

**New Partnerships for Sustainable Development**  
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Thank you.

It is a great personal pleasure for me to stand before you on this occasion. An organization I started as a small and feeble credit agency in Panama more than 15 years ago is signing an agreement with the International Finance Corporation, a somewhat better known credit agency.

FUNDES is a strange creature. It is – to use the jargon of today – a civil society organization that supports business. Usually the support is expected to flow in the opposite direction – from corporations to citizens' groups. It was such thinking that encouraged me to talk to you today about effective new partnerships for sustainable development.

But before I do that I wanted to congratulate the World Bank, the IFC, and its Small and Medium Enterprise Department for supporting SMEs in such an integrated fashion. By this I mean your work in linking with local initiatives and networks, and your making 'strategic partners' of such organizations as FUNDES, SEAF, ACCION, IPC, and supporting worthy pilots such as SEWA, HAGAR, and STEP.

FUNDES itself has recently become much more active in working with the private sector to harness entrepreneurial energy in ways that generate opportunities for SMEs. It has been supporting the efforts of the World Bank to engage the private sector and take risks on new innovative approaches to bridge the gap facing SMEs in emerging economies. This new partnership will help get FUNDES experience and lessons-learned into other languages and other nations. It is a great step forward for us.

I began by saying that FUNDES is a strange creature. But then its founder is also a strange creature – or as I am sometimes called in Latin America, a *bicho raro*, the most uncharitable translation of which might be *odd bug*. I have this reputation because I believe firmly that it is in the enlightened self-interest of business in general, and wealthy individuals in particular, to help assure that opportunities for the poor are maximized throughout the world.

There is much talk of the difficulties of defining this concept of 'sustainable development'. It is so much easier to define unsustainable development. And surely the epitome of unsustainable development is an economic and political system which has produced a planet of three billion people living on \$2 a day or less – and which threatens to increase that number rather than shrink it. In 30 years time, there may be five billion suffering on such a daily pittance.

I cannot vouch for that last statistic; I got it from a secondary source: a speech by my friend James D. Wolfensohn, who does not tend to exaggerate. He added in that same speech – in which he labeled poverty "our collective enemy" - that "we will not win the peace unless we have the foresight, courage, and political will to redefine the war."

We have foresight - at least in the sense that we have ample warning from many scientists of the likely and gloomy results of pursuing our present socially and environmentally unsustainable paths. We have many examples of courage in the grassroots leaders battling in many parts of the world to help their neighbors toward lives of dignity and opportunity.

However, we are sorely lacking in political will. Few governments show much interest in the World Summit on Sustainable Development, a few months from now in Johannesburg. Governments of some of the wealthiest nations, despite the promises of the Rio Earth Summit, today insist on their right to waste energy, to pollute the atmosphere with carbon, to pay their rich farmers taxpayers' money to help them compete against the world's poorest farmers, and to erect trade barriers of various sorts against the goods of poorer countries. The opposite of enlightened self-interest must be ignorant shortsightedness – and these are all examples of it.

A wise Jesuit with whom my foundation works in Venezuela coined a much more striking term for 'enlightened self-interest' – a concept which exists in virtually no language but English. He calls it "selfish solidarity." He argues that powerful people and powerful governments should feel solidarity with poorer people and poorer countries because this is the only way they can protect their own positions and create a prosperous world for all. Today our solidarity does not even extend to the 55 million malnourished people in our own developed nations.

What can non-governmental bodies – both companies and citizens' groups – do to help our political leaders find political will? One answer is that companies and non-business groups can team up in the cause of sustainable development. Is this at all likely, given the hostility we so often find reported in the press between business and civil society? In fact, such partnerships are occurring, all over the world.

There are also many compelling examples of 'public-private partnerships' between companies and governments or inter-government agencies – many of these aided and abetted by the World Bank Group. The new alliance we celebrate today between FUNDES and the Bank proves that the Bank is not afraid of radical, innovative partnerships.

In describing these new can-do partnerships, I want to report from my own experience. In doing so, I risk sounding egotistical. I do not mean to, because the examples I give were forged mainly by others. I offer my experience in the spirit of a sharing of data with you my audience from the Bank and from NGOs.

I established FUNDES in the mid-1980s to act as a credit guarantee organization to small and medium enterprises – as a way of increasing opportunities among struggling entrepreneurs. It has evolved into a training and consulting organization with methodologies and services designed to generate measurable results within small and medium enterprises.

It also works on urging governments to establish the appropriate framework conditions that would give SMEs a better chance of succeeding: access to financing, reliable contracts, predictably enforced laws, and simplified registration processes. In this work, FUNDES finds itself aligned with powerful companies in Latin America and with powerful pressure groups all working towards the same ends.

