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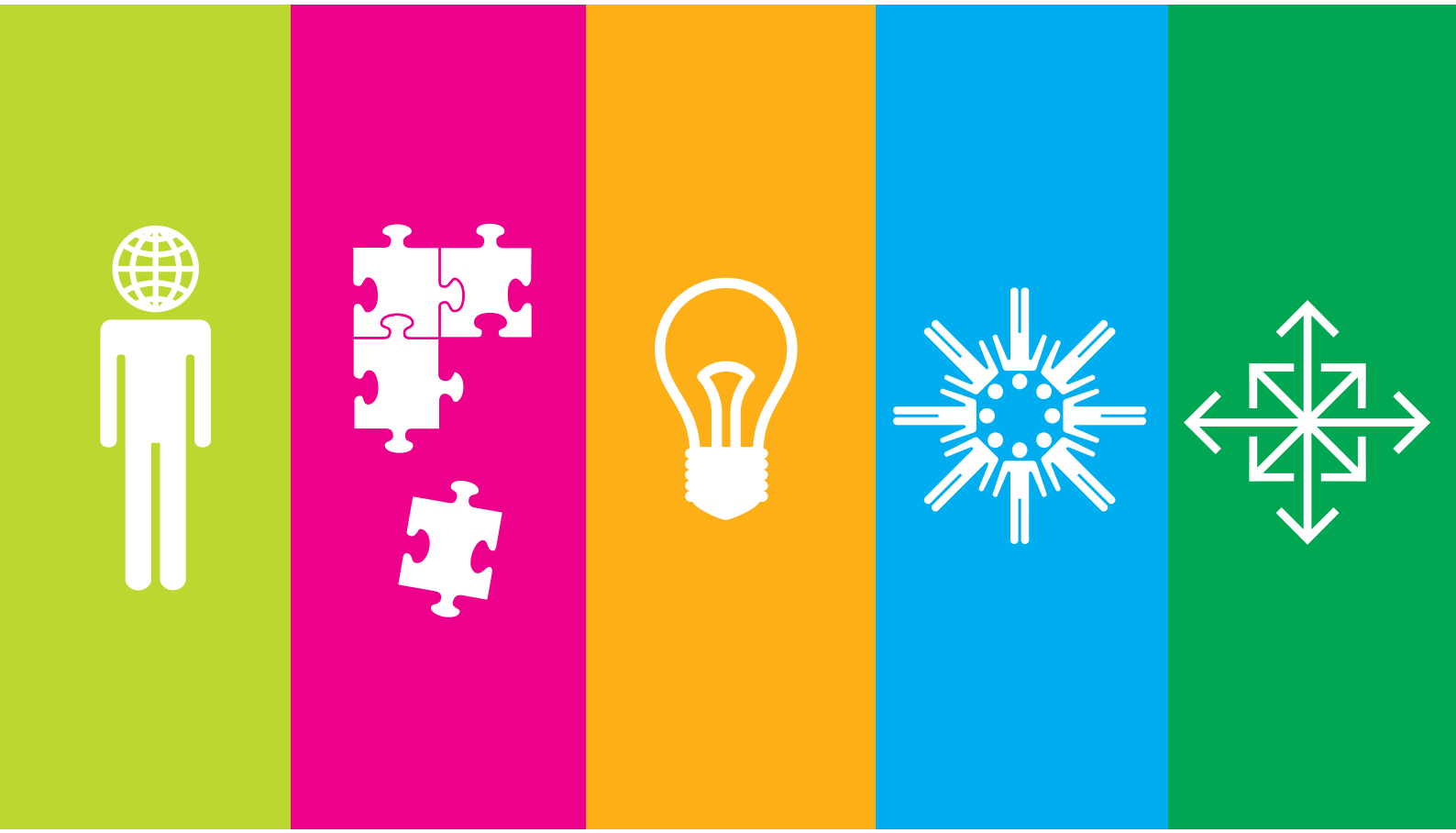

FAST GROWTH AND BIG IMPACTS:

How Emerging Market Multinationals are advancing sustainable development

giz Private Sector Cooperation

On behalf of:

BMZ Federal Ministry for Economic Cooperation and Development

50 Years of BMZ
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Berlin, June 2011

Preface

The world is changing at a fast pace, and so are the challenges for policymakers, civil society and entrepreneurs worldwide. Despite its drawbacks, globalisation creates new opportunities for everyone. The work done by the German Federal Ministry for Economic Cooperation and Development (BMZ) focuses on the opportunities that globalisation offers developing countries. We are constantly working on identifying new strategic partners to join us in supporting sustainable development in challenging environments. We recognise the business sector as an essential partner in helping us to create greater prosperity in our partner countries and to maximise our joint contribution to the overarching objective of reducing poverty.

Today, we see a new set of players emerging that has so far received very little attention from development institutions: Emerging Market Multinationals. Emerging Market Multinationals are increasingly gaining competitive advantage through their in-depth knowledge of the huge potential of future markets at the 'base of the pyramid' (BoP), through their creativity and through their capacity to innovate. And their activities often have a lasting impact on the countries and regions in which they operate. That is why we have decided to look at these issues in greater detail: what does the growing presence of Emerging Market Multinationals imply for development cooperation strategies with an explicit private sector focus, such as development partnerships with the private sector and collaboration projects incorporating elements of Corporate Social Responsibility (CSR)? Do Emerging Market Multinationals represent stakeholders that have hitherto been ignored, and that promise great leverage for resources and for the impact of development cooperation? What kinds of incentives are necessary and feasible to encourage these companies to assume the role of responsible global governance actors?

This study finds answers to these questions, and they are remarkable and inspiring. Often, Emerging Market Multinationals are well aware of the challenges of sustainability in their home countries because they are directly affected by them. Corporate Social Responsibility is an issue that is well known to them. Furthermore, they often dare to invest in those least-developed countries that other companies tend to avoid. The challenging environments in which they work force them to find innovative solutions to complex problems, both in terms of the products and services they deliver to customers at the 'base of the pyramid' (BoP), as well as in the way they engage with their various stakeholders. Emerging Market Multinationals are already acting as development agents today. But their potential is even greater.

The Federal Ministry for Economic Cooperation and Development (BMZ) invites Emerging Market Multinationals to be a part of its private-sector-oriented development cooperation strategies. This study is a starting point for engaging emerging market and industrialised country multinational corporations, interested civil society institutions and donors in a fruitful discussion on how we can best support each other's efforts to create a sustainable future.

Hans-Jürgen Beerfeltz

State Secretary
Federal Ministry for Economic Cooperation
and Development (BMZ)

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Abbreviations

AECF	Asian Enterprise Challenge Fund
BCG	Boston Consulting Group
BFA	Bankable Frontier Associates
BMZ	German Federal Ministry for Economic Cooperation and Development
BPO	Business Process Outsourcing
BRIC	Brazil, India, China and the Russian Federation
BUSA	Business Unit South Africa
CGD	Center for Global Development
CSI	Corporate Social Investment
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFID	UK Department for International Development
DRC	Democratic Republic of the Congo
DRL	Dr. Reddy's Laboratory
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
GAIN	Global Alliance for Improved Nutrition
GIIN	Global Impact Investing Network
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GSM	Global System for Mobile Communications
GSMA	Global System for Mobile Communications Association
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICBC	Industrial and Commercial Bank of China
IDA	International Development Association
ILO	International Labour Organisation
LDC	Least Developed Country
IT	Information Technology
M&A	Merger and Acquisition
MNC	Multinational Corporation
NBI	National Business Initiative
NGO	Non-Governmental Organisation
NPI	Non-Profit Incubator
OECD	Organisation for Economic Co-operation and Development
PIDG	Private Infrastructure Development Group
PPP	Public Private Partnership
R&D	Research and Development
SAGCOT	Southern African Growth Corridor of Tanzania
SEED	Society for Educational Welfare and Economic Development
SMEs	Small- and Medium-Sized Enterprises
TNC	Transnational Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
US$	United States Dollar
WBCSD	World Business Council for Sustainable Development
WIR	World Investment Report
WWF	World Wide Fund for Nature

Executive summary

Multinational companies based in emerging economies ('Emerging Market Multinationals' in this report) have become a force to be reckoned with. With their spectacular growth in number, size and influence, they have become a major driver of economic development in their home and host countries.

Business leaders in these companies are discovering the benefits of engaging more deeply in sustainable development efforts. Foremost among them is the ability to develop new markets involving low-income populations through developing so-called inclusive business models, potentially **boosting revenue and profits**. Other benefits include the ability to **enhance reputation** with leaders both locally and internationally; to **improve the morale and retention** of employees; to **build the brand** with customers concerned about social responsibility; and to **improve the business environment** and **maintain a license to operate** by addressing issues such as market infrastructure and education.

In our study of twelve Emerging Market Multinationals based in six emerging economies, we found many examples of companies contributing to development goals in their home and host countries. Indeed, while the idea of 'Corporate Social Responsibility' (CSR) may have first gained traction in the global North, we found that Emerging Market Multinationals have three strategic advantages over their northern brethren when it comes to engaging in development: they are already **rooted in emerging economies**, they already **reach out to low-income populations** in many ways, and they are already **heavily invested in other emerging and developing countries.**

Because these companies grew to maturity in emerging economies, they tend to be intimately familiar with their challenges, such as inadequate market infrastructure, unreliable market information, poor public services and a challenging regulatory framework. Their success has given them the confidence to be the first movers in other emerging and least-developed countries. They understand that innovation and flexibility are required to succeed in these environments – which may be as true for development as it is for business.

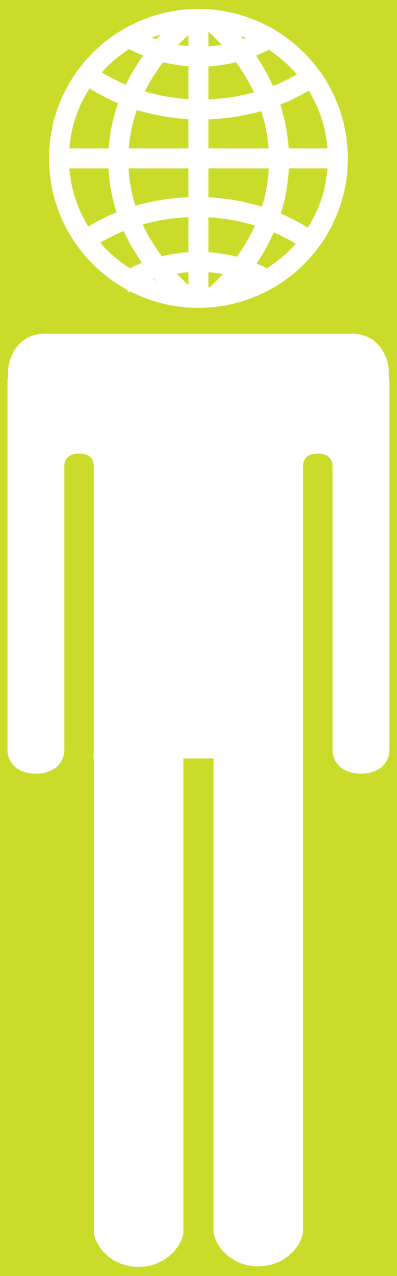
In this report, we examine how companies are using these three advantages to assist in development efforts. Their assistance has taken three primary forms. Firstly, they engage in the **philanthropy** that their communities typically expect, mainly to improve access to health care and education. Secondly, they develop **inclusive business models** that benefit low-income people throughout their value chain – from producers to employees to consumers – while also strengthening their business. And finally, they **improve the business environment** in both emerging markets and Least Developed Countries (LDCs) through investments and advocacy at the local, national or international levels.

