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

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Social Development Department
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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

Vice President: Katherine Sierra
Sector Director: Steen L. Jorgensen
Sector Manager: Caroline Kende-Robb
Task Team Leader: Daniel Owen

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All errors and omissions are the sole responsibility of the authors.

List of abbreviations and acronyms

ADF	Akassa Development Foundation
APDPIP	Andhra Pradesh District Poverty Initiatives Project
BP	British Petroleum
BPD	Business Partners for Development
CBD	Community-Based Development
CBO	Community-Based Organization
CDD	Community-Driven Development
CF	Community Foundation
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
ESIA	Environmental and Social Impact Assessments
IFC	International Finance Corporation
FAS	World Bank's Angola Social Fund
FIAS	Foreign Investment Advisory Service
ICMM	International Council on Mining and Metals
INGO	International Non-Governmental Organization
MS	Mandal Samakya (Self-governing society, India)
MEA	Multilateral Environmental Agreements
MDG	Millennium Development Goals
MNC	Multinational Corporations
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
SHG	Self-Help Group
SLTO	Social License to Operate
SME	Small and Medium-Sized Enterprise
UNDP	United Nations Development Program
TNC	Transnational Corporation
UNICEF	United Nations Children's Fund
VO	Village Organization
WB	World Bank
WBCSD	World Business Council for Sustainable Development
WSSD	World Summit on Sustainable Development 2000

Executive Summary

This report explores areas of convergence between private sector corporate social responsibility (CSR) and related corporate citizenship sustainability initiatives and community-driven development (CDD), with a view to identifying opportunities to leverage corporate investment for the benefit of CDD programs. CDD practitioners have long anticipated a role for the private sector, yet the opportunity remains relatively unexamined and the extent of private sector engagement in CDD programs overall relatively limited.

Meanwhile, the last decade has witnessed expanded awareness among companies, especially multinational corporations (MNCs), of their responsibilities toward the communities they impact, elaborated in the concept of CSR and allied notions such as a Social License to Operate (SLTO). Some companies have experienced local and global backlash when they have neglected those responsibilities. The business case for investing in development, with mutual benefits accruing when communities become development partners rather than passive recipients of philanthropy, has also received a wider hearing. As a result, more companies have explored options for engagement with communities or examined the possibilities of cross-sectoral partnerships by involving a spectrum of stakeholders including development agencies, civil society organizations and the public sector.

This report notes opportunities and constraints in engaging the private sector in demand-driven community development programs. The contribution from the private sector can be much broader than financial support, and encompass technical and managerial expertise, skill transfers and jobs, access to markets and business linkages. At the same time, the motivations for the private sector to invest in communities vary between companies and industries. These drivers need to be taken into account and to the maximum extent possible, core business drivers and community development objectives should be aligned.

Results of private sector association in community development have been mixed, with few private-sector initiated projects achieving the promise of a comprehensive CDD approach. Shortcomings include companies' lack of development expertise, reluctance to cede control of initiatives, imbalances in the power and level of organization between companies and communities, unsustainability of funding, and lack of capacity on the part of local actors, ranging from ineffective community based organizations (CBOs) to weak local government. Often times, considerable investment is required by way of facilitation to ascertain how communities can leverage their asset bases vis the private sector and vice versa.

This report depicts two typologies to describe development partnerships between the private sector and communities: the Social Investment model describes that which has been a standard in approaches to community development; the Economic Linkages model associates development projects more closely with the business drivers of the private sector entity.

In the Social Investment model, company funding is applied to investments or programs that seek to improve the general welfare of the community. Funds may go towards health, infrastructure, education, or various forms of capacity building. Social Investment can be channeled through either of two basic funding mechanisms: (i) Social Funds or Community Foundations to which companies contribute financially, and; (ii) direct investment, whereby companies directly fund a community development program.

Social Funds to a certain extent make for a hands-off investment strategy that can seem indistinguishable from philanthropic giving and does not necessarily institutionalize the transfer of non-financial assets between the private sector and target communities. In the Economic

Linkages model, development initiatives aim to integrate communities into the business activity of the private enterprise. This may include job training, direct employment, technical skills training, building microfinance institutions, capital formation, or developing new supply bases and creating supply chain linkages. The strengthening of institutions of the poor that can manage relationships with the private sector is crucial to the success and sustainability of the Economic Linkages model.

This report suggests that the Economic Linkages model, whereby companies and communities become both business and development partners, presents compelling opportunities for CDD. Case studies such as the Andhra Pradesh District Poverty Initiatives Project (APDPIP) indicate the model's potential to operate even among the very poor, stimulating poverty reduction. Success, however, depends on a host of mutually supporting factors, such as accountability to the community, transparent operation, an enabling environment created by government, institutions that support communities' fair access to the marketplace, and access to capital.

Objectives of the Report

The objectives of this report are to explore areas of convergence between CSR and CDD approaches to development. The report explores trends in the international CSR agenda over the last decade with regard to the following questions:

- What are major drivers of the global CSR agenda?
- What is the business case for CSR? How do companies relate their CSR activities to their core business?
- How has the social and development agenda taken root in CSR over the last years?
- How do companies engage with communities? What are priority areas and principal modes of engagement by companies?

This report does not purport to provide operational guidance to CDD practitioners, nor delve into design issues in CDD institutional and program component respects to assess means of maximizing readiness for private sector engagement. As alluded to in the concluding section to this report, these are necessary next steps in a continuing work program on CDD and corporate engagement.

Methodology and Scope

A majority of Fortune 500 companies or major listed corporates currently publish a CSR report, many following the guidelines of the Global Reporting Initiative.[1] An international survey of those reports has been exploited in order to detect the major trends in CSR.[2] An analysis of the extent to which a social agenda has evolved over the last decade in CSR has also been derived from this survey.

Through individual interviews and the review of published case studies and literature a sample of community development projects that involved the private sector were evaluated. Many of the case studies examined for this paper involved multinational corporations (MNCs) with community development programs and activities. Although none of these projects is strictly community-driven, they are studied to provide insights into how private sector actors contribute

[1] GRI Guidelines 2002, www.globalreporting.org
[2] KPMG International Survey of Corporate Responsibility Reporting 2005, University of Amsterdam & KPMG, 2005

to CDD projects. A close examination of the World Bank's Poverty Reduction project in the state of Andhra Pradesh, India involving women's self-help organizations helps to illustrate how a community-driven development project has successfully engaged the private sector.

Due to the limitations of the research, local and national level private sector engagement with community development was not specifically examined. Many of the insights and recommendations from this report may also be relevant for local and national private sector engagement; however, the extent to which local and national private sector actors can contribute to CDD is a topic that merits additional review. Among the factors that limited the research on CDD projects and local companies are the relatively small number of CDD projects that involve private sector companies as partners, and the dearth of literature and research on the subject. In comparison, there is a plethora of cases and literature on community investment projects by MNCs.

In the background paper prepared for this report, fifty-two individuals from twenty-eight multinational corporations and eleven organizations, including NGOs, donor and development organizations, and specialized consulting firms were interviewed. The private sector-driven projects reviewed were from a cross-section of industries including extractives, infrastructure, communications, utilities, manufacturing, agribusiness, and financial services. They covered a range of development activities including infrastructure, housing, farming, forestry, education, health care, training, employment, economic and small business opportunities, organization, planning, combating HIV/AIDS, and capacity building.

A literature review has been complemented with the development of six cases studies which provide insight into the diversity of CSR approaches and their implementation.

Audience

The audience for this report includes donor organizations involved in public-private partnerships; private sector entities engaged or contemplating engagement in public-private partnerships for community development; and civil society groups and CDD practitioners engaged in corporate partnerships and sustainability initiatives. This report is neither a guidance document nor an operational tool for the service of plant managers dealing with community relations issues. It provides a first landscape assessment of critical issues in the intermediation between corporate responsibility agendas and the growing endorsement of community-driven development approaches to local restitution.

Report structure

This report contains five sections: (i) background to contextualize the role of the private sector in community development and analysis of drivers and trends in CSR; (ii) an overview of CDD; (iii); a review of corporate community engagement strategies; (iv) case practices of community engagement by the private sector, and; (v) a concluding section.

Section One - The Private Sector and the Global Development Agenda

Over the past decade there has been an increasing interest in the role of the private sector in development. In 2000, the UN Millennium Assembly agreed on the Millennium Development Goals (MDGs) outlining how global society intends to create a more sustainable world. It has been suggested that achieving the MDGs will not be possible unless businesses of all sizes engage fully in bringing their skills, resources, and economic development power to partnerships with NGOs and governments.[3] The World Summit on Sustainable Development (WSSD) in Johannesburg in September 2002 reconfirmed the MDGs and agreed on a Plan of Implementation for the Agenda 21 from Rio de Janeiro.

Concurrently, business-driven organizations such as the World Business Council for Sustainable Development, the International Business Leaders Forum, Business for Social Responsibility, and sector-specific fora such as the International Council on Mining and Metals have championed a business case for investing in development. Corporate social responsibility, once limited to corporate philanthropy, has become increasingly integrated into the mainstream corporate agenda.

Over the past decade, several factors have motivated the development and donor community to engage the private sector in its community development initiatives. These include:

- growing concern that traditional development approaches were not effective,
- recognition of the impact of globalization and the increase of the flow of private capital into the developing world, and
- recognition that the private sector could make important contributions, which civil society and the public sector were lacking, including money, skills transfer, and in-kind contributions.[4]

Among the most significant global initiatives to engage the private sector in development are the Millennium Development Goals, the UN Global Compact, Business Partnerships for Development and the Equator Principles.

The Millennium Development Goals. In 2000 the United Nations adopted the Millennium Development Goals. This landmark initiative was developed to create unified and targeted goals for development by the year 2015. The goals included eight targets to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women. Goal number eight of the MDGs specifies the need to create global partnerships for development, with targets for aid, trade, and debt relief. [5] Many countries have failed to achieve interim targets, forcing the development community to evaluate the reasons and to look to alternative development approaches, such as private sector engagement, to meet the goals by 2015.

UN Global Compact. Officially launched in July 2000, the Global Compact was designed to bring companies together with UN agencies, labor, and civil society to support ten universal principles on human rights, labor, the environment, and anti-corruption.[6] The Global Compact's goal is to mainstream its principles into business practices. However, it is not a regulatory or

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[3] International Business Leaders' Forum, www.iblf.org.
[4] USAID. 2006. "The Global Development Alliance: Public-Private Alliances For Transformational Development.".
[5] United Nations General Assembly. 2003. "Enhanced cooperation between the UN and all relevant partners, in particular the private sector," 58 Session, August 18, 2003.
[6] Global Compact website.

legally binding instrument, and does not monitor performance or provide specific benchmarks. Currently, 2,356 companies have signed the Global Compact.

Business Partnerships for Development (1998-2002). Business Partners for Development's membership included over 150 partners from all sectors who aimed to "study, support, and promote strategic examples of tri-sector partnerships – involving business, government, and civil society." Among the key lessons learned were:

- partnerships thrive where they are aligned with the core competencies of participants,
- actors need to build capacity in order to participate,
- partnerships are not appropriate for all projects,
- joint governance structures are the most effective,
- actors should be able to enter and leave partnerships, and
- partnerships need to respond to the separate time frames of individual actors.

The Equator Principles. In October 2002 the International Finance Corporation, along with leading international banks, developed the Equator Principles. The principles are the banking industry's framework to address environmental and social risks in project financing. As a result of the Equator Principles "there is a common framework for the project finance industry based on an external benchmark, namely the World Bank and IFC sector-specific pollution abatement guidelines and IFC safeguard policies." Currently forty-one financial institutions from sixteen countries have adopted the Equator Principles. These financial institutions operate in over one hundred countries.[7]

Drivers and Trends in Corporate Social Responsibility

Corporate Social Responsibility is the realization of business contributions to sustainable development goals. It refers to how business takes account of its economic, social and environmental impacts in the way it operates – maximizing the benefits and minimizing the downsides. CSR undertakings are the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society. The breadth of business CSR strategies and initiative has expanded dramatically over the last decade. Activities embraced under the rubric of CSR vary from one-off philanthropic contributions to measures more centrally integrated as part of core business performance. KPMG's international survey of CSR reporting provides a means to assess drivers and trends of global CSR programs. The 2005 survey includes the CSR reporting of the top 250 of the Fortune 500 companies (G250) as well as the top 100 companies of 16 key industrialized economies.

The CSR agenda is a dynamic one that stirs and provokes considerable debate. CSR is subject to many varied interpretations and can include a range of corporate activities and interest from labor and environmental practice to corporate philanthropy. Notwithstanding, a survey of CSR reports of major companies highlights the following key trends:

Mainstreaming: CSR considerations have become a concern for the majority of companies and social and environmental reporting has entered the mainstream. Increasingly, companies include under this umbrella corporate governance issues and report on economic and social impacts on society throughout their value chain.

[7] Equator Principles Website, http://www.equator-principles.com/faq.shtml.

Social and development agenda: CSR has ceased to be the motivated by environmental issues alone; sustainable development with a balance of social, economic and environmental concerns has become widespread.

Implementation and monitoring: CSR actions have moved progressively away from a unique concentration on codes of practice and business conduct to equal focus on implementation and reporting on compliance and good practice, including third-party independent verification, often through civil society partnerships.