My Latin American business holding company, GrupoNueva, was once about 45 separate companies involved in water systems, construction materials, and timber and agricultural products. It now works with FUNDES in several areas to train SME suppliers, and these SMEs in one case in Chile include small family farms that are producing timber for our forestry operations. Now that business is more concerned with cradle-to-cradle (assuming recycling) product stewardship, there is more concern with 'greening the supply chain'. So there is more scope for big companies to work with NGOs like FUNDES to train small suppliers..

As most of you know, I served as principal adviser to Maurice Strong for business and industry during the 1992 Earth Summit. This led to my creating the Business Council for Sustainable Development, which has grown and merged its way into becoming the World Business Council for Sustainable Development. Council members now include more than 160 of the world's biggest companies, all of whom are trying to prove that pursuing sustainability makes their companies stronger and more competitive.

Over the past few years, the Council has discovered the power of partnering with non-business entities. In creating its two reports on Corporate Social Responsibility, it held stakeholder dialogues all over the world to hear from citizens groups of various types how they defined corporations' social responsibilities.

Then when the Council began to establish sectoral working groups to find the most sustainable ways of, for example, mining, or moving people from place to place, it realized it needed non-business, government organizations to bounce ideas off and – frankly – to help them avoid 'greenwash'. So MIT is 'refereeing' the investigations and reports of the Mobility Working Group; the International Institute for Environment and Development is doing the same for the Mining Group. Other groups have similar non-business sparring partners.

The Council recently embarked upon its most ambitious, and radical, working group project, called "Sustainable Livelihoods: the Business Connection." It is an effort to study the relationships between business and poverty and to see if companies can be more effective than they already are in helping people create sustainable livelihoods for themselves. The motivation for this work is both positive and negative.

First the positive; companies are working further afield than ever before, operating in remote regions of Asia, Africa, and Latin America where the majority of the populations are poor. A growing number of companies are beginning to realize the real pain and suffering behind these "increasing gaps between rich and poor" trends that we read so much about. They are coming to see that business cannot succeed in societies that fail. They are seeking to develop their own forms of very businesslike 'selfish solidarity'.

The negative motivation comes from recent events. Companies have been truly shocked to see the vehemence of anti-market, apparently anti-business, demonstrations by relatively well-educated, well-off, young people around the world over recent years. They hope through this Sustainable Livelihoods work to begin to counter that image of business as a cause of poverty.

The project is only beginning, but already it is finding examples of ways – many involving strange partnerships - that allow companies to do better business while improving the life security of the poor:

- Procter & Gamble teamed up with scientists at Cornell University and UNICEF to produce a tasty drink that gets iron, vitamin A, and iodine into children's bodies and helps combat micro-nutrient deficiency. The drink, NutriDelight, is now being test marketed in the Philippines and several other countries.
- Corn farmers in Colombia cannot afford, at planting time, the fertilizer and pesticides they need to increase yields. So DuPont teamed up with Finagro (the agrarian bank), the Ministry of Agriculture, and the National Agriculture and Livestock Board to develop a program by which farmers get paid for crops before planting, and can thus afford to purchase the inputs they need. Farmers get financial and commercial solutions, as well as technical assistance, through an integrated support system. And DuPont sells more of its products.
- The Sustainable Community-Oriented Development Program works in Western Kenya with several agro-chemical companies to simply repackage their products in smaller bags. Most Kenyan farmers do not need, cannot afford, and cannot carry away a 50 kilo sack of fertilizer. But they desperately need, and can usually afford, a tiny sack of fertilizer that will cover 150 planting holes. Such a pack costs the equivalent of 12 US cents, and can improve farmer income by the equivalent of an incredible 25-50 US dollars.

We have also found many examples of complex partnerships between international water companies, NGOs, aid agencies, and local and national governments in South America, Central Europe and Africa to deliver clean water.

Such partnerships prove that there are a growing number of companies and company leaders 'socially-minded' enough to work with governments and NGOs. And there are a growing number of people in the governments and NGOs businesslike enough to deal with the companies. I mention these mindsets because the deal-breaker in such partnerships is rarely an obvious issue such as goals or resources. It is usually a psychological or cultural gulf that cannot be bridged, a deep lack of appreciation of how the other thinks. The business people cannot understand, and therefore do not trust, the motivations and cultures of the 'exotic' world of the NGOs. And NGOs are notoriously suspicious of the profit motivation of the companies.

