

The **Allen Consulting** Group

Business for poverty relief

A business case for business action

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Report to the Business for Poverty Relief Alliance

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The Allen Consulting Group

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It has contributed in a significant way to major economic, regulatory and policy developments and discussions in Australia.

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Executive summary

About 2.6 billion people — 40 per cent of the world's population — live on less than US\$2 per day.

This fact is easy to forget from the relative prosperity of Australia. Yet many nations in Australia's own region continue to experience poverty of the kind that virtually guarantees poor education and health outcomes for their citizens, resulting in poverty traps that leave millions of families unable to escape.

Papua New Guinea, East Timor, Cambodia, Laos and Myanmar all suffer from high absolute levels of disadvantage. These countries and other developing nations in our region are at serious risk of failing to meet an agreed set of targets to address extreme poverty, hunger, disease, illiteracy and environmental degradation.

These targets — known as the Millennium Development Goals — were agreed in 2000 by world leaders, including Australian Prime Minister John Howard, as a blueprint for tackling poverty. The lack of progress in many of our neighbours towards the Millennium Development Goals highlights the need for developed nations such as Australia to do more to meet the challenge of global poverty.

Australia's overseas aid budget stands at 0.28 per cent of gross national income (GNI), well behind that of most other developed countries. While the Australian Government has committed to raise its contribution to 0.34 per cent by 2010, this will still be considerably short of the average for developed countries of 0.47 per cent of GNI.

In addition, Australia is one of the few wealthy countries not to have set a timetable to reach the agreed UN target of 0.7 per cent of GNI.

There is also some need for action within our shores. Many Indigenous communities have a standard of living as poor as, or worse than, inhabitants of developing countries. Life expectancy at birth is 59 years for Indigenous males and 65 years for Indigenous females. This is lower than the average life expectancy in the less developed countries in Australia's region.

While some of the levers for change lie in the hands of government, there are many actions that companies can take that have the potential to produce sustained improvements in the livelihood and well being of the disadvantaged.

While corporate Australia is generally supportive of and active in social investment, most companies have been less than active in ensuring that poverty is addressed in their closest export markets.

The call on Australia to reduce poverty is therefore also a call on Australian business.

There is a strong business case for Australian companies to focus on, and to do more to address, the plight of the poor in developing nations.

Global poverty represents a direct threat to the current and future prosperity of a range of Australian businesses through loss of potential markets, damage to foreign affiliates and a greater risk of regional instability. In addition, contributing to the development of poor countries — by generating income, creating jobs and investing in local businesses and skills — can present Australian firms with the opportunities of new markets.

There are reputational benefits from being associated with responsible development efforts. Australian firms can use their business dealings in developing countries to promote ethical behaviour, good governance and more robust political institutions. Companies need to deepen their understanding of how and where they source their materials and services.

Working to alleviate poverty and its causes is also good business sense for companies wanting to attract and retain the best employees. This is particularly the case for younger workers who look to their careers as vehicles through which they can exercise their principles and beliefs.

There is no shortage of opportunities available to companies wishing to contribute to poverty relief. By thinking constructively about, and in some cases reconfiguring, their core business activities, companies can supply affordable products and services to the poor, provide best practice working conditions for locals, and invest in the skills, infrastructure and technologies that will underpin future growth.

The ‘business of doing business’ in developing markets will best and most sustainably overcome poverty in poor communities — provided that companies adhere to responsible practice in their supply chains.

Companies can also provide financial and in-kind support to strengthen local communities — particularly those in which they operate.

Another way that the business community can make a difference is by engaging in dialogue and advocacy to influence Australian and developing country policy. Although international development is often seen as a ‘government issue’, this need not be the case and by engaging in innovative partnerships, corporate involvement may act as a catalyst for greater government action.

Other options include taking steps to raise awareness in the community, including in business, about Australia’s commitment to international agreements on poverty alleviation and aid, and recognising corporations who are making efforts through their businesses to address poverty.

The seven headline actions recommended in this report, if adopted, will help put development, aid and poverty relief issues on the corporate map. More Australian companies, and more Australians, will understand not only that we have a responsibility to take action to relieve global poverty now, but also that there is often a strong business case underpinning these actions.

Additional supporting actions are outlined in chapter 5.

Putting development issues on the corporate map

Action 1

The Business for Poverty Relief Alliance should lead the Australian business community in embracing the opportunity to help relieve poverty and promote development through business activities in developing countries.

The Alliance should work with relevant government agencies and not-for-profit organisations to host a national conference on the contribution of Australian business to poverty relief and progress towards the Millennium Development Goals. The conference should call for papers on business models that can be adopted, opportunities for new partnerships and examples of good practice.

To ensure a high profile, the Alliance should encourage active engagement of Ministers from relevant portfolios, the CEOs of Alliance companies, the Business Council of Australia, the Australian Chamber of Commerce and Industry, and a major media partner.

Deepened sensitivity to supply chain issues

Action 2

All companies doing business in and with developing countries should commit to responsible and enlightened practice in their supply chains to ensure that their activities produce sustained improvements in living conditions and avoid harm to local communities.

Action 3

Business should report on their social, environmental and economic impacts relevant to poverty relief and the achievement of the Millennium Development Goals. Reporting should utilise existing frameworks, such as the Global Reporting Initiative, which is already being used by a significant number of Australian companies. The Prime Minister's Community Business Partnership could play a role in encouraging and assisting businesses to undertake better reporting.

Making a stronger commitment to poverty relief

Action 4

Business should urge the Australian Government to continue to increase its expenditure on official development assistance, from a projected 0.34 per cent of GNI in 2010 to at least 0.54 per cent by 2015 — the level identified by the UN Millennium Project as the minimum required from industrialised countries to achieve the Millennium Development Goals. In addition, the Government should set out a plan for achieving the agreed UN target of 0.7 per cent of GNI.

Action 5

Australian companies should commit to contributing an appropriate proportion of their social investment to poverty relief initiatives, commensurate with the exposure of their operations to developing countries and Indigenous communities.

Promoting a stable business environment

Action 6

Business should urge the Australian Government to make concrete the intent of the 2006 White Paper on Australia's overseas aid program to engage more closely with companies with investment interests in the Asia Pacific region. Together, the Australian Government, development agencies, business organisations and companies should commit to working together more formally and regularly to:

- *identify priorities for the targeting of official development assistance, to help meet the Millennium Development Goals; and*
- *work in partnership to strengthen development outcomes.*

Australia's APEC opportunity

Action 7

Business and government leaders working towards the APEC Heads of Government meeting and its aftermath should commit to lifting the emphasis at APEC on human development and bringing together more cohesively those various initiatives that touch on poverty and its determinants. A stocktake of progress towards the Millennium Development Goals and regular reporting of achievement against those goals in the APEC region would support this UN Agenda and further the achievement of those objectives. The Alliance should consider raising these issues with the Australian business members of the APEC Business Advisory Council ahead of the forthcoming Sydney meetings.

Chapter 1

Introduction

The Business for Poverty Relief Alliance is a group of business leaders representing a cross-section of the Australian economy who believe that business needs to do more to help relieve global poverty.

With the support of World Vision, the Alliance was established to promote informed discussion and action within the Australian business community to contribute to development and poverty relief targets.

Specifically, the Alliance is seeking to support the achievement of the Millennium Development Goals — a global plan to meet targets for addressing extreme poverty by 2015. The Goals were agreed to in 2000 by 191 world leaders, including Australian Prime Minister John Howard.

This report

The Alliance commissioned the Allen Consulting Group to investigate the business case for action to address global poverty and the Millennium Development Goals, review current case studies of best practice, and suggest policies and practices that advance the achievement of the Goals by 2015, focusing on the role that can be played by Australian business.

The report is organised as follows:

- Chapter 2 examines what Australian government, business and individuals are doing to meet the challenge of global poverty.
- Chapter 3 presents a business case for business action to contribute to poverty relief.
- Chapter 4 demonstrates the different ways that business can contribute to poverty relief, illustrated through a series of case studies.
- Chapter 5 presents an action plan to stimulate Australian business to make a greater contribution to global poverty relief.
- Chapter 6 concludes the report by setting out the challenge for business.

Chapter 2

The challenge

This chapter summarises the challenge of global poverty, and examines what Australian government, business and individuals are doing to meet the challenge.

2.1 The challenge of global poverty

The challenge of global poverty is immense. In developed countries like Australia it is easy to forget that about 2.6 billion people — 40 per cent of the world's population — live on less than US\$2 per day. Such a low income virtually guarantees poor education and health outcomes. Subsistence living conditions extinguish opportunities for development from within, resulting in poverty traps that millions of families are unable to escape.

Box 2.1

POVERTY FACTS

- Worldwide, almost 30 000 children under five years old die every day, mostly from preventable causes.
- 6000 people die every day from diseases associated with lack of access to safe drinking water, inadequate sanitation and poor hygiene.
- Approximately 2.6 billion people live on less than US\$2 per day. Of these, around 1 billion live on less than US\$1 per day.
- AIDS is the leading cause of death worldwide for people aged 15 to 49, the time of life at which people are most productive. In 2005 alone 2.8 million people died and 4.1 million people were newly infected with HIV.
- In 2005, OECD countries provided official development assistance of US\$106.8 billion. By comparison, total support for agricultural producers was US\$280 billion. The World Bank estimates that agricultural trade liberalization could result in gains in world income of up to US\$350 billion, with a significant part of this flowing to developing countries.

Source: 1. United Nations 2006, *The Millennium Development Goals Report 2006*, New York, p. 10; 2. A. Prüss, D. Kay, L. Fewtrell, J. Bartram 2002, 'Estimating the Burden of Disease from Water, Sanitation, and Hygiene at a Global Level', *Environmental Health Perspectives*, vol. 110, no. 5, May, pp. 537-542; 3. World Bank 2006, *World Development Indicators 2006*, Table 2.7a; 4. UNAIDS 2006, *Report on the Global AIDS Epidemic 2006*, May, Chapter 2; 5. OECD 2007, Final Official Development Assistance (ODA) Data for 2005; OECD 2006, *Agricultural Policies in OECD Countries: At a Glance 2006*, Supporting Tables; World Bank 2004, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda*, p. 105.

The Millennium Development Goals

In September 2000, at the United Nations Millennium Summit, world leaders agreed to the *Millennium Declaration*, which outlined a series of quantifiable targets to address extreme poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women.¹ World leaders — including the Australian Prime Minister — reaffirmed their commitment to the *Declaration* at the 2005 World Summit in New York.²

¹ United Nations (UN) 2001, General Assembly resolution 55/2.

² UN 2006, General Assembly resolution 60/1.

The *Declaration* outlines eight goals, each of which is supported by one or more measurable targets. For example, the first goal includes a target for the number of people whose income is less than US\$1 per day in 2015 to be half the number of 1990. Most of the targets set 2015 as the delivery timeframe. Collectively, they express an aspiration to address the most pressing problems of the world's poor by this date.

Box 2.2

THE MILLENNIUM DEVELOPMENT GOALS

- | | |
|---|---|
| 1 | Eradicate extreme poverty and hunger |
| 2 | Achieve universal primary education |
| 3 | Promote gender equality and empower women |
| 4 | Reduce child mortality |
| 5 | Improve maternal health |
| 6 | Combat HIV and AIDS, malaria and other diseases |
| 7 | Ensure environmental sustainability |
| 8 | Develop a global partnership for development |

Source: United Nations 2006, *The Millennium Development Goals Report 2006*, New York.

Progress towards the goals

The World Vision report *How are the Neighbours?* finds that no developing country in Australia's neighbourhood is on track to meet all the goals.³ While there has been progress since 2000, eight of the 22 countries (Cambodia, Laos, Myanmar, Papua New Guinea, Philippines, Solomon Islands, East Timor and Vanuatu) are 'significantly off track'. A large number of other countries (particularly small Pacific Island nations) do not produce sufficient data to assess progress towards the goals.

