Principles for Social Investment Ltd

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Independent Review of Aid Effectiveness Secretariat
GPO Box 887
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Australia

Dear Sir/Madam

<u>Submission to the Aid Effectiveness Review</u>

Please see the attached document comprising the formal submission of the Principles for Social Investment Secretariat to the Aid Effectiveness Review.

Yours sincerely

Gordon Noble

Gordon Noble
Company Secretary

Submission to the Aid Effectiveness Review

Executive Summary

The current global systems supporting social development require innovation, consolidation and simplification. For the last 60 years, the social advancement of the world's poorest communities has been limited by the resource capacity of the public sector and the systems by which social development have been delivered, mainly in the form of aid.

By supporting the intelligent and principled mobilisation of private sector resources in collaboration with the public sector we can make a difference in alleviating global poverty and achieving the targets set out in the Millennium Development Goals. Social investment, the practice of the private sector making voluntary financial and non-financial contributions that demonstratively help local communities and broader society to address social development, provides the mechanism through which the private sector can mobilise resources.

The Australian corporate sector has proactively demonstrated a commitment to the philosophy of social investment. As an example, a collaborative program run by BHP Billiton, in cooperation with the local community of Mozal, Mozambique successfully reduced the incidence of Malaria from 86% to 8.6% whilst also decreasing absenteeism at the BHP Billiton smelter from 20% to 1%. Through cooperation with private sector stakeholders, NGOs and government there is the potential to increase the overall effectiveness of social investment programs.

With the objective of contributing to lifting the world's poorest out of poverty, the newly established UN Global Compact backed Principles for Social Investment Secretariat will take a leadership role in facilitating social investment. This document outlines the potential for both the private and public sector to transform social development through the promotion of social investment principles and introduces how the Principles for Social Investment Secretariat can advance this transition.

Introduction

The 21st century presents an opportunity to transform practiced social development methodology and policy - including development aid.

Traditionally, government and international agencies have engaged in measures to support the economic, environmental, social and political advancement of developing communities and countries – however the resources of the private sector have largely remained under-utilised. Consequently, a significant portion of 'social development' policy and more specifically development aid has fallen under the responsibility of the public sector.

More positively, over the last decade there has been a paradigm shift in thinking around social development – pushing for the introduction of a more dynamic social development framework to facilitate a collaborative approach to development aid that includes a focus on investment to satisfy the necessary requirement to provide sustainable solutions. This transformation is born out of concern for the still significant levels of poverty that exist. Although the number of people living on less than $1.25 per day decreased from 1.8 billion in 1990 to 1.4 billion in 2005[1] this remains a large and alarming number – particularly when an additional 1.2 billion people remain close to the poverty line, living on only $2 per day.

Frameworks such as the Millennium Development Goals[2] have been important in setting a global agenda and timeline for improving the social and economic conditions in the world's poorest countries. Importantly it has helped to expand traditional social development beyond the role of the public sector, increasing the involvement of the private sector. Furthermore, the proliferation of the idea of 'corporate citizenship' has provoked private companies and multinationals to start to engage and direct resources to activities that promote social development in disadvantaged communities – the important task now is to understand how to best mobilise the resources of the private sector to support the development activities of the public sector.

Porter & Kramer[3], in an article written for the Harvard Business Review speak about the many companies that have undertaken considerable action to improve the social and environmental consequences of their activities. They point out that companies are transitioning from the historical view of corporate social responsibility (CSR) as being viewed as 'damage' control towards the need to create shared financial and social value – 'social investment'. If this methodology is consolidated it will help to facilitate a collaborative medium by which the private sector corporations and philanthropic funds can support the public sector lifting the welfare of the worlds poorest.

The purpose of this document is to outline the potential for both the private and public sector to transform social development through the promotion of investment principles and introduce how the newly established United Nations Global Compact backed Principles for Social Investment Secretariat can advance this transition.

1 The World Bank, Global Monitoring Report 2008, http://siteresources.worldbank.org/INTGLOMONREP2008/Resources/4737994-1207342962709/8944_Web_PDF.pdf, retrieved on 25th January 2011

2 United Nations Millennium Development Goals, http://www.un.org/millenniumgoals/

3 Michael E. Porter and Mark R. Kramer, 'Strategy & Society', Harvard Business Review 2006, http://hbr.org/product/strategy-and-society-the-link-between-competitive-/an/R0612D-PDF-ENG, retrieved 25th January 2011

Section 1: Social Investment for Development Outcomes

The OECD[4] provides a comprehensive explanation of development aid, which is concerned with the transfer of financial flows by governments and other agencies to support the economic, environmental, social and political development of recipients. Hence, aid effectiveness relates to the extent to which this form of support is achieving economic, social and sustainable development.

