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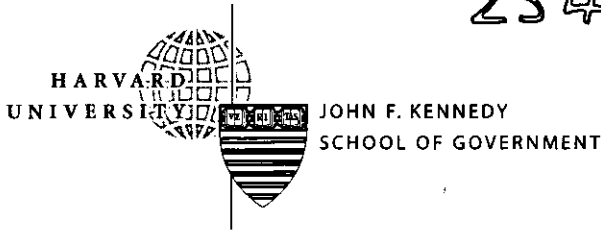
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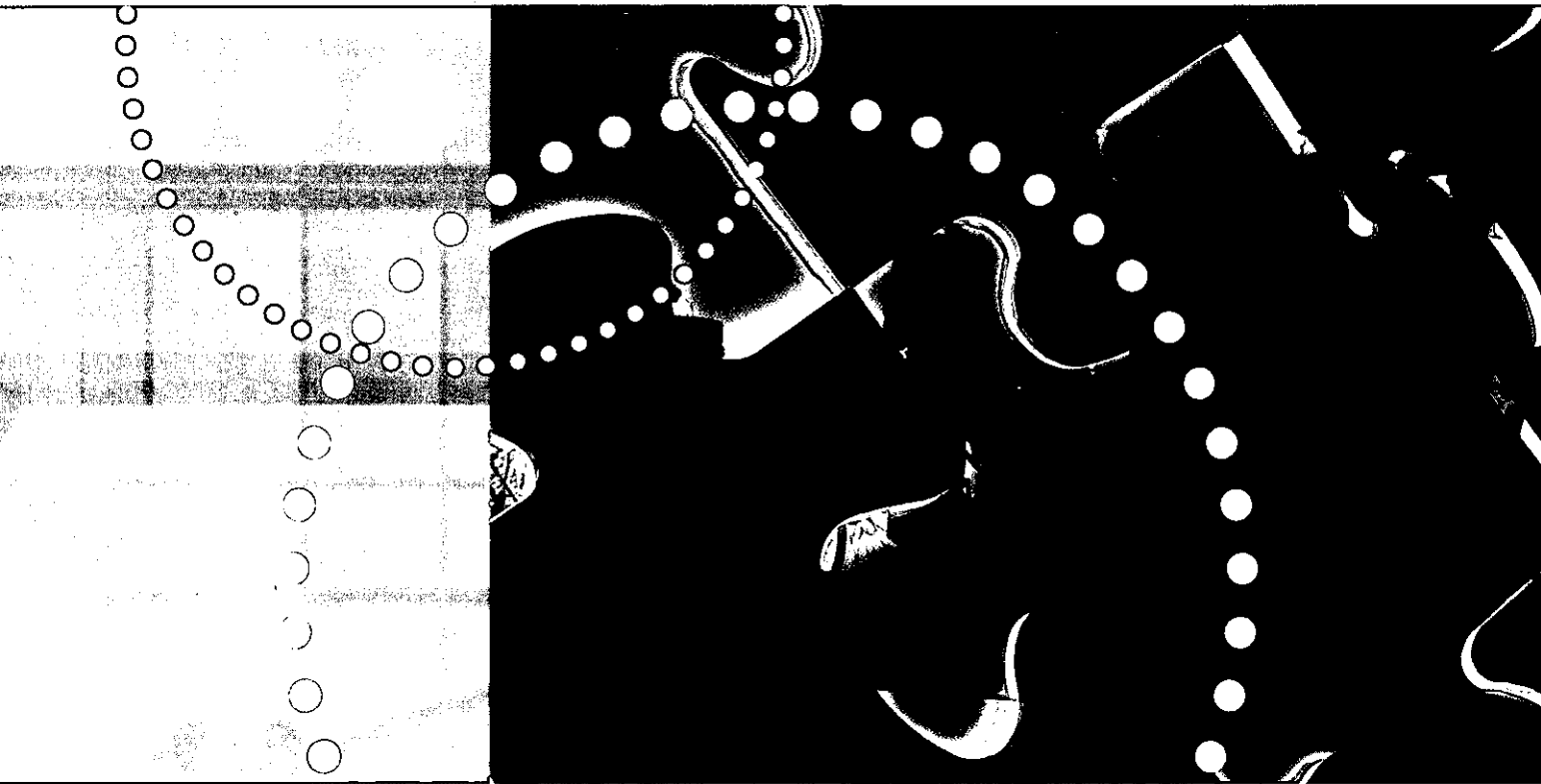
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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION



BUILDING LINKAGES FOR COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

Innovative partnerships to foster small enterprise, promote economic growth
and reduce poverty in developing countries

EXECUTIVE SUMMARY

Jane Nelson

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the Fellows of Harvard College.

Building linkages for competitive and responsible entrepreneurship is one of the products of a research partnership between the United Nations Industrial Development Organization (UNIDO) and the Mossavar-Rahmani Center for Business and Government, John F. Kennedy School of Government, Harvard University.

The report forms part of a series of publications illustrating new models of multi-sector partnership and collective corporate action that are fostering small enterprise, promoting economic growth and reducing poverty through supporting competitive and responsible entrepreneurship and pro-poor industrial development in developing countries.