The data that are available show that many countries are at serious risk of failing to reach Millennium Development Goals targets in critical areas:

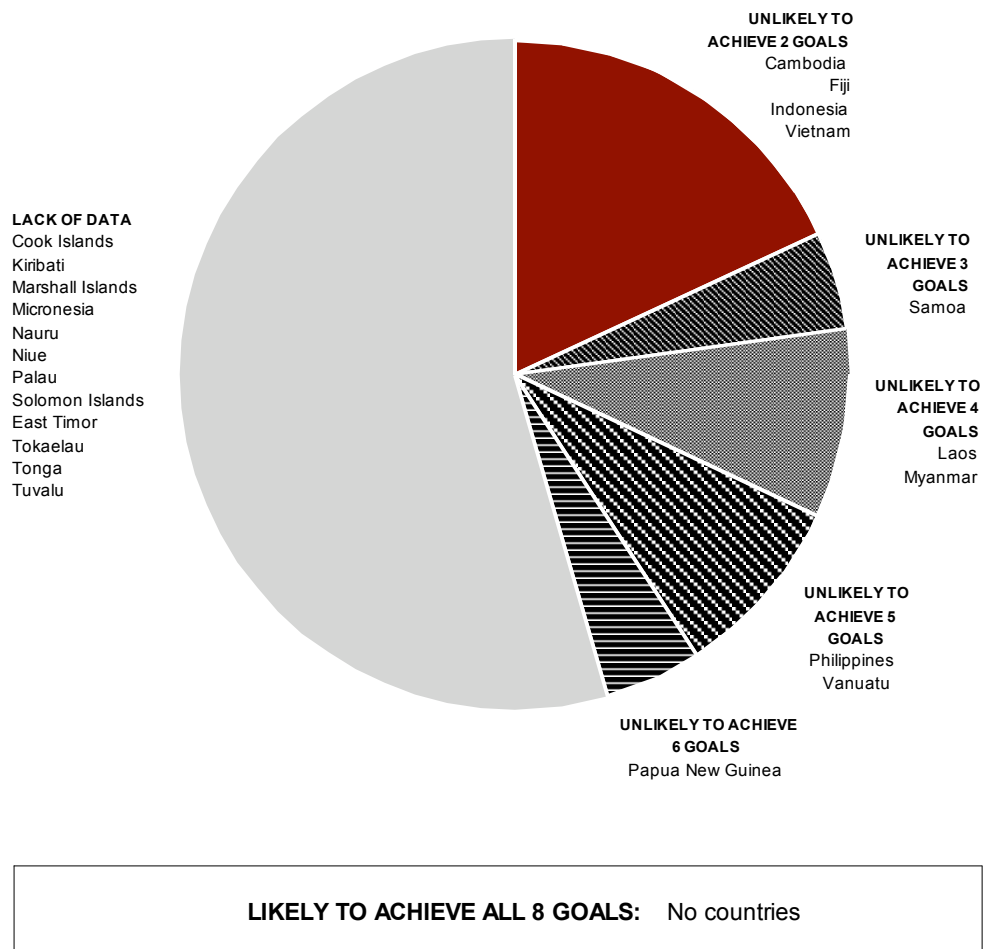
- *reducing child mortality* — only 21 per cent of countries are on track to meet their targets;
- *improving maternal health* — 25 per cent are expected to meet their targets; and
- *better access to safe drinking water and sanitation* — 53 per cent of countries are on track.

³ G. Luke 2006, *How are the Neighbours? The Millennium Development Goals and Our Region — 2006*, World Vision, Melbourne.

Within Australia, many Indigenous communities have a standard of living as poor as or worse than inhabitants of developing countries. The most recent estimates indicate that life expectancy at birth is 59 years for Indigenous males and 65 years for Indigenous females. This is lower than the average life expectancy in the less developed countries in Australia's region. However Indigenous outcomes against the indicators used in the Millennium Development Goals framework are relatively strong — educational attainment, child mortality and maternal mortality rates are better than in almost all developing countries in the region, though substantially lower than for non-Indigenous Australians.

Figure 2.1

PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS — AUSTRALIA'S NEIGHBOURS



Source: G. Luke 2006, *How are the Neighbours? The Millennium Development Goals and Our Region — 2006*, World Vision, Melbourne.

2.2 What is Australia doing to meet the challenge?

Australia contributes to economic development and the alleviation of poverty through a number of channels, including direct financial aid, trade liberalisation and foreign direct investment. Australia's aid and assistance are provided by:

- *government* — which provides financial aid through official development assistance, and contributes through other measures such as making representations in international forums, supporting trade liberalisation, providing debt relief, capacity building and providing technical assistance;
- *business* — in the form of charitable giving (either financial or in-kind) and employment, trade and investment in developing countries in the course of core business activities; and
- *individuals* — who donate time and money, either channelled through non-governmental organisations such as Oxfam and World Vision, or contributed directly.

Government

The Australian Government's approach to overseas development and poverty relief has a regional focus, with the largest support going to countries in the Asia Pacific region, including Papua New Guinea, Indonesia, Solomon Islands and East Timor. The Government's emphasis is on broad-based economic growth, good governance and stability, which it sees as prerequisites of progress.⁴

In 2006, the Government produced a White Paper, *Australian Aid: Promoting Growth and Stability*, which 'provides a strategic framework to guide the direction and delivery of Australia's overseas aid program over the next ten years.'⁵ The White Paper reframes Australia's aid objective as:⁶

To assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest.

It retains the Asia-Pacific focus of past aid policy, as well as the emphasis on governance and regional stability. It does, however, appear to increase the emphasis on health and education, foreshadowing a doubling of support for health programs and a tripling of support for education programs by 2010.

Official development assistance

In 2005-06, Australia provided \$2.6 billion in official development assistance (ODA) to developing countries. In real terms, ODA levels have increased slightly over the last decade; however, expressed as a percentage of gross national income,⁷ ODA has been declining since the 1970s, reaching an all-time low in the early years of this decade (Figure 2.2).

⁴ AusAID 2005, *A Global Partnership for Development: Australia's Contribution to Achieving the Millennium Development Goals*, Canberra, p. 4–5.

⁵ AusAID 2006, *Australian Aid: Promoting Growth and Stability*, A White Paper on the Australian Government's Overseas Aid Program, Canberra.

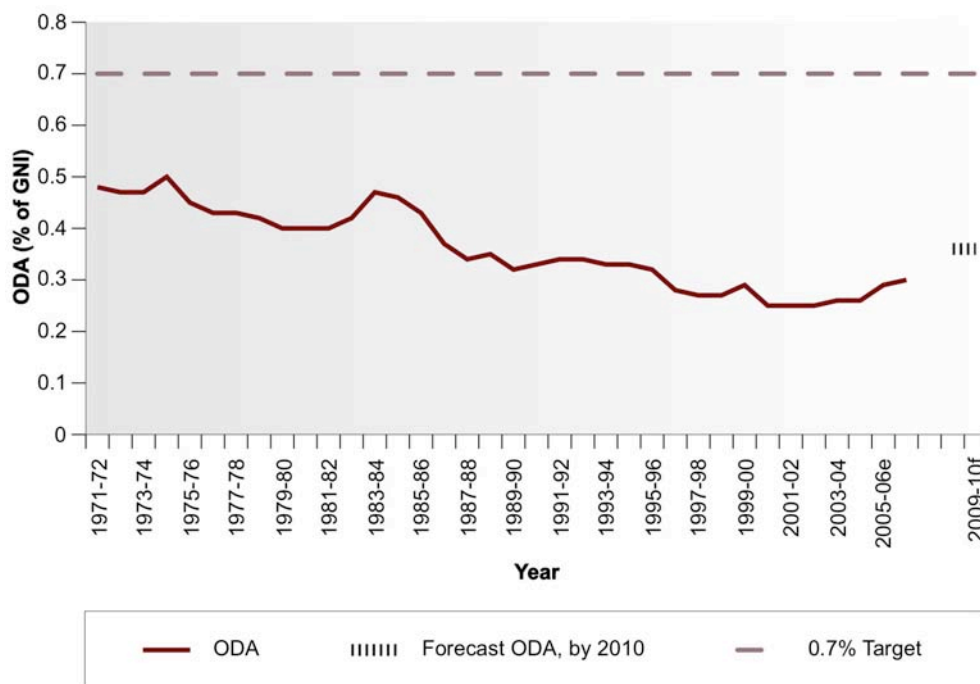
⁶ Ibid.

⁷ GNI comprises Gross Domestic Product plus net receipts of income from non-residents.

In 2005 the Government announced a multi-year increase in Australia's official aid expenditure to \$4 billion annually by 2010.⁸ This is expected to equate to around 0.34 per cent of GNI in 2010,⁹ an increase on the average rate of the 1990s, though still well below the 0.40 to 0.50 per cent range seen in the 1970s and early 1980s.

Figure 2.2

NET OFFICIAL DEVELOPMENT ASSISTANCE, AUSTRALIA



(a) Australian Government contributions towards costs of educating private students from developing countries in Australian tertiary and secondary educational institutions was included in ODA for the first time in 1983-84.

(b) In 1988-89 there was a one-off bringing forward of multilateral development bank payments. This had the effect of increasing 1988-89 but decreasing 1989-90 expenditure.

(c) 2005-06 and 2006-07 are estimates; 2009-10 is a forecast.

Source: A. Downer 2006, *Australia's Overseas Aid Program 2006-07*, Statement by the Honourable Alexander Downer MP Minister for Foreign Affairs, Australian Government Budget 2006-07, 9 May.

Australia's current and future ODA level is relatively low compared with other developed countries — in 2006 the average level of ODA across members of the OECD Development Assistance Committee¹⁰ was 0.46 per cent of GNI. Australia is well below the UN target of 0.7 per cent (Box 2.3). Of the 22 member states of the OECD Development Assistance Committee, only Australia, Canada, Japan, Switzerland and the United States have not reached or set a timetable to reach the 0.7 per cent target.

⁸ J. Howard 2005, 'Increase in Overseas Aid', media release, 13 September, pm.gov.au/media/Release/2005/media_Release1561.cfm, Accessed 4 March 2007.

⁹ OECD 2007, *Final Official Development Assistance (ODA) Data for 2005*, www.oecd.org/dataoecd/52/18/37790990.pdf, table 4, p. 11.

¹⁰ The OECD Development Assistance Committee comprises 22 member states and the European Union, and includes most of the world's major bilateral donors.

According to the UN Millennium Project's analysis, aid from industrialised countries needs to reach 0.54 per cent of GNI by 2015 if the Millennium Development Goals are to be achieved. If one includes the other essential investment needs that are not directly related to the Millennium Development Goals, such as protecting global fisheries and managing geo-strategic and humanitarian crises, global aid will need to rise to 0.7 per cent.

Box 2.3

THE 0.7 PER CENT TARGET

First pledged 37 years ago in a 1970 General Assembly Resolution, the 0.7 per cent target has been affirmed in many international agreements over the years, including the March 2002 International Conference on Financing for Development in Monterrey, Mexico and at the World Summit on Sustainable Development held in Johannesburg later that year.

In Paragraph 42 of the Monterrey Consensus, world leaders reiterated their commitment, stating that "we urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries."

Note: In 2001, the Development Assistance Committee changed from publishing ODA ratios in terms of Gross National Product (GNP) to Gross National Income (GNI). GNI and GNP are very similar, although GNI has generally been higher than GNP, resulting in ODA/GNI ratios slightly lower than previously reported ODA/GNP ratios.

Source: Millennium Project 2006, *The 0.7% target: An in-depth look*, United Nations, New York, available at www.unmillenniumproject.org/involved/action07.htm.

Trade liberalisation

While Australia's ODA performance has been relatively modest, the Government has been a strong supporter of further trade liberalisation. This is an area where Australian self-interest often aligns with developing country interests, as reflected in Australia's leadership and participation in the Cairns Group of agricultural exporting countries, which includes poor countries such as Colombia, Thailand and the Philippines.¹¹

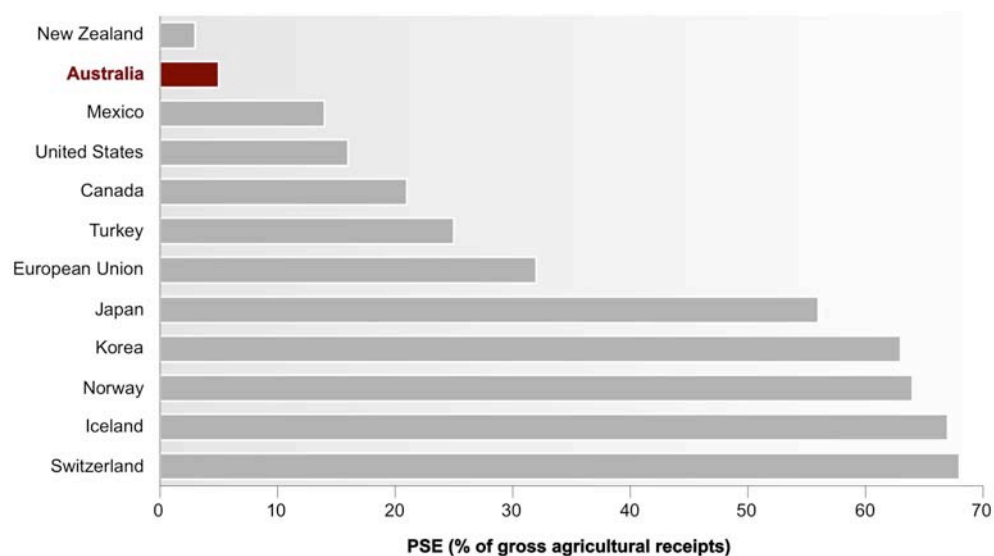
Trade liberalisation can help developing countries by providing improved access to markets and increasing export receipts. Since many of the least developed countries have large agricultural sectors, elimination of agricultural trade barriers in key markets would make a significant contribution to poverty alleviation — although any trade liberalisation should be sequenced carefully to avoid adverse effects on developing country populations. The World Bank estimates that an ambitious conclusion to the Doha Round (unfortunately now stalled) could raise up to 140 million people out of poverty worldwide by 2015.¹²

Although Australia retains some agricultural trade barriers, overall it has one of the least protected agricultural sectors (Figure 2.3). Australia does, however, retain significant tariffs on textiles, clothing and footwear and passenger motor vehicles, which are potentially harmful to competing industries in developing countries.

¹¹ A. Downer 2006, 'Globalisation: A Force for Good', speech at Bond University, 4 February, http://www.foreignminister.gov.au/speeches/2006/060204_globalisation.html, Accessed on 22 March 2007.

¹² AusAID 2005, op. cit., p. 12.