Business case: Economic reasons are the predominant drivers for CSR. Increasingly, companies have recognized the business case behind CSR.

In a global economy where companies source raw material internationally and relocate components of production to low cost locations, the responsibility agenda is growing and becoming more complex. Increasingly, companies are pressured by NGOs, media or their own shareholders to take responsible action in their supply chain. In most cases this can not be accomplished by a company alone. Over the last decade, a wide range of multi-stakeholder initiatives has emerged to address these issues. Many have produced codes of conduct, standards and certification schemes for commodities and ethical supply chain management. The sectors most advanced in establishing supply chain schemes are forestry, textiles and fair trade schemes in key agriculture commodities such as coffee, tea and bananas.[8] Most of the schemes include national stakeholder-consultations reaching down to representatives of the producing communities or communities affected by its sourcing.

The business case for CSR

The top drivers for CSR can be depicted as encompassing:

- managing risks to earn/maintain a license to operate;
- enhanced corporate reputation and brand image;
- improved relations with shareholders and other investors;
- improved access to markets and customers;
- increased employee morale and productivity;
- enhanced relations with communities and regulators.

These drivers are reinforced on the basis of:

- ***Growth opportunities***: as markets in developed countries become saturated, many companies see key growth opportunities in emerging markets, especially those with young populations;
- ***Governance***: governance, political risk, legal and investment infrastructure has improved in many developing countries and corporates have been drawn in as partners in governance mechanisms, especially in "resource curse" contexts;
- ***Technical innovation***: innovations in communication technology and transport have lowered costs of accessing diverse and remote markets;

[8] See, for example, the Forest Certification Scheme, (FSC) at www.fsc.org. Various schemes operate along the textile chain, from standards for sustainable production of cotton to labour condition in the garment or carpet production as the clean cloth campaign or the label steps for carpets, see www.cleanclothcampaign.org or www.steps.org. Fair trade initiatives include the ethical trading initiaitve, www.ethicaltrading.org , the fair trade organisation, www.flo.org,

- ***Globalization has changed public expectations and awareness***: poverty, political instability, the spread of communicable diseases are of growing concern. Increasingly, companies – particularly MNCs, are expected to mobilize to become part of the solution.
- ***Partnerships and multi-stakeholder initiatives have matured***: there is a growing recognition of the need for partnerships in order to tackle the complex and long-term problems of development. With the growing experience the rules of engagements and specific roles of the different partners are better understood.

The business case for development

There is a growing the recognition among the business community that "doing business with the poor" can develop into a viable business model. Debates have flourished under various guises, including work on investing in the "Bottom of the Pyramid"[9], "Sustainable Livelihood Business"[10] or pro poor business strategies. These approaches reflect a changing mindset around business-poverty linkages that encompasses:

- treating poor people as consumers and business partners, rather than economically redundant beneficiaries;
- reassessment of corporate price performance and functionality of products in order to meet the needs and means of new consumer groups, including the poor;
- rethinking value chains and incorporating poor individuals and collectives as employees, suppliers or distributors.

Matching corporate drivers and development goals

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

- philanthropy,
- legal compliance,
- mitigation of negative impacts,
- creating positive impacts,
- acquiring and maintaining a SLTO,
- guaranteeing sustainable supply bases,
- creating new market opportunities, and
- building good will/managing reputational risk.

In turn, communities may have a variety of reasons to partner with private sector, for example:

- funds for development,
- exercising voice and influence and demand for governance and accountability,

[9] "The fortune at the Bottom of the Pyramid", C.K. Prahalad, Wharton School Publishing, 2005
[10] "Doing Business with the Poor- a Field Guide", World Business Council for Sustainable Development 2004

- community infrastructure development,
- mitigation of negative impacts of corporate operations,
- other development activities such as health, education,
- access to jobs and job skills training,
- training in/transfer of management skills,
- creation of new markets, and
- assistance with small business creation and access to microfinance.

Ensuring that core business drivers and community development objectives are linked helps to encourage a company's long-term commitment. Corporate programs have the potential to disappear in the short term if their goals are not associated with shareholder value and backed by a strong commitment to development goals. The chart below identifies the probable drivers and development alignments across industry sectors.

Table 1: Business drivers by industry and development alignment

Industry	Drivers	Potential Development Matches
Extractive:		
Oil/Gas/Mining	SLTO, mitigation of negative impacts, creation of positive net-effects, enlightened self-interest	Integrated development, infrastructure, agriculture, health, education, poverty alleviation, community organization and capacity building, employment, small business, environment
Infrastructure:		
Water	Enlightened self-interest, new market opportunities	Infrastructure projects, esp. water treatment, water distribution, health, education, poverty alleviation, environment
Telecoms	Enlightened self-interest, new market opportunities	Infrastructure projects, esp. communication, education, poverty alleviation, small business creation
Electricity	Enlightened self-interest, new market opportunities	Infrastructure projects, esp. electricity generation/distribution, health, education, poverty alleviation
Construction	Enlightened self-interest, new market opportunities, employee recruitment, retention and engagement	Infrastructure projects, esp. roads, public buildings, health, education, poverty alleviation
Agribusiness:		
Coffee/Cocoa/others	Brand reputation, sustainable supplier base, enlightened self-interest	Sustainable agriculture, health, education, poverty alleviation, economic opportunities, environment
Manufacturing:		
Textile/Automobile	Enlightened self-interest, employee recruitment, retention and engagement	Health, education, poverty alleviation, economic opportunities, environment
Financial:		
Retail Banking	Enlightened self-interest, employee recruitment, retention and engagement	Health, education, small business, economic opportunities, poverty alleviation
Health Care:		
Pharmaceuticals	Enlightened self-interest	Health, education, poverty alleviation, economic opportunities

Different companies possess a variety of internal non-financial assets and capacities from which community development may benefit. Thus, an agribusiness partner may be able to transfer crop productivity knowledge to local farmers, whereas an industry partner skilled in engineering may be better suited to infrastructure investments.

A growing body of evidence suggests that a company's role in its community can be a factor in increasing profitability, strengthening company brand and reputation, elevating employee morale and customer loyalty, increasing market knowledge, attracting and retaining employees, and encouraging product innovation, among others. Specifically, corporate community investment may lead to:[11]

Enhanced brand image and reputation: many companies find that community investment does not require sacrificing profits and, in fact, can open new markets, reduce local regulatory obstacles, provide access to the local political process, generate positive media coverage and increase company or brand awareness within the community.

Community investment as a strategic activity: Companies increasingly are looking at their community investment activities from a strategic perspective, defining themes that are aligned with core business objectives, taking advantage of core competencies, aligning with company brand, and customizing areas of focus based on customer desires.

Combining philanthropic and commercial-community activities: more companies are applying a broader range of their business assets, along with philanthropic assets, to support community development. Such activities can include a company's cash contributions, non-cash assets (such as product donations and employee volunteer time), business relationships with local and minority vendors and suppliers, local hiring and training programs, the siting of infrastructure and facilities, financial investments that benefit communities, and positive contributions to public policy issues that support community and economic development. Taking this approach, companies are finding they can have greater and more long-term impacts on communities, and in some cases realize significant business benefits in return.

Community-Driven Development: a growing number of companies are viewing community investment as a way to support communities be drivers of their own development. Companies are investing in local capacity-building activities, and contributing to social and economic solutions to problems identified and defined by the communities themselves. In some cases, companies are working with local NGOs to build their skills to meaningfully engage, as company stakeholders, with the companies themselves.

Creating partnerships: companies are taking an increasingly active role in the communities where they operate, forming partnerships with non-profit organizations, government agencies, suppliers, other companies, and their stakeholders to fulfill a wide variety of community and business needs. Partnering enables companies to focus their community contributions using their core competencies and bringing in partners with specific expertise. Partnering can also help ensure that companies are not driving the community, economic and social development agendas of local communities, and that nonprofit and public sector partners are strengthening their capacity to address social issues long after the company remains involved.

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

Measuring and reporting the benefits of corporate citizenship: traditionally, corporate community investment was seen as goodwill and rarely tracked or measured. Increasingly, companies are measuring and reporting on the impact of their community investment. Companies are now also reporting on their community investment performance in broader CSR or Sustainability reports.

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[11] Source: BSR (Business for Social Responsibility)

Involving employees: more companies are making their employees significant partners in their community activities. In the past, employee investment was limited principally to volunteerism. Now, many companies have employee advisory committees on corporate giving, volunteer activities, supplier diversity, and other community investment priorities.

In the implementation of these community investment initiatives, there is wide divergence in terms of both target scope and scale. Distinction can be drawn between site-specific, often remedial schemes initiated within the confines of a plant or production site and more broad, fully-fledged and integrated local, regional or national programs, often linked into corporate-level CSR strategic policy. Within the same company, there may flourish variants around the theme of corporate giving which could include vehicles of a global corporate foundation, a local corporate foundation and corporate financing of local development efforts.

CDD programs have often proved to be effective as contained programs, but the real challenges are often encountered as these local initiatives are taken to scale – administratively, functionally (complexity of program elements) and geographically. The same may be true of corporate community investment programs in terms of the geometric increase in complexity as targeting moves from the immediate catchment area of an enterprise to broader local development and national-scale programs.

Section Two - Community-Driven Development

Community-Driven Development is an operational approach, embraced by the World Bank and a host of other development agencies, be they multilateral, bilateral or civil society-based. It is fundamentally a development approach that seeks to give control of decisions and resources to community groups and has spawned a plethora of variants and labels. For simplicity, in this report, we refer to this conglomeration of grassroots development interventions as "CDD". These initiatives have traditionally emphasized resource transfers to poor communities and community participation in service provision. The growing trend across the CDD portfolio in recent years has been towards support for intergovernmental and related reforms to strengthen decentralized local governance. CDD is increasingly seen as a nexus between bottom-up and top-down approaches to improved governance and service provision. Its evolution has witnessed significant innovation in multi-sectoral investments, scaling-up local initiatives to deepen and broaden their impact, and policy support for an institutional environment conducive to community engagement. Recent trends have focused on the integration of CDD approaches at a programmatic level. With links to policy dialog, programs have focused on capacity building and demand-side strengthening in conjunction with decentralization reform.

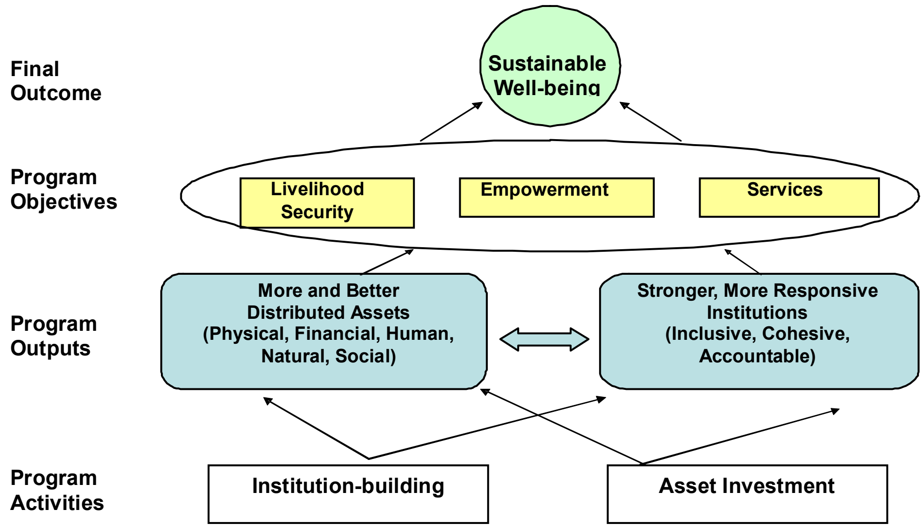
The concept of harnessing the energies and capacities of communities for poverty-reduction has deep historical roots. Many donors and development practitioners view community participation and empowerment as a key to development. CDD implies transferring power from national capitals and central agencies to the grassroots, improving not just incomes but people's empowerment, the lack of which is itself a form of poverty.

Application of CDD has evolved through three stages, namely: (i) *community-based development*, a foundational starting point pursued by many development agencies. This included efforts by government agencies or non-Governmental organizations (NGOs) to consult communities, and was widespread in the provision of frontline services to rural areas. A variation on the model intensified the investment in community participation, whereby Government agencies, private firms or NGOs invited participation from communities in choosing development priorities and project design, contracting service providers, and managing funds. This approach had the potential of gradually building community capacities, but did not empower communities with untied resources; (ii) *CDD*, marking a move beyond consultation and participation to direct community empowerment, making untied funds available directly to communities and empowering communities to plan and execute projects according to their own articulated priorities. In this approach, external agencies – be they public, private or from civil society - operate primarily as facilitators and trainers. Communities are heavily involved in the design and choice of technology for their chosen projects, and can manage project funds and directly contract for goods and services to implement them, and; (iii) more recent evolution in CDD which reflects linked-up concepts of CDD and *Local Development*, bringing together community empowerment, local government development and sectoral programs in a coherent, coordinated framework. This linkage produces synergies, reduces duplication but most importantly, embeds local action in a permanent framework of institutional responsibility.

Institutional and thematic modalities of CDD programs

CDD puts people at the core of decision-making and gives them voice. Working with local governments, citizens prioritize their needs and help direct and control the flow of resources. CDD operations work through various modalities, depending on institutional context. These include both single-sector and multi-sector operations which adopt varying definitions of "community" depending on objective and context (e.g., natural resource management, specific sector objectives, or sustainable livelihoods). Despite this variety, there are some common elements of what CDD approaches seek to achieve and how they work to achieve them. Figure 1 presents a generic results framework for CDD.