Traditionally, development aid has been predominantly the responsibility of the public sector, although in the last 15 years the landscape of stakeholders has begun to change. Financial flows from foundations, charities and to a lesser extent corporations, has now overtaken official development flows from the public sector. The scope of development aid has been significantly enhanced by the increased involvement of the private sector, playing an important role in supporting existing delivery aid mechanisms. Since 2003, the Centre for Global Prosperity (CGP) at the Hudson Institute has published the Index of Global Philanthropy and Remittances[5], a comprehensive report measuring the sources and magnitude of private financial flows from developed countries to the developing world. In 2007, public sector aid constituted 17% of donor nation's economic engagement to the developing world whilst private financial flows, including philanthropy, remittances and private capital investment accounted for the majority. In absolute terms private financial flows, from all donor countries, totalled $519 billion.

The size of private sector voluntary contributions in Australia is also considerable. According to the Productivity Commission[6], the activities of the not for profit sector, constituting about 600,000 organisations, direct $43 billion p.a. towards enhancing social development, equating to about 4% of GDP. In addition 4.6 million volunteers contribute approximately $15 billion in unpaid work whilst figures published by the Australian Treasury Department show that in 2007/2008 'Private Ancillary Funds' grew by nearly 50%, receiving $728 million in donations[7].

This advancement in global development demonstrates the role that the private sector can play in supporting the sustainability of development aid. The 2002 International Conference on Financing for Development in Monterrey, Mexico[8] highlighted the general concern that historic delivery mechanisms of aid, if remained unchanged, would significantly undermine efforts to alleviate global poverty. This translated to a push to reform the traditional one- dimensional idea of aid to acknowledge the required partnership between the donor and the recipient. Since this initial meeting, there have been three other global gatherings of stakeholders, the most significant being 2005 in which the Paris Declaration on Aid Effectiveness endorsed a development aid framework based on principles of partnerships, including collaborating with the private sector.

One of the biggest benefits of the private sector's contributions to social development is the diversity and flexibility of funding resources. This invites the opportunity for the traditional aid mechanisms to be enhanced by leveraging the capacity of private sector resources to provide sustainability.

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[4] OECD Glossary of statistical terms, *Official Development Assistance (ODA),* http://stats.oecd.org/glossary/detail.asp?ID=6043, retrieved 23rd January 2011

5 The Index of Global Philanthropy and Remittances 2009,

http://www.hudson.org/files/documents/Index%20of%20Global%20Philanthropy%20and%20Remittances%202009.pdf, retrieved 23rd January 2011

6. Australian Productivity Commission, *Productivity Commission Contribution of the Not-for-Profit Sector*, http://www.pc.gov.au/__data/assets/pdf_file/0003/94548/not-for-profit-report.pdf, retrieved 3rd January 2010

7 Australian Treasury Department, *Philanthropy Sector Expands Sharply,* http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/054.htm&pageID=003&min=njsa&Year=&DocType=0, retrieved 20th January 2011

[8] The International Conference on Financing for Development, http://www.un.org/esa/ffd/ffdconf/, retrieved 22nd January 2011

The rapid growth of private philanthropic funds highlights the need for effective collaboration between all stakeholders in the private sector. Figures from 2009 reveal that the Bill and Melinda Gates Foundation[9] managed $33 billion in funds – a growth of over 10% from the previous year. In the same year, the foundation paid approximately $3.5 billion in grants, primarily directing this to areas of global development, global health and social development within the United States. Midway through 2010, 40 US billionaires signed up to pledge at least half of their fortunes to charity under a $600 billion philanthropic fundraising campaign coordinated by Warren Buffet and Bill Gates[10]. Although the size of these foundations provides a significant opportunity to direct financial resources to improving social development, there is a need for these funds to collaborate with stakeholders to ensure that the significant commitments by corporate philanthropists results in effective social programs. By establishing collaborative mechanisms and appropriate accountability systems there is the potential to create productive synergies between parties, facilitating shared knowledge and resources.

The establishment of this cooperative environment will promote investment for development outcomes. In doing so this provides communities with the tools to build a healthy and sustainable future. There is also a significant opportunity to leverage corporate commitment to corporate social responsibility to include coordinating social values with business priorities to build the capacity of communities – otherwise termed 'social investment'.

In their recently published journal article in the Harvard Business Review, Porter and Kramer suggests that social welfare and corporate success should not be a 'zero sum' game. Their view is that integrating socially responsible activities with core business decisions can be a source of opportunity, innovation and competitive advantage. They believe that the traditional justifications that have historically underpinned CSR thinking; moral obligation, sustainability, license to operate and reputation - share the same weakness, focusing on the tension between business and society rather than their interdependence. This provides an important rationale for facilitating social investment.