Figure 2.3

PRODUCER SUPPORT ESTIMATE — A MEASURE OF AGRICULTURAL BARRIERS

Source: OECD PSE Statistics, 19 December 2006

Debt relief

Australia is a relatively minor bilateral creditor globally, having traditionally disbursed aid as grants rather than loans. Nevertheless, Australia supports the IMF/World Bank Highly Indebted Poor Countries (HIPC) initiative, and has committed over \$110 million to the program. In 2004 Australia cancelled around \$17 million worth of bilateral debt owed by Nicaragua and Ethiopia.¹³ More recently, Australia provided \$334 million in debt relief to Iraq in each of 2005-06 and 2006-07, in accordance with the Paris Club agreement.¹⁴ Australia also supported the G8 proposal for 100 per cent relief of multilateral debt owed by countries eligible under the HIPC initiative.

Business

The large corporate sector in Australia is supportive of, and active in, social investment. Businesses contribute to a range of causes, including poverty relief, primary education, health education and research and environmental sustainability.

Our discussions with CEOs and public affairs practitioners highlighted that companies are almost universally focussed on activities in the communities in which they do business:

[Shell's particular focus is on] vulnerable communities where Shell is operating, where other resources can be leveraged, and where they have the potential to be self-sustaining.

Shell Foundation

¹³ AusAID 2005, op. cit., p. 15; P. Costello and A. Downer 2004, *Australia Forgives Nicaragua's Debt*, Press Release, 15 April, Canberra; A. Downer and P. Costello 2004, *Ethiopia Qualifies for Debt Relief*, Press Release, 15 November, Canberra.

¹⁴ A. Downer 2006, *A More Effective Aid Program*, Media Release, 9 May, Canberra, www.foreignminister.gov.au/releases/2006/fa042_06.html, Accessed 22 March 2007.

Where we operate in countries with issues, we will skew investment to these issues. For example, our company supports HIV and AIDS programs in South Africa.

Public affairs practitioner, Multinational company

HIV and AIDS is a big issue for us globally, but not in Australia. Here the focus is much more about capacity building in the communities we operate in.

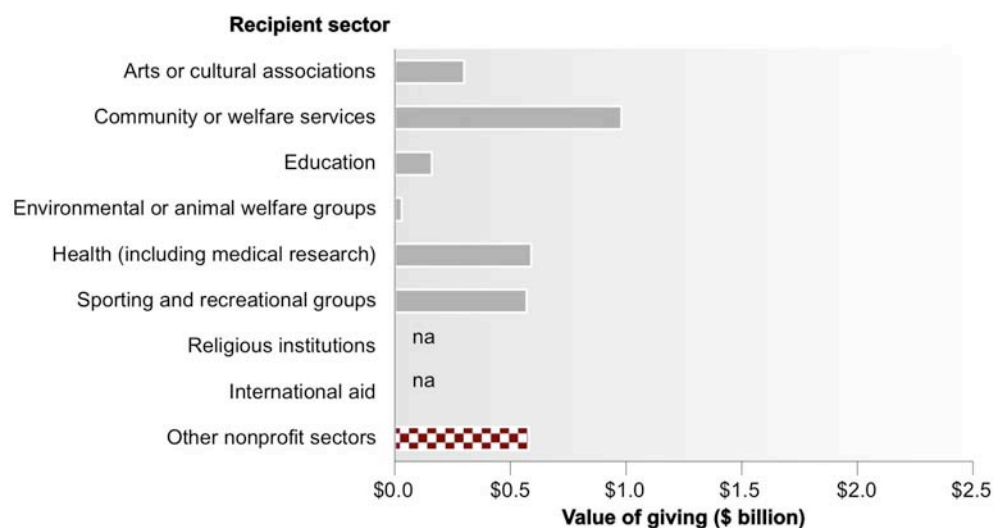
Public affairs practitioner, global energy company

There are different involvements for three distinct types of firms in the large corporate sector.

1. *Australian-based multinational companies, working in overseas markets* support activities in the neighbourhood of their operations — for example, local communities around resource projects or generalised community support where the companies have significant operations in Asian or Pacific countries.
2. *Divisions of global companies with responsibilities in Australia/Asia Pacific* are mandated by their headquarters to support activities in their own markets. For example, the Australian offices of global companies like Shell or Unilever are responsible for those areas managed from Australia (often including the Pacific and sometimes parts of Asia). Their peer divisions in the region will have their own local accountabilities.
3. *Australian companies that focus on domestic markets* predominantly work with and invest in Australian communities. This includes, for example, support for indigenous health and welfare, and education of children from disadvantaged families.

Unfortunately, data on the extent of business contributions to international aid efforts are not available. In the 2004 Giving Australia survey of business, respondents were instructed to include international aid contributions in ‘other nonprofit sectors’, which also included (amongst others) political parties, disaster relief and religious institutions. The combined level of corporate philanthropy to these recipients totalled \$580 million (shown shaded in Figure 2.4); contributions to international aid would have been some fraction of this. This does not, however, include giving by companies’ overseas-based operations.

Figure 2.4

BUSINESS DONATIONS BY RECIPIENT SECTOR, 2004

Notes: The business survey did not specifically ask about giving to Religious Institutions or in respect of International aid. Giving for these purposes would be included in Other non profit sectors.

Source: Department of Family and Community Services 2005, *Giving in Australia: Research on Philanthropy in Australia*, Canberra, table 6, p. 22.

Individuals

In 2004, Australian individuals donated \$760 million to charities working in the international aid sector (Figure 2.5). This represents approximately \$38 per person per year (although the distribution is quite uneven: many people give nothing and those that do give, give much more). As a proportion of GDP, Australians give around half as much to charitable causes each year as do United States citizens.¹⁵

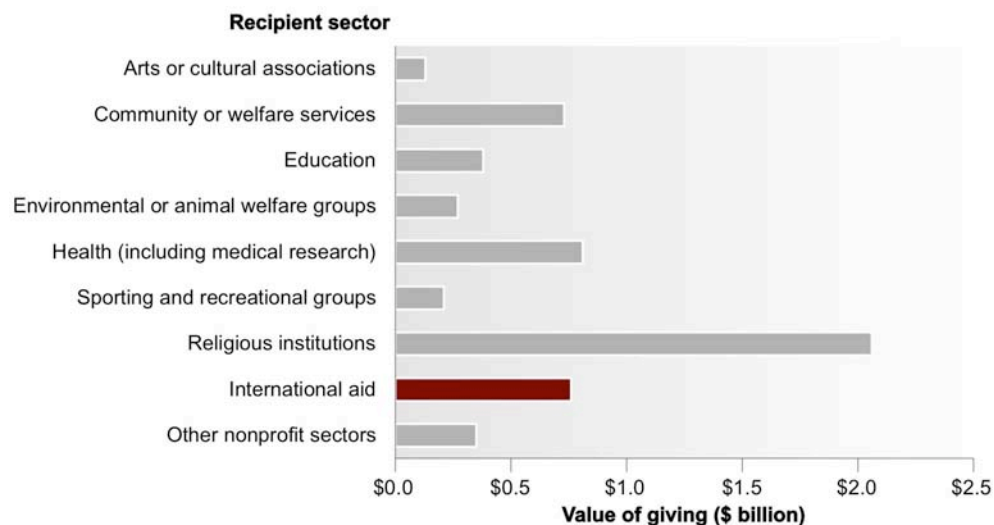
In addition to monetary contributions, Australians spent around 12 million hours on volunteer work for international aid, or approximately 0.6 hours per person per year.¹⁶

¹⁵ This could result from a smaller government sector or a wider income distribution. Charities Aid Foundation 2006, *International Comparisons of Charitable Giving*, CAF Briefing Paper, November, Kent, UK, www.cafonline.org/default.aspx?page=12183, Accessed 12 March 2007.

¹⁵ K. Annan 2005, *In larger freedom: towards development*, Report of the Secretary-General of the United Nations for decision by Heads of State and Government, September.

¹⁶ Department of Family and Community Services 2005, *Giving in Australia: Research on Philanthropy in Australia*, Canberra, table 6, p. 22.

Figure 2.5

INDIVIDUAL DONATIONS BY RECIPIENT SECTOR, 2004

Source: Department of Family and Community Services 2005, *Giving in Australia: Research on Philanthropy in Australia*, Canberra, table 6, p. 22.

2.3 The need for a stronger commitment

The lack of progress in many of our neighbours towards the Millennium Development Goals highlights the need for developed nations such as Australia to do more to address global poverty. The Development Goals are ambitious, and there is no guarantee of success. But failing to reach the targets will mean that ‘millions of lives that could have been saved will be lost; many freedoms that could have been secured will be denied; and we shall inhabit a more dangerous and unstable world.’¹⁷ As a nation, we must make a stronger commitment to meeting this challenge.

The call on Australia to reduce poverty is also a call on Australian business. While some of the levers for change lie in the hands of government (such as the level and flow of public overseas development assistance), the business community arguably has a greater role to play.

The following chapters show that there are many actions that companies can take as part of their normal business activities that have the potential to produce sustained improvements in the livelihood and well being of the disadvantaged. Businesses can also contribute by refraining from any actions that harm living standards in developing countries. In many cases, these not only help the world’s poor, but also make good business sense.

¹⁷ K. Annan 2005, *In larger freedom: towards development, security and human rights for all*, Report of the Secretary General, A/59/2005, United Nations, New York, p. 23.

Chapter 3

The business case for business action

This chapter examines companies' attitudes towards social investment before presenting the business case for greater business action to contribute to poverty relief.

3.1 Social obligation and altruism

Many people, including those in business, consider that the obligation to help others is a fundamental moral issue. The personal ethics of business leaders and staff are an ever-present driver of social investment, philanthropy and activities connected with good international citizenship. This continues to be reflected in statements of business principles and values.

Unilever strives to be a trusted corporate citizen and, as an integral part of society, we fulfil our responsibilities to the societies and communities in which we operate.

Unilever's Code of Business Principles

As well as being active contributors to the global business economy, we're also enthusiastic and proactive citizens of the greater global community... We support our communities in a number of ways including philanthropic grants, in kind product donations and employee volunteer programs.

Motorola 2002, Global Corporate Citizenship Report

While altruism will continue to drive many in business, the objective of this report is to articulate a number of reasons why it can make commercial sense for businesses to be involved in poverty relief efforts. These include:

- the need to become an employer of choice, to attract and retain a quality workforce;
- the potential to profitably sell products and services in developing markets;
- the need to maintain a 'licence to operate' in key communities; and
- the need to ensure a stable business environment in countries of operation, and in the region more generally.

This chapter examines each of these issues, after considering companies' broader attitudes towards the business case for social investment.

3.2 Business and enlightened self-interest

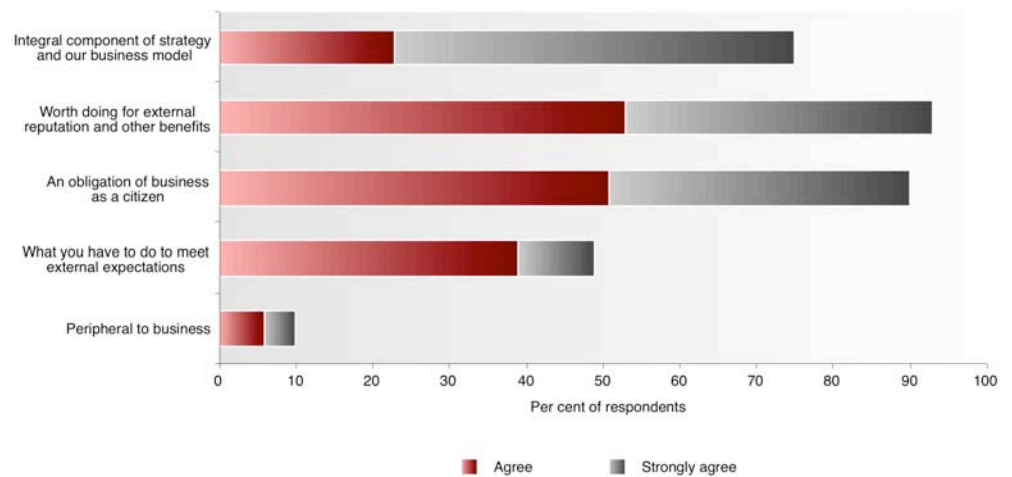
A recent survey of Australian public affairs practitioners undertaken by the Centre for Corporate Public Affairs and the Business Council of Australia for the Prime Minister's Business Community Partnership has found that CEOs and Boards regard corporate community involvement and social investment as a central part of their operations, with a strong business case. Figure 3.1 shows that:

- about 90 per cent of CEOs and Boards regard corporate community involvement as an obligation of good corporate citizenship and worth doing for the company's external reputation and other benefits;

- 75 per cent consider it is an integral part of their business model; and
- only around 10 per cent regard it as peripheral to business activity.

Figure 3.1

YOUR CEO/BOARD CONSIDERS CORPORATE COMMUNITY INVOLVEMENT IS:

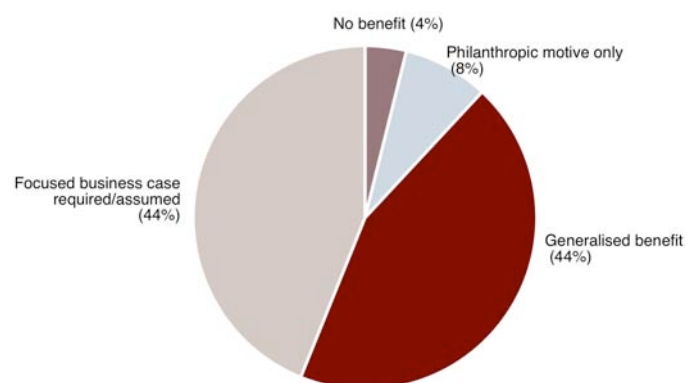


Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006. Courtesy of the study's sponsor, the Prime Minister's Community Business Partnership.