Figure 1: Generic Framework for CDD Results.



CDD operations build assets and opportunities through improving service delivery, empowering communities and local governments, and expanding livelihood opportunities. Some programs place improved service delivery as the end to be achieved through enhanced local capacity to act collectively. Others treat empowerment as an end in itself, achieved by greater voice in how local government services respond to community needs. As part of an effort to promote greater livelihood security, many CDD operations have promoted local producer organizations and focused on initiatives around economic empowerment.

CDD operations coalesce around two primary types of outputs – assets and institutions – and program components always include, inter alia, investments in capacity strengthening of local institutions and investment in community assets.

The business linkage dividend for Community-Driven Development

The development community, civil society, private sector and governments share an interest in learning how to integrate the private sector in development in ways that build capacity and promote sustainable, long-term development benefits. Building in private sector engagement has the potential to replicate and multiply CDD initiatives and make them more sustainable. For the private sector, CDD programs have obvious appeal as vehicles for delivering on corporate commitments on sustainability and community investment. Partnerships between the private sector, civil society, and local governments offer opportunities to build skills among stakeholders, create employment and business opportunities, and enhance asset creation.

As a result of interest and innovations in this area, a variety of public-private partnerships for community development exist; however, to date, the role of the private sector in CDD has been limited, and the CDD community has lacked guidance on how best to incorporate the private sector into its programs. The key motivations for convergence are (i) community demand: communities are increasingly articulating the need to increase income and participate in the market economy; and; (ii) sustainability: the private sector may be a resource to address the long-term economic sustainability of CDD programs.

In recent years, new prototypes have emerged that have brought corporate investment directly into the CDD ambit. One example is the Community Development Carbon Fund which was established in 2003 and represents a unique opportunity to reduce human-induced greenhouse gas and carbon emissions and at the same time generate clear development benefits for communities through the finance of clean technologies at the community level. The capitalization of the CDCF stands at $47 million and the technological distribution of the current CDCF pipeline is highly diversified, comprising energy efficiency, biogas, wind power, biomass and bagasse, municipal solid waste, and small hydro projects (see Box 1).[12]

Box 1 :Rural Communities and Carbon

The Niger Model Land degradation was identified by local communities as a priority under Niger's World Bank-funded Community Action Program. The Niger carbon finance project, backed by the Community Development Carbon Fund, takes into account this priority by implementing community plantations of Acacia Senegal (agro forestry species). The project will bring a multitude of benefits to the local communities. These include environmental benefits from intercropping and land rehabilitation as well as economic benefits from Arabic gum production and the sale of emission reductions. In addition, the project will improve the lives of youth and women in these communities who actively participate in the operation of the plant nurseries. At the country level, this initiative has made Niger a new player in the global carbon market.

A more recent example is the Oil, Gas and Mining Sustainable Community Development Fund (CommDev). CommDev provides flexible support for tripartite (industry, government, civil society) initiatives aimed at ensuring that communities benefit from extractive industry developments. It funds practical capacity building, technical assistance, implementation support, awareness-raising, and tool development as an integral part of an extractive industry project. CommDev purports to serve as an integral component of an extractive industry project, enhancing, accelerating, and extending the value-added support given to communities beyond the compliance requirements of World Bank loans and International Finance Corporation investment projects.[13]

[12] The World Bank Carbon Finance Unit at www.carbonfinance.org

[13] See http://www.commdev.org

Section Three - Corporate Community Engagement Strategies

Companies have a profound impact on the communities - both geographic and those defined by the market - in which they operate, source raw material and market goods. Stakeholders are increasingly demanding that companies play a significant role as powerful societal players to help develop communities and create economic opportunities, in alliance with national governments and civil society. Pressure is growing for companies to engage with communities throughout value chains, including where companies source and distribute their products, both domestically and around the world, to share wealth and skills and improve welfare and quality of life.

At the same time, many companies also recognize that developing economies globally and underserved markets nationally represent "untapped markets" - consumer markets that companies are striving to understand and serve both responsibly and effectively. To date, the corporate sector has had difficultly reaching the bulk of the world's underdeveloped communities, which represent more than $4 trillion in annual income.

A new model of corporate community investment bridges traditional areas of philanthropy and volunteerism with commercial-community relationships in sourcing, workforce, financial investments, site selection, and the development and delivery of products and services.[14]

Corporate community investment refers to a wide range of actions companies can take to have an impact on communities through financial subsidy, time, products, services, influence, management knowledge and other resources. Typically, corporate community investment has included philanthropic cash and product donations to nonprofit organizations, corporate incentives for employee giving, and employee volunteer programs. In addition, companies are increasingly using their business assets to positively impact communities. By donating executive time to nonprofit organizations, sourcing from local businesses, hiring and training people from local communities, playing a positive role in public policy debates, investing in local banks and other financial vehicles that impact communities, or siting facilities in ways that contribute to local economic development, companies can bring a range of resources to bear on community, economic and social development. Strong community investment programs align corporate core competencies with community priorities, formally encourage community-company dialogue, and can thereby provide benefits to both companies and communities. These often include partnerships with NGOs and public sector organizations that bring specialized expertise to address company and community needs.

Defining "community" for the purposes of corporate community relations initiatives is complex. Communities are seldom geographically, sociologically or politically well defined. Often the definition is linked to particular business perspectives: "community" might signify an educational strata from which employees can be recruited, a geographical area or social tiers of society for consumer targeting, social networks such as women's self-help groups or small rural entrepreneurs, which may be incorporated into supply chains or direct impact "host" communities where operations are located or which are affected in some form by production or distribution channels (i.e. gas or oil pipelines).

Historically, corporate community engagement has demonstrated clear thematic preferences, with education social service programs taking the lead (65%), followed by employee involvement (58%), health programs (40%) and HIV/Aids (29%)[15]. Three out of four G250 companies report on philanthropic activities. Though partnerships with specialized institutions or multilateral

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[14] Business for Social Responsibility (BSR) website.
[15] KPGM International Survey of Corporate Responsibility Reporting 2005

organizations are widespread, half of the companies work through their own foundations. Tax and PR benefits are influential in militating towards corporate foundations as the recipient of support.

Oil, gas and mining corporations are major contributors to GDP, taxes, exports and jobs and can be a driver of sustainable development. Yet, in many cases, development of extractive industries has not been associated with successful national or local community development. In some cases, communities have been further disadvantaged as a result of oil, gas and mining projects. Increasingly, oil, gas and mining companies together with local governments, local and international NGOs, the international donor community and multi-lateral financial institutions are working side-by-side to enhance the contribution extractive industries make to sustainable development at the community level. There is growing recognition that engaging, empowering and building the capacity of local communities is critical not only for the success of investments in extractive industries but also for sustainable development beyond the life of the well, pipeline and mine. The central message of the Extractive industries Review concluded in 2004 was that while extractive industries investments can contribute to sustainable development, the World bank Group should further enhance its efforts in several areas: more explicitly identifying and tracking poverty reduction associated with its projects, the overall quality of governance in host countries, broader inclusion of local stakeholders, transparency of revenue management and project documents, and the promotion of renewable energy and cleaner fuel alternatives.[16]

More progressive community engagement strategies have begun to coalesce around the following principles:[17]

- ***Focus on core competencies of business***: sustainable engagement builds on key competencies and strengths of the company;

- ***Localize the CSR agenda***: public expectations, governance and capacities are contextual and require that companies tailor their role in society to specific circumstances;

- ***Working through partnerships:*** multi-stakeholder partnerships have become an established form for actualizing corporate commitments. Growing experience has demarcated clearer rules of engagement and collaboration;

- ***Understanding impacts - measuring results****:* metrics for assessing and reporting on CSR practice and impacts on communities and on social, environmental and other critical issues, such as human rights, have become more sophisticated;

- ***Building capacity:*** capacity strengthening is a critical key program component for corporate community investment and sufficient time and resources must be allocated for nurturing and developing capacities at different levels across a broad spectrum of stakeholders.

Core business competencies

Access to information is a critical public good and constituent of empowerment. In recent years, many large scale and highly successful models, applying internet-based communication technology adapted to local needs and capabilities have been implemented. Renowned examples

[16] More information, is available on the web at http://www.ifc.org/eir
[17] See World Business Council for Sustainable Development, "Doing Business with the poor, a Field Guide", WBCSD, 2004

include the e-Choupals, internet village kiosks in rural India, developed and implemented by ITC's agro-business division. Through the e-Choupals, farmers are able to access information in local languages on weather and market prices and the portals facilitate the sale and purchase of farm produce and inputs. The aggregation of demand for farm inputs from individual farmers gives them access to high quality inputs at fair prices and better terms of trade for selling their produce. While the farmers benefit through enhanced farm productivity and higher farm gate prices, ITC benefits from the lower net cost of procurement, having eliminated costs in the supply chain that do not add value.

Education and training ranks highest on the preference ladder of corporate community involvement. Training and education programs are increasingly deployed so as to nurture a healthy and qualified workforce. The Indian IT corporation Satyam invests in IT training both in partnership with schools or through its own training project for slum children. Satyam provides basics skills training to children from poor families and offers employment opportunities for graduates.

Job creation and employment: The cell phone company MTN in Uganda has supported local start-up entrepreneurs who have established small mobile telecoms distribution outlets with training, equipment and credit. Besides creating local employment opportunities, MTN has gained access to the rural market. A similar program is being implemented by Hindustran Levers Shakti program. By training women from rural self help groups, Hindustan Lever is expanding it market coverage, accessing 70 million new consumers serviced by a distribution network of 13,000 women entrepreneurs. Another aspect of job creation is illustrated by the GramIT program of the Byrraju Foundation, the family foundation of the founders of the Satyam. The foundation set up local data processing service centers in rural areas and trains youth groups in basic data processing. While creating qualified employment in rural areas, Satyam could also realize considerable savings by outsourcing work away from high cost locations in urban areas.

Access to credit*:* many initiatives integrate access to credit, either supplied directly by the company or provided through local microfinance agencies. A large scale example is the Indian bank ICICI alliance with rural women's self help groups through specialized credit services and conditions that are tailored to the rural poor. [18]

Localizing the CSR agenda

The foundation initiatives of CSR were largely a response to concerns of stakeholders in industrialized countries, in particular regarding environmental issues and impacts. The CSR movement has to a large extent been established on the basis of capacities and institutions in the same industrialized countries around media, informed consumers, NGOs, and scientific and government institutions.

CSR strategies have become increasingly more responsive to local stakeholders and to national policy and development agendas in countries where corporates are operating. An example of this type of initiative is the joint research of Unilever and Oxfam on the poverty impact of Unilever Indonesia[19]. Localization of CSR strategies implies efforts on several axes, including mindset shifts from supply chain to value chain models. Prevailing models of codes of conducts and

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18 "ICICI Bank: Innovations in Finance" by Todd Markson and Michael Hokeson; "The fortune at the Bottom of the Pyramid", C.K. Prahalad, Wharton School Publishing, 2005

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

certification schemes are top down and often maladjusted to weak governance structures and limited capacities in developing economies. They add new compliance requirements to local suppliers without allocating and freeing up resources to build capacities and institutions. A more dynamic role for local stakeholders in the design and implementation of supply chain schemes is required. Frontier companies are increasingly seeking to assess their "footprint on society" across their entire value chain in a more systematic fashion, enabling a deeper appreciation of where the company has relatively more positive and negative impacts on social and poverty concerns.

Public sector legislation and national regulations are a key source of legitimacy and mobilization for localizing private sector CSR strategies. CSR practices need to be developed in ways that do not undermine public sector practice but rather are supportive of efforts to build demand for good governance and strong public institutions.

Partnerships and stakeholder roles

The 2004 Global Corporate Citizenship Initiative survey detailed the mechanisms though which its signatory companies are building partnerships with other companies, governments and non-governmental organizations to address key international development challenges. [20]

Partnership models that link private, public and civil society are very much in vogue currently and are contain the twin possibilities of both addressing pressing social, economic and environmental challenges as well as benefiting the partnership agencies. Corporate community partnerships have often been established with the expectation of enhancing, for companies involved, reputation and brand value, validating a license to operate as and serving as a tool for improved risk management.

In practice, the extent to which the community influences and participates in the planning and management of the activities and the control of financial resources can vary widely in public private partnerships. The role of the community depends on its degree of organization and maturity, and its ability to set rules and articulate demands. Companies are usually well-organized, possess managerial and technical skills, and have access to important human and financial resources, while their host communities and host governments often lack the capacities necessary to negotiate effectively with the more powerful company. Companies' effectiveness as development partners is often affected by the staff's degree of development expertise and ability to understand the complexities of development. The level of community involvement is also influenced by the private sector partner's willingness to cede control and decision-making power to community actors, especially where company funding is involved. Although the private sector uses the language of community consultation, participation, and empowerment, reluctance to cede control, coupled with a lack of internal company capacity to understand development dynamics, can form a significant barrier to establishing balanced relationships between private enterprises and communities.