There are two points of natural intersection between a company's corporate social responsibility and society. The first is the integration of social considerations into the corporate value chain and the second, relatively unpublicised point is what Porter and Kramer refer to as 'outside-in linkages' that refers to a company's intrinsic interest in ensuring the health of the competitive context, which includes current and transient social conditions. In recognising this, companies will be motivated to direct their resources towards projects that have a social benefit but also deliver a direct commercial benefit – 'social investment'.

The Australian corporate sector is actively involved in social investment, evidenced by the fact that companies direct approximately 0.45% p.a.[11] of pre-tax profits or revenue towards fulfilling their corporate responsibility to society. More telling, there are leading companies within the Australian corporate sector that have successfully integrated social and commercial priorities. Following are examples of Australian companies that have established innovative social investment programs:

9 Bill and Melinda Gates Foundation, http://www.gatesfoundation.org/about/Pages/financials.aspx
10 Stephanie Strom, *'Pledge to Give Away Half Gains Billionaire Adherents',* New York Times 2010, http://www.nytimes.com/2010/08/05/us/05giving.html, retrieved 25th January 2011
11 ADC Philanthropy The way ahead for Government, Business and the Community, http://www.adcforum.org/files/Documents/ADC%20Philanthropy%20Report%20-%20final.pdf, retrieved on 21st January 2011

BHP Billiton, near eradication of malaria[12]

As a resource company, BHP Billiton has identified the long-term social and economic value that can be derived from supporting sustainable development. They acknowledge that their business is directly connected to their ability to work effectively alongside communities and have demonstrated success in achieving improved social outcomes for deprived communities whilst also generating a financial return on their investment.

Demonstratively, BHP Billiton makes a commitment to invest 1% of pre-tax profits to community programs per annum. An example of one of their most successful programs is an investment they made in a Malaria reduction program nearly a decade ago. The Mozal Community Development Trust (MCDT) in Mozambique was created in August 2002 by the shareholders of BHP Mozal. This Trust implements projects aimed at generating income to improve the quality of life of vulnerable people and agricultural development programs to increase employment, foster commercialisation and mitigate hunger.

Since the establishment of the MCDT,

- 23 Trust associations or cooperatives have been established to support beneficiaries.
- More than 1700 people have participated in income generation programs
- Families have increased agricultural production from 450 kilograms per hectare to 2.2 tonnes per hectare
- Student numbers have increased from 3200 to 7500
- Most importantly, the incidence of malaria has decreased from 86.6 per cent to 8.6 per cent

Other examples include:

- ANZ[13] operating a financial literacy initiative, involving consulting with community partners to develop programs that provide education and assistance to the most vulnerable members of society. Programs include ‘Money minded’ – an adult financial literacy education program and ‘Saver Plus’ – a matched savings program for people with low incomes.

- The National Australia Bank[14] committing to providing community engagement initiatives. This includes developing various programs, such as ‘Indigenous Money Mentors’, an initiative under their Reconciliation Action Plan (RAP) that aims to build on what a financial services organisation can bring to address areas of Indigenous disadvantage.

- Rio Tinto commencing the Simandou Project[15] in the interior of Guinea. This project involves construction of a new mine in addition to building a several hundred km long railroad to a deep-water port. One of the main foci of this project is ensuring the alignment with community and sustainable development objectives, which involves collaborating with partner stakeholders. These include the International Finance Corporation (IFC), the World Bank, Guinea Government and international and local NGO’s. The project has already been successful in creating jobs, improving infrastructure and increasing the economic development of Guinea.

[12] BHP Billiton, *Yesterday Today Tomorrow, BHP Billiton Community Investment Programs – Contributing to Sustainable Development*, http://www.bhpbilliton.com/bbContentRepository/bhpbillitoncommunityreport07.pdf, retrieved 20th January 2011
13 ANZ, Financial Literacy and Inclusion Program, http://www.anz.com/about-us/corporate-responsibility/community/financial-literacy-inclusion/, retrieved 25th January 2011
14 National Australia Bank, Indigenous Money Mentors Program, http://www.nab.com.au/wps/wcm/connect/nab/nab/home/about_us/7/4/2/7/4/, retrieved on 25th January 2011
15 Rio Tinto, Simandou Project Report, http://www.riotintosimandou.com/documents/Simandou-SD-report_English.pdf, retrieved 10th January 2011

- Lihir Gold Limited (LGL)[16], a global gold producer based in Brisbane recognising the importance of building a cooperative relationship with the local community in Guinea, the location of one of their largest gold mines. In 2006 the Lihir Sustainable Development Plan (LSDP) was developed, in partnership with the community. This outlines Lihir's commitment to programs that are in line with the local community's aspirations and long-term goals of self-reliance and financial independence. Each year, this plan is revised.