Other titles in the series currently include:

- **Viet Nam: Lessons in Building Linkages for Competitive and Responsible Entrepreneurship.**
 - **Tanzania: Lessons in Building Linkages for Competitive and Responsible Entrepreneurship.**
-

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The role of industry in fighting poverty and achieving progress towards the Millennium Development Goals (MDGs) is of critical importance. I am convinced that the path to sustained poverty reduction is to create wealth by empowering the private sector to invest in the productive sectors such as manufacturing and the production of higher value-added products, within an enabling policy and regulatory framework established by government. There can be no sustained poverty reduction without capability building, productivity growth and the development of competitive production structures. In this regard, industry has the potential to contribute to many of the MDGs, through generating employment, raising income and providing essential products for the poor such as processed food products, pharmaceutical products, shelter, fertilizers, irrigation and essential low-priced consumer products. It is also important to emphasize the significance of domestic entrepreneurship in developing countries and the need to reduce the widespread informality of economies. The challenge presents itself at two levels: first the need to dynamise economic development in a bottom-up process, especially through small enterprise development, and secondly, the need to engage global business players in effective linkages and broader partnerships for development.

Dr. Kandeh K. Yumkella

UNIDO Director-General

Towards Pro-Poor Industrial Development:

A Shared Vision for UNIDO, 2005

BUILDING LINKAGES FOR COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

“Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.”

OVERVIEW

Increasing economic opportunity, productivity and growth offers one of our best hopes for reducing poverty. As the Organisation for Economic Cooperation and Development (OECD) has commented, however, “Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.”¹ A crucial element of such growth is creating jobs, income-generating opportunities and livelihoods for the poor. In particular, improving the access of small enterprises² to finance, skills, technology, information, sound business practices, legal rights and markets. In many developing countries achieving this goal requires effective partnerships and intermediaries that are able to address the market failures, governance gaps and institutional constraints that currently exclude or disadvantage most small entrepreneurs from accessing these public goods and business opportunities. Such partnerships are also essential in helping small enterprises to upgrade and integrate into broader production networks and value chains, which in turn is crucial for raising productivity and employment levels.

These partnerships include brokerage mechanisms, business linkage initiatives, hybrid commercial and social business models, innovative financing instruments, enhanced enterprise support services, and new types of alliances between companies, trade associations, governments, donors, academic institutions and non-governmental organisations. They offer great potential for promoting enterprise development, reducing poverty and helping to spread more competitive and responsible business practices along the value chain between large and small-scale firms. Yet such partnerships are relatively new and untested. They are currently few in number and disconnected from each other at the global and national levels. As such, they are limited in scale and effectiveness.

Building Linkages for Competitive and Responsible Entrepreneurship provides a framework for categorising six of these different models of multi-sector partnership and collective corporate action. It illustrates examples of existing initiatives and offers recommendations for increasing their scale and effectiveness.

PART I: A GROWING CONSENSUS ON DEVELOPMENT AND POVERTY REDUCTION

The report looks first at the growing consensus on development and poverty reduction that has emerged around frameworks such as the Millennium Development Goals (MDGs) and National Poverty Reduction Strategies. It highlights five core components in development thinking and practice that underpin this emerging consensus. These are:

- 1) *The centrality of economic growth* – Economic growth, which ensures participation of the poor and takes measures to protect environmental sustainability, is increasingly recognised as an essential and powerful force in the fight against global poverty – both in terms of its potential to generate direct improvements in standards of living and to support broader social progress.
- 2) *The foundation of good governance* – There is recognition that good governance, supported by effective institutions, forms another fundamental pillar for sustained development and poverty reduction.
- 3) *The shared responsibility of governments as development partners* – There is greater acceptance that both developing country governments and donor governments must share responsibility and take mutual leadership for creating the necessary enabling environment – at both national and global levels – for achieving development goals.
- 4) *The active participation of the poor* – The assets, capabilities and voices of the poor themselves are now accepted as being essential in creating effective approaches to poverty reduction, with civil society organisations often playing a key role as interlocutors and advocates.
- 5) *The importance of private sector development, especially small enterprise* – There is a strong emerging evidence of the crucial importance of a diversified, productive, profitable and responsible private sector – ranging from large multinationals and domestic corporations, to small, medium and micro-enterprises in both rural and urban communities. The vital role of small enterprises as key producers, employers, distributors, innovators and wealth creators is increasingly recognised. UNIDO argues that, “Crucial to the process [of overcoming poverty and inequality] is the development of a vibrant private sector, in which small and medium enterprises (SMEs) play a central part. SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. There is a rich body of research on the development contribution of small enterprises.”³

PART II: THE EMERGENCE OF CSR AND MULTI-SECTOR PARTNERSHIPS

Part II of the report reviews the emergence of two other trends over the past decade, both of which have crucial implications for the achievement of more competitive and responsible entrepreneurship and pro-poor industrial development:

- 1) Corporate social responsibility (CSR); and
- 2) New types of multi-sector partnership and collective action.

Over the past decade the concept of CSR has moved beyond the boundaries of public relations, traditional philanthropy, compliance and defensive 'do-no-harm' strategies, although all of these remain important, to also focus on competitive strategies aimed at creating new value for the company and society.

Over the past decade the concept of CSR has moved beyond the boundaries of public relations, traditional philanthropy, compliance and defensive 'do-no-harm' strategies, although all of these remain important, to also focus on competitive strategies aimed at creating new value for the company and society. This process has added to the strategic choices that companies can make in managing risks and costs, harnessing new opportunities, engaging with stakeholders, ensuring corporate accountability, and investing in innovation and upgrading.

