DEDICATED TO MAKING A DIFFERENCE

Doing Business with the World

The new role of corporate leadership in global development

World Business Council for
Sustainable Development

Development Focus Area

Through its Development Focus Area, the World Business Council for Sustainable Development is seeking to:

- Raise awareness of the business contribution to development, helping business and non-business stakeholders understand what is possible by providing case studies, guides and tools that advance our understanding of development challenges and opportunities;
- Advocate for change by working collaboratively with multiple stakeholders to create a more enabling business environment and seek synergies between official development assistance (ODA) and foreign direct investment (FDI);
- Act by working with our members, Regional Network partners and other stakeholders to broker new business ventures that are both good business and good for development. A key element in this work is a partnership agreement with SNV Netherlands Development Organization to broker inclusive business in the Andean and Central American regions of Latin America.

Development Focus Area
Co-chairs: Jacob Maroga (Eskom) and Julio Moura (GrupoNueva)
Focus Area Core Team: ABN Amro, AES Corporation, Anglo American, BP, ERM, Eskom, GE, GrupoNueva, Statoil, Toyota, Unilever, Vodafone, The Warehouse Group

Website: www.wbcsd.org/web/development.htm

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Disclaimer
This publication is released in the name of the WBCSD. Like other WBCSD publications, it is the result of a collaborative effort by members of the secretariat and senior executives from member companies. A wide range of members reviewed drafts, thereby ensuring that the document broadly represents the majority view of the WBCSD membership. It does not mean, however, that every member company agrees with every word.

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Statement of intent for doing business with the world

The executives who make up the Focus Area Core Team of the World Business Council for Sustainable Development's (WBCSD) Development Focus Area agreed on the following statement of intent:

As business leaders, we believe that business cannot succeed in societies that fail. We believe that globalization can be made to be inclusive and that the leading global companies of the future will be those that do business in ways that address, openly and transparently, the world's major challenges, including poverty and inequity, climate change, pollution, resource depletion, globalization and demographic shifts.

As members of the steering committee of the Development Focus Area of the WBCSD we are committed to playing our part in building capacity and empowering people so they have the opportunity to move out of poverty and into the formal economy. We will do this by doing what we do best: business.

The poor are the majority of the world's population, and almost half of that population – just fewer than 3 billion people – must try to survive on less than US$ 2 dollars per day. We intend to help create new businesses, new markets, new suppliers, new employees and new customers among these people, as well as for the 3 billion who will be added to the global population over the next 40 years. If these efforts are to be substantial and sustainable, they must also be profitable. Our major contribution to society will therefore come through our core business activities.

In striving to align profitable and self-sustaining business ventures with the needs of society, we have set the following objectives:

- To develop a **deeper understanding** of how global issues such as poverty, the environment, demographic change and globalization affect our individual companies and sectors;
- To use our understanding of these issues to search for **more inclusive business solutions** that help to address them at both a local and global scale;

Tom de Swaan
Senior Advisor to Managing Board
ABN Amro

Paul Hanrahan
President and CEO
AES Corp

Sir Mark Moody-Stuart
Chairman
Anglo American

John Manzoni
CEO Refining & Marketing
BP

Dr Robin Bidwell CBE,
Executive Chairman
ERM

Thulani Gcabashe
Chief Executive
Eskom

- To **align our core business strategies** with the solutions that we have identified;
- To **incorporate long-term measures** into our definition of success, targeting profitability that is sustainable, and supported by a responsible record in managing social, environmental and employment matters.

Business cannot realize these objectives on its own - it also needs a favorable investment climate. To achieve this we will engage broadly with governments, international bodies, customers, employees, educational institutions, civil society organizations and the general public. Our priorities for collaborative action are:

- A **fair and competitive global market** that is non-discriminatory;
- **Stable and effective legal and regulatory frameworks** to support sustainable development;
- **Support for small and medium-size enterprises**, including better frameworks for the provision of financial services;
- **Investments** in core infrastructure.

Business framework conditions vary hugely from country to country. We commit to work with policy leaders and political leaders at a national level to improve the business environment, and to find creative ways to unlock investment. This will spur greater investments from companies such as ours, and also from the whole spectrum of businesses, from micro-entrepreneur to multinational.

This statement is an invitation to government and civil society leaders to work with us to create an environment of mutual advantage where business success goes hand in hand with successful societies the world over.

John Rice
Vice Chairman
GE

Julio Moura
Chairman & CEO
GrupoNueva

Nina Udnes Tronstad
Executive Vice President
Statoil

Dr Shoichiro Toyoda,
Hon. Chairman and Member
of the Board
Toyota

Antony Burgmans
Chairman
Unilever

Alan Harper
Executive Director and
Group Strategy Director
Vodafone

Introduction

If business is to realize even some of the goals of this statement of intent, we will need a deep knowledge of this process called development and of how major corporations can encourage it through their business operations while at the same time making it more sustainable. This document does not offer that deep knowledge. The World Bank and the United Nations (UN), among others, regularly publish digests of development facts, trends, data and analyses. The purpose of our report is to encourage WBCSD Members and other business leaders to think differently about development, the developing world and the obstacles and opportunities inherent in both.

A whole new world

As nations were planning in 1990 for the 1992 Rio "Earth Summit" on environment and development, the neat tripartite world that existed for much of the latter half of the 20th century was falling apart. Before the fall of the Soviet Union and its satellites, there existed the West (Capitalist), the East (Communist) and the Third World (Poor).

After the fall, this tripartite world dissolved, as some of the new "emerging market economies" (former Communists) were poorer than some of the so-called "Third World" nations. Virtually all claimed to be capitalist, or market economies. The simple division between "rich world" and "poor world", or between the more tactful terms North and South, broke up into a much more complex spectrum stretching from the Least Developed to the Wealthy.

Then very quickly the world turned upside down when the formerly poor became wealthy. As *The Economist* breathlessly pointed out in a September 2006 report entitled "The new titans", for the first time the economies of the globe's "emerging and developing" countries in 2005 accounted for more than half of the world's combined gross domestic product (GDP).

This shift in economic balance "is likely to be the biggest stimulus in history," *The Economist* argued. "As these newcomers become more integrated into the global economy and their incomes catch up with the rich countries, they will provide the biggest boost to the world economy since the Industrial Revolution, which involved only one-third of the world's population. By contrast, this new revolution covers most of the globe, so the economic gains – as well as the adjustment pains – will be far bigger."

This is indeed a revolution. Various parts of the world have taken their turn being on the bottom rung of the development ladder. China spent a lot of the 20th century in this category, in the view of the West, beset by famines, floods and the world's largest and fastest growing population. Today the nation has controlled its population growth and has one of the world's largest and fastest growing economies. It is seeking the resources of Africa much as the Europeans did in the 19th century. Will China's – and the rest of the new titans' – needs for natural resources spur the economic development of the developing world or will it make economic growth, and ecosystem services, completely unsustainable? Today, it is impossible to tell.

Population shifts

Another concept that has been transformed of late, besides development, is population. In 1968, Paul Erlich published *The Population Bomb*, which said that "the battle to feed all of humanity is over. In the 1970s and 1980s hundreds of millions of people will starve to death in spite of any crash programs embarked upon now. At this late date nothing can prevent a substantial increase in the world death rate...". The book was a repetition of the early 19th century population disaster arguments of Thomas Malthus, except much more specific as to dates. Like Malthus, Erlich reckoned without considering possible improvements in technology, but he had a huge influence on the popular view of the problems of the poor world. It all boiled down to population.

Today, population is still a major issue in the economic considerations of all nations. One big change is that population stagnation is the issue in many traditionally wealthy nations. By 2050, it is expected that the median age in countries such as Italy, Japan and Singapore will exceed 50 years, the elderly being supported by ever-diminishing numbers of the young. Those countries that have rapid influxes of immigrants, such as the United States, may be better off in the long run, a possibility not considered a few decades ago.

In many poor countries, populations are still growing so fast that they overwhelm even well-planned efforts at economic development. But for the planet, the end of the population growth tunnel seems to be in sight.

In 2000, world population reached 6.1 billion, and continues to grow at an annual rate of 1.2%, or 77 million people, per year. This means the world's population is likely to increase by at least 50% in the next 50 years or so. But it is expected to level off at around 9 billion. By 2050, some 85% of this larger population will reside in what are today called the developing countries (see Figures 1 and 2).

The persistence of poverty

Economic development lowers the percentage of the global population in extreme poverty (income of less than US$ 1 per day), but population growth keeps overall numbers high and the poverty gap continues to grow. Today, one billion people in the world live on less than US$ 1 per day, while almost half of the world's population survives on the equivalent of less than US$ 2 a day. Recently, even within the fastest growing countries such as China, India and Vietnam, the gap between rich and poor has widened, as shown by their increasing Gini coefficients.[1]

Poverty remains the main challenge facing the countries that will be the home of 85% of the world's population. And despite overall GDP growth, long-term trends show an ever-widening gap between rich and poor countries. Today, the richest 20% of the world's population control three-quarters of the world's wealth, while the poorest 20% control just 2%.

Extreme poverty kills, taking people before their time due to combinations of factors that reinforce one another: malnutrition, poor housing, lack of healthcare, dangerous manual labor, etc. Extreme poverty sees an estimated 30,500 children die daily as a consequence of starvation or diseases.

Persistent widespread poverty turns nation states into poverty traps. Poverty is not only about individuals not having enough money, but also:

- Lack of good jobs due to lack of good businesses;
- Lack of small business resulting in a small tax base to support effective government and hire civil servants to create framework conditions and provide basic services to allow a state to grow out of poverty;
- Lack of affordable education, which perpetuates poverty;
- Lack of economic success creating downward pressure on wages, forcing people to accept employment at or below subsistence levels, which perpetuates poverty;
- Limited labor supply, due to poor health and nutrition and lack of transport, which perpetuates poverty.

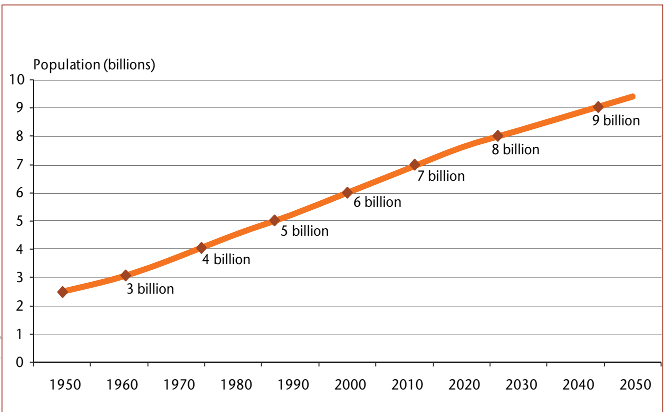


Figure 1: World population 1950–2050

Source: US Census Bureau. International Data Base. July 2007.

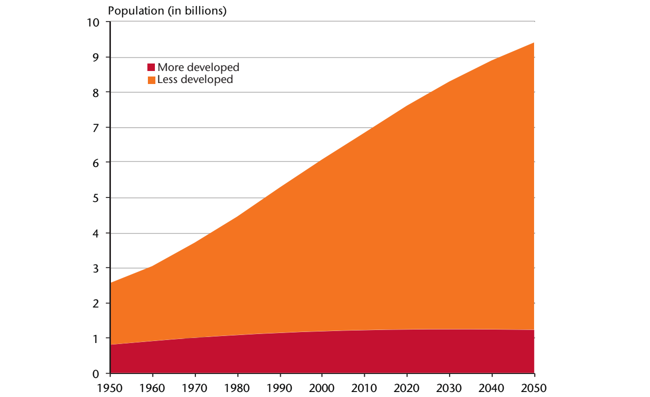


Figure 2: World population 1950–2050

Source: US Census Bureau. International Data Base. July 2007.

Development: New vision, new visionaries

For decades *development* has been the monopoly of selected institutions. Universities and think tanks have controlled the *study* of development, and these rarely incorporate the roles that business does and can play. Governments and related organizations such as the development banks have tried to control the *doing* of development, and the civil servants in these organizations rarely understand the roles and realities of business. Fortunately, both academia and governments are beginning to take a more business-centered view of development. A good example is the World Bank's regular *Doing Business* reports, which track how well nations and regions are doing in terms of creating the sorts of policy environments that let enterprise be a force for development.

Visionaries have emerged, appropriately from the developing world, who in their different ways offer models of bottom-up development based on private enterprise development.

Peruvian economist Hernando de Soto organized surveys of countries such as Egypt and the Philippines to show that "the poor" actually control huge percentages of these nations' total resources in the forms of their homes, shops, workshops and fields. He argues that the off-the-books wealth of the poor in Egypt, if capitalized, would equal more than 150% of all direct foreign investment in that country, including construction of the Aswan Dam and Suez Canal. But because the poor do not have deeds to properties that have been in their families for generations, they cannot use these properties for capital creation as entrepreneurs do in developed nations.

In his book *The Mystery of Capital*, de Soto explains how very complex and subtle legal structures and processes, taken for granted in the West, are largely absent in the developing world, making the workings of capitalism very difficult. He and other visionaries have identified some of the mechanisms they believe could lead to increased development.

- Enabling frameworks: "By making assets fungible, by attaching owners to assets, assets to addresses, and ownership to enforcement, and by making information on the history of assets and owners easily accessible, formal property systems converted the citizens of the West into a network of individually identifiable and accountable business agents."

- Understanding the local conditions and environment and devising relevant sustainable solutions: Indian economist Amartya Sen has argued that freeing people helps them develop their own livelihoods, including the economic aspects of those livelihoods. Therefore, using his logic, by playing a thoughtful, strategic role in development, companies are helping set people free.

- Innovating financial mechanisms and market penetrations, and investments that flow to sectors that enhance development priorities: The Grameen Bank, established by Bangladeshi economist Muhammad Yunus, is one such innovative mechanism. The bank was established to bring credit to poor people in poor villages. With a repayment rate exceeding 99%, the bank thus far has loaned more than US$ 6 billion, helped build 640,000 homes, sponsored more than 50,000 scholarships and student loans, and changed the lives of 80% of the country's poor families. Grameen has recently expanded into communications, nutrition and healthcare.

The ideas of these visionaries dovetail neatly with the vision behind the WBCSD's Development Focus Area: business done in new ways can help bring sustainable development to all.


Amartya Sen


Muhammad Yunus


Hernando de Soto

Doing business with the world

Multinational companies based in Europe, North America, Japan and other "developed" areas face a very real challenge. They cannot continue to do business only in traditional markets that are stagnating and shrinking, at least in relative terms. They recognize that business should flow to areas where populations are growing, and especially in areas where both populations and economies are growing, in order to enhance its sustainability.

This led the Council to organize around the issue of base-of-the-pyramid, or pro-poor, business – doing business with the poor in ways that are profitable, and thus potentially growable without limit, but also that help people create their own "sustainable livelihoods". Or put another way, to demonstrate that globalization can be more inclusive. It seemed to many members a good time to get involved in such business projects, because:

- Framework conditions in developing countries are improving (more on this below). Many developing nations are improving governance, legal structures and investment infrastructure.
- Lower communications and transportation costs allow more geographically dispersed production and sales.
- Public expectations of corporations are changing, as communities and civil society increasingly expect companies to address societal issues in the process of doing business.
- New, and better, partners are available. Not too long ago, many not-for-profits, NGOs, foundations, citizens' groups and multilateral organizations were not interested in working with business. Today, many of these groups want to help companies operate in poor countries and poor neighborhoods. They also understand how companies can help them realize their own goals, such as improved sanitation, water supply, healthcare, housing and business opportunities in the developing world.

The members of the Development Focus Area at the WBCSD are working to:

- Develop suppliers from low-income communities in the countries in which they operate, thereby building capacity, generating employment and bringing small businesses into the formal economy;
- Develop innovative and affordable products and services that improve the overall quality of life of the low-income segment;
- Provide and operate basic services such as water, sanitation, energy, housing, healthcare and communications services to improve access and social well-being;
- Bring others together to improve the investment climate, including dealing with corruption, and improve overall health and education levels in the developing world.

Business can provide the resources and technologies that go a long way towards eradicating poverty. This has been the traditional role of business in the developed world. Governments too have an important role: first, establishing framework conditions to allow businesses – small and large, local and multinational – to accomplish this task, and then establishing policies that use these new resources to help people create their own sustainable livelihoods.

The pages that follow offer a business perspective on some of the key challenges and opportunities inherent in doing business in ways that bring sustainable development to all. The selected issues are not exhaustive, but have been chosen to reflect both traditional areas for development actors and business respectively. A further, web-based data source covering additional topics is also available (www.wbcsd.org/web/doingbiz.htm). By touching both bases we hope to illustrate how business can engage in the generation of profits and the promotion of human progress.

Ecosystems

“We must improve our knowledge of land and biodiversity to understand better our reliance on natural habitats. Competition for use and conservation of land are increasingly becoming issues that need corporate attention.”

David Richards, Principal Environment Advisor, **Rio Tinto**

The global view

Ecosystems are a diverse network of plants, animals and environmental elements that interact and support one another. They include all of the world’s biomes – forests, wetlands, deserts, marine environments, mountains, and tundra. They provide services such as climate regulation, soil protection and formation, pest regulation, biodiversity, water purification, genetic resources, pollination, critical habitats for plant and animal species. Plants and forests act as carbon sinks and provide clean air; wetlands, rivers and lakes provide freshwater; and oceans regulate climate.

Economists have estimated that the Earth provides anywhere between US$ 16 to 54 trillion worth of “services” to humans per year.[3] Communities rely on ecosystems for jobs and incomes (see **Figure 3**). Businesses and large corporations depend on ecosystems both directly, as a source of raw materials (e.g., for wood, fibers, minerals, genetic resources), and indirectly to support their infrastructure or production processes (e.g., water for cooling or transport). Even those businesses that do not source ecosystem products directly have a vested interest in healthy, functioning ecosystems as their suppliers/providers in other parts of the supply chain invariably rely on some form of natural products and services.[2]

Sector	Number of employed
Forestry[A]	3 million
Wood industries[A]	7.5 million
Pulp and paper [A]	4.3 million
Fisheries [B]	30 million

Sources: A: ILO. Forestry, Wood, Pulp & Paper. B: ILO. Fishing.

Figure 3: Employment estimates for selected sectors

Societal needs

The 2005 Millennium Ecosystem Assessment (MA), the largest and most comprehensive multi-stakeholder survey ever undertaken, concluded that two-thirds of the assessed ecosystems and their services were being degraded or used unsustainably. It also found that human activity has altered ecosystems more in the last 50 years than at any other time in human history. Many of these ecosystems are situated in developing countries where demographic growth and increasing demand for primary raw materials are exacerbating pressure on already fragile environments. Figure 4 maps Human Development Index (HDI) values,[4] tropical hotspots and wilderness areas to show that many biologically rich areas are found in developing countries.

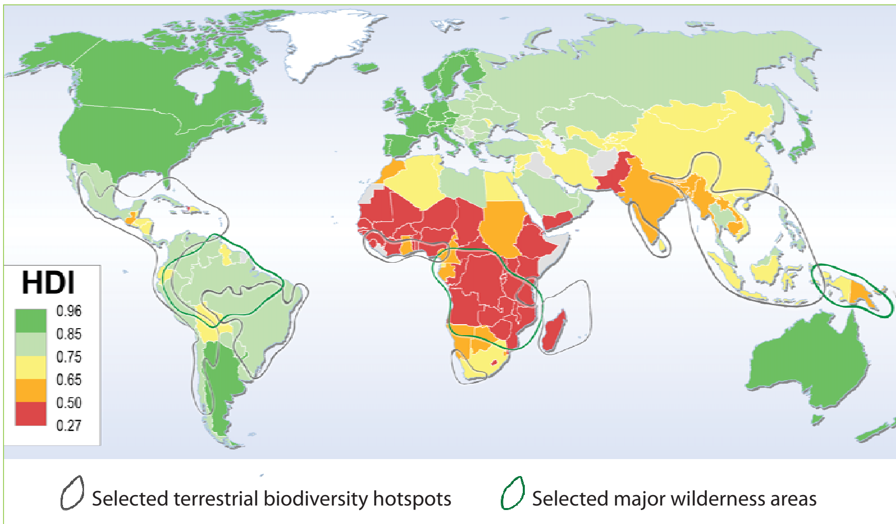


Figure 4: An overview of the development status of countries and areas with high ecological significance

Source: IUCN. 2004. "Poverty-Conservation Mapping Applications." IUCN World Conservation Congress. 17-25 November 2004. Cartographer/Designer: Hugo Ahlenius, UNEP/GRID-Arendal.