The task now is to build on recent progress in the private sector by establishing good, practicable frameworks that promote the productive partnership between the public sector and private sector. To achieve this, the role that philanthropic funds and corporations in delivering social development outcomes need to be acknowledged and effort should be directed towards facilitating collaboration, synthesis and the establishment of appropriate accountability systems.

16 Lihir Gold Limited, http://lihir.ice4.interactiveinvestor.com.au/lihir1002/index.php, retrieved 25th January 2011

Section 2: The Principles for Social Investment

Principles for Social Investment - A brief background

The current global systems supporting social development require innovation, consolidation and simplification. In April 2009, at the Australian Davos Connection Philanthropy Summit in Sydney, the Honourable Kevin Rudd introduced the concept of developing a set of universal principles around community investment and philanthropic giving, more broadly defined as social investment. Social investment 'is the practice of making voluntary financial and non-financial contributions that demonstratively help local communities and broader societies to address their development priorities'[17].

Following this summit, the United Nations Global Compact, through the leadership of the St James Ethics Centre working in collaboration with the New York based Committee for the Encouragement of Corporate Philanthropy (CECP), established the four key 'Principles for Social Investment'.[18] These were formally endorsed at the UN Global Compact Leaders' Summit in June 2010.

The United Nations Global Compact[19] (UNGC) is the largest corporate citizenship and sustainability initiative in the world with over 7700 corporate participants and stakeholders from over 130 countries. It 'is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption'.

The four key Principles for Social Investment are meant to aid, guide and foster social investment that is;

1. **Purposeful**
   Purposeful social investment is grounded in a limited set of priorities about which the funder is knowledgeable and committed, and for which the funder is reasonably assured to play a positive role that is non-redundant to the efforts of other actors.

2. **Accountable**
   Accountable social investors take responsibility for the intentional and unintentional effects of their funding, and embrace the concepts of transparency, self-assessment, and peer advancement.

3. **Respectful**
   Respectful social investment has due regard for the local customs, traditions, religions, and priorities of pertinent individuals and groups.

4. **Ethical**
   Ethical social investment is a reflective practice conducted in accordance with applicable laws and accepted international norms of behaviour.

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[17] Principles for Social Investment, http://www.unglobalcompact.org/docs/issues_doc/development/PSI.pdf, retrieved 10th January 2011

[18] Principles for Social Investment, http://www.unglobalcompact.org/docs/issues_doc/development/PSI.pdf, retrieved 10th January 2011

[19] United Nations Global Compact Office, http://www.unglobalcompact.org/

Following the establishment of the principles, the St James Ethics Centre with the support of the Committee for Melbourne successfully negotiated with the UNGC office to have the Principles for Social Investment Secretariat (PSI) housed in Australia. Melbourne was the successful city that secured the rights to house the Secretariat due to the commitment by the Victorian government to provide $900,000 seed funding over the first 3 years of establishment. The Secretariat will act as a custodian of these principles and facilitate the advancement of social investment within the global private sector.

Advancing the role of social investment within the private sector

The Principles for Social Investment Secretariat can take a leadership role in facilitating social development reform–with focused attention around providing a standardised framework for private sector stakeholders to innovate their core business strategy to recognise the added value of integrating economic and social investment opportunities.

The Principles for Social Investment Secretariat sets out to improve the global impact of principled social investment by;

1. ***Acting as a Custodian of the principles for social investment***

   The Secretariat will ensure that the integrity of social investment policy is maintained through the promotion of the four principles for social investment. This will involve educating corporations, foundations and civil society about the role social investment should play in achieving social development outcomes.

2. ***Facilitating the implementation of principled social investment***

   The Secretariat will facilitate global collaboration between private and public sector stakeholders. This will create an opportunity to foster and identify partnerships and share 'working knowledge'– which, over the long-term, will create economies of scale and scope within the sector.

3. ***Measuring the impacts of principled social investment***

   The Secretariat will take a leadership role in organising a collaborative platform by which stakeholders can participate and contribute to the development of a measurement framework that demonstrates the outcomes of social investment. This will provide a quantifiable standard or benchmark to measure the social and/or economic impacts of social investment.

4. ***Reporting the impacts of principled social investment***

   The Secretariat will encourage 'best-practice' social investment policy by collating and reporting the collective impacts of practiced principled social investment throughout the world. This will promote the implementation of effective policies increasing the local and global impact of principled social investment.

Conclusion

This document has provided a solid rationale for the important role social investment can play in enhancing social development outcomes. It is vitalthat the public sector is supported by the private sector in the mutual objective of alleviating poverty around the world. In achieving this, the private sector can make a significant contribution by employing practices that promote development through social investment. Importantly, the newly established Principles for Social Investment Secretariat will play a leadership role in facilitating social investment by providing opportunities for collaboration between stakeholders through its custodianship of the Principles for Social Investment.