying its principles for a long time, usually without referring to it explicitly as CSR. Companies have applied CSR as early as concerns arose about their social impact in their host communities. Consumers have also been aware of the corporations' actions for a very long time. The first consumer boycott against a company's product happened in the 1790s in Britain, against a firm that used slaves to manufacture their products.[9]

Empirical studies on CSR emerged in the 1970's, primarily in developed countries. However, firms operating in developing countries also demonstrate CSR and offer many good examples from which we can capture best practices. The call for increased corporate responsibility was finally given formal international attention at the 1992 United Nations Conference on Environment and Development (UNCED), or Earth Summit, in Rio de Janeiro**.**

CSR is difficult to define because its meaning can depend on who is using the term or the context in which it is being used. Also, the understanding and manifestation of CSR can differ across sectors, time, and geographic location. In WBI's online course on Social Responsibility and Competitiveness[10] we do not insist on a definition. Instead, those who practice CSR can define it by their own real life experiences. There are a wide variety of definitions offered by the 30,000

[8] *Race to the Top*: *Attracting and Enabling Global Sustainable Business*, Business Survey report, World Bank, IFC, October 2003.
[9] The Company: A short history of a Revolutionary Idea.
[10] www.developmentandbusiness.org

plus people from over 40 countries who have taken the course. In an attempt to generally describe CSR, we can say that it refers to:

- a collection of policies and practices linked to: a relationship with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environment; and
- the commitment of business to contribute to sustainable development.

There is an important difference, between CSR and corporate philanthropy. CSR, by its nature, is integrated into an enterprise's core business strategy and becomes a critical part of the long-term wealth creation process, sustainability of profits, and value generation. Corporate philanthropy and volunteerism are more external and peripheral to core business; although they also play a very important role in development and can have a fundamental, long-term impact on poverty alleviation.

As with any process based on the collective activities of communities of human beings (as companies are) there is no "one size fits all" answer. In different countries, there will be different priorities and values that will shape how businesses act. Therefore, there are no factors applicable to all companies. The reasons and motivations to engage in socially responsible practices are specific to each company.

CSR when put into practice effectively, can be very profitable for the firm and beneficial for the community in which it operates. A very successful example of CSR in Latin America is the program called "Patrimonio Hoy" in Mexico. "The Cemex Corporation of Mexico has launched an innovative experiment that enables 20,000 very poor families to purchase building materials and upgrade their homes without receiving any subsidies. Rather, this program provides new profit-making opportunities for Cemex."[11] The program was built under the fact that it is women, not men, who save regularly to progressively build a family home, one room at a time. Inspired by the "group lending" concept, Cemex designed an offer that requires clients to save about $10 per week over a period of 70 weeks to finance the building materials required to build a new roof or add a new room.

A good example of how a company can get integrated in the community is the case of Amanco, a large manufacturer of pipe systems in Argentina. The company started the program: Integration with the community of Pablo Podesta, Argentina, in collaboration with the Ecological Group Oasis. The program consists of developing learning, productive and recreational activities to integrate children and youth into society and at the same time keep them away from the streets, crime and addictions. The program gathers many young people from nearby areas for the activities and has continued growing through collaboration with other partners. It has also given a very good image to Amanco, as a socially

[11] Enabling the Poor to Build Housing: Cemex Combines Profit & Social Development. Ashoka, Changemakers. http://www.changemakers.net/journal/02september/herbst.cfm

responsible company who cares about the people of the community in which it operates.[12]

CSR is encouraging innovative and exciting new business models and partnerships between companies, NGOs and governments that promote “wins” for all.

Responsible Business is synonym of Competitive Business

The never ending page-one stories of fraudulent accounting schemes over recent years in both developed and developing countries alike have demonstrated how financial decisions made in corporate board rooms can ruin a company and cause harm to their investors, consumers and members of the communities in which they operate. Most famously, after allegedly using thousands of off-the-book partnerships to hide nearly $1 billion in debt and to inflate profits, US company Enron had to file for bankruptcy protection in December 2001 and as a result laid off more than 4,000 employees. Scandals have continues to emerge since, including the revelation that WorldCom hid $3.8 billion in expenses over 15 months. In January 2004, one of Italy’s leading companies, Parmalat, announced that its net debt at September 30, 2003 was actually 14.3 billion euros, compared with 1.8 billion announced by the company in its third-quarter results.

