

The Role of Business in Development*

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Abstract

In recent times, the role of business organizations in development has come under greater scrutiny. The shift of resources for development from official development assistance and loans to foreign direct investment and outsourcing by business has meant that at a practical level, economic development has become more intimately linked with the policies and practices of large business organizations. Economic, technological and cultural globalization is largely driven by multinational companies (MNCs). Many corporations command resources – technological and financial – far in excess of those enjoyed by many of the countries and communities in which they operate around the world. This has not always been seen as a positive trend, and opponents of globalization have typically targeted ‘business’ as both a cause and an accelerator of negative social and ecological outcomes of economic development. In contrast, even the most trenchant critics of globalization recognize the need for economic development at the local or regional community level. Many social and environmental advocacy organizations and international development agencies are researching and publishing material on the importance of sustainable livelihoods – where economic, social and ecological factors are integrated to the benefit of society and nature. In this paper we describe the response of ‘business’ and provide a contemporary perspective on development which acknowledges the importance of economic development and entrepreneurship to community development. We introduce the notion that ‘business’ might be better defined as a creative, entrepreneurial act involving multiple collaborating partners rather than as an institution associated with particular multinational interests, and we describe a number of cases that help illustrate why this is relevant to the notion of development. Finally, we reprise recent developments in the management literature which envisage a new role for multinational corporations in development and add some conclusions about how new perspectives on business might resolve some of the current tensions and ambiguities about the roles of different actors.

Without the private sector, sustainable development will remain only a distant dream. We are not asking corporations to do something different from their normal business; we are asking them to do their normal business differently.

Kofi Annan, 2002

Introduction

The World Summit on Sustainable Development in Johannesburg marked a very significant level of engagement by business with the challenge of sustainable development. From the opening speech of the Secretary General of the UN, Kofi Annan (2002), to the final political declaration¹, the role of business and trade was understood to be central, if not pre-eminent, in meeting the economic, social and environmental aspirations of governments and peoples worldwide. The Summit was attended by unprecedented numbers of business leaders, and the Business Day ‘*Lekgotla*’ and the business-organized and sponsored ‘virtual exhibition’ were key parts of the informal proceedings. At *Lekgotla*, apart from Prime Ministers, Secretary Generals and other eminent persons, eloquent speeches on sustainable development and business were delivered by chief executives and chairs of a variety of businesses including: Anglo Platinum (South Africa), DuPont (US), EDF (France), Eskom (South Africa), Novo Nordisk (Denmark), OPG (Canada), Rabobank (Netherlands), Rio Tinto (UK), Severn Trent (UK), Shell (UK/Netherlands), Suez (France), Syngenta (Switzerland), and Toyota (Japan).

At the end of the summit, the business coordinating group Business Action for Sustainable Development (BASD) issued a clear statement committing the business community to greater action, citing none other than Elvis Presley in support of more action and less words in future:

Business welcomes the agreement reached at this Summit, and particularly the Implementation Plan. Business is at its best when it has clear goals and practical targets. These give us a framework for entrepreneurial opportunities, long-term planning and partnership possibilities.

So we are rolling up our sleeves to help make it happen.

We need to make sustainable development happen by generating economic growth with greater resource efficiency, minimizing environmental impacts and with maximum social well being for more people.

We also welcome the growing realization that business is an indispensable part of the solution to the problems of the world.

We have improved our relationships with governments, NGOs and others. Together we will turn the idea of sustainable development through practical partnerships into a growing reality on the ground.

As we move forward the view of business could be summarized in the words of Elvis Presley:

“A little less conversation

a little more action”

¹ Paragraphs 27 and 29 of the final political declaration of the Summit were:

“We agree that in pursuit of their legitimate activities the private sector, both large and small companies, have a duty to contribute to the evolution of equitable and sustainable communities and societies.” and:

“We agree that there is a need for private sector corporations to enforce corporate accountability. This should take place within a transparent and stable regulatory environment.”

These phenomena – unimaginable before the United Nations Conference on Environment and Development in Rio de Janeiro in 1992 – built on a decade of increasingly active and serious engagement with the challenge of sustainable development by a wide variety of large business organizations involved with the World Business Council on Sustainable Development, the International Chambers of Commerce, and more recently, the UN Global Compact and other initiatives. Serious business activities relating to sustainable development over that period have been well documented by Schmidheiny and BCSD (1992), Hawken (1993), Elkington (1998 & 2001) and Frankel (1998) and on a fairly continuous basis by business magazines such as *Tomorrow* and *Green@Work*.

And yet, despite all this evidence of serious intent and engagement, perspectives remain sharply divided regarding the exact role business should play, and where business leaders' opinions and strategies should fit within the global discourse on sustainable development.

Although the portrayal of multi-national business, and especially financial institutions, as the *bête noire* of development is well recorded and extends over several decades (Hayter, 1981; Lang & Hines, 1993; Korten, 1995; Klein, 2000; Shiva, 2001) the rise of street protests and boycotts aimed directly at commercial entities, international banks and trade organizations is a more recent phenomenon. Events in Seattle, the City of London, Quebec City and Genoa involved hundreds of thousands of activists prepared to provoke and then suffer institutional backlash in various forms. Whether these protests represented manifestations of normal youthful radicalism or the beginnings of a potent new civil society force remain to be seen. What is clear is that issues of trust, transparency and accountability need to be taken very seriously indeed by those who advance arguments for globalization and trade as a contributor rather than hindrance to third world development (Wilks, 2001). Joseph Stiglitz, former chief economist of the World Bank leaves no room for doubt in this regard in his recent book *Globalization and its Discontents* (2002):

Globalization today is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy....What is needed is a policy for sustainable, equitable and democratic growth. That is the reason for development...This sort of development won't happen if only a few people dictate the policies a country must follow.

In a world where intangible assets like trust and reputation account for an increasing proportion of the market value of companies, this is not an academic point. Polling data suggest that around the world ordinary citizens have very mixed views about who to trust on issues of general concern to society. A November 2001 public opinion survey conducted by Environics International on behalf of the World Economic Forum (Environics, 2002) revealed that the public sees civil society organizations as far more deserving of societal trust than business organizations. Sixty five per cent of G20 respondents trust NGOs to operate “in the best interests of society” versus religious groups and churches (58 per cent), the press and media (52 per cent), large national companies (49 per cent), trade or labor unions (46 per cent), their national government (45 per cent) and global companies (only 40 per cent). However, Environics also found a strong correlation ($r = 0.68$) between trust in global companies and support for globalization. Germany, Japan, Nigeria, South Korea and Sweden exhibited higher levels of trust in companies and saw the effects of globalization as broadly positive. Argentina, France and Spain exhibited lower levels of trust in companies and saw the effects of globalization as broadly negative. Intermediate countries included Canada, Chile, Great Britain, Mexico, India, Turkey and the US. Outliers were Brazil, Italy and Russia, all of whom exhibited low trust in corporations but moderate empathy with globalization (Wheeler, 2003).

Interestingly, whatever the views of anti-globalization commentators and protestors, many ordinary citizens do have clear aspirations for the contribution of business to a just and more sustainable world. In attitude surveys conducted in G20 and other nations internationally, Environics found that only 11 per cent of North Americans believe that the role of large companies is simply to “focus on making profits in ways that obey all laws”. This compares with 39 per cent who want companies to “set higher standards and build a better society” and 49 per cent wanted business to meet both objectives. The percentages endorsing the

conventional 'business wisdom' in other continents were Europe (21 per cent), Latin America (27 per cent), Eurasia (28 per cent), Asia (34 per cent) and Africa (32 per cent).