The single largest cause of ecosystem degradation is land use change for agriculture, which is driving conversion of grasslands and forests. In the 30 years after 1950, more land was converted to cropland than in the 150 years between 1700 and 1850.[5] Figure 5 shows where the conversion of natural ecosystems has occurred.

Land conversion is affecting climate by modifying rainfall patterns and leading to increased desertification in certain parts of the world. According to the World Resources Institute, the adverse impacts of climate change will be most strongly felt in developing countries. In this context, the poor are especially vulnerable because of their high dependence on natural resources and their limited capacity to adapt to climate change (see Figure 6).[6]

Deforestation means there is less forest area to act as carbon sinks and recycle carbon dioxide. Since 1750 there has been an increase of about 32% in the atmospheric concentration of carbon dioxide.[7] Rising energy demands are further affecting ecosystems. Massive deforestation for the cultivation of palm oil or sugar for ethanol as an alternative source of fuel to power industry and vehicles is becoming a serious cause of deforestation in some regions. Since 1900 more than half the world's wetlands have disappeared.[8] This has significantly changed soil nutrient balances and cycles, with soil nutrient depletion affecting more than 85% of agricultural lands in Africa.[9]

Overexploitation of global fish stocks and the destruction of mangroves and coral reefs are also affecting ecosystems. Since industrial fishing began, the total mass of commercially exploited marine species has been reduced by some 90% in much of the world. It is believed that 20% of the world's coral reefs have been lost and a further 20% degraded as a result of human activity and climate change.[10]

The destruction of ecosystems and the critical habitats they provide is driving biodiversity loss, leading to species extinction and loss of genetic diversity among species. Conversely, ecosystem change is also arising from the introduction of non-native species and an increase in alien invasive species.

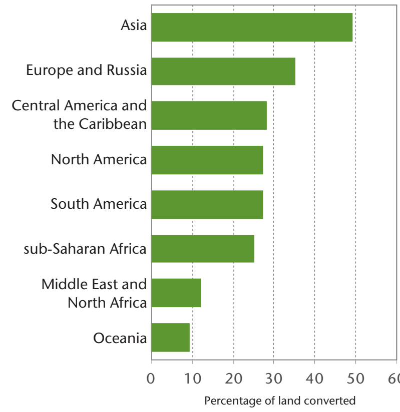


Figure 5: Conversion of natural ecosystems

Source: World Resources Institute/EarthTrends. 2005.

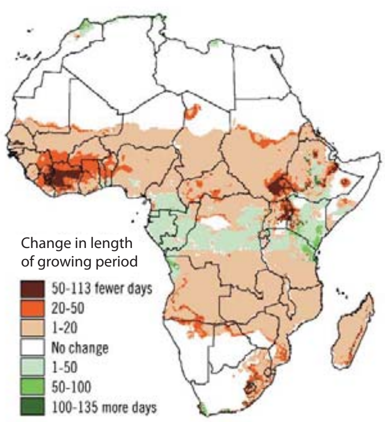


Figure 6: Climate change and food security: Changes in projected growing season, 2000-2050

Source: World Resources Institute. *The Wealth of the Poor: Managing ecosystems to fight poverty*. 2005.

Turning challenge into opportunity:

Unilever and the Marine Stewardship Council

In 1997, Unilever, the world's largest buyer of fish, and the World Wide Fund for Nature (WWF), joined forces in an effort to ensure the long-term sustainability of global fish stocks and protect the integrity of marine ecosystems. This initiative resulted in the foundation of the Marine Stewardship Council (MSC). The MSC developed an environmental standard for sustainable and well-managed fisheries along with a label and logo. Among the guidelines contained in the standard is a commitment to avoid over-fishing, to inflict no damage to the habitat upon which the fishery depends, to avoid damaging related ecological species, and to respect existing fisheries laws. Fisheries are evaluated by independent certifiers.

Fisheries and fishing-based activities that conform to the standard developed by the MSC are able to adorn their products with the label and distinguish themselves and their activities from those of other fisheries. By the end of 2006, 21 fisheries worldwide had been certified to the MSC standard and over 450 products carried the MSC label and logo. Retailers who have opted to sell MSC-certified products have reported a marked increase in sales of such products since the introduction of the eco-label. In 2005/2006 the global retail value of MSC-certified products was estimated to be in the region of US$ 235,661,285 – a 76% increase on the previous year.

Source: www.msc.org

Key challenges limiting progress

The degradation of ecosystems and the services they provide is already having serious detrimental impacts on human well-being and the economies of both nations and businesses. It is helping to entrench poverty and leaving already vulnerable populations exposed to food and water scarcity.

Many vulnerable ecosystems are in the developing world, where regulatory frameworks are weak or absent. At the same time, some ecosystems are part of the global commons where they are largely unregulated. A lack of trans-boundary cooperation hinders ecosystem protection. Even in cases where ecosystem resources are under public ownership – for instance 84% of forests are publicly owned – weak regulatory systems often fail to protect them.[11]

Some governments, notably in Europe and North America, have passed stringent laws and introduced taxation schemes aimed at environmental protection. However, such legislation is by no means universal, nor does it cover all ecosystem products and services. Certification schemes tend to be voluntary.

Poverty, demographic growth and demands for food and energy all collude to place greater pressure on ecosystems and their services. Communities seeking to ensure their day-to-day survival are unlikely to take a long-term view of ecosystems. Greater community-based action is needed to alleviate poverty-driven destruction of ecosystems.

The view that ecosystems and their services are part of the global commons has until now precluded many of them from being traded and becoming a source of revenue. As a result, many natural assets have not been included in global trade regimes, and their potential as sources of revenue has not been realized. Viewing global natural assets as commodities allows for the creation of previously unrealized revenue streams. For example, opportunities exist for realizing revenues from forests or wetlands or from ecosystem services by placing a value on them and making them subject to payment. However, such measures must always be undertaken while respecting the interest of populations that live off of those services.

How business can contribute

Different industry sectors have different uses for and impacts on ecosystems and the services they provide. The sustainable use of ecosystems presents many opportunities for them to develop new technologies and products to serve as substitutes for ecosystem products or increase the efficiency of service use. Business can further contribute by applying only sustainable land use and natural resource utilization practices that avoid, minimize, mitigate or offset impacts on ecosystems. This would help reduce dependence on vulnerable ecosystems and lower negative impacts.

There is a growing market for "non-conventional" ecosystem products and services such as carbon trading. The global trade in carbon credits topped US$ 30 billion in 2006 and is set to expand considerably. Thus the ecosystem challenge offers opportunities for opening up new markets similar to those for trading carbon dioxide and other greenhouse gases. It also presents opportunities for putting an economic value on and building businesses around other global commons such as water-quality trading, wetland banking, mitigation credit trading or even threatened species banking. Other contributions by business can include ecosystem restoration activities, brokerage or finance activities for environmental assets.

Business can also contribute through the introduction and promotion of certification schemes such as Marine Stewardship Council and Forest Stewardship Council labeling, which developed largely in response to concerns of consumers over dwindling fish stocks, deforestation and "unseen" additives to food. Similarly, the growing market for environmentally friendly, organic or fair trade produce is also a testimony to the potential size of the market for certified, sustainably or ethically produced goods and services. Rising consumer awareness has opened up a whole new market for the commercialization of sustainable goods and services.

Key messages

For business, investing in sustainable ecosystems can:

- Create new revenue streams by introducing innovative products and services such as, for example, substitutes for ecosystem products;
- Reduce dependence on increasingly scarce raw materials or fragile services through the introduction of substitutes or the use of alternative abundant or renewable resources;
- Mitigate rising costs caused by scarcity of raw materials;
- Create new markets for certified, fair trade, organically grown or environmentally friendly products;
- Develop new businesses such as water-quality trading, wetland banking, mitigation credit trading, threatened species banking or pollution prevention, capture, treatment and reuse;
- Strengthen its license to operate.

For governments, an effective policy framework for sustainable ecosystems can:

- Protect ecosystems and the associated populations and communities that depend on them for their livelihoods;
- Ensure long-term, sustainable use of ecosystems as a provider of goods and services;
- Mitigate negative environmental and climate change impacts;
- Raise awareness of the importance of sustainable ecosystem management within the population;
- Generate income through taxation of businesses whose revenue is based on sustainable ecosystem management, as well as through the collection of environmental taxes.

Education & training

> "If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability."
>
> Henry Ford, **Ford Motor Company**

The global view

Knowledge is a primary driver of economic development and human progress. It is key to poverty eradication, improved health, economic growth and sustainable development. Education and training includes primary and secondary schooling, as well as higher-level instruction, vocational and skills training, and capacity building.

There is a positive correlation between the literacy rate of a country and economic growth. Nations with highly literate populations tend to be the most economically developed, whereas countries with low numbers of literate people tend to lag behind in economic and human development (see **Figure 7**). Among the world's industrialized countries, Finland and Norway report 100% adult literacy rates, as compared to 17.6% in Niger or 26.6% in Burkina Faso, two of the world's least developed countries.[12]

In large parts of the developing world illiteracy rates remain high with an estimated 771 million people, or 18% of the global population, aged 15 years or more believed to be illiterate.[13] Illiteracy is particularly prevalent among women, the elderly, rural communities and members of the poorest households. While South Asia (Bangladesh, India, Pakistan) and China are home to more than half of the illiterate adult population, sub-Saharan African countries have the largest share of illiterate adults among their population, with illiteracy rates of 40% and more (see **Figure 8**).

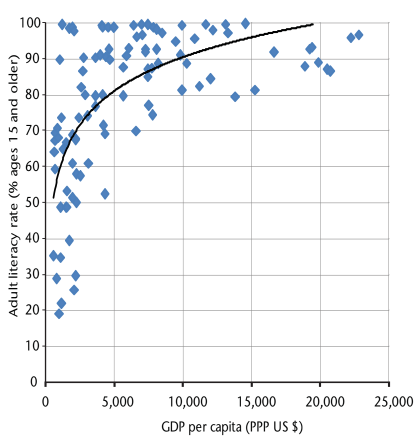


Figure 7: Plot of national adult literacy rates vs. GDP per capita

Source: UNDP, *Human Development Report 2006*.

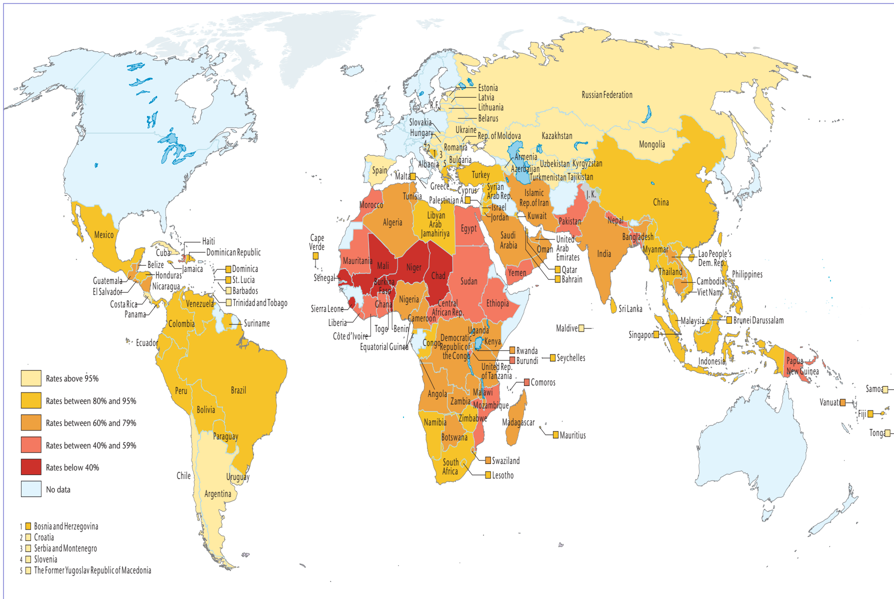


Figure 8: Adult literacy rates around the world (% of total population, 2000-2004)

Source: UNESCO, *EFA Global Monitoring Report 2006*.

Societal needs

Education is a key factor in empowering the poorest people to improve their socio-economic situation. Equally, education plays an important role in gender equality and strengthening the social and economic situation of girls and women. There is a proven correlation between maternal education and child survival rates; and educated mothers are more likely to educate their children.

Since the adoption of the Millennium Development Goals (MDG), East Asia and the Pacific have reached their target of ensuring that all children complete a full course of primary education, and Europe, Central Asia and Latin America and the Caribbean are on target. Despite progress in improving overall education, inequalities in levels of access to education persist throughout the globe. Some 18%, or one in five, of all children of primary school age are still not in school, mostly in sub-Saharan Africa and in South Asia (see Figure 9).

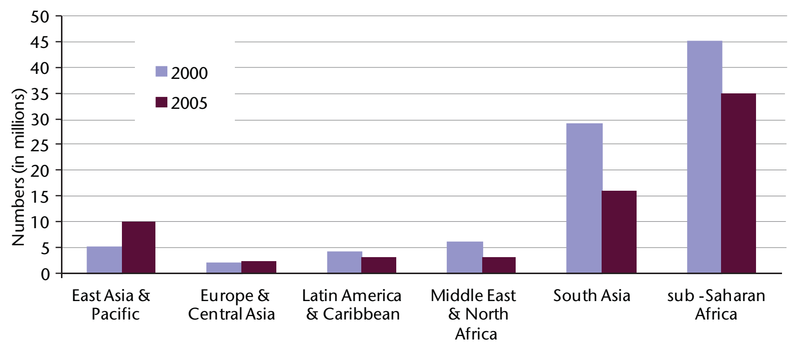


Figure 9: Number of children out of school

Source: World Bank. EdStats.

Gender and rural-urban discrepancies in access to education are marked. Across the developing world, it is estimated that 82% of children not in school are in rural areas. Some 30% of rural children of primary school age do not attend school compared to 18% in urban areas.[14] Even when children are enrolled in school, many fail to attend. In sub-Saharan Africa, for example, 19 countries have primary school completion rates of 50% or less.[15]

The figures for children enrolled in secondary and tertiary education, although increasing, are still very low, particularly in sub-Saharan Africa and South Asia (see Figures 10 and 11).

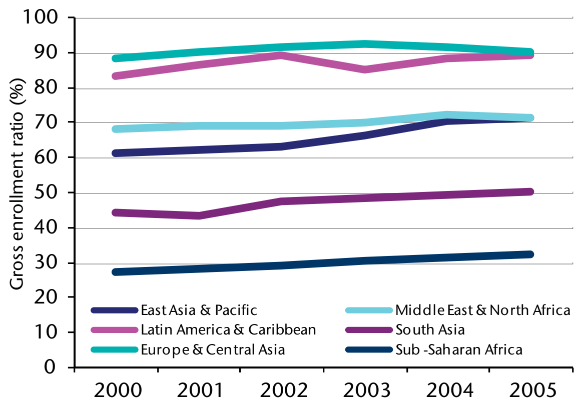


Figure 10: Secondary enrollment rates across the world

Source: World Bank. EdStats.

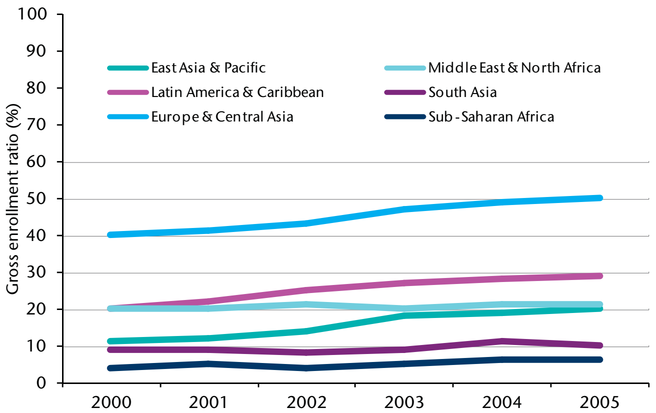


Figure 11: Tertiary enrollment rates across the world

Source: World Bank. EdStats.

Engaging with local communities to provide basic education

GrupoNueva

Masisa, a forest products company and a subsidiary of GrupoNueva, has been involved in providing basic primary education to remote communities in Chile. The company's factory is the largest employer in the Chilean town of Cabrera, a municipality with a population of 30,000. The company has a policy of recruiting locally. However, because of poor education standards – the region has some of the lowest test scores in the country – the company was having difficulty finding qualified staff who could be promoted through the company. Simultaneously, the municipality appealed for help with basic education. Masisa therefore began a program to offer training to local teachers, and a second program to offer pre-school education and social activities to pre-school children. This program has resulted in a better educated work force and pool of labor for the company and has helped to stem the flow of people migrating towards the cities and the associated "brain drain" from the region.

Source: *From Challenge to Opportunity: The role of business in tomorrow's society.* 2006. WBCSD.

Key challenges limiting progress

Education is a key responsibility of governments. In most countries education is compulsory up until the age of 15, and almost all countries provide free primary education. However, the large number of children out of school indicates that in some areas the system is failing. Secondary education is often unavailable or dependent on successful completion of primary schooling and/or the ability to pay for it. Furthermore, according to the World Bank, the secondary curriculum in many developing countries is not relevant to the social and economic needs of the students. College education is even harder to come by, while alternative vocational, technical and skills training for those who have been unable to complete primary education are often inaccessible.

Transport to and from schools (particularly in rural areas), school uniforms, supplies (text books, writing materials, etc.) are not always provided free of charge. These costs prove prohibitive and a disincentive for children of poor families to attend school. Furthermore, social values and cultural norms can constitute an impediment to improved education. In particular, the exclusion of girls from education is a serious challenge. Outside industrialized countries, more boys than girls are enrolled in primary – and secondary – schools.

Poverty and disincentives keep children out of schools and drive them into the labor force because their incomes are needed to secure the survival of their families. In 2004, the International Labour Organization (ILO) estimated that some 190 million children, or 16%, between the ages of five and 14 were economically active in developing countries, 70% of them in agriculture.[16] Child labor poses a threat to the physical and emotional integrity of children; by denying them access to schooling, it prevents them from fulfilling their long-term potential, thereby compromising the economic and social potential of future generations. Although most countries have signed the principal ILO conventions relating to different forms of child labor, such as compulsory education, these undertakings are often poorly enforced.

Armed conflicts keep around 43 million primary school age children away from school because of damage to educational facilities, the dangers inherent in traveling to school, or because they have been drafted into the armed forces, according to the UK-based Save the Children Fund.[17]

Poverty restricts a government's ability to invest in education. Competing pressure for funds (from sectors such as health and energy and the military) further compromises spending on education. Current levels of education spending are very low in some countries. Bangladesh spends 2.4% of its GDP on education, while Pakistan and Equatorial Guinea spend 1.8% and 0.6% respectively.[18] Such low budgets lead to poor education facilities: ill-equipped, overcrowded schools staffed by poorly qualified teachers. The result is often a poorly educated work force that lacks capacity and technical skills.

People who succeed in attaining university qualifications or acquiring technical skills subsequently go abroad in search of better paid opportunities. In the past decade, Ghana is estimated to have lost 50% of its professional nurses to the UK, the US and Canada,[19] while 60% of Liberia's physicians are in practice in the US or UK.[20] This so-called "brain drain" constitutes an important challenge for many emerging economies. They lose highly qualified professionals to economically advanced nations.

How business can contribute

The onus for improving education tends to fall on national governments, with the help of donors, but companies can get involved. To be successful in their business objectives, large corporations need staff with specific skill sets and competencies. They can get them through contributing to their education and training.

Corporations can engage with governments through public-private partnerships for the supply of educational infrastructure. Options include private sector administrative and curriculum support, private management for public schools, financial support to education, and government contracting. Corporations can also contribute non-core services such as food services, school transport and facility management as part of government contracted services.

They can offer adult education and skills training for their staff and suppliers, provide appropriate technical and vocational skills and standards training to young people and adults to build capacity. Those corporations active in regions where child labor is prevalent can monitor suppliers to make sure the goods or services received are not manufactured with the participation of children in bonded labor.

At a national level, corporations can foster relationships with secondary schools and universities in order to ease the transition into the workplace. This could include providing financial assistance – bursaries and grants to assist students – but also offering lectures, providing training courses, creating apprenticeships, and participating in curriculum development.