Figure 3.2 shows that companies increasingly seek a focused business case (44 per cent of respondents) or generalised benefit (44 per cent) for their community involvement activities. Companies are unlikely to expend significant resources on activities that provide no benefit or are for philanthropic motive only.

Figure 3.2

IN EXPENDING RESOURCES ON COMMUNITY INVOLVEMENT, DOES YOUR COMPANY SEEK:



Source: Centre for Corporate Public Affairs, Corporate Community Involvement survey, September 2006. Courtesy of the study's sponsor, the Prime Minister's Community Business Partnership.

Attitudes to the Millennium Development Goals

While there is a high level of underlying support for social investment activities among corporate Australia, there is very low awareness of the Millennium Development Goals.

- In interviews with around 20 of Australia's top 100 CEOs, not one was familiar with the Goals, although some CEOs of multinationals with European head offices said they believed their global headquarters may be involved in the MDG agenda. This was confirmed in at least two cases after separate enquiries.
- In workshops in three capitals involving public affairs practitioners from around 60 companies, only three were aware of the Goals — one of whom was an executive who had worked in London with NGOs on development issues.

The following quotes are indicative of business awareness of and attitudes to the Goals:

It is not recognition of the Millennium Development Goals that drives our corporate social responsibility activities. It is not top of mind for our organisation.

Public affairs practitioner, Australian resources company

I haven't heard of the Millennium Development Goals. We may well be doing some ad hoc activities that address these but it is not an overarching theme.

External affairs practitioner, Australian company

We haven't heard of the Millennium Development Goals and it doesn't drive what we do. We do have activities around these goals however, particularly in Africa.

Public affairs practitioner, Australian company

I'm aware that the Millennium Development Goals focus on poverty. This is an issue for us globally. In Australia we provide opportunities for matched giving such as sponsorship of children through World Vision.

CSR practitioner, global company

Low corporate awareness of the Millennium Development Goals is not confined to Australia. A study of global Fortune top 20 companies (the majority being US-based) found that only four mention the Millennium Development Goals either in their citizenship literature or on their website.¹⁸ The highest level of corporate support for global development initiatives such as the Goals is from global multinationals based in Europe, where collaboration with government (particularly UN agencies) is more prevalent.

¹⁸ Center for Corporate Citizenship at Boston College 2005, 'Putting global poverty on business agenda', *In focus: issues in the practice of corporate citizenship*, Issue 5, March.

3.3 The consequences of inaction

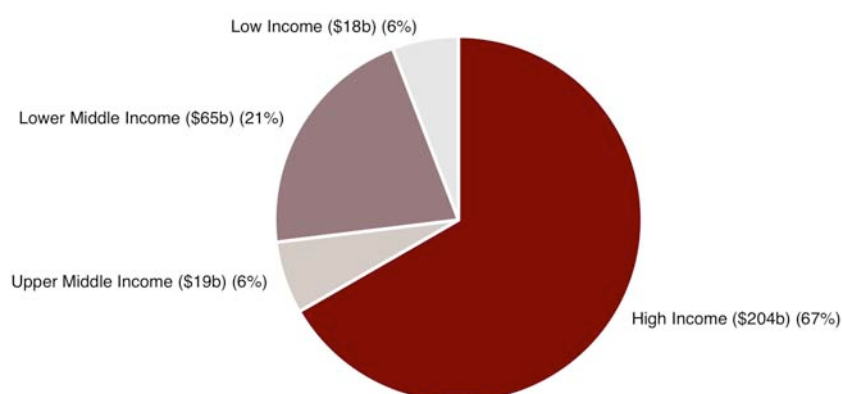
While it is manifest that the world's poor have the most to lose from inaction on poverty, the consequences *for business* are also substantial. Australia's island geography creates an illusion of isolation from the world's poor. In fact, the opposite is true: as an island nation, Australia is highly integrated with the world economy, including numerous developing countries. Global poverty represents a direct threat to the current and future prosperity of a range of Australian businesses through loss of potential markets, damage to foreign operations and greater risk of instability.

Loss of potential markets

Over one-quarter of Australia's international merchandise trade is with countries the OECD classifies as either Low Income (less than US\$825 per capita GNI) or Lower Middle Income (less than US\$3255). These include China, Thailand, India, Indonesia and Vietnam (Figure 3.3).

Figure 3.3

AUSTRALIA'S MERCHANDISE TRADE (EXPORTS + IMPORTS), BY INCOME LEVEL OF PARTNER COUNTRY, 2006



Source: Australian Bureau of Statistics 2006, *International Trade in Goods and Services*, cat. no. 5368.0, table 14.

The rise of China, and the commodity boom that has occurred on the back of this rise, demonstrate the potential benefits to Australian companies of broad-based economic growth in our region. The alleviation of poverty in developing countries raises the purchasing capacity of their people and promotes the development of sustainable local businesses and supporting institutions. Growth in these countries will present new opportunities for Australian business both as a market for exports and as a source of imports. If, however, poverty levels are not eased as promptly as they could be, these potential markets will not develop as quickly, placing a brake on the future growth of companies in Australia and overseas.

Damage to foreign operations

Australian resident businesses have more than 4000 foreign affiliates spread around the world.¹⁹ While the majority of these affiliates are located in wealthy countries such as the US, New Zealand and the UK, a substantial proportion — more than one in six — are located in middle or low income countries. The most recent available data show that five years ago foreign affiliates located in developing countries in the Asia Pacific region alone generated more than \$7 billion of sales each year, and employed more than 50 000 people.²⁰

The prosperity and future growth of Australia's future operations are directly exposed to the effects of poverty and disadvantage. In countries such as Papua New Guinea, HIV and AIDS is a serious cause of absenteeism, both as a direct result of the disease and as a social consequence. Poor education outcomes reduce the quality and quantity of the employable population. More broadly, income inequality and absolute poverty contribute to political instability, increasing the riskiness of investments in these countries.

Greater risk of instability

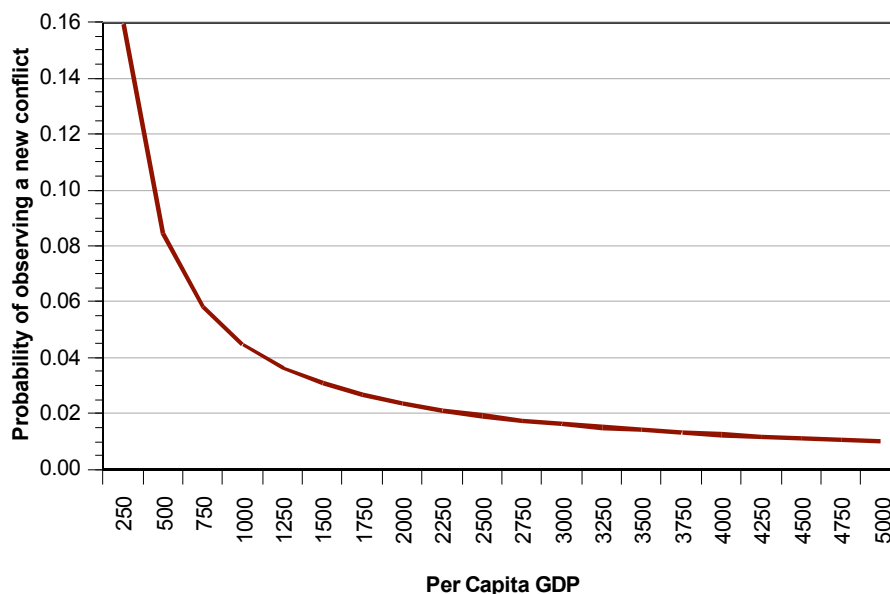
The relationship between poverty and instability is complex and multi-faceted. Less developed countries tend to have more fragile political and economic institutions, thereby presenting a less stable environment in which to do business. This has a direct impact on the confidence with which companies can make business decisions. Institutional failure can also create an environment that supports corrupt practices, and results in outbreaks of conflict or other forms of insecurity. These outcomes — which have been observed in a number of Australia's poorer neighbours in recent years — can be extremely damaging to the macroeconomic environment in which business operates, to the infrastructure available to them, and to the workforces and facilities of individual companies.

There is an observable correlation between poverty and the development of regional and civil conflict. Humphries has found that the lower a nation's per capita gross domestic product, the more likely it is to be involved in a new conflict in the next five years (Figure 3.4). The extent to which this reflects cause, rather than effect, continues to be a focus of debate — indeed it is likely to be a combination, a 'vicious cycle' of poverty and conflict. Nevertheless, history suggests that wealthy countries are more resilient to external and internal shocks, and less likely to degenerate into violence.

¹⁹ This includes subsidiaries, branches and joint ventures majority owned by an Australian resident business.

²⁰ Australian Bureau of Statistics 2004, *Australian Outward Foreign Affiliates Trade*, 2002-03, cat. no. 5495.0, table 1.

Figure 3.4

PROBABILITY OF OBSERVING A NEW CONFLICT IN THE NEXT 5 YEARS

Source: M. Humphries 2003, *Economics and Violent Conflict*, Program on Humanitarian Police and Conflict Research, Harvard University.

Moreover, local instability often ‘spills over’ into broader instability. Conflicts cross borders, and few environmental issues are truly local. Greenhouse gases, water and air pollution, for example, spread from one country to another. Similarly, under-funded public health systems in developing countries almost certainly contribute to the risk of (and certainly impede any response to) a global pandemic, as recent SARS and Avian flu outbreaks have demonstrated. Countries operating at the edge of subsistence have few if any resources to devote to these problems. Consequently, inaction on poverty threatens a range of consequences including global environmental degradation, unmanageable refugee inflows and epidemic disease. Australia’s wealth and relative isolation offers only limited protection against these threats.

3.4 Becoming an employer of choice

Corporate social investment is increasingly being prompted by the employment decisions of existing and potential employees. This is particularly the case for younger and graduate employees, who look to their careers as vehicles through which they can exercise their altruism, and therefore seek employers that demonstrate a social commitment. For instance, a South Australian survey of graduate employees in government ranked ‘Organisation with high ethical standards’ sixth out of 46 factors in graduate employment decisions.²¹ Evidence suggests that potential employees are becoming increasingly aware of the corporate social investment programs of companies to which they apply (see Box 3.1).

²¹ Office of Public Employment 2006, *Graduate Employer of Choice Survey*, Adelaide, table 1, p. 12.

Corporate social investment activities can have a beneficial impact on employee retention. One American study found that employees involved in their company's community activities were 30 per cent more likely to want to continue working for that company and help it achieve success.²² Corporate volunteering programs are a key mechanism by which employers can signal a social commitment, and involve staff in delivering on that commitment. One difficulty is that the 'coal face' of poverty is largely located outside Australia. For 'on the ground' roles, secondment models may be preferred over part-time or short-term arrangements, which may be difficult for some organisations, particularly small- and medium-sized businesses. Even in these cases, opportunities for local volunteers may mainly be in support or infrastructure roles, or for activities to address disadvantage in Indigenous communities.

Box 3.1

HOW TO CHOOSE AN ETHICAL EMPLOYER

Universities are increasingly providing resources to allow graduating students to take corporate social investment initiatives into account when selecting an employer. For example, Rosemary Sainty, Career Development Manager at the University of Sydney has developed a resource, entitled *How to Choose an Ethical Employer*, for final year students entering the graduate job market.

The guide suggests students assess potential employers against the following criteria:

- *environment* — the environmental impact, direct or indirect, of an organisation's operations, products or services including those of its suppliers;
- *community/social* — the impact of an organisation's projects, products, services or investments on the community at a local or global level;
- *workplace practices* — including respectful treatment of employees in: recruitment and selection; diversity and equal opportunity; work–life balance; professional development and progression; managing redundancies; full entitlement to employment rights;
- *marketplace & business conduct* — responsible behaviour in developing, purchasing, selling and marketing products and services; and
- *ethical governance* — from board level and throughout an organisation: transparency; risk reporting; effective codes of conduct, codes of ethics and compliance measures.

The guide provides students with summarised information from the Corporate Responsibility Index, RepuTex Social Responsibility Ratings, the Australian Sustainability Index and Employer of Choice for Women programs, to assist them in reaching a decision.

Source: Graduate Careers Australia 2006, 'Ethics and Graduate Recruitment', *The Graduate Grapevine*, number 5, September; R. Sainty 2006, *How to Choose an Ethical Employer*, Career Ethics.

3.5 Developing opportunities at the 'bottom of the pyramid'

The 'bottom of the pyramid' concept was popularised by C. K. Prahalad, a professor at the University of Michigan Business School.^{23,24} Prahalad's thesis is that multinational corporations should view the 'aspiring poor' as a major market opportunity — as consumers, rather than passive recipients of aid.

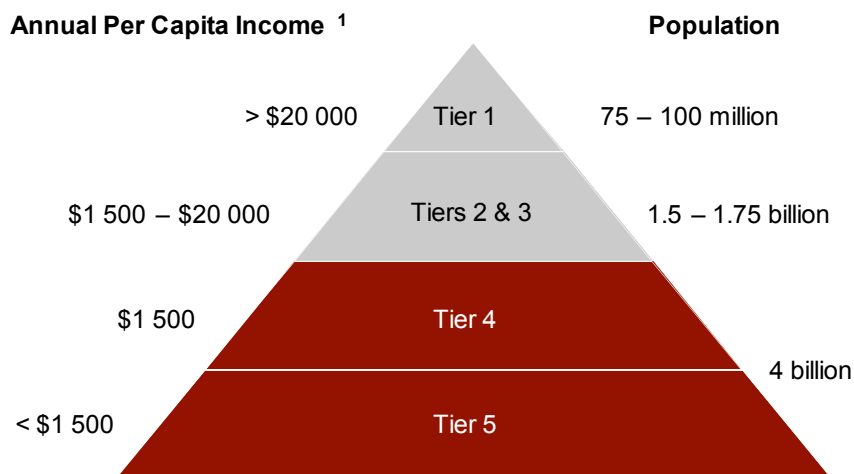
²² Council on Foundations 1996, *Measuring the Value of Corporate Citizenship*.

