

## Responsible finance could do more for development than MDG-focused charity

This week the world's leaders meet in New York to discuss progress on the Millennium Development Goals (MDGs), which were agreed ten years ago as time-bound targets for achievable reductions in poverty. The spin masters of global policy have already been busy framing this milestone in the media. But aside from the spin, the reality is very different and poses significantly different implications for corporate strategy and the future of finance. Business leaders and investors need to listen to the more sober analyses from international development experts and seek to ally their operations with real solutions to global challenges. That might not win them a round of applause at a charity night, but will begin to address the deeper causes of our worsening problems.

Commenting on progress on the MDGs in the *New York Times* on Saturday, the Columbia University economist Jeffrey Sachs wrote on Saturday that “a great deal has been achieved” and how “cynicism has been replaced by hope, born of experience, commitment and breakthroughs.”<sup>1</sup> He bases that on piecing together a few examples of success, mostly on communicable disease. It is relieving that the rates of infection of HIV/AIDS have declined in Africa, but it is wrong to imply this gets anywhere near meeting the MDG 6 on disease reduction, which includes halting its spread and achieving universal treatment.<sup>2</sup>

The United Nations now acknowledges that only two of the many targets might actually be met: cutting in half the number of people who lack safe drinking water and halving the number of people who live on \$1.25 or less daily.<sup>3</sup> The first of these is not cause for celebration if we remember that much of this advance in clean water access comes from wells that are likely to run dry in the near future due to climate change and intensive agriculture. The second of these targets is largely meaningless, when one realises that China accounts for the majority of the increase, and thus exchange rates explain a significant part of the progress, while the cost of meeting basic needs have been increasing worldwide.

One of the goals is for universal primary education, yet according to research by the Global Campaign for Education, 48% of children in sub-Saharan Africa still do not complete primary education.<sup>4</sup> Another of the goals is halving world hunger. With global food prices peaking in the summer of 2008, and climbing rapidly again, over one billion people were undernourished in 2009, an all-time high.<sup>5</sup> 925 million people across the world are still classed as hungry.<sup>6</sup> A child dies every six seconds due to hunger related diseases. Despite this shocking daily disaster, the proportion of the world's hungry has gone down by only half a percentage point since 2000 – from 14 to 13.5 percent.<sup>7</sup>

As halving world hunger is the target, that would mean 14% having reduced to 11.6% by now. I make that 130,185,186 people who are hungry this very day, as living examples of us missing the target. It is a massive missing of a target that was not meant as a pie-in-sky ideal, such as ending poverty, but as a practical one of halving hunger. If this was a match, the goal is so far off, we are

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<sup>1</sup> Millennium Goals, Five Years to Go, By JEFFREY SACHS, Published: September 17, 2010  
<http://www.nytimes.com/2010/09/18/opinion/18iht-edsachs.html?ref=global>

<sup>2</sup> See <http://www.undp.org/mdg/goal6.shtml>

<sup>3</sup> U.N. Poverty Goals Face Accountability Questions  
[http://www.nytimes.com/2010/09/19/world/19nations.html?\\_r=1&ref=global-home](http://www.nytimes.com/2010/09/19/world/19nations.html?_r=1&ref=global-home)

<sup>4</sup> Millennium Development Goals: Unesco struggles to meet target to educate 70m children out of poverty, Alex Renton, The Observer, Sunday 19 September 2010  
<http://www.guardian.co.uk/global-development/2010/sep/19/millennium-development-goals-nigeria-education>

<sup>5</sup> Hunger Drops Mere Half a Percent over Last Decade, <http://www.ipsnews.net/africa/nota.asp?idnews=52866>

<sup>6</sup> East Africa faces fresh famine threat, warns Oxfam, <http://www.afriquejet.com/news/africa-news/east-africa-faces-fresh-famine-threat,-warns-oxfam-2010091756382.html>

<sup>7</sup> East Africa faces fresh famine threat, warns Oxfam, <http://www.afriquejet.com/news/africa-news/east-africa-faces-fresh-famine-threat,-warns-oxfam-2010091756382.html>

still trying to work the ball out of own penalty area. To move forward the poor need more than the cult of 'positive thinking' from people who want to keep the MDG show on the road so as to keep the focus on charity not real change, and receive more fame and funds for their projects as a result.