At the community level, corporations working in developing regions can help by financing primary schools and education for the children of their staff and other children in the community. They can also provide facilities and equipment. Social investment funds could be used to support schools. Similarly, corporations can provide incentives to encourage children to leave the labor force and enter school. Such incentives need to be aimed at whole families in an attempt to improve their situation and so reduce their dependence on child labor. Remedial education aimed at former child laborers or adults needs to be adapted to the particular circumstances of the target groups to ensure relevance.

Key messages

For large corporations, investing in education and training can:

- Create a healthier, better trained, more qualified work force;
- Create a larger pool of labor locally with the appropriate skill sets and knowledge to meet the particular requirements of the corporation;
- Lead to improved capacity and performance of local suppliers;
- Strengthen the business license to operate through participation in local enterprise development and the development of vocational training programs;
- Make an important contribution to curriculum development, particularly at secondary and tertiary education levels, ensuring that it stays relevant to business needs.

For governments, effective policy frameworks for training and education can:

- Create a higher level of human development within the population;
- Create a better qualified work force;
- Lead to improved levels of overall health and more control of population growth;
- Enable local businesses to grow by becoming viable economic partners for larger companies, generating economic growth and taxation revenues.

Energy

"We should see energy – both its production and its use – as a platform for broader economic growth and social well-being in developing, transitional and developed countries. We need to ensure that the economic benefits of energy flow to all stakeholders – including the poor and the vulnerable – and this can only be achieved through proactive national and international leadership fully supported by industry."

Peter J. Robertson, Vice Chairman,
Chevron Corporation

The global view

Energy is the single largest driver of economic growth. It is essential to fuel industry, power infrastructure, and connect goods and services with markets. Communities require it for the delivery of basic services such as heating, light, cooking fuel, etc. Access to energy is a key indicator of human development. Today, the one billion people (16%) living in developed regions consume half of the world's energy supply. In contrast, one billion of the world's poorest people use 4%.

Energy is one of the fastest growing sectors, driven by population growth, economic development and increasing industrialization. Energy demand is expected to increase by 50% between now and 2030, according to the International Energy Agency, with coal use rising most in absolute terms (see **Figure 12**).

Most energy comes from non-renewable fossil fuels, with oil accounting for 40% of global energy usage. Although there is some debate about whether or not oil use has peaked, it is generally accepted that the global supply of exploitable oil will eventually be exhausted. Coal is the most abundant fossil fuel, accounting for the biggest share of electricity generation among all fuels.

Energy consumption is rising fastest in the developing world, where petroleum use alone has quadrupled since 1970. In China 80% of energy needs is powered by fossil fuels. It is the world's largest producer and consumer of coal and ranks second to the United States among the world's largest consumers of oil. It also ranks second in global electricity consumption and has just become the world's largest producer of CO_2 emissions. Yet, 52% of the population subsists on less than US$ 2 per day, although 99% of the population has access to electricity. Thus China faces a challenge in providing energy for both industrial and human development while at the same time managing environmental impacts.

Source: IEA. *World Energy Outlook*. 2006.

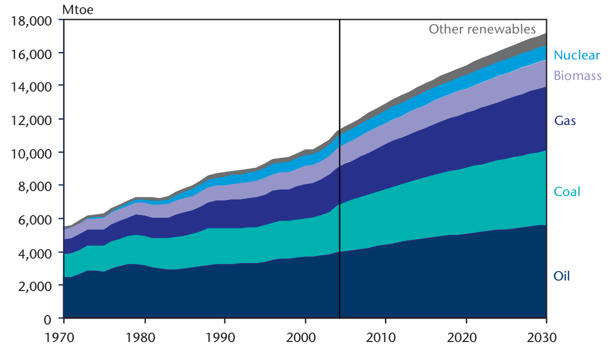


Figure 12: Predicted increase in world primary energy demand, according to reference scenario

Source: IEA. *World Energy Outlook*. 2006.

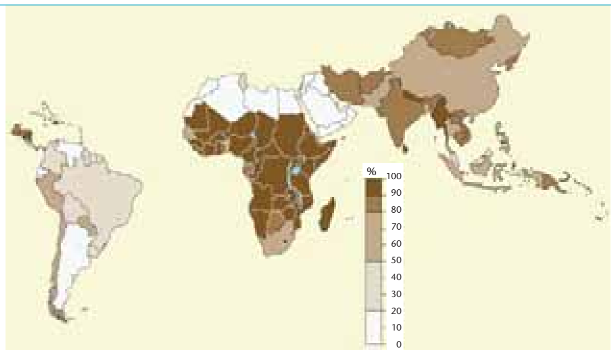


Figure 13: Percentage of population relying on traditional biomass for household energy use in developing countries

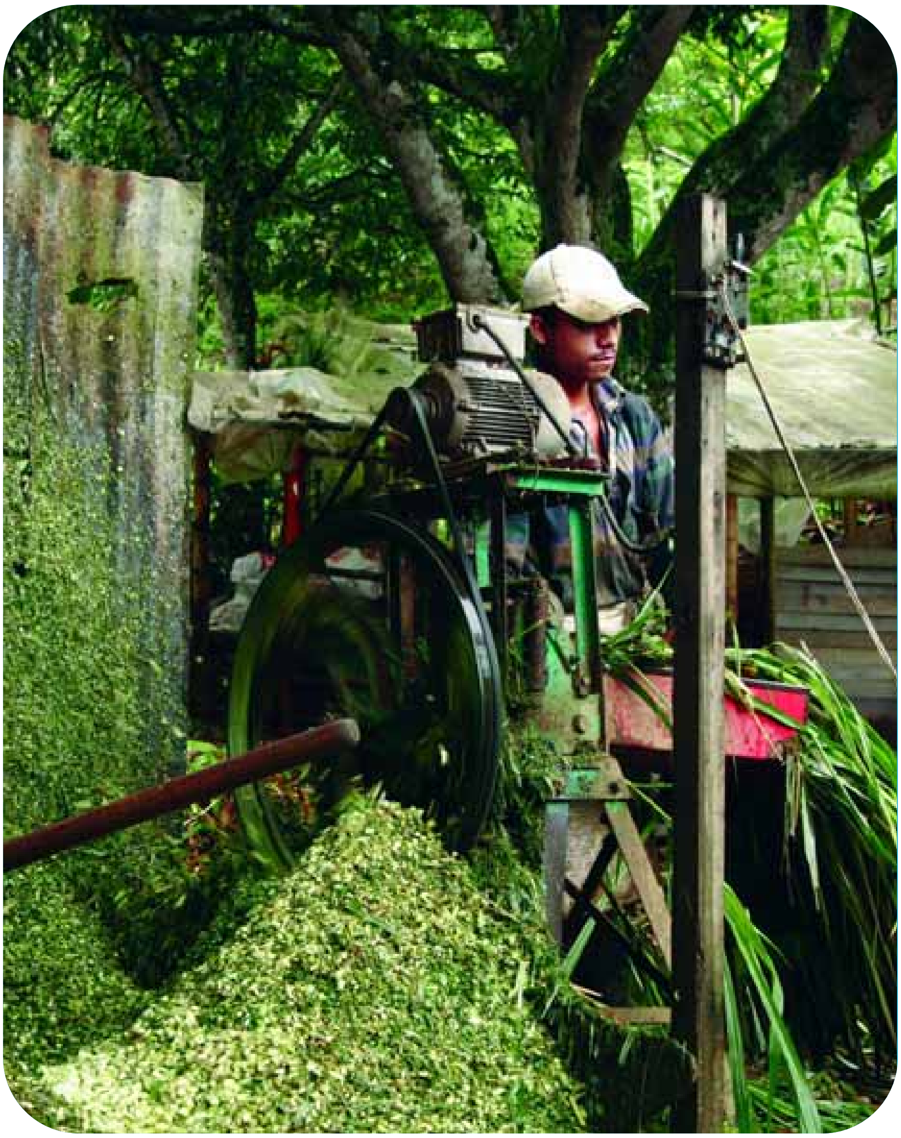
India has an even more severe problem. It is the world's sixth largest consumer of oil and the fifth largest producer of CO_2 emissions; yet 44% of the population has no access to electricity and 86% lives on less than US$ 2 per day.[21]

Despite energy sector growth, around 2.4 billion people still rely on traditional biomass (wood, straw, dung, etc.) to cover their basic energy needs, while 1.6 billion people have no access whatsoever to electricity. In many developing countries, biomass accounts for over 90% of household energy use (see Figure 13).

Societal needs

Energy use and GDP growth are strongly linked. Historical trends for Korea and Malaysia from 1970 to 2000 show that at roughly US$ 5,000 GDP per capita, energy demand takes off, driven by increased industrialization and personal mobility. From US$ 15,000, energy demand generally grows more slowly as the main burst of industrialization comes to an end and services begin to take on a more important role in the economy. However, absolute demand varies widely depending on energy intensity among key economic sectors at the national level (see Figure 14).

Looking to the future, fossil fuels will account for the bulk of the increase in developing country energy use; simultaneously, the use of traditional biomass will further increase as the poorest sector of the population will be unable to pay for energy sources other than freely available biomass (see Figure 15). The burning of biomass in simple stoves results in indoor air pollution that causes 1.5 million deaths per year, primarily among young children and mothers.[22]



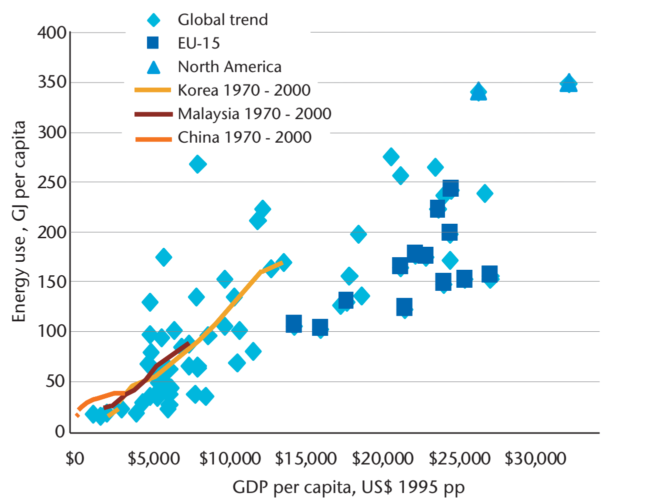


Figure 14: Energy intensity per capita

Source: WBCSD. *Facts and Trends to 2050: Energy and climate change*. 2004.

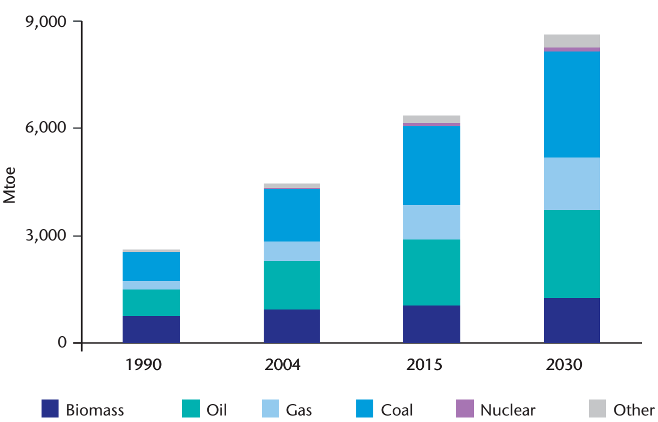


Figure 15: Primary energy demand in developing countries

Source: IEA. *World Energy Outlook*. 2006.

Delivering affordable energy solutions to low-income communities

BP

BP has been investigating innovative approaches to marketing energy products to low-income customers. BP and partners have developed a cooking stove that integrates a liquefied petroleum gas (LPG) and biomass burner in an effort to provide low-income homes in India with sustainable, healthy energy for cooking. The aim is to reach 3 million households by 2008. BP plans to distribute the appliance through local suppliers to provide new business opportunities to the community.

Key challenges limiting progress

Fossil fuels dominate global energy supplies but they are unevenly distributed and geographically concentrated in a few regions of the world. This leaves many countries – particularly resource poor and developing ones – vulnerable to disruptions in supply and volatile energy prices. Twenty-eight African countries spend more than 10% of their total import bill on oil.[23]

While some of the raw materials used for generating energy can be exported and physically delivered to most locations around the globe, e.g., oil and natural gas, others are more limited in their scope for export. Electricity requires a network of high tension power cables to cover large distances. The remoteness of certain developing country populations and unfavorable terrain in many of these regions pose a further challenge for energy delivery. As a consequence, the majority of the rural population in many developing countries is not connected to the electricity grid.

Today, developing countries face the challenge of achieving development in an era characterized by global climate change. It is now widely accepted that increased emissions of greenhouse gases (GHG) are affecting the climate and contributing to global warming. The greatest impacts from climate change are likely to be felt in poor countries, in arid as well as in coastal and water-stressed areas, which will be affected by greater competition for cultivable land, increased water and food scarcity, and rising sea levels. A collective response from governments and the private sector will be needed to help developing countries in their adaptation to climate change impacts.

The Kyoto Protocol has sought to tackle global emissions by putting a cap on carbon and other GHG emissions and creating an international market for trading them. This has spawned a huge trade in carbon offsets. The carbon market reached US$ 30 billion in 2006 and is set to grow. Governments and companies in the countries that ratified the Kyoto Protocol have been able to capitalize on the market opportunities that the Protocol offers. However, adherence to the Protocol has been uneven. The challenge presented by the competing demands of energy provision for economic development and climate protection requires a concerted global effort. While the Kyoto Protocol was largely a top-down effort, the WBCSD and some governments are calling for a new, bottom-up approach more appropriate to the national levels at which energy policy is made, to kick in after the current emissions reduction period, 2008-2012, ends.[24]

Business plays a major role in the delivery of energy solutions and infrastructure, but these efforts alone are not sufficient to meet the global energy challenge. Governments, working with business and civil society, need to set long-term policies that give business the predictability and incentives to invest in sustainable energy solutions.

Governments should enhance their efforts to develop comprehensive energy policies, set realistic and achievable targets, and work out indicators to measure progress. They need to take account of the societal and environmental impacts of energy provision and use, and set targets for GHG emissions. They can assist in achieving such targets through incentives or subsidies that encourage the development and use of clean, renewable sources of energy.

Furthermore, governments should encourage measures to increase the energy efficiency of their economy through the introduction of standards and labels, and introduce incentives to change energy consumption patterns, e.g., by subsidizing cheap energy at off-peak times.

Finally, it will be a big challenge to change the habits of people who have always relied on biomass for their energy needs. Collecting firewood and cooking on simple stoves remain the only option in many societies where wood is cheap and readily available. The incentives need to be right to change these habits; these could include innovative financial solutions to reduce the (still considerable) up-front investment required by new clean technologies such as solar energy or modern biomass stoves.

How business can contribute

The key to a sustainable energy future for the planet rests on four actions: a move toward a low-carbon economy, reduced dependency on fossil fuels, significantly improved energy efficiency across all sectors, and the development of cheap and affordable energy solutions for the 2.4 billion people who rely on traditional biomass.

Some of the lower carbon solutions, such as nuclear energy, already exist and are widely deployed. Hydroelectric, solar, wind and wave power are rapidly improving in terms of cost effectiveness, with Western Europe leading in the development of wind-generated power. Technology will be needed to increase the efficiency of solar energy and batteries to store renewable energies.

Clean coal technologies such as integrated gasification combined cycle (IGCC) are being tested. Gasification also allows new coal plants to develop carbon capture and storage (CCS). These technologies can considerably reduce the environmental impact of coal-fired power generation, while enabling coal-rich nations such as China, India, South Africa and Australia to cleanly take advantage of their abundant coal supplies. Funding of a number of large-scale CCS-projects could reduce costs and promote a global CCS industry.

New markets are emerging. Markets for alternative forms of energy already exist, but these forms of energy remain under-used. Other growing energy sectors include markets for energy conservation services and energy-efficient technologies. Energy efficiency measures make perfect sense for companies as a potential way to help reduce operating costs. To increase end-user energy efficiency, energy savings can be certified, and the certificates can then be traded (so-called "white certificates"). Some European countries (Italy, France, the UK) have started implementing such schemes.

Lastly, companies can develop energy systems based on locally available resources – such as biomass or small hydro – and tailor them to local needs. Local energy companies can help. They tend to have in-depth local knowledge of requirements and of potential markets, but they often lack the capacity and the financial resources to provide infrastructure and energy solutions. Larger corporations can partner with local companies to build capacity and develop locally tailored solutions. By doing so, they will facilitate improved access to energy services while enhancing their own market share. Public-private partnerships could also help meet developing country energy needs.

Key messages

For business, investing in sustainable energy services can:

- Create new markets and associated revenue streams for energy-related products and services for currently underserved populations in developing countries;
- Create competitive advantages by developing new and affordable energy technologies that reduce emissions and/or improve energy efficiency;
- Reduce reliance on fossil fuels in the energy mix, thereby reducing some of the exposure to volatile crude prices;
- Lower operating costs by improving energy efficiency.

For governments, an effective policy framework for sustainable energy services can:

- Improve access and reliability of energy supplies, thereby generating economic growth and human progress;
- Lead to successful implementation of lower carbon technologies using, for example, the Clean Development Mechanism (CDM) to achieve scale; policies must place more emphasis on the materiality and repeatability of solutions;
- Promote growth in the small and medium enterprise (SME) sector to provide energy services, particularly in rural areas, thereby generating sustainable enterprises as well as facilitating energy access;
- Raise consumer awareness of energy efficiency, thereby reducing the requirements for new energy projects and freeing up capital for other basic needs;
- Improve public health by promoting cleaner forms of energy supply;
- Reduce deforestation and ecosystem degradation arising from biomass harvesting.

Enterprise development

“Business is the most important engine of economic change. It brings employment, goods, revenues, knowledge and skills development. We must also recognize that the most important role is probably not that played by the multinationals, but by the small and medium enterprise sector, the SMEs. We as global companies can provide the catalyst to partner with SMEs to mutual benefit. We can access their local expertise and markets; they can access our technologies and business skills for local momentum.”

Michael Pragnell, CEO, **Syngenta**

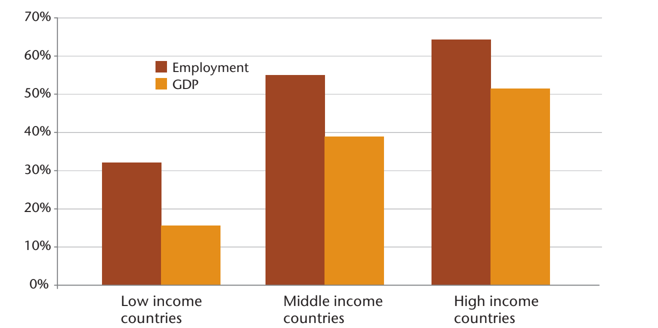
The global view

Local entrepreneurs, micro-enterprises and small and medium enterprises (SMEs) form the backbone of global economic activity. These are small firms, defined either by their headcount – between 10 and 500 employees – or by their turnover. In OECD economies, they account for 95% of firms, 60%-70% of employment, 55% of GDP and generate the lion’s share of new jobs (see **Figure 16**). In developing countries, more than 90% of firms outside the agricultural sector are SMEs and micro-enterprises. They generate a significant portion of GDP.[25]

SMEs contribute to wealth creation and generate tax revenues. A healthy SME sector equates to a reduced level of informal activities which, in many developing countries, account for a significant but hidden portion of GDP – anywhere between 30% and 70%. These are economic activities conducted outside the regulatory framework and include everything from casual labor to thriving SMEs and occasionally illegal activities (see **Figure 17**).

SMEs bring social benefits, particularly in developing countries. They often have a vested interest in community development. As local entities, they draw upon the community for their work force and rely on it to do business. They understand the communities within which they operate and are able to provide goods and services tailored to local needs and at costs affordable to local people. They are also a good source of employment for women, young people or low-skilled workers who usually make up the greatest portion of the unemployed in emerging economies.

SMEs can be valuable partners for large corporations. They are an important source of local supply and service provision. Their extensive local knowledge of resources, supply patterns and purchasing trends makes them a good source of market information. Similarly, they represent an important source of innovation. They often occupy specialized market niches and follow competitive strategies that set them apart from other companies. Their activities can include re-engineering products or services to meet market demands, exploring innovative distribution or sales techniques, or developing new and untapped markets.



Source: World Bank.