As Emerging Market Multinationals have expanded globally, they have sometimes generated negative social, environmental and competitive impacts. Engaging in sustainable development is one strategy for preventing negative impacts or restoring trust with impacted communities. Support from government or civil society organisations (CSOs) is also key for building credibility and community support for sustainable development projects. These 'support institutions' can provide **funding, advice and brokerage, support for implementation** and the **policy dialogue facilitation** companies need to maximise their development impact. In the final section of this report we describe innovative partnerships that help companies address issues that are too big for just one actor to handle alone.

Introduction

The South sallies forth

In recent decades emerging economies have taken remarkable steps toward self-determination. The premier example of this transformation is the spectacular rise of multinational companies based in emerging economies.



For many years, the economic fate of the world's poor countries was largely in foreign hands. Likewise, development in poor countries was also heavily influenced from abroad. In rich countries, government was the main sponsor of health, education and other public welfare programmes. But in poorer nations where states were underfunded or ineffective, donor countries stepped in to fund and influence these programmes, whether it was through national development agencies, multilateral agencies like the World Bank, or civil society organisations.

In recent decades, however, emerging economies have taken remarkable steps toward self-determination. One prime example of this transformation is the spectacular rise of multinational companies based in emerging economies. In this report, we will call these companies 'Emerging Market Multinationals'.[1]

These companies do more than just provide good jobs to many thousands of people in emerging and developing economies. They also:

- **Nurture a professional class** that commands higher wages and can spur further development in the public, cultural and educational arenas;
- **Provide business opportunities for the vendors**, small businesses and entrepreneurs from which they source;
- **Create innovations** that boost productivity and drive sustainable national economic growth;
- **Bring profits home** and contribute to the tax base so that governments can sponsor development across the socioeconomic spectrum.

In addition to their contributions to economic development, they are also making very direct contributions to human development. The benefits they are realising are mutual and enormous. They include:

- **Discovering and serving new markets**, potentially growing revenue and profits – and at the same time address unsatisfied needs;
- **Creating disruptive innovations** in products, processes and business models that are well received not only in their home countries, but also in host markets;
- **Improving the business environment** so they can operate more effectively – and at the same time addressing development goals such as building infrastructure, combating disease, and educating local populations;
- **Engaging in a policy dialogue**, and at the same time **bolstering their reputation** with civic leaders nationally and globally;
- **Building their brands** in the minds of consumers concerned about social responsibility.

The goal of our study is to show that Emerging Market Multinationals are making significant contributions to development and are thus reaping special benefits. Our findings are based on research conducted on twelve large Emerging Market Multinationals from six emerging economies: Brazil, China, Egypt, India, Mexico and South Africa.[2] All of these corporations contribute to development in ways that make business sense in their specific country contexts.

Figure 1: Focus countries of the study

Through **inclusive business** (i.e. creating opportunities for low-income people throughout the value chain) these companies help low-income communities while helping themselves. At the same time, their **philanthropic activities** improve their national and international reputations and serve long-term interests such as having a healthy and competent workforce. Through investing in infrastructure and advocating for legal or regulatory changes that promote sustainable development, they improve the **business environment** in both their home and host markets.

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1 In general a multinational corporation (MNC) is a firm that manages production or delivers services in more than one country. In line with the International Labour Organization (ILO 1977) we define the country where the headquarters are located as the home country and the other countries where different operations occur as host countries. Emerging Market Multinationals originate from emerging economies. They can be private or state owned.

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2 For the selection of the focus countries, two criteria were applied: (1) the country should contain a relatively large number of Emerging Market Multinationals; (2) the country should be a partner country of the BMZ. The country profiles and case studies were written by research teams from the respective countries. Their research followed a common protocol. All examples in this report presented in boxes are taken from these case studies. Please see the annex for further details.

Reaching out for help

In recent years, governments and civic organisations have discovered that it is difficult to make development sustainable without the participation of the private sector. At the same time, companies are realising that getting assistance is crucial to ensuring that their corporate responsibility efforts are credible and aligned with their core business. Around the world, governments, civil society organisations and companies are working together to forge and sustain development efforts.

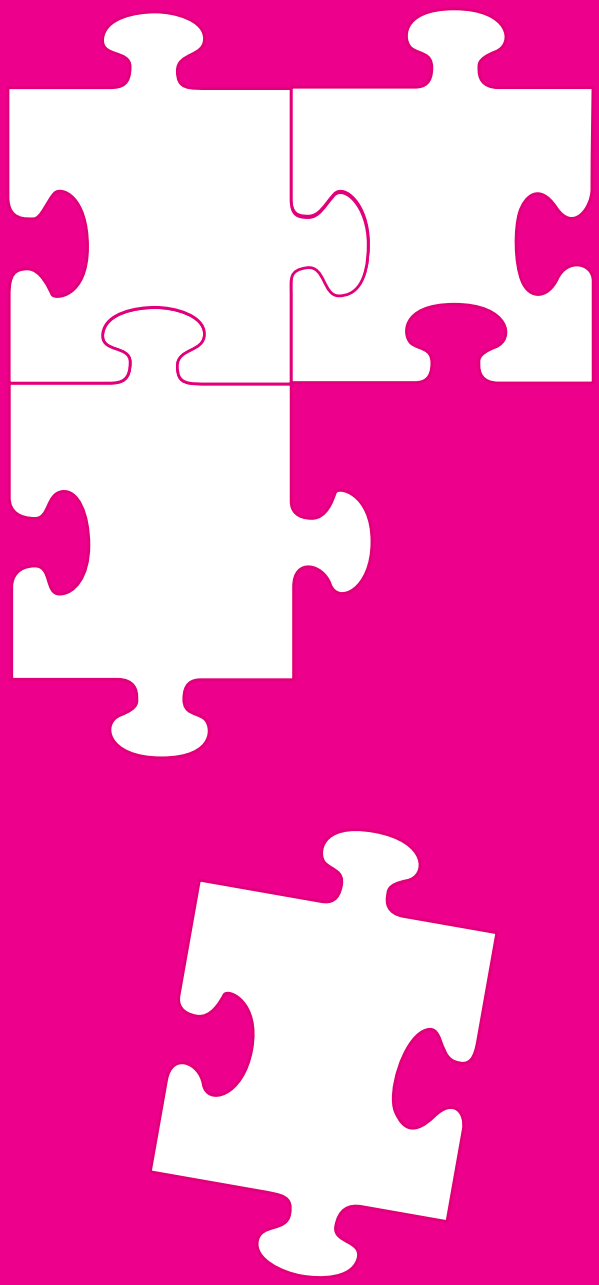
The special advantages of Emerging Market Multinationals as development agents have yet to be fully exploited. As they continue their rapid ascent in the global arena, they are likely to delve deeper into more strategic forms of development engagement. Partners such as governments, CSOs, business associations or local universities are in an ideal position to offer required support in areas such as financing, advice and brokerage, project implementation and advocacy.

We hope this report will inspire Emerging Market Multinationals to dive deeper into development and to reach out to partners when required to maximise their impact.

Chapter 1

Bigger impacts, bigger wins: The strategic advantage of Emerging Market Multinationals in development

Emerging Market Multinationals have three primary advantages when it comes to engaging in development: they are rooted in emerging economies, they reach out directly to low-income populations and they are expanding their global reach by investing in other emerging and developing economies.



The early 1980s witnessed the rise of Emerging Market Multinationals as a new economic force. These companies are in part the product of globalisation – the integration of the world's economies that has resulted from reduced transportation costs, lower trade barriers, increases in the ease and speed of communication and innovation, and rising capital flows.[3]

Businesses, and multinational corporations (MNCs) in particular, have been a major engine of globalisation, as the expansion of their operations across countries and continents has contributed to the integration of global value chains. MNCs have also greatly benefited from globalisation. As world economies have integrated, MNCs have enjoyed greater access to new markets, new supply sources and new pools of labour.

As the so-called emerging economies have enjoyed rapid growth in the last few years, so have Emerging Market Multinationals in terms of number, size and influence. In 1992, only eight per cent of all MNCs worldwide were from developing and emerging countries. By 2008, this number had risen to 28 per cent, as figure 2 illustrates.[4]

Number of MNCs from Industrialised and from Developing or Emerging Countries 1992, 2000 and 2008 (in thousands)

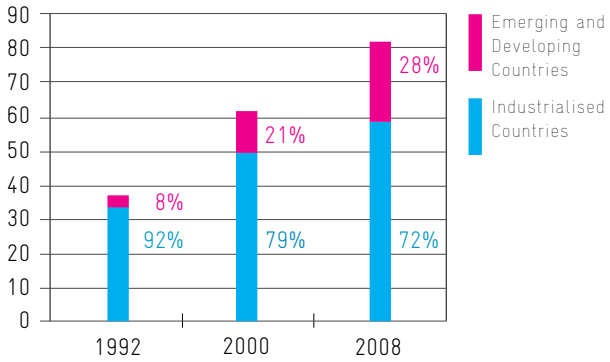


Figure 2: Proportion of multinationals in developing and transition economies compared to developed countries
Source: UNCTAD (2010)

Emerging Market Multinationals are uniquely positioned to help further development goals. This means their efforts can potentially make a greater impact than those of their northern peers – and they can also enjoy greater benefits from those efforts.

Emerging Market Multinationals have three primary advantages when it comes to engaging in development:

- They are **rooted in emerging economies**;
- They **reach out directly to low-income populations** as consumers, employees and suppliers;
- They are expanding their global reach by **investing in other emerging and developing economies.**

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3 UNCTAD 2010
4 Ibid.

Rooted in emerging economies

Emerging Market Multinationals have exploded onto the global business scene. On the Financial Times' Global 500 List, the number of companies from Brazil, China, India and Russia (BRIC) alone quadrupled from 15 to 62 in just two years (2006 to 2008).[5] In 2010, a total of 124 companies from developing and transition economies made the list.[6] In the same year, PetroChina overtook ExxonMobil as the world's most valuable company, marking the first time that a company from an emerging economy held this position.[7] Many Emerging Market Multinationals occupy the top spot in a sector in terms of market share, or vie for it with other sector leaders.

The private sector in emerging and developing economies plays a key role in creating economic benefits. A thriving private sector creates jobs and entrepreneurial opportunities. It increases public revenue through tax contributions, enabling government spending that can benefit everyone. It also directly invests in building the capacity of its employees. These 'multiplier effects' contribute to overall economic development and create opportunities – directly or indirectly – for income generation and human development among low-income populations.[8] The rise of MNCs in emerging and developing countries lies at the centre of this dynamic process.

The activity of Emerging Market Multinationals in both their home and host countries has been proven to boost wages. While the employees of multinationals receive the highest wages, research shows that wages also increase for employees of domestic firms whose value chains have linkages with the operations of the multinational. Moreover, this effect is most pronounced in developing countries where the most multinational expansion takes place.[9]

Case example 1: Wipro rides the outsourcing wave

Wipro began as a vegetable oil trading company in 1945, before expanding into information technology (IT) in 1980. Now Wipro is a global IT services company headquartered in Bangalore, India and has a strong presence in more than 35 countries. In recent years, Wipro has ridden the IT services trend and along with it the business process outsourcing (BPO) wave. Companies that lead the trend have taken advantage of India's highly-skilled, English-speaking workforce and advanced technological capabilities to provide business services to companies in developed markets at a fraction of the price these businesses would pay domestic companies.

Wipro is among the top three IT services providers in the world, and also the world's largest independent R&D service provider. Wipro has diversified into IT products, consumer goods, lighting, hydraulics and infrastructure engineering. In 2010 the company reported net revenue of over US$6.98 billion and employed about 120,000 people. Between 2000 and 2006, Wipro made significant acquisitions in India, the US and Europe. It also entered the Middle East market by setting up an office in Saudi Arabia and acquiring two Middle Eastern companies.