Better corporate governance increases the likelihood that the enterprise will satisfy the legitimate claims of all stakeholders and fulfill its environmental and social responsibilities, and thus ensure the long-term, sustainable growth of companies. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also pro- vides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. Improving corporate governance will increase all other capital flows to companies in developing countries. Companies who have demonstrated strong, transparent policies and accountable corporate governance have easier access to capital markets at cheaper rates and higher market valuations. Good practices reduce the risk of expropriation of outsiders by insiders and thus reduce the cost of capital for issuers and countries.

---

[12] More information about Amanco’s socially responsible programs are available at: http://www.amanco.com.ar

Surveys conducted by international organizations, consulting firms show that investors are becoming more aware of corporate governance issues and are placing higher premiums on good corporate governance. Just as investors look increasingly at the social and environmental impacts of firms in decision making, they also pay growingly attention to governance structure. According to a McKinsey survey “Institutional investors in companies based in emerging markets claim to be willing to pay as much as 30 percent more for shares in companies that are well-governed... companies can expect a 10 to 12 percent boost to their market valuation by going from worst to best on any single element of governance.”[13]

Good governance is one aspect of a firm’s social responsibility and vice versa. Disclosure and transparency are vital to both concepts. They impact: (1) the efficiency with which a corporation employs assets; (2) its ability to attract low-cost capital; (3) its ability to meet expectations of wider society; and (4) its overall performance.

Competitiveness

> *“Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.”* (Michael Porter. Competitive Advantage: Creating and Sustaining Superior Performance.1998)

The globalization of trade, finance, and supply chains has established a new level of interconnection and interdependence between developing and developed countries. We are all interconnected which means we can benefit or suffer from each other decisions. Since businesses appreciate that they cannot build a competitive position in countries where there is not social cohesion and equitable growth, MNCs carefully assess the conditions of each and every country and community in which the operate.

At a macro level, there is growing understanding of the links between corporate responsibility and the competitiveness, not just of corporations, but of countries. In South East Asia, countries such as Cambodia are making great efforts to institute effective social and environmental standards and brand themselves as a source of responsible production as part of its strategy to attract foreign investment. Similarly in much of Latin America there is now a surge of interest in the merits of responsible production as a means to retaining competitive

[13] A premium for Good Governance. McKinsey Quarterly. (Available at: http://www.mckinseyquarterly.com)

advantage. While it may be impossible to compete with China on low cost production, other countries can compete with high standards for quality, responsible and low risk production. Particularly in countries dependent on textile and garment production, the end of the Multi Fiber Agreement only makes the need to find that new competitive edge all the more important. CSR can be a framework to help provide that edge.

According to the report Responsible Competitiveness, 2005 from Accountability, there is an important relationship between the competitiveness of a country and the corporate responsibility level. This might indicate that:

- Competitiveness gains at a country may not be sustainable unless underpinned by responsible business practices.
- Corporate responsibility can fuel country competitiveness.

"Responsible Competitiveness means markets where businesses are systematically and comprehensible rewarded for more responsible practices, and penalized for the converse."[14]

"There are indications that CSR issues are increasingly influencing the investment and purchasing decisions of some multinational enterprises. This survey of 107 MNEs in the extractive, agriculture and manufacturing sectors found that over 80% of respondents consider the CSR performance of potential partners and locations before they enter into a new venture, with just under half choosing one host or source country over another on the basis of CSR issues. Indeed, the most striking link between CSR and competitiveness is made through codes of conduct, developed by buyers to manage social and environmental issues within their supply chains. These have become among the most widespread tools of the existing CSR agenda, alongside the compliance or monitoring schemes that are used to ensure that suppliers implement the codes."[15]

Companies around the world are utilizing the results of their socially responsible programs to build a competitive position. Michael E. Porter describes in his article "The Competitive Advantage of Corporate Philanthropy"[16] how philanthropy can also help increase a business' competitive position: "Corporations can use their charitable efforts to improve their competitive context--the quality of the business environment in the locations where they operate. Using philanthropy to enhance competitive context aligns social and economic goals and improves a company's long-term business prospects. Addressing context enables a company not only to give money but also leverage its capabilities and relationships in support of charitable causes."