Tri-sector partnerships that engage business, communities and the State – often local government – have become particularly powerful engines of change in recent years. In recent years, CDD interventions have increasingly sought to integrate local governments more extensively into design frameworks. Efforts have concentrated on addressing fundamental questions of fiscal and institutional sustainability and scaling up. Lessons from past practice have underscored the importance of integrating rather than bypassing local governments, in order to embed community initiative in long-term and more sustainable, more permanent institutional support arrangements. Evidence suggests that

[20] "Partnering for Success, Business Perspectives on Multi-stakeholder Partnerships", World Economic Forum Global Corporate Citizenship Initiative, 2005

co-production between communities and local government and relationships of accountability reinforce each other: the stronger the co-production linkages, the more involved are the accountability relationships under the given partnership arrangements.

Local development frameworks that envisage these types of partnerships operate on the basis of core program elements that enhance:[21]

- **Empowerment** by increasing people's opportunities and capabilities to make and express choices and to transform those choices into desired actions and outcomes. People's capabilities to participate effectively in local development are determined not only by individual resource endowments, but also by social capital that provides the basis for collective action;

- **Local governance** manifested in the way authority is organized, legitimated, and employed by and on behalf of local people through planning, decision-making, rule enforcement, and accountability processes. Local governance includes not only local governments and other public sector structures but also a variety of community and civil society institutions by which people organize to act collectively;

- **Local service provision** systems - including public sector, private sector, nongovernmental, and community-based organizations - which mobilize and manage resources and produce public facilities and services. The mobilization of local revenues to finance local development is an important foundation for sustainable empowerment and governance as well as for service provision;

- **Private sector growth** which at the local level requires improving economic infrastructure and services; strengthening human, social and institutional capital; and creating an enabling business climate.

The enabling elements for pursuing such outcomes include:

- **a policy and institutional environment** for local development which includes formal institutions such as laws, government policies, and organizational systems, as well as values, norms, and social practices that influence people's decisions and behavior;

- **capacity enhancement** that includes establishing the local institutions through which people and communities participate in local development as well as strengthening of human, social, and institutional capital;

- **resource transfers** to local actors – be they public, non-governmental, and community-based organizations – which includes the provision of investment and operational funding as well as support for training, technical assistance, and information.

The ICMM Community Development Toolkit, written in consultation with the World Bank and other stakeholders, identifies the typical roles and responsibilities of stakeholders in community development:[22]

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[21] Linking Community Empowerment, Decentralized Governance, And Public Service Provision Through A Local Development Framework, Louis Helling, Rodrigo Serrano, David Warren, S P Discussion Paper, Number 0535 September 2005

[22] "Community Development Toolkit." ESMAP, International Council on Mining Metals and the World Bank, 2005.

Table 2: Typical Roles and Responsibilities of Stakeholders

Government	Companies	NGOs	Community Groups
Strategic leadership Strategic coordination Provide policy and regulatory framework for project development operation, closure and post-closure Support capacity building at the local level including monitoring capabilities Deliver local services Monitoring and evaluation	Operates in accordance with regulatory requirements Catalyst for action at the community level Stakeholder coordination around project site Financial material and facilities support for local community Transfer of technical and management skills and expertise to local community Monitoring and evaluation	Local needs assessment Local capacity building and institutional strengthening Community project design and implementation Leverage external funding for community support Monitoring and evaluation	Local needs definition and prioritization Local knowledge and values Community planning and mobilization Monitoring and evaluation Internal organization and conflict resolution

Role of community groups. The community frames its needs and priorities, provides ground rules for interaction and change, and sets the pace of the project. Communities and their organizations can contribute local knowledge, staff, materials, and funds to the project, and conduct monitoring and evaluation. In an effective community-driven partnership, the community has ownership of the development goals. CDD mechanisms to maximize community empowerment are valuable tools to ensure the meaningful participation of the community in this partnership framework.

Role of the private sector. Private sector participation in development can be broader than financial support. The most obvious potential inputs of the private sector are funding, technical and managerial expertise, and access to markets and business linkages. The private sector can also provide access to international networks, media, multilaterals, and international organizations. Beyond this, the company can introduce entrepreneurial approaches; management models; innovation and motivation, and can increase the capacity of the participants. An important role for the private sector can be transferring management and organizational skills to the community.

Role of the public sector. Local government should assume a leading role in development planning and in connecting the project to development programs and objectives beyond the local level. Government participation is necessary not only to secure maintenance – especially where infrastructure and service provision is concerned - but, more importantly, to stimulate the supply response of public sector agencies for long-term national, regional, and local development planning. A critical role for government is that of ensuring an enabling environment for development, including legal and regulatory provision. Government can be a source of funding and in addition can provide access to technical and managerial support. Government presence might in some circumstances provide a counterweight to the influence of a large corporation; in others, it is precisely weak public sector capacity (especially in remote areas and in conflict and post-conflict contexts) that motivates private initiative.

Role of NGO/CBO Facilitators. Independent, credible, and competent facilitators are often critical to the success of corporate investment ventures. The use of an independent and trusted third party can facilitate effective interaction amongst unequal participants, create trust, and bridge cultural gaps. Facilitators can also provide technical advice and training, for example by helping to establish the ground rules for the relationship or paving the way for negotiation. Skilled facilitators ensure that the negotiation process is not captured by elites.

Development Agencies. The development community can provide project facilitation, capacity building, and funding in addition to tools and guidelines for successful partnerships, systematization and sharing of lessons learned and mediation as a neutral arbiter or honest broker.

Understanding impacts - measuring results

Despite expressed commitments and considerable rhetoric, monitoring and reporting on corporate contributions to and impacts on society remain sketchy. There have been attempts to develop more rigorous approaches to social reporting in recent years, especially in the field of labor and working, such as through certification schemes employing the social accountability SA8000 standard.[23] Some companies, as for example Nestle, have issued their own report evaluating performance against the Millennium Development Goals.[24] However a rigorous and comparable measure to account for social and community impacts and outcomes has been elusive. Benchmarking on social performance is, however, becoming more common. Of the cases reviewed in this report, the South Africa-based communications company, the MTN Group, intends to monitor its 'returns on social investments' just as it monitors other returns on standard investments.[25] Unilever have joined forces with other business in orders to measure and benchmark their corporate community investment contributions, using the London Benchmarking Group (LBG) methodology[26].

Capacity building

Capacity building and strengthening becomes a key program activity for corporate community investment and sufficient time and resources must be allocated for nurturing and developing capacities across all stakeholders, as illustrated:

[23] Council on Economic Priorities Accreditation Agency; SA8000 Standard for Socially Responsible Employment Practices; www.sai-intl.org
[24] Nestle, Nestle in the Community and the Millennium Development Goals, Vevey 2005
[25] MTN Group, MTN Sutainablity Report 2005, www.mtn.com
[26] LBG Australia/New Zealand is a business membership organization whose members commit to measuring and benchmarking corporate community investments using the London Benchmarking Group (LBG) methodology, www.lbg-australia.com

Table 1. Developing Capacity in Development Partnerships

Actor	Characteristic	Resources & Requirements	Model variations
Community	Level of organization and social capital — if high	Requires less external facilitation	Direct interaction in self-governed models; private sector can collaborate with CDD projects
	if low	Requires external facilitation and capacity building	First capacity building, then facilitated interaction
Company	Level of local knowledge — if high	May not require local partner	
	if low	Requires partner with local knowledge	Facilitated interaction
	Financial resources — if large	Mitigate power inequality during negotiations	Facilitated interaction
	if limited	Direct interaction possible	
	Community development expertise — if high	May not require facilitator	Direct or facilitated Interaction
	if low	Requires external partner	Facilitated interaction
Government	Degree of decentralization — if high	Participation embedded; may require capacity building	Direct or facilitated interaction and capacity building
	if low	Requires empowerment of local government	Capacity building, facilitated interaction
	Corruption — if high	Requires facilitation and clear, imposed accountability mechanisms	Participation very difficult
	if low		Participation natural
	Capacity — if high		Participation enhances effectiveness
	if low	Requires capacity building and facilitation	Participation creates means for effectiveness
Facilitator	Resources & capacity — if high	Internationally shared experiences	Provides advice in direct interaction; facilitates interactions
	If low	May not be effective	Networks or alliances required
	Local knowledge — if high	Provides local knowledge in facilitated interaction	Participation natural
	if low	Requires engagement of additional resources with experience at the local level	

Section Four - Examples of Private Sector Community Development Engagement

The following section provides case material from a selection of corporate-community ventures and includes one example of a multinational corporation, two examples of domestic enterprise engagement initiatives, narrative around the development of a Community Foundation and, finally, discussion of a CDD program investing in economic linkage approaches to corporate engagement.

1. **UNILEVER**

Unilever is one of the world's largest consumer goods companies, with a turnover of roughly $40 billion, over 200,000 employees and operations in over 100 countries. Unilever produces 400 brands across a range of food, home and personal care products. Unilever describes itself as a 'multi-local' multinational, bringing its international expertise to the service of people everywhere. The company has a global CSR strategy and issues a global report. However, as a consumer goods company with a growing presence in developing countries, it has increasingly localized its CSR approach, taking into account its local economic and social impact and local socio-economic conditions.

CSR approach

Unilever's CSR reporting is oriented towards three principal issues:

- the social impact of Unilever's products, principally on people's health through nutrition and hygiene;
- the steps Unilever takes to minimize its environmental footprint and secure sustainable supplies of key raw materials;
- the role of corporate operations in creating wealth and how this benefits stakeholders and local communities.

Besides using the 2002 Global Reporting Initiative guidelines, the company also reports on its contribution to the Millennium Development Goals and a report on progress against UN Global compact principles.

Sustainability in the Supply Chain

65% of Unilever raw materials are agriculture-based and it is one of the world largest buyers of fish. In 1998, Unilever established the Sustainable Agriculture Program to ensure continued access to critical agriculture raw material. Piloting was started with five key crops (spinach, peas, tomatoes, black tea and palm oil) and led to Good Agriculture Guidelines being issued for those crops. The indicators used in the guidelines encompass environmental, social and human capital, value chain and local economy measures.

Stakeholder dialog

A significant proportion of the crops are bought on the world commodity markets, where there is little control over their source and how they are grown. Unilever has been instrumental in supporting and setting up multi-stakeholder dialog along its supply chain and is a member of the Responsible Commodities Initiative, developing a common approach to sustainability standard-setting across commodities.

Social agenda

Unilever increasingly reflects its social impacts in terms of the MDGs and poverty impacts and aligns its social program with its core business areas and business interests, Health & Nutrition and Health & Hygiene. The approach is twofold: to take action where Unilever has a direct role and clear commercial rational; and to work through partnerships with government, NGO and community groups for longer-term solutions.

In 2005, a new global initiative, the Partnership for Child Nutrition, was formed. This initiative is starting in India, where a broad coalition of government, private sector and community-based organizations are thinking through solutions to combat child malnutrition.

Unilever's approach to community giving

In 2005, Unilever contributed around £79 million to a wide range of community activities. This is equivalent to 1.7% of pre tax profit. Around 12,000 community organizations around the world were supported by either cash (45%) or in kind (55%) donations.

The company's approach to community engagement is to encourage local managers to decide what is right for their business and communities. Support is manifested in various guises, ranging from charitable giving, as for the 2004 tsunami, to long term partnerships. Increasingly, Unilever seeks to align its community investments with social issues that are relevant to its business. Around a quarter of Unilever's community projects seek clear commercial benefit alongside positive community impacts and themes as nutrition, hygiene and other health issues, which relate directly to Unilever's core business, received the largest amount of support (43%), followed by education (21%).

Unilever is a collaborator with the London Benchmarking Group (LBG Australia), working with other companies to develop a systematic and comprehensive measurement of its corporate community contributions.

Localizing CSR

Unilever is a company with a complex and diverse global supply chain and an increasing presence in developing country markets.

Unilever Indonesia: exploring links between International Business and Poverty Reduction

In 2004 and 2005, Unilever engaged in a joint research project with Oxfam GB and Novib (Oxfam Netherlands) to explore the links between international business and poverty reduction. The motivation for Unilever was two-fold. First, its business engages in many ways with poor people in its operations around the world as producers and consumers. Second, the company was motivated by the MDGs and Johannesburg Declaration placing poverty eradication at the center of global strategies for sustainable development. The research took Unilever Indonesia as a case study, looking at the impact of its operations along its entire value chain, from its interaction with small-scale producers in the supply chain, to low income consumers and upwards to the macro effects of its tax and investment policies.

The key finding was that the poverty reduction impacts of Unilever Indonesia are spread across the full breadth of its value chain. By examining the employment and value creation at each point in this chain, the research provided insights on the levers of both positive and negative impact on poverty reduction:

Unilever's Indonesia core workforce includes approximately 5,000 people and an additional 2,000 people are employed in factories, making Unilever products under contract. Indirectly however, the full-time equivalent of about 300,000 people derive their livelihoods from Unilever's value chain. More than half of this employment is found in distribution and retailing; of the total value crated, around two-thirds are distributed to participants other than Unilever Indonesia, such as producers, suppliers, distributors, retailers and the government. The value created by people working at either end of the chain (production of raw materials or retailers) is much lower than the value captured by those at the center of the chain who are in direct interaction with, or part of Unilever Indonesia:

- participation in the value chain does not automatically guarantee improvements in the lives of people living in poverty;

- for supply and distribution chains to benefit poor people, there need to be other social institutions and resources in place such as credit and saving schemes, marketing associations, and insurance schemes as well as diversification of income streams to reduce dependency on any single company or market.