Source: Wipro case study

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5 Aguiar et al. 2009
6 UNCTAD 2010
7 Dullforce 2010
8 Harvard University 2007
9 OECD 2008

The development of Emerging Market Multinationals has taken different paths depending on the local political economy. In China, for example, large companies are often state-owned and corporate strategy can be heavily influenced by political goals. In India, by contrast, new firms emerged as a result of the Business Process Outsourcing (BPO) wave. At the same time, established family-owned Indian industry conglomerates such as Tata and Reliance strengthened their position in local and international markets. Similarly, large family-owned conglomerates dominate the picture in Egypt. The organisational structure of these companies varies widely, but the benefits they receive from engaging in development remains consistent.

Because they are headquartered in developing and emerging countries, Emerging Market Multinationals are embedded in local social and economic structures, which give them insights and resources for reaching out to low-income people that their northern brethren often cannot match.

Low-income people as a natural stakeholder group

Despite their rapid development, emerging economies are still beset by poverty. When MNCs in the global 'North' reach out to low-income populations, it is often through intermediaries. The impacts on the population – and benefits to the company – are sometimes indirect. For Emerging Market Multinationals, by contrast, the impacts and benefits are much more immediate and potentially much more significant.

Emerging Market Multinationals produce, source and sell in developing countries much more extensively than their northern counterparts. They are doing business with low-income people not as part of a CSR strategy but as an inherent part of their everyday business. In emerging economies, low-income people are typically the majority, so it is natural for MNCs to consider them as employees, suppliers and customers, depending on their business model.

Serving the poor as a market

In many markets and industries, Emerging Market Multinationals 'naturally' cater to low-income consumers. Service companies in sectors such as banking and telecommunications have developed business models that serve a broad base of the population, including the low-income population.

Emerging Market Multinationals must often innovate to meet the needs of low-income consumers. In the process, they have learned to deal successfully with difficult market structures, including inadequate infrastructure and weak institutions.

Case example 2: China Mobile builds computer skills

With over 520 million subscribers, China Mobile is the world's largest mobile service provider. With the expansion of China Mobile's roaming coverage, more and more GSM base stations were built in Western China and other relatively low-income areas, which spurred the company to assist in local development. Many poverty alleviation programmes were initiated. In its nationwide programme, China Mobile provides training on computer, mobile phone and internet use for farmers and land-workers in rural areas to enable them to acquire timely market information and gain knowledge about agricultural technology.

Source: China Mobile case study

Emerging Market Multinationals increasingly invest in highly innovative research and development structures. Some are not only becoming leaders in innovation on the international scene, they are also providing products well-tailored to the needs of the low-income consumers that surround them.[10] For example, **Haier**, China's leading producer of household consumer goods, has introduced a low-cost, heavy duty washing machine marketed to the needs of rural Chinese who were using the machines for cleaning both clothes and vegetables.[11]

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10 OECD 2008.
11 The Economist, 11 October 2007

A wealth of accessible jobs

On the income side, Emerging Market Multinationals interact directly with low-income people in their value chains, relying on local manpower for employees, producers, suppliers or service partners. As these companies tend to invest in labour-intensive manufacturing, their FDI has a large potential for employment generation. In 2009, the 100 largest Emerging Market Multinationals employed almost 6.8 million people worldwide.[12] In addition, from 2003 to 2005, developing country investors doubled their employment in Africa.[13] The Brazilian cosmetic company **Natura Cosméticos** has created employment opportunities for more than 400,000 Brazilian women working in the direct sales of its products.[14]

Emerging Market Multinationals have created millions of jobs particularly in low-skilled segments of highly labour-intensive industries like manufacturing, extractives and agribusiness. Job creation in these sectors benefits some 40 per cent of people currently employed in agriculture in developing countries – mostly women and the rural poor.[15]

Case example 3: Mansour Group reaches out to low-income consumers and small suppliers

The Mansour Group is an Egyptian MNC with companies active in the automotive, industrial equipment, and consumer goods sectors and with investments in capital markets. The company imports and sells global brands throughout the Middle East, Africa and Europe.

Mansour Group has successfully created 1,300 new jobs and opportunities for small- and micro-suppliers with the introduction of a new inclusive business model for food retail. In 2007, Mansour Group introduced a new chain of discount grocery stores called Kheir Zaman. The discount chain caters to price-conscious consumers in the Egyptian market with incomes too low to shop at Mansour Group's high-end chain of Metro grocery stores. The initiative has focused on job creation, capacity building for small- and micro- suppliers and the provision of new sales and distribution channels for their products.

Source: Mansour Group case study; UNDP 2011

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12 WIR 2010
13 UNIDO 2007
14 Casanova/Dumas 2010
15 WIR 2009

Creating opportunities for small businesses

Emerging Market Multinationals create opportunities for low-income people by incorporating them into their value chains as suppliers. They also support the development of small businesses, which often employ or are owned by low-income people. For example: food and beverage companies often source ingredients for their products from cooperatives of low-income farmers; extractive companies employ small businesses in transportation, catering, and cleaning; and telecommunication companies work with thousands of small shops as outlets for their prepaid cards.

Mondi Recycling, a South African paper and packaging group, relies on a countrywide network of drivers for recovered fibre to manufacture recycled paper. The company offered former employees a 30 per cent discount to purchase their own vehicles to pick up paper. Mondi Recycling's new model for collecting paper relies primarily on these owner-drivers rather than company-employed drivers. This approach reduced Mondi's operating costs while boosting income for owners.[16]

The opportunities Emerging Market Multinationals create for low-income people often result in additional benefits for the company, such as reduced operating costs or access to new supply and distribution channels that help to strengthen their businesses in both home and host countries.

Investing in other developing countries

The growing force of Emerging Market Multinationals in global markets is reflected in the changing composition of global outflows of foreign direct investment (FDI). FDI outflows from emerging and developing countries increased from 17 per cent to 25 per cent of global outflows between 2005 and 2009 (see figure 3).[17]

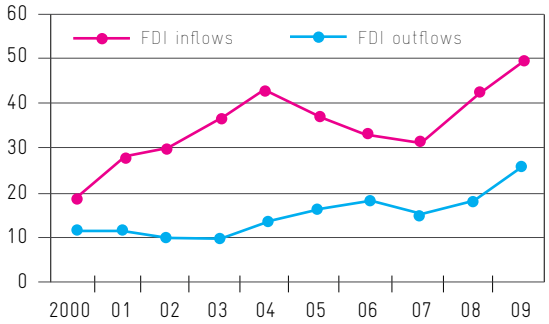

Figure 3: Shares of developing and transition economies in global FDI inflows and outflows, 2000–2009 (per cent)
Source: UNCTAD (2010)

The emerging economies, and in particular the BRIC countries, contribute a significant share of these FDI outflows. Figure 4 shows that outward FDI flows from Brazil, India, China and the Russian Federation have increased almost continuously since 1998, dipping only during the 2008 global economic crisis. The total foreign investment owned by these four countries grew to US$140 billion by 2009.

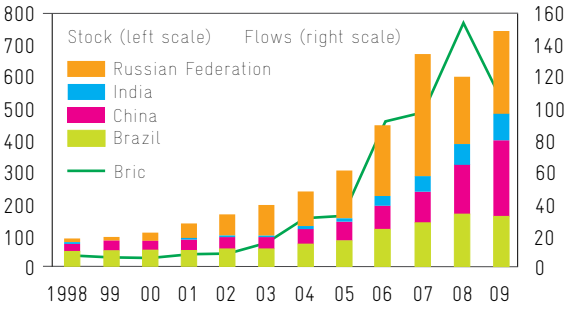

Figure 4: Outward FDI flows and stocks from BRIC (in billions of US$)
Source: UNCTAD (2010)

>>
16 WBCSD 2005

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17 UNCTAD 2006; UNCTAD 2010 – The increase in the share of FDI outflows over this period is due in part to uneven regional impacts of the 2008 economic crisis, during which developing and emerging countries were not as badly hit. (FDI from developing countries still decreased by 23% from 2008 to 2009.)

Case example 4: Standard Bank's rapid growth

Based in South Africa, Standard Bank's rapid expansion began soon after the end of the apartheid regime. The bank's headline earnings per share has grown by an average of 20 per cent per year for the best part of the last two decades and it is the largest bank in Africa by assets and earnings. Standard Bank has expanded into African markets such as Angola, Botswana, the Democratic Republic of Congo, Ghana, Kenya, Nigeria, Uganda, Zambia and Zimbabwe. The bank's expansion into markets such as Argentina, Brazil, Russia and Turkey, enables it to connect other selected emerging markets to Africa and to each other. Its status as a leading African financial services organisation was further enhanced in 2007 when the Industrial and Commercial Bank of China (ICBC) acquired a 20 per cent equity stake in the group. At the time, this was the biggest single foreign investment transaction ever made in South Africa.

Source: Standard Bank case study

Emerging Market Multinationals have spearheaded a spectacular growth in 'South–South' investment. FDI flows between developing and transition economies (excluding offshore financial centres) increased from US$2 billion in 1985 to US$59.8 billion in 2004.[18] Most South–South investments are regional, with Emerging Market Multinationals expanding first to neighbouring countries. The largest such firms, however, have already ventured farther afield, expanding their global dominance through ever-larger direct investments and mergers and acquisitions (M&A).

Emerging Market Multinationals have demonstrated leadership through a proliferation of South–South M&A in recent years. In 2010, Indian telecommunications company **Bharti Airtel** bought Kuwait-based Zain Telecom's African business for US$10.7 billion, making it the largest ever South–South acquisition.[19] Since the majority of MNC-sponsored M&A is conducted in other developing countries, the global outreach and influence of these corporations in developing countries is bound to increase.[20]

This trend in FDI outflows is particularly significant for the least developed countries (LDCs). Emerging and developing countries account for the vast majority of FDI inflows to LDCs, especially Africa.[21] South Africa has been the largest single investor in the African continent, with US$2.6 billion worth of FDI between 2006 and 2008. In 2008, South Africa's total investment in Africa reached US$10.8 billion. After South Africa, the next three largest investors in
Africa were all emerging Asian economies. China was a close second with FDI in Africa totalling US$2.5 billion between 2006 and 2008, and Malaysia and India were third and fourth respectively.

As Emerging Market Multinationals have a tendency to invest in labour-intensive manufacturing, their FDI can have a big impact on employment.[22] For example, **Odebrecht**, a conglomerate based in Brazil that focuses on engineering and construction, is one of Angola's largest employers.

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18 UNCTAD 2006
19 Times of India 2010
20 UNCTAD 2010

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21 Ibid.
22 UNCTAD 2010

The benefits of increased investment

Kofi Annan, the former secretary general of the United Nations, is a big believer in the importance of FDI to developing economies: 'With the enormous potential to create jobs, raise productivity, enhance exports and transfer technology, foreign direct investment is a vital factor in the long-term economic development of the developing countries.'[23]

In addition to the wealth-generating benefits of employment, Emerging Market Multinationals make further contributions to the economic and social development of their host countries. For example, they frequently bring in new technologies and train local employees and populations in their use, contributing to spillovers. Some governments in developing markets have policies designed to encourage spillover and technology transfers.

Case example 5: Vale builds literacy and technical skills

Brazil-based Vale is the world's second-largest mining company. It operates in 21 countries across Latin America, North America, Sub-Saharan Africa, Asia and Europe and employs more than 115,000 people through its operations and joint ventures.

Vale seeks to be a 'sustainable operator' by targeting low-income people within its value chain through technical education and professional qualification programmes. Through these programmes, Vale employees receive literacy training and courses to build technical skills in industrial specialisations related to the mining industry.

To address local development needs, Vale runs a diagnostic in the communities it operates in to identify challenges and programmes. The firm, particularly through Fundação Vale (the Vale Foundation), collaborates broadly with national, regional and local governments, CSOs, national development agencies, international development organisations and local citizen groups in the delivery of local development projects. The main focus areas include urban infrastructure, public management and human and economic development.