So we have a situation where:

- i) multi-national corporations and financial institutions are more seriously engaged with the concept of sustainable development than ever;
- ii) multi-national corporations and financial institutions are highly mistrusted by anti-globalization commentators and protestors;
- iii) there seems to be a relatively low level of trust in business in the general population, correlated with mixed views on globalization; and yet
- iv) ordinary citizens worldwide have an aspiration for the purpose of business that goes well beyond the conventional notion of business as an institution that simply makes profits and obeys laws.

In order to understand how to respond to what seem to be highly paradoxical observations, we need to first explore the current context of business in development, including global socio-economic trends and theoretical and academic perspectives. We will then explore the important distinction between business as an institution (usually referring to large multinationals in the development discourse) and business as a creative entrepreneurial process that provides livelihoods for the majority of the world's people. Later in the paper we will use a framework to explore how the perspectives different actors in society are changing with respect to the role of business in development, and the recently advocated concept of the 'base of the pyramid' which sees a new role for multi-national corporations in development. We will then conclude with recommendations to further advance the contribution of business to development. But first let us establish a context for our analysis.

Context: Global Trends to Development Theory

Global Socio-Economic Trends

Important socio-economic shifts have occurred over the last 50 years. Recognizing that these trends are shaping the global business environment no less than other sectors of society, in early 2002 the World Resources Institute, UNEP, and WBCSD published *Tomorrow's Markets*, an important report which concisely captures the most recent socio-economic statistics and trends. Top-line trends over the last half-century include:

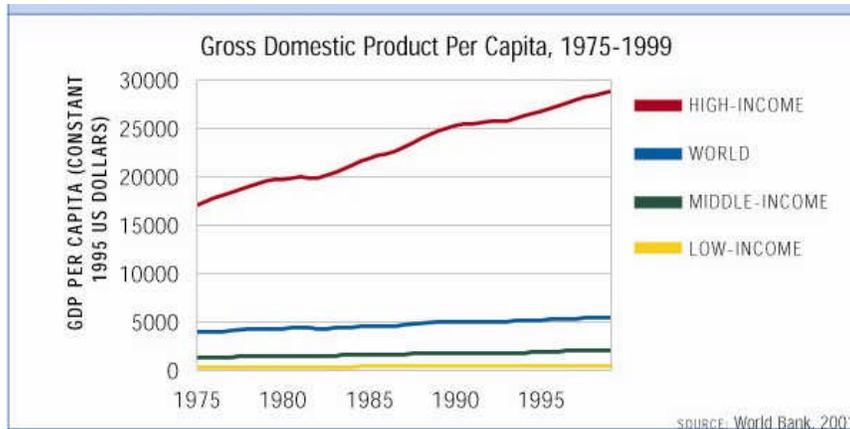
- megacities - tenfold increase
- food production - 40 per cent increase
- fisheries catch - fivefold increase
- water use - trebled
- carbon emissions - quadrupled
- life expectancy rose from 47 to 66 years in 2000
- since 1980, the global economy has tripled in size and population has grown by 30 percent to 6 billion people

(Full citations can be found in WRI *et al*, 2002)

Exploring these trends in more detail, we see that the world is now wealthier than ever but the benefits are not spread equally and income disparities are growing (see figure 1, below). World economic output has averaged 2.9% annual growth since 1975 according to the World Bank's development indicators (World Bank, 2001). However, this growth has benefited some more than others. Citizens in high-income

countries saw their incomes grow on average much more rapidly than those in middle or low income countries.

Figure 1: Increases in GDP per capita 1975-1999. Source: World Bank, cited in WRI *et al*, 2002.



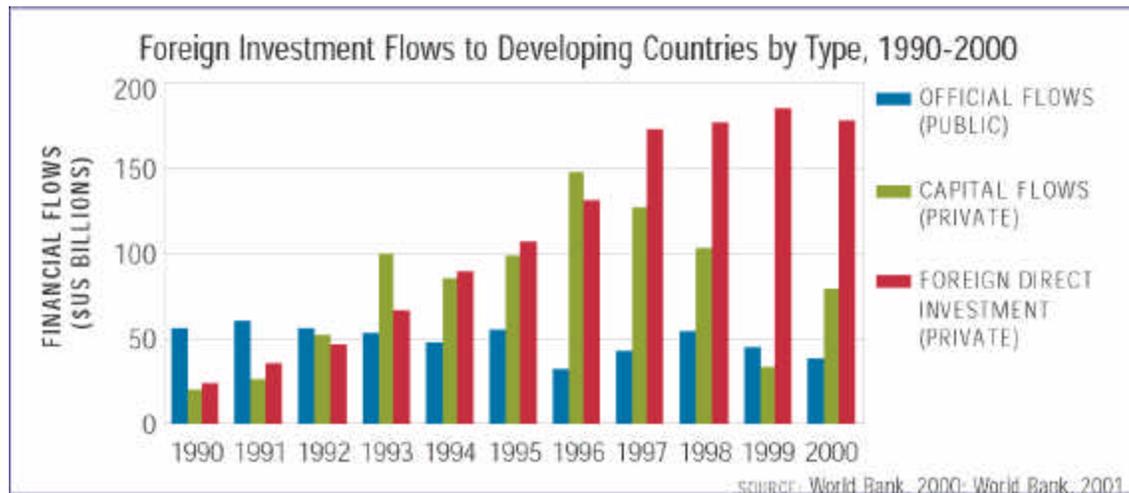
Since 1975, per capita gross domestic product has increased by about 280% in East Asia and the Pacific, 66% in North America, and 23% in Latin America and the Caribbean, while GDP per capita has decreased by 17% in Sub-Saharan Africa (World Bank, 2001). While the economies of some developing countries are improving, there is still great income disparity within regions and between countries and the absolute number of people living in poverty remains very high. Today, 1.3 billion people live on under \$1 a day while one half of humanity – almost 3 billion people – live in absolute poverty on less than \$2 per day (UNDP, 2002).

According to UN estimates, the earth's population is projected to reach approximately 7.9 billion by 2025 and to stabilize at around 9.3 billion in 2050 (UNPD, 2000). In the next 20 years, the UN predicts that 98% of the projected population growth will be in developing countries. This growth will compound global environmental concerns such as disappearing forests, species loss, global warming, falling water tables, shrinking cropland and collapsing fisheries (World Watch Institute, 2001). Increasing populations in developing countries brings further pressure on global social challenges. Currently, some 2.4 billion people live without basic sanitation, 1 billion live without safe water, 250 million children are used as child labour and tens of thousands of children are dying each day as a result of malnutrition and preventable causes (UNDP, 2001).

Shift from ODA to FDI

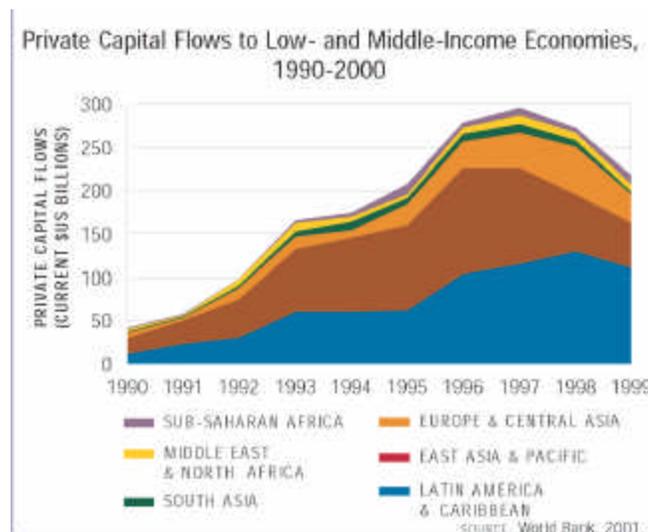
A fundamental shift has taken place in recent years in the proportional flows of ODA (official development assistance) and FDI (foreign direct investment) from industrialized (i.e. OECD countries) to developing countries. Today, direct foreign investment significantly outweighs traditional development assistance (see figure 2 below).