²³ C. K. Prahalad and Stuart L. Hart 2002, 'The Fortune at the Bottom of the Pyramid', *Strategy+Business*, issue 26.

²⁴ C. K. Prahalad 2005, *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, Upper Saddle River, NJ.

Prahalad's strategy focuses on the 4 billion people whose annual per capita income is at most US\$1500 a year, measured using purchasing power parity²⁵ (tiers 4 and 5 of Figure 3.5). He argues that while these people are individually poor, in aggregate they represent a multitrillion-dollar market. The reason, in Prahalad's view, that this market has not been developed is that Western multinationals do not offer products and services that are attractive to 'bottom of the pyramid' consumers.

Figure 3.5

THE WORLD ECONOMIC PYRAMID

Notes: 1. US dollars at purchasing power parity

Source: C. K. Prahalad 2005, *The Fortunate at the Bottom of the Pyramid*, Wharton School Publishing, Upper Saddle River, NJ, figure 1.1, p. 4.

Companies that have tailored products and services to low-income markets have been able to successfully enter 'bottom of the pyramid' markets. Prahalad cites a range of case studies, including:

- Casas Bahia, a Brazilian retail chain;
- Hindustan Lever Limited (a Unilever subsidiary) in India;
- Jaipur Foot, the world's largest prosthesis provider; and
- ICICI Bank, a rural bank in India.

While some of the examples he cites are non-profit organisations, many are fully commercial businesses operating profitably in low-income markets.

²⁵ A purchasing power parity exchange rate equalizes the purchasing power of different currencies in their home countries for a given basket of goods.

Box 3.2

AFFORDABLE LIFE INSURANCE FOR AIDS SUFFERERS

AllLife is an innovative life insurance company serving an unusual market: HIV and AIDS sufferers in South Africa. Prior to the entry of AllLife, cover for clients diagnosed with HIV was restrictive and expensive — and consequently uncommonly used.

AllLife offers affordable life insurance for up to 3 million rand (\$410 000). Although its cover costs two to five times more than standard life insurance, this is significantly cheaper than competing insurers. The company's business case rests on the observation that people who monitor their health and are treated tend to do well — significantly better than the average. AllLife claims that this group of people represent a similar risk to that of diabetics. Clients must take regular blood tests and use antiretroviral medication as necessary, but AllLife assists by sending reminders for tests and monitoring results. The result is improved health outcomes for policy holders, and reduced risk for AllLife.

AllLife estimates its potential market in South Africa is 2 million people — the number of HIV-positive South Africans earning over 2500 rand a month. It plans to expand into Namibia in 2007.

Source: The Economist 2006, 'South Africa Rethinks', November 9.

3.6 Contributing to a stable business environment

Employment and job creation play a central role in poverty eradication. Successful development can only be achieved if there is investment.

Businesses tend to be attracted to and thrive in stable, secure environments. As systems of production and marketing become increasingly global, companies face greater exposure to a wide range of risks — from the outbreak of local conflicts, environmental crises or changes in government policies and regulations. Chronic poverty and hunger, disease epidemics such as HIV and AIDS and low levels of education hinder business development. It therefore makes sense that businesses should attempt to address these problems in the regions in which they operate.

This has been particularly apparent in the growth in employer-funded HIV and AIDS prevention and treatment programs in those parts of the world where the virus is prevalent (see Box 3.3 for example). These programs directly benefit the companies involved by reducing absenteeism and early retirement, thereby increasing the labour pool. Similarly, business investments in education grow the pool of potential skilled employees available to a company.

Box 3.3

ANGLO AMERICAN'S ANTIRETROVIRAL PROGRAM

Anglo American plc is a global leader in the mining and natural resources sectors, operating in all continents. Since 1986, companies associated with Anglo American have implemented comprehensive HIV-prevention programmes which focus on: peer education; condom distribution; and effective treatment of sexually transmitted infections and opportunistic illnesses, especially tuberculosis. Its wellness programmes are an integral part of care and support and in 2002, the group started providing antiretroviral therapy (ART). Companies within the group are encouraged to develop programmes to meet the needs of their particular workforces and the local community. In April 2004, Anglo American received the 'Award for Leadership' in the Global Business Coalition on HIV and AIDS Business Excellence Awards.

Source: UNAIDS 2005, *Action against AIDS in the workplace*, p. 9.

Business may have a particularly strong role to play in encouraging transparent and accountable governance, which is broadly captured as part of the eighth Millennium Development Goals. Corrupt or incompetent leaders or bureaucracies retard economic growth in poor countries; poor governance also hinders long-term business success. For this reason it is in the interests of business to advocate (and actively encourage) respect for the rule of law, property rights, and other pro-growth institutions.

3.7 Maintaining a 'licence to operate'

Business cannot afford to be seen as the problem. It must, working with government, and with all the other actors in society, be part of the solution.

Former UN Secretary General, Kofi Annan²⁶

Long-term business success within any community depends on being perceived as a positive and not a negative force in the community. Understanding and accommodating community expectations are integral to ensuring a long-run return to shareholders. By acting as 'good corporate citizens', businesses can avoid regulatory intervention and negative community sentiment, thereby reinforcing their commercial success.

As Kofi Annan suggested, it is not uncommon for businesses operating in developing countries to be 'seen as the problem' rather than 'part of the solution'. Responsible practice in local supply chains and appropriately targeted corporate social investment programs can build trust in these communities and go some way to earning and maintaining a licence to operate.

There are potentially a number of aspects to maintaining a licence to operate. These include businesses being:

- *a neighbour of choice* — making a positive contribution to the environment makes communities more accepting of business presence;
- *a supplier of choice* — customers value the reputations, including social contribution, that lie behind brands, and punish companies that have a negative social impact; and/or
- *a government/regulator company of choice* — where trust is built strongly and there is an alignment between social outcomes and corporate interests, this facilitates market access (particularly in developing countries) and can earn the benefit of doubt with regulators.

Traditionally building and maintaining a licence to operate has included activities such as site remediation and local employee health programs, where the beneficiary community is narrowly defined. There is no reason, however, that this approach should not extend to activities that benefit the broader national and regional communities within which companies operate, and enhance the standing of firms with host governments.

²⁶ K. Annan 2002, Secretary-General Urges Business Leaders, at 'Turning-Point in History' to be 'Part of the Solution' in War Against World Poverty, Press Release SG/SM/8115, United Nations, New York.

Chapter 4

How businesses can and do contribute

This chapter demonstrates the different ways that business can contribute to poverty relief — core business activities in the marketplace, the workplace and along the supply chain; social investment and philanthropic activities; and engagement in public policy dialogue and advocacy. A series of case studies illustrates activities in each area.

4.1 Introduction

Business can contribute to global poverty relief in more ways than might at first be obvious. The Prince of Wales International Business Leaders Forum and the United Nations Development Programme have identified three main categories of contribution:²⁷

- core business activities — in the marketplace, the workplace, and along the supply chain;
- social investment and philanthropic activities; and
- engagement in public policy dialogue and advocacy.

The character of corporate social investment has changed in recent years, with a shift from disaggregated ‘cheque over the fence’ philanthropy to an approach characterised by fewer, deeper partnerships, alignment with special partners, volunteering and capacity building. While some NGO partners prefer to simply ‘have the money’, others value a deeper engagement and realise that the more it is embedded with a corporate rationale as part of a business model, the deeper and more sustainable the support will be.

4.2 Core business activities

Businesses that operate in developing countries can support poverty relief simply by carrying out ordinary business activities in a way that is consistent with the goals. This means, firstly, ceasing those activities that inhibit progress towards poverty alleviation, and secondly, actively aligning core business activities (such as product development, recruitment, and so on) with the goals.

In the past, businesses engaged in developing countries have not always considered the development of the host country. For reasons of short-term profitability or simply through ignorance or negligence, some businesses conducted their activities in a way detrimental to long-term development. This included:

- various forms of lobbying — for example against environmental protections;
- failing to adhere to human and labour rights policies along the supply chain;
- using tax havens and transfer pricing to avoid tax or disguise financial transactions; and

²⁷ J. Nelson and D. Prescott 2003, *Business and Millennium Development Goals: A Framework for Action*, International Business Leaders Forum, p. 5.

- anti-competitive behaviour, such as strategic cross-subsidisation of unprofitable subsidiaries in order to drive out local competition.

While such behaviours are generally not *illegal*, it is vital that companies recognise that they are not *sustainable*. They must recognise the negative impacts they can have on development — and where necessary change their practices. In many cases, reducing harmful activities may be more effective than introducing positive practices designed to assist poverty reduction.

Turning to those positive impacts, business can create positive value for host countries and communities through a range of means:²⁸

- *generating income and investment* — through paying local wages, taxes, dividends, and royalties, making timely payment to local suppliers, and earning foreign exchange;
- *creating jobs* — recruiting locally, both within the company and along the supply chain, and facilitating positive organised labour relations;
- *developing human resources* — investing in training, skills development, health and safety in the workplace and along the supply chain;
- *building local businesses* — through supplier and distribution networks, especially with medium, small and micro-enterprises;
- *spreading responsible international business standards and practices* — in areas such as environment, health and safety management, human rights, ethics and quality;
- *supporting technology development and transfer* — investing in local research and development and introducing technologies and processes for cleaner and safer production systems; and
- *establishing physical and institutional infrastructure* — for example investing in plant and machinery, telecommunications and transport systems, and legal and financial frameworks and institutions.

These ‘business as usual’ activities do not necessarily involve any element of philanthropy; rather, they require businesses to be aware of the positive long-term value of enlightened practices, a country’s development needs and to conduct their operations in a manner consistent with these.

Three of the main core business activities that can help achieve poverty relief are:

- producing affordable products and services;
- providing best practice working conditions for locals; and
- investing in R&D, infrastructure and technologies.

²⁸ Ibid.

Affordable products and services

Business can make a real difference to poor communities simply by producing safe, affordable products and services, especially those that meet basic needs such as water, energy, nutrition, healthcare, housing and education. Providing products and services to poor communities can contribute to development outcomes beyond meeting basic needs. For example, financial services companies can provide banking and insurance products, including microfinance and microcredit that support local entrepreneurship and development.

Box 4.1 details the innovative business established by Scojo Vision, a US optical firm, to sell spectacles to the rural poor in India, Bangladesh, Mexico and Guatemala.

Box 4.1

SCOJO VISION AND 'MICRO-FRANCHISING' SPECTACLE BUSINESSES

As everyone ages, our eyes have a diminished ability to focus. In developed countries, people can readily solve the problem by obtaining a pair of non-prescription reading glasses from a pharmacy. But the rural poor in developing countries typically have no such option. This can impact on people's ability to earn an income, including illiterate craftsmen who can no longer manage fine handiwork.

Scojo Vision, a US optical firm, has implemented an innovative 'micro-franchising' business model to sell these spectacles to the rural poor. Scojo delivers a 'business in a box' to local entrepreneurs and provides training to help them start their businesses. Each pair of glasses that Scojo provides to the entrepreneurs costs the firm about \$1 to make and deliver. The franchisee pays around \$2 a pair, and sells them for \$3. Because every step of the value chain is profitable, the business model is sustainable. While \$3 is a considerable sum to the very poor, Scojo has calculated that because extra income means so much to them, they may be willing to pay for a product that restores their vision and earning potential.

Scojo has sold 50 000 pairs of glasses so far in India, Bangladesh, Mexico and Guatemala. It reinvests its profits to expand the scheme, and is aiming for 1 million pairs by 2010 and 10 million by 2016.

Source: The Economist 2007, 'An innovative approach to selling spectacles to the very poorest', 11 January.

Providing best practice working conditions for locals

Employment of local workers allows for skills development and provides a source of income to the local community. Companies that rely on a large local workforce are well placed to implement well being programs for employees. Such programs produce benefits both in and outside of the workplace. Best practice companies adhere to international labour standards and human rights standards which address child labour, women in the workforce and other supply chain issues.

Nike is one example of a firm that, in response to criticism, changed its approach to working conditions, particularly at contract factories (Box 4.2).

Box 4.2

NIKE AND WORKER CONDITIONS

Nike's Code of Conduct, originally developed in 1992 as a first step in improving working conditions at its supplier factories, is a statement of values, intentions and expectations. It includes standards such as:

- no use of forced labour;
- no employment of people below the age of 18 to produce footwear and below the age of 16 for apparel (exceeding International Labour Organisation standards);
- payment of at least the minimum wage; and
- compliance with legally mandated working hours along with other environmental, safety and health standards.

The Code of Conduct has been modified over the years and implemented across Nike's supply chain (including partners and around 900 contract factories that produce Nike products). Nike now advocates common standards for the footwear and apparel industry, including transparency around monitoring.

Source: Nike 2006, 'Code of Conduct', www.nike.com/nikebiz/nikebiz.jhtml?page=25&cat=code, Accessed 6 December 2006.