Unilever Indonesia's wider impact on the community in terms of corporate community involvement was assessed. The company invests in a wider range of philanthropic activities, often linked to an aspect of its business expertise. Examples include support to municipal composting, clean waterways and sustainable fishing programs. The greatest potential for pro-poor impacts are those generated though the company's mainstream operation and value chain. Unilever has understood that its community involvement can be more effective when linked to the company's ordinary business activities through, for example, the purchase of raw materials, manufactured inputs, and finished products or as a contractor or vendor of retail products.

Unilever Indonesia has engaged in a tri-sectoral partnership with the government and local communities to form small and medium sized enterprises and provides entrepreneurs with market access, support, technical skills, and access to finance. An Indonesian institute provides technical skills and expertise, identifies prospective entrepreneurs and locations, helps to build capacity, and helps new SMEs to obtain licenses.

Hindustan Lever: developing markets at the Bottom of the Pyramid

Hindustan Lever Limited has been operating in India since 1931. Its products are manufactured in 80 factories and distributed through a sophisticated network of retailers, covering the entire urban population and about 250 million rural consumers. Hindustan Lever is a pioneer in developing of products that address the needs of the poor. These products include affordable and small portion packages, soap and detergent specially adapted to the sanitary condition of poor families and iodine salt adapted to Indian cooking and addressing iodine deficiency and related health concerns.

Hindustan Lever generates about half of its business from rural areas, where products are sold in some 100,000 towns with a population of over 2,000. However, by the late 1990s, those markets were saturated and the company sought penetration into the 500,000 smaller villages and remote parts of the country with poor infrastructure and limited retail coverage. In order to extend, Hindstan Lever tapped into the growing number of women's self-help groups. The Shakti program trains women from self-help groups in selling, commerce and book-keeping. With this initial training they can choose to set up their own business or become Shakti distributors.

Hindustan Lever took a conscious decision to address only women through this program, considering them the best carriers of the company's message and education.

The Shakti project has proved to be a great success. After the pilot phase, it expanded to over 13,000 Shakti women entrepreneurs, selling to 70 million consumers. The program has been expanded using information technology. In the i-Shakti program, village kiosks with internet linked computers provide access to information in villages which are not reached by television, radio or even newspapers. Hindustan Lever aims to scale up this program to reach 100 million rural Indian consumers.

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

Roundtable on Sustainable Palm Oil; www.rspo.org

Hindustan Lever; www.hll.com

London Benchmarking Group Australia; www.lbg-australia.com

2. SATYAM

Satyam Computer Services Ltd. is a leading global consulting and IT service company. It was founded in 1989 and pioneered outsourcing in India. Satyam was listed at the Mumbai stock exchange 1991 and by 2006 it was one of the youngest companies to have reached the billion dollar mark in annual revenues. Its network spans 55 countries and 6 continents and it employs 35,000 highly skilled IT professionals. Satyam's clients include 521 global companies, including over one hundred and fifty Fortune 500 companies.

Satyam's approach to corporate social responsibility

Satyam aligns its business operation with social values and is committed to leveraging the power of IT to bridge the digital divide. Satyam's corporate engagement with communities stems from its core competences as an IT and knowledge company.

Working through Foundations: Satyam set up its own foundation in 2000. Working through the Satyam Foundation, Satyam organizes initiatives for social transformation – primarily in the fields of education, environment and healthcare in urban areas. In addition, the founding family of the company has set up their own Foundation as a platform for sustainable rural transformation.

The business case for investment into communities: Both foundations aim to use Satyam's management experience to turn each of its developmental projects into an economically sound business venture to build employment opportunities for the poor, and subsequently grow into self-sustaining entities. As many of the projects are related to IT skills development, they also make a direct business contribution to Satyam.

Skills transfer by corporate volunteering: The Satyam Foundation has consciously decided against being a checkbook charity organization. Reaching out to the community through volunteers, it encourages its associates to get directly involved and dedicate time and skills to community development. In 2006, over 100,000 hours were spent on volunteering by Satyam associates. The goal of the company is that more than 20% of its associates spend more than 5% of their time annually on volunteer initiatives.

Corporate investment in community development

IT Project for Slum Children

The IT Project for Slum Children was initiated by the Satyam Foundation in 2000 in order to provide IT training opportunities to poor children. Over 50% of the students are girls, drawn from communities where they are typically not encouraged to take up careers. Street children are given priority. After the children complete their basic training in IT, the Satyam Foundation actively searches business opportunities to employ the skills developed. The goal of the project is to grow self-sustaining businesses that offer low-level IT skills at highly competitive rates. The company leverages on its volunteers worldwide and targets global customer who are interested in supporting such activities through business activities rather than charity.

Byrraju Foundation and the GramIT program

These programs support the start-up costs of new data processing centers in the rural areas of Andhra Pradesh and intends to turn over ownership to the centers' employees. By outsourcing part of its own back-office work from the high cost location of Hyderabad to rural areas, Satyam can realize considerable savings. The GramIT program is a rural skills retention and livelihoods program, aimed at college graduates in rural areas who do not want to leave their villages.

Sources

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Back office Charity, Forbes, July 24 2006

Satyam Foundation; www.satyam.com

Byrraju Foundation; www.byrrajufoundation.org

3. **MTN Group**

The MTN (Mobile Telephone Networks) is a leading provider of telecommunication services in Africa and the Middle East. It was launched in 1994 in South Africa by private investors with the aim to develop the communications market in the region. By March 2006, MTN had chalked up over 28 million subscribers and had built up an employee base totaling over 8,000. The group operates in Botswana, Cameroon, Cote d'Ivoire, Nigeria, Republic of Congo, Rwanda, South Africa, Swaziland, Uganda and Zambia and is expanding it operations by acquisitions in Africa and the Middle East.

MTN's approach to Corporate Social Responsibility

In its business strategy, the Group states that information and communication technologies are an indispensable catalyst for economic development; one that affords developing countries to leapfrog many stages of modernization from a technological perspective. As part of its growth strategy, MTN commits itself to play an important role in bridging the digital divide by providing telecom services in emerging markets. MTN sees sustainable development as the core of the company's business practice.

Local job creation

MTN Uganda has supported local start-up entrepreneurs who set up small mobile telecoms distribution outlets. MTN provides initial training and assistance and provides discounts on equipment. So far three types of local distribution networks have been established: manned public payphones, call boxes operated by local entrepreneurs and village phones. Through a partnership with a micro financing institution, MTN assists village entrepreneurs to purchase a phone and a solar panel. They can purchase recharge vouchers from MTN at reseller rates and charge customers accordingly. So far 12,000 manned payphones, 2,400 payphones and 3,300 village phones operate in the region.

This informal distribution sector has created more than 17,000 jobs to date. This has closed some of the gap in delivering communications access to rural outlying areas and it is beginning to empower suppliers and distributors of other consumer goods and services, with the potential to create a wider informal business sector generating additional local employment.

Corporate social investment

MTN has sought a strategic and long-term approach to its CSR activities. Through purposeful investment and partnerships with NGOs, government agencies and capacity-building institutions, MTN aims to create empowerment opportunities and contribute to socio-economic development.

MTN Foundations

In order to realize this long-term commitment to corporate social investment, MTN has set up its own foundation. The first MTN foundation was launched in South Africa in 2001. The MTN Group is in the process of establishing CSI foundations in its other cellular operations in Cameroon, Nigeria, Rwanda, Swaziland and Uganda. Each operation will contribute up to one percent of profit after tax towards corporate social investment projects managed by the foundations.

Designed to address national needs, the objectives of the MTN Foundations are to:

- improve access to educational opportunities through information, communication and technologies;
- promote Africa's cultural and artistic heritage;
- contribute to the fight against HIV/Aids
- promote public understanding of science and technology;
- support job creation through ITC's in rural areas.

Types of engagement

MTN Foundations consult with and involve local governments and municipalities in local projects and they partner with appropriate NGOs or other companies in their execution. Examples of corporate investment include:

Schools connectivity programme: MTN South Africa has partnered with the provincial educational department in setting up 145 school media centers. So far 145,000 students and educators have benefited from the centers. Similar programs have been established in Cameroon and Nigeria;
ICT and rural entrepreneurship program: in 2005, MTN South Africa initiated a program of rural ICT business centers. The aim is to establish 50 centers to benefit approximately 1,500 rural women.
Community upliftment projects: MTN Uganda has been engaged in low cost housing projects with Habitat for Humanity and has actively promoted educational programs. MTN has become a NEPAD partner by supporting the launch of the first e-school in Uganda.

Measuring success and return on investment

As part of its commitment to sustainable partnerships, the MTN Foundation has commissioned an independent team to assess the effectiveness of its social investment program. The review, which is undertaken against a set of criteria that examine the impact, sustainability and cost effectiveness of the projects, has found that the investments have unlocked additional resources and secured further sponsorships from other partners. Nevertheless MNT feels that it needs to develop a more strategic approach to its partnerships. MTN aims to develop appropriate systems to track and report its return on corporate social investment.

Sources

MTN Sustainability Report 2005; www.mtn.com

4. **Corporate and Community Foundations - Akassa Development Foundation and Russian Community Foundation experience**

The Akassa Development Foundation in Nigeria is sponsored by the Norwegian oil company Statoil, which has offshore operations in the Niger Delta. Through an environmental impact survey Statoil identified the coastal community of Akassa, with nineteen distinct communities, as most likely to be impacted by an oil spill at the drilling site.

The Akassa Development Foundation was created by the Akassa community with the guidance and support of Pro Natura International (PNI), an international development NGO. Over four years of negotiations with the chiefs, youth groups, women's groups, and other village groups, an organizational framework was created that reflected existing indigenous organizational structures. Democratic participatory methods of planning and decision-making were introduced in collaboration with local and internationally affiliated NGOs. This foundation is currently independent organizationally and managerially, but depends on Statoil for funding. Statoil closely monitors the management of its budgets and expenditures through a management committee within the foundation. Payments to the foundation are made in quarterly installments.

The Akassa project began early in 1997 with a Participatory Appraisal. The process was designed to be community-led, so that the plan would reflect the needs of community. The Appraisal was carried out by a gender-balanced and multi-disciplinary team of Akassa villagers and independent external NGO observers. Appraisers moved from village to village, making an effort to consult with everyone, not just from the chiefs but also from the poor and the traditionally marginalized.

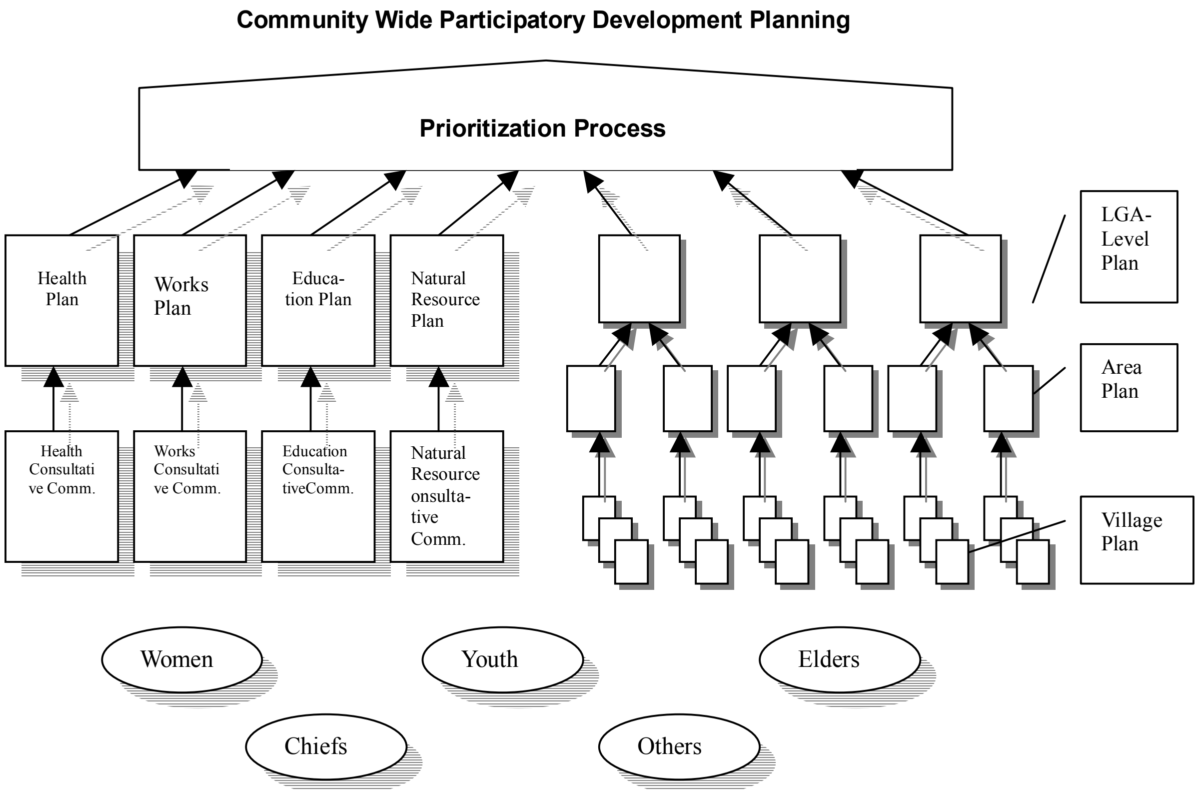
The Akassa Community Development Program was created in 1998 and was converted into the Akassa Development Foundation (ADF) in 2002 with the mission to develop local capacity to solve and manage development problems for a sustainable future. ADF is a legally incorporated trust. As such, it can enter into contracts on behalf of the people of Akassa and bears legal responsibility for the contracts. It has a bank account, a constitution, and a board of trustees democratically elected by the Akassa people. Principles of the foundation include self-management, transparency, and accountability to the community. The planning process aims for a community-driven approach that is broadly representative and participatory. This model also assumes that it is unrealistic to expect any community to identify, manage, and implement its own development plans unless it has the necessary skills. This process therefore emphasizes human development before infrastructure development.