Figure 16: SME contribution to employment and GDP – median values

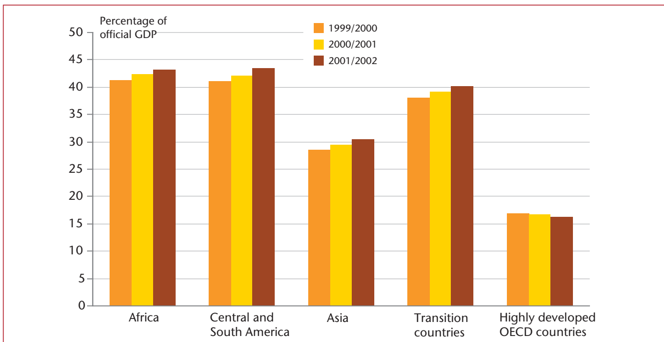


Figure 17: Average size of the informal economy as a % of GDP

Source: Schneider, Friedrich. “Size and Measurement of the Informal Economy in 100 Countries around the World”. Working Paper: 2005-13, Center for Research in Economics, Management and the Arts, Johannes Kepler University of Linz. 2005.

Societal needs

SMEs in developing countries are often unable to fulfill their potential because of prevailing regulatory frameworks. Government legislation and policy-makers frequently overlook SMEs in favor of large corporations or micro-enterprises. Tax incentives or business subsidies that could aid enterprise development are often lacking, while the sheer burden and weight of bureaucracy in many emerging economies means that only the largest companies are able to devote the resources required to cutting through red tape (see Figure 18). Compounding this are other institutional obstacles, including poorly implemented compliance mechanisms, ill-defined intellectual or property rights, absent investor protection and corruption.

The result is often a large, and thriving, informal sector, either because the SMEs cannot join the formal economy on account of the lack of a favorable regulatory framework, or because they have deliberately chosen to remain informal since the costs and procedural burden of joining the formal economy outweigh the benefits.

Enterprises operating in emerging economies often lack the skills base to be truly competitive. Frequently, entrepreneurs do not have the managerial proficiency to manage a business effectively. Similarly, lack of know-how and a poorly trained labor force, compounded by poor levels of education and widespread illiteracy among the potential labor pool, render these problems more acute.

Enterprises based in developing countries frequently lack infrastructure and necessary technology. A dearth of financial resources results in their operating with unsophisticated and outdated production facilities. These can be inefficient and have negative environmental impacts.

Finally, enterprises in emerging economies often have limited access to finance and investment capital. Large corporations have little difficulty securing sizeable bank loans and private investment. At the same time, microfinance, consisting of very small loans, is sometimes available to individual entrepreneurs. SMEs fall between these two poles. They have significant difficulties obtaining the levels of finance required for them to scale up their activities and attract further financing and investment. For example, the Inter-American Development Bank (IDB) estimates that almost 90% of entrepreneurs in Latin America are obliged to tap into their personal savings for financing.

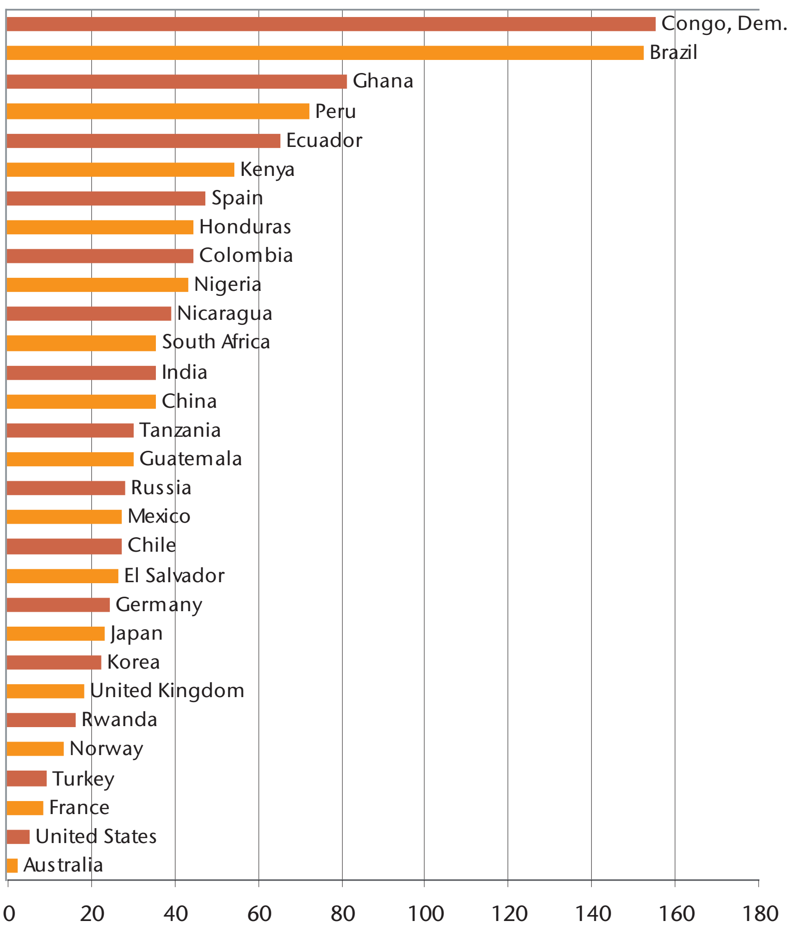


Figure 18: Number of days required to start a business

Source: World Bank. *Doing Business Report*. 2007.

Working to build capacity among SMEs in South Africa

Anglo American

For nearly 20 years, Anglo Zimele, the empowerment and enterprise development initiative of global mining company Anglo American, has been assisting emerging black businesses to overcome barriers and integrate into South Africa's economic mainstream through the creation and transformation of SMEs. Its support to SMEs targets three sectors: procurement/supply chain development, sustainable development projects, and junior scale mining. The latter is conducted under the Anglo Khula Mining Fund which is a joint venture with government-owned SME facilitator Khula Enterprises. It operates a business development fund through which it provides loans and equity finance to support start-up or expanding businesses. Potential investment opportunities are identified that exhibit clear business potential, commercial viability and prospects for growth. Anglo Zimele now places its emphasis on identifying SMEs that can participate in its supply chains. Finally, through its mining fund, the company seeks to facilitate the entry of young, commercially viable mining ventures into the mainstream mining sector through the provision of seed capital. It has invested in four mining ventures with a further five in the implementation phase. Anglo Zimele has also invested in 46 black-owned SMEs, which collectively employ more than 4,000 people. This initiative has been particularly successful in the area of procurement. Since 1993, Anglo American procurement from black-owned businesses has reached about US$ 5.8 billion.* In 2006, procurement from black companies reached US$ 1.7 billion, with the Group's South African companies spending almost 26% of their procurement budget on sourcing from black companies.

*Using current annual average currency conversion factors.

Key challenges limiting progress

Poor and burdensome regulatory frameworks present a significant challenge to enterprise development in many developing countries. Costly and lengthy business registration procedures and lack of reform serve to discourage the creation of formal SMEs. Consequently, this encourages enterprises and entrepreneurs to operate outside of the formal regulatory framework. As a result, they cannot be reached with capacity-building improvement schemes and cannot compete for business with larger companies. At the same time, workers in the informal sector lack job protection and are excluded from benefits such as access to health and safety provisions, wage protection, insurance, pensions and unions. Interestingly, enterprises operating outside the formal regulatory framework cannot be taxed. This represents significant lost revenue for governments.

Lack of tax incentives and subsidies, absence of investor-friendly environments and guarantees and limited access to finance (e.g., seed capital, start-up funds) and investment prevent enterprises from developing, expanding and fulfilling their potential as drivers of economic growth and poverty alleviation. They also discourage higher levels of foreign investment or venture capital funds.

The absence of government-led capacity-building programs or deficiencies in the provision of vocational training also hinder enterprise development. Governments could work to overcome this through the creation of municipal-level agencies devoted to enterprise development and management, and by encouraging SMEs to engage with large corporations.

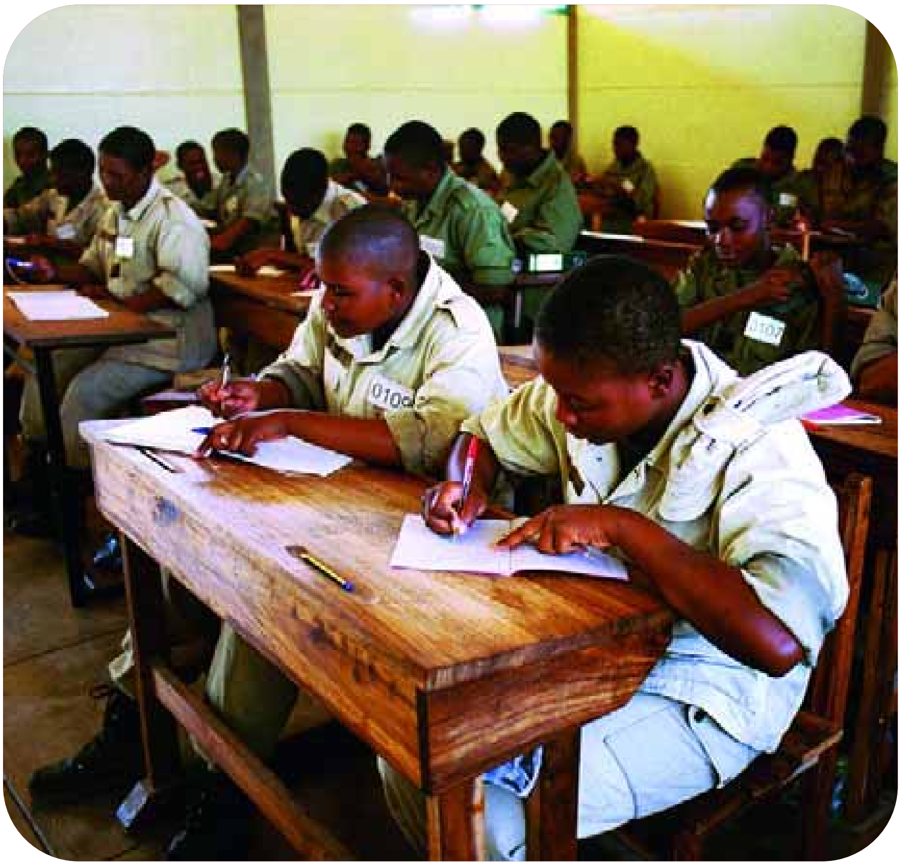
How business can contribute

Large corporations can make a significant impact in improving the situation of SMEs through enterprise development and assisting them to fulfill their potential to contribute towards economic growth and poverty alleviation.

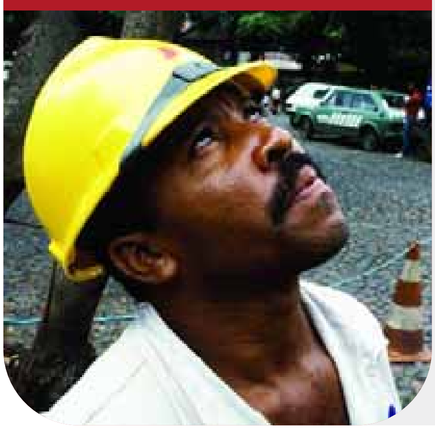
Large corporations can contribute to enterprise development by helping to build capacity. This includes providing training in basic skills such as management, bookkeeping and accounting, business planning, marketing, distribution and quality control. They can also assist through technology transfers, direct investment in infrastructure, and the sharing and imparting of knowledge. They can assist enterprise development by building relationships with SMEs to source local supplies. They can also contract local SMEs to sell and distribute their products. This would both strengthen the capacity of the SMEs and create local livelihoods.

Large corporations can help SMEs achieve compliance with international standards – including environmental performance standards – to improve the overall quality of their goods and enable them to compete in international markets.

They can help local SMEs gain access to finance either through direct financial investment, for example from banks or finance corporations by acting as guarantors for loans, or even by risk-sharing with development organizations and NGOs.



Key messages



For business, investing in enterprise development can:

- Lead to the creation of effective business partners;
- Strengthen local supply chain capacity and overall competitiveness;
- Reduce costs by sourcing locally and lowering transportation costs;
- Strengthen distribution networks and open up new markets for products through the knowledge and distribution capacity of local SMEs;
- Strengthen the business license to operate within the countries where they are active.

For governments, an effective policy framework for enterprise development can:

- Create a healthier and more diverse economy to fuel economic growth;
- Create employment opportunities and increase tax revenues;
- Reduce informal and black market activities by encouraging enterprises to operate within the formal sector;
- Contribute to social stability, especially among disadvantaged sectors;
- Encourage environmental stewardship from the sector.

Financial flows

> **"True sustainability needs capital to flow to areas of greatest need, and not necessarily where the return on investment is highest if a reasonable return can be sustained over time."**
>
> John Rice, Vice-Chairman,
> **General Electric Company**

The global view

Financial capital is flowing increasingly to developing countries, after a dip at the end of the 1990s. In 2006, global capital flows, private and official, reached record heights at around 5% of global GDP. Private capital flows – private equity, foreign direct investment (FDI) and credit extended to developing countries by banking and finance institutions – reached US$ 647 billion, a rise of 17% from 2005 (see **Figure 19**). There has been a shift from debt towards equity financing: equity flows made up US$ 419 billion, of which FDI accounted for US$ 325 billion and portfolio equity US$ 94 billion.[26] FDI to developing countries represented approximately one-quarter of worldwide FDI flows of US$ 1.2 trillion (see **Figure 20**).[27]

Private capital flows have been fuelled by companies in developing countries seeking funding in global financial markets, thereby avoiding underdeveloped local capital markets, reducing the cost of their capital and taking advantage of low global interest rates. In 2005, South-South investment flows represented more than a third of all investment flows to the South.[28]

There are, however, large differences in access to global finance among developing countries, with most capital going to East Europe, Central and East Asia and the Pacific regions. In 2006, the 51 poorest countries received only about 8% of total capital flows; and sub-Saharan Africa received only 6% of the US$ 4.9 trillion in total private capital that flowed to developing economies between 1990 and 2006 (see **Figure 21**).[29]

Workers' remittances have risen globally from US$ 102 billion in 1995 to an estimated US$ 232 billion in 2005 (see **Figure 22**). The share going to developing countries increased from US$ 58 billion in 1995 to US$ 167 billion, or 72%, in 2005. Unrecorded remittances transferred through informal channels are believed to account for at least 50% of recorded flows.[30] In 2004, workers' remittances made up one-quarter and more of the GDP of low-income countries such as Moldova, Lesotho and Haiti and more than 10% in countries like Honduras, El Salvador, Lebanon and Jordan.

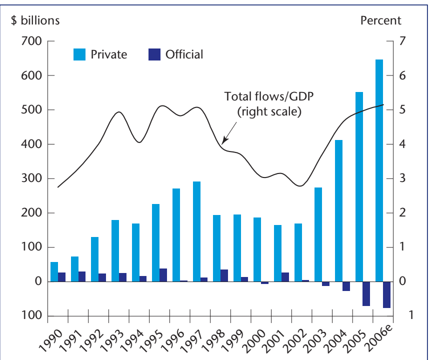


Figure 19: Net capital flows to developing countries, 1990-2006

Source: World Bank. *Global Development Finance: The Globalization of Corporate Finance in Developing Countries*. 2007.

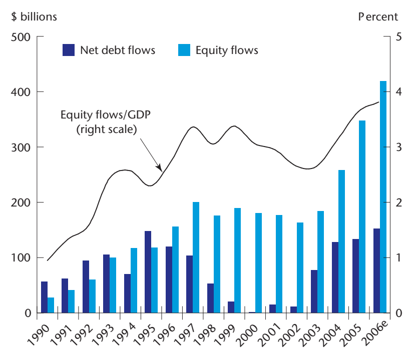


Figure 20: Net debt and equity flows, 1990-2006

Source: Idem Figure 19.

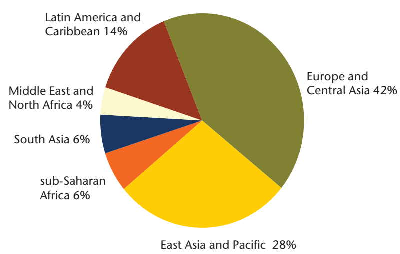


Figure 21: Total private capital flows to developing countries (2006)

Source: The World Bank. *Global Development Finance*. 2007.

In comparison, official development assistance (ODA) from the 22 members of the OECD Development Assistance Committee (DAC) reached US$ 103.9 billion in 2006 (0.30% of combined gross national income), amounting to 16% of private capital flows. It is predicted to grow to US$ 130 billion by 2010.[31] In 2005, the largest donors were the US, Japan, the UK, France and Germany.

At the same time, the burden of debt owed by developing countries to official lenders including the IMF, the World Bank and government lenders remains high. A fair proportion of capital inflows are used to repay official lenders. According to *The Economist*, between 2003 and 2006, these net capital outflows amounted to US$ 185 billion.[32] And this despite the fact that 30 countries are receiving debt relief under the 1996 Debt Relief Initiative for Heavily Indebted Poor Countries (HIPC) and the 2006 Multilateral Debt Relief Initiative (MDRI), with a further 10 countries eligible.

Microfinance has grown in popularity over the last 30 years. It is estimated that in 2006 approximately 10,000 microfinance institutions (MFI) served more than 150 million clients in 85 countries. MFIs include community cooperatives, government-funded not-for-profit organizations, as well as social investors and commercial banks. The potential demand for microfinance products is around 500 million people, with many more millions of people banking their savings with MFIs. Estimates of the potential market for microfinance establish it at around US$ 300 billion. Microfinance is reaching micro-enterprises of individual or group entrepreneurs, many of them women. So far, only about 2-3% of MFIs are estimated to be self-sustaining without government or aid funds, recovering their cost through interest payments by their clients.[33]

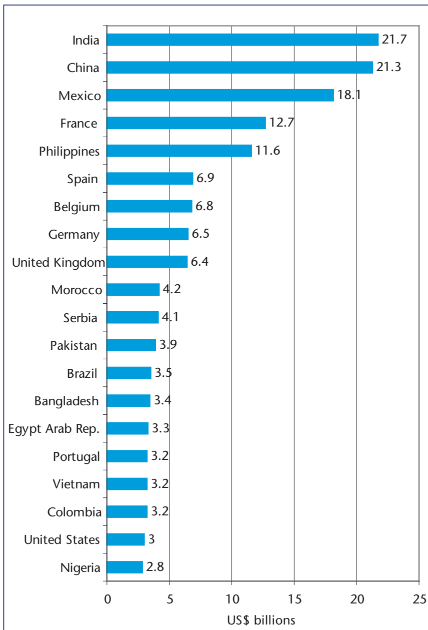


Figure 22: Top 20 remittance-recipient countries by value, 2004

Sources: IMF. *BoP Yearbook*. 2004. And World Bank. *Global Economic Prospects*. 2006.

Societal needs

People need funds to purchase food and basic services. Individual entrepreneurs and local companies need financing to purchase equipment, secure insurance coverage for themselves and their equipment, or to cover against shocks such as failed harvests. Yet within developing countries, access to financial and banking services remains low. Only 1 billion people are believed to have bank accounts; an estimated 80% of people in least developed countries are unbanked.[34] Despite the growing importance of microfinance, an estimated 3 billion people of working age are excluded from securing financing and credit because of high levels of perceived risk, prohibitive interest rates, high transaction costs or because they lack collateral.[35] These problems are compounded by illiteracy and a lack of proximity to financial institutions. Recent studies showed that 20 to 50% of the population is financially excluded or informally served in emerging economies (see Figure 23).

Small and medium enterprises in developing countries require access to financing to be able to grow and scale up their operations. While large corporations can secure funding with relative ease and individual entrepreneurs are gaining increasing access to sources of microfinance, SMEs often experience considerable difficulties in securing financing.

For many developing countries official development aid continues to be a lifeline and accounts for a significant portion of GDP. For example, in 2002, aid accounted for 75.2% of the GDP of Sao Tomé and Principe and 37.3% of the GDP of Guinea-Bissau.[36] Aid allows them to provide their populations with basic goods and services. Similarly, humanitarian aid and disaster relief to countries with already severely stretched economic resources and beset by crises contribute towards supporting the very survival of vulnerable populations.

Figure 23: Access to finance

Source: Chidzero, Anne-Marie (FinMark Trust), Karen Ellis (UK Department for International Development), and Anjali Kumar (World Bank). *Indicators of Access to Finance through Household Level Surveys: Comparisons of Data from Six Countries*. August 2007. Data sources: FinScope and World Bank.