The report reviews the following key trends, critiques and challenges in the emerging area of corporate social responsibility and public-private partnerships:

- 1) *CSR strategies at the enterprise level* – Four CSR strategies that companies can employ at the level of the individual firm are: compliance with regulations and voluntary norms, principles and codes; control of risks, negative impacts, costs and liabilities; community investment and philanthropy; and creation of new market and social value through the development of new products, services, processes, markets and alliances.
- 2) *The link between CSR and governance* – The emerging CSR agenda has implications not only for corporate governance, strategy and risk management at the firm level, but also for governance more broadly at the global and national levels. In many cases CSR is a corporate response to dealing with governance gaps and failures on the part of government.
- 3) *Critiques of CSR* – There are a number of well-argued critiques of CSR that need to be addressed if responsible business practices are to become the norm rather than the exception. These include arguments that CSR is in fact irresponsible in the face of legal requirements for companies to maximize shareholder value; that the 'business case' and drivers for CSR are too weak to ensure wide adoption in the absence of regulations; and that CSR as currently promoted excludes small enterprises and supports a 'northern' agenda that often penalises developing economies.
- 4) *The case for CSR and responsible competitiveness* – Research is being undertaken by a number of scholars and practitioners to test both the micro-level 'business case' for CSR at the level of individual firms and the macro-level 'national competitiveness case' for CSR at the level of national economies. Although still at an early stage, this research offers some support for the proposition that CSR can fuel both corporate and country competitiveness.

At the level of the individual firm in particular, there is a growing body of evidence that effective CSR strategies help cut risks and costs and harness business opportunities and benefits – as outlined in Box 1.

BOX 1: CSR-RELATED COSTS, RISKS, BENEFITS AND OPPORTUNITIES

Potential costs and risks of 'getting it wrong' – unacceptable ethical, social and/or environmental performance may *destroy or undermine* a company's financial value.

- Corporate failure and liquidation
- Criminal charges and imprisonment of corporate officers
- Litigation costs
- Government fines, increased regulatory supervision and greater compliance burdens
- Higher costs of capital and insurance premiums
- Problems with stock exchange listings, unsuccessful public offers and inability to attract investment capital
- Lost customers
- Higher operating costs and/or inefficiencies
- Reputation damage through media exposés, consumer boycotts, lawsuits, activist campaigns
- High employee turnover and low employee morale and engagement
- Poor quality control
- Opportunity costs due to distraction, time spent on litigation, crisis management and compliance burdens
- Inward, compliance-oriented focus, poor executive-board relations, and risk-averse, hostile and suspicious corporate culture
- Accelerated depletion of intangible assets such as innovation and good relationships and lost competitive-edge.

Potential benefits and opportunities of 'getting it right' – good ethical, social and environmental performance and/or leadership on a specific issue can *protect or enhance* a company's financial value.

- Improved risk management, better risk profile and credit ratings
- Avoidance of costly regulation
- Better access to capital through greater investor confidence, access to socially responsible investment funds, lower insurance premiums and more favourable credit terms
- Reduced operating and resource costs
- Improved process efficiency and effectiveness
- Enhanced intangible assets, such as good reputation, brand equity, product and service quality, successful innovation, increased employee motivation and productivity, positive stakeholder relationships
- Better organisational functioning, through creation of a more integrated performance-driven culture, greater cross-boundary linkages and employee learning and motivation
- Easier to attract and retain talented employees and loyal customers
- More attractive as a reliable strategic partner
- Recognition as a neighbour of choice by local community leaders and public authorities
- Increased differentiation of existing product and service offering
- Greater opportunities for innovation and for new product, service and market development
- Competitive advantage, through lower costs, differentiated products, or new products, services and customer solutions.

Sources: Jackson, Ira and Nelson, Jane. *Profits with Principles: Seven strategies for delivering value with values*. Currency/Doubleday, 2004. Page 46. Adapted from Nelson, J. *Business as Partners in Development*. World Bank, UNDP and International Business Leaders Forum, 1996; Nelson, J. *Building Competitiveness and Communities*. World Bank, UNDP and International Business Leaders Forum, 1998; and Nelson, J, and Zadek, S. *Partnership Alchemy*. Copenhagen Centre, 2001.

5) *CSR and the development agenda* – There is growing interest in the link between CSR and the achievement of the Millennium Development Goals. Research by the International Business Leaders Forum, World Bank and UNDP has identified three key spheres of influence through which responsible business practices can contribute to development and poverty reduction:⁴

The greatest and most sustainable contribution that any company can make to development is through carrying out its core business activities in a productive, profitable and responsible manner, building business linkages and creating other ‘economic multipliers’ in host countries and communities.

i) **Core business activities** – Including the company’s operations, investments and relationships in the boardroom, the workplace, the marketplace and along the value chain. The greatest and most sustainable contribution that any company can make to development is through carrying out its core business activities in a productive, profitable and responsible manner, building business linkages and creating other ‘economic multipliers’ in host countries and communities. The key goals should be to minimise any negative impacts that may arise from the company’s activities and to increase and leverage positive impacts.

Some of the ways in which companies can create positive value for host countries and communities through their core business activities include the following:⁵

- Producing safe and affordable products and services
- Generating income and investment
- Creating jobs
- Developing human resources
- Building local business linkages
- Spreading responsible business standards
- Supporting technology development and transfer
- Establishing physical and institutional infrastructure

ii) **Social investment and philanthropic activities** – Aimed at mobilising not only money, but also the company’s people, products and premises to help support and strengthen local communities and non-profit partners.

iii) **Policy dialogue and advocacy activities** – Efforts by companies, either individually or collectively, to support more systemic change and to participate in relevant public policy dialogues and advocacy platforms with both developing country governments and donor governments.

These three key spheres of influence are illustrated in Box 2. They can also be envisaged as a company’s ‘development footprint’ – the extent of which will vary depending on the company, industry sector and situation in question.