The ADF features:

- An overseeing General Assembly with equal representation from all nineteen Akassa communities;
- Two committees, a Board of Trustees and a Steering Committee, elected by the General Assembly, which monitor the day-to-day work of the ADF;
- a Secretariat and nine ADF institutions, which cover the entire Akassa Kingdom (Akassa National Council of Chiefs, Akassa Clan Women Association, Akassa Clan Youth Association, Akassa Clan Development Council, Akassa National Education Consultative Committee, Akassa National Health Consultative Committee, Akassa National Savings Association, Akassa Natural Resources Unit, Akassa National Skills Training and Resource Centre Committee).

The ADF also disburses funding to each of the nineteen communities that make up the Akassa Kingdom for community micro-projects. Projects are identified through a participatory appraisal process illustrated in Figure 4.

Figure 4: **ADF Project Appraisal Process**

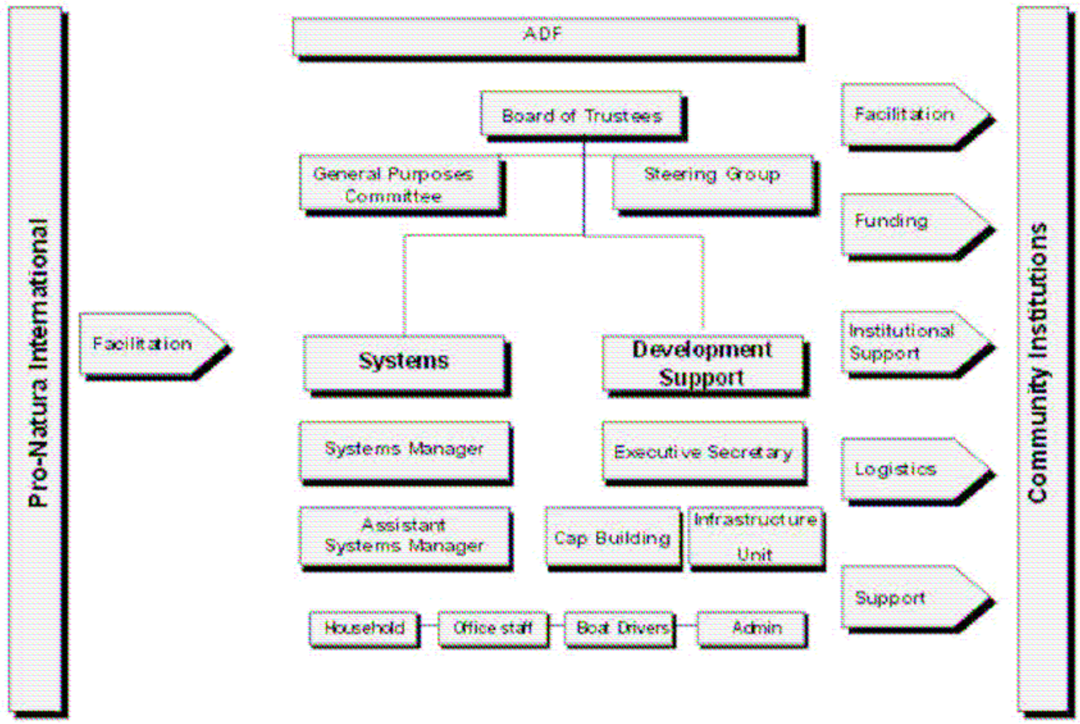


Statoil's principal role in the Akassa project has been as a funding partner, working through the NGO facilitator. Statoil has been very aware of its role as an active, non-executive supervisor within the budgeting and monitoring of the contributions. Statoil is actively involved in the ADF annual budgeting process and closely monitors spending and project progress both through accounts monitoring, the release of funds on a quarterly basis, and frequent visits and inspections (two to four times per year).

The budget discussions between the fund provider (Statoil) and ADF (with PNI as advisor) normally occur at the same time as the preparation of the annual national development plan and related budget (October/November). The discussions take the form of a negotiation between the ADF Management and Statoil. The amount of the annual contribution is discussed alongside details of the annual plan and budget. Statoil maintains active participation in budget planning and monitoring of the use of funds. ADF has a good track record of executing project plans, and no misuse of funds or corruption has been observed in a region that is known for financial abuses and graft.

Statoil has separate agreements and budgets with ADF for the funding of the project activities and PNI for their advisory service. The support to PNI has decreased from US$120,000 per year at the beginning to the current level of US$60,000 per year. The contribution to ADF has remained at about US$400,000 per year. Statoil has also been an active partner in seeking additional funding for the ADF. The Akassa project also receives support and funding from Statoil's project partners Chevron and NNPC. In addition, ADF has been able to finance specific infrastructure projects from other sources.

Figure 5: **ADF Organizational Chart**



The Akassa community shares experiences and knowledge through a "living university" training center, which has sent government representatives, community leaders, and other company staff to see the project first hand and share experiences.

As knowledge about the Akassa model has spread in the Delta, development institutions, other oil companies and representatives from the central government have visited Akassa. Oil companies working offshore have come together to exchange views on how best to contribute to the development of the Niger Delta, and formed the informal Deep Offshore Community Affairs Group. The group has decided that the Akassa model is useful as a vehicle for community development in other areas of the Niger Delta. Currently the ADF model is being implemented in three other areas of the Niger Delta, with funding from several private companies (Nexen and Total) and development agencies.[27] PNI is also extending the model to other areas of the globe including Brazil, South Africa, Mozambique, Columbia, and Alaska.

The project has gone through several adaptations of its structural model. PNI's presence has been reduced over the years from three to four full-time advisors per year at the early stage to one half-time advisor at present. According to PNI projections, within one or two years the ADF will have acquired the human, organizational, and managerial capacity not to require any further support from PNI. A major concern is, however, that there are not enough economic and market-related activities to make the model self-sustaining.

[27] Bill Knight and Carolyn A. Ristau, 2004. "The Participatory Development Model and the Nigerian Coastal Initiative" Presentation for UN Global Compact Workshop, "Identifying Public Policy Options to Promote Conflict-Sensitive Business Practices." New York, December 13 2004.

Another issue of concern is that there has been little meaningful Akassa local government participation in the model. Statoil, PNI, and ADF have made several attempts to establish improved cooperation with the local government; however, the local government has been unresponsive and has tended to see the ADF as a rival. This is a significant weakness in the model, especially since the local governments are receiving significant participation in oil revenues from the central government.

In contrast, the government of the Nigerian State of Bayelsa has selected the "Akassa model" as the community development model for Bayelsa. The relationship between ADF and the local government offers possibilities of further replication and potential improvement of the model to include local government. Participatory, community-led mechanisms within the process may help to ensure that the process remains community-driven, and embeds downward accountability.

Russian Community Foundations: Kamensk-Uralski, Shelekhov, Nadvoitsy[28]

In February 2001, the SUAL Group (Siberian-Ural Aluminum) signed a social partnership agreement with all heads of municipal units in the territories where the Group runs enterprises. This agreement is unique in that management of the Groups enterprises and the managing company, administrations of cities and regions, representatives of various municipal agencies and public structures become equal partners in making decisions on the choice of prospective directions for social and economic development, optimization of inter-budgetary relations in regions, improvement of local health services and education and development of civic initiative mechanisms. A Coordination Council for social partnership and a working group were established to implement the Agreement and to manage current operations. As part of the implementation of decisions of the Coordination Council in January 2004 the SUAL Group, one of the world's ten largest aluminum companies, signed a memorandum of understanding with the United States Agency for International Development (USAID) to work as equal partners to encourage economic and social development in Russian communities where SUAL operates. This new partnership between USAID's Russia mission and a Russian company is the first of its kind. The partnership's targeted areas of development include local governance and institutions, healthcare and infrastructure, small businesses and community organizations. Another aim of the partnership is to increase the involvement of citizens in local decision making. According to the memorandum, SUAL and USAID finance joint projects on a parity basis. The partnership's activities will directly improve the quality of people's lives in diverse locations, from Irkutsk in Siberia to Kandalaksha in the north-west to Volgograd in the south. Pilot areas being considered for the first stage of the program (2004-2006) included Kamensk-Uralski, the third largest town in Sverdlovsk region (Population 185,000); Shelekhov, Irkutsk region (Population 60,000), and; Nadvoitsy, Karelia Republic (Population 19,000).

SUAL and USAID intend to design and co-fund specific activities in the pilot regions, drawing on existing and prior USAID activities and models operating elsewhere in Russia. One of the objectives of this partnership project is to establish community foundations in all three cities mentioned above. CAF-Russia and the Siberian Centre for Civic Initiatives (Novosibirsk) are participating in the program and providing technical assistance. The key elements of the SUAL approach to the creation of a community foundation are:

- conduct a front-end analysis to understand the local context and develop a community foundation model most relevant to the existing circumstances;

[28] Russian Community Foundations Study Report, Monica Patten, Community Foundations of Canada, Alexey Kuzmin and Vladimir Balakirev, Process Consulting Company, Russia, Moscow 2006

- consult and cooperate with the city government, key community leaders and businesses present in the area;
- develop sound community foundation structure and systems;
- invite professional agencies to provide advice, training and technical assistance;
- consider charity as a professional instrument to address community social issues;
- provide start-up money together with the major companies operating in the region (and consider establishing an endowment fund from the very beginning);
- invite a few respected local businesses to join the founding members of the community foundation to avoid the domination of big businesses in determining the community foundation strategy;
- stay open to new donors and over a few years expand the local donors' base and get rooted in the local community;
- make the foundation transparent to community to ensure its trust.

Organizational Structure of the Russian Community Foundations

While adjusted to Russian legislation and culture, Russian community foundations' organizational structures are consistent with community foundation traditions worldwide. They include governing bodies and staff. Governing bodies are broadly representative of the communities they serve, but draw most heavily on business participation. The typical Russian community foundation structure includes the following:

- Council of Founders made up of people or organizations who formally established the CF. Formally, the Council of Founders has the supreme power in organization. According to a Foundation's Charter the Council of Founders determines its strategy and policies, hires the Executive Director, and monitors and evaluates him/her.
- Board of Trustees, formed by the Founders. This Board controls the CF's activities, and monitors and evaluates them, as well as provides assistance in and advice on community foundation development and ensures adequate financial resources. Usually the Board of Trustees includes the major donors.
- Board of the Foundation - the collective management unit. It approves the community foundation's programs, assesses grant proposals, identifies the successful applicants and makes final decisions regarding the grant amounts.
- Commission for Financial Control which monitors the foundation's financial activities and produces annual reports on them.
- Staff who implement all community foundation activities.

5. **The Andhra Pradesh District Poverty Initiative Project**

The Andhra Pradesh District Poverty Initiatives Project (APDPIP) is a successful World Bank investment assisting the poorest of the poor in India's northeastern state of Andhra Pradesh covering 8.0 million rural poor families in 29,000 villages. The project focuses on the education of female child laborers as well as the establishment of self-help groups, networks, and federations to improve access to government services and markets. APDPIP is a contribution to the Andhra Pradesh Government's Rural Poverty Elimination Program under the project title "Velugu" and is implemented by the Society for Elimination of Rural Poverty (SERP).

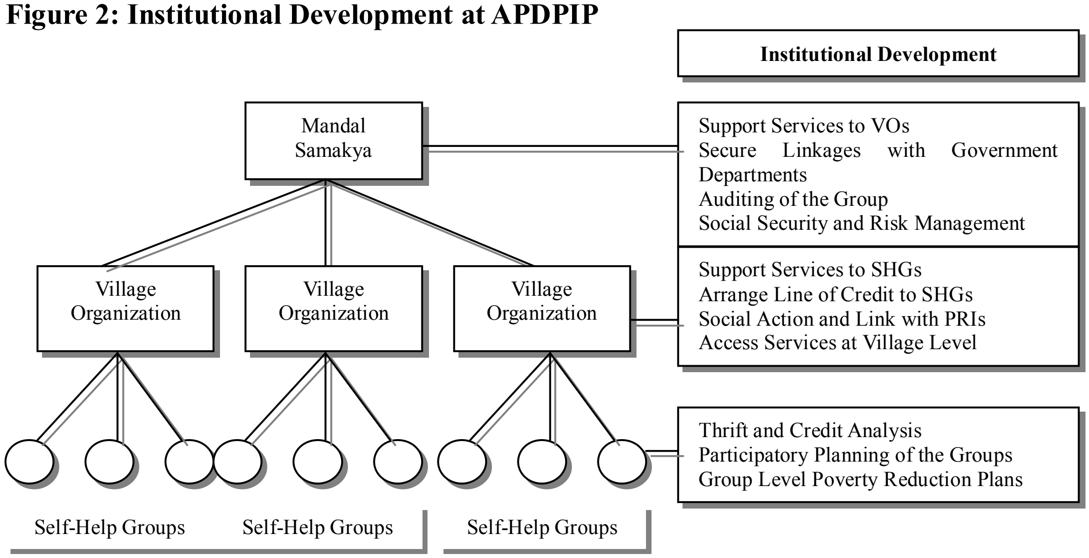
The program is built upon a fifteen-year-old women's self-help movement which uses collective economic enterprises and local empowerment committees to empower women. Collectively, through their village organizations, these women have mobilized US$250 million of their own capital and were able to increase commercial bank credit to over US$280 million in four years by proving their credit-worthiness to commercial banks.