---

[14] Responsible Competitiveness, Summary of Findings. Accountability, 2005.
http://www.accountability.org.uk/uploadstore/cms/docs/Executive%20Summary%20(Compressed).pdf

[15] Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility. Nigel Twose and Tara Rao, The World Bank Group. December 2003.
(http://siteresources.worldbank.org/INTPSD/Resources/Vietnam/VietnamFinalDec03.pdf)

[16] Abstract available at: http://www.isc.hbs.edu/HBR_Dec2002_Corporate_Philanthropy.htm

The “Grameen Community Phones” in Bangladesh is one of the best practical examples of how working at the bottom of the pyramid can be an excellent tool for improving competitiveness. This project consisted in financing mobile telephones to women in villages and rural areas in Bangladesh, so they could provide phone services to the village as a business. The program has been remarkably successful; currently they more than 3.5 million subscribers and has distributed over 115,000 "village phones" throughout the country, where they serve as "owner-operated" pay phones, the income of the village women has also increased remarkably. This project has enhanced rural life through local empowerment and developmental leapfrogging.

Environmental sustainability has also become an important factor for company’s competitive position; this topic is catalyzing competition among some of the world’s largest companies to accelerate the development of clean technologies. General Electric (GE), the fifth largest US Company has recently launched its program Eco-Imagination, which represents a dramatic effort by a multi-national to truly embrace green technology, but also a completely new, aggressive means of instantly and authentically building green into the brand. The project will generate profits for GE, more revenues from green products and they will generate less contamination. GE’s CEO Jeffrey Immelt comments, “Ecomagination aims to focus our unique energy, technology, manufacturing, and infrastructure capabilities to develop tomorrow’s solutions such as solar energy, hybrid locomotives, fuel cells, lower-emission aircraft engines, lighter and stronger materials, efficient lighting, and water purification technology.”[17]

Global markets and global consumers

At the end of the day it is the market that determines which companies survive and grow, and which go bankrupt. Bankrupted companies are socially most irresponsible as it means lost jobs, taxes, services, goods, etc.

As company markets are increasingly at the global level, either by operating directly worldwide or as part of a global supply chain, consumers around the globe are setting strong standards for companies to contribute to society. CSR issues resonate increasingly with consumers and so have potential to impact the bottom line.

According to a recent study by the Natural Marketing Institute (NMI), almost 90% of the U.S. population state that it is important for companies to not just be profitable, but to be mindful of their impact on the environment and society. According to a study by CSR Europe, 70% of European Consumers say that a company's commitment to social responsibility is important when buying a product or service, and 1 in 5 would be very willing to pay more for products that

[17] Ecomagination: Inside GE's Power Play. WorldChanging. Available at: http://www.worldchanging.com/archives/002669.html

are socially and environmentally responsible. In Latin America, according to a study by Ethical Corporation, in this region consumers are primarily driven by cost, value and quality however ethical behavior is desirable and majority of consumers reported they are interested to learn more about company's actions.

For exporter firms dealing with international consumers, CSR has become a critical issue if they want to be competitive in the global market. Some examples per country are: fresh fruit, salmon, wine and forest industries in Chile, coffee and flower exporters in Colombia, food producers in Uruguay, tuna exporters in Mexico. In Argentina consumers value fair treatment to employees and proper health and security measurements in the workplace.

Some examples of responsible consumers from around the world:

- Many European consumers would not buy genetically modified food from the United States because they disagreed with the practice.
- In Argentina consumers put job creation and fair treatment of employees' top of their list of expectations of big companies.
- In China several food companies were exposed for not strictly following national production standards.
- The US banned imports of tuna from Mexico because the country did nothing to prevent the killing of dolphins while fishing for tuna.