Sources: Vale case study, Mining Weekly (14 April 2011)

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23 UNCTAD 2003

Chapter 2

Taking the reins: three ways that Emerging Market Multinationals help themselves by helping poor communities

Emerging Market Multinationals are well-positioned to consider how they might impact the population in ways that alleviate poverty even as they create business opportunity.

Chapter 2
Taking the reins: three ways that Emerging Market Multinationals help themselves by helping poor communities

The economic benefits provided by Emerging Market Multinationals could not be clearer. But progressive business leaders also understand the link between business success and a broader form of development – which encompasses health, access to education and poverty alleviation.

Emerging Market Multinationals are uniquely well-positioned to contribute to both economic and human development thanks to: their location in (and knowledge about) emerging economies; their ability to reach out to low-income populations as consumers, employees and suppliers; and their strong investments in other emerging and developing economies.

Emerging Market Multinationals have both internal and external motivations for promoting development. They include:

- **Satisfying expectations** among government leaders, civil society and the public. By satisfying these expectations, companies: gain support from government leaders for their business operations; build positive relationships with civic organisations that exert influence in communities where they operate; and build their reputation and their brand, especially with the growing base of consumers who favour socially-responsible companies. Consumers – especially in industrialised countries, but increasingly in emerging economies – demand that their brands act responsibly and sustainably. A host of 'watchdogs' is ready to publicise company failures to meet these expectations.

- **Gaining business advantage** by making the business a more attractive place to work, by producing innovations that better suit the market environment and address customer needs, and by strengthening the value chain. This benefits the company in diverse ways including: increasing employee morale, retention, health and capabilities; growing new markets among low-income populations; or boosting suppliers' ability to deliver high quality products reliably.

Emerging Market Multinationals contribute to sustainable development in three major ways:

- **Philanthropy**: donations of capital, services or expertise directly aimed at solving social problems such as the lack of access to high-quality health care and education;

- **Inclusive business**: i.e. including the poor through out the value chain, as consumers, producers and employees;

- **Business environment**: most commonly through investing in infrastructure or advocating for legal or regulatory changes that promote sustainable development and a fair playing field for businesses and individuals alike.

The chapter elaborates on the ways Emerging Market Multinationals use their unique advantages to contribute to development while building sustainable businesses.

Philanthropy: contributing to national and international development goals

Because they are based in emerging economies, Emerging Market Multinationals operate in an environment marked by considerable social challenges. Many of these companies are also heavily invested in other emerging or less-developed countries, which face many of the same challenges. This gives these companies a strategic advantage in terms of their ability to understand and react to them.

The managers of Emerging Market Multinationals are of course interested in improving the state of their home country, and to some degree in the state of the other countries in which they operate. Yet almost by definition, businesses are rarely spurred to act based on altruism alone. Motivations for their philanthropy include:

- **Building and maintaining their local reputation**: Local and national populations often expect donations from successful companies. These expectations are often influenced by religious or cultural norms. For example, the Islamic principle of charity, 'zakat,' is at the heart of religious practice and has a large impact on philanthropic engagement in Egypt. Civil society and media in emerging economies can influence Emerging Market Multinationals by exerting pressure on them, by raising awareness, and by advocating for particular policies. In India and South Africa, for example, civil society is quite active and expects companies to engage in social activities and thereby contribute to the country's development.[24]

- **Gaining reputation internationally:** Emerging Market Multinationals operate on a global scale, so they are naturally concerned about their international image. Multilateral organisations, international CSOs, business partners and consumers have consistent standards and expectations for all companies globally.

- **Improving interactions with stakeholders:** Like other forms of development contribution, philanthropy can boost employee morale, retention and health and build the brand among discerning consumers locally. Motivation and satisfaction of management staff is another benefit, as well as pleasing government and civil society.

The impact and sustainability of philanthropic activities can be improved when they are linked to the core business. 'Strategic philanthropy' astutely connects giving with the long-term goals of the business, securing resources, gaining capabilities and building markets.

Case example 6: Lenovo combines philanthropy with market creation

Lenovo is one of the world's largest makers of personal computers. In 2008, it launched a programme called 'Venture Philanthropy' in partnership with a Shanghai-based civil society organisation called Non-Profit Incubator. Lenovo provides funding and technical support for newly-established and small- to medium-sized CSOs. Lenovo's 'Capacity Building Team,' consisting of senior managers, philanthropy experts and Lenovo volunteers, assists CSOs with strategic planning, financial management and more. As these organisations grow, Lenovo hopes that they will create demand for the company's products. One of the organisations Lenovo assists aims to improve computer literacy among China's rural population, providing a direct link to Lenovo's core business. Lenovo says the results it expects from this programme are focused not on product sales but rather on narrowing the country's digital divide.

Source: Lenovo case study

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24 Country profile India and South Africa

Assistance with public health and education

Education and health are issues most commonly addressed through philanthropy. This includes donations to schools, universities, hospitals and clinics. Emerging Market Multinationals also provide in-kind resources in the form of materials or staff time. Raising awareness on health or education topics is an important contribution to human development goals. **Mansour Group** produced a literacy awareness campaign in Egypt focusing on women and girls' access to education. They partnered with the General Authority for Adult Education as their government counterpart for the campaign, with the company sponsoring three television advertising campaigns over two years.[25]

Benefits from these activities tend to be long-term. In the case of education assistance, many companies are investing in the development of their future staff. For example **CEMEX**, a leading construction company based in Mexico, has created 12 community development centres that provide training and technical assistance in vocational areas such as clothing, pastry manufacturing, baking and computing. During 2009, the centres sponsored more than 137 workshops in nine states.[26]

Case example 7: Grupo Bimbo raises awareness on nutrition and health

Mexico has become aware of how nutrition and health extend life and improve productivity. The country's health problems have given rise to a national debate on the role and accountability of food companies as well as the Mexican government.

Grupo Bimbo is one of the world's largest baking and food processing enterprises. This Mexican MNC operates in 17 countries in Latin America, North America and Asia, offering 7,000 products through its more than 150 brands. Health and nutrition awareness raising activities, therefore, stand at the forefront of Bimbo's CSR strategy. Through CSOs Comedor Comer y Crecer A.C. and Nutre a un Niño, Bimbo supported almost 500 undernourished children during 2010. That same year, in alliance with Fundación NEMI, Bimbo also sponsored 600 talks in Mexican secondary schools about healthy lifestyles, nutrition and sports, benefiting almost 75,000 Mexican youths.

Source: Grupo Bimbo case study

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25 Mansour case study
26 CEMEX case study

Helping employees and surrounding communities

Many business leaders understand that building a presence in a country should not just involve building factories, offices or outlets. It should also build infrastructure to benefit one of its key stakeholders: the workforce. One common manifestation of this desire is building kindergartens or health clinics for employees' families. **SABMiller** provides antiretroviral drugs to its employees with HIV/AIDS through managed health care.

Companies also build infrastructure that aims to improve the quality of life of the communities surrounding them. **Tata** in India developed special towns around some of their industrial facilities, dubbed 'Tata townships.' These cities are built with space for leisure activities, such as football and hockey. There are areas for Hindu temples, Muslim mosques and Christian churches along with schools and clinics. The township also supports community initiatives and awareness-raising programmes on topics such as drug abuse.[27]

Leveraging a global presence to impact development goals

Development issues do not have borders; they prevail in many countries where Emerging Market Multinationals operate. Therefore, Emerging Market Multinationals are well placed to raise awareness on development issues at an international level. For example, **Orascom Telecom Holding** supported a team of Bangladeshi young people on an international bicycle tour to raise awareness about HIV/AIDS. The use of bicycles assisted in targeting the most remote and densely populated areas, where the young people also collected information to identify drivers of the epidemic.[28]

In another example, **SABMiller** promotes responsible drinking worldwide. They have signed up for a plan of action to combat the harmful use of alcohol in developing markets. So far it has trained over three-quarters of its staff on responsible drinking.

Emerging Market Multinationals can also participate in existing global development platforms. Many of these platforms are dominated by their counterparts from the North. Emerging Market Multinationals can bring a unique and highly valuable 'Southern' perspective and experience to these platforms, which are still dominated by northern organisations.

Standard Bank in South Africa supports the Global Fund to Fight AIDS, Tuberculosis and Malaria. Through a pro bono service partnership, the bank offers management and financial expertise to Global Fund grant recipients.[29]

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27 Tata website

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28 Orascom Telecom case study
29 The Global Fund website

Inclusive business: creating opportunities for low-income people throughout the value chain

While philanthropy is typically aimed at addressing social problems with relatively little direct consideration of their impact on company operations, inclusive business takes a more strategic approach. With inclusive business, companies explicitly consider human development goals in developing their business models. Therefore, inclusive business approaches can potentially create major opportunities for low-income people. As these businesses grow, the benefits for these stakeholders also increase.

Emerging Market Multinationals already involve those on low incomes throughout their value chains, as they represent the majority of the population in their home and host countries. Leaders of these companies are therefore well-positioned to consider how they might impact that population in ways that alleviate poverty even as they create business opportunity.

Gaining market share with innovative approaches

Of the world's 6.4 billion people, four billion people live on less than US$3,000 per year, and 2.6 billion live on less than about US$730 a year.[30] This forms a massive aggregated purchasing power even though each individual spends only small amounts of money. Although the opportunities arising from this market are vast, so are the obstacles. They include underdeveloped market infrastructure, financial systems and legal frameworks, and inadequate market information.[31]

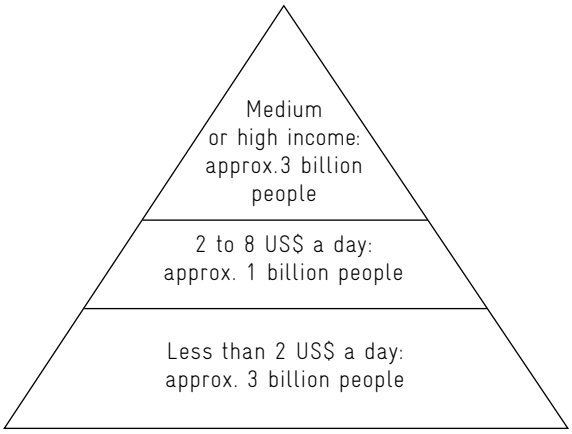

Figure 5: The global income pyramid

Companies that include the poor throughout their value chain are investing in their own customer base, labour market and supplier base. They are supporting development in ways that strengthen the global competitiveness of their own company and that of their home country.

Many Emerging Market Multinationals are now taking a closer look at inclusive business models because they usually can be more closely tied to a company's strategic interests when compared to philanthropy:

'For the past three decades, leading South African corporates have been developing an understanding of their role in development. Over the last ten years, the practice of "giving money to the needy" has been systematically replaced with the more focused approach of supporting projects that have clearly defined outcomes. Ultimately as a bank, any activities we undertake or support should also work in the best interest of the bank. This does not mean that we refrain from supporting initiatives that are not profitable for the bank, but rather that we focus on how the initiative adds value, protects value or reduces risk for the bank.'

– Karin Ireton, Director of Group Sustainability Management, Standard Bank (South Africa).[32]

When it comes to inclusive business, innovation is crucial to overcoming market constraints. Companies must do more than simply ensuring that their products suit the needs of low-income consumers. The whole business model may require changing to make products accessible as well as affordable. For example, when addressing the low-income market, telecom companies reduce the 'unit size' of their product – namely, selling prepaid airtime by the minute – and distribute it through uncommon channels, such as independent, local shops. Other firms, such as construction company **CEMEX**, leverage microfinance to make their products accessible.

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30 IFC/WRI 2007
31 UNDP 2008

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32 South Africa case study

Case example 8: CEMEX 'Patrimonio Hoy' – an innovative business model targeting people with low incomes

CEMEX is a Mexican global building materials company. It produces, distributes and markets cement, ready-mix concrete, aggregates and related building materials in more than 50 countries on four continents. In September 2009, CEMEX celebrated its first decade as a public company on the New York Stock Exchange.