Figure 2. Foreign Investment Flows to Developing Countries by Type, 1990-2000. Source: World Bank, cited in WRI *et al*, 2002.



Private sector investment has been growing quickly while government aid has been decreasing. With the collapse of the former Soviet Union and the spread of multi-party electoral systems, the majority of the world's countries are now democratic (UNDP, 2002). Accompanying this political freedom was a concurrent opening of markets. As a result, three billion people in developing countries rapidly joined the market economy for the first time resulting in a dramatic increase in foreign direct investment to developing countries (UNCTAD, 2002b). Foreign direct investment and private capital flows in developing countries have increased twelve-fold, from \$20 billion in 1990 to \$240 billion in 2000 (Watts, 2002). In contrast, total foreign aid to developing countries today totals about \$55 billion annually, but has declined slightly over the last decade (USAid, 2002; WRI *et al*, 2002). This trend is illustrated by figure 3, below.

Figure 3: Private Capital Flows to Low- and Middle-Income Economies, 1990-2000. Source: World Bank, as cited in WRI *et al*, 2002.



Foreign Direct Investment is increasing even in the least developed countries, where official development assistance can still be an important source of overall finance. In the least developed countries (LDCs), the majority of GDP is generated by trade. Aid accounts for about 7% of GDP on average, and private investment accounts for about 3% (UNDP, 2001). In total, all developing countries earn \$2.4 trillion per year from trade, many times more than from ODA and FDI combined (USAID, 2002).

In addition to the significant role that private capital flows play in the economy, large multinational companies now account for one-third of world output and two-thirds of world trade (DFID, 2002). The sheer scale of foreign direct investment versus official development assistance has demanded that the role of multinational companies in development be taken seriously. We will now turn to the literature on development to examine current theoretical perspectives on the ways in which development is linked to the institution and creative process of business.

Theoretical Perspectives

i) Development as Freedom - Trade as Development?

One of the most important thinkers influencing the theory and practice of development today is Nobel Prize winner Amartya Sen. Sen emphasizes the importance of individual freedom to participate in markets as an essential component of development. Sen's starting point for the analysis of development is the basic recognition that freedom is both the primary objective and the principle means of development. In Sen's words: "Freedom is not only the ultimate end of development, it is also a crucially effective means." (Sen, 1999) By placing freedom squarely at the centre of development, Sen counters those that are suspicious of freedoms – those that argue that restrictions in freedom (democratic rights, civil liberties, freedom of market transactions) are somehow necessary to achieve development.

Sen views the freedom to enter markets and make economic transactions as a basic liberty and the means of overall economic development. He states that "freedom of exchange and transaction is itself part and parcel of the basic liberties that people have reason to value." (Sen, 1999) Sen also sees the participation of people in business activity and markets as a dynamic creative process, likened to a conversation between people:

To be generically against markets would be almost as odd as being generically against conversations between people (even though some conversations are clearly foul and cause problems for others – or even for the conversationalists themselves). The freedom to exchange words or goods or gifts does not need defensive justification in terms of their favourable but distant effects; they are part of the way human beings in society live and interact with each other.

Sen's freedom-centered view of development focuses attention on the objective of individual freedom rather than merely on proximate means such as the growth of GDP, industrialization or technological progress. Sen's freedom-centered view also captures the constructive role of free human agency as an engine of change. It differs radically from seeing people as passive beneficiaries of well-planned development programs.

Sen views "economic unfreedom" as an impediment to development and a restriction that can lead to the erosion of other freedoms. Sen's view is consistent with a "rights-based approach" to development which may have particular relevance to multinational business contexts where community stress is evident (Boele *et al*, 2000). This view of development draws from Article Two of the United Nations Declaration on the Right to Development and places the human person as the "central subject of development". The declaration further states that human beings should be the "active participants and beneficiaries of the right to development", and states should ensure their "active, free and meaningful participation in development

and the fair distribution of the benefits resulting thereof” (UNDRD Article 2). From the perspective of large multinational companies, this rights-based analysis may be an essential complement to more instrumental “stakeholder management” approaches to dealing with complex issues of business operations in developing countries (Boele *et al.*, 2000).

Economist Hernando de Soto’s work complements Sen’s analysis. In his influential work *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (2000), De Soto argues that the real problem in developing countries is the inability of individuals (and hence their countries) to produce capital. Because the vast majority of microenterprise owners and small land holders do not have legally recognized and protected property rights (i.e. they have houses but not titles, crops but not deeds, businesses but not legal incorporation), they are unable to use these assets as collateral or to attract additional investment. He argues that a formal and effective property rights system is a necessary prerequisite to expanding assets, broadening economic prosperity, and ensuring wise stewardship of natural resources. From de Soto’s point of view, most poor entrepreneurs already possess the assets they need to make a success of their businesses. What they lack is not the asset base or creativity necessary to economic success, but the framework and system of property rights in which those assets can become capital.

ii) Sustainable Livelihoods – an Integrating Concept for Business and Sustainability?

The sustainable livelihoods approach has become an increasingly important framework for analyzing and evaluating development and poverty reduction. Although the livelihoods framework incorporates the importance of gainful employment (whether as part of a wage labour system or as a microenterprise owner) and the importance of access to financial capital for the individual, early analysis of the role of large companies focused mostly on their collective unsustainable patterns of resource consumption and waste production as an impediment to global sustainability (Singh and Strickland, 1996). Research and discussion of how MNCs contribute to sustainable livelihoods has largely been absent in the sustainable livelihoods framework and subsequent analyses (Hobley, 2001). In response to this observation, the Department for International Development (DFID) in the UK commissioned the Natural Resources Institute and the Centre for Development Studies to stimulate debate on the role of business in development and its relationship to the sustainable livelihoods approach. A series of case studies and a paper were developed, and the subsequent work by Barney and Tallontire attempted to expand the debate. This early analysis focuses on how large companies can use the sustainable livelihoods framework to assess and manage risks associated with their interactions with the poor. Barney describes seven ways that the poor interact with the private sector. The poor can be producers, consumers, suppliers, neighbours, and employees, and the poor can share resources used by business (water, air, land) and can relate to large business as citizens of their countries (Barney, 2001). This early research on the role of large businesses in the sustainable livelihoods approach is an excellent first step, but leaves much room for further contributions and analysis. What we can assert, however, is that a sustainable livelihood is one which creates simultaneous social, ecological and economic gain, such that it may continue and flourish indefinitely.

iii) Voices of the Poor - New Partnerships for Development?

Illuminating insights on how the very poor experience and relate to small and large businesses operating in their communities can be found in the World Bank’s recently published landmark research series *Voices of the Poor*. The series is based on an unprecedented research effort to gather the views and experiences of poverty from the perspectives of more than 60,000 men and women from 60 countries. The research concluded that governments have been largely ineffective in helping the poor and that the role of NGOs in the lives of the poor is also limited (Narayan, 2001a).

Although the parameters of the research did not explore the poor’s relationship with small-scale productive enterprise or larger companies in depth, a number of insights are provided. According to the research, the very poor appreciate the employment opportunities provided by large private enterprises, the investment they sometimes make in community-wide improvements, and the caring shown by employers during

emergencies (Narayan, 2001b). Exclusion from the labour market and from acquiring the capital necessary to start or expand a small business were seen by the poor as impediments to their livelihood. The poor expressed a perception that they often face constraints and barriers to entering local labour and product markets, although their knowledge about market prices and links to external markets was very detailed (Narayan, 2001b).