Corporate Social Responsibility Trends in Latin America

Official CSR practices were brought into Latin America by large international companies, who in the early 1990s entered the region bringing with them their own business methods, efficiency and cost-cutting measures and novel management tools such as ethical codes of conduct, environmental certification, non-financial reporting and strategic community investment.

CSR is still a relatively new concept in Latin America, even though corporate ethics and philanthropy have been an integral part of the business culture for many years. Thus, CSR is often confused with corporate philanthropy.

It was in the late 1990s that the CSR concept really took hold in the region. Argentina, Brazil, Chile and Mexico lead the way and now are home to the most recognized CSR institutions in the region including, Instituto Ethos in Brazil, AccionRSE in Chile, CEMEFI in Mexico and IARSE in Argentina.

The Canadian Foundation of the Americas (FOCAL) made a study assessing the levels of activity of CSR in the Americas, based on 3 axes: the private sector, involvement of government and public awareness, by assessing the number of "hits" on the internet. The results suggest that there are four different levels of CSR activity in the Americas. Canada and the US in the first level; most developed Latin American countries such as Argentina, Brazil, Chile and Mexico in the second level; South America in the third level and Central America and the Caribbean is in the fourth level. The authors of this article feel that this study fails to capture the reality of many exciting country projects and recent investments in the region. For instance, the Inter-American development Bank has recently started a "Base of the Pyramid" project which consists of a $2 million grant that will help Mexican micro, small and medium-size enterprises operating at the "base of the pyramid" meet market opportunities to provide better products and services to low-income consumers.

Recently, excellent practices have developed in the region and we can see the increasing involvement of different sectors in society. International Organizations, such as the Inter-American Development Bank (IDB), the World Bank (WB) and the Organization of American States (OAS) host conferences and seminars on the topic. The IDB has an annual conference on CSR in Latin America.[18] The civil society has created a large number of CSR networks. Many business associations have engaged in CSR efforts and are including their business members in the practices. A large number of universities are including and developing CSR concepts in their curricula which will train our future leaders. Finally many governments, both local and national, are beginning to recognize the importance of CSR as a fundamental factor for improving national competitiveness and reducing barriers to private sector development.

The integration of Latin America to the global markets is the most important incentive for companies to adopt CSR measures and standards. The main factors that drive companies to adopt these practices are largely the same as for other regions: consumer pressure in industrialized countries, development of the new ISO 26,000 standards on social responsibility (which is estimated to be finished by 2008), access to finance based on the voluntary Equator Principles (which endorse only socially and environmentally responsible projects), multinational companies requiring local suppliers to comply with international standards and the growing pressure from civil society for responsible behavior.

There are, however clear differences in the adoption and acceptance of CSR in the region compared to Western Europe or even in the United States. Some of the factors causing these differences are: less domestic pressure, weaker justice systems and institutions, competitive position of the countries, small influence from consumers and employees, lower rewards for responsible corporate behavior, little support from the government, manager's expectation for short term returns, and predominance of MSMEs which represent 95% of the private sector and can rarely afford the privilege of long-term planning.

Companies in this region need to focus on integrating socially responsible activities into businesses' strategy and using CSR fundamentals for a more productive collaboration with government and civil society. Large MNCs should

[18] Learn more about the annual CSR conferences at: http://www.iadb.org/csramericas

help foster SME growth, through their supply chains.[19] And the government should be more actively involved in supporting the actions of the private sector and providing conditions for business growth.

The value of Multi-sectoral Partnerships

Partnerships involving corporations, governments, international organizations, and not-profit or nongovernmental organizations have attracted much attention by researchers and policy makers in recent years, most noticeably after the Johannesburg World Summit on Sustainable Development in 2002. This is not surprising as the possibilities to diminish poverty and develop new markets represent both an extraordinary business opportunity for the private sector and progress possibilities for the world.