The construction company CEMEX tailored a business model to the specific needs of low-income customers. With the 'Patrimonio Hoy' initiative, the company seeks to contribute to closing the housing gap in Mexico. The programme provides customers with access to credit as well as advice on building techniques. Most low-income customers in Mexico build or expand their homes themselves. Thanks to this programme, they can reduce construction costs by 35 per cent, and building time is also reduced by 60 per cent.

Source: CEMEX case study

The innovations in technology and business models that come from inclusive business can build competitive advantages in other markets if they result in so-called 'disruptive innovation.' Clayton Christensen, the Harvard academic who coined the term, writes that disruptive innovation 'describes a process by which a product or service takes root at the bottom of the market and relentlessly moves upmarket, eventually displacing established competitors.'[33] An innovation that is disruptive gives a whole new population of consumers access to a product or service that was historically only accessible to consumers with a lot of money.

While disruptive innovation most typically allows companies to sell to the enormous lower-income market, it can also operate in the opposite direction, as innovations designed to reach this low-income market 'trickle up' to serve higher-income markets. To give one of many examples of inclusive business fostering disruptive innovation, **Mahindra & Mahindra** developed a small tractor for poor farmers with little land. Fuel consumption as well as maintenance costs are low. Now these tractors are popular with gardeners and hobby farmers in the United States. **General Electric** developed a cheap ultrasound device for the Chinese market, which is sparing in its use of raw material and impact on the environment. Now it is the basis of a global business, where many re-engineered medical devices have the potential to slash health-care costs in the developed world without reducing the quality of care.[34]

Business can include low-income people throughout the value chain: as producers (i.e. as suppliers or entrepreneurs), employees or customers. The rest of this section addresses each of these forms of 'inclusive business' in turn.

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33 Christensen (2003); Website of Clayton Christensen
34 The Economist 15 April 2010

Creating income opportunities for the poor as producers

The poor act as suppliers in a variety of industries including agriculture, food, manufacturing and retail. Here, inclusive business models give the poor the opportunity to generate income and expand their skills.

Frequently companies face issues involving product quality and availability because of unpredictability in the supply chain. While small businesses may produce goods cheaply, they sometimes lack the information or capacity to adapt to technological changes, struggling or going bankrupt in the process. Training and building capacity for these small businesses can thus be a win-win, improving product quality and supply reliability for the buyer even as they help to lift suppliers out of poverty. Strengthening the link between supplier and buyer can also help to reduce the inefficiencies created by middlemen who may squeeze suppliers and destabilise their businesses.

Case example 9: SABMiller works in partnership with smallholder farmers

SABMiller is the world's second largest brewery by volume, with South African roots. In addition to its global sourcing, SABMiller also sources raw materials such as barley and sorghum from over 28,500 smallholder farmers in Africa, India and Latin America. Through capacity building, it helps suppliers develop the quality and type of materials SABMiller needs. One of SABMiller's sustainable development goals is to benefit these farmers' communities. 'Businesses need healthy and prosperous communities, because they offer the opportunity for profitable growth,' says Tom Salisbury, Sustainable Development Analyst at SABMiller. 'They enable companies to grow markets, promote new product development and improve productivity. In contrast, when local economies undergo economic hardship and contract, businesses are also impacted, reducing the ability of these businesses to provide employment and support suppliers.'[35]

In 2010 SABMiller won nearly US$1 million funding from the Africa Enterprise Challenge Fund (AECF) to introduce an innovative local sourcing model in South Sudan for cassava, which will provide the ingredients from which beer will be brewed. SABMiller is partnering with NGO FARM-Africa to implement the initiative, which will bring direct and significant long-term market opportunities to about 2,000 smallholder farmers, and other employment outcomes affecting about 15,600 people over three years.

Source: SABMiller case study

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35 Email interview, Tom Salisbury, Sustainable Development Specialist, SABMiller, 17 November 2010

Contributing to the human development of poor employees

Most Emerging Market Multinationals already provide work opportunities for large numbers of low-skilled employees. In many cases they are meeting or exceeding the wage and labour standards of smaller shops or businesses. Yet many companies in developing countries are accused of disregarding their workers' human rights and exploiting their vulnerabilities. Emerging Market Multinationals cannot afford to be associated with these accusations; they must maintain their reputation both internationally and in their home country. Contributing to the human development of poor employees helps to avoid this complicity. It also gives Emerging Market Multinationals the opportunity to build skills among their workers to reach mutually beneficial goals.

For example, **Vale**, a mining company based in Brazil, offers training to its employees. One aim is to reduce illiteracy to zero within the company. In addition, it offers courses in areas such as sustainability, continuous improvement, multiculturalism and ethics. It also sponsors a professional qualification programme. **Odebrecht**, a Brazilian conglomerate involved in engineering and construction, has created a professional training programme to qualify the local population around their jobsites. As of December 2010, the programme had registered more than 80,000 people and trained more than 34,000 men and women for jobs such as construction equipment operator, driver, bricklayer, welder and carpenter. A total of 21,000 trainees were directly recruited by Odebrecht following their graduation in Brazil alone.[36] The programme is now moving on to Peru, Colombia and Angola.[37] Evidence shows that training programmes boost employee morale and retention even as they improve employees' competency in reaching business objectives.

Enhancing the living standards of poor consumers

Many Emerging Market Multinationals already target low-income populations with products tailored to their needs, oftentimes enhancing their standard of living. One strategic advantage of Emerging Market Multinationals in this realm is that, because they are based in emerging economies, they can more easily produce goods at affordable prices than their peers in other countries with their more expensive labour forces.

Emerging Market Multinationals often have better access to market information about the needs and preferences of low-income people, or about how products could be distributed to reach them. By selling products that create well-being and opportunity they not only create market share but also contribute to human development.

Case example 10: Dr. Reddy's Laboratory improves access to drugs

Founded in 1994 and headquartered in Hyderabad, India, Dr. Reddy's Laboratory (DRL) employs more than 11,000 people. DRL is also a pioneer in making medicine affordable to low-income populations. Creating new and cheaper drugs is part of their core business. DRL also ensures distribution of these drugs to low-income communities through partnerships, including one with GlaxoSmithKline to market DRL's products in emerging markets worldwide. Within India, DRL has a special focus on the rural markets. It has initiated market studies to understand and implement successful rural distribution models.

Source: Dr. Reddy's case study

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36 Odebrecht case study
37 Odebrecht case study

Access to financial services is also crucial for low-income populations. The ability to save, transfer or borrow money fosters sustainable wealth-building and micro-enterprise development.

Case example 11: Standard Bank Group delivers financial services for the poor

South African-based Standard Bank, one of the developing world's biggest financial institutions, develops innovative and affordable products and mechanisms to reach customers operating in the low-income market. Through a combination of cell phone banking and a network of community retailers, Standard Bank extends banking to the poor without the need to build traditional bank branches or install ATMs. Customers can open bank accounts, access basic account information and perform basic banking transactions at locations such as taxi ranks, bank shops and market stalls. Community bankers (local people hired as Standard Bank employees) are available to assist new customers. New accounts are activated within minutes and debit cards handed out on location. The model also includes credit services for informal businesses and consumer education programmes.

Source: Standard Bank case study

Telecommunications has become a key enabler for low-income communities, enhancing productivity, facilitating communication, and providing information vital to small and informal businesses. **Safaricom Kenya**, a mobile service provider, developed an electronic money transfer product together with Vodafone called M-PESA. With this innovative and popular service, users can pay with their phones in supermarkets and other registered retail outlets. They can withdraw cash and deposit money at these retail outlets and also transfer money via texting. With fewer than two million bank accounts serving Kenya's 32 million people, this model bridges a considerable gap.[38] In 2009, Vodafone announced that it would partner with Safaricom and Western Union to enable UK residents to send remittances to Kenya via the M-Pesa mobile banking service. This 'trickle-up innovation' exemplifies how closely such innovations can be linked with development issues.

Case example 12: Orascom Telecom extends its reach to low-income consumers

Orascom Telecom is a leading international telecommunications company and one of Egypt's first and largest transnational corporations. It operates in countries throughout the Middle East, North Africa, Sub-Saharan Africa and Asia through its subsidiaries Mobinil, Globalive Wireless, Telecel and Telecel Globe. Orascom supports a model, which provides bill repayment, E-recharge, SIM card replacement, and Mobinil products and bundles to low-income people. Traditionally the retail environment for telecommunications products and services in Egypt has been dominated by small 'business centres' which sell multiple telecommunications products and services to primarily low-income communities. Many of these small business centres are struggling in the face of increasing competition from larger outlets. OTH's Egypt subsidiary, Mobinil, in partnership with the Cairo Chamber of Commerce, aims to expand the capacity of these small business telecommunications centres and extend their sales reach.

Source: Orascom Telecom case study

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38 Karugu/Mwenda 2008

Business environment: improving the playing field

A country with a favourable business environment is one that makes it easy for companies to do business. The business environments in developing countries can be very challenging, especially in the least developed countries. Basic market infrastructure may be missing, such as adequate roads, telecommunications services, or legal and regulatory frameworks. Political situations may be unstable and LDCs often rank high in Transparency International's Corruption Perception Index.

Emerging Market Multinationals are accustomed to these challenges. They have often been willing to move into markets where others fear to tread, gaining a crucial 'first mover' advantage. Nonetheless, Emerging Market Multinationals will also benefit from an improved business environment. They are in a good position to assist in this goal:

- Companies in different industries can **partner to improve infrastructure** with other businesses, government officials or CSOs in their home or host countries in ways that ultimately benefit their core business.

- Companies can **advocate with governments** to improve the business environment by lobbying or expressing support.

Partnering to improve infrastructure

Emerging Market Multinationals provide their host countries with access to resources and markets throughout their global value chains. And they often invest in infrastructure alongside their business. For example, Asian investors (mainly from China) are involved in building special economic zones (SEZs) in African countries such as Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia. These SEZs are designed to feature improved infrastructure and provide technology transfer and employment opportunities, as well as containing new schools and hospitals.[39]

Development issues such as water supply, sanitation and traffic circulation are ultimately very important for smooth business functioning. Given the magnitude of these infrastructure challenges, partnerships are vital. Other companies, government officials or CSOs may all be involved. **CEMEX**, for example, stimulates road building in informal Mexican settlements through its Mejora Tu Calle (Improve your street) programme, an extension of the Patrimonio Hoy programme described earlier in this chapter. Cities and residents share funding responsibilities for the street project, while CEMEX loans building materials so building can begin quickly.

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39 Bräutigam 2010; Sohlman 2009

Case example 13: Odebrecht embarks on urban renewal

Odebrecht is a diversified Brazilian business holding, active in construction, engineering, infrastructure, real estate development, environmental engineering and petrochemicals. More than two thirds of Odebrecht's revenue comes from its business in Brazil, Latin America and the Caribbean, with the rest in Africa, North America, the Middle East and Europe.

After building a range of hydroelectric power plants, water treatment plants, bridges, roads and industrial complexes Odebrecht started to invest in urban renewal. In Angola their project was initially focused on macro-drainage, channelling rainwater into the sea in order to prevent floods. Now it has expanded to include other measures, such as drainage ditches, new roads, road widening, public infrastructure such as water and power lines, and public lighting. 'Construction of roadways will benefit at least 500,000 people who travel in this region,' says Contract Director André Vital. 'The basic sanitation works will benefit another 200,000 people in the Samba area.'

In the heart of Panama City, Odebrecht has embarked on a renewal programme that combines infrastructure with social development. Some 80 per cent of the trained and hired workforce comes from the local low-income population and many employees have police records. 'It's a big challenge, and very rewarding as well' says Contract Director, Julio Lopes.