The *Voices of the Poor* research also showed that access to credit is highly valued by poor individuals and families as a key instrument of survival and development (Narayan, 2001b). Poor people reported that they need credit to finance micro enterprises and cope with crises. With little access to formal credit channels, poor people frequently turn to shopkeepers, pawnbrokers and moneylenders to borrow funds. Although money lenders provide loans without collateral requirements (a key component of the revolutionary microcredit model championed by the Grameen bank) they often use their monopoly to exploit the poor and charge very high rates of interest. After analyzing the views of the poor, the reports' authors make a number of recommendations, including the recommendation to support development entrepreneurs and initiatives that are able to form multi-sector alliances between entrepreneurs, government agencies, local communities, civil society and development agencies (Narayan, 2001a).

Context Summary

In summary, the context for our analysis is one in which:

- i) access to capital flows from developed countries is increasingly mediated through private rather than public investment;
- ii) least developed countries are currently the least attractive places for inward investment;
- iii) development is inextricably linked to human freedoms, including the freedom to engage in trade and exchange, with the protection of property rights;
- iv) the notion of 'sustainable livelihoods', re-enforced through new partnerships, sources of credit and entrepreneurial activity may provide for an integrating ground for 'business and development' which benefits the poor.

Business as a Partner in Sustainable Development

When people speak of business and sustainable development, they usually think of multinational corporations rather than small and medium sized enterprises, family businesses or individual entrepreneurs. This is interesting given that the small and medium sized enterprises and family businesses comprise the vast majority of businesses around the world and are by far the greatest contributors to new employment and the maintenance of livelihoods.

This perception may be due in part to the actors involved and the language employed in the development discourse by the UN and other agencies. Business participation in the sustainable development agenda has primarily been led by multinational companies. For example, the 1992 UNCED conference business voice was coordinated by Swiss multinational business person Stephan Schmidheiny, who at the request of Maurice Strong laid the ground for the development of a strong business response to the sustainable development agenda. This was encapsulated in the formation of the Business Council for Sustainable Development (BCSD) – a group of concerned multi-national corporations – and the publication *Changing Course*, produced by Schmidheiny and the BCSD. As noted above, the business voice at Johannesburg was coordinated by Business Action for Sustainable Development (BASD), a joint venture of the World

Business Council for Sustainable Development and the International Chamber of Commerce – both organizations that represent primarily the interests of large, multi-national corporations.

In preparation for the Johannesburg summit, National Preparatory Committees were urged to ‘raise awareness and mobilize stakeholders’. In this endeavour, stakeholders were conflated with ‘major groups’ (in UN-speak) which are traditionally identified as women, youth, indigenous people, NGOs, workers and trade unions, and *business and industry*. cursory examination of the official web site of the summit and the content of documentation for Preparatory Committee events and the summit itself reinforces this division of stakeholders and participating institutions, and furthers both the stereotype and the language around business.

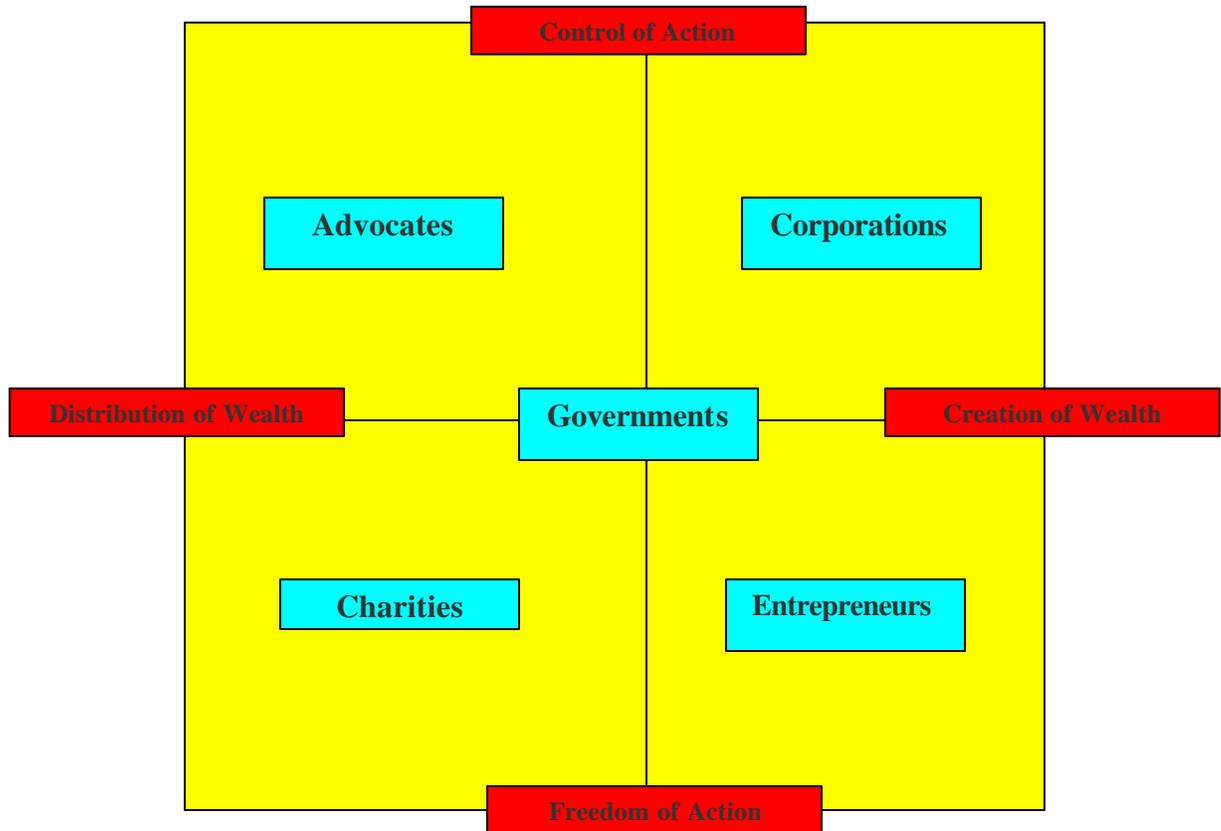
It is our contention that this characterization of ‘business’ in UN processes and in the minds of other actors is not entirely helpful. We now offer a model which demonstrates why this may be the case.

Wheeler and Ng have offered a historically grounded way of thinking about different actors from a global governance perspective which makes clear the distinctions to be observed between these actors with respect to: i) freedom of individual versus collective action; and ii) attitude to wealth creation and distribution. The authors acknowledge that the model only purports to describe the types and orientation of those principal actors we might expect to see in *human society* and does not include a broader definition of wealth or directly embrace the role of non-human species or the notion of deep ecology. Equally it is not a model which deals with questions of ‘value’ and ‘values’, although these are of course somewhat embedded within attitudes to wealth creation *versus* distribution and control *versus* freedom. The model is depicted overleaf.

The definitions applied to the various principal actors are as follows:

- ‘Advocates’ institutions that attend to societies’ need for order (civilization) and seek to minimize or constrain the negative impacts of human existence (e.g. religious and activist groups)
- ‘Corporations’ institutions that command power and influence, create wealth and seek to consolidate it (e.g. businesses, financial institutions and professions)
- ‘Entrepreneurs’ institutions and individuals that are driven to achieve prestige and recognition, that create wealth but that tend to eschew controls and rules (e.g. small business people and entrepreneurs)
- ‘Charities’ institutions and individuals that believe in the freedom to do good in the absence of a normative agenda (e.g. pastoral charities and mutual organizations)
- ‘Governments’ institutions that attempt to balance the other four (e.g. governments and international agencies)

Figure 4: The Five ‘Principal Actors’ in Global Governance. Different orientations are observed with respect to wealth (creation – distribution), and societal and individual norms (freedom of action – control of action).