Poverty is an interconnected reality and challenge, and so even hitting the targets can still miss the point. The education commissioner of Nigeria's Kwara state has revealed that nearly 20,000 of the state's teachers were made to sit tests in English and Maths that were designed for 9- and 10-year-olds, but only 7 of the teachers reached the minimum attainment level.<sup>8</sup> As targets are usually about quantities of input, not qualitative outcomes, then situations like that in Nigeria can arise. In addition, a focus on just one issue can ignore the interconnected nature of poverty. For instance, some HIV antiretroviral medications require a minimum caloric intake to work. The government of Zambia has had trouble containing the spread of HIV after expanding the production and distribution of antiretrovirals; they realised the problem was that children were not eating enough.<sup>9</sup> Likewise a focus on just one issue can lead to other important concerns being sidestepped or made worse. Amnesty International has found that a focus on meeting the MDGs has led to matters of accountability and rights being sidelined at times.<sup>10</sup>

The reason progress is so slow is known to many international development experts. They just don't share it much in press releases, as it doesn't help generate funding. The simplest and most important insight here is that, on a large scale, the poor are not helped by targeting them in particular. Instead, poverty is reduced by helping enterprises generate decent work that create not only the products and services but also the wages for people to buy them. Therefore the creation of decent work opportunities with fair wages is key to all poverty reduction and social development, no matter how the poverty is then manifested.<sup>11</sup>

The percentage of corporate revenues that are paid out as wages has been going down worldwide for decades.<sup>12</sup> This happens as a result of the balance of power between government, business and workforces shifting with economic globalisation. Consequently workers have less in their pockets to buy the products and services that generate the jobs, that employ the workers. To get out of this situation, workers in some countries have been going into debt, speculating on property, or releasing equity from their homes. It is a situation that has led to financial volatility and concerns about financial collapse. In other parts of the world, and for the poor, there is not the same escape through debt and mortgaging assets. Meanwhile their employers have continued to receive a small share of the revenues of the value chains they trade in, with the profits accruing to the top of the chain, such as the famous brands, retailers, related professional services and in turn the financial services sector. This squeezes the sum available to workers and entrepreneurs in poorer countries, as well as limiting the potential tax revenues of such countries. The percentage of corporate profits that are taxed has also been decreasing around the world, therefore meaning governments have less to invest in social services and promoting enterprise.

The key to achieving development is the promotion of enterprise, with the ability of entrepreneurs in lower income countries to receive a larger share of income from their value chains, the ability of their workers to receive a larger share of the generated revenues, and the ability of governments to

<sup>8</sup> Millennium Development Goals: Unesco struggles to meet target to educate 70m children out of poverty, Alex Renton, The Observer, Sunday 19 September 2010

<http://www.guardian.co.uk/global-development/2010/sep/19/millennium-development-goals-nigeria-education>

<sup>9</sup> Hunger Drops Mere Half a Percent over Last Decade

<http://www.ipsnews.net/africa/nota.asp?idnews=52866>

<sup>10</sup> Amnesty International, 'States Must Not Ignore Human Rights in Efforts to End Poverty', 9 June 2010;

<http://www.amnesty.org/en/news-and-updates/report/states-must-not-ignore-human-rights-efforts-end-poverty-2010-06-09>.

<sup>11</sup> UNNGLS, 'Decent Work and Fair Globalisation: A Key to Meeting Development Goals and Eradicating Poverty', 16 June 2010; <http://www.un-ngls.org/spip.php?article2647>

<sup>12</sup> <http://www.thehindu.com/business/Economy/article42746.ece>

generate taxes and use them efficiently and accountably. Some within the international development community have been making this analysis clear, but they are drowned out by those who seek to keep the focus on a simpler message of charity, positivity, and coming together for another push towards meeting targets with new donations, often to their own organisations. The alternative would be to work on matters of economic governance and challenge existing power relations in societies and economies – not such an easy sell to large donors, or individual supporters watching the latest disaster appeal on TV. Deluded and self-serving people in the development profession prefer to see the people who criticise the MDGs as negative or cynical, and so dismiss the reality of the situation they describe. As a result, as I found in a study for the UN last year, the funding of economic justice campaigning is limited, and so the relationships with between Western NGOs and civil society in the global South are not often sufficient for them to have a legitimate and effective voice in policy making.<sup>13</sup>

Many of the issues the MDGs focus on are the symptoms and not the causes of poverty. The cause of poverty is generally a lack of decent work in a thriving enterprise economy governed by a state that is held accountable for its regulation and provision of services. A superficial focus on the symptoms not causes of poverty has been promoted in recent years by the new billionaire philanthropists, engaged in charismatic charity. Huge donors like Bill Gates focus mostly on the surface of problems, as that is what is visible. The visibility of a public problem is important as it makes it more understandable to people without insight into how problems arise, and visible problems can be explained in ways that generate public support and congratulation. The experts that the non expert philanthropists rely on are those who have made themselves acceptable to elites in the business and government, thereby perpetuating a superficial agenda. “Take the huge investments in global health, micro-credit and environmental services that Bill Gates and others are making,” says Michael Edwards who has authored a book on the topic. “The available evidence from these investments so far suggests that it is perfectly possible to use the market to extend access to useful goods and services, but far harder to have any substantial impact on social transformation. The reason is pretty obvious: systemic change involves social movements, politics and the state, which these experiments generally ignore.” He laments that the rise of the “philanthrocapitalists” is undermining the power of independent civil society to frame and act on systemic causes of social problems.<sup>14</sup>

As we look back on the last 10 years of action and inaction on international development it is now clear that the MDGs have scored an own goal for the development community by keeping systemic issues off the agenda. At best the MDGs acted as a defence mechanism in difficult times, maintaining interest in poverty when the international community became engulfed in the anti-terrorism agenda and the related US-led wars.