The objective of the project is to tap the potential within the poor to overcome poverty. Its initiators acknowledge that for this to happen, limitations such as undeveloped human resources, low incomes, denial of rights, and a poor natural resource base must be overcome. SERP's mission is to overcome these limitations by supporting skill development, organization, capital formation, and expansion of opportunities. The program has promoted more equitable access to markets and business services, and improved governance and access to justice.

The model is based on a hierarchy of self-managed institutions of the poor from Self-Help Groups (SHGs) to Village Organizations (VOs) to Mandal Samakya (MS). They are governed strictly by a multi-sectoral board or committee that includes representatives from the community, civil society, and the private sector. The model is supported by stringent, transparent reporting and processes to maintain accountability. All institutions are legal structures and subject to normal auditing standards. A fundamental tenet of the model is that all the projects undertaken by the village organizations are driven by demand from the community.

Community development foundations, "cells," or "societies" function as a way to build human and social capacities, federate small-scale producers, and provide a bridge to the external private sector. The private sector is then engaged through formal agreements with the "cells" to partner with them on different aspects of the linkages, whether technical support, training, or other capacities needed to enable the private sector partner to work with the community.

Figure 2: Institutional Development at APDPIP



The model emphasizes the following processes:

- institution building – self-managed institutions of the poor;
- building and nurturing social capital (grassroots women leadership, developing community activists and para-professionals, community resource persons);
- knowledge dissemination – training and capacity building of self-help groups, paraprofessionals, project functionaries, etc.;
- livelihoods expansion;;
- increase in incomes and employment, decrease in expenditure, costs and risks; and
- networking and linking institutions of the poor with other institutions – public services, financial, markets, educational.[29]

The process of forming linkages to the private sector is critical to this model. Job programs that rely on supply chain linkages (federated access to markets) are among the many types of projects that SHGs and VOs have undertaken. These linkages are actively sought out by the VOs or by their agents with private sector expertise. Local private sector partners are chosen for their willingness to work with the societies on joint projects. The societies sign formal MOUs with their private sector partners who can then provide a variety of services including skill building, human and technical resources and training, and other services such as health care, and financing instruments.

Eliminating the middlemen in the supply chain

One innovative strategy used by the APDPIP is to gradually eliminate the middlemen in the supply chain, as the community develops skills and capacity to create products and interface effectively with increasingly sophisticated or complex levels of the supply chain. This allows for increased profits as middlemen are removed and the community learns to produce more value-added products. For example, a community can begin by setting up consolidated markets for an agricultural commodity such as flax seed which is then purchased by a middleman. The consolidation of the market allows the community exercise increased bargaining power. Several communities making flax seed may further consolidate production, thereby further increasing bargaining power. The next step of the process may be to work with the ultimate buyers of the flax seed to meet the quality and delivery requirements of the buyers. If the flax seed undergoes a process, the community can then focus on processing and capture the profits associated with the value-added. Throughout, the local institutions of the poor are used to facilitate each step of the process. This type of program requires detailed knowledge of the supply chain in question and its variables. NGOs and local consultants are used to identify local private sector partners.

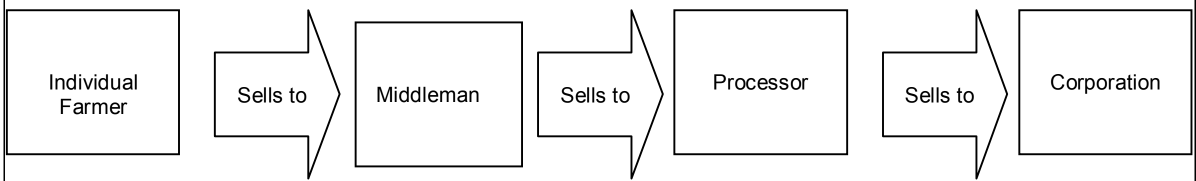
Figure 3 illustrates the APDPIP model for building supply chain linkages through community organizations which progressively increase profitability for the producers (the community) by eliminating middlemen in the supply chain.

[29] Vijay Kumar. 2005. "Promoting Partnerships between the Private Sector and Community Organizations: Experiences of Indira Kranthiatham" Society for Elimination of Rural Poverty, Andhra Pradesh, India.

Figure 3. **Three-Level Strategy for Building Economic Linkages through the Supply Chain**[30]

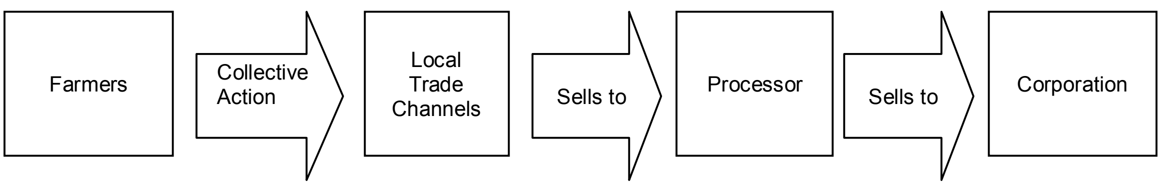
[30] Kumar.

Traditional Community Economic Relationship



- Producers receive the least financial benefits of the exchange as they are at the bottom of the chain
- Producers have very little direct contact (if any) with the processor or corporation to understand the quality specifications
- Because producers are acting as individuals the producer cannot benefit from collective bargaining power.

Tier I: Market Linkages

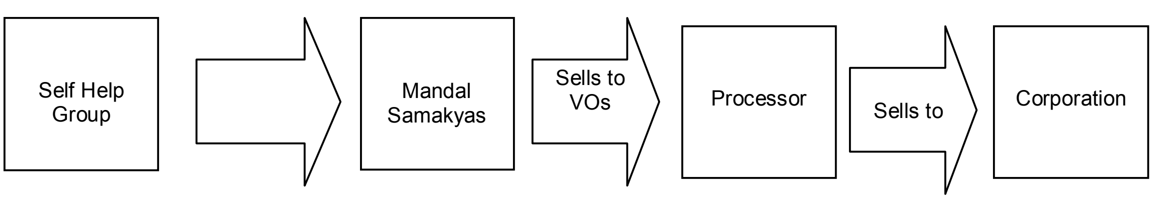


Producers through the Self Help Groups partner with the local trade channels. In this capacity:
- There is collectivization and primary grading of products
- Buyers are able to provide input on quality parameters
- SHG's negotiate sale with the local processors – oil miller, pulses miller, bulk buyers/wholesalers

The Benefits:
- Elimination of middlemen ensures a greater financial return to the producers
- Poor women are able to enhance earnings by more than 30 percent in economic terms (primary goal)
- Reduced transaction cost for the buyer
- Buyers get graded material

Tier II: Partnerships with Final Processor

In this strategy the Samakyas act as intermediaries from the farmers with the processors.



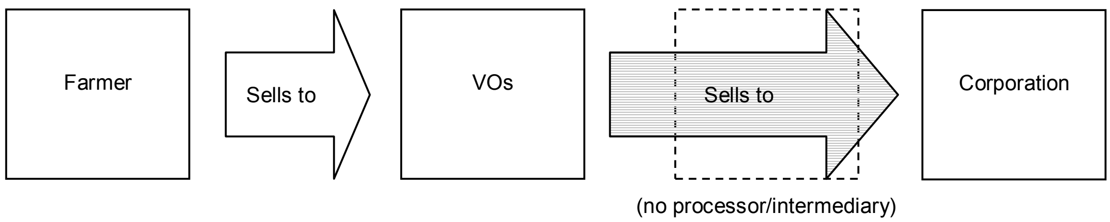
- The facilitator explores buyers' requirements identifying quality and quantity

- The facilitator Mapping for potential supplier Samakhyas
- The facilitator negotiate prices and figure out costs
- Supply as per the time line

Benefits:

- Untapped commodities bringing in more return
- Assured supply for the buyers

Tier III: Avoiding Commodity Markets



In this phase:

- Community organizations are the commission agents of the corporation
- Village Organizations become a "processor" by providing the infrastructure and taking responsibility for cleaning, bagging and dispatching the good
- Village Organizations become procurement centers- Corporate buyers come to the procurement centers and quote rate as per the quality and purchase goods from the VO

Benefits:

- VO gets commission from company and service charge from the farmers
- No risk for the VO
- Transparency and spot payment for farmers besides all the benefits of collective marketing
- Farmers are given a fair market value and receive more money, depending on quality, of good produced
- Supply chain integration and reduced transaction cost for company

APDPIP Job Skills Training

Another strategy used by APDPIP is working with local private sector partners to create job opportunities through skills training programs.

In Andhra Pradesh, India the rural unemployment rate for educated youths is growing an alarming rate. The Society for Elimination of Rural Poverty (SERP)'s created Livelihoods Application Business School (LABS) to reduce the number of unemployed youths. The main goal of LABS is to create a market-driven program that identifies the sector with the largest need for skilled workers, and trains youths with specific skills to fill that gap.

LABS conducted a market assessment and identified the services industry (such as information technology and tourism) as India's largest growth sector, with an estimated 100,000 new jobs per annum and focused its training programs for jobs in this sector. In order to identify the youths, LABS took a unique approach and targeted women's federations and village organizations. The program educated the local women federations whose members are also parents whose children would be in program. The federations were required to sign a formal MOU to ensure their commitment to the initiative and outline the objectives, roles and responsibilities. LABS also worked with the Village Organizations to identify the unemployed, to ensure that only the poor are identified and incorporated into the program.

Once the youths were identified, they receive training for three months in life skills, personality development, the English language, and identified specialized market linked skills. The faculty is drawn from local industry. An additional strategy employed to ensure success involves the use of mentors, also drawn from the local business community. Two counselors are appointed by each Mandal Samakya to counsel drop-outs and identify unemployed female youth in interior villages to be linked to jobs in growth centers of the district.

The LABS program created market-linked training, and created a scalable employment model for the rural youth. In 2004-2005, 7,000 rural youth obtained jobs in the service sectors with incomes ranging from Rs.1500 to Rs.3000 per month. The place rate was 78.4 percent with a male/ female gender ratio of 64:36. Jobs included ITES, customer relation management, food & beverage, home nursing, security, construction, and jobs abroad. Companies include deluxe hotels, call centers, Reliance Infocomm, Kinetic Honda, and Central Mall.

Section Five - Conclusion

Trends in corporate social responsibility have exhibited a growing emphasis on partnerships, local action and capacity building and sustainable impacts. These dimensions of corporate initiative dovetail with the increasing interest apparent in community-driven development frameworks of integrating public, private and civil society efforts in supporting empowerment of the poor and building opportunities for improved welfare.

This report has identified two prominent streams of corporate investment in community development – those of private sector-supported social investment and value-chain oriented economic linkage models.

Table 4: Summary of potential private sector - CDD partnership models

Model	**Private Sector Social Investment:** *Indirect Investment*	**Private Sector Social Investment:** *Direct Investment*	**Private Sector Social Investment:** *Community Foundation*	**Economic Linkages**
Example	Contribution to existing Social Fund	Implementing projects directly with communities	Corporate engagement through Community Foundations	Supply chain integration, job creation
Benefits	Use of existing institutional structure, mechanisms and access; allows companies to engage at arms length; access to additional funds	Can provide immediate development benefits; direct accountability and voice channels established with communities	Supports community-driven ethos; self-sustaining through endowment	Sustainability; empowerment of the poor; transformation of society
Risks	Limited financial contribution; short-term; precludes contribution of non-financial assets	Short-term; may create parallel governance structure; sustainability risks	Difficulty transferring to communities, long timeframe; difficulty finding funding	Subject to market risk; requires long timeframe; requires building of community capacity

Private sector social investment

Private sector social investments contribute to development activities that seek to improve the general welfare of the community. These sorts of social investments can be segmented into three funding mechanisms: (i) indirect, as with a corporate contribution to a Social Fund; (ii) direct - as with investments that are given directly to a community, and; (iii) hybrids - as with community foundations. Private enterprise contributes indirectly through taxes and royalties paid to the state. Additional investment can be channeled through dedicated institutional structures mandated for social investment purposes, for example through a Social Fund. A corporation may also engage directly with the community. A more recent trend has been for companies to set up hybrid foundations – both corporate and community foundations - to help administer and manage community development funds. Although this paper includes short case studies of each, the CDD-CSR convergence discussion is implicitly more centered on community foundations as recipients of corporate support and dispensers of pro-CDD support at the grassroots.