The model is relevant here because it provides separate conceptual space for the two types of institutions involved in wealth creation: corporations and entrepreneurs – the latter comprising the multitude of small and family businesses and individual traders that are the bedrock of any economy in the developed or developing world. The model also emphasizes the dynamic between collective versus liberal philosophies which may be observed among the actors. We will now use this framework to explore the various roles and perspectives of each of the five actors on the role of business (the institution and the creative activity) in development.

Perspectives and Roles of Governments

The framework places “governments” at the centre of the matrix. Governments are institutions attempting to balance the other four actors and might include both formal, national governments and international agencies such as the United Nations and the World Bank.

There is a fundamental change taking place globally in the understanding and practice of governance (Nelson, 2000; Webb, 2002). Traditionally, the role of governor fell firmly at the feet of national

governments. Today, the concept of governance is increasingly about balancing the roles, responsibilities and accountabilities of different levels of formal government with other actors in society. This trend towards governance as a negotiated process between societal actors has also manifested itself in the outcomes of the World Summit on Sustainable Development and its focus on multi-sectoral partnerships as the principle means to pursue sustainable development. In the lead up to the summit, the UN received over 200 major partnership submissions involving various levels of national and regional governments, UN agencies, small and large businesses, academic institutions, NGOs and other civil society organizations.² These partnerships signify a shift from paper commitments to practical partnership action on the ground between governments, businesses, civil society organizations and other public and private organization.

The way in which OECD governments are responding to these governance trends and to the role of business in development can be observed by analyzing the policies and practices of the international development agencies of the UK, US and Canada. The UK Department for International Development (DFID) acknowledges that the challenge of reducing poverty must be met through collaboration between governments, civil society and private sector firms. DFID's policy paper *Making Globalization Work for the Poor* (2000), recognizes the ability of large companies and small businesses to generate the wealth and create the opportunities that can lift millions of the poorest people out of poverty. The US Agency for International Development (USAID) has a strong orientation towards engaging the private sector to help achieve international development objectives. This includes encouraging microenterprise development through the provision of microfinance services targeted at the poor, providing training for local businesses, and facilitating partnerships between US companies and local SMEs and entrepreneurs. The Canadian International Development Agency's (CIDA) draft policy on private sector involvement defines the private sector as "a basic organizing principle for economic activity where private ownership is important, markets and competition drive production, and private initiative and risk-taking motivate economic activity." (CIDA, 1999) This definition goes beyond business as an institution and recognizes it as a creative and entrepreneurial process. The policy acknowledges that "the private sector represents the most significant source of sustainable livelihood in all developing societies." (CIDA, 1999)

Perspectives and Roles of Corporations

In the framework, "corporations" are institutions that command power and influence, create wealth and seek to consolidate it. These organizations include larger businesses, financial institutions and professions. Corporates are distinct from "entrepreneurs" – small business people and traders that create wealth but that tend to eschew controls and rules and place a high value on the freedom to develop new ideas, technologies, and business ventures.

As discussed in the introduction, many large businesses are firmly engaged in the sustainability agenda and a number are fundamentally re-examining the way they do business as a result. The Prince of Wales International Business Leaders Forum (IBLF) has been at the forefront of research and practical action to support the positive role that large multinationals can play in international development with its *Business as Partners in Development* initiative (Nelson, 1996). Subsequent work by IBLF includes *The Business of Enterprise* initiative focusing on how large companies can support local enterprise development (Brew and House, 2002). One of the UK's leading sustainable development consulting organizations, SustainAbility, has also recently focused on the role of business in development with the launch of a new publication on the business case for sustainability in developing countries entitled *Developing Value* (2002).

Some corporate approaches to development are philanthropy-based, and involve donating products or services to communities or small businesses in need. While this approach may be helpful in times of natural disasters or other specific circumstances, such charitable activity does not have the necessary condition of being economically replicable, scaleable and sustainable over the long term.

² For a list of major partnership initiatives involving business in sustainable development see the BASD web site at <http://www.basd-action.net/initiatives/all.php>.

At the 'Lekgotla' business meeting at the World Summit on Sustainable Development, participants agreed on the critical importance of growing sustainable business and economic capacity in the least developed countries. Sir Mark Moody-Stuart, Chairman of BASD, presented a plan that would commit participating businesses to identifying business opportunities in specific least-developed countries that would be sustainable and designed to help grow local small and medium-sized businesses. The plan received wide endorsement from the meeting participants. Government heads agreed to help facilitate the process through active participation, while labour and civil society groups agreed to work as partners in the development and implementation of specific initiatives.

And yet, as we have seen, the dominance of the MNC voice as the voice of business in UN and other fora means that small scale entrepreneurs may not always get a voice, still less an opportunity to shape policies on credit and trade (as evidenced by the continuing imposition of discriminatory tariffs on many exports from developing to developed countries).

Perspectives and Roles of Entrepreneurs

"Entrepreneurs" are typically found in small businesses that are driven to achieve prestige and recognition, that create wealth but that tend to eschew controls and rules. These forms of institution are especially important because while multinational corporations can play an important role in the global economy, local enterprise and small business accounts for the income of the vast majority of people in low-income countries.

Government development agencies are actively encouraging entrepreneurs in developing countries. A principle means of support has been through microfinance and microcredit programs - the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. Microcredit allows individuals, often women, to borrow money without collateral at regular interest rates and start a small business. The growth and success of the microcredit movement has been marked by the first Microcredit Summit in Washington in 1997, which attracted representatives from 1,500 organizations from 137 countries, as well as heads of state, monarchs, heads of UN agencies and donor agencies, and leaders in business and finance. The Microcredit Summit +5 is scheduled for November 2002 and will chart the progress of the summit's goal of reaching 100 million of the world's poorest families by 2005.

The success of microfinance is testimony to the entrepreneurial drive and venture spirit among the poor. Initial academic research has shown the poor to be an important source of global innovation for developing sustainable low-cost (but high quality) technologies and business models (Hart and Milstein, 1999, Prahalad and Hammond 2002). For example, the microcredit banking model has been replicated in dozens of inner city neighbourhoods in the United States.

Perspectives and Roles of Advocates

"Advocates" are organizations that attend to societies' need for order and 'civilization', usually seeking to minimize or eliminate the negative impacts of human existence. These include religious and activist groups with a normative agenda. In many countries, these civil society organizations are associated with high levels of public trust.

Oxfam is an example of a civil society organization that has been wrestling with its stance on the role of markets and economic globalization in development. Its recent "Make Trade Fair" campaign signaled a shift for the organization. Far from rejecting trade altogether as is the position of some civil society organizations, Oxfam recognizes that trade "has the potential to act as a powerful motor for the reduction of poverty, as well as for economic growth" (Oxfam, 2002). Oxfam is, however, campaigning to mobilize opinion against the current "unfair" rules that govern trade to the detriment of developing countries. Instead, it seeks to realize the potential of trade to lift millions of people out of poverty.

The success of micro-credit and the recognition of the importance of entrepreneurial activity have led to a greater awareness among some civil society organizations of “business” as a dynamic and creative process that leads to poverty reduction and sustainable livelihoods. As a result, a number of civil society organizations are supporting a market-based approach to microenterprise development. For example, the mission of NGO International Development Enterprises is to “employ market principles to attack the roots of rural poverty in the world's least developed countries”. Similarly, international NGO EnterpriseWorks describes its activities as “fighting poverty with profit” while *Washington Business Journal* described the organization as “a Peace Corps with a business plan.” In the 1980s, EnterpriseWorks was providing appropriate small scale technologies to farmers on a philanthropic basis in several developing countries with mixed success. Switching to a market based approach to encourage local manufacturing, financing and marketing of technologies has produced drastically better results.