An interesting development has been the emergence of what Ashoka, the World Economic Forum and others are describing as ‘hybrid’ or ‘blended value’ approaches. These are essentially business models, practices or partnerships that combine the company’s core competencies and commercial acumen with social investment, philanthropy and/or public finance.⁶ Such approaches are being used

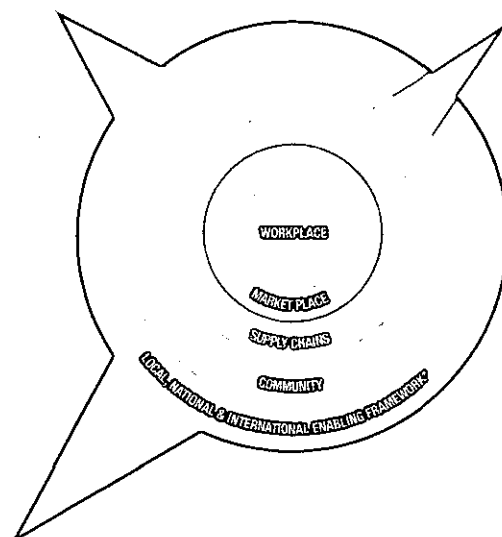
to support projects that may not currently meet commercial hurdle rates, but have the potential of becoming commercially viable over the longer term, while explicitly addressing a development or social need. They are often carried out in partnership with other actors, such as other companies, NGOs and/or donors – and are one of the innovative partnership models for supporting business linkages that are profiled in Section V of the report.

BOX 2: SPHERES OF BUSINESS IMPACT AND INFLUENCE

SOCIAL INVESTMENT AND PHILANTHROPIC ACTIVITIES

Companies can mobilise core competencies and resources such as money, products, skills, premises and people to help support or strengthen local communities by:

- Supporting enterprise development, education, training, youth development, environmental, and health and nutrition projects in local communities
- Building managerial, technical, financial and governance capacity of local community leaders, social entrepreneurs, technical specialists and their organisations



CORE BUSINESS ACTIVITIES

The research and development, sourcing, manufacture, marketing, distribution, pricing, end-use, and disposal of many products and services can contribute to international goals in a number of ways. At a minimum these activities should be carried out in a way that complies with the law, manages risks, and minimizes negative social and environmental impacts, while remaining profitable. They can also create positive value for host communities and countries by:

- Producing safe and affordable products and services
- Generating income and investment
- Creating jobs
- Developing human resources
- Building local businesses
- Spreading responsible international business standards and practices
- Supporting technology development and transfer
- Establishing physical and institutional infrastructure

POLICY DIALOGUE AND ADVOCACY ACTIVITIES

Companies can take individual and/or collective action to influence the enabling environment, build public capacity, promote good governance and support more systemic change at the local, national or global level by:

- Supporting effective implementation of international norms relating to human rights, labour rights, bribery and corruption, and the environment
- Sharing business skills, know-how, technology and resources with government to help improve public capacity and service delivery in key economic, education and health areas
- Helping government to attract and retain foreign investment and to access foreign markets
- Advocating for fair trade and effective aid
- Engaging in multi-stakeholder dialogues around complex public problems such as corruption, healthcare, education, security, climate change etc.

* Enabling framework = regulations, legislation, fiscal incentives, voluntary guidelines and codes of conduct, public opinion, institutional structures, financing mechanisms, research, training and capacity-building, media etc.

Sources: Nelson, J. *Building Partnerships*. United Nations and International Business Leaders Forum, 2002 and Nelson, J. *Business as Partners in Development*. World Bank, UNDP and International Business Leaders Forum, 1996.

6) *CSR and linkages between large and small enterprises* – One of the most obvious and surprisingly untapped ways that large companies can support development objectives in the countries and communities in which they operate is through spreading economic opportunity through a variety of small enterprise development, training and business linkage initiatives.⁷

Depending on the industry sector and the company's business model, such initiatives can be supported through all three spheres of company influence, as outlined in Box 3. Many of these lend themselves to collective business initiatives and other innovative types of cross-sector partnership explored in more detail in Part V of the report.

BOX 3: LINKAGES BETWEEN LARGE AND SMALL ENTERPRISES

CORE BUSINESS ACTIVITY

Procurement
Agricultural outgrowers schemes
Manufacturing subcontracting
Outsourcing non-core functions and services
Distribution and retail
Franchising and leasing
Financial services provision
Utilities services provision – energy, water, technology

SOCIAL INVESTMENT AND PHILANTHROPY

Offering basic business training
Technical and vocational training
Volunteering management time
Donating premises, equipment, discards, cut-offs
Innovative community financing
Funding research and development
Enterprise education in schools

PUBLIC POLICY ADVOCACY for small enterprises

Business associations directly advocating for SME-related policies
Business engagement in national Poverty Reduction Strategy processes

Source: Adapted from Nelson, J. *Business as Partners in Development*. World Bank, UNDP and IBLF, 1996.

The creation of effective linkages between large companies and small enterprises can offer clear benefits to all the parties involved. According to Peter Brew, Director of Corporate Practices and Policy at the International Business Leaders Forum, “Effective business linkages between multinational corporations and small-scale enterprises can create clear mutual benefits. They help to transfer world-class technology and spread international business standards, creating more competitive, productive and quality-driven business sectors in many countries. They develop the pool of local skills, create market growth opportunities, and decrease procurement and other input costs for multinational companies. They help to build trust with local business communities and government bodies and to ensure a ‘license to operate’.”⁸

Some of these benefits are outlined in the Box 4.