Financial services for the poor

Vodafone

In Kenya, an estimated 80% of people are excluded from financial services. However, as in other parts of Africa, there has been a proliferation of mobile phones. In 1999 there were 15,000 mobile phone subscribers, by 2006 there were close to 8 million. By combining the need for financial services with the opportunity provided by the ever expanding penetration of the mobile phone, Vodafone recently road-tested a service called M-PESA. This allows mobile phone users to carry out bank transactions directly from their mobile phones. Users can transfer funds, consult their accounts, make payments, secure micro-loans and obtain bank statements directly from their mobile phones. In addition, users can withdraw money from approved agents, usually store holders licensed to carry small amounts of cash. The system has the advantage of being cheap and easy to use. In addition, users are not restricted to banking hours. It also reduces travel time by enabling users to do their banking wherever they are. To date, some 95,000 people have signed up for the service. Vodafone stresses that this initiative is business-led. It seeks to tap into what was previously an unexplored market. However, it recognizes that this market has very different needs from those of developed economies and has adapted its strategy accordingly. The system has proved to be successful and Vodafone is now looking to scale it up and roll it out elsewhere in the developing world.

Key challenges limiting progress

A lack of transparency and accountability both on the part of donors and recipients remains a challenge to effective development financing. ODA is often accused of creating economic distortions within recipient countries. Aid flows need to be monitored better using standard reporting tools. New aid donors have emerged, some of whom are aid recipients themselves, for example, the BRIC countries (Brazil, Russia, India and China). Their aid activities are not reported in a comprehensive manner. The emergence of these new players in international aid increases the need for better coordination among donors.

There is a strong need for good governance and favorable regulatory frameworks, both on the part of donors and recipients for financial flows, private and official, to make a genuine contribution to development. Investors need effective protection and comprehensive and equitable taxation policies. In addition, attracting private sector sources of finance requires favorable banking regulations and sound financial policies. The persistence of corruption in many developing countries remains a challenge to private investment.

In some developing countries, laws governing the operation of financial institutions have failed to keep pace with technological change, including Internet banking facilities, computerized international wire transfers, or even mobile phone banking, leading to high transaction costs for financial services, especially for the poor.[37]

In recent years, some developing countries have begun to liberalize capital flows and to relax foreign exchange controls. As a result, more companies from these countries have begun to enter world capital markets and broaden their sources of funding. In many emerging economies, further financial reforms will be needed to encourage more capital to flow.

How business can contribute

Large corporations can look for new opportunities to invest. They can engage with governments and international financial institutions to provide financing for large development projects, particularly infrastructure. They can also engage with governments to advise on regulatory reform, particularly as it relates to the banking, insurance and investment sectors. Similarly, they can provide advice and input on auditing procedures and compliance with international accounting standards.

At both national and local levels, corporations can invest directly in local companies – particularly SMEs. They can assist through the transfer of technology to bring outdated financial, insurance and banking systems and infrastructure up to date with modern financial systems.

At a community level, corporations, especially banking and financial institutions, can provide banking and insurance services for local companies and entrepreneurs. The advent of new technologies and their proliferation in developing countries, for example, the spread of mobile phones in the developing world, provide an opportunity for telecommunications companies to offer mobile banking services to the 3 billion unbanked.

Finally, financial institutions and insurance companies can develop insurance products for the low-income market (micro-insurance). This can help SMEs and microenterprises, in particular, to become more resilient to external shocks such as fire, natural disaster, accident or illness.

Key messages

For private providers of finance, investment in developing countries will:

- Create access to new markets for the provision of banking, lending and insurance services with significant growth potential;
- Diversify investment portfolios – bearing in mind the risks associated with any form of speculative financial transaction;
- Provide an opportunity to engage with the national governments and the development community, and contribute towards shaping framework conditions.

For private recipients of funding, new forms of capital will:

- Improve access to capital and may generate more competitive interest rates;
- Generate new businesses and fund business development activities;
- Contribute to the funding of basic services such as energy.

For governments, an effective policy framework for financial flows will:

- Generate greater financial resources to fund the provision of basic services;
- Generate funds to promote enterprise development, generating employment, economic growth and additional revenues through taxation;
- Change the structure of global debt as investment funds work to generate capital rather than simply being used to service debt repayments.

Governance

"The costs associated with crime, corruption, over regulation, weak contract enforcement, and inadequate infrastructure can amount to over a quarter of company turnover, or more than three times what companies typically pay in tax."

World Development Report 2005: A Better Investment Climate for Everyone[38]

"In 70 countries obtaining a construction permit takes longer than the actual construction. Many of these are in Africa, which accounts for 5 of the 10 countries where it is most difficult to build legally."

World Bank. *Doing Business in 2007: How to Reform.* 2006

The global view

The UN defines governance as "the exercise of economic, political, and administrative authority to manage a country's affairs at all levels and the means by which states promote social cohesion and integration, and ensure the well-being of their populations. It embraces all methods used to distribute power and manage public resources, and the organizations that shape government and the execution of policy. It encompasses the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and resolve their differences."[39]

The World Bank has identified six criteria to assess governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Good performance by a country in these areas generally implies the existence of universal suffrage, respect for human rights and personal liberties, freedom of the press and impartiality of the judiciary.

Good governance generally equates with high levels of economic and human development (see **Figure 24**). Nations in which good governance prevails tend to be business-friendly. They typically enjoy well-enforced, favorable regulatory frameworks characterized by low levels of burdensome bureaucratic procedures and paperwork, business-conducive fiscal regimes, and clearly-defined property rights. This serves to encourage large-scale entrepreneurship, attract high levels of corporate investment, and provide stable environments for business to operate.

Nations that benefit from high levels of economic freedom – broadly defined as individuals' freedom to work, produce, consume and invest as they please, and where that freedom is both protected and unconstrained by the state – also enjoy high levels of economic development. Economic freedom is measured against variables including business, trade, fiscal, financial, monetary, investment and labor freedoms, freedom from government or corruption, and equitability of property rights.

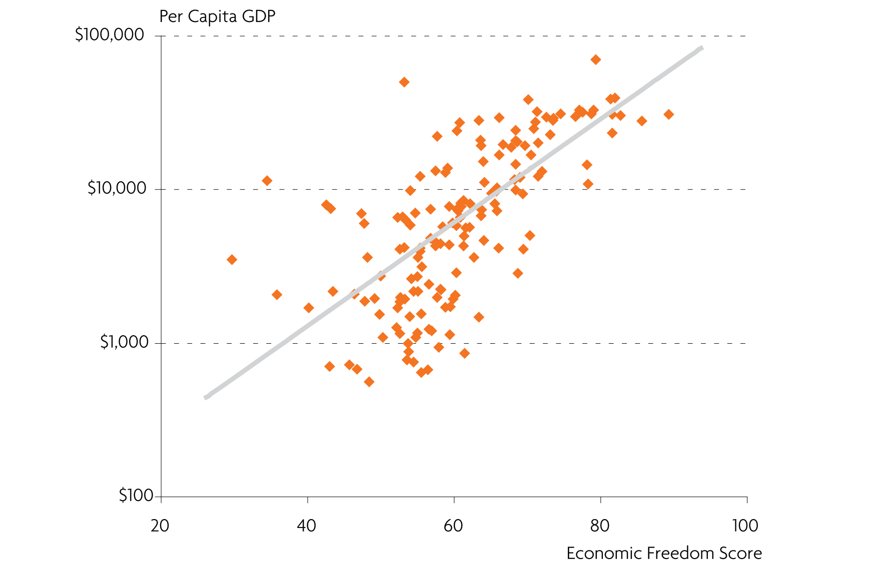


Figure 24: Economic freedom vs. per capita GDP

Source: The Heritage Foundation and *The Wall Street Journal. 2007 Index of Economic Freedom.* 2007.

Societal needs

There is growing consensus that good governance is key to achieving economic development and social progress. Yet despite this, good governance still eludes many nations, particularly in the developing world, and governance reform is sorely needed.

Rule of law, the extent to which all societal stakeholders adhere to and respect the general rules of society, including constitutions, laws and their enforcement, policies, regulations, etc., still eludes many countries and remains sketchy for others (see Figure 25). Lack of respect for the rule of law deters local entrepreneurship and foreign investment.

At a practical level, in many developing nations there is an urgent need to relax the bureaucracy associated with starting and running a business. This includes the number of days and procedures required to register a new business, the length of time required to establish infrastructure, including buildings, telephone and communications networks, the ease with which workers can be recruited and employed, and the costs involved. These problems are rendered more acute by the difficulties encountered with registering property and poor contract enforcement in many areas. For example, in Tanzania only 10% of property is registered and the process requires 123 days and 10 procedures.

In Laos business start-up procedures take 198 days, while in Syria the minimum capital required to start a business is US$ 61,000, 51 times the average annual income.[40] Similarly, there is a need to reform import/export procedures, particularly in some countries in Africa and South Asia, where export delays are longest.

Incoherent fiscal policies coupled with poor implementation and enforcement also hinder economic growth. In many developing nations, taxation rates are disproportionately high, tax payment procedures onerous, and tax collection and disbursements sporadic and inequitable (see Figure 26). The result is often poor compliance with taxation policies, gross tax evasion and entrepreneurs opting to operate outside the formal sector, thereby engendering a serious loss of revenues for governments. For example, in Brazil, if a company complies with all its tax obligations, it would end up paying 148% of its gross profits![41]

Corruption remains one of the greatest impediments to economic growth.

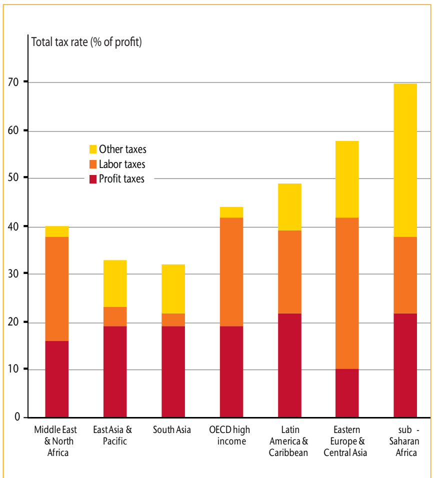


Figure 26: The highest tax rates are in Africa

Source: World Bank. *Doing Business in 2007: How to Reform*. 2006.

There is a correlation between levels of corruption and poverty; at the same time countries that make efforts to control corruption generally enjoy higher levels of income.

Countries with low levels of corruption usually enjoy favorable business environments. Similarly, large numbers of bureaucratic procedures are often conducive to corruption as they encourage bribery. As the number of business procedures increases, so do opportunities for and levels of corruption. There is a strong relationship between low levels of corruption and a county's position in the World Bank's Ease of Doing Business rankings (see Figure 27).

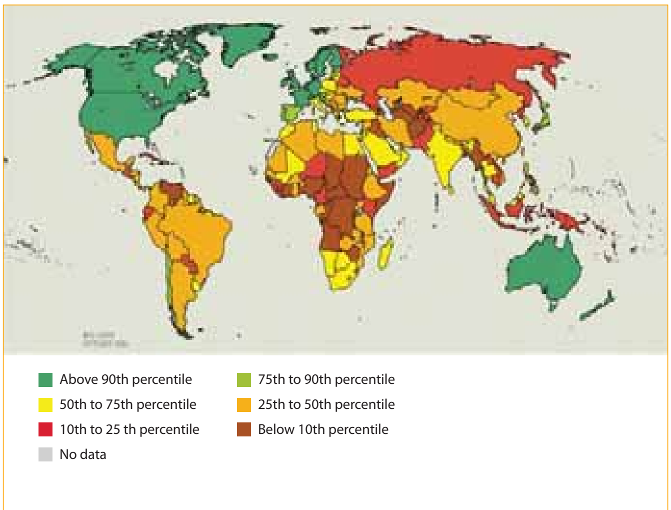


Figure 25: Respect for the Rule of Law

Source: World Bank. *Governance Matters*. 2006.

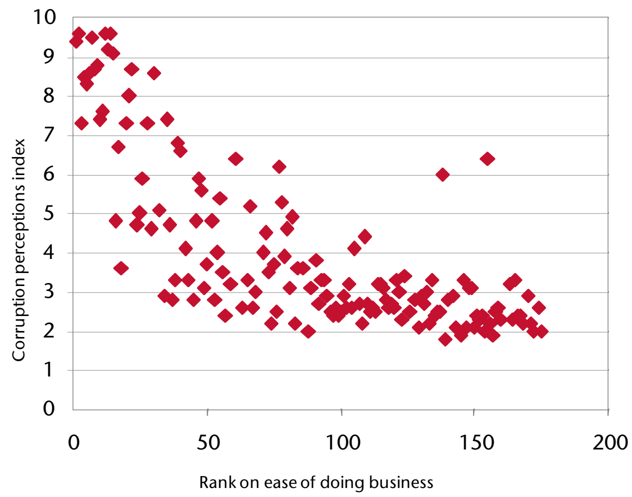


Figure 27: Corruption perception vs. ease of doing business

Source: Data are taken from Transparency International's 2006 Corruption Perceptions Index and the World Bank's Doing Business Report. 2007.

Figure 28: Reforming El Salvador's business start-up

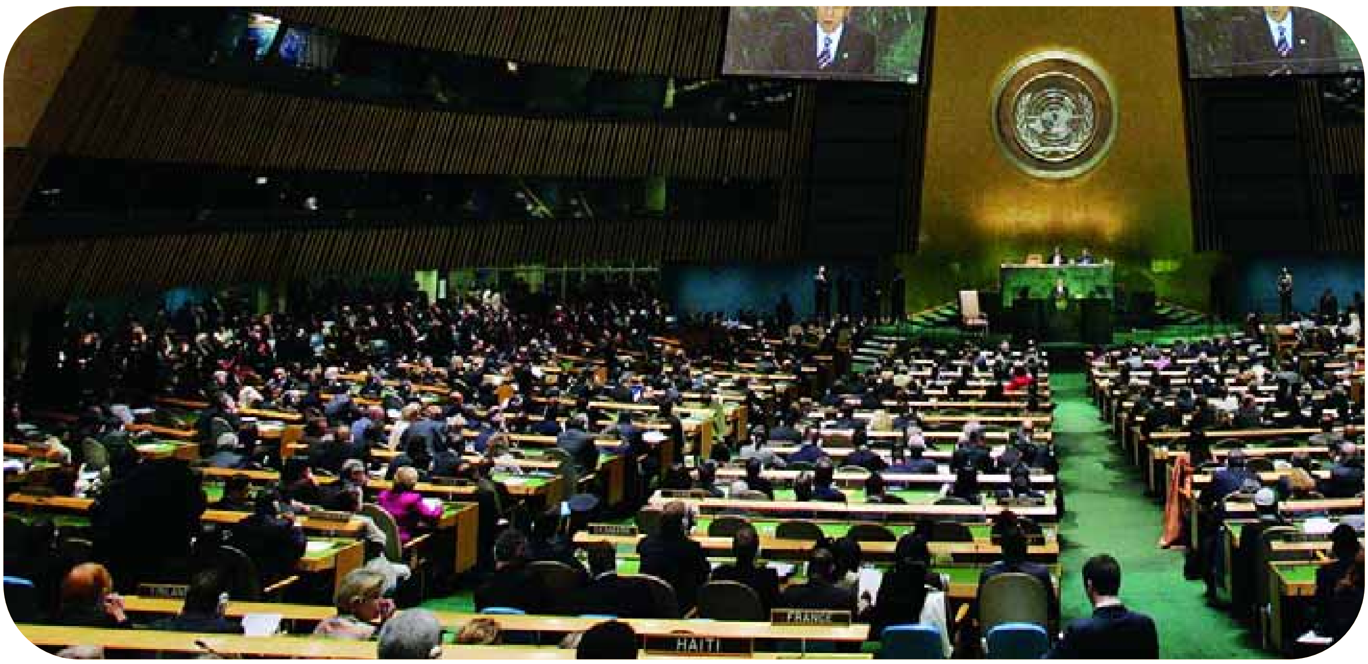
Key challenges limiting progress

Governance is perhaps the single most important enabler of successful and sustained development. Thus poor governance represents a serious challenge to economic growth and social progress. Perhaps the most pressing challenge to governance reform is a lack of political will. This is compounded by a fear, arguably erroneous, that implementing such reforms and empowering stakeholders will erode the power of government.

There is often a view that good governance can be separated from pressing needs to provide developing country populations with basic services. This frequently serves as justification to relegate issues of governance behind competing demands of healthcare, education, energy, defense, etc.

Although many of the challenges to good governance are legislative in nature and require policy reforms, other challenges are procedural. For example, reducing the number of steps required to register a business – forms to complete, offices to visit, bureaucrats to approve, etc. – would help remove an important challenge to the growth of enterprises (see Figure 28). The introduction of simplified rent or tax collection procedures could also make a significant contribution to both ease of payment and monitoring for tax compliance. The creation by governments of business bureaus to provide advice on registration, administrative matters, etc. could also make a significant contribution to improving compliance with regulations.

Other challenges to improved governance include human insecurity and war, as well as socio-cultural issues, including gender or ethnic discrimination.



How business can contribute

Large corporations are required to comply with the legislation in the jurisdictions within which they operate. At the same time, good governance in the management of large corporations is fundamental to their business and their success.

Large corporations can, where appropriate, engage with developing country governments, local companies and communities to help shape the framework conditions in which they operate. Large corporations can engage with governments and assist them to integrate principles of good governance within their policies and operations. Opportunities exist for large corporations to provide and/or fund training in governance mechanisms, including rule of law instruction, or training for lawyers, judges and members of the judiciary, for example. Similarly, large corporations can assist through the provision of financial and accounting training for bureaucrats and entrepreneurs. Training in the principles of financial and management auditing would also help to build governance capacity.

Large corporations can provide information technology, systems and training to automate many of the administrative procedures and so overcome the practical and procedural challenges to good governance.

Large corporations can also engage in business initiatives aimed at improving governance, such as the Extractive Industries Transparency Initiative (EITI) and the World Economic Forum Partnering Against Corruption Initiative (PACI).

At a more local level, corporations can engage with local companies – especially SMEs – to provide training and assist them to integrate the principles of good governance in their operations. Further, they are in a unique position to offer management expertise and train officers within developing country corporations in global and/or corporate governance practice.

Large corporations could assist through the establishment of business-led forums in developing countries to provide business – including local companies and large foreign corporations – with a voice in local affairs and so contribute to improving the framework conditions within which they operate.

Key messages

For business, investing time and resources in good governance can:

- Lead to improved framework conditions, including sound taxation policies, investor protection, etc;
- Create greater transparency;
- Facilitate opportunities to engage with developing country governments and provide opportunities to contribute to policy design;
- Enable business to root out corrupt practices, thereby making it easier to conduct business;
- Give rise to more stable operating environments, and create greater security and protection for their staff, assets and investments.

For governments, an effective policy framework to improve governance can:

- Create optimum enabling conditions for improved economic and human development;
- Facilitate improved conditions for the development of a market-based economy leading to greater levels of private and institutional investment;
- Lead to increased respect for the rule of law and help root out corruption;
- Reduce the prevalence – and in some cases dominance – of the informal sector as a result of greater ease of doing business, thereby increasing tax revenues.

Health

> **"The business community has tremendous expertise and strategic resources to offer in the response to HIV/AIDS, tuberculosis and malaria, and is collaborating with others in impactful and unique ways."**
>
> Sir Mark Moody-Stuart, **Anglo American**

The global view

The World Health Organization defines health as "a complete state of physical, mental and social well-being, and not merely the absence of disease or infirmity."[42] Good health enables individuals to thrive and participate fully in the economic and social life of their communities. Any discussion surrounding health needs to include life expectancy, mortality rates, infant and maternal mortality rates, incidence of disease, malnutrition, access to healthcare, number of health practitioners per capita, health expenditure and policy. All are proxy indicators used to assess a population's overall state of health.

Global average life expectancy has risen from 46 years in 1950 to 65 years in 2000; and is expected to rise to 75 years by 2050. However, gross inequalities exist in health and mortality rates within and across countries and regions and between developed and developing countries. Mortality rates due to communicable diseases (infections) remain high in developing countries, accounting for more than half of deaths, compared to less than one-fourth in developed countries (see **Figure 29**).

On the other hand, mental health problems, smoking-related illnesses, obesity, cardio-vascular diseases and cancers, once believed to be the affliction of wealthy developed nations, are becoming increasingly common in developing nations, with cardio-vascular disease predicted to be a leading cause of death by 2010.

Women, children and the poor are the main victims of infectious diseases, many of which arise from inadequate living conditions and the lack of access to healthcare. An estimated 10.6 million children die before their fifth birthday, almost half of them in sub-Saharan Africa. The leading causes of

Source: World Health Organization. WHO database. 2002.