Notwithstanding this engagement by more pragmatic if yet normative advocacy-based organizations, there undoubtedly remains in the minds of some working in this arena, an ambivalence to the role of ‘business’ (and especially multinational corporations) in development. A belief seems to persist that in some way the making of a profit may be acceptable if it is in service of a livelihood in rural Bangladesh, but not if it is in service of shareholder interests represented on Bay Street, Wall Street or in the City of London. We shall return to this phenomenon in our conclusion.

Perspectives and Roles of Charities

Charities are institutions and individuals that believe in the freedom to do good in the absence of a normative agenda. Examples of benefactors include pastoral charities, mutual organizations, the vast array of local self-help organizations and co-operatives, chambers of commerce, and charities that exist in every society. The role and perspectives of these organizations on development is difficult to capture owing to the absence of research in the area and the sheer variety of organizations occupying the space.

The internationally respected Aga Khan Development Network is one example of an interesting archetype. This network seeks to strengthen the role of private sector initiatives in the development process. To achieve this, the Aga Khan has set up the Fund for Economic Development (AKFED) as a for-profit international development agency which promotes entrepreneurship in the private sector in specific regions of the developing world. The Fund helps to build economically viable enterprises through strong equity participation combined with management and technical expertise. AKFED companies promote sustainable economic development in South and Central Asia and sub-Saharan Africa with projects in industry, tourism, and financial services. The Fund operates as a network of affiliates with more than 90 separate project companies which collectively control assets in excess of US\$ 1 billion. AKFED emphasizes equity investment in sustainable businesses, including participation in privatization programs and floatation of its companies' shares on national stock exchanges. This emphasis on equity investment demonstrates the highest level of investor commitment and acknowledges the positive role that sustainable business activity can have on development.

Other international development charities and civil society organizations are involved in promoting fair trade – going beyond an advocacy or straight overseas development assistance approach and working within global supply chains to provide developing country producers with higher and more sustainable prices. Coffee, sugar, tea, and bananas are examples of agricultural products supported by the fair trade movement; artisan-produced manufactures and crafts are also supported. The internet has provided an opportunity for civil society organizations to facilitate the marketing and sale of artisan’s merchandise to consumers around the world. A number of portals have been established such as novica.com and peoplink.org to facilitate on-line shopping for a wide variety of hand made items. Taking this model one step further, PeopLink is now transforming its role from selling items *for* artisans to helping them sell directly on-line through the use of low-cost on-line catalogue-generating software, digital cameras and training.

We are convinced that there is a special role for local self-help organizations that have a pastoral but non-normative approach – if only because ideologically they may have less of a problem with business – both

as an institution and a process. This may explain in some ways the level of engagement of many Rotary Clubs and similar institutions in development.

Summary of Perspectives and Roles and Two Small Cognitive Steps

The 2 x 2 framework allows us to examine the perspectives of the various actors on the role of business in development, and suggests a distinction between the two types of institutions in the context of wealth creation: corporations and entrepreneurs. It also allows us to think creatively about the roles of different types of civil society organization – whether they be advocacy-based or less normative in orientation.

As a further development in perspective, we propose thinking of ‘business’ not simply as an institution – from the village artisans in Senegal and Tanzania to mega-corporations in Seattle and Tokyo– but also as a *dynamic process* of value creation. It is our contention that making these two small conceptual leaps may provide for a much richer discussion of the role of business in sustainable development. It is also possible that this way of thinking may also help us navigate some of the paradoxes and contradictions alluded to earlier in this paper.

Business and Development – Some Alternative Models

Introduction to Alternative Models of Business and Development

Thus far in this paper, we have made a case for supporting a more balanced perspective of business and wealth creation, which:

- i) acknowledges the importance of ‘freedom to act’ and perhaps ‘freedom to trade and develop sustainable livelihoods’ as central to development;
- ii) notes the different normative agendas of some principal actors that have perhaps dominated the discourse on development today – i.e. governments, corporations and advocates;
- iii) raises the possibility that there may be more powerful roles for entrepreneurs and charities whose approach is often more in tune with partnership and action rather than control; and
- iv) defines business (large and small) as both an institution and a dynamic process.

Here we will set out some examples which seem to us to embody principles consistent with a more balanced approach to business and sustainability. Experiments with novel business models and partnership arrangements suggest new contributions that business can make to trade and development that is consistent with this balanced approach to business and sustainability. These examples are qualitatively different to what we may call the ‘traditional model’ of trade e.g. commodity exports from south to north and/or selective but dependent local manufacture for export. From among these alternative examples, several new models of the positive role of business in development can be identified. They include:

- Value-added product (export) model
- Local self-reliance (non-export) model
- Locally financed and resourced model
- Internationally financed and resourced - including MNC-led or facilitated

Below we will examine examples from each alternative model in turn, recognizing that in some cases there is overlap between export versus non-export models and local versus international financing and resourcing.

Value-added Product Export Model

Some of the most familiar ‘value-added’ product export models are the campaigns of governments in the developing world to i) secure fairer prices for their commodity exports; and ii) attract inward investment that will maximize opportunities for value added manufacturing. For the purposes of this paper, we will not catalogue successes and failures of manufacturing by MNCs in developing countries as we see this as largely a traditional endeavour which may or may not satisfy criteria for sustainable livelihoods outlined earlier. Instead we will consider some new trends which may be observed in the creation of sustainable livelihoods through novel business approaches, where partnership, venturing, and social, ecological and economic gain are all embraced. These trends include fair trade, organic production, sustainable forest products and ecotourism – all geared to export and/or the securing of currency from developed countries.

One example of this model is ForesTrade, a for-profit company dedicated to forest conservation and cultural preservation through the distribution and sale of organic forest products. ForesTrade was launched as a for-profit enterprise in 1996 after the founders had experimented with donor-financed projects that were not effective or sustainable in the long term. ForesTrade’s business model works by building networks between NGOs, producers and international agencies to facilitate the marketing and sale of organic spices, essential oils, fragrances and coffee. ForesTrade organizes processing, warehousing, and distribution networks in the United States and the Netherlands, has established over 100 active field partnerships in Indonesia and Guatemala, and has plans to expand to Sri Lanka, Madagascar, Grenada, and India. In a similar way, since the late 1980s, The Body Shop’s Community Trade Program has sourced ingredients and products from socially and economically marginalized community groups world-wide, giving these groups access to markets for their produce. The Community Trade Program also provides support for producers through quality control and management training. Today a significant proportion of The Body Shop’s purchasing is devoted to its Community Trade partners.

Another example of the value-added product export model is Certified Pure Ingredients Inc., the Chilean-based producer of organic berries, fruits and vegetables. Supplying a contra-seasonal supply of fresh and frozen produce to markets in the northern hemisphere, Certified Pure Ingredients is part of the \$20 billion global organic food industry. Certified Pure Ingredients was founded in 1989 on the principles of competitive price and quality, organic focus, independent certification, and private sector driven rural development. The business has grown to provide high quality employment opportunities for over 2,000 Chileans and has benefited from financing in a novel partnership with Terra Capital (see below).

Local Self-Reliance (non-export) Model

In this model, we again identify novel business models where sustainable livelihoods are created through partnership and venture-based approaches and social, ecological and economic gains are secured. However, in this case, the business is not necessarily linked to an export market or engagement with the global marketplace; rather the intent is to produce locally appropriate products and services that generate sustainable gain. These businesses typically deal with infrastructural and utility needs – often through “leapfrog technologies” which do not replicate the old, capital intensive and environmentally inefficient applications developed in the industrialized countries.