Fortunately, more and more people are coming up through the ranks who have experience both in business and in not-for-profits, and can speak the languages and understand the cultures of both. Such people are the greatest resource for the sustainable development movement. I have actually been shifting people between my companies and my foundation so as to create more of such invaluable human assets.

I expect great things of the Business Council's Sustainable Livelihoods Project. It has already collected about 50 case studies of 'What Works', and plans to winnow through those cases to find general rules or guidelines. New technology will doubtless be important: new 'smart-cards' that lower the transaction costs of micro-finance, for example. But I think new business practices and models are going to prove even more important. Sell what used to be sold as a product as a service – such as renting out the 'Grameen phones' in Bangladesh. Or lower the cost by changing the nature of the product, such as re-bagging the fertilizer into affordable amounts. Or change the time of payment to when the buyers have money – as in DuPont's forward buying scheme.

Speaking of the Grameen phone, I want to quote that project's founder, Iqbal Quadir, on how he thought about his efforts. He said: "The key point I kept in mind is not how much money a village has to purchase telephone services, but how much money the village can make if the services are made available. The villagers would pay for the phone service from what they make from the phone services."

This is the key thought we all must keep in mind as we strive to make markets work for all. As the recent work of my friend Hernando de Soto shows so eloquently, the poor do have a lot of resources, a lot of capital. But it is capital that their governments keep out of the marketplace by not giving the poor deeds to homes their families have occupied for generations, or by insisting on bureaucratic policies that encourage SME entrepreneurs to remain in the so-called 'informal sector'. This informality shuts them off from so many opportunities inherent in an efficient market system. As de Soto rightly points out: these 'informal' people are not informal because they prefer to hide; if they had a real choice, they would much prefer to be in the formal economy and thus a respected member of the society.

I want to move now to an organization that I began to establish soon after the Earth Summit. This is the foundation called AVINA, which has as its mission to partner with leaders of civil society and the business sector in their initiatives toward sustainable development in Ibero-America. It has been in existence formally for about eight years now, investing in social change mainly in Latin America, but also in Spain and Portugal, in ways that connect Latin America with its Iberian Peninsula roots.

Many people ask me: "Why Latin America?" The short answer is that my first real experience in business - perhaps in adult, non-student life - was in working in my father's factories in Brazil. I worked as a foreman trainee under an assumed name so my colleagues would not know they were sharing overnight shifts and playing football with the boss's son. The spirit and zest of Brazilian society turned out to be a powerful antidote to my having been born and raised Swiss German.

More seriously, I know Latin America and admire its tremendous wealth of human and natural resources. It may have the right combination of energy and creativity to create sustainable forms of human progress.

Recently we tried an experiment. AVINA did not operate in Brazil, thus leaving aside half of the South American continent. We did not know whether we should venture into that complex nation. The country is almost a separate continent; it faces challenges that dwarf the resources of any one company, foundation, or government. In 1999, we asked ourselves: “Why should we attempt to work in Brazil? What can we add that might make a difference?”

We may have found that ‘missing link.’ In Brazil, government and business have collaborated since colonial times to promote economic development. Non-governmental organizations have emerged in great numbers over the past three decades. They typically provide social services beyond the capability or authority of government. They may work with the public sector, but more usually they work apart from it or even in opposition to it. The missing link is any reinforcing relationship between business and NGOs. In fact, as I mentioned earlier, these two groups usually view each other with suspicion if not downright hostility.

We know that business needs a healthy, educated, productive, and secure society to prosper at home and abroad, while social organizations aspire to extend their best practices and beliefs more widely to serve Brazilian society. Neither sector believes that government alone can create satisfactory conditions for sustainable growth and social and environmental improvement. We reasoned that an alliance between NGOs and business could bring new resources and thinking to confront Latin America’s development challenge.

AVINA began testing this hypothesis in Brazil in 2000, and later in Ecuador. We used the same approach that has characterized AVINA from its foundation: identify and work with individuals in business and civil society with clear leadership attributes who are committed to building a better society. Most of the NGO leaders we met had had little or no experience with the private sector. Most of the business leaders intuitively felt that NGOs had much to offer, but they were uncertain of how to approach them.

We began by offering our leaders ‘extra’ challenge grants on top of our original investment in them. They would get the extra grant if they could match it with money from local businesses or individuals. Many leaders told us that this simply would not work in Brazil. Companies do not give to citizens’ groups – unless they are football clubs, samba schools, or church groups. Tax laws do not encourage such giving. Etc. Etc.

In many cases this seemed a self-fulfilling prophecy, as time passed and our leaders did not try to meet the challenge. But as closing dates drew closer, they ventured into the dens of capitalism. We advised them, and tried to help them find contacts. We also told them to go talk to someone they went to school with who is now successful in business.