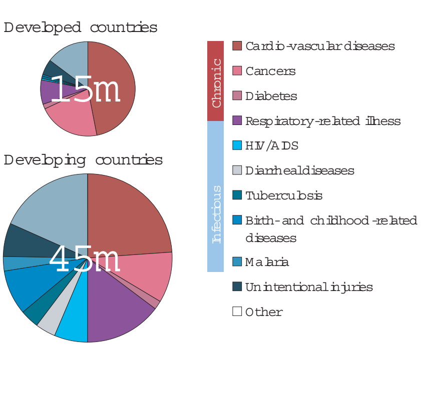


Figure 29: Leading causes of death in 2002, in millions

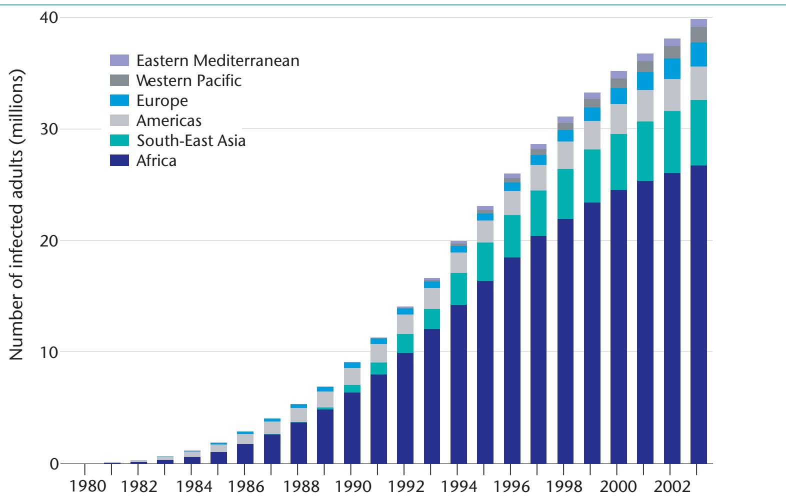


Figure 30: Estimated number of adults infected with HIV, by region, 1980-2003

Source: World Health Organization (WHO). *The World Health Report. 2004.*

death are diarrhea, malaria, pneumonia, measles and death during birth. Nearly 500,000 women die annually from childbirth and pregnancy-related complications, most of them in Africa and southeast Asia. Some 200 million women of childbearing age do not have access to contraception.[43]

HIV/AIDS places a tremendous burden on developing countries. It affects primarily the economically active age group and children – many of whom will never reach adulthood – and has significant consequences in terms of lost productivity and working days, and a reduced labor pool. Compounding this are the social and economic problems of AIDS orphans, many of whom end up in child-headed households or dependent on extended family or charity.

Currently it is believed that there are 39.5 million people living with HIV/AIDS, 64% of them in sub-Saharan Africa (see **Figure 30**). Of these, 13.2 million are women. The sub-Saharan region is also home to 90% of the children with the virus.

While there has been some success in promoting behavioral change to curb the spread of the disease, rates of infection continue to rise. Many of those living with the disease are unaware of their HIV-positive status. In 2004, there were an estimated 3.1 million deaths from HIV/AIDS, half a million of them children.

Tuberculosis (TB) is also a growing killer. There were an estimated 8.8 million new cases of TB in 2003, and the disease is believed to be responsible for 1.7 million deaths each year. The disease is spreading fastest in sub-Saharan Africa (approximately 1% per year), partly due to the spread of HIV/AIDS.

Malaria also poses a major threat to health, with an estimated 1 million deaths each year, 80% among young children in sub-Saharan Africa.

Overall, the health sector has spawned a huge industry including healthcare professionals, medical research and development, drugs and pharmaceuticals, and medical equipment. The 4 billion poorest members of the global population’s spending on health amounts to some US$ 158.4 billion; for the same sector the pharmaceutical market is valued at about US$ 56.7 billion.[44]

Societal needs

There is a clear correlation between “healthy” nations, levels of GDP and development. There are exceptions, and some countries like Cuba, for example, despite relatively low levels of GDP nonetheless enjoy good standards of health. Correspondingly, nations with short life expectancies or large numbers of sick people among their populations tend to have lower levels of GDP and development. Improving the health of nations would have significant implications for business and governments.

People in low-income countries need improved housing and sanitation to prevent infectious diseases and they need access to healthcare when they fall ill. Even when healthcare is available, it cannot always be afforded by the very poor. Treatment for illnesses or funeral costs often wipe out the entire savings of families and their economic activities might be severely hindered, rendering them destitute.

HIV/AIDS action in sub-Saharan Africa

Lafarge

Global construction materials company Lafarge employs some 7,000 people – 10% of its global work force – in nine countries in sub-Saharan Africa, a region particularly affected by HIV/AIDS. Since 2000, Lafarge, in collaboration with local community organizations, NGOs and doctors, has been involved in a program to combat HIV/AIDS. Through the project it offers anonymous screening to staff, counseling, medical advice and support, and access to retroviral therapies for staff and their families. It has also developed information tools about HIV/AIDS and national and regional guidelines. In 2004, the group spent about US$ 1 million on the program. Today, 90% of employees in the region benefit from prevention information and activities, including the distribution of free condoms, while 40% of employees – far higher than the national average – have undertaken voluntary testing. The program has resulted in a healthier and more aware work force, a strengthened relationship with local community organizations and engagement by the government.

Key challenges limiting progress

The lack of access to healthcare facilities and medical practitioners is the biggest challenge facing developing countries. Rural areas in particular lack appropriate healthcare infrastructure – especially primary health facilities such as dispensaries, medical centers, etc. – to respond to health needs. Poorly equipped, under-resourced hospitals and a lack of medicines and drugs also hinder the delivery of healthcare.

The problem is compounded by low financial investment in the health sector in many developing regions. There are huge inequalities between the developed and developing world in terms of total health spending per capita (public and private), with Norway and Switzerland spending US$ 3,809 and US$ 3,776 per capita compared to Niger and Sierra Leone at US$ 30 and US$ 34 respectively. The effect is often a dearth of trained medical practitioners in developing countries (see Figure 31), with large sectors of the population deprived of access to trained physicians. For example, Niger has three physicians per 100,000 people, while Burkina Faso has six.

This disproportion is often accentuated when prospects of better conditions or higher salaries encourage medical personnel in developing countries to leave and settle in higher-wage settings, usually developed countries, creating a medical "brain drain".

Related to financial impediments is the question of poor or lacking regulatory frameworks. Although health systems – which include supply, management, financing and regulation of health issues – involve many different sectors of society – including medical personnel, patients, drug companies, medical equipment companies, medical associations, etc. – they remain a public policy issue. However, in many developing regions, comprehensive public health policies are either lacking or poorly enforced.

Similarly, there are discrepancies in funding public health policies. For instance, with a few exceptions, most developed countries have achieved near universal health coverage through the implementation of a mixture of systems: national health (funded through state taxes), social insurance (funded by employer/employee contributions), or market-based (private health insurance). In many developing regions, although state-funded healthcare exists, the reality is that most people requiring healthcare are obliged to pay for it themselves, and rates of out-of-pocket spending on health in developing nations are increasing.

Furthermore, public health campaigns aimed at encouraging behavior change to stem the increase in preventable diseases such as HIV/AIDS are sometimes difficult to manage and target. And although advances in medical research and the development of anti-retroviral drugs mean that it is now possible for people infected with HIV to live relatively healthy, long and productive lives, the cost of such drugs is often prohibitive for those in developing countries.

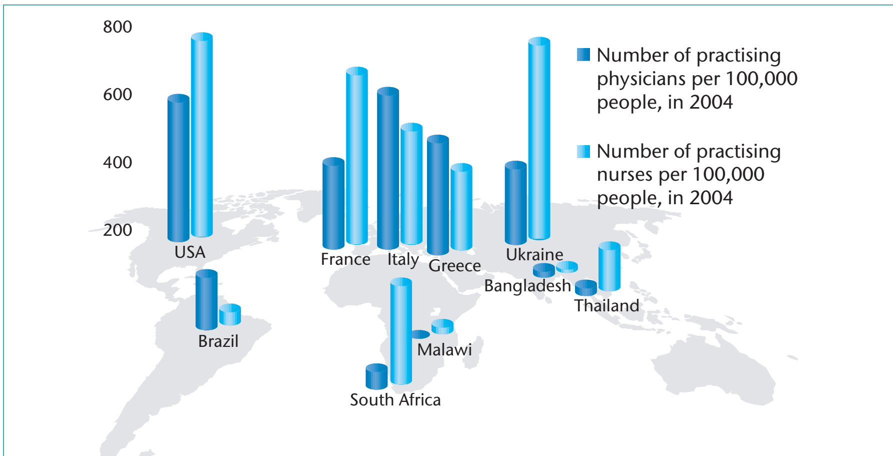


Figure 31: Numbers of practising nurses and physicians in selected countries in 2004

Source: WBCSD. *Health Systems: Facts & Trends*. 2006.

How business can contribute

While health raises huge public policy issues, large corporations can engage with governments and local health authorities to provide equipment and infrastructure, including pharmaceuticals and drugs, medical supplies and equipment, and even hospital facilities (radiography facilities, operating theaters, etc.).

At community or employee levels, large corporations often provide medical care and health insurance for their employees. They make drugs and other medicines available to their staff, for example vaccinations. Vaccination programs – particularly child inoculations – are among the most successful global health initiatives. They have helped to dramatically reduce preventable diseases such as measles. Equally, some large corporations in HIV/AIDS-prevalent regions make information packages, free testing, anti-retroviral drugs and medical care available to their staff and their families. Staff volunteer campaigns too are an effective means of contributing towards improving employee health. Large corporations can also partner with local communities to run public health and awareness campaigns, particularly surrounding the most pressing local health issues.

Large corporations can partner with research institutions to undertake research and development to devise solutions to developing country health issues. Furthermore, they can help to build capacity among local research institutes and training facilities – including medical training colleges – to increase coverage by trained medical personnel.

Key messages

For business, investing in improved health systems can:

- Create new markets and revenue streams by developing healthcare products and services for the currently underserved;
- Create a healthier labor force by investing in healthcare for employees and their communities, thereby reducing costs associated with lost days of productivity and improving the labor pool;
- Improve health education by partnering with local communities, government and development actors;
- Help increase the life expectancy of staff where diseases such as HIV/AIDS are concerned and when coupled with investments in education, training, awareness and voluntary counseling and testing programs.

For governments, an effective policy framework for improved health can:

- Improve the overall quality of life of the population leading to improved development and economic growth;
- Enable a healthier, more able-bodied work force capable of making a better contribution to the economic growth of the nation;
- Reduce economic and societal costs involved in caring for large numbers of sick people or orphans;
- Lead to innovative partnerships with business and development actors to improve health education, access and the effectiveness of healthcare.

Mobility

"In addition to energy, information and capital, mobility is also a key element in ensuring abundant amounts of the fundamentals of human existence – food, shelter and clothing. The development of sustainable mobility will therefore be essential for the economic advancement of developing countries."

Dr. Shoichiro Toyoda, Honorary Chairman, Toyota

The global view

Mobility is about connecting people and goods to each other and to markets. It includes motorized and non-motorized transport, infrastructure and virtual mobility solutions such as information and communications technologies (ICT).

Sustainable mobility has been defined as the ability to meet society's need to move freely, gain access, communicate, trade and establish relationships without sacrificing other essential human or ecological values, today or in the future.[45]

There are an estimated one billion motorized road vehicles worldwide, 10 times the number in 1950, with demographic and economic growth driving the demand for mobility (see Figure 32). Some 63% of motorized road vehicles are currently used in the developed world. However, in parts of the developing world, and particularly in urban areas, light-duty vehicle ownership has been rising at a rate of 15% to 20% per year.

Demand for freight and passenger transport in developing and transitional countries is growing 1.5 to 2.0 times faster than GDP.

The number of kilometers traveled per capita has increased three-fold and is growing by 4.6% per year. In 2003 train passengers traveled some 2.2 trillion kilometers, with a further 8 trillion ton-kilometers of rail freight carried, most of it in the United States, the Russian Federation and China (see Figure 34 and 35). Sea freight is gaining in importance, and today more than 80% of tonnage to and from developing countries is waterborne. Similarly, the world's network of energy pipelines already covers millions of kilometers and is estimated to be growing at 10,000 kilometers per year.

The growth of some virtual mobility solutions such as the Internet and mobile phones is even faster at 20 to 30% per year. Some 1.1 billion people, or 16.9% of the global population, have access to the Internet.[46] In 2007 there were an estimated 2.8 billion mobile phones in use globally[47] with 85% of the 1.6 million new mobile phone subscribers each day in developing regions, particularly India and China. As of 2006, 80% of the world's population could access a mobile phone network (see Figure 33).[48]

Mobility generates growth. Value added by the transport sector alone accounts for 3-5% of GDP, and is responsible for 5-8% of total paid employment.[49] A 39-country survey by the International Organisation of Motor Vehicle Manufacturers concluded that the turnover in the auto industry is approaching US$ 2.6 trillion. The automotive industry also provides direct and indirect employment for 50 million people and contributes some US$ 580 billion in taxes.[50]

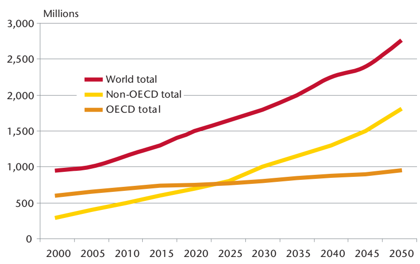


Figure 32: Total stock of motorized vehicles (millions)

Source: WBCSD, IEA/SMP transport

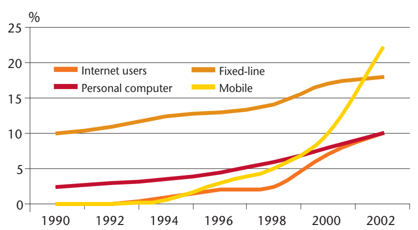
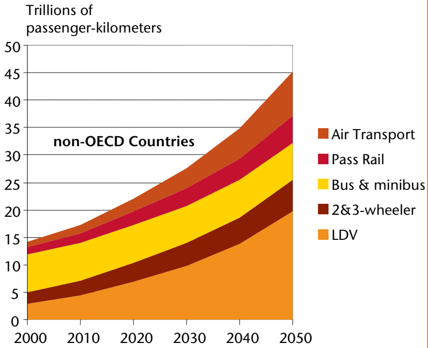


Figure 33: Penetration rates (%) for Internet and telecommunications

Source: ITU. World Telecommunication Indicators Database.

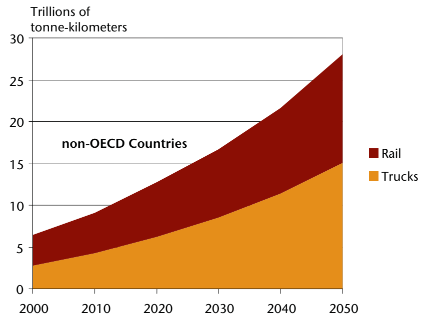
Average annual growth rate: 2000-2050		
	OECD	non OECD
Light duty vehicles	0.54%	3.86%
2&3-wheeler	0.34%	2.09%
Bus and minibus	0.00%	-0.02%
Pass rail	1.21%	2.55%
Air transport	2.53%	4.53%
Total	**0.92%**	**2.36%**



Source: WBCSD, *Mobility 2030*, 2004.

Figure 34: Personal transport

Average annual growth rate: 2000-2050		
	OECD	non OECD
Trucks	1.69%	3.47%
Rail	1.46%	2.57%
Total	**1.61%**	**3.00%**



Source: WBCSD, *Mobility 2030*, 2004.

Figure 35: Goods transport

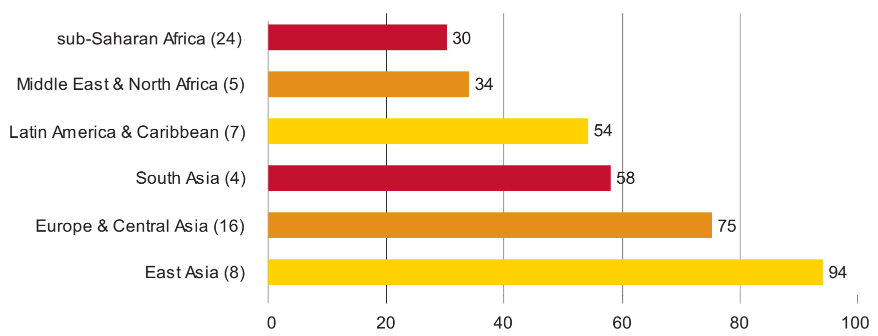
Societal needs

Currently, the supply of effective mobility solutions is unable to keep pace with demand generated by demographic change and economic growth. Access to even basic forms of mobility is low in many areas. The World Bank estimates that about 900 million inhabitants in rural areas lack access to reliable transport. Globally, 80% of people travel by bicycle, bus, cart or on foot, and large numbers of people in Africa, the Middle East, Latin America and Asia do not have easy access to all-weather roads (see Figure 36). These are all manifestations of the "mobility opportunity divide"[51] defined in the WBCSD *Mobility 2030* report.

Despite huge strides in the development of mobile technology and the Internet, a large proportion of the global population is being left behind. Only 19% of people in developing countries had a mobile phone in 2004. The situation for Internet was even worse, with less than 2.6% of people in Africa using it (versus 9% for mobile phones) and 8.1% in Asia (compared to 19% for mobile phones).[52]

As mobility increases, so do its environmental and social impacts, compounded by the growing use of fossil fuels. The transport sector accounts for 25% of global CO_2 emissions, and the emissions are growing at 2% per year.

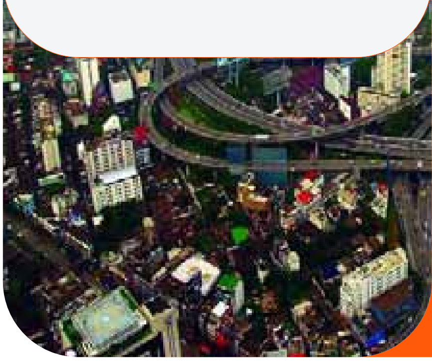
Over half the world's population lives in cities; urban populations are rising at an average rate of 2% per year, and by as much as 6% in some developing countries. The number of mega-cities with populations in excess of 10 million has quadrupled. In the next 10 years, 80% of population growth is forecast to take place in cities in the developing world. Meanwhile, necessary infrastructure growth – roads, highways, bus lanes and pedestrian facilities – is failing to keep pace with the growing population and even faster rise in vehicle ownership. The result is escalating traffic congestion, mounting urban pollution and growing numbers of road-related fatalities. Some 85% of the 1 million road deaths annually occur in developing or transitional countries. The proportion of total vehicle-related pedestrian, bicycle and powered two- and three-wheeler operator deaths in lower-income regions is much higher than those in OECD countries (see Figure 37). Also, the growing incidence of respiratory diseases caused by air pollution from multiple sources including transportation affects the economies of many countries in terms of lost working hours and increased health costs.



Source: World Bank Rural Access Index, 2006.

Figure 36: Percentage of people within a 30-minute walk of an all-weather road

Exploring sustainable mobility solutions for development



Led by the Toyota Motor Corporation and BP, business is stepping up efforts to understand and address the sustainable mobility issues being faced by developing economies. The WBCSD's "Mobility for Development" workstream is working to raise awareness in the following three areas:

- The importance of mobility as a driver of economic development;
- The need to narrow the mobility opportunity divide;
- The need for sustainable mobility solutions for rapidly growing cities in the developing world.

Case studies are being conducted in Tanzania, India, China and Brazil, with the aim of learning more about the mobility situation and examining different solutions to some of the key mobility challenges facing these locations. A high-level dialogue is being conducted at each case study location to test the findings against a broad range of stakeholders and get their perspectives on possible solutions.

Other participating companies and networks include AES Corporation, BCSD Mexico (CESPEDES), BCSD Turkey, Brisa Auto-Estradas de Portugal, Ford Motor Company, General Motors Corporation, Grupo Imsa, Michelin, Panamá Canal Authority, Renault, Royal Dutch Shell, TNT, Vodafone Group and Volkswagen.