BOX 4: A TRIPLE-WIN SCENARIO: POTENTIAL BENEFITS OF SUSTAINABLE BUSINESS LINKAGES FOR SMALL ENTERPRISE DEVELOPMENT

Small enterprises	Local business community	Foreign investors and/or large national companies
Increase in employment and output	Stimulation of economic activity and enhanced local economic development	Broader access to lower cost or more competitive suppliers
Access to cutting-edge knowledge and technology	Increased employment and production	Reduced procurement, production and distribution costs
Enhanced skills, standards and capacity	Long-term increase in local or regional competitiveness	Strengthened supply chains and distribution networks, including increased ability to reach consumers at 'bottom of the economic pyramid'
Access to new domestic and/or foreign markets	Added local purchasing power	Improved productivity
More diversified client and market structures	Access to more affordable products and services	Increased opportunities for corporate responsibility combined with profitability
More stable relationships to buyer or producer organisations	Increased participation of large scale companies in local business and community development	Enhanced reputation and local 'license to operate'
Risk-sharing through joint funding and/or operations	Balance of payment benefits when products are exported and/or substitute for imports	Improved integration in new overseas markets
Access to finance		Proactively deal with downsizing
Opportunities to innovate, upgrade and increase competitiveness		

Sources: Adapted from Stanton, D and Polatajko, T. *Business Linkages: Their value and donor approaches to them*. DFID, 2001, with input from UNIDO and the International Business Leaders Forum.

7) *The case for partnerships and collective action* – The growth in the corporate responsibility agenda over the past decade has been matched by a marked increase in new types of non-traditional alliances aimed at addressing public problems and development challenges. These new alliances are either between companies themselves – what we refer to in the report as collective corporate action – or between organisations in the public, private and civil society sectors – commonly referred to as public-private, cross-sector, multi-sector or multi-stakeholder partnerships. Some are global in scope, others national or local. Many are focused on addressing a particular development challenge, although some aim to tackle a range of inter-related issues.

In a world beset by market failures, governance gaps and institutional constraints, the case for such alliances can be made at both the national and global level, and from the perspective of both public and private actors, in terms of:⁹

- Improved Effectiveness – greater leverage, scale and systemic impact
- Greater Efficiency – minimising duplication and optimising resource use
- Increased Legitimacy – greater participation, consultation and accountability.

There are two key strategic options for companies aiming to strengthen their contribution to development and to achieve greater scale, sustainability and systemic impact through engaging in alliances with others:

- (i) **Collective corporate action** – Companies can address certain development challenges by engaging in collective corporate action. Such action can often be achieved through representative business organisations, such as Chambers of Commerce, Organisations of Employers, or trade and industry groups. It can also be achieved through more targeted business leadership groups with a specific development goal or social mandate, such as national business councils for sustainable development, national business coalitions to tackle HIV/AIDs, or as focused on in this report, *collective business linkage initiatives and other corporate alliances focused on supporting small enterprise development*.
- (ii) **Cross-sector partnerships** – Another strategy, with relevance at the global, national or local level, is for companies to participate in formal alliances with key development actors in other sectors – government bodies, donor agencies, NGOs etc. Such alliances vary widely in the formality and rigour of their governance and operational structures, as well as in their focus and purpose. Some are structured as consultation mechanisms, others as operational and delivery mechanisms. They can help to *protect* social and market value – as is the case in alliances to set standards and improve public and private governance systems – and to *create* new social and market value – as is the case with alliances to mobilise financial and other resources from different sectors. As with collective business action, such cross-sector or multi-stakeholder partnerships can also play a crucial role in supporting competitive and responsible small enterprise development as outlined in Part V of the report.

Looking at the establishment of business linkages between large and small companies, UNIDO's Wilfried Luetkenhorst argues, "...large corporations usually cannot justify bearing alone the expense of upgrading entire local productive systems, which is often required to reduce capability gaps. Also, the benefits of such efforts cannot be completely appropriated at the firm level, thus assuming significant elements of a public goods character. ...Hence there is a case for an intermediary to intervene and complement market mechanisms in creating sustainable business linkages. Any such linkage programme initiated by an impartial broker will need to adopt a sector-wide approach, strengthen existing service institutions, work with local partners, and arrange for world-class expertise to be delivered to SME suppliers."¹⁰

The 'added value' of collective corporate action and cross-sector or multi-stakeholder partnerships, whether in the area of business linkages or more broadly, comes from their ability to confer greater legitimacy and/or enable greater effectiveness and efficiency than any one of the participants could achieve on its

own. But they are not a panacea. These alliances can have high transaction, operational and reputation costs. They may also face substantial governance and accountability challenges. Despite these challenges, they can be a valuable addition to a diversified portfolio of strategies used by companies, governments and other development actors to strengthen the development impact of business.

PART III: OVERCOMING CHALLENGES TO COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

Part III reviews some of the key challenges to achieving more competitive and responsible business practices in small enterprises and how these can be overcome. It focuses on the following three broad areas of action:

The 'added value' of collective corporate action and cross-sector or multi-stakeholder partnerships, whether in the area of business linkages or more broadly, comes from their ability to confer greater legitimacy and/or enable greater effectiveness and efficiency than any one of the participants could achieve on its own.