Source: Odebrecht case study

Perhaps the most dramatic example of Emerging Market Multinationals helping to build infrastructure is China's growing footprint in Africa. Currently the Chinese government and/or Chinese companies are involved in 35 infrastructure projects in African countries such as Angola, Sudan and Nigeria.[40] Its infrastructure investments are part of a massive (and somewhat controversial) influx of Chinese investment into Africa in areas including manufacturing, mining, construction and agriculture. China is now Africa's biggest trading partner, with annual imports and exports each exceeding US$60 billion.[41]

Chinese companies have undertaken major infrastructure projects in power generation (hydropower), transport (railroads) and information technology (equipment supply). Initiatives for those projects are manifold. Some are answers to open calls for tenders and contracted by the World Bank and the International Development Association (IDA), some are funded by the African Development Fund (an ADB-affiliated structure) and some are the result of the official economic assistance of China, typically channelled through the Export-Import Bank of China. Just a few examples:

- Chinese companies have built roughly a third of the hydropower generating activity that exists today in Africa.
- China's Shenzhen Energy Group is partnering with a Nigerian bank to build a 3,000 MW gas turbine power plant at an estimated cost of US$2.5 billion.
- China's International Cooperation Group was awarded a US$45 million contract by Mozambique to construct a water supply system in the central province of Manica.[42]

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40 Institute of Developing Economies website
41 The Economist, 20 April 2011
42 Institute of Developing Economies website

Advocacy to improve the business environment

Companies can use their voice to advocate that governments take steps to improve the business environment. They can contribute their skills and knowledge and invest as well. Often (but not always) they do this in the context of business associations.

In some circumstances, businesses lobby to gain individual favours or to gain competitive advantage at the expense of the public interest. This has led some observers to view all business lobbying with suspicion. But companies do have something to add to policy dialogues. They understand how the right policies can encourage new, high-quality employment; a competitive marketplace; and small business growth. In most cases, these goals ultimately improve human development while fostering business growth.

For example, **Celtel International**[43] , the leading pan-African mobile communications group, entered the market of the Democratic Republic of Congo in 2000 when the civil war was still vivid in people's minds. The potential customer base seemed very limited and the ways to reach out to them extremely constrained.

Nonetheless, Celtel worked to build strong relationships with regulatory and political authorities. It advocated for a new telecommunications law, which was passed in 2003. The new law created a clearer framework for state concessions (under the previous law a fixed-line operator had claimed monopoly rights) fostering the competition needed to increase affordability and access. The law also established an agency for telecommunications regulation.[44] Celtel has won up to two million customers in the DRC and, because of low penetration of landlines and mobile phones, Celtel earned more per customer in the Democratic Republic of Congo than in more-developed countries.[45]

While Emerging Market Multinationals can make big development impacts single-handedly, they can multiply those impacts and gain additional credibility if they reach out for support from other companies, government development agencies and CSOs, as the following chapter describes.

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43 Celtel has been bought by Zain. And in 2010 Kuwait-based Zain Telecom's African business was bought by Indian telecommunications company Bharti Airtel for US$10.7 billion.

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44 UNDP 2008
45 De Catheu 2008

Chapter 3

A little help please: Emerging Market Multinationals and support institutions

Emerging Market Multinationals looking to minimise the risk and maximise the impacts of their development efforts often see benefits when they seek advice and brokerage from supporting institutions.

Business leaders are becoming increasingly aware that contributing to sustainable development makes good business sense. Indeed, some elements of development are closely related to the core business of many companies, which is why Emerging Market Multinationals in particular are so well-suited to supporting the achievement of development goals.

That said, other institutions – such as local and national governments, NGOs, universities, business associations and bilateral or multilateral development agencies, which we will call 'support institutions' – can bring a lot to the table. Many of these institutions view development as a primary goal and some were formed with development as a core mission. They have considerable expertise and experience in conceiving and executing development programmes and projects. Furthermore, many have a deep understanding of – and considerable influence with – key stakeholders whose buy-in can greatly enhance the benefits that companies receive by assisting with development.

Karin Ireton from Standard Bank confirms:

'A lesson learnt in our engagement with stakeholders is that we must be very careful about how we manage our local relationships. Individual communities are unique with their own challenges. Developing partnerships with organisations that understand and work with these communities, provides the bank with the local and specialist knowledge required to overcome any relationship barriers.'[46]

Emerging Market Multinationals have much to learn from the experience of their northern brethren when it comes to expanding globally into other emerging markets and LDCs. Many northern companies faced withering criticism from external stakeholders over perceived lapses in labour and environmental standards when operating in these markets. Emerging Market Multinationals are not immune to such issues as they increasingly act on a global stage and are expected to comply with international standards. Also, their stakeholders in host countries are increasingly sensitive to social and environmental issues.

In that context, support from public and civil society institutions can help to ensure that development projects are credible and have a positive impact on reputation. Savvy CSOs and government partners use their knowledge about community stakeholders and experience in designing development projects to help companies avoid the missteps that give rise to community criticism.

Support institutions can also play a vital role in helping Emerging Market Multinationals think more strategically about their development efforts. Philanthropy, while beneficial, is rarely the best way for MNCs to make lasting and dramatic impacts on development goals.

Many stakeholders believe that philanthropy generally fails to address the negative social and environmental business impacts that they are criticising. Inclusive business, by contrast, does more to address these problems because it directly affects and benefits the company's low-income employees, suppliers and customers. Therefore, inclusive business can be a more effective response to activism. Moreover, inclusive business is the area where Emerging Market Multinationals can expect the greatest comparative advantage over other institutions and stand to reap the most benefit from their activities.

When developing inclusive business models, support institutions often contribute to the achievement of core business goals. One example is the collaboration with development agencies such as GIZ or DFID, which provide co-funding, expertise and local networks to facilitate the development of new business models with a development benefit. Another example is the practice of sourcing from cooperatives, which are crucial to helping small-scale farmers achieve the scale required to partner with buyers.

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46 Standard Bank case study

Case example 14: develoPPP.de supports private sector engagement in development

The develoPPP.de programme supports cooperation between the private sector and development cooperation. Hence the three 'Ps' in develoPPP, which stand for Public-Private Partnerships.

Development partnerships bring together the innovative energy of the private sector with the resources, knowledge and experience of development cooperation, for the purpose of nurturing progress in BMZ's partner countries and sustainably improving peoples' lives. In these joint projects and programmes, both partners share the responsibility, costs and risks.

develoPPP.de is implemented by Deutsche Investitions- und Entwicklungsgesellschaft (DEG) mbH, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and sequa gGmbH and is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ).

Source: www.develoPPP.de

Examples abound of Emerging Market Multinationals receiving support from others in their sustainable development efforts. The types of support fall into four general categories.

- **Funding:** Companies receive co-funding for their sustainable development projects; fund philanthropic investments alongside other companies or organisations; receive government incentives to contribute to development goals; and share costs on investments to improve the business environment.

- **Advice and partnership brokerage:** Companies receive guidance on philanthropic investments; receive technical guidance on inclusive business models; and broker partnerships with other organisations on development projects.

- **Implementation:** Companies receive technical support in designing and executing development projects, working with disadvantaged popula tions, and taking joint action to improve the business environment.

- **Policy dialogue:** Companies receive assistance in their work with governments or national and international advocacy platforms to achieve a common philanthropic agenda, to advocate for inclusive business and to engage in multi-stakeholder dialogue to improve the business environment.

The following subchapters are structured along these types of support, as illustrated in the matrix below:

Type of support	Type of contribution	Philanthropy	Inclusive business	Business environment
Funding		Pooling contributions to increase philanthropic impacts	Government supporting inclusive business	Sharing costs to improve the business environment
Advice and partnership brokerage		Guiding investments in philanthropy	Enabling inclusive business by providing the ‚missing link'	Organising collective action
Implementation		Implementing philanthropic projects	Partnering to implement inclusive business	Taking joint action to improve the business environment
Policy dialogue		Advocating on national and global platforms	Advocating for inclusive business	Establishing multi-stakeholder dialogue to improve the business environment

Figure 6: Twelve ways companies can work with support institutions

Funding sources for development activities

Rather than simply a monetary transfer, funding is often a key element in a partnership aimed at reaching mutual goals.

Companies are involved in several different kinds of funding for development activities, including:

- Providing money to foundations or CSOs, which pool money from other sources;
- Receiving financial incentives from governments to encourage inclusive business activities;
- Receiving grants or loans under preferential conditions from international donor organisations or development banks for engaging in development or improving the business environment.

Of course, it is often hybrid forms of funding that are prevalent. This section deals with a few common funding schemes that encourage development.

Pooling contributions to increase philanthropic impact

Emerging Market Multinationals often fund philanthropic investments alongside other companies or organisations. Pooling together funds with other companies, governments, foundations or CSOs can increase the impact of a given contribution.

For example, **Mobinil** contributes to the Ebtessama (Smile) Charity Association to support the 'Ramadan Charity Tent', which hosts daily Ramadan Iftars and entertainment events for over 3,500 orphans and less advantaged children throughout the month.[47] **Mansour Group** partners with international development agencies, national governments and CSOs to make its philanthropic investments in Egypt and in other host countries. In 2008, Mansour Group supported the Red Cross in Kenya with food donations for drought victims. In 2009, Mansour donated funds to Habitat for Humanity in Tanzania to build houses for the homeless.[48]

Government supporting inclusive business

Some governments provide clear business incentives to contribute to development issues. These can include financial incentives via tax breaks, subsidies, preferential loan policies, or co-financing of activities.

National governments are in the best position to offer long-term and macro-level subsidies to companies to assist with development goals such as employment generation, increasing access to goods and services for the poor, and small business support. Rather than supporting certain companies or activities individually, subsidy programmes create incentives for a whole set of actors and activities.

For example, the Chinese government's economic stimulus plan included subsidies for companies to provide discounted computers and other electronic goods to rural households. Rural residents can receive subsidies worth 13 per cent of the price of electronic goods purchased from participating companies. Chinese MNCs like Lenovo and non-Chinese competitors like Hewlett-Packard and Dell are eligible to participate. The programme is designed to not only increase the poor's access to these products, but also to boost domestic electronics sales and to compensate for decreased export demand in the wake of the economic downturn. Lenovo estimates the programme could boost personal computer sales in China by about US$1.5 million, or about five per cent.

In another example, the Mexican government provides substantial amounts of preferential funding for the National Programme for Microenterprise Finance, implemented by the Ministry of the Economy. Through this programme, bank and non-bank financial intermediaries benefit from subsidised second-tier funding to provide credit to low-income individuals and small- and micro-enterprises.

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47 Orascom Telecom case study
48 Mansour Group case study

Sharing costs to improve the business environment

International partners, such as the World Bank, the United Nations and bilateral development agencies like GIZ, are active in many of the developing and emerging economies and are in a position to partner with Emerging Market Multinationals.

Many of these organisations have public–private collaboration programmes designed to improve the business environment. Funds provided through the programmes are explicitly intended to finance investments which companies cannot afford to make on their own. Examples include:

- The German Federal Ministry for Economic Cooperation and Development (BMZ), through GIZ, supports development partnerships with Africa-based companies, including Emerging Market Multinationals, through its PPP Africa Facility. It also supports Emerging Market Multinationals in other regions through its bilateral partnership programmes.
- The UK Department for International Development (DFID) Challenge Funds offer competitive grants to cover start-up costs for commercially viable business activities that benefit the poor.
- International facilities such as the Private Infrastructure Development Group (PIDG) encourage businesses to invest in infrastructure in developing countries.
- The United States Agency for International Development's (USAID) Global Development Alliance partners with businesses around a range of development issues. At the end of 2009, over 200 partnerships were valued at over US$1.8 billion in public and private resources.