Some companies have implemented workplace HIV and AIDS programs and provide workplace access to drugs that improve disease prevention, treatment and care. These companies have recognised that their capacity to access a skilled workforce in developing countries would be compromised if they did not act to address HIV and AIDS issues. Box 4.3 details the approach taken by L'Oréal to prevent HIV and AIDS among its workforce in South Africa. BHP Billiton has also implemented a number of programs to address HIV and AIDS in its South African and Mozambiquan workforce, which include education, testing, counselling, medical care and accommodation.

Box 4.3

L'OREAL'S EFFORTS TO ADDRESS HIV AND AIDS IN ITS WORKFORCE

The World Health Organization estimates that 1000 South Africans die of AIDS-related illnesses every day. Low education levels, exacerbated by 85 per cent illiteracy rates, have impeded prevention efforts and stigma about the disease, particularly prevalent in underdeveloped rural areas, continues to plague the country.

In 2002, L'Oréal launched a comprehensive HIV and AIDS prevention and treatment program for its 700 South African employees, providing voluntary counselling and anonymous testing, mother-to-child transmission prevention services, free condoms, a 24-hour HIV crisis hotline, and antiretroviral treatment coverage to all employees and their dependants.

Driven by the success of this workplace program, L'Oréal extended the program to its distribution networks. L'Oréal distributes six professional hair-care brands in 127 countries. Each product line has a network of professional training centres. Globally, these networks employ more than 3000 trainers in 190 full-time centres. The program reaches 400 000 people. In sub-Saharan Africa, the Soft Sheen Carson brand has contacts with thousands of hairdressers each year, providing an excellent opportunity to expand prevention efforts.

Source: World Business Council for Sustainable Development 2007, 'Expanding HIV/AIDS Prevention Efforts: L'Oréal', www.wbcsd.org/plugins/DocSearch/details.asp?type=DocDet&ObjectId=MjJwNjE, Accessed 5 March 2007.

Investing in R&D, infrastructure and technologies

Investment in research and development, infrastructure and technology can also assist poverty relief. For example, companies are working on commercially viable ways to make ICT solutions available to poor people to help to bridge the ‘digital divide’ (see Box 4.4). In addition, pharmaceutical companies are investing in research and development on drugs to treat the diseases of the developing world (supported by patent protection, intellectual property rights and preferential pricing arrangements).

Box 4.4

MICROSOFT’S INITIATIVES TO IMPROVE ACCESS TO TECHNOLOGIES

Microsoft’s ‘Unlimited Potential’ is a global initiative designed to broaden digital inclusion and aid global workforce development by providing technology skills through community technology centres (CTCs). It consists of:

- grants to enhance access and training opportunities for individuals underserved by technology;
- a software donation program to provide CTCs with access to current applications; and
- a community learning curriculum that emphasises real-world applications and course material.

The program aims to bring the benefits of technology to one quarter of a billion people by 2010.

Microsoft is also funding research into production of low-cost technology solutions for developing countries. In India, the company is working on a prototype of a system that uses pictures, video and voice commands to connect illiterate domestic workers with families seeking their services. The project aims to help women see how technology can make finding work more efficient. It is the first step toward creating broader tools to help illiterate people benefit from technological advances.

Microsoft also supports R&D in producing a low-cost personal computer. Professor Raj Reddy has been working for a number of years on a Pctvt, a wirelessly networked personal computer that will cost around US\$250, and be controlled by a TV remote control (so illiterate people can use it). The project has the backing of TriGem (to supply the computer) and Microsoft (to supply an inexpensive, stripped down version of its operating system), and works in partnership with the University of California (who are developing high-speed wireless digital networks for rural communities).

Source: Microsoft 2006, ‘Microsoft Unlimited Potential’, www.microsoft.com/about/corporatecitizenship/citizenship/giving/programs/up/, Accessed 6 December 2006; and A. Linn 2006, ‘Microsoft seeking ways to help illiterate’, Associated Press, 1 March.

4.3 Social investment and philanthropy

Social investment and philanthropic activities have a direct charitable component. They involve going beyond core business activities to provide *financial support*, in the form of donations or sponsorship, as well as *in-kind support* — the company’s products, people or facilities for use in development activities.

Social investment and philanthropy can help to support or strengthen local communities by:²⁹

- supporting education, training, youth development, environmental, and health and nutrition projects in local communities;
- building the capacity of community leaders and social entrepreneurs;

²⁹ J. Nelson and D. Prescott 2003, op. cit., p. 6.

- training local technical specialists in environmental management;
- building the governance capacity and voice of local civil society groups and media organisations;
- supporting multi-cultural education programmes;
- assisting with voter education initiatives; and
- establishing and supporting micro-credit programmes and small business support.

Financial support

As part of their social investment programs, companies often provide direct financial support to NGOs or local community organisations that are addressing issues such as education and health. Contributions over a longer period help build the sustainability, skills and resilience of local NGOs and community groups.

Box 4.5 describes the work of a collaboration of Australian pharmaceutical companies to improve the health and well being of the people of Papua New Guinea, particularly in the area of HIV.

Box 4.5

THE COLLABORATION FOR HEALTH IN PAPUA NEW GUINEA

The Collaboration for Health in Papua New Guinea is a public-private partnership whose aim is to improve the health and well being of the people of Papua New Guinea particularly in the area of HIV. It is an initiative of a number of member companies of Medicines Australia, including Merck Sharp & Dohme, GlaxoSmithKline, Pfizer Australia, Boehringer-Ingelheim and Gilead.

The Collaboration established and strengthened the role of HIV day care centres in PNG. These are local facilities where those with HIV and their families can be counselled, sheltered and advised by trained local volunteer health workers. The day care centres provide an important opportunity for people with HIV and AIDS to 'escape' the significant social stigma that is attached to the disease in PNG.

The Collaboration, in partnership with the Australasian Society for HIV Medicine and other key agencies, has developed new approaches to strengthen the capacity of HIV healthcare teams in PNG. A different approach to training was undertaken, with the teaching materials and style incorporating local traditions of storytelling and drama.

Through a series of workshops and mentoring visits by trained personnel, healthcare teams from individual centres gained knowledge about the disease and the holistic care of those who depend on them. By the end of 2005, nearly 200 doctors, nurses, health administrators, counsellors and lab technicians had attended the workshops run by the Collaboration.

Another initiative has been to support the Labour Ward at Port Moresby Hospital through the donation of an ultrasound machine and other medical supplies.

Source: Medicines Australia 2006, 'Philanthropic activities', www.medicinesaustralia.com.au/pages/page45.asp, Accessed 6 December. Further information provided by Pfizer Australia.

In addition to philanthropic activities overseas, Australian companies make significant contributions to programs that support Indigenous communities. A major study for the Business Council of Australia prepared by the Allen Consulting Group traced the experience of corporate social investment activities in Indigenous communities.³⁰ It included 64 case studies from 38 Australian companies on industry innovations. Most of these cases involved actions in areas aligned with the Millennium Development Goals.

- *Education, training and employment* — projects include ‘homework centres’ and school-based mentors; family support in return for pledged retention; Indigenous skill-training in apprenticeships; and school to work transition support. One example is the support provided by Visy and the Pratt Foundation in funding to assist the employment of a health educator to deliver a training program to Aboriginal health workers (Box 4.6).
- *Business development* — A range of company programs promote skills transfer, mentoring support, long-term supply or service contracts, supported joint ventures, training in management and financial literacy for small business and micro-credit.
- *Social programs and community development* — These include support for Indigenous housing initiatives; public health and hygiene, and public safety; regional economic development; community capacity building; cultural development; and legal support. Box 4.7 details the Macquarie Bank Foundation’s partnership with UNICEF to address health issues in Indigenous communities.

A number of multinational companies are providing voluntary support to assist capacity building in the regulatory agencies of host countries.

Box 4.6

VISY AND THE PRATT FOUNDATION’S SUPPORT FOR THE NGANAMPA HEALTH COUNCIL

Nganampa Health Council is an Aboriginal-controlled community health service of the Anangu people in the far north-west of South Australia, covering some 100 000 square kilometres.

As part of its activities, the Council is training Aboriginal health workers. The training program is a nationally accredited course taught in English as a second language. Coordinated and delivered by a health educator and a graduate Anangu health worker, the course currently has 30 enrolments.

The Council is supported by Visy and The Pratt Foundation, which has extended a three-year grant to assist the employment of the educators.

Source: Pratt Foundation 2007, ‘Nganampa Health Council: Training Aboriginal Workers’, www.prattfoundation.com.au/flash/03AboriginalHealth.html, Accessed 5 March 2007.

³⁰ The Allen Consulting Group 2001, *Indigenous Communities and Australian Business: from little things, big things grow*.

Box 4.7

MACQUARIE BANK FOUNDATION AND UNICEF — ADDRESSING INDIGENOUS INFANT MORTALITY AND NUTRITION IN CENTRAL AUSTRALIA

According to UNICEF, Indigenous infant mortality rates are up to four times higher than the national average. Children born to Indigenous mothers are up to three times more likely to have a dangerously low birth weight, which results in an impaired immune system and an increased rate of disease, with the risk that they may remain malnourished throughout their lives.

UNICEF Australia's Indigenous Australia Advocacy Program supports local NGOs in Central Australia with their work in child nutrition, including supporting Waltja Tjutanku Palyapayi (Waltja) on their Indigenous nutrition project Pipirri Tjuta Palya Kanyila, Tjana Ngurra Palya Kanyintjaku (Keeping Kids Healthy Makes a Better World).

The Macquarie Bank Foundation has provided \$100 000 to the Program over a two-year period. Other trusts and foundations such as Perpetual Trustees have also contributed.

The Foundation contributes around \$8.5 million to over 400 community organisations that work in areas such as health care, education, arts, sports, welfare, and environment. It supports programs in the communities where Macquarie Bank operates, including across Asia, Africa, Europe and the Americas.

Source: Macquarie Bank Foundation 2006, Annual Report; UNICEF.

In-kind support

As an alternative to direct financial support, companies can also provide in-kind support in the form of products, infrastructure or the skills of their employees. For example, companies that are major investors in developing countries can support the education of their employees' families at different levels, from supporting on-site or local community schools to providing scholarships for tertiary education. Pharmaceutical companies can provide much-needed drugs, at a reduced price or at no price, to countries that have a dire need. Box 4.8 provides an example of Merck's in-kind support in Africa and Latin America.

Box 4.8

MERCK'S COMMITMENT TO ELIMINATE RIVER BLINDNESS

Over a 17-year period, Merck has donated Mectizan (a drug that was discovered and developed by Merck) to those who need it to eliminate river blindness. River blindness — caused by small parasitic worms that thrive under the skin or in the connective or muscular tissue of those who are infected — can have a significant social and economic impact on a country. It affects more than 18 million people, mainly in Africa and Latin America.

The Merck Mectizan Donation Program is one of the largest on-going medical donation programs. It provides treatment programs in 34 countries in Africa, Latin America and parts of the Middle East. The Program works in partnership with WHO, World Bank, various UN agencies, NGOs, Ministries of Health and local communities to facilitate the drug's distribution and provide local support.

Researchers at The Johns Hopkins Bloomberg School of Public Health recently evaluated the program. The evaluation found that the distribution of Mectizan had had a significant impact in preventing river blindness, and that the program had been successful and cost effective. One of the authors of this study concluded that 'The Mectizan Donation Program is really one of the great public health success stories.... It is the benchmark for all other disease prevention efforts in the developing world.'

Source: Merck 2007, 'Merck Expands Its Commitment to Eliminate River Blindness', www.merck.com/about/feature_story/05192004_mectizan.html, Accessed 5 March 2007.

Where businesses have particular skills or expertise this can be particularly powerful, and is also a way to engage employees directly (through business volunteering programs). For example, BlueScope Steel provided both product and employee skills as part of its in-kind donations to relief efforts following the 2004 tsunami (see Box 4.9).

Box 4.9

BLUESCOPE STEEL'S COMMUNITY PROGRAMS IN ASIA

Following the 2004 tsunami, BlueScope Steel donated steel building products and expertise to relief efforts. The company used its skills to prepare designs for emergency aid building for various agencies, as well as provided over 100 rainwater tanks, manufactured by BlueScope Water. Its steel products are a low cost housing solution. BlueScope Steel Thailand built homes for families who lost their houses, using their steel building products. In Indonesia, BlueScope employees provided products to relief efforts and donated building materials for community projects. In India and Sri Lanka, building materials and use of trucks was donated.

The company has also provided temporary buildings and housing, schools and clinics in flood-affected areas of Thailand and Vietnam.

Source: BlueScope Steel 2005, Community, Safety and Environment Report.

4.4 Policy dialogue and advocacy

Business can influence Australian and developing country policy through dialogue and advocacy. Although international development is often seen as a 'government issue', this should not be seen as efficient:

Business needs enlightened partners in government, but it need not wait passively for them to appear. In many countries, the voice of business leaders plays a very important role in moulding the climate of opinion in which governments take their decisions.

Former UN Secretary General, Kofi Annan³¹

This role of business has been readily apparent in the Australian Government's policy towards climate change and carbon trading. Recent policy shifts have lagged clearly enunciated statements by business groups such as the Australian Business Roundtable on Climate Change³² and the Business Council of Australia.³³ There is no doubt that these initiatives have played a role in shaping public and political opinion on this issue.