The implications here for responsible corporate strategy begin with recognising that most companies have been receiving misinformation about the root causes of maldevelopment and what to do about it. In recent years those business people engaged in corporate responsibility have often sought to relate their activities to the MDGs. However, as I explained at the launch of a report on MDG Scan by the NCDO in Amsterdam, the MDGs do not provide or inform a strategy for social development and therefore are weak guides to corporate strategy. Instead an economic development agenda, with human rights and ecological sensitivity in mind, will be key to effective approaches in future. Some initiatives on business contributions to development are already putting human rights at the heart of their work, such as the corporate responsibility initiative in Liberia being facilitated by the UN, GTZ and ArcelorMittal, that my colleague at Lifeworth Consulting, Emma Irwin, is

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<sup>13</sup> Noble Networks? Advocacy for Global Justice and the "Network Effect", by Jem Bendell and Annkathrin Ellersiek, Paper No.: 31, UN Research Institute for Social Development.  
<http://www.unrisd.org/80256B3C005BCCF9/search/A93CF6EAA4EDAD27C125757D002931BA?OpenDocument>

<sup>14</sup> [http://www.opendemocracy.net/article/globalisation/visions\\_reflections/philanthrocapitalism\\_after\\_the\\_goldrush](http://www.opendemocracy.net/article/globalisation/visions_reflections/philanthrocapitalism_after_the_goldrush)

helping establish. More work will be needed to work out how companies can ally with transformative processes that get to the root of the problems of maldevelopment.

Key will be for business leaders to grapple with the political economic drivers of poverty and maldevelopment. Too often large corporations, their lobbyists, the politicians they fund, and the media they own and advertise in, are all on the wrong side of a systemic answer for global development. This politics-as-usual is bad for business, as poverty is bad for business continuity and business development. However, a company will have more to gain in the short term by seeking to drive down prices, pay lower wages, and avoid tax, than they will lose in the longer term from the impacts of poverty on their business. Here, then, is a collective action problem, which means it is large institutional investors, not companies, that will need to take a lead. This month's global review of large investor policies on responsible investing that I co-edited for UNCTAD shows that investors around the world are now adopting policies on their environmental, social and governance impacts.<sup>15</sup> However, unless they relate these fairly recent commitments to political economy issues, and question the economic development impacts of their more innovative practices, such high frequency trading and dark pool markets, then little will come from the private sector to drive forward a more sustainable and equitable form of development.

As I witness business, UN, governments and NGOs coming together this week to call for a another push to meet the MDGs, I am left wondering what will help unravel this great delusion. Where will the movement to embrace a serious sustainable development agenda come from? Will we have to wait another 5 years for a more honest stock take? Five years is a lot of 6 seconds. Over 26 million more children will have died from hunger and related illnesses.

The recent history of corporate responsibility and responsible investment implies that unless civil society mobilises to make issues a priority business or investors, then the executives who do care will not be heard by the top bosses. However, in my last book I described the emergence of a movement mentality within people in the corporate responsibility, social enterprise and responsible investment space, where professionals are pushing forward transformative agendas from within their commercial organisations.<sup>16</sup> Yet I wonder whether the contradictions between short term profit and long term value generation may mean that an authentic development agenda will be difficult to place at the heart of corporate strategy. In reflecting on this I recall that 15 years ago a BP executive said that if Greenpeace did not exist he would have had to invent it. Chris Marsden was explaining about how he needed the external spotlight to make his case from within the company. We could debate whether it was an effective spotlight, given the BP record, but at least there was some pressure. It seems we need a development NGO that can apply pressure like Greenpeace has done on the environment, and encourage investors to engage seriously with development issues. In the early Noughties the 'anti-globalisation' movement applied pressure to governments and international organisations without there being one central organisation, but its visibility has waned in recent years as the usefulness of street protest was questioned and attention moved to celebrity events like Live 8 and Live Earth. There seems to be a gap in the NGO market for a direct action development group, and so perhaps a financier could invent one. I hear of some friends of friends with a half a million from their banker bonuses now wondering what the meaning of their life really is.

If you know someone like that, send them this link.

[Jem Bendell. Sept 19<sup>th</sup>, 2010, Lifeworth.com/consult]

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<sup>15</sup> <http://www.unctad.org/csr>

<sup>16</sup> Bendell, J, 2009 The Corporate Responsibility Movement, <http://www.greenleaf-publishing.com/productdetail.kmod?productid=2767>