New forms of multi-sectoral partnerships, as well as private sector engagement in sustainable development, have the potential to contribute to poverty alleviation in a fundamental and long-term manner simply because they bring together more people and more core competencies with which to tackle an issue more innovatively and efficiently. Additionally, changes in the world economy and in technology are becoming so rapid that many institutional arrangements cannot keep up. The decline in the nation-state's role in global development issues also lends support to the case for multi-sectoral partnerships.

Private sector engagement in sustainable development and multi-sectoral partnerships is gaining increasing acceptance from a range of stakeholders in both industrialized and developing countries. The challenge lies in bringing these stakeholders together so that the interest in these initiatives translates into substantive action**.** Creating successful partnerships is not an easy process; it requires commitment, patience and determination over time. The potential partners need to learn skills, build mutual understanding and trust, find a common language and create a common agenda among others.

Studies that examine and explore the benefits arising from private sector engagement and multi-sectoral partnerships have been conducted primarily in industrialized countries. However, a growing body of case studies and literature is now materializing, from developing and emerging market economies documenting the role that the private sector can play in poverty alleviation. It is important to remember, though, that success stories arise when engagement occurs in the local context - best practices cannot be applied universally.

---

[19] The Inter-American Development Bank published a report on CSR and MSMEs, titled: "La Responsabilidad Social de la Empresa en las PyMEs de Latinoamerica." The report is available at: http://www.iadb.org/csramericas

One successful example of multi-sectoral partnership is the “Business Partnership to Fight HIV/AIDS”[20]. In 2003 there were 147, 000 HIV/ AIDS cases in Ethiopia. To help address the problem, the World Bank Institute’s (WBI) Business, Competitiveness and Development Program partnered with the Ethiopian Business Coalition against HIV/AIDS (EBC), relevant departments in the World Bank Group such as the Ethiopia country office, ACTafrica and IFC Against AIDS, as well as donor agencies, including USAID. The partnership, launched in 2004, provides relevant knowledge and best practices for EBC member companies and building the skills of EBC so that the Coalition can train its members. EBC now offers its members a range of services to help resist the spread of the disease. These include assessments of the impact of HIV/AIDS on member businesses, working to develop tailored corporate HIV/AIDS policies, and hands on help to implement workplace and community outreach programs. Such programs may involve establishing a management led committee with representation from all levels of employees, HIV/AIDS education, condom distribution, voluntary counseling and testing as well as provision of medical treatment. The initiative of the EBC has demonstrated measurable results. A growing number of local Ethiopian companies are now coping far more effectively with the impact of HIV/AIDS and providing support for the staff and families in their fight against the disease. This approach is a good model of locally driven capacity development and demonstrates the effective supporting role that partnerships can play.

Example of an Innovative Multi-sectoral approach to tackle malnutrition and vitamin and mineral deficiencies.

Malnutrition due to vitamin and mineral deficiencies increases susceptibility to disease, lowers life expectancy, decreases productivity and increases the economic burden on societies. Malnutrition and resulting hunger, cause suffering to millions of people around the world, and the functional consequences are very serious. The challenge lies in recognizing the extent of the problem and the seriousness of this hidden threat.

Eliminating vitamin and mineral deficiencies is a challenge that can be met. Investment in addressing malnutrition is considered one of the best development “bargains”, as highlighted in the Copenhagen Consensus 2004 process[21]. The cost is relatively low and the methods are straightforward. Effective means of controlling malnutrition are increasingly available based on development-related technological advances in recent years. Food fortification is one of the easiest and fastest ways to improve people’s lives on a large scale and to accelerate development. Yet, successfully combating vitamin and mineral deficiencies will require effective multi-stakeholder partnerships. The food industry is a vital

[20] Read more about this program at: http://worldbank.org/wbi/corpgov/businessandhiv/
[21] Copenhagen Consensus 2004. Malnutrition and Hunger. (Available at: http://www.copenhagenconsensus.com/)

partner in the fight against poverty and malnutrition through engagement in corporate social responsibility and food fortification initiatives.