One example of the self-reliance model in the field of power and energy is E+Co, an investment company that finances economically sustainable clean energy projects in Latin America, Africa and Asia. The company’s strategy is to demonstrate to public and private sector investors that the establishment of local clean energy enterprises represents a win-win, market-based solution to the twin problems of meeting the unmet demand for energy services and protecting the environment. E+Co provides business advice to local entrepreneurs and developers and helps to analyze the market potential for a profitable clean energy business. After the development of a solid business plan, E+Co invests seed capital to finance businesses and projects that might otherwise never advance.

A second utility example is Grameen Phone, one of the telecom ventures in the Grameen family of enterprises, which provides another example of the local self-reliance model. To date, Grameen Bank has made loans to more than 15,000 “telephone ladies” that collectively provide telephone service to 20,000 villages in Bangladesh. A Grameen Phone business is started when a woman borrows about \$350 from the Bank and purchases a cellular phone. She then sells telephone services to the villagers, making a living for her family and thus paying off her loan. The venture creates a self-employment opportunity in each village and provides access to a telephone for the whole village – often preventing costly and time-consuming travel to communicate messages and gather information. Each of the village phone operators makes \$2 per day on average, or \$700 per year, after covering all her costs. This earning is more than twice the country's annual per-capita income.

A third local self-reliance example – in this case in the produce sector – is Honey Care Africa. This private company was established in 2000 with an explicit sustainability agenda and a tripartite implementation model embracing business, local and international development agencies and small producers. Honey Care makes profits on the sale of high quality honey within Kenya and provides training, equipment, technical support and guaranteed prices through on-the-spot payments to producers. Development agencies buy bee hives from Honey Care and provide loans to producers to purchase the hives. The producers – mostly subsistence farmers, many of whom are women – are trained and paid guaranteed prices for their honey. In less than 3 years, Honey Care Africa has become the largest supplier of high quality honey in East Africa and is set to become one of the largest honey suppliers in Africa as a whole. Apart from the obvious social and economic value created by the enterprise, ecological benefits include pollination of local trees and plants, the discouragement of chemical pesticides which might harm the bees, and the encouragement of tree planting through incentives described as “Bees for Trees”. Honey Care Africa founder and General Manager Farouk Jiwa believes: “Honey Care’s efforts may well chart out a new direction for private-sector driven development in the South, and emphatically demonstrate that people, the planet and profits do not have to be mutually exclusive” (Jiwa, 2002).

Regardless of whether the business model is aimed at international or local markets, there can be little entrepreneurship without credit and basic resources. We discern two novel trends in financing and resourcing sustainable enterprises for sustainable development: local and international venture support. We will describe both.

Locally Financed and Resourced Model

The microcredit revolution was launched by professor Muhammad Yunus in Bangladesh when he laid the foundations for what would become the Grameen Bank in 1976 by extending small loans to very poor people for self-employment projects. Today, Grameen Bank serves over 40,000 villages in Bangladesh and has disbursed \$3.5 billion in loans. The Bank is structured in local units which include a field manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the area and identify prospective clients. The bank staff also explains the purpose and functioning of the bank to the villagers. Then, groups of five prospective borrowers are formed, 95% of whom are women. In the first stage, only two of the prospective borrowers are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions and group pressure, the collective responsibility of the group serves as a kind of collateral on the loan. Loans are available in three types: for small businesses (at 20% interest), for housing (8%), and for higher education (5%). In addition to banking, there are now more than two dozen businesses within the Grameen family of enterprises, including internet and telecom service providers, a rural electrification business and fisheries production

Another example of banking to the poor is Prodem, a Bolivian microfinance and financial services company that is using innovative technologies to make banking and credit services available to poor rural communities. Prodem designs and produces relatively inexpensive automatic teller machines (ATMs) and smart cards. The smart cards store a customer's personal details, account numbers, a record of transactions

and a digital fingerprint. The information on the smart cards eliminates the possibility of fraud and allows ATMs to operate without a permanent network connection which is important for serving remote villages. The cash machines speak instructions to clients in Spanish or in one of the major indigenous languages and a touch screen is used for further simplicity. Despite the sophistication of Prodem's technology, the company manufactures its ATM systems for about half of the cost of similar systems in developed countries. This combination of technologies reduces Prodem's marginal cost per customer and allows them to provide services to customers for an annual fee of only \$7. As a result of the success of this system, Prodem is planning to establish a branch in every one of Bolivia's 312 municipalities over the next five years and has plans to export the technology to other countries.

Internationally Financed and Resourced Model

Here we leave to one side the traditional approaches of the World Bank/IFC and other lending institutions and mechanisms which tend to take a 'top down' approach. Instead, in this arena we draw attention to new developments in the provision of financial and other resources for sustainable enterprise and sustainable livelihoods. These include venture capital and initiatives of multinational companies – in the latter case through what has become known recently as the 'base of the pyramid' strategy.

An interesting example of international venture capital model is the Terra Capital Fund – a \$15 million private venture capital fund which invests in and catalyzes private enterprises engaged in commercially viable and environmentally sustainable uses of biological diversity. The Fund invests in businesses in the aquaculture, sustainable agriculture and forestry, and ecotourism sectors and other businesses that will sustainably use or protect biodiversity (for example, the Fund has invested in Certified Pure Ingredients, above). The Terra Capital Fund was conceived by entrepreneurs, environmentalists and representatives of multilateral organizations who believed that competitive financial returns are consistent with sustainable development. The Fund's underlying premise is that private sector participation in the sustainable use of biodiversity is indispensable for its long-term conservation. By developing economic value from biodiversity, the users and owners of these resources will have an incentive to protect biodiversity in the long run.

Another example of the international venture capital funding model is DevelopmentSpace.com – a company that allows development project funders, social entrepreneurs and business planners to find each other on-line and collaborate on development projects around the world. Investors can find leading social entrepreneurs and some of the world's most innovative and high-impact projects. Social entrepreneurs with a development idea have access to business planning tools and a global network of expertise. Service providers can offer their services to projects anywhere in the world. DevelopmentSpace was founded by two former World Bank employees who had previously organized the annual "Development Marketplace" – a face-to-face science-fair-style competition of ideas for funding that takes place inside the atrium of the World Bank's headquarters in Washington each year. The idea behind DevelopmentSpace was to use the internet to inexpensively and efficiently replicate this gathering. DevelopmentSpace charges a fee of 7-10% of the funds raised for each project to cover the cost of the service.

In these examples, the main resource provided is financial, but there is a clear commitment to novel partnerships, entrepreneurship and adding sustainable value. Another international financial approach which has been advocated recently, is the idea that multinational companies might play a more sophisticated and engaged role in sustainable development – through the provision of both financial and other resources (e.g. organizational, infrastructural and managerial). This approach sees poverty alleviation and many other development challenges as problems that multinationals can help solve through the creation of innovative business models and new managerial mind-sets. This has led to the development of the notion of generating profits at the 'base of the pyramid' (Prahalad & Hart, 2001; Prahalad and Hammond 2002) as a way of describing the business opportunities for MNCs among markets of the world's poor. The "Base of the Pyramid" refers to the 4 billion people at the base of the world income pyramid, earning under \$2,000 annually. This approach sees these four billion people as a huge and relatively untapped market that can offer new customers and market growth potential to large companies willing to learn and

experiment with new ways to provide socially and environmentally sustainable products and services to the poor (Prahalad and Hammond, 2002).