To their surprise and our surprise, they were so successful in the first year that they matched our challenge grants by more than 100%. This does not mean that everyone matched his or her grant completely; but so many raised so much more from business than they set out to, the group as a whole raised more than the total of our challenge. In Ecuador, the results were not quite so glowing, but were spectacular given the shape that economy has been in.

More important, our partners have discovered that financial support from the private sector, while important, is just one of the resources businesses can bring to social enterprises. Others include organizational skills, new contacts, and a knack for planning for the future. Business leaders have learned that their engagement beyond their companies and neighborhoods builds loyalty among their employees and new respect in society.

In meetings following the experiment, leaders from both society and business asked AVINA to make building such bridges a top priority. They said that AVINA's corporate origins, combined with a commitment to sustainable development, gave us an advantage in helping support these alliances. AVINA's results-oriented philanthropic style was reassuring to business partners. Our non-sectarian, multi-faceted interpretation of social development was compatible with the outlook of NGO leaders.

In 2001, AVINA responded to the request by affirming our intention to work in Brazil. We are also making business/society bridge-building the foundation of AVINA's work throughout the region in the future. This alliance is not just a missing link in Brazil, but throughout the world.

This notion of bridge-building is leading me toward an even bolder experiment.

Is there any reason that companies and civil society organizations cannot, and should not, have the same vision and values? We have shorthanded the term "Vision and Values" into the term VIVA. The VIVA statement of the holding company GrupoNueva begins: "To be recognized as a leading industrial group in Latin America, operating in a framework of ethics, eco-efficiency, and social responsibility, that generates economic value and improves our neighbors' and our region's quality of life." GrupoNueva takes a long-term view. It has joined the national Business Councils for Sustainable Development in the countries where it operates. It partners with citizens' groups in much of its corporate social responsibility work. It is publishing this year independently-audited Sustainability Reports.

While Nueva seeks to generate economic value and improve the region's quality of life, AVINA seeks to generate social value and improve the region's quality of life. The VIVA of the two is basically the same, the primary difference between them being that one strives to make a profit and the other strives to invest money for social change. The obvious question arises: How can the two join forces in the pursuit of the shared vision?

My own vision is to have GrupoNueva earn financial resources for AVINA in the same societies and markets in which both operate. This experiment, which we also call "VIVA", goes far beyond the creation of a traditional corporate foundation, in which a percentage of profits goes to a completely separate organization with links only at board level. I want to align my business and not-for-profit activities in ways that reap synergies where they exist, while respecting real differences in objectives, rules, and criteria. I imagine a tough, efficient, businesslike foundation and I imagine a company that really does feel and practice a selfish solidarity with the society in which it works. And I imagine these two bodies linked throughout their organizational structures, but working strictly at arms-length.

Will VIVA work in reality? Obviously, I do not yet know. I am driven by an image of a world creating unprecedented amounts of capital and unprecedented amounts of poor people at the same time. For capitalism to help create sustainable forms of human progress, we need billions more capitalists. For the market to be the tool for sustainable development I am convinced it can be, we need to build a market more replete with opportunities for all.

Surely it behooves a man like myself, part of that unprecedented accumulation of capital, to seek to recycle capital in ways that help to improve this increasingly global market and help the poor make the most of their resources. This recycling must be done not by governments and their costly and inefficient bureaucracies alone, nor in the slow drips of traditional charity. The magnitude of the challenges ahead and the rate of change in the world require an industrial-strength philanthropic effort based on entrepreneurial creativity, efficiency, and added value. I hope that the VIVA experiment shows one possible way in this direction.

I began by talking about the need for innovative, practical, can-do partnerships between business and citizens' groups – and occasionally even parts of governments and inter-governmental organizations. I offered some real-world examples in which I have been involved and which I find very exciting, even - if you will pardon the over-used expression - new paradigms. I ended with the not-yet-real-world example of the VIVA experiment, which I hereby invite you to watch me struggle to make real over the coming years.

But to return to the present, and this grand occasion, I am very pleased to be party to the creation of this innovative, practical, can-do partnership between FUNDES and the IFC. FUNDES will use its new IFC support to expand its Knowledge Management System and to work harder on improving enabling conditions for SMEs, forming new links with universities, large corporations, and local governments. In other words, this IFC-FUNDES partnership will create many new effective partnerships. I am confident that, with a mutual interest in creating sustainable SMEs, the FUNDES and IFC partnership will evolve into a dynamic and replicable model for other NGO's and donor agencies.

And I want to close by offering my congratulations and sincere thanks to the hardworking visionaries in both organizations who made it possible.

Thank you.