Policy dialogue and advocacy can involve individual and collective action to influence the enabling environment and support systemic change at a local, national and international level by:³⁴

- supporting local and national governments to achieve efficient public administration and service delivery, fair and transparent regulations, respect for human rights and the elimination of bribery and corruption;
- addressing specific policy settings with governments and civil society;

³¹ K. Annan 2002, Secretary-General Urges Business Leaders, at 'Turning-Point in History' to be 'Part of the Solution' in War Against World Poverty, Press Release SG/SM/8115, United Nations, New York.

³² Australian Business Roundtable on Climate Change 2006, *The Business Case for Early Action*, September.

³³ M. Chaney 2006, BCA President's Address to BCA 2006 Annual Dinner, 13 November, Sydney.

³⁴ J. Nelson and D. Prescott 2003, op. cit., p. 6.

- engaging in global dialogue on issues such as climate change and biodiversity;
- helping to increase a country's ability to attract and retain foreign and domestic investment;
- advocating improved access for developing country exports to OECD markets; and
- advocating increased levels of government aid to developing countries.

Working with government

One of the main opportunities for business to entrench its licence to operate in a country is to work with governments to improve social infrastructure by supporting healthcare and education reform. A major study undertaken by the Allen Consulting Group for a number of overseas-based multinationals doing business in Asia concluded that a high percentage of social investment programs was undertaken with national or local government partners, or with political entities that were closely associated with government.³⁵

In part this was due to a lack of local NGOs with the capacity to assist in the delivery of programs. But it also clearly had to do with winning acceptance and support as a good local citizen — earning a 'licence to operate'. The latter was confirmed by the fact that programs were structured particularly with the level of government (national, provincial or local) that was most relevant to the campaign's market entry or business success.

Project Hope, for example, is a flagship social investment program delivered by a number of major companies in close association with (and with acclaim from) government agencies (see Box 4.10).

³⁵ The Allen Consulting Group, *Corporate Community Involvement in the Asia-Pacific Region*, [proprietary study], September 2003

Box 4.10

PROJECT HOPE IN CHINA

Project Hope aims to finance the schooling of students from rural families living in poverty. It consists of programs to build Project Hope primary schools in poor rural areas, establish Project Hope scholarships in high schools and universities, carry out distance education initiatives and train rural teachers.

A number of major companies, including Unilever and Motorola, are partners in Project Hope. It is administered by the China Youth Development Agency, a not-for-profit organisation under the auspices of the China Communist Youth Association. Project Hope clearly reflects the aspirations of the Beijing Government. The major focus is the struggling Western Provinces. This is a high priority activity with the Chinese political elite, closely aligned with their social and economic priorities.

To 2003, the project had received more than US\$265 million of domestic and overseas donations. These funds have been used in the renovation and building of almost 10 000 primary schools that have accommodated more than 3 million students.

Motorola alone had provided financial support for around 10 000 children, constructed 40 primary schools in 25 provinces (which are called 'Motorola Hope Schools'), set up 25 multimedia language laboratories in schools, established six multimedia class rooms designed to synchronise teaching with model schools in cities like Shanghai and Beijing, established libraries in 30 schools and helped train more than 500 'Motorola Hope Teachers'.

Source: China through a lens 2003, 'Project Hope Finances 2.5 Million Poor Rural Students', www.china.org.cn/english/2003/Dec/82265.htm, Accessed 15 December 2006; Motorola 2003, 'Motorola and China's Project Hope', www.motorola.com/content.jsp?globalObjectId=131-296, Accessed 15 December 2006.

Another example is the application of IBM's Reinventing Education program throughout developing countries, which works closely with educational institutions. This program is the centrepiece of IBM's community involvement activity, on which it has spent around US\$100 million over the last decade.

4.5 Conclusion

The ideas and initiatives covered in this chapter demonstrate that the role for business in development aid can be multifaceted, deeply embedded and long-lasting. It is these types of programs that could feature much more prominently in Australia as our businesses discover the possibilities and advantages of such engagements. The means of promoting such an engagement across Australian businesses is considered in Chapter 5.

Chapter 5

An action plan for greater business involvement

This chapter presents an action plan to stimulate Australian business to make a greater contribution to global poverty relief.

5.1 Putting development issues on the corporate map

From this report it can be seen that business is acting to support poverty relief in a variety of ways, and for a variety of reasons. In addition to the altruism of individuals and the potential for direct economic benefits, there are reputational benefits from being associated with development efforts, including opportunities in the areas of cause-related marketing and media attention.

While progress is being made to promote development, it is too slow. The Millennium Development Goals will not be achieved on a business-as-usual basis. Both the Australian Government and the business community need to do more. Business has the potential to have a greater impact than governments, and corporate involvement may act as a catalyst for greater government action.

There is no shortage of opportunities available to companies wishing to contribute to poverty relief. Through nothing other than by thinking constructively about, or in some cases reconfiguring, their core business activities, companies can supply affordable products and services to the poor, provide best practice working conditions for locals, and invest in the skills, infrastructure and technologies that will underpin future growth. The ‘business of doing business’ in developing markets will best and most sustainably overcome poverty in poor communities — provided that companies adhere to enlightened practice in their supply chains.

There is an opportunity to showcase the advantages to business of a greater focus on poverty relief and this should be explored. The outcomes of this report should not only draw attention to the need for business action, but also highlight and provide a rationale for best practice.

Action 1

The Business for Poverty Relief Alliance should lead the Australian business community in embracing the opportunity to help relieve poverty and promote development through business activities in developing countries.

The Alliance should work with relevant government agencies and not-for-profit organisations to host a national conference on the contribution of Australian business to poverty relief and progress towards the Millennium Development Goals. The conference should call for papers on business models that can be adopted, opportunities for new partnerships and examples of good practice.

To ensure a high profile, the Alliance should encourage active engagement of Ministers from relevant portfolios, the CEOs of Alliance companies, the Business Council of Australia, the Australian Chamber of Commerce and Industry, and a major media partner.

Supporting action

The Alliance should recommend a special award within the Prime Minister's Community Business Partnership (PMCBP) for 'contributions to reducing global poverty'.

5.2 Deepened sensitivity to supply chain issues

Companies that operate and trade in developing markets can have a sustained impact on the living standards of local communities. Business activity has a positive impact by generating income and investment, creating jobs, developing skills and promoting development of technology and infrastructure. However some companies, for reasons of short-term profitability or simply through ignorance or negligence, have conducted their activities in a way detrimental to long-term development. High profile cases involving large multinational companies such as Nike and Wal-mart have brought attention to bear on the importance of supply chain issues to development outcomes.

Some sectors have become highly attuned to supply chain issues, and there are many examples of constructive relations through the supply chain that have significantly aided development. For instance micro enterprise suppliers may provide economic benefit for both the company and local communities as well as direct social benefits to communities. Most multinational companies now have strict codes of conduct that are mandated and monitored in developed countries. Some multinationals co-operate with local regulatory agencies to ensure higher standards (such as food security standards) are being met.

More than 3000 international companies, including 17 Australian-based companies, are signatories to the UN Global Compact, the world's largest global voluntary corporate responsibility initiative. Members of the Global Compact work to advance ten universal principles in the areas of human rights, labour practices, the environment and anti-corruption — all principles linked to poverty relief.³⁶

Companies should take the opportunity to report the positive impacts of their activities on development while also standing accountable for activities that may have some harmful effects. Transparent reporting would encourage all companies that source products from developing countries to commit to a responsible approach to these supply chain issues.

A significant and increasing number of Australian companies are reporting their CSR and sustainability performance against the Global Reporting Initiative (GRI) framework. The economic, environmental and social indicators that form the framework relate closely to MDG metrics. About 55 Australian-based companies have registered on the GRI website, and more are using the framework as a basis for reporting without having registered.

Action 2

All companies doing business in and with developing countries should commit to responsible and enlightened practice in their supply chains to ensure that their activities produce sustained improvements in living conditions and avoid harm to local communities.

³⁶ In addition to the 17 Australian-based companies, several multinational companies that operate in Australia are signatories.

Action 3

Businesses should report on their social, environmental and economic impacts relevant to poverty relief and the achievement of the Millennium Development Goals. Reporting should utilise existing frameworks, such as the Global Reporting Initiative, which is already being used by a significant number of Australian companies. The Prime Minister's Community Business Partnership could play a role in encouraging and assisting businesses to undertake better reporting.

Supporting action

The Alliance should encourage more Australian companies to become signatories to the UN Global Compact.

5.3 Making a firmer commitment to poverty relief

In addition to initiatives to raise the profile of global development issues among Australian business, there is a need for both the Australian Government and the business community to make a firmer financial commitment to poverty relief and the achievement of the Millennium Development Goals. Action should be taken now, to help countries in our region move closer to meeting their Millennium targets by 2015.

While the Government's 2005 decision to raise official development assistance levels to around 0.34 per cent of Gross National Income (GNI) by 2010 is a step in the right direction, Australia remains well below the OECD average of 0.47 per cent, and out of sight of the UN target of 0.7 per cent of GNI. Further increases to Australia's aid budget should be combined with continuing efforts to safeguard its effectiveness.

The business community also needs to do more. It is common practice for many companies to engage in social investment in the location of their operations, and for multinational companies to give local mandates for social investment in the locations of their business units. Most companies commit a disproportionately large share of resources close to headquarters, compared with operational locations.

Companies have both a responsibility and an interest in making investments in poverty relief in the developing countries in which they are active. Companies with operations in remote Australia should target their contributions towards Indigenous communities.

This is not to say that aid, rather than trade, is the solution to poverty relief. The argument that one of these should be chosen over the other as the best response to development issues is intellectually barren. More of both is required to meet the challenges facing the world's disadvantaged peoples. This report puts forward a number of actions to promote trade between businesses in Australia and developing countries. But here the report also calls for an increase in aid.

As a signal of its commitment to contributing to poverty relief, the business community should develop its own benchmark of company giving.

Action 4

Business should urge the Australian Government to continue to increase its expenditure on official development assistance, from a projected 0.34 per cent of GNI in 2010 to at least 0.54 per cent by 2015 — the level identified by the UN Millennium Project as the minimum required from industrialised countries to achieve the Millennium Development Goals. In addition, the Government should set out a plan for achieving the agreed UN target of 0.7 per cent of GNI.

Action 5

Australian companies should commit to contributing an appropriate proportion of their social investment to poverty relief initiatives, commensurate with the exposure of their operations to developing countries and Indigenous communities.

5.4 Promoting a stable business environment

Direct investment in developing countries by global business is a major driver of social and economic advancement, providing neither domestic officials nor the investing company engage in corrupt practices. A stable, prosperous and secure region is important for business investment.

Conversely, an inefficient bureaucracy, weak protection of intellectual property or basic law and order issues, poor governance and political risk can be major disincentives to investment. Initiatives by investing companies to support the environment for direct foreign investment could make an important contribution to overcoming these challenges.

Australia's developing neighbours in the Asia Pacific region are logical destination markets for Australian merchandise and service exports and foreign direct investment. Unfortunately, many of these countries are not easy places to do business. In World Bank 'Ease of doing business' rankings, some countries rank highly (e.g. Thailand, Fiji, Samoa); however many of our nearest neighbours rank poorly (e.g. Indonesia, Cambodia, East Timor) (see Table 5.1).

Table 5.1

AUSTRALIA'S NEIGHBOURS: EASE OF DOING BUSINESS, 2006

Country	Ease of doing business rank (out of 175)
Thailand	18
Fiji	31
Samoa	41
Tonga	51
Papua New Guinea	57
Vanuatu	58
Kiribati	60
Palau	62
Solomon Islands	69
Marshall Islands	87
Vietnam	104
Micronesia	106
Philippines	126
Indonesia	135
Cambodia	143
East Timor	174
Median rank of peer group countries (a)	116

(a): Countries in the OECD DAC Least Developed Countries, Other Low Income Countries and Lower Middle Income Countries lists.

Source: World Bank Doing Business Economy Rankings 2006, www.doingbusiness.org/EconomyRankings/

Similarly, many countries in Australia's region are perceived as highly corrupt. On Transparency International's (TI) 'Corruption Perceptions Index', many of Australia's developing neighbours were scored as having a serious corruption problem. Our nearest large neighbours, such as Indonesia and PNG, rated particularly poorly.³⁷

Helping developing countries create the conditions that can nurture and sustain economic development is a clear priority for developed country governments and businesses. In recent years the Australian aid program has concentrated on improving the environment for private sector development. The White Paper on Australia's overseas aid program sets out four strategies for the program (summarised in Table 5.2), each of which is consistent with creating a better business environment in the region.

³⁷ Transparency International 2006, Corruption Perceptions Index.

Table 5.2

STRATEGIES FOR AUSTRALIA'S OVERSEAS AID PROGRAM

Strategy	Approaches and initiatives
Accelerating economic growth	Improving the policy environment for growth Promoting trade Supporting drivers of growth (such as infrastructure and a skilled workforce) Addressing environmental challenges such as climate change
Fostering functioning and effective states	Strengthening governance Providing incentives for good performance Selectively providing technical assistance Improving emergency response capacities Strengthening law and justice
Investing in people	Strengthening national health systems Tackling major diseases, including HIV and AIDS, malaria and pandemics Strengthening national education systems Higher education scholarships and linkages
Promoting regional stability and cooperation	Regional responses to transboundary threats Promoting regional integration and cooperation Promoting regional governance solutions in the Pacific

Source: AusAID 2006, *Australian Aid: Promoting Growth and Stability*, A White Paper on the Australian Government's Overseas Aid Program, Canberra.