Key challenges limiting progress

Poor regulatory frameworks and burdensome bureaucracy hinder improved mobility in many developing nations. Compounding this are absent or poorly implemented public transport policies and haphazard urban planning. Lack of institutional investment, ill-maintained road and rail networks, high vehicle operating costs and heavy levels of taxation can further hinder mobility. These challenges are complicated by competition for capital from the provision of other basic services. Building, maintaining and repairing existing transport infrastructure or road networks can take up to 20% of a government's budget. This is a huge amount, particularly when pitched against competing health, education and energy demands.

The absence of cross-border cooperation in the transport sector poses a challenge, particularly for landlocked countries. Poor networks, high freight operating costs, heavy trans-border taxes and transit charges hinder exports from landlocked countries and make them less competitive in the global marketplace. Freight costs are often disproportionate to distance traveled; it costs US$ 1,000 to ship a six-meter container to the UK from Ghana. However, to send the same container between Ghana and Liberia costs US$ 2,300 – more than double.

Increasing urbanization is being accompanied by a growing level of suburbanization as rising levels of affluence cause people to move away from city centers. This is driving urban sprawl, increasing the need for transport solutions and adding to the volume of private vehicles on roads. Furthermore, efforts to increase rural-urban connectivity can result in the destruction of important ecosystems and habitats and lead to the displacement of poorer segments of the population to make way for the construction of road and rail links.

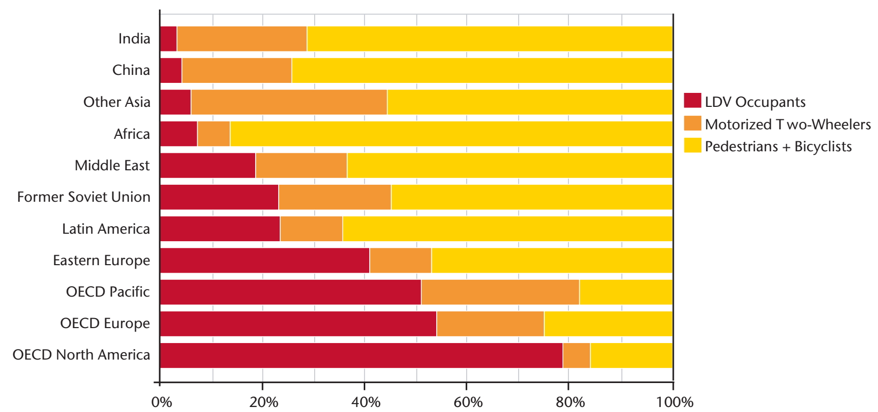


Figure 37: Road related deaths, 2000

Source: WBCSD, *Mobility 2030*, 2004.

How business can contribute

Business can develop affordable products and services aimed at improving access to sustainable mobility services, particularly for the low-income segment.

Business can seek out and develop renewable energy solutions to power the mobility sector. The development of biofuels, although not without controversy, is one such example. Supporters of biofuels argue that in addition to providing clean energy, biofuel development could also help to reduce the reliance of oil-dependent countries on imported fuel and so contribute towards fuel self-sufficiency. Similarly, the automotive industry is moving ahead rapidly with the development of "clean" cars.

Large corporations can also assist by contributing to more effective urban planning and infrastructure development. Increasingly businesses seek to locate offices, retail outlets, etc. close to transport hubs. This helps to facilitate access to goods and services, and reduce time and distance required to travel by staff.

The mobility divide also offers opportunities for the providers of public transport solutions including companies that build and operate public transport systems such as metros or subways for example, as well as for companies that build wagons and trains.

Public-private partnerships are increasingly being used to solve mobility problems, particularly infrastructure development that requires large capital investments. In many countries, while the infrastructure networks are public property, the buses, minivans and taxis are privately owned and operated, often by local entrepreneurs and sometimes outside of the formal economy. By engaging with local entrepreneurs, large corporations can achieve the two-fold objectives of building up local businesses that serve its needs and helping the entrepreneurs to integrate into the formal economy.

The development of virtual mobility solutions, such as information technology and mobile communications, has the potential to reduce the number of trips and improve the efficiency with which people and goods connect, move and access markets. They represent an important part of the solution to the challenge of making mobility sustainable.

Business can contribute by adopting the goals outlined in the WBCSD's *Mobility 2030* report:

- Reduce conventional emissions from transport;
- Limit transport-related GHG emissions to sustainable levels;
- Reduce transport-related deaths and injuries worldwide;
- Reduce transport-related noise;
- Mitigate traffic congestion;
- Narrow the "mobility divide";
- Improve mobility opportunities worldwide.

Key messages

For business, investing in sustainable mobility can:

- Create competitive advantage by developing new and affordable technologies (for vehicles and fuels) that improve safety, reduce conventional emissions and lower life-cycle CO_2 emissions;
- Create new markets for transport solutions (e.g., lower-cost vehicles, vehicles as part of integrated public transport solutions) and ICT (e.g., more affordable mobile phones, personal computers, etc.) by targeting products and services at the low-income segment;
- Reduce transportation costs and improve the efficiency of supply chain sourcing and product distribution to markets;
- Reduce the lost time and security issues affecting the work force as a result of transport-related problems.

For governments, an effective policy framework for sustainable mobility can:

- Improve levels of economic development and social progress through improved mobility services for the population and improved access to markets;
- Create improved and more interconnected transportation infrastructure, improving rural-urban connectivity and the efficiency and reliability of goods movement;
- Improve urban planning and the long-term sustainability of mobility solutions in cities;
- Improve the environmental and social performance of the mobility sector through mitigation of negative environmental and social impacts (e.g., pollution, congestion, road fatalities).

Trade

"Having encouraged the governments of some poorer countries to improve, we feel that we must also call upon the governments of wealthier countries to improve that most important framework condition: the international trading system. Whilst there has been significant progress in creating an effective international trading system, there are still too many countries that are disadvantaged by the present regime. Governments could do much more to ensure the trading regime promotes sustainable economic growth throughout the developing world."

Signatories to the trade letter of 30 June 2006 (9 CEOS of WBCSD member companies)[53]

The global view

Around the world, trade connects people of all income levels. It accounts for a large share of GDP, and can lead to economic prosperity, or hinder it.

Trade in goods was equal to 45% of global GDP in 2004, up from 32% in 1990.[54] In 2006 trade and the world economy experienced vigorous growth.

Merchandise trade saw an expansion of 8%, with the Chinese and Indian economies continuing to experience record growth (see **Figure 38** and **39**). Similarly, least developed countries' trade grew by about 30%, with their share of world merchandise exports reaching a record 36%, driven by higher fuel and commodity prices.[55]

Trade in specialized markets has been gaining in importance over the last few years, driven by health, environmental and ethical concerns, and growing consumer affluence, particularly in developed regions. The International Federation of Organic Agriculture Movements (IFOAM), for example, estimates that the global market for organically-produced goods reached US$ 33.8 billion in 2005.

Global trade predictions point to a continued growth in the proportion of trade in goods and services from developing countries over the next two decades (see **Figure 40**).

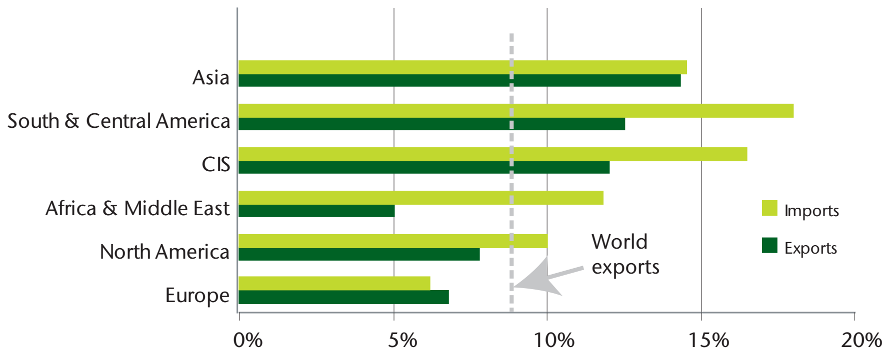


Figure 38: Real merchandise trade growth by region, 2006

Source: WTO. *World Trade Report 2006.* 2007.

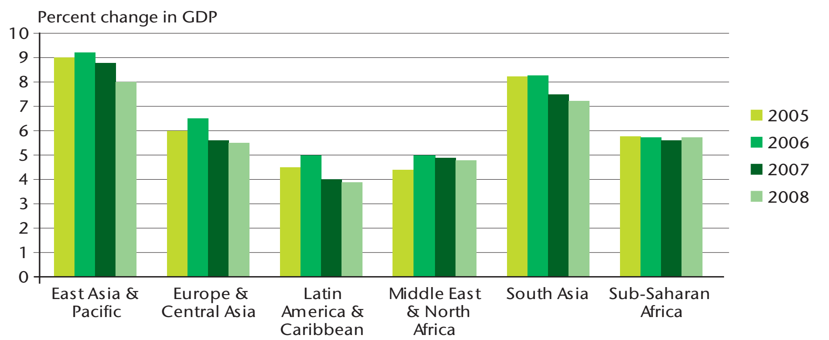


Figure 39: GDP growth, though tapering off, will likely remain solid over the medium term[56]

Source: World Bank. *Global Economic Prospects.* 2007.

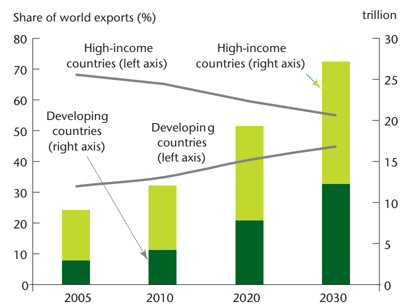


Figure 40: Globalization will intensify in coming years

Source: World Bank. *Global Economic Prospects.* 2007.

Societal needs

Despite robust economic growth in emerging economies and the steady increase in merchandise exports from developing countries over the last decade, 44 developing countries did not reach growth rates above 3% in GDP per capita in 2006.[57] This is in part due to the fact that developing country growth is starting from a much lower base and these nations are essentially playing catch-up. At the same time, these – and other developing nations – face numerous barriers to accessing the global trading system and have benefited markedly less from the growth in global trade than their developed counterparts.

Among low-income countries there is heavy reliance on the export of agricultural goods and primary commodities. Metals and minerals notwithstanding, prices of agricultural goods and primary commodities are on average lower than those of manufactured goods (see Figure 41 and 42) .

In developing countries production is often undertaken to fulfill local needs, while community-based farming or agricultural activities are carried out for subsistence rather than export purposes. In very poor areas there is little excess production for international trade. Furthermore, developing countries often lack the necessary capacity and infrastructure to produce manufactured goods at levels of cost and quality that make them competitive in global markets. This is compounded by a heavy reliance on labor-intensive manufacturing processes.

Poor transport networks, limited access to shipping ports, old and poorly maintained infrastructure, etc. constitute further impediments for developing countries seeking to enter the global trade regime. Landlocked countries, in particular, sometimes face high transit taxes imposed by neighboring countries through which their goods and services need to travel. This raises the costs of their products, making them less competitive in global markets.

Exports of merchandise from developing to developed nations are met with trade barriers and protectionist restrictions that severely limit their access to these markets. Many high income countries impose greater trade restrictions on low-income countries in the form of high tariffs. At the same time, large agricultural subsidies granted by high-income countries to producers in their agricultural sectors mean that low-income countries find themselves in competition with highly subsidized goods, especially from the European Union, Japan or the United States (see Figure 43).

These subsidies stymie the ability of many developing countries to take full advantage of the opportunities offered by the globalization of trade.

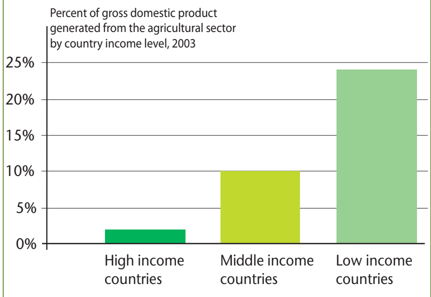


Figure 41: Economic dependence on agriculture

Source: EarthTrends 2007, using data from the World Bank 2006.

Successive rounds of trade talks have sought to resolve global trade issues. The World Trade Organization's (WTO) Doha Round, which kicked-off in Qatar in 2001, was dubbed the "Doha Development Round" because it was meant to stimulate development through trade between developing and developed countries by lowering barriers to trade and making trade fairer for developing countries. However, successive rounds of ministerial talks have stalled over the issue of opening up the markets of developed countries to industrial and agricultural products from developing countries. Similarly, access to developing countries for goods and services from high-income developed countries has equally presented difficulties. The lowering of farm subsidies, especially those of the EU and US, has also proved a sticking point. Talks stalled once again in mid-2007.

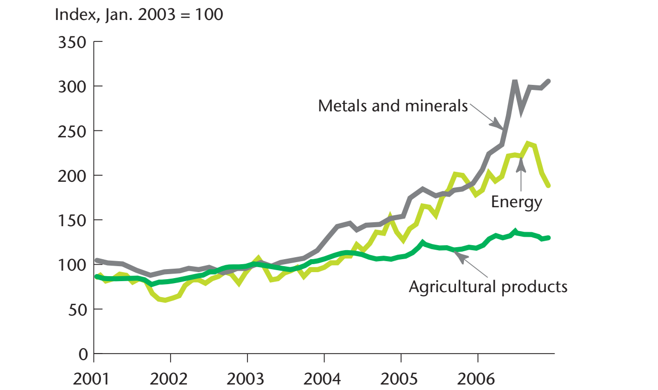


Figure 42: Diverging trends in commodity prices

Source: World Bank.. *Global Economic Prospects*. 2007.

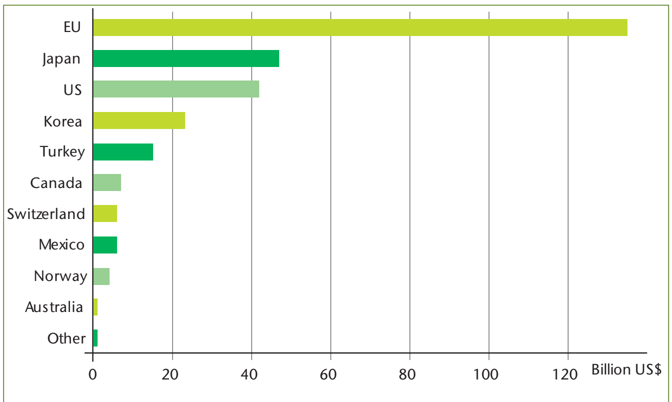


Figure 43: Domestic Support to Farmers in OECD Countries, 2005

Source: EarthTrends 2007, using data from OECD 2006.

Business Action for Improving Customs Administration in Africa (BAFICAA)

Led by Unilever, British American Tobacco, SITPRO (the UK's trade facilitation agency) and Diageo, BAFICAA is a flagship trade facilitation program of Business Action for Africa. BAFICAA's primary objective is to achieve measurable and meaningful progress in customs reform by retaining a strong private sector lead while working in a wider cooperative relationship with governments, donors and other stakeholders in Africa. A business-focused study on customs administration was undertaken in 20 countries. Subsequently a series of recommendations was developed. Implementation is being planned in East Africa (Kenya, Uganda and Tanzania) with the private sector and government authorities, and with the support of PricewaterhouseCoopers.

The program has concentrated on six areas:

- The need for fast-track customs services for compliant and low-risk taxpayers and traders;
- The need to support change in customs administration;
- Automation of customs processes and procedures;
- A service charter between the customs services department and the private sector;
- Avoiding duplication and unnecessary bureaucracy in post clearance audits and valuation processes;
- Training, accreditation and certification for customs agencies.

Discussions are also underway in Nigeria, and talks are planned in Southern Africa.

Key challenges limiting progress

Broadly speaking, the challenges to improved global trade fall into two categories: non-tariff and tariff related.

At a national level, domestic demand and subsistence needs often limit the capacity of developing countries to produce goods and services for global trade. Lack of production capacity and outmoded facilities often restrict manufacturing activities making products from developing countries uncompetitive in global markets. These are compounded further by a heavy reliance on agricultural goods and primary commodities. Coupled with this, infrastructure constraints including poor transport networks, inefficient and poorly equipped ports, weak power supplies, lack of telecommunications capacity, etc. also restrict developing countries' access to the global trade regime.

Added to this, ineffective government policies and poor regulatory frameworks similarly hinder the production of goods and services for global trade. Heavy bureaucracy, lengthy administrative and import-export procedures, and burdensome customs regulations are also an impediment (see Figure 44).

Region or Economy	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
East Asia and Pacific	7.1	7.2	25.8	10.3	9.0	28.6
Europe and Central Asia	7.7	10.9	31.6	11.7	15.0	43.0
Latin America and Caribbean	7.5	8.0	30.3	10.6	11.0	37.0
Middle East and North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD	5.3	3.2	12.6	6.9	3.3	14.0
South Asia	8.1	12.1	33.7	12.8	24.0	46.5
sub-Saharan Africa	8.5	18.9	48.6	12.8	29.9	60.5

Figure 44: Barriers to trade

Source: World Bank/IFC. *Doing Business 2007: How to Reform*. 2006.

Tariff-related challenges to global trade include restrictive trade tariffs imposed on agricultural goods from developing countries, and agricultural trade distortions resulting from massive developed-country subsidies applied to agricultural goods. Ineffective trade agreements and a lack of integration among the different trade blocs further hinder improved trade. Finally, the apparent collapse of the Doha round of trade negotiations represents a delayed opportunity to conduct inclusive multilateral trade talks to improve global trade for both developing and developed countries.

How business can contribute

Large corporations can contribute by helping to improve trade-related infrastructure, e.g., by helping to modernize ports to increase efficiency; by improving inland transit routes to facilitate transport of goods and services; or by providing logistics services and equipment.

Business can also help by engaging with producers in developing countries through direct transfers of technology and expertise to help modernize manufacturing and agricultural procedures and so improve production processes and the competitiveness of the products in the global market.

Business can contribute to improving global trade by engaging with the Aid-for-Trade program. Established as a common initiative by various donor governments and organizations, including the World Bank and the WTO, Aid-for-Trade is a component of official development assistance. Its objective is to build technical capacity (supply-side capacity) to assist developing countries to integrate the global trade regime. It targets four areas: trade policy and regulation – building developing country capacity to formulate trade policies and participate in international trade talks; economic infrastructure – building of road and rail networks and infrastructure to link developing country goods with markets; improving productive capacity – strengthening production capacity, industrial infrastructure to improve the quality of goods and services for export; and structural adjustment assistance – assisting with costs of transition to trade liberalization, and compensating for loss of preference. Approximately 30% of ODA is devoted to the Aid-for-Trade program.[58]

In the spirit of the Aid-for-Trade program, large corporations can engage with developing country governments to help reform customs procedures, for example. Similarly, large corporations can provide information systems and technology to help speed up paperwork and modernize customs procedures.

WBCSD members have lent their support to the Aid-for-Trade program. Similarly, members have supported a resumption of the Doha Round of trade talks. If Aid-for-Trade is to achieve its objectives, it must not be seen as a substitute for trade policy reform, but rather as a tool to be applied in conjunction with such reforms. Equally, funds devoted to Aid-for-Trade must not be used in lieu of funding for other basic needs such as health and education, for example, but rather in addition to these. In this spirit, large corporations, spearheaded by WBCSD members, need to urge governments and trade institutions to engage with all stakeholders – including business and civil society – to ensure that trade is considered under a common agenda.

Key messages

For business, investing time and resources to improve trade can:

- Increase trading opportunities for import and export of goods and services;
- Diversify competitive sources of supply for larger corporations by facilitating fair market access for national companies from developing countries;
- Raise awareness with governments of the need to improve the reliability and efficiency of import and export procedures;
- Raise awareness with governments and inter-governmental organizations of the need to improve the infrastructure to facilitate trade.

For governments, an effective policy framework to improve trade can:

- Create a fully integrated, global trade regime stimulating competitiveness, innovation, greater levels of productivity and technology transfer;
- Stimulate all forms of economic activity related to the export and import of goods and services;
- Reduce the time and cost associated with the import and export of goods and services, thereby improving the competitiveness of national companies to seek business overseas.

Water

"There is a water crisis... it is global... and it will continue to get worse if governments, businesses, environmental organizations and other NGOs don't begin to address it more effectively. Moreover, the water crisis is as much about protecting the watersheds that sustain all life on the planet as it is about enabling access to water."