- 1) *Improving access to finance, business services and legal rights* – Initiatives to improve the access of small enterprises to appropriate products, services and legal and institutional support – with the goals of developing high-potential 'opportunity entrepreneurs' who have the prospect of becoming major job creators and wealth generators and also supporting informal sector entrepreneurs to move into the formal sector in rural and urban communities.
- 2) *Upgrading and integrating small enterprises into value chains* – Initiatives that support small enterprises to upgrade their products, processes and functions and to improve their levels of quality, productivity and innovation – with the aim of enabling them to build successful linkages with large domestic companies and foreign investors and to integrate into broader production networks and value chains.
- 3) *Implementing responsible business practices in small enterprises* – Initiatives that support small enterprises to implement ethical, social and environmental practices – with the goal of helping them to better manage risks and costs; further improve quality, productivity and innovation; and harness new business opportunities and relationships.

PART IV: THE IMPORTANCE OF PUBLIC POLICY MEASURES

Part IV reviews the important role of good government and effective public policy measures in supporting competitive and responsible enterprise development. It focuses on the role of public policy in:

- 1) *Creating an enabling framework for private sector development in general* – Establishing a sound investment climate, addressing both macro-stability and micro-economic and regulatory impediments to the mobilisation of domestic capital and the attraction and retention of foreign capital, and investing in physical, social and institutional infrastructure.
- 2) *Supporting small enterprise development* – Ensuring that framework conditions, consultation structures and delivery mechanisms for finance and business

development services enable rather than exclude small enterprises, helping informal enterprises move into the formal economy and high-potential entrepreneurs upgrade into broader value chains.

- 3) *Fostering responsible business practices* – Implementing the necessary policies, regulations, funding mechanisms, market incentives, training, and standardisation and certification programmes to either require or encourage the adoption of sound labour and human rights standards, environmental practices and anti-corruption measures – in small enterprises as well as large companies.
- 4) *Improving aid effectiveness* – Improving the effectiveness of bilateral and multilateral aid through increasing national ownership; aligning aid more closely with national development strategies, institutions and procedures; improving harmonisation between donor agencies; managing for results; and ensuring greater mutual accountability for development results.

PART V: MULTI-SECTOR PARTNERSHIPS AND COLLECTIVE ACTION MODELS

Part V defines and illustrates six key models of multi-sector partnership or collective corporate action that harness a combination of market-driven and public policy approaches to support more competitive and responsible small enterprise development. They are summarised in Box 5:

- Individual company value chains and ‘hybrid’ business models
- Collective business linkage initiatives
- Enhanced trade and industry associations
- ‘Blended value’ financing mechanisms
- Institutionalised enterprise support services
- Multi-stakeholder public policy structures.

All six models are positioned on a spectrum between purely commercial business-to-business (B2B) linkages and fully government-funded services. They are not mutually exclusive. Indeed, they should be viewed as inter-related components of a vibrant enterprise ecosystem, all of them essential for building more sustained and equitable patterns of economic growth.

Some of these partnerships are driven by the private sector, others initiated by donors and government bodies – but all share two common characteristics. First, they harness a combination of commercial and philanthropic funding or private and public resources. Second, they pursue a combination of direct economic self-interest and broader development objectives. They illustrate important, albeit largely still experimental new models of doing business, which also focus on achieving broader development goals. In some cases they illustrate new models of governance and policy making, which emphasise pro-active public sector engagement with the private sector and civil society organisations.

BOX 5: MULTI-SECTOR PARTNERSHIP AND COLLECTIVE ACTION MODELS TO SUPPORT COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

FULLY COMMERCIAL, BUSINESS-TO-BUSINESS (B-2-B)

<p>OVERCOMING CHALLENGES TO COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP</p>	<p>1 Individual company value chains and 'hybrid' business models</p>	<p>Individual corporations partnering with governments, donors, NGOs and community organisations to extend the reach and development impact of their own value chain and of their core business assets and competencies – beyond what could be justified on a purely commercial basis or through non-intermediated B2B linkages.</p>	<p>Examples include: large companies sourcing, sub-contracting and procuring from small enterprises; large companies distributing or franchising through small enterprises; and large companies selling products and services to small enterprises.</p>
	<p>2 Collective business linkage initiatives</p>	<p>Groups of companies in the same industry sector or geography working collectively with each other and with governments, donors, NGOs, academics and others to increase the number, scale and overall development impact of business linkages with and/or between small enterprises.</p>	<p>Examples include: sector-based alliances; national or regional collective initiatives; corporate responsibility clusters or networks; and small enterprise clusters.</p>
<p>1. Improving access to finance, business services and legal rights</p>	<p>3 Enhanced trade and industry associations</p>	<p>Joint efforts to expand the scope and/ or to strengthen the governance and operational capacity of indigenous trade and industry associations to enable them to better serve the needs of small enterprises and to support broader development and corporate responsibility objectives beyond direct business interests.</p>	<p>Examples include: chambers of commerce and industry, trade associations and employers' organisations that establish small business units, women's enterprise support services, vertical linkage units, corporate governance and corporate responsibility services, and community engagement units.</p>
<p>2. Upgrading and integrating small enterprises into value chains and production networks</p>	<p>4 'Blended value' financing mechanisms</p>	<p>Mechanisms that catalyze, pool and/or leverage a combination of private and public funds and/or commercial capital and social investment to deliver financial services to small enterprises in an economically viable manner. Many of these mechanisms also deliver technical assistance or partner with other initiatives that do so.</p>	<p>Examples include: small enterprise facilities and funds; small enterprise credit guarantee programmes; small enterprise credit-rating initiatives; microfinance intermediaries; social venture capital funds; venture philanthropy; major resource or infrastructure development revenue-sharing mechanisms.</p>
<p>3. Implementing responsible business practices in small enterprises</p>	<p>5 Institutionalised enterprise support services</p>	<p>Dedicated enterprise support initiatives that provide combinations of technical assistance, training, mentoring, evaluation and brokerage services, as well as finance in some cases, aimed at improving and integrating the access of small enterprises to essential resources, skills, information and business opportunities, including improved environmental and workplace practices.</p>	<p>Examples include: small business support centres; cleaner production centres; one-stop shops and specialised service centres; collective corporate-led training initiatives; volunteer executive service corps.</p>
	<p>6 Multi-stakeholder public policy structures</p>	<p>Joint structures to facilitate more organised and systematic engagement of the private sector and other non-governmental actors in public policy consultations aimed at supporting national poverty reduction strategies, good governance, pro-poor growth and investment, environmental goals and other broader development objectives beyond direct business interests.</p>	<p>Examples include: national public-private policy forums; investor roundtables; national business councils; business councils for sustainable development; industry charters; and sector, geography or issue-based public advocacy groups.</p>