Case example 15: GIZ helps SABMiller source responsibly

Through BMZ's develoPPP.de programme, GIZ engages in a strategic alliance with SABMiller and the WWF (World Wide Fund for Nature) to help improve water resource management in Tanzania, South Africa, Peru and Ukraine. The project aims to reduce water consumption and improve water quality and agricultural practices. In addition to helping SABMiller to significantly reduce the amount of water used to produce its beer, the collaboration helps to improve the business environment by reducing potential conflicts over water usage between industry and local populations and encouraging agricultural suppliers to use more efficient agricultural techniques.

Source: BMZ 2011

Advice and partnership brokerage to facilitate development

For most companies, contributing to sustainable development means entering new territory, which is why they often rely on expert support to design effective programmes. Companies looking to minimise the risk and maximise the impacts of their development efforts often seek advice and brokerage from supporting institutions.

Guiding investments in philanthropy

Government agencies, foundations, local CSOs, business associations and multilateral and bilateral development agencies can provide guidance on how to achieve the best results from philanthropic giving and the potential risks and benefits to engagement.

Trialogues, a South African consultancy, publishes an annual 'Corporate Social Investment (CSI) Handbook'. The handbook is a primary source of information on philanthropy, as one part of Corporate Social Responsibility (CSR) in South Africa.[49] It benchmarks quantitative and qualitative standards for large businesses in all sectors and provides a useful overview of trends, issues and regulations affecting CSR and corporate activities promoting sustainable development.

Emerging Market Multinationals seeking to stretch the boundaries of their philanthropic giving can seek partners for research and support of 'impact investment' – profit-oriented, socially-responsible investments to address development challenges.[50]

The non-profit Global Impact Investing Network (GIIN) undertakes research, advocacy and support collaboration on the topic.[51]

Enabling inclusive business by providing 'the missing link'

Support institutions can help to broker partnerships between MNCs and civil society and community organisations. These types of partnerships can provide the 'missing link' in terms of technical expertise, market research or access to local beneficiaries that are needed to maximise an Emerging Market Multinationals' engagement in development activities.

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49 South Africa country profile
50 Sullivan 2010
51 GIIN website 2011

Partners can support companies by providing guidance on investments and sharing knowledge about the target group and their particular environments. This support can help Emerging Market Multinationals unsure about how to effectively contribute to sustainable development. Emerging Market Multinationals who are already engaged can get support when aiming to enhance their philanthropic activities with more strategic forms of engagement within their value chains.

These support organisations come in various forms:

- **Market research organisations** can assist in understanding low-income markets. Global actors include the Monitor Group's Inclusive Markets division, while others such as South Africa's Reciprocity are more focused on local markets.

- **Research institutes** help to develop inclusive business models and facilitate partnerships. One example is the Base of the Pyramid Learning Labnetwork organisations.

- **Non-profit consultancies** sometimes focus on a particular sector, such as PlaNet Finance's focus on microfinance.

Organising collective action

National and international challenges such as inadequate infrastructure are enormous and a single actor can have only a limited impact. When collective action is called for, development agencies, chambers of commerce or business associations can help to identify priority issues and devise collaborative strategies.

Partners in this area can help Emerging Market Multinationals to improve the business environment or organise collective action to achieve common interests. In addition, these partners can provide information on collective initiatives at the national and international levels. These initiatives tackle challenges such as natural resource depletion (e.g. the Marine Stewardship Council or Forest Stewardship Council), climate change (e.g. Caring for Climate), anti-corruption (e.g. the Extractive Industries Transparency Initiative, or EITI) or global health issues (e.g. the Global Fund to Fight AIDS, Tuberculosis and Malaria).

Case example 16: South African business coalitions unite around development goals

Business in South Africa is represented through institutions including the Chamber of Commerce and Industry, the National Business Initiative (NBI) and Business Unity South Africa (BUSA). The NBI is a coalition of 140 companies committed to shared growth and sustainable development. Since 1995, it has been devoted to channelling collective business resources into development focus areas such as skills development, education, enterprise development and more recently environmental concerns such as energy efficiency and climate change. BUSA is a coalition of industry sectors that aims to ensure that 'organised business plays a constructive role within the context of the country's economic growth, development and transformation goals.'

Source: South Africa country profile

Support for the implementation of development initiatives

All of the Emerging Market Multinationals studied in this report actively partner with support institutions to implement development activities. They also continuously seek out new partnerships to support the design, implementation, monitoring and evaluation of projects.

Emerging Market Multinationals welcome partners that can contribute technical expertise, management skills and an understanding for local communities.

Implementing philanthropic projects

Philanthropic projects are typically implemented by external partners, usually CSOs. In a typical arrangement, the company provides funding and voluntary assistance while the CSO designs, implements and evaluates the project.

For example, **Orascom Telecom** donates to Egyptian charity Dar El Orman to support local development. Orascom supports projects such as upgrading homes to supply them with water, electricity and sewerage systems and equipping poor farmers with cattle and medical supplies.[52]

Partnering to implement inclusive business

Many civil society organisations have strong existing relationships with local communities with significant populations of low-income people. They can support Emerging Market Multinationals to include these people in their value chains by training suppliers, building cooperatives, implementing awareness campaigns or other efforts. GIZ participates in a development partnership with the Brazilian multinational **Gerdau** to integrate informal sector workers in its steel and iron production value chain in Latin American countries in a way that is both fair to these low-income actors and profitable for the company.[53] **Standard Bank** helps smallholder farmers gain access to finance through its partnership with the Alliance for a Green Revolution in Africa (AGRA). AGRA promotes agricultural growth on the continent through providing finance and advice to smallholder farmers, thereby increasing smallholder agricultural productivity.[54]

Awareness campaigns that aim to improve financial literacy, health and nutrition behaviours, or to raise awareness of environmental impacts, can make it easier for companies to market their products to the poor. For example, CSOs in India partner with rural women's self-help groups to provide financial literacy education. These groups then serve as a platform for banks to sell microfinance, microinsurance and other financial products to women.[55]

Civil society organisations can also be competent partners when designing and implementing activities for employees, such as HIV/AIDS workplace programmes. Implementation partnerships allow Emerging Market Multinationals to leverage the existing trust and community networks of support institutions.

Joint development activities enable each side to assume responsibilities best suited to their strengths. **Odebrecht's** partnerships are mainly with community-based local actors with close ties to the potential target groups of their development activities and an understanding of local issues. For each large infrastructure project the company works with local support institutions, which help identify the specific social and environmental demands to address in conjunction with the project. Odebrecht then works with these institutions to implement (and bolster community involvement in) development activities such as education, training, health or environmental initiatives aimed at the communities surrounding its construction sites.

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52 Orascom Telecom case study
53 GIZ 2010
54 Standard Bank case study

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55 Reddy/Manak 2005

Case example 17: India's SEED delivers on development

The Society for Educational Welfare and Economic Development (SEED) was established in 2006 as a development consulting, planning and implementation agency. SEED is one of a growing number of consulting companies that caters to businesses seeking to implement innovative activities that promote sustainable growth and development. Organisations like SEED can be particularly useful to companies looking for implementation support on development activities that extend beyond the scope of philanthropy.

When engaging with companies, the support institution largely limits its role to delivering on the community development strategies and plans of companies. Companies identify the target area, the planned human development activities and the desired impacts. SEED implements the activities with a turn-key approach, in a time-bound manner.

Source: India country profile; SEED website

Taking joint action to improve the business environment

A functional business environment is, to a large degree, a public good. Creating it is typically the task of government, but the public sector cannot always deliver in this regard (especially in development countries). Yet individual, profit-seeking companies lack the capacity, legitimacy or financial incentives to impact the business environment single-handedly. Collective action can help to make the difference.

With collective action, public goods are provided through collaboration of two or more individuals who all stand to benefit from the action. Collective action reduces the costs for any one individual (or company) of engaging in an activity.[56] The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) is a development partnership dedicated to boosting agricultural productivity in Tanzania. The development partnership facilitates cooperation between private sector agribusinesses – both northern MNCs and Emerging Market Multinationals, including SABMiller and Standard Bank – in addition to the government and donor organisations. The partnership aims to improve the business environment in specific geographic regions of Tanzania. SAGCOT helps build linkages between agribusinesses and small-holder farmers and supports small-holder producer associations that ensure equitable relationships between the two groups.[57]

Case example 18: South Africa's banks band together to serve the poor

In 2004, South Africa's four largest commercial banks (Absa, First National Bank, Nedbank and Standard Bank) partnered with government-owned Postbank to establish an entry-level card-based transactional and savings account, the Mzansi Account. The Mzsani Account is designed to increase access to formal financial services for people operating in the low-income market.

While each of the banks competitively markets Mzansi Accounts, the product represents a collective effort by South Africa's private financial sector to respond to requirements set forth by the South African government's Financial Sector Charter. One of the charters' objectives is to significantly improve access to banking – particularly transaction banking – for all South Africans. Mzansi Accounts were designed to reach South Africa's historically marginalised groups and support the goals of the country's broader Black Economic Empowerment policy.

The banks shared the cost of developing and marketing the Mzansi Account, as well as the cost of a communication platform to educate low-income target groups about the new offering.

Source: South Africa case study; BFA 2009; Mendoza/Thelen 2007.

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56 Olson 1971

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57 SAGCOT website

Participating in policy dialogues around development goals

Policy dialogues can change the rules of the game. Dialogues can occur with the government on issues of social importance, or on collective initiatives such as roundtables or the establishment of standards. Participating in policy dialogue platforms around development goals makes sense in all cases where public goods are at stake. Environmental protection, preventive care or basic education are all easier to achieve for a whole community of actors.

More companies are therefore turning to collective action in their CSR activities. This includes the proliferation of labels and standards; policy dialogue initiatives on national and international levels; and industry round tables. Partners can support businesses by facilitating policy dialogue and platforms for advocacy.

Support institutions, particularly donor organisations, have a wealth of experience to offer Emerging Market Multinationals for this form of engagement. Their longstanding development efforts in many of the countries where Emerging Market Multinationals operate mean they can offer holistic and impartial perspectives on a wide range of development topics. They are also able to leverage extensive public and private linkages to facilitate multi-stakeholder dialogues with governments, associations, interest groups, small- and medium-sized enterprises, consumers, and other companies.

Advocating on national and global platforms

National and global platforms help to organise philanthropic donations from many sources to specific development topics. The Global Alliance for Improved Nutrition (GAIN) supports public–private partnerships to address the global issue of malnutrition. GAIN's network of partners includes more than 600 private companies in addition to bilateral development agencies, the UN agencies and the Bill and Melinda Gates Foundation.[58]

Collective approaches by companies have been an effective means for addressing social challenges like HIV/AIDS. Standard Bank, for example, is one of more than 200 companies in the Global Business Coalition (GBC) on HIV/AIDS. The coalition brings business, civil society and governments together to fight HIV/AIDS. It also provides coalition members with the resources, experience or technical capacity needed to engage in their own activities to address the disease. In 2009, 1,500 global health leaders received training at GBC international capacity building workshops to develop workplace health programmes and to create industry based case studies to generate new knowledge for the organisation and its members.[59]

More than 5,300 businesses[60] (out of around 8,000 total participants) in 130 countries worldwide have joined the UN Global Compact, pledging to follow ten principles regarding human rights, labour, the environment and anticorruption.[61]

Case example 19: China Mobile cares for the climate

'Caring for Climate' is a voluntary and complementary action platform for UN Global Compact participants seeking to demonstrate action on climate change. It provides a framework for business leaders to advance practical solutions and help shape public policy as well as public attitudes. CEOs who support the statement are prepared to set carbon reduction goals, develop and expand carbon reduction strategies and practices, and publicly disclose carbon emissions as part of their existing disclosure commitment within the UN Global Compact framework, called the Communication on Progress. China Mobile has joined the platform in an effort to reduce its own carbon footprint.

