

Beyond Corporate Social Responsibility: The Scope for Corporate Investment in Community Driven Development

The last decade has witnessed expanded awareness among companies, especially multinational corporations, of their responsibilities toward the communities they impact, elaborated in the concept of Corporate Social Responsibility (CSR) and allied notions such as a Social License to Operate (SLTO). CSR is the realization of business contributions to sustainable development goals. It refers to how business takes account of its economic, social and environmental impacts in the way it operates – maximizing the benefits and minimizing the downsides. CSR undertakings are the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society. The business case for investing in development, with mutual benefits accruing when communities become development partners rather than passive recipients of philanthropy, has become ever more persuasive. Factors that have motivated increased interest in private sector partnerships include a growing concern with the effectiveness of traditional development approaches, recognition of the impact of globalization and the increase of private capital flows into the developing world, and appreciation of the unique potential contribution of the private sector.

The contribution from the private sector can be much broader than financial support, and include technical and managerial expertise, skill transfers and jobs, access to markets and business linkages. However, the results of private sector association in community

development have been mixed, with few private-sector initiated projects achieving the promise of a comprehensive CDD approach. Shortcomings include companies' lack of development expertise, reluctance to cede control of initiatives, imbalances in the power and level of organization between companies and communities, unsustainability of funding, and lack of capacity on the part of local actors, ranging from ineffective community based organizations to weak local government.

There are two principal types of development partnerships between the private sector and communities: a Social Investment model wherein company funding is applied to investments or programs that seek to improve the general welfare of the community and an Economic Linkages model which associates development initiatives more closely with the business drivers of the private sector and includes job training, direct employment, technical skills training, microfinance, capital formation, or developing new supply bases and creating supply chain linkages. An economic linkages approach implies integration of community engagement strategies into the core business activity of the company and development of consolidated markets so that communities become embedded in corporate supply chains. This approach may provide the most promising outlook for CDD practitioners working to build sustainable and effective links between communities and the private sector.

Integrating communities in an economic linkages framework requires capacity and institution building. Institutions of the poor are the vehicles

Potential Private Sector - CDD Partnership Models

Model	Private Sector Social Investment: <i>Indirect Investment</i>	Private Sector Social Investment: <i>Direct Investment</i>	Private Sector Social Investment: <i>Community Foundation</i>	Economic Linkages
Example	Contribution to Social Fund	Implementing projects directly with communities	Corporate engagement through Community Foundations	Supply chain integration, job creation
Benefits	Financial; allows companies to contribute without involvement; access to additional funds	Can provide immediate development benefits	Supports community-driven ethos; self-sustaining through endowment	Sustainability; empowerment of the poor; transformation of society
Risks	Limited financial contribution; short-term; precludes contribution of non-financial assets	Short-term; may create parallel governance structure	Difficulty transferring to communities; long timeframe; difficulty sourcing funding	Subject to market risk; requires long timeframe; requires building of community capacity

required to give the poor access to markets and, importantly, to enable communities to interact with the marketplace on more equal terms.

There is a growing recognition among the business community that “doing business with the poor” can develop into a viable business model. Debates have flourished under various guises, including work on investing in the Bottom of the Pyramid, Sustainable Livelihood Business or pro-poor business strategies. These approaches reflect a changing mindset around business-poverty linkages that encompass:

- Treating poor people as consumers and business partners, rather than economically irrelevant beneficiaries;
- Reassessment of corporate price performance and functionality of products in order to meet the needs and means of new consumer groups, including the poor, and;

- Rethinking value chains and incorporating poor individuals and collectives as employees, suppliers or distributors.

Matching Corporate Drivers and Development Goals

The motivations for companies to develop CSR policies and invest in local communities vary from company to company, and industry to industry. Some companies are motivated more by reputation assurance needs or concerns around social licenses to operate, while others may be motivated by production and supply chain linkages, marketing and distribution issues. Extractive companies, because of their large social, physical, and environmental footprint, have an obvious powerful incentive to invest in their host communities. Company motivations to invest in communities can include, *inter alia*, philanthropy, legal compliance, mitigation of negative impacts, creating positive impacts,

acquiring and maintaining a SLTO, guaranteeing sustainable supply bases, creating new market opportunities, and building good will/managing reputational risk. Often, poor communities are marginalized from larger-scale economic activity and markets due to lack of access to capital and infrastructure, lack of bargaining power, lack of negotiation and basic business and accounting skills. These communities may have a variety of reasons to partner with private sector, for example: funds for development, community infrastructure development, mitigation of negative impacts of corporate operations, other development activities such as health, education, access to jobs and job skills training, training in/transfer of management skills, creation of new markets, and assistance with small business creation and access to microfinance.