FULLY GOVERNMENT FUNDED PROGRAMMES AND POLICIES

The first two models of partnership and collective action are the most market-driven. They focus on building direct business linkages between large companies and small enterprises that explicitly and systematically aim – in addition to being profitable – to transfer competitive and responsible business practices along corporate value chains and to optimise the development impacts of any ‘spill-over effects’ of these linkages.

The next three models of partnership and collective corporate action focus primarily on delivering essential products and services directly to small enterprises – in particular finance, skills and information. In most cases they employ both private and public resources and they pursue both commercial and social objectives. The relative balances vary from case to case, often driven by the nature of the initiating organisation or managing partner.

The sixth and final model is focused on influencing the broader enabling environment in which competitive and responsible small enterprises can flourish.

The report provides brief summaries of a number of innovative new models in each of these six categories. Examples profiled include those listed in Box 6:

BOX 6: EXAMPLES OF MULTI-SECTOR PARTNERSHIPS AND COLLECTIVE ACTION MODELS TO SUPPORT COMPETITIVE AND RESPONSIBLE SMALL ENTERPRISE

Viet Nam Business Links Initiative – Tanzania’s Private Sector Initiative – UNDP’s Growing Sustainable Business Initiative – Thai Business Initiative for Rural Development – Mexican Supplier Development Programme – Information Technology Industry Global Supply Chain Initiative – Instituto Ethos, Brazil – TechnoServe – UNIDO’s Indian Automotive Partnership – Business Action for Africa – DFID’s Business Linkage Challenge Fund – GTZ’s Public-Private Partnership Programme – USAID’s Global Development Alliance – Investment Climate Facility for Africa – IFC’s Enterprise Facilities - Shell’s Africa Venture Capital Fund – Acumen Fund – Business Partners, South Africa – Angola Enterprise Fund – E&Co – Youth Business International – Ethical Trading Initiative – UNIDO/UNEP National Cleaner Production Centres – Atyura Business Centre, Kazakhstan – Penang Skills Development Centre, Malaysia – Saudi Japanese Automobile High Institute – Endeavor – National Business Initiative, South Africa – Alexandria Business Association, Egypt – Tanzania National Business Council – Philippines Business for Social Progress – Uganda Small Scale Industry Association – Nicaragua Chamber of Industry – Viet Nam Business Forum – National Economic Development and Labour Council, South Africa – Tanzania Investors Roundtable

Building Linkages for Competitive and Responsible Entrepreneurship offers a conceptual framework and brief examples of these different types of multi-sector partnership and collective business models. It is supported by country case studies which analyse some of these models of partnership in more detail and illustrate some innovations in public policy and donor coordination that are promoting competitive and responsible entrepreneurship.

Endnotes:

1. *The DAC Guidelines: Poverty Reduction*. Development Assistance Committee, The Organisation for Economic Cooperation and Development (OECD), 2001. Page 18.
2. There is no common approach to categorising micro, small, medium and large enterprises. Definitions vary. Micro-enterprises are usually defined as firms with fewer than 10 employees and large companies as firms with more than 250-500 employees, depending on the country – although some definitions categorise large enterprises as all those with more than 100 employees. For the purposes of this report we have selected to use the term small enterprises to encompass all enterprises that employ fewer than 100 people.
3. *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*. United Nations Industrial Development Organization, July 2002. Page 2.
4. Nelson, Jane. *Business as Partners in Development: Building wealth for countries, companies and communities*. World Bank, UNDP and International Business Leaders Forum, 1996.

See also: Nelson, Jane. *Leveraging the development impact of business in the fight against global poverty*. Corporate Social Responsibility Initiative Working Paper No. 22. Cambridge, MA: John F. Kennedy School of Government, Harvard University, 2006. The Paper was written for the Brookings Blum Roundtable: The Private Sector in the Fight Against Global Poverty. Aspen, Colorado, August 3-5, 2005.
5. Nelson, Jane. *Economic Multipliers: Revisiting the core responsibility and contribution of business to development*. International Business Leaders Forum, 2003.
6. Hybrid Value Chain™. Full Economic Citizenship: A Global Initiative of Ashoka. Ashoka website (www.ashoka.org) – Accessed November 29th 2005.