The World Bank Institute (WBI) and the Global Alliance for Improved Nutrition (GAIN)[22] seek to provide the link to the private sector and other stakeholders, to share best practices and to improve the impact of current activities. Eliminating vitamin and mineral deficiencies is a cornerstone for improving human development and for achievement of the Millennium Development Goals.

Accordingly, WBI and GAIN sponsored the launch of the "GAIN Business Alliance (GAIN BA)"[23]. This initiative is as a private sector- led initiative facilitated by GAIN and WBI and co-chaired by Coca-Cola, Danone and Unilever. It is a strategic partnership network to strengthen private sector initiatives in food fortification for the poor in developing countries.

The goal of the GAIN BA is to ensure a long-term, market-viable supply of fortified foods for the two billion people living with vitamin and mineral deficiencies. As highlighted during the GAIN BA 1st Annual Forum in Beijing, some economists have ranked micronutrient malnutrition reduction second only to HIV/AIDS control as the development investment with the greatest potential pay-offs.

The GAIN BA's purpose is to identify new financial mechanisms and new business models, expand scientific knowledge and expertise in fortification, and catalyze joint action between companies, development partners and government. Private sector strengths in products, technology and marketing are vital in creating market-viable and sustainable food fortification. The GAIN BA, in helping bring together representatives from the private sector, government and civil society, is a forum to mobilize global action and deliver results through projects at country level. There is a clear need for the involvement of firms from all regions, including Latin America, where there are highly efficient and globally recognized food producers. At its launch, 89 GAIN BA members committed their support for the Beijing Declaration on Food Fortification recognizing the importance and promise of food fortification and making fortified staple foods and condiments available to those most in need.

A China GAIN BA was created by leading representatives from China's business community, with the support of the Chinese Government and chaired by Shijiazhuang Zhenji Brew Group Company and Qingdao Biomate Food Stuff Company. The China GAIN BA will focus on scaling-up successful food fortification initiatives and raising awareness of how to tackle vitamin and mineral deficiencies through corporate action and multisectoral partnerships in China.

[22] Read more about GAIN at: http://gainhealth.org
[23] More information about the BAFF and how to become a member is available at: http://www.worldbank.org/wbi/csr/nutrition

This model is intended to be replicated in other countries, generating country specific GAIN BAs.

Beijing Declaration on Food Fortification

We, the charter members of the GAIN Business Alliance, gathered in Beijing on 22–23 October 2005:

1. Motivated by the need to improve human health by improving nutrition and reducing global vitamin and mineral deficiency;
2. Recognizing that food fortification is one of the most promising interventions for improving the nutritional status of the world's poorest and should be the first area of focus;
3. Recognizing that businesses, governments, nongovernmental organizations and multi-lateral institutions can substantially contribute individually and jointly to combating vitamin and mineral deficiency around the world;
4. Acknowledging the progress to date and the challenges and opportunities that lay ahead.

Commit ourselves to:

1. Seek and pursue opportunities to produce and distribute affordable fortified foods around the world and in the developing world particularly;
2. Explore and realize opportunities and partnerships to more efficiently deliver affordable fortified foods;
3. Advance the scientific knowledge and experience necessary to improve the production and delivery of fortified foods to the consumers who need them most;
4. Promote food fortification as an important and necessary element of global and local efforts to improve the health and well-being of the world populations at risk of vitamin and mineral deficiencies; and
5. Work in cooperation and partnership with other relevant public and private institutions and organizations that can substantially contribute to reducing vitamin and mineral deficiency around the world

The need to build capacity

"The best role we can play is when we put others in the driver's seat and empower people in developing countries to play the leadership role themselves." (Paul Wolfowitz, World Bank President, June 2005)

The World Bank Institute[24] is the capacity development arm of the World Bank, and helps countries share and apply, global and local knowledge to meet development challenges. WBI's capacity development programs are designed not only to build skills among groups of individuals involved in performing tasks, but also to strengthen the organizations in which they work, and the sociopolitical environment in which they operate. WBI recognizes the value and potential of engaging with the private sector, be it to improve education, fight disease, or improve the quality of life and the environment.