With this approach, large multinationals can help establish the commercial infrastructure necessary for improved livelihoods such as accessible credit, establishing distribution and communication networks, providing opportunities for employment and supporting enterprises, and tailoring product and service development to local conditions. Supporters of this approach argue that there are compelling reasons why multinational companies should be involved in improving the livelihoods of the poor. Developing environmentally sustainable products and services is a resource and management-intensive task that often includes developing new communication networks and distribution channels. Few small businesses, NGOs or developing country government agencies have the managerial or technological resources to create this new infrastructure. Multinational companies also have the ability to transfer knowledge from one developing country market to another. Multinationals are also well positioned to play a key role as catalyst in uniting NGOs, communities, local governments, entrepreneurs and development agencies around specific development projects. Multinationals also have the capacity to transfer energy saving and sustainable innovations from the developing to the developed world and visa versa. For these reasons, it is argued, multinationals are uniquely placed to play a leading role in contributing to poverty alleviation and sustainable livelihoods in developing countries.

Innovative business-to-business partnerships and linkages between local developing country enterprises and larger multinational companies may create mutual business advantages and help improve the long-term economic health, stability and social cohesion of developing county communities (Brew and House, 2002). Recent project-based research has concluded that multi-sector partnerships that engage the strengths of multinationals alongside those of civil society and government can help create stable social and financial environments and yield better results for communities and for business than alternative approaches (Business Partners for Development, 2002).

A growing number of the world's multinational companies and small and medium-sized enterprises have begun early experiments with launching new sustainable businesses or transforming their old business models into more sustainable versions. These businesses and partnerships are active in many sectors including information and communication technologies, energy, micro-credit and finance, water and public health, agriculture, and basic consumer products. Many of these examples emphasize the potential for low-income countries to "leapfrog" traditional environmentally damaging and socially divisive paths of development.

Hewlett Packard's "World e-inclusion" business strategy is an example of a large multinational experimenting with ways to serve traditionally excluded markets. HP is making a \$1 billion investment to help bridge the digital divide and open new markets in rural villages in Brazil, Africa and India. HP's Joko partnership project was originally conceived by Youssou N'Dour, the Senegalese musician. Youssou N'Dour's initially founded Joko as a non-profit organization. However, with input from HP, Joko restructured as a Senegalese private enterprise, applying a model of community ownership to engage the entrepreneurial energy of the communities and connect them to world wide markets. Since its re-launch in August 2001, Joko has started a number of rural and urban computer clubs and a local web site. These clubs combine social activities, education and business development. An additional 50 Joko clubs are projected for Senegal in the coming year. Sustainability is a major goal of the project and Joko aims to fully achieve this in a for-profit environment. In order to survive in the long-term, the Joko clubs must generate sufficient revenues to cover their operating costs in the short term, and develop a sound business plan to cover the full costs of future operations.

Further examples of multinational-resourced initiatives include Shell and BP which are investing a combined total of \$1 billion in solar and other forms of sustainable energy to provide remote villages with electricity. Johnson & Johnson is providing financing and distribution for low cost ultra-violet water purification systems to provide greater access to safe drinking water. The subsidiaries of Unilever (e.g. Hindustan Lever in India) are developing new pricing structures, product formulations and distribution systems to provide environmentally friendly soaps, washing powder, packaged food and other products to the most underserved rural markets. Examples of small and medium sized enterprises experimenting with

poverty reducing sustainable ventures include India-based denim manufacturer Arvind Mills, that developed a new business model and distribution system to provide low-cost tailor-made jeans to rural markets, and the engineering company WorldWater that sells and installs high efficiency solar powered water pumps around the world. Agriculture firms Ocean Desert Enterprises and Seawater Farms both utilize newly developed saline agriculture techniques to turn deserts near salt water into fields and ponds that provide food, natural habitat and forest products.

Conclusions

Given the trends of economic globalization, most notably the shift from aid to foreign direct investment in developing countries, the activities of business and the objectives of development are more closely linked than ever. Many individuals and organizations in the development community are recognizing the importance of economic activity and entrepreneurship as an essential component of sustainable livelihoods – where economic, social and ecological factors are integrated to the benefit of society and nature. While there remain sharply divided views as to the appropriate role of multinational corporations in sustainable development, many actors in society are recognizing an important role that ‘business’ can play in the creation of sustainable enterprise and sustainable livelihoods.

In this paper we have advanced a way of thinking about business and development that accepts a legitimate role for business both as an institution and as a dynamic process of value creation, but which asserts the need for a shift in emphasis from top-down forms of action associated with traditional forms of (multinational) investment, enterprise and development assistance. We see a particular opportunity for activities linking the freedom to act – either in wealth creation or distribution – to the process of sustainable development. We have identified important roles for less normatively motivated actors, and we have characterized these as both entrepreneurs and charities. We have described four models of innovative business approaches to development that are currently being pursued by novel partnerships of development agencies, communities, investors, large businesses, SMEs and small entrepreneurs. These approaches create social and environmental value and combine this with a business approach to ensure long-term economic sustainability.

Whilst these experiments are in their early stages, we believe that it is possible to imagine a world of ‘sustainable enterprise and sustainable livelihoods’ embracing the full participation of businesses *of all sizes* in novel partnerships that liberate creative, entrepreneurial, and innovative forces for change. However, we also recognize that there are important financial, institutional and cognitive barriers to this vision. Thus, within the global discourse on sustainable development we propose the following recommendations to further advance the debate on the role of business in development:

i) We need a new perspective on what is ‘business’

In clarifying our position, we have introduced the notion that “business” should refer not just to an institution usually associated with multinational firms. In addition we should see business as a creative, entrepreneurial set of activities – a dynamic process involving enterprises of many sizes and forms involving multiple collaborating partners contributing to social, ecological and economic gain.

ii) We need to be clear on what is ‘development’

At the World Summit on Sustainable Development in Johannesburg, Lennart Bage, the president of the International Fund for Agriculture Development (IFAD) was interviewed about the important messages that he wanted to bring to the summit. IFAD’s mission is solidly focused on working with the poorest of

the poor, the majority of whom live in rural areas around the world. In addition to focusing more attention on rural areas for poverty reduction, Mr. Bage stressed the need to place more emphasis on the “productive sectors” – enterprise and business – so that social investments – health and education – can become more sustainable. We need to be clear that development includes economic development, entrepreneurship and microenterprise creation as an essential component of sustainable livelihoods. This is consistent with Sen’s perspective on development as freedom, and our assertion that freedom to trade and conduct business is a basic building block of self-reliant, sustainable community development.

iii) We need many new experiments in sustainable enterprise and sustainable livelihoods

Innovation is essential to developing the partnerships, business ideas, and novel organizational forms that can produce sustainable businesses. Michael Porter of Harvard Business School asserts: “We are learning that the most effective way to address many of the world’s most pressing problems is to mobilize the corporate sector where both companies and society can benefit.” (WRI *et al*, 2002) Harnessing the motivations and resources of business organizations – large and small - to address complex development problems in partnership with communities, NGOs, development agencies and governments is key to addressing complex economic development problems. Creative solutions to old problems will require challenging old assumptions and developing new mindsets – within business organizations and within partnering organizations. New experiments will require accessing knowledge and other resources from diverse sources across disciplines. It will also require developed countries to move beyond the prescriptive game of ‘the West knows best’ and into a new mode of international engagement, sharing resources and skills on a global scale. This implies a completely new attitude to risk on the part of providers of finance and other resources, and hence finally:

iv) We need to prepare to take a chance on our future

Supporting new mindsets and new assumptions on business and development, and learning from a myriad of new experiments, we need to prepare to take new chances on our future. This will require access to finance for small enterprises and novel partnerships on an unprecedented scale. It will require the considerable dismantling of institutional and economic barriers to the success of these ventures in local and international markets. And it will require a level of enlightenment from international institutions to let go controls and encourage innovation and entrepreneurial endeavour across the globe. Experiments in sustainable enterprise and sustainable livelihoods require space to succeed and fail. If we create that space for learning and adaptation, our successes will far outweigh our failures. That is the true nature of both business and human development.

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