Indirect investment through Social Funds or other funding mechanisms

Social funds are multi-sectoral programs that provide financing (usually grants) for small-scale public investments targeted at meeting the needs of the poor and vulnerable communities, and at contributing to social capital and development at the local level. Over the past fifteen years the

World Bank has financed over 100 social funds in 60 countries, for a total of nearly US$4 billion, to rebuild war-torn communities, provide social services, and strengthen community organizations." [31] Social Funds are an effective mechanism for supporting CDD on a large scale, and delivering development benefits quickly to the neediest populations. Social Funds create positive externalities such as alignment of resources for more efficient diffusion, harmonization of procedures, policy and advocacy across a national development program, and coordination of sustainability initiatives across a wider population.

As a mechanism for funding community development, this approach appeals to companies that wish to support community development but possess no internal resources or specialized development expertise. From a development project's perspective, this is a traditional financing or co-financing arrangement. By way of example, the World Bank's Second Angola Social Fund (FAS) was able to solicit donations from BP (US$97,000) and Shell (US$75,000), which were operating in these regions, for the US$40 million fund.[32] These funds were targeted for selected community development projects, but otherwise not overseen by the corporate donors, being instead managed by the fund per the usual World Bank protocol.

Direct investment through private sector community development programs

Direct social investments can take many forms. In the simplest form, companies provide basic infrastructure for the community such as roads, electrification, water, or assistance with basic services such as healthcare or education. This type of investment is in most cases determined by the local company subsidiary using the subsidiary's CSR budget, and is implemented by the company using local or national contractors. These types of investments may also be required by the central government as a condition for investment. Communities and local governments may be consulted, but have little control of the disbursement of funds, management of projects, or evaluation. Some companies are moving toward more participatory approaches when engaging with local communities; however, in most cases the company still controls the flow of funds and implements the projects.

Lack of local organizational capacity can impede the community's ability to influence development initiatives and can lead to unsuccessful or even wasted investments (e.g. an investment in infrastructure that is not used, schools and health care centers which fall into disuse for lack of proper staffing, etc..) Recognizing that investments can be more successful if communities are empowered to decide how to use funds, some companies have begun to devise ways to help communities organize. Local capacity building has become a priority among companies who engage in community development.

Investment through Foundations

Corporate foundations are generally reliant in totality on a single donor – the corporation responsible for their materialization. One half of the G250 companies engage in philanthropy through their own corporate foundations. One particular challenge – especially in the mining sector – is the close tie between the lifetime of a corporate foundation and the timeframe of enterprise investment, raising the issue of post-production site sustainability.

Community Foundations (CFs) are formally organized and registered, and have their own by-laws and designated accounting mechanisms. They mobilize contributions from a large number of donors, including local business and philanthropy and they build endowments Within the

[31] www.worldbank.org/socialfunds

[32] World Bank. 2004. Implementation Completion Report on a Credit in the Amount of $33 Million to the Republic of Angola for a Social Action Fund Project (FASII)," WB Report 29162, p 33.

framework of CFs, communities identify their needs and play an important role in mobilizing resources. A Community Foundation generally has six key features:

- grant making foundation;
- fund-raising entity seeking contributions from a broad range of donors;
- mission broadly defined;
- governed by a local board of trustees reflective of the community – such a multi-stakeholder board will include community representatives, company representatives, and often representatives of governmental entities and respected individuals at the local and national level;
- serves a geographically defined community; and
- builds an endowment.[33]

CFs are an increasingly popular mechanism for delivering funding. According to the Worldwide Initiatives for Grantmaker Support, a 2005 study showed the number of Community Foundations to be growing. By 2005 there were 1175 worldwide Community Foundations.[34]

The considerations for pursuing a Community Foundation approach refer to core principles of transparency, accountability, and broad community representation, the avoidance of elite capture, and the inclusion of marginalized people including the poor, women, and youth. To ensure future independence, there should be embedded in the design a strong emphasis on transitioning the project management to the community, and building its capacity to manage the endowment and fund.. Adequate time must be allotted and a transition plan for the company's eventual departure should be considered at the outset.

As for any foundation, the ability to serve the community depends on the foundation's ability to attract funding and create an endowment. The experience of the Akassa Foundation in the Niger Delta highlights the difficulty of transitioning to financial independence. This case also demonstrates several inherent risks: a successful foundation can marginalize government. Communities, corporations, and other stakeholders may feel that local government is neither accountable, representative, nor trustworthy, and attempt to bypass it. New social structures created by the foundation can usurp or replace the role of government. Participation in the absence of state facilitation can result in a closed village economy, which limits the possibility for improved public accountability.

Economic Linkages

An economic linkages approach implies integration of community engagement strategies into the core business activity of the company. Examples include job training for employment or creating consolidated markets so that the community becomes embedded in the supply chain. This approach may provide the most promising outlook for CDD practitioners working to build sustainable and effective links between communities and the private sector.

The main feature of this approach is that the community development programs relate directly to economic activities and sphere of influence of the businesses involved, including leverage of the sourcing requirements of the enterprise. Other development objectives, such as social and institutional capital-building, support and complement the effort to build economic linkages.

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[33] World Bank website.

[34] Foundation Strategy Group, LLC. 2006 "Expanding the role, Sustainability and Local Ownership of Community Foundations." Presentation for IFC Workshop: Sharing Experience: Enhancing the Benefits to Communities from Extractive Industry Projects, July 19, 2006. p. 4.

Too often, poor communities are permanently marginalized from larger-scale economic activity and markets due to lack of access to capital and infrastructure, lack of bargaining power, lack of negotiation and business skills such as bookkeeping, etc. However, partnerships between communities and companies can be formed to match the community's local resources and the needs of companies.

Companies at the higher end of the supply chain such as agribusiness and apparel companies, which source raw materials or intermediate products from developing countries, have also formed local partnerships with communities to develop new supply bases. This strategy means working with communities to develop their capacity to provide goods that are needed by the company while satisfying requirements such as quality and delivery specifications. Such partnerships entail close involvement with communities, development agencies, NGOs, and other experts to provide an understanding of the community's needs and capacities, as well as skills training, institution building, standards and quality control.

When successful, these kinds of collaborations may lead to further economic opportunities for the communities by linking them to new buyers in the local and international markets. Companies investing with local communities benefit by protecting their reputations and fulfilling corporate responsibility policies. They can also improve the quality and consistency of the goods they source, and create more secure relationships with their suppliers.

These partnerships can be formed in one of three ways. First the community may approach private sector actors, whether local, national, or multinational, to set up a relationship as exemplified by the Andhra Pradesh District Poverty Initiative Project (APDPIP) model. The private sector actor may go directly to the community, as in the case Unilever in Indonesia. Finally, as in the case of a partnership between The Rainforest Alliance, Gibson Guitar and indigenous communities in Nicaragua, an NGO has created the relationship between community and company.

Partnerships usually focus on specific development activities. For example, development activities can target:

- building microfinance institutions and providing micro-credit;
- job skills training for jobs within the partner company;
- technical expertise on cash crops;
- organizational assistance;
- technical training on management, bookkeeping, accounting, planning;
- access to supply chain; and
- access to jobs.

This model emphasizes the importance of early capacity building and institution building as development objectives. Institutions of the poor are the vehicles required to give the poor access to markets and, importantly, to provide an organization which the private sector can interact with.

The most important considerations for building economic linkages are:

Accountability and transparency. As demonstrated by the case of APDPIP, the success of community-driven projects depends on establishing strong incentives for downward accountability to the community and transparent practices.

Finding the right company partners. Economic linkages that have been formed by companies in the agribusiness and manufacturing sectors are exceptional cases. Perhaps this fact is due to the cost of investment in an environment where there is relentless pressure on companies to lower sourcing costs. Drivers for companies to engage in these kinds of relationships are weaker than those for companies that identify a need to acquire a SLTO, as companies are usually able to find new suppliers more easily than an extractive company would be able to find new sources of natural resources. For the company partner, the upfront cost of investment, including time, money, and staff resources, may be higher than usual sourcing costs. Companies with a public commitment to CSR are more likely candidates for engaging in these types of projects.

Commitment of private sector partners. The other important condition for the success of a partnership is the willingness and the commitment of the company to work with the community, despite market vicissitudes. Companies that see a clear CSR benefit are more likely to be stable, long-term partners.

Accommodate for the level of social and physical capital. For communities to form successful relationships with the private sector, they must already possess a certain amount of social capital, organizational capacity, and supporting infrastructure, such as transportation for goods. Therefore, any project that contemplates economic linkages needs 1) to evaluate the community's capacity, infrastructure, and ability to engage with a private sector partner, and 2) to be designed in such a way as to support the development of these facilitating factors.

An enabling environment. Government participation and support through the establishment of the rule of law, and enforcement of labor and property laws, are indispensable in creating a secure environment for investing, trading and doing business generally.

Build institutions to represent the community partners. In the case of APDPIP, one of the key success factors has been the focus on building institutions of the poor that enable communities to interact with the marketplace on more equal terms. Such institutions can serve multiple purposes - such as creating decision-making mechanisms for the community, administering funds, and creating new social structures to run projects. They serve as loci for gathering and disseminating knowledge and skills in communities. Importantly, they can survive long after the funding period has ended. It is important to bear in mind that APDIP has been established on a foundation of fifteen years of existing "self-help" groups. Building that kind of social and organizational capital could take many years more than the usual funding period of the bank. However, a company might have a longer timeframe, and therefore would be a valuable resource.

Access to financial capital. Access to capital is widely recognized as a powerful tool in helping the poor lift themselves out of poverty. The APDPIP case shows that well organized communities can prove that they are credit-worthy to external institutions that normally would not consider the poor a market segment.

Of the various models for linking communities to private sector investments in community development, the economic linkages model may offer the best opportunity to build long-term economic sustainability into CDD programs and transform social into economic capital. If successful they can create functioning, sustainable, mutually beneficial relationships between the partners that can become independent from the source of development funding.

The type of economic linkage opportunities in any one community are dependent on a local asset base as well as the companies' needs, whether they are supply chain or workforce needs. Development programs focused on economic linkages must be designed specifically around these variables. Success depends on local capacity building around the delivery of goods or services and the strengthening of institutions to facilitate effective interactions between the partners, and protect and promote community interests. The Andhra Pradesh model illustrates that poor communities can successfully engage the private sector and become an attractive market for them. Crucial for the success of this model was the development of large-scale community driven institutions and federations that can interface effectively with the business community.

In order to pursue this approach, initiatives would need to invest in the following:

- **assessment of a community's livelihood base and economic potential**: understanding a community's actual and potential economic assets and identifying opportunities for leverage of its asset base is critical foundation work.

- **strengthening institutions of the poor to interface with the private sector**, and assess federating schemes to access markets with enhanced bargaining powers.

- **building communication platforms with the private sector** in order to explore opportunities for scaled up interaction with CDD and similarly supporting private sector assessment of market risk, opportunities and value chain potential for community engagement.

This report has assessed selectively those features of progressive CSR initiatives that contain the most plausible prospect for convergence and integration with CDD designs. It has not been within the remit of this review to assess the role of government, nor to do justice to the diversity of private enterprise across a range of multilateral, national, regional or local private sector.

CSR has sometimes been viewed as a vehicle for mobilizing corporate interest in a range of issues in society generally considered the responsibility of other actors, principally governments. However, CSR-related efforts can never replace the government's role in implementing and enforcing legislation. Government effectiveness in enforcing national legislation and creating a framework through which corporate community partnerships can flourish is critical. They provide the wherewithal for an enabling environment, especially in legal and financial realms. Good governance implies roles for local communities, civil society, private sector and the State. Public sector organizations also play a critical catalytic role incentivizing and encouraging the businesses with whom they engage with respect to their socially responsible practice and provide the key opportunity space for joining-up and scaling-up responsible business initiatives for broader impact.

It is recommended that further work be promoted in the following areas:

For the private sector:

- assess relative merits of single-industry initiatives and aggregate business efforts, including analysis of impact of government-led schemes, international public policy programs, etc and pros and cons of direct community engagement;

- further analysis of scale and institutional transformation in country-level operations. For example, in the extractive industries, further exploration of spill-over from mitigation measures to broader social investment and meso-/macro business initiatives;

- better understand the mechanisms of "progressive alliances" involving business, government and civil society working to jointly develop public policy and governance frameworks;

- community impact in the value chain: further work with industry groups to develop a common understanding of metrics of community impact along the value chain in major industry groups and develop robust measure of community benefit;

For CDD

- promotion and advocacy on CDD in business CSR dialog by working with industry groups such as the Global Compact, ICMM, the WBCSD to identify opportunities to improve private sector capacity to understand, facilitate, and promote CDD;

- increase the institutional capacity of CDD programs to integrate in design private sector production, distribution, retail and market issues. This may require a new skills set for community development practitioners;

- facilitate cross-sectoral and cross-regional learning of successful CDD-private sector projects by regional stock-taking and by evaluating the potential of local and national private sector companies to embrace CDD;

- assess viability of technical assistance packages for promoting private sector investment in CDD;

- further analyze the structure and function of organizations of the poor to operate as partners in corporate value chains and co-manage relationships with the private sector , as agents for demanding greater social accountability and as means of channeling voice through civic engagement.

Cross-over issues:

- explore the complex of accountability relationships inherent to corporate community investment directed by nature of consultation and dialogue methodology, relationship building, and the nature of shared action and learning;

- invest in deeper analysis of opportunities and operational modalities for utilizing market-based solutions for CDD

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