Source: UN Global Compact website, China Mobile case study

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58 GAIN website

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59 GBC 2009

60 Data is not currently available on the proportion of UN Global Compact companies that are based in emerging and developing countries. In 2006, when the Compact had 3,000 member companies, almost half were from developing countries. Compare http://cscc.typepad.com/responsiblesourcing/2006/10/un_global_compa.html – website accessed 05 May 2011

61 UNCG website

Advocating for inclusive business

Business forums, dialogue platforms or collective action by companies can contribute to creating better polices for inclusive business and the business environment through advocacy.

The Global System for Mobile Communications Association (GSMA) provides a forum for partnerships and dialogue on the interests of mobile operators at the international level. GSMA membership includes approximately 800 mobile operators and 200 companies in the greater mobile industry. The organisation facilitates dialogue and activities in support of growth and innovation in the mobile industry. The two major mobile operators in the Philippines, **Smart** and **Globe**, are working with the government to adapt national regulations governing mobile banking. The measures include policies allowing retail agents to conduct customer due diligence as well as stronger regulations against money laundering and terrorism financing. They have helped Smart and Globe expand mobile banking access to the poor and improve the overall business environment for mobile operators in the Philippines.[62] Advocacy can make inclusive business possible.

Establishing multi-stakeholder dialogue to improve the business environment

Multi-stakeholder dialogue at the policy level helps to broaden the consensus on CSR and development strategy amongst major players from the business, CSO and public sector spheres. Multi-stakeholder dialogue is often supported by surveys and background studies, which generate new information to feed back into further discussion and consensus building. Structured dialogues amongst stakeholders can promote increasing transparency and trust in the business environment. It can also catalyze collective and policy action to improve the business environment.

Development agencies like GIZ bring together development stakeholders to promote harmonisation among major players in their outlook and strategies for addressing CSR. The **Indo-German Corporate Social Responsibility Initiative**, implemented by GIZ, supports multi-stakeholder dialogue on CSR in the Indian context. The objective of the initiative is to build a greater understanding of CSR among stakeholders, and to facilitate the development of relevant guidelines and frameworks for voluntary disclosure, making sure they are adopted by stakeholders and are promoted at the national level.[63] GIZ's **Sino-German Corporate Social Responsibility Project** undertakes similar activities to strengthen institutions through policy development and dialogue on CSR in China.[64]

Governments can be powerful drivers of development activities by, for example, defining minimum standards, creating an enabling environment and providing financial incentives. Emerging Market Multinationals may have an interest in broader development goals but lack the legitimacy to lobby directly with governments. Other players can facilitate productive and transparent policy dialogues. Potential partners for support in this area include business associations, thematic initiatives, development agencies and local CSOs.

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62 UNDP 2008

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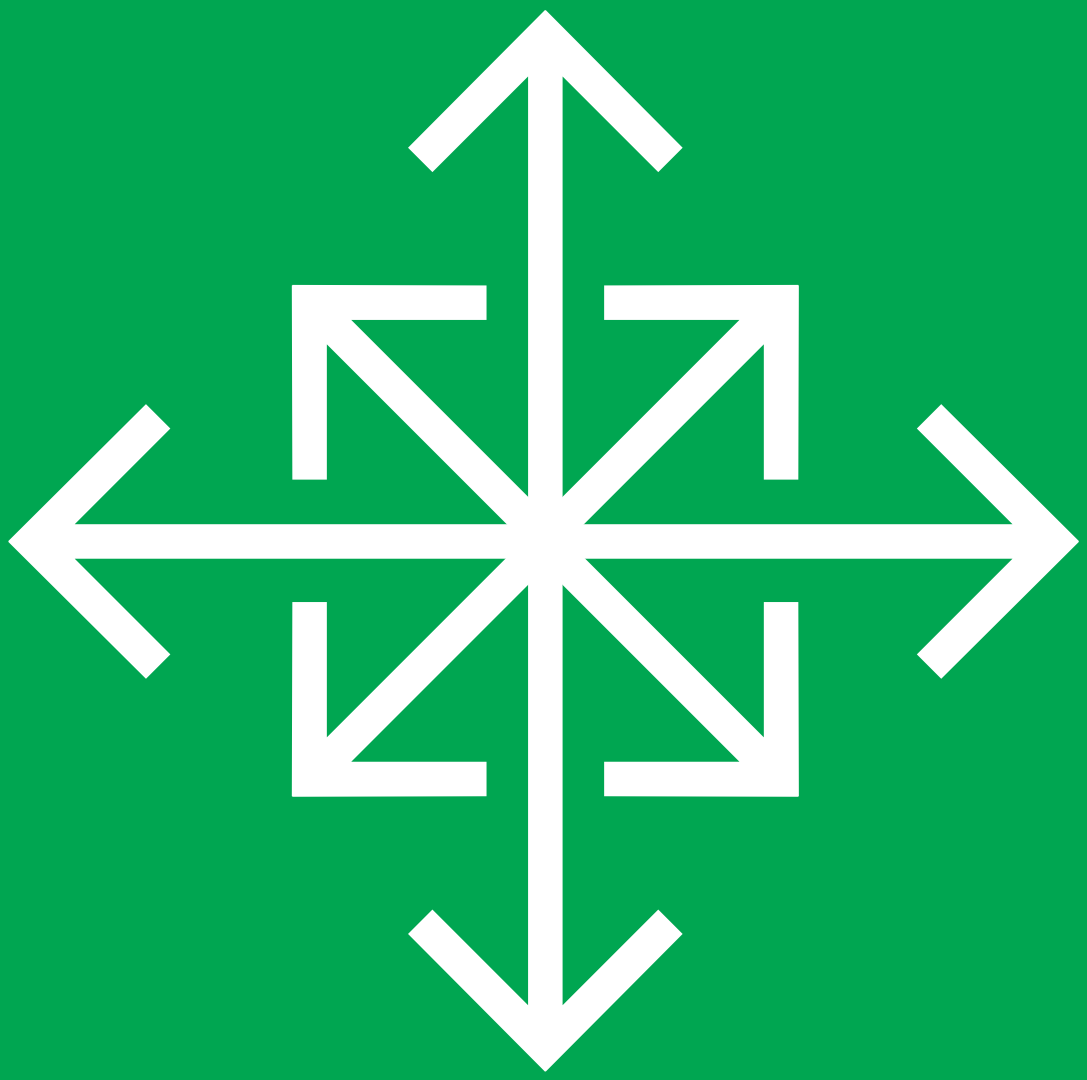
63 GIZ website
64 Sino-German CSR Project website

Outlook

Emerging Market Multinationals are key players in the sustainable development of emerging and developing countries. Effective partnerships will be key to building and maintaining momentum.



Emerging Market Multinationals now account for nearly a third of all MNCs.[65] They control ever-increasing amounts of foreign direct investment and express optimism about their prospects for growth and foreign expansion.[66] These companies are garnering more attention – and higher expectations.
The rise of Emerging Market Multinationals, and their investments in their host and home countries, form a big part of the economic growth story in these countries. Due to their size, power and outreach, Emerging Market Multinationals can contribute to human and economic development and at the same time create business opportunities.

Why Emerging Market Multinationals should engage in development

Integrating the development agenda into business thinking can have significant payoffs. When companies address development goals such as building infrastructure, combating diseases and educating local populations, they are improving their business environment in the long term. By including low-income people into their value chains, they can create real business opportunities and increase their revenue and market share. By improving their sustainability management and CSR activities, they stand to gain greater credibility in international platforms, become more attractive international partners and build their brands with consumers.

Why development agencies should engage with Emerging Market Multinationals

In turn, integrating the agenda of Emerging Market Multinationals into the programme of development organisations can have significant payoffs for support institutions. Emerging Market Multinationals have characteristics which make them uniquely suitable as partners for development cooperation. They operate in countries with immense development challenges and where the majority of the population is poor.

As a result of globalisation and the economic growth it brings, most of the world's poor no longer live only in poor countries.[67] More than a billion now live in middle-income countries. Development agencies will need to create new ways to help the poor in these middle-income countries and emerging markets. Partnering with global players from emerging markets that fuel these countries' economic development must unquestionably feature in their new strategies.

Risks and challenges

Foreign and even domestic investments by Emerging Market Multinationals have often been met with suspicion. Sometimes that suspicion is justified, as some of these companies have disregarded environmental impacts and labour standards in the past. They polluted the water and air, displaced communities to carry out infrastructure projects, or put their own workers at risk by failing to enforce basic safety precautions. And while their entrance to a market may be welcomed by consumers, their extensive resources and elevated bargaining power may threaten local businesses and industries. While companies around the world have been accused of these practices, currently there is a spotlight on Chinese companies in Africa, where acknowledgement of their vital role in economic development has been balanced against deep concerns about unsustainable ways of doing business.

Sometimes, Emerging Market Multinationals are perceived as hegemonic forces that exacerbate existing societal inequalities. CSOs often lead the charge against these companies, documenting their misdeeds and advocating against them. The at times contentious role of Emerging Market Multinationals has led to a degree of mistrust between players in the private, public and civil society sectors.

When envisaging partnerships between Emerging Market Multinationals and support institutions, further challenges may arise. The agents need to bridge the differences in objectives, managerial structures, resource constraints and technical capacity. Also, varying cultural norms need to be addressed. In a sense, the private, public and civil society sectors still speak different languages.

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65 UNCTAD 2010
66 Ibid.
67 Sumner 2011

It's time to engage!

Nonetheless, the benefits of cross-sector cooperation are too large to ignore. As Emerging Market Multinationals assess the negative impacts of their global footprint and work to mitigate them, they are realising the benefits of engaging in sustainable development, whether through philanthropy, inclusive business, or improving the business environment. And for this they need the help of the public and non-profit sectors, not only for designing and executing projects but also for gaining the support and respect of the stakeholders on whom they are hoping to have an impact. Meanwhile, government and civil society has realised that some companies are sincerely interested in mitigating their impacts and engaging in sustainable development – and that their help is needed.

As Emerging Market Multinationals begin to realise the benefits of engaging in development, the expectations on them to contribute to sustainable development in their home and host countries continue to grow. These companies are actively seeking new partners to implement their development activities. They recognise the strategic advantages of reaching out to low-income customers and creating more inclusive business models. But a lack of partners with adequate technical capacity or management skills is constraining their engagement.

Development partners must step forward to contribute the support they are so well prepared to give. If development support institutions and Emerging Market Multinationals fail to cooperate, the risk is that the companies will fail to realise their development potential. Their support may remain largely at the philanthropic level and they may fail to fully explore inclusive business opportunities or advocate for improvements in the business environment.

Emerging Market Multinationals have emerged as key players in the pursuit of sustainable development of emerging and developing countries. Effective partnerships will be key to building and maintaining momentum.

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Case studies and country research

The publication of this report was preceded by country research in South Africa, Egypt, Brazil, Mexico, India and China. These countries were chosen due to their relatively high number of Emerging Market Multinationals and because they are partner countries of the BMZ. The case studies and country studies were written by research teams from the respective countries, following a common protocol. All case examples in this report that are presented in boxes are taken from these documents.

Country Profile	Case Studies	Authors
Brazil	Odebrecht, Vale	Claudio Boechat, Heiko Spitzeck, José Antonio Chaves, Luisa Rennó
China	China Mobile, Lenovo	Guo Peiyuan, An Jiali
Egypt	Mansour Group, Orascom Telecom	Pascale Nader, Mohamed El Kalla
India	Dr. Reddy's, Wipro	Bimal Arora, Rustam Sengupta, Sayed Bahar, Ali Kazmi, Jayasmita Rath, Hema Swamy, Chintan Agrawal
Mexico	CEMEX, Grupo Bimbo	Juan Navarrete, Verónica Baz
South Africa	SABMiller, Standard Bank	Pierre Coetzer, Nicolas Pascarel

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