Implementation and Impact of Corporate Community Investment

Potential outcomes of corporate community investment include:

Enhanced brand image and reputation: community investment can open up new markets, reduce local regulatory obstacles, provide access to the local political process, generate positive media coverage and increase company or brand awareness within the community.

Community investment as a strategic activity: companies increasingly look at community investment activities from a strategic perspective, defining themes that are aligned with core business objectives and taking advantage of core competencies.

Combining philanthropic and commercial-community activities: more companies are applying a broader range of their business assets, along with philanthropic assets, to support community development. These might include cash contributions, non-cash assets (such as product donations and employee volunteer time), business relationships with local vendors and suppliers, local hiring and training programs, the siting of infrastructure and facilities, financial investments that benefit communities, and positive contributions to public policy issues that support community and economic development.

Community-driven development: companies are investing in local capacity-building activities, and contributing to social and economic solutions to problems identified and defined by the communities themselves. In some cases, companies are working with local NGOs to build their skills to meaningfully engage, as company stakeholders, with the companies themselves.

Creating partnerships: Partnerships with non-profit organizations, government agencies, suppliers, other companies, and their stakeholders are established to fulfill a wide variety of community and business needs.

Creating a global focus: As companies derive an ever-larger share of revenue and profits from international operations, multinational companies are redefining "community," looking beyond local, domestic geographic communities to include those in regions where they own factories, or contract with factories operated by key suppliers.

Measuring and reporting the benefits of corporate citizenship: Traditionally, corporate community investment was seen as goodwill and rarely tracked or measured. Increasingly, companies are measuring and reporting on the impact of their community investment.

Partnership Examples

CSR strategies have become increasingly more responsive to local stakeholders and to national policy and development agendas. Localization of CSR strategies implies shifts on several axes, including from supply chain to value chain models. Prevailing models of codes of conducts and certification schemes are top down and often maladjusted to weak governance structures and limited capacities in developing economies. Frontier companies are increasingly seeking to assess their "footprint on society" across their entire value chain in a more systematic fashion, enabling a deeper appreciation of where the company has relatively more positive and negative impacts on social and poverty concerns. An example of this type of initiative is the joint research of Unilever and Oxfam on the poverty impact of Unilever Indonesia¹.

¹ "Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia", Oxfam GB, Novib, Unilever and Unilever Indonesia joint research project, 2005.

Other examples of progressive efforts around corporate-community partnerships include the Andhra Pradesh District Poverty Initiatives Project (APDPIP), a World Bank investment assisting the poorest of the poor in India's northeastern state of Andhra Pradesh, covering 8 million rural poor families in 29,000 villages. The project supports mobilization and development of membership organizations of the rural poor and their capacity development to better save, access credit and undertake a range of livelihood enhancement activities in agriculture, livestock, the non-farm sector and services. Economically empowered communities of the poor have influenced banks, private corporations and the public sector to invest and work in their interests and have become immensely active in capturing opportunities at the 'bottom of the pyramid' through franchising, retailing and product development and by developing community capacity and scale through federating community-based organizations at higher levels or associative tiers.

Community Foundations (CFs) provide a further example of public-private partnerships. CFs represent one of the fastest growing areas of philanthropy. They bring into alliance public and private sector, civil society and local communities and are proving to be a mechanism that directly addresses issues of importance to CDD, including financial sustainability of local initiatives, participatory planning, strengthening of local capacities and fostering of multi-stakeholder partnerships. CFs are grant making organizations governed by a board reflecting the communities they serve, that continuously mobilize contributions from a broad spectrum of predominantly local donors (individuals, businesses, local government, diasporas, etc.).

They make it possible for a wide range of donors to create permanent, named component funds to meet critical community needs and engage in a broad range of community leadership and partnership activities, serving as catalysts, convenors, collaborators and facilitators. There are now several hundred CFs active in grant making outside of the USA and UK. CF corporate partnerships include those with the aluminum producer SUAL in Russia, the cell phone company Orange in Slovakia, Merchant Bank in Ghana and the platinum producer Impala Platinum in South Africa.

Future Work

Further work is proposed in the following areas:

- Community impact in the value chain and understanding of metrics of community impact along the value chain in major industry sectors;
- Understanding the institutional capacity of CDD programs to integrate in program design private sector production, distribution, retail and market issues. This may require a new skills set for community development practitioners, and;
- Facilitation of cross-sectoral and cross-regional learning of successful CDD-private sector initiatives and evaluation of the potential of local and national private sector companies to embrace CDD.

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