E. Neville Isdell, Chairman and CEO,
The Coca-Cola Company

The global view

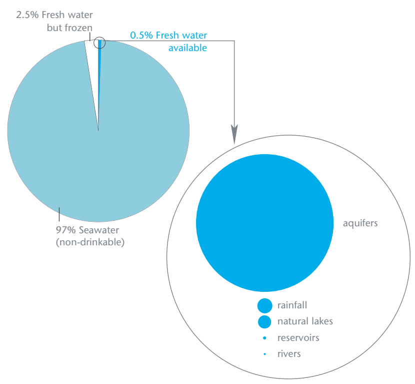
Water is the most plentiful natural resource on the surface of the planet and the single most important factor necessary for existence. Water covers close to 70% of the Earth's surface, but less than 1% of the global supply is fit for direct use by humans (see **Figure 45**).

Globally, agriculture is the biggest user of water; in high-income countries a greater proportion of water is used for industry, while in middle- and low-income countries, the primary use of water is for agriculture (see **Figure 46**).

Many industrial processes require large volumes of water. Since 1960, the amount of water stored behind dams has quadrupled. Approximately 60-70% of industrial water use is for hydro, steam, thermal and nuclear power generation and cooling, with the remainder for industrial processes and as an ingredient for finished products from the pharmaceutical and food industries. A fair amount of water-driven power generation is intended to feed domestic demand. While this is a more attractive alternative to fossil-based power generation from a GHG emissions standpoint, it does raise water availability issues. Similarly, growing water use by industry is resulting in a mounting problem of wastewater disposal, often into rivers and lakes.

The water industry is one of the largest in the world, after energy. It is estimated to be worth some US$ 375 billion, with an annual growth rate of 4-5%.[59] Roughly half of this total constitutes revenues from municipal utility services, with the remainder coming from sources such as consulting, engineering, operations and sales, among others.[60]

The supply and disposal of water is often a public service industry, managed and regulated by governments, although sometimes it is outsourced to the private sector. In developed regions local or municipal authorities usually manage the resource, while in developing regions it often comes under the remit of the central government.



Source: WBCSD. *Water Facts & Trends.* 2005.

Figure 45: Freshwater available

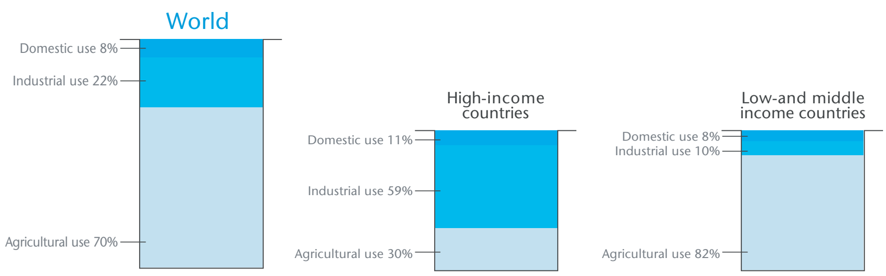


Figure 46: Competing water uses for main income groups of countries

Source: UNESCO. "Water for People, Water for Life". *United Nations Water Development Report.* 2003.

Societal needs

The world faces a global water crisis. During the last decade of the 20th century, global freshwater consumption rose six-fold, twice the rate of population growth. Water withdrawal for the majority of uses – domestic, industrial and livestock – is projected to increase by at least 50% by 2025 (see Figure 47).[62]

The availability of freshwater is under pressure from growing domestic consumption, increasing use for agriculture and burgeoning industrial and energy demands. Today, some 1 billion people lack access to safe drinking water, while 2.6 billion people are without adequate sanitation. Up to 5 million people die each year from water-related diseases, while 2.3 billion suffer from such illnesses. Similarly, the quality of freshwater is being compromised by domestic waste, industrial pollution and increased use of chemical fertilizers and pesticides that enter the water table and/or flow into rivers and lakes and contaminate supply. Globally, more wastewater is being generated today than at any other time in human history; up to 90% of wastewater in developing countries is being discharged without treatment.

Compounding this, land conversion, wetland drainage, and intensive damming are lowering water tables, shrinking aquifers and changing rainfall patterns. One-third of the world's population lives in water-stressed countries, a figure forecast to rise to two-thirds by 2025, with the greatest problem predicted to occur in sub-Saharan Africa (see Figure 48).

Huge disparities exist between urban and rural areas with the biggest disproportion occurring in sub-Saharan Africa where city-dwellers are twice as likely to have access to safe water as rural communities. Poor households obtain much of their water from "free" sources, usually surface water and wells. Some of these are safe and protected while others are contaminated and constitute health hazards. In rural areas of many developing countries, water infrastructure – drains, sewers, mains water supply – is either lacking or rudimentary. Rural dwellers, especially women, sometimes have to walk long distances to fetch water from communal wells or standpipes. In urban areas, water infrastructure development is often unable to keep pace with rapid urban growth, especially the growth of unplanned settlements and shantytowns. The result is frequently sporadic and/or contaminated water supplies, open drains and sewage systems that are poorly maintained and unable to cope with the volume of demand.

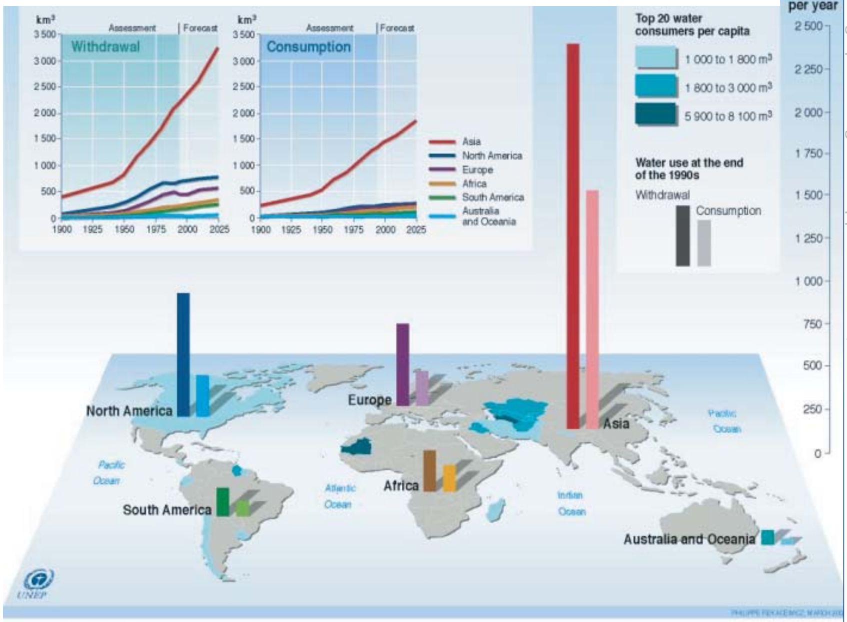


Figure 47: Global water withdrawal and consumption

Sources: Igor A. Shiklomanov, State Hydrological Institute (SHI, St. Petersburg) and United Nations Education, Scientific and Cultural Organization (UNESCO, Paris) 1999. World Resources Institute (WRI). "People and Ecosystems: The Fraying Web of Life". World Resources 2000-2001.2000. Harrison, Paul and Fred Pearce. *AAAS Atlas of Population 2001*. American Association for the Advancement of Science. University of California Press. Berkeley. Cartographer/Designer: Philippe Rekacewicz, UNEP/GRID-Arendal.

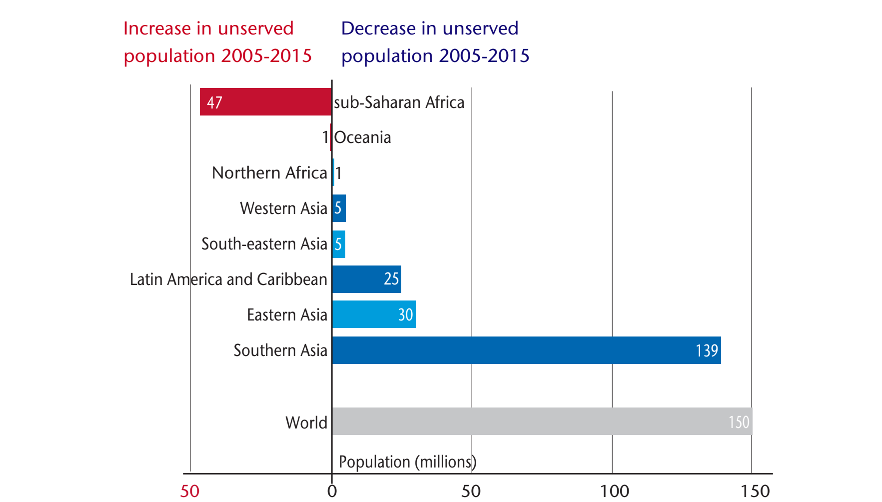


Figure 48: Projected change in the absolute numbers of people without access to an improved drinking water source 2005-2015, by developing region, if the 1990-2004 coverage trends continue to 2015

Source: World Health Organization and UNICEF. "Meeting the MDG drinking water and sanitation target: The urban and rural challenge of the decade". 2006.

Providing safe drinking water to poor communities

Procter & Gamble

Household product giant P&G has developed a point-of-use water purification system, known as PUR®, to provide safe drinking water to remote communities or those that lack access to clean water. The system consists of a small sachet of water treatment products, similar to those used in large-scale water purification plants, which is added to contaminated water. It works through a process of precipitation, coagulation, flocculation and disinfection, and removes bacteria, viruses, parasites and some heavy metals.

Each sachet costs 10 cents and can produce up to 10 liters of clean, safe drinking water. P&G has partnered with local organizations and communities to dispense the product through local distribution networks. It is then sold by local distributors, who are able to keep their profits, which provide local incomes and a source of livelihoods to the communities. Since its inception, PUR® has been used in Bangladesh, Zimbabwe, Sudan, Ethiopia, Iraq and in southeast Asia. It has provided over 260 million liters of clean drinking water.

Key challenges limiting progress

Many people struggle to meet their water needs. Both affordability and accessibility keep the poor from meeting their water needs on a day to day basis. A key challenge behind accessibility is not necessarily a lack of freshwater, but rather a lack of infrastructure to deliver water and sanitation services. Some water-challenged areas and nations do not have the infrastructure and resources needed to deliver clean water to their populations or to connect remote or rural dwellers to safe water sources. This is particularly true in peri-urban areas that have experienced rapid growth and are frequently located beyond municipal supply networks.[62] Moreover, ageing infrastructure, rapid urbanization and pollution lead to water losses. Competing demands from other sectors, including agriculture and industry also compound the problem.

A lack of stringent regulatory frameworks in water-stressed regions makes it difficult to improve water supplies. Water and sanitation strategies and plans, and water quality standards and guidelines, where they do exist, are often poorly implemented and/or enforced. This deters private investment in improved infrastructure, discourages the development of new technologies, and does not encourage implementation of non-polluting or water-efficient agricultural and industrial processes.

Water sources often cut across national boundaries. The lack of transboundary cooperation and collaboration over these water resources hinders improved water sources.

How business can contribute

Large corporations can partner with national governments and local authorities to provide sustainable water delivery models adapted to low-income markets. This includes infrastructure such as water pipes to link populations to the main water supply, construction of drains for wastewater disposal, and building of sewage treatment plants to process wastewater.

The private sector can also engage in the maintenance of existing infrastructure and the use of leak detection technologies to help stem water loss. It can of course help prevent water contamination. Other business-led initiatives to improve water supply and reduce over-use of aquifers and groundwater sources include the introduction of desalination plants and water recycling facilities, particularly in coastal countries or regions that lack abundant supplies of freshwater.

At a community level, large corporations can help provide solutions for people who are too remote for connection to the mains. This could include, for example, the provision of point-of-use water purification to deliver safe drinking water, or the supply of equipment for the *in situ* treatment of wastewater to improve sanitation. Partnering with local entrepreneurs to distribute point-of-use equipment and train community members in its use could yield twin benefits: improve local livelihoods and open up new opportunities for large corporations by increasing their access to remote markets.

Companies can have a positive impact on their business by working "beyond the fenceline" to create partnerships with local communities to maximize water as a shared resource. Protection of watersheds and creation of artificial wetlands are examples of beneficial partnerships with communities.

Large corporations can also help in reducing the water footprint of local industry sectors through the marketing of water-efficient technologies and processes. There is particular scope within the agricultural sector, where the development of drip irrigation techniques is leading to substantial water savings.

In addition to technology, market-based mechanisms, including water quality trading, or payments for wetland protection, etc., also help to meet the global water challenge. Trading of water rights is also gaining ground.

Key messages

For business, investing in improved water provision can:

- Strengthen and secure the license to operate;
- Provide access to previously unexplored markets through the development of low-cost, appropriate mechanisms to provide clean water to underserved populations;
- Lower operating costs by increasing the efficiency of water use;
- Reduce levels of wastewater pollution;
- Lead to a healthier and more productive work force, particularly in regions that are prone to water-borne diseases.

For governments, an effective policy framework for improved water provision can:

- Lead to improved infrastructure for water and sanitation;
- Result in higher levels of human development and social progress;
- Reduce the numbers of people without access to safe drinking water and adequate sanitation;
- Improve health, lower mortality rates and health costs associated with water-borne diseases;
- Reduce water pollution through the enforcement of penalties for illegal contamination;
- Promote enterprise development for the provision of water and sanitation services.

Conclusions

Economic growth is key to poverty alleviation

No country has ever achieved development in the absence of economic growth. The key to poverty alleviation rests in wealth creation. This has never really been in dispute in the modern world. What has changed is the vision of how this can be achieved and who will drive it.

Under the Bretton Woods system established in the aftermath of World War II, the onus for development fell mainly on rich country governments, who were to fund it through multilateral and bilateral aid donations. Yet budgets were never large enough, and development projects devised by and for governments rarely seemed to meet the needs of ordinary people in the developing world. At the time large corporations and the private sector were perceived as part of the problem rather than the solution.

Today, the international aid budget still falls short of commitments. Between 2005 and 2006, development aid from members of the OECD's Development Assistance Committee countries fell by 5.1% to US$ 109.3 billion. The drop in aid was a partial compensation for the decision by the members of the G8 to cancel the debt of some of the poorest countries. The debt relief was granted in an effort to reduce the burden of debt servicing and so free up funds that could be invested elsewhere.

But one thing has changed – business is now seen as a necessary part of the equation.

Implications for the private sector

Business is the main driver of economic development. In the developed world the private sector – led by SMEs – produces the largest portion of a country's output, creates employment and generates the tax revenues necessary to fund basic services including healthcare, education and other social services.

While this is also true in developing countries, especially in the booming BRIC economies, large parts of the low-income population segment are being left behind and many entrepreneurs and small businesses stay in the informal sector. The net result is that some 2.7 billion people worldwide continue to subsist on less than US$ 2 per day. They represent a huge and largely untapped market. Their collective purchasing power is estimated to be US$ 5 trillion. They do consume. All too frequently however, the quality of the goods to which they have access, whether, food, water, transport, medical care or education, are sub-standard. At the same time, they pay relatively more for goods and services than wealthier populations, both in real terms and when assessed as a portion of their disposable income.

Given the right conditions, the private sector can improve the lives of people in the low-income segment through direct employment, procurement and delivery of basic services. However, in many countries private sector activities remain relatively small-scale and localized, more often than not operating in the informal sector. Companies lack the capacity, the infrastructure, the financial resources and often the incentives to scale-up their operations and fulfill their potential.

This is where large corporations can make a difference by building on their expertise and access to capital. The preceding chapters clearly show that large corporations can engage with the low-income segment in ways that are both favorable for sustainable development and good for business.

In particular, large corporations can:

- Innovate to develop more affordable products and services for the low-income segment, thereby creating new revenue streams for the company and improving livelihoods;
- Seek out opportunities to create more direct employment for the low-income segment, thereby creating jobs and strengthening their license to operate;
- Source more from suppliers and service providers in the low-income segment and look for ways to localize distribution networks, thereby encouraging local enterprises to grow, while strengthening their own supply chains and accessing previously untapped markets;
- Contribute to vocational training and capacity building, thereby enlarging the educated work force and ensuring long-term access to employees with the right skills;
- Invest in energy infrastructure and seek new markets for renewable energies, and energy-efficient technologies, thereby accessing low-income markets and creating new revenue streams, and fueling economic growth while minimizing life-cycle CO_2 emissions;
- Invest in healthcare initiatives and health education for their employees and communities, thereby creating a healthier work force with less productivity losses;
- Offer practical solutions to manage the ecological footprint of production and consumption through interactions with consumers, suppliers and government;
- Work with governments to embed principles of good governance and improve framework conditions for investment, thereby increasing regulatory transparency for themselves and the ease of doing business for local companies.

Private sector-led activities are necessary, but not sufficient to achieve sustainable economic development. Economic growth needs to be more equitable, and not at the expense of the ecosystems upon which life depends. Guiding economic growth along these pathways requires regulatory frameworks that only governments can provide.

Implications for framework conditions

Economic growth demands good governance. Creating a favorable environment requires concerted efforts and commitments on the part of governments. Policies and legislation are required to establish the necessary framework conditions, including financial and taxation legislation, business regulations, and clearly defined property and ownership rights.

Clear rules governing property ownership are crucial for sustainable development. As Hernando de Soto has pointed out, property rights are not only an enabler of investment; they also serve to generate capital. He estimated that the developing world is sitting on some US$ 9.3 trillion in unreleased land value, largely in the hands of poor people, because poorly defined property rights do not allow for its capitalization through domestic financial markets.

Furthermore, encouraging investment and engagement on the part of large corporations also requires that governments ensure the existence of a favorable investment climate. Investors need guarantees that their investments and assets are not going to be expropriated. They also require favorable terms and conditions.

Governments need to demonstrate their commitment through investment in infrastructure and by taking practical measures to overcome obstacles to development. Corruption remains a pressing problem in a number of developing countries, and urgent measures are required to tackle it.

If economic development is to be sustainable, individual behavior must change too. This challenge is all the greater given the competing priorities and trade-offs among income groups battling for their very survival. Here concerns over long-term sustainability are unlikely to be paramount.

Notes

1. The Gini coefficient is a measure of inequality of income distribution. It is defined as a ratio between 0 and 1, with 0 meaning perfect equality (everyone has the same income) and 1 is perfect inequality (one household takes everything). China's Gini coefficient rose from 0.41 in 1993 to 0.47 in 2004. Source: *The Economist*. "Asia's rich and poor". 9 August 2007.
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Development publications

Promoting Small and Medium Enterprises for Sustainable Development

Published by the WBCSD in collaboration with SNV Netherlands Development Organization, the Issue Brief explains how governments can help alleviate poverty by focusing on small and medium enterprises (SMEs) and how larger corporations can help themselves by including SMEs in their value chains. 2007.

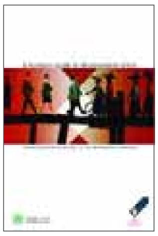
Business for Development: Business solutions in support of the Millennium Development Goals

Illustrates how the private sector is taking an active role in the achievement of the Millennium Development Goals. Singling out framework conditions as the most important factor affecting business investment, the publication strongly advocates focusing investment on a strong regulatory and legal framework, building the capabilities of local enterprises, and improving core infrastructure. 2005.

Finding Capital for Sustainable Livelihoods Businesses

Access to financial resources is a primary obstacle to companies starting sustainable livelihoods businesses. This guide, the second in the sustainable livelihoods trilogy, explores sources of finance for pro-poor projects and provides strategies to access such capital. A blueprint for action, it presents innovative strategies, opportunities and practical implementation examples. 2004.

A Business Guide to Development Actors



Introduces the business community to potential partners in the development community. The third in the sustainable livelihoods trilogy, it is a first port of call for managers who are interested in working with a development organization, but unsure how to begin. 2004.

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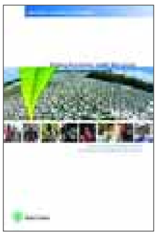

Explores how companies are breaking into an untapped market of over four billion potential customers in developing countries. Written by business for business, this guide is designed for CEOs to send out to operational units in the field. This is the first of a trilogy of reports on sustainable livelihoods. 2004.

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Our mission is to provide business leadership as a catalyst for change toward sustainable development, and to support the business license to operate, innovate and grow in a world increasingly shaped by sustainable development issues.

Our objectives include:

Business Leadership – to be a leading business advocate on sustainable development;

Policy Development – to help develop policies that create framework conditions for the business contribution to sustainable development;

The Business Case – to develop and promote the business case for sustainable development;

Best Practice – to demonstrate the business contribution to sustainable development and share best practices among members;

Global Outreach – to contribute to a sustainable future for developing nations and nations in transition.

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