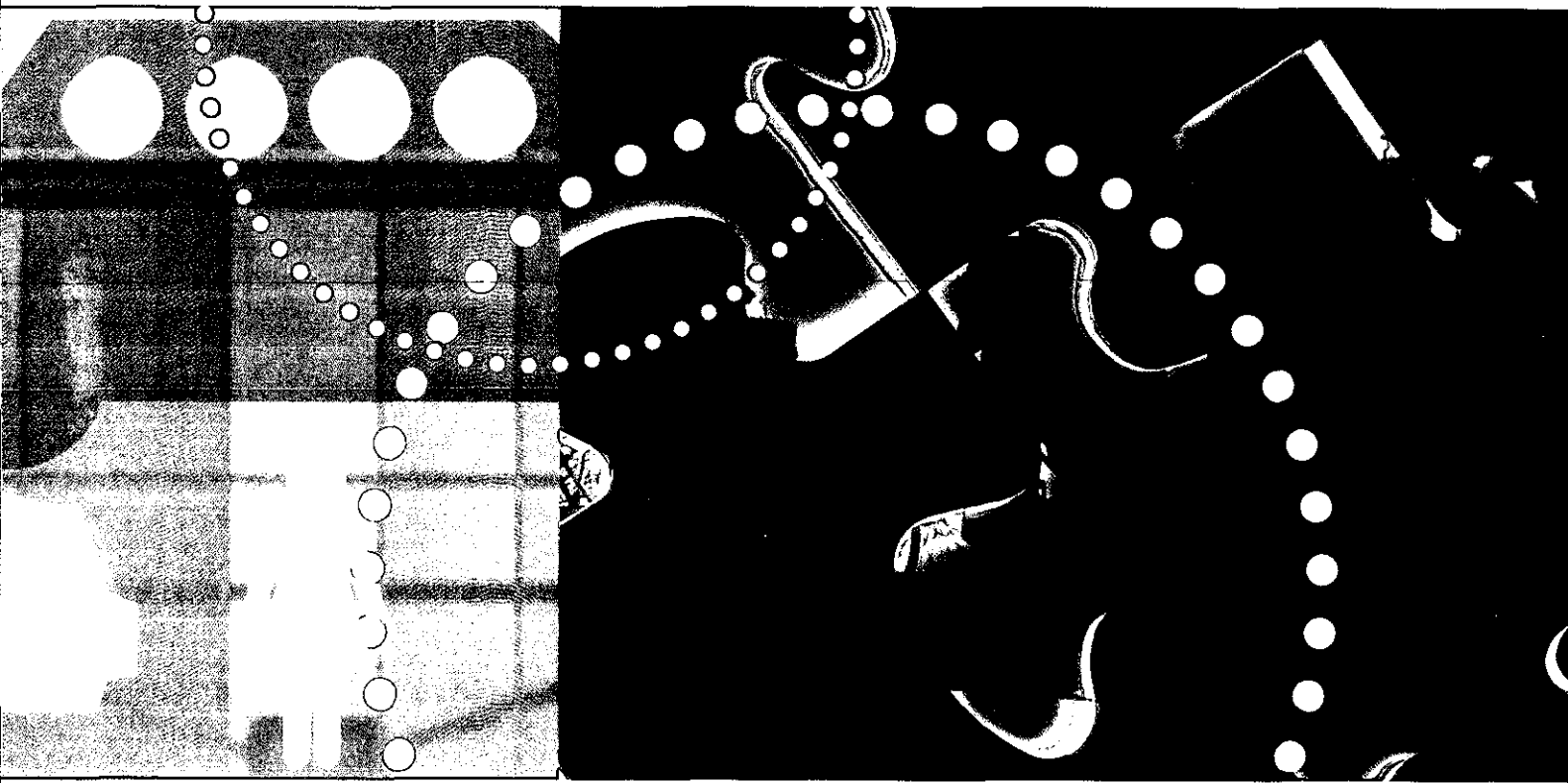
Private Investment for Social Goals: Building the blended value capital market. World Economic Forum, International Finance Corporation, and Rockefeller Foundation, 2005.
7. *The Business of Enterprise: Meeting the challenge of economic development through business and community partnerships*. International Business Leaders Forum, 2002.
8. Interview with Peter Brew cited in Jackson, Ira and Nelson, Jane. *Profits with Principles: Seven strategies for delivering value with values*. New York: Currency Doubleday, 2004. Page 151.
9. Nelson, Jane and Zadek, Simon. *Partnership Alchemy*. Copenhagen Centre, 2000. Page 29.
10. Luetkenhorst, Wilfried. *Corporate Social Responsibility and the Development Agenda: The case for Actively Involving Small and Medium Enterprises*. Intereconomics, May/June 2004. Page 161.

UNIDO

The United Nations Industrial Development Organization (UNIDO) is a Specialised United Nations Agency with a mandate to prevent the marginalisation of developing countries and to contribute to the eradication of poverty through the promotion of sustainable industrial development. The UNIDO CSR Programme is based on the Organization's business partnership approach that aims to upgrade the overall productivity and competitiveness of small enterprises and suppliers in order to facilitate their access to larger value chains and trade networks. This initiative is multi-disciplinary in character, integrating environmental and social issues into a productivity and quality upgrading programme. Thus, it promotes the broader concepts of good corporate citizenship and responsible competitiveness as prerequisites for sustainable industrial development. The UNIDO CSR Programme may be seen as a practical contribution to the ongoing CSR debate, developing interventions at the company and policy levels that support businesses, in particular small and medium enterprises, to successfully adhere to CSR-related principles and norms.

Kennedy School of Government, Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public role of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It is a cooperative effort among the Kennedy School's Mossavar-Rahmani Center for Business and Government, Center for Public Leadership, Hauser Center for Non-Profit Organizations, and Joan Shorenstein Center on the Press, Politics, and Public Policy. It was founded in 2004 with the support of Chevron Corporation, The Coca-Cola Company, General Motors, and Walter H. Shorenstein.



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