---

[24] More information about the World Bank Institute available at: www.worldbank.org/wbi

The Business, Competitiveness and Development Program[25] at the WBI seeks to address the need for a better understanding of the role of business in society, recognizing that business is a private partner in development. The program addresses the clear need for broader acceptance of corporate governance and responsibility as vital components of corporate strategy, and highlights the importance of these issues in relation to poverty reduction, good governance and country competitiveness.

The team works to integrate corporate responsibility, governance and transparency across sectors and highlight the relevance of responsible approaches for improved economic competitiveness. Business is core to development and the team builds capacity to facilitate effective multi-sectoral approaches, such as training NGOs in China on "win-win" engagement with business, and working with the food industry to forge a global alliance to fight malnutrition.

The program has developed a strong set of initiatives including courses and global e-dialogues for a variety of stakeholder groups and a program component specifically designed to reach young people. The team offers training on corporate governance and responsibility, accountability, transparency, leadership and anti-corruption strategies taking full advantage of the benefits Information Technology provides, utilizing web based learning tools as well as videoconferencing in addition to core of face to face learning events. This effective blend allowed the program to reach over 30,000 people last year alone.

We are developing effective workplace programs to prevent the spread of HIV/AIDS in Ethiopia; working with CEMEX – a leading cement producer – to improve the relevance of university education for modern business in Mexico, we are developing a regional capacity building project for Central America on the roles of business in development in collaboration with local partners, working with UNICA –largest association of sugar industries in Brazil- to train professionals and future leaders on the role of business in development, and providing anti-corruption training, with businesses, for universities around the world in partnership with the Zicklin Center for Business Ethics at the Wharton School.[26]

[25] Learn more about the Business, Competitiveness and Development Program at: www.developmentandbusiness.org

[26] Learn more about these projects via www.developmentandbusiness.org

These projects go beyond traditional corporate philanthropy to affect real, sustainable change in developing countries around the world. In such ways business is proving itself a valuable partner in delivering sustainable development and helping to secure its own future growth, demonstrating responsibility in practice.

Our ultimate goal is to have a world free of poverty and we can only achieve this by behaving responsibly and working in partnerships. We need to change old paradigms and reorganize world priorities (see right box).

The priorities of our world….

Global Priority	**$U.S. B**
Basic education for everyone in the world	6
Cosmetics in the United States	8
Water and sanitation for everyone in the world	9
Ice cream in Europe	11
Reproductive health for all women in the world	12
Perfumes in Europe and the United States	12
Basic health and nutrition for everyone in the world	13
Pet foods in Europe and the United States	17
Business entertainment in Japan	35
Cigarettes in Europe	50
Alcoholic drinks in Europe	105
Narcotics drugs in the world	400
Military spending in the world	780

Source: The state of human development, United National Development Report 1998, Chapter 1, p.37

__Djordjija Petkoski__ is Head of the Business, Competitiveness and Development Program at the World Bank Institute. __Michael Jarvis__ is the Corporate Responsibility Specialist and __Gabriela de la Garza__ is a Junior Professional Associate within the same program.

2006 The International Bank for Reconstruction and Development/The World Bank/World Bank Institute
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

This article was developed as a contribution to the book: __“Responsabilidad Social Empresaria. Hacia un Pacto Global en el Agro”__. Edited by Gustavo Secilio and published by the University of Buenos Aires, EticAgro and UN Global Compact, Buenos Aires, 2006.

References

1. Antonio Vives, Antonio Correl and Iñigo Isasi. La Responsabilidad Social de la Empresa en las PyMEs de Latinoamérica. Inter-American Development Bank, 2005. (Available at: http://www.iadb.org/csramericas/doc/PyMEs.pdf)

2. Business Action for the MDGs, Private Sector Involvement as a Vital Factor in Achieving the Millennium Development Goals. World Bank Institute, 2005. (Available at: http://siteresources.worldbank.org/CGCSRLP/Resources/business_mdgs.pdf)

3. Business Alliance for Food Fortification BAFF Report. World Bank Institute, 2005. (Available at: http://siteresources.worldbank.org/CGCSRLP/Resources/baff_report.pdf)

4. Corporate Social Responsibility and its Impact on Consumers. The Natural Marketing Institute. Summary available at: http://www.csrwire.com/article.cgi/4272.html

5. Djordjija Petkoski and Michael Jarvis. The Responsible Approach – Changing Practices in the Global Marketplace. World Bank Institute, 2005.