Despite the importance of regional stability, sound governance and economic growth to business investment, the Australian Government aid agency AusAID has little direct involvement with the corporate sector — although recently it strengthened its engagement with business on HIV and AIDS prevention activities in the region. In research to prepare for the White Paper, it was recommended that:³⁸

As a matter of priority, AusAID should identify and engage with companies with investment interests in the [Asia Pacific] region with a view to creating partnerships and alliances that strengthen development outcomes.

Action 6

Business should urge the Australian Government to make concrete the intent of the 2006 White Paper on Australia's overseas aid program to engage more closely with companies with investment interests in the Asia Pacific region. Together, the Australian Government, development agencies, business organisations and companies should commit to working together more formally and regularly to:

- *identify priorities for the targeting of official development assistance, to help meet the Millennium Development Goals; and*
- *work in partnership to strengthen development outcomes.*

³⁸ Australian Government 2005, Core Group Recommendations Report for a White Paper on Australia's aid program, Companion volume, December.

Supporting action

The Alliance should engage in a dialogue with the Australian Government on how business can support the Government's initiatives (through various international forums and bilaterally) to promote institution building in developing countries.

The Alliance should encourage Australian companies and associations to become more engaged in international efforts (such as Transparency International) to facilitate clear and efficient investment markets in developing countries.

5.5 Multilateral engagement

From the outset, Australia has provided leadership within APEC. In late 2007 Australia will host the APEC Heads of Government meeting, other Ministerial meetings and the APEC Business Leaders Forum. Australian business members of the APEC Business Advisory Council (ABAC) and members of an Australian business advisory group, together with Ministers and officials will be refining the agenda and establishing priorities for the meeting, Australian business representatives on ABAC will continue to work in this forum to influence the agenda of APEC in future years.

While APEC has not focused directly on poverty relief, per se, or the Millennium Development Goals as a separate item, many of its activities are directly related. These include a range of initiatives under its 'Human Security' agenda including sustainable social safety nets, action in relation to HIV and Aids and other potential pandemics, healthcare more generally and water safety. Relevant elements in other activity areas include implications of greenhouse gas emissions, transparency and action against corruption and programs aimed at reducing social and economic inequity in the region to complement the trade agenda such as micro-enterprise and the digital divide.

Action 7

Business and government leaders working towards the APEC Heads of Government meeting and its aftermath should commit to lifting the emphasis at APEC on human development and bringing together more cohesively those various initiatives that touch on poverty and its determinants. A stocktake of progress towards the Millennium Development Goals and regular reporting of achievement against those goals in the APEC region would support this UN Agenda and further the achievement of those objectives. The Alliance should consider raising these issues with the Australian business members of the APEC Business Advisory Council ahead of the forthcoming Sydney meetings.

Supporting action

The Australian economy has benefited substantially from trade reform and many companies have a strong commercial interest in access to the markets of the developing countries. However, with the exception of some sectors, the Australian business community has been relatively disengaged on international trade and development issues, while being generally supportive of the government's activities and negotiating position. Business leaders and organisations should make international development through trade and investment a more central plank in their interests and priorities, while lifting business voices more aggressively against developed country protectionism and other inhibitors of development.

5.6 Tax incentives

Tax incentives are a commonly used mechanism to strengthen incentives for private philanthropy. Such incentives are typically implemented as deductions or credits against income tax, capital gains tax and estate tax.³⁹

The case for tax incentives

Tax incentives encourage philanthropy via the ‘price effect’. In the case of a tax deduction, the effect is to increase the value of the gift by the donor’s marginal tax rate. For example, a \$100 donation of after-tax income by a donor paying a company tax rate of 30 per cent would result in a \$100 reduction in taxable income and a \$30 reduction in tax payable. In effect, the \$100 donation costs the donor \$70 (\$100–\$30). This reduction in the ‘price’ of the donation increases the level of giving. This effect has been analysed extensively in domestic scenarios (primarily the US), but has also been shown to apply across countries with respect to non-official flows of development assistance.⁴⁰

Australia’s current tax regime

In Australia, the primary mechanism to encourage gifts to eligible recipients is an income tax deduction, of 100 per cent, with no ceiling, claimable by the donor.

Tax-compliant gifts must be made to organisations with Deductible Gift Recipient (DGR) status that, in the case of overseas aid organisations, requires an assessment and declaration by AusAID.⁴¹

The Prime Minister’s Community Business Partnership (PMCBP) has assisted in developing a suite of measures to expand the options for tax-effective giving by individuals, families and businesses. The following measures are relevant to the overseas philanthropy of business:

- *The Workplace Giving Australia initiative* — which allows employers to offer employees a simple and convenient way to make regular donations, through their pay. Employees may now receive the tax benefits immediately, and not have to wait until the end of the financial year to claim. Employers benefit from improved reputation and profile, increased employee morale and community engagements.
- *Private charitable funds* — businesses (as well as individuals and families) may apply to establish their own private charitable trust to which tax deductible donations may be made. These trusts provide for substantial sums to be under investment for future distributions to gift deductible organisations and are not required to seek or receive donations from the public.
- *Deductions for cash* — tax deductions for cash donations may be spread over a period of up to five income years.

Relative to other OECD countries, Australia’s current tax system rates highly in terms of the additional philanthropic activity that *should* be generated.⁴²

³⁹ D. Roodman and S. Standley 2006, *Tax policies to Promote Charitable Giving in DAC Countries*, Working Paper Number 82, January, Center for Global Development.

⁴⁰ Ibid.

⁴¹ Australian Taxation Office 2006, *Overseas Aid Funds and Tax Deductible Gifts*, www.ato.gov.au/nonprofit/content.asp?doc=/content/30677.htm&page=2&H2.

Targeted tax incentives vs. reductions in the general tax rate

Evidence exists to suggest that both targeted donor incentives and overall reductions in the tax rate increase private giving. In the case of targeted incentives, this operates through the price effect, reducing the cost of giving. In the case of reductions in the general tax rate, the mechanism is the income effect, as individuals and organisations have a larger disposable income out of which to donate.

This has led some to suggest that reductions in the overall tax rate could be used to stimulate private philanthropy. While this may be true, it would be highly unlikely to lead to an overall greater level of resources directed to overseas aid. This is because there could be an offsetting effect, whereby reduced tax revenues to government result in reduced ODA expenditure.

The Australian Government has allocated around 1.3 per cent of budget expenditure to ODA in 2006-07. Therefore, a \$100 fall in tax revenue might be expected to result in a \$1.30 fall in ODA, if competing programs all share the fall in tax revenue. (Of course, in practice, this will not be the case, and the degree to which a general fall in revenue affects ODA will depend on the priorities of the Government.)

On the other hand Australian businesses, on average, allocate substantially less than 1.3 per cent of income to philanthropic purposes — probably less than 0.5 per cent (although some give considerably more). Furthermore, this income is spread among many types of recipients, including religious organisations, political parties, etc. Therefore, the corporate philanthropy generated by a general tax cut will be unlikely to offset the reduction in ODA that could follow from lower government revenue.

For targeted tax incentives, the picture is more positive. The tax incentive is available only to the extent that a taxpayer donates to charitable organisations. While businesses donate to many types of charitable organisation, it is likely that overseas aid organisations comprise more than 1.3 per cent of the total. Therefore, a tax deduction of \$100, donated to the charitable sector, will probably offset any corresponding fall in official aid.

Proposals for more generous tax incentives

Other options have been proposed to specifically link tax incentives to global poverty relief and the Millennium Development Goals. As part of a more enthusiastic commitment to the Goals, the Australian Government could, for example, offer additional tax incentives for giving related to specific outcomes.

⁴² D. Roodman and S. Standley 2006, op. cit., table 9, p. 22.

One possibility would be to offer additional tax deductibility (e.g. 150 per cent) for donations to charities that work demonstrably to advance the achievement of the Goals. This approach is used to create incentives for other desirable behaviour, such as research and development. It is also comparable to policies in countries that adopt a high tax *credit*, in excess of typical marginal tax rates (e.g. France, with a 60 per cent credit).⁴³ The Australian Government could potentially include the value of taxation forgone as a result of this additional incentive as part of its official development assistance budget, helping it move towards the UN target of 0.7 per cent of Gross National Income.

Another recent proposal has been to encourage companies to become directly involved in ‘building the capacity’ of the private sectors of developing countries by allowing them to deduct the costs they incur from their taxable income. This would extend the existing deductibility of relevant expenses to include all costs incurred, including the salary costs of ‘those directly involved in the planning and delivery phases’.⁴⁴

While suggestions such as these are worthy of further consideration, more detailed analysis of the expected costs and benefits would be required before they could be recommended. In particular, it is not clear that increasing the taxation incentive provided to relevant donations would have a significant effect on behaviour.

Australia’s current tax deduction regime — which unlike many other countries, permits full (100 per cent) deductibility of charitable donations and has no ceiling — is among the most generous in the world and, on available data, conforms with existing international best practice. This suggests that initiatives to encourage companies to change their *practices and culture* — such as those set out in this report — may be more effective than asking government to provide an even greater economic incentive.

This report stops short of any firm recommendations for changes to taxation arrangements. The direct and indirect impacts of potential tax reforms on Australia’s total overseas assistance effort — as well as the effects on government revenue — need to be better understood before such proposal could be supported.

5.7 Meeting employee aspirations

One of the strongest emerging drivers of corporate social investment in Australia is the aspiration of employees to work in socially engaged, responsible firms. This is a dominant employer of choice issue in a market which generates competition for talent. This is finding expression in demands for corporate-sponsored ‘volunteering’ and for matched giving programs, with staff active in determining the direction of this giving.

⁴³ D. Roodman and S. Standley 2006, op. cit., table 7, p. 19.

⁴⁴ R. Rich 2007, ‘Hercules or Sisyphus: Building capacity in the Asia Pacific’, ASPI Strategic Insights, January.

The Workplace Giving program should be a central mechanism for private philanthropy. However after two years, only around 100 000 people were taking part in Workplace Giving schemes — around 1 per cent of employees.⁴⁵ This could be because only 30 per cent of businesses offered employees this option. Just 4 per cent go further and match employee contributions.⁴⁶ Both business and government have a role in promoting growth in this scheme.

The business case here is to satisfy and therefore retain the best staff rather than maintaining a licence to operate. Initiatives such as matched giving, volunteering and corporate contributions to capacity building provide an opportunity for companies to support causes at greater distance from their operations or direct business needs.

Supporting actions

The Alliance should develop a proposal for companies to provide matched giving (for example dollar for dollar) as part of the Workplace Giving program. This should be accompanied by the distribution of materials to employees in the corporate sector and government agencies, drawing attention to poverty relief and progress toward the Millennium Development Goals, and seeking their commitment to Workplace Giving.

In addition, the Alliance should work with its NGO partners to consider initiatives to lift the profile of volunteering opportunities for employees in the corporate sector and government agencies. This should include looking at the linkages between business and organisations such as Australian Volunteers International, as well as financial support from employers for staff volunteers.

⁴⁵ Department of Family and Community Services 2005, op. cit., p. 38.

⁴⁶ Additional information is now available to support Workplace Giving (including an ATO guide and a CD-ROM produced by the PM's Community Business Partnership under the Workplace Giving Australia initiative), but no recent data exist by which the effectiveness of these enhancements may be judged.

Chapter 6

The challenge to business

The language of business is poorly suited to describing the challenge — and the effects — of absolute poverty. For the 2.6 billion people that live on less than US\$2 per day, poverty relief is not a campaign or a slogan, but the opportunity to live longer, healthier, happier lives. For these people, the Millennium Development Goals are more than mere goals, targets and indicators; and failure to achieve them is not simply ‘underperformance’, or a downward trend on a chart.

Perhaps this is why business has been slow to respond to the challenge.

With this report, the Business for Poverty Relief Alliance aims to start a process that will see Australian business raise its efforts. The preceding chapters have shown that business, when it tries, can have a serious and positive impact on the world’s poor. Moreover, the necessary steps need not be difficult, or expensive. Indeed, they often make sound business sense.

Leading companies in Australia and across the world have shown the way, and are already doing much to make a difference — by creating economic opportunities for local communities through doing business in developing countries, by engaging with micro enterprises as part of economic supply chains, employing ethical business practices, by donating their money, time and products, and by advocating to governments for responsible reforms. For these companies, the case for business involvement in poverty relief has already been made.

The Business for Poverty Relief Alliance believes it is time for more companies to make a bigger contribution. Business has an opportunity through its core business activities to drive development outcomes. The business case for business action on poverty relief will be different for each company, but the Alliance believes that for most companies, the case can be made. For some it will be developing new markets, other businesses will be prompted by employer of choice issues, and still others will be concerned about maintaining a licence to operate and the broader stability of the business environment.

This report has outlined a series of actions for business and government to achieve that potential. The Alliance should build the profile of business efforts to relieve poverty. Companies should commit to responsible practice within business supply chains, and report on relevant social, environmental and economic impacts. The Australian Government should set out a plan for moving towards the UN target for official development assistance; and companies should ensure that an appropriate share of their own social investments are targeted towards poverty relief. The Government and business should also work together more formally, and more regularly, on development issues. Business and government leaders should encourage APEC to place more focus on social development issues in its agenda.

The Millennium Development Goals were agreed in 2000 and set targets to be achieved by 2015. We are halfway there, and it is clear that our current efforts will not be enough to achieve the goals. The challenge has been set: it is time for Australian business to respond.

**The Allen Consulting Group 2007, *Business for poverty relief:*
A business case for business action,
Report commissioned by the Business for Poverty Relief Alliance, Melbourne**

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