6. International: Can ISO measures cut human-trafficking? Oxford Analytical, October 2005. Available at: http://www.oxan.com

7. Joel Makower. Ecomagination: Inside GE's Power Play. World Changing. (Available at: http://www.worldchanging.com/archives/002669.html)

8. John Micklethwait and Adrian Wooldridge. The Company: A short history of a Revolutionary Idea. Modern Library Edition. USA, 2003.

9. Jonathan E. Berman and Tobias Webb *Race to the Top: Attracting and Enabling Global Sustainable Business*, Business Survey report, World Bank, IFC, October 2003. (Available at: http://siteresources.worldbank.org/INTPSD/Resources/CSR/Race_to_The_Top.pdf)

10. Kris Herbst. Enabling the Poor to Build Housing: Cemex Combines Profit & Social Development. Ashoka's Changemakers. (Available at: http://www.changemakers.net/journal/02september/herbst.cfm)

11. Latin America and the Caribbean Brief. The World Bank. Available at: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:20340156~pagePK:146736~piPK:146830~theSitePK:258554,00.html

12. Latin America: CSR gains ground, albeit gradually. Oxford Analytical, October 2005. Available at: http://www.oxan.com

13. Latin America: Ethical consumerism: scaling new heights in Latin America. Oliver Balch, Ethical Corporation. Available at: http://www.ethicalcorp.com/content_print.asp?ContentID=3962

14. Latin America: Giving corporate responsibility a Latin beat. Oliver Balch, Ethical Corporation, 2005. Available at: http://www.ethicalcorp.com/content.asp?ContentID=3961

15. McKinsey Quarterly. A premium for Good Governance. (Available at: http://www.mckinseyquarterly.com)

16. Michael E. Porter and Mark R. Kramer "The Competitive Advantage of Corporate Philanthropy" *Harvard Business Review*, December 2002. (Abstract available at: http://www.isc.hbs.edu/HBR_Dec2002_Corporate_Philanthropy.htm)

17. Millennium Development Goals. United Nations. http://www.developmentgoals.org

18. Nigel Twose and Tara Rao Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility. The World Bank Group. December 2003. (http://siteresources.worldbank.org/INTPSD/Resources/Vietnam/VietnamFinalDec03.pdf)

19. Simon Zadek, Peter Raynard and Cristiano Oliveira. Responsible Competitiveness, Summary of Findings. Accountability, 2005. (Available at: http://www.accountability.org.uk/uploadstore/cms/docs/Executive%20Summary%20(Compressed).pdf)

20. Stakeholder dialogue: Consumer attitudes. CSR Europe. Available at: http://www.csreurope.org/whatwedo/Stakeholderdialogue/consumerattitudes/

21. The Corporate Social Responsibility System in Latin America and the Caribbean. Paul Alexander Haslam, Canadian Foundation of the Americas (FOCAL). March 2004. Available at: http://www.focal.ca/pdf/csr_04.pdf

22. The state of human development, United National Development Report 1998, Chapter 1, p.37 (Available at: http://hdr.undp.org/reports/global/1998/en/)

23. Thomas Friedman, The World Is Flat: A brief history of the twenty first century, 2005.

24. World Bank Institute's course on: Multi-Sectoral Partnerships and Sustainable Development.

25. World Bank Institute's course on: Social Responsibility and Competitiveness. (Registration available at: http://developmentandbusiness.org)

26. World Development Indicators 2005. World Bank Data and Statistics. (Available at: http://devdata.worldbank.org/wdi2005/Cover.htm)

27. World Economic Forum Annual Meetings 2006 The Big Debate: Setting the Business Agenda (Available at: http://www.weforum.org)