The Post-2015 Agenda: Policy Brief #7

Business – a vital contributor to the post-2015 agenda

The issues at a glance

Business is an essential contributor to the effort to achieve a sustainable end to poverty. World Vision calls for a broader and deeper engagement of companies in the questions of how post-2015 goals could be achieved. Further, we recommend that

- **the post-2015 framework include a more substantive 'how' component than that offered by MDG 8, including measures to ensure an enabling environment for multi-stakeholder initiatives between government, business and civil society**
- **government work with business and civil society to determine how such multi-stakeholder initiatives can be used to meet the specific needs of the world's most vulnerable children**
- **the post-2015 framework include measures to ensure that companies make full tax payments, so as to increase the domestic resources of low-income countries**
- **the post-2015 framework consider the very particular needs of poor, 'resource-rich' countries, looking to facilitate increases in transparency and accountability and also considering how natural-resource revenues could be used to fund specific post-2015 commitments.**

Introduction

Achieving a sustainable end to poverty will require the constructive engagement and collaboration of all sectors and stakeholders, including the essential contribution of the private sector. World Vision supports the inclusion of the private sector as an interlocutor in the post-2015 debate. Further, given the likely criticality of the business sector to the delivery of post-2015 goals, World Vision calls for broader and deeper engagement from companies in the questions of *how* post-2015 goals could be achieved.

Two areas of government–business relations that could make a significant difference to the success of a post-2015 agenda, and that should be considered for inclusion within the post-2015 framework, are

- ensuring that companies make full and proper contributions of tax, so as to increase the domestic resources of low-income countries (LICs)
- ensuring an enabling environment for cross-sector, multi-stakeholder initiatives (including government, business and civil society) to address the needs of the poor.

Supporting government's role as primary duty bearer

World Vision welcomes the many positive contributions that the private sector has made to international development in recent years; and the

Promoting hand-washing to children in a World Vision project, Vietnam
Nathan Milner/World Vision

potential impact of a full engagement by that sector in the fight against poverty and injustice is significant. However, it is critical not to lose sight of the fact that it is *governments* that are the primary duty bearers for the provision of the basic services (such as health and education) that are so crucial to lifting people out of the misery of extreme need.

It is the failure of many governments to meet this obligation that has resulted in a world where – still – nearly seven million children under the age of 5 die every year from wholly preventable causes.[1] Of course, the reasons for this failure are usually various and

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complex, but amongst the most fundamental are lack of government resources and/or lack of political will. World Vision and Save the Children recently produced a 'Nutrition Barometer', measuring governments' performance on these factors as they relate to children's nutrition (which is critical to achieving MDG 4).[2]

World Vision believes that multinational corporations (MNCs) can play an important role in addressing both lack of resources and lack of political will. Regarding lack of political will, MNCs (and large national corporations) can choose to exert their considerable influence with governments to advocate for action on poverty and injustice, and the post-2015 debate is an important opportunity for such conversations. On the issue of lack of government resources, MNCs can make a big difference by ensuring that they are making fair and transparent contributions to domestic government revenues in the form of tax payments.

The need to increase domestic resources

Not one fragile state has achieved even one of the MDGs; and in low-income countries (LICs) current government budgets are not sufficient to provide universal access to even the most basic services. Looking to donor countries for aid to fill these gaps is neither a short- nor a long-term solution to the problem.

Overseas development assistance (ODA) actually fell in real terms in 2011 (by 2.7 per cent),[3] and aid flows are not expected to increase significantly any time soon, as donor economies continue to run record deficits in the wake of the global financial crisis.

Ultimately, in any case, aid alone is not the answer. Whilst significant financial support by donors will still be needed after 2015 to support any goals on reducing poverty, increasing the domestic revenue base of poorer nations is going to be essential to achieving a *sustainable end* to poverty. The post-2015 framework needs to facilitate this shift in emphasis and responsibility from donors to governments.

One of the basic building blocks to developing a sufficient resource base is increasing tax revenue. Not only do tax revenues dwarf ODA – for example, it is estimated that tax revenue in Africa, even at current low levels, is ten times the size of foreign aid[4] – they are also more predictable and within governments' control. As a recent report of the UK House of Commons International Development Committee put it,

> *Tax is an issue of fundamental importance for development. If developing countries are to escape from aid dependency and from poverty more broadly, it is imperative that their revenue authorities are able to collect taxes effectively.*[5]

Tax losses

Tax revenue as a percentage of Gross Domestic Product (GDP) is significantly lower in LICs than in OECD countries;[6] and vast amounts of tax revenue are lost in poorer countries through tax avoidance by MNCs. It is estimated that tax losses are currently costing poorer countries US$160 billion a year.[7] To put this in perspective, the overall funding gap to achieve MDGs 4 & 5 (on maternal and child health) in the poorest 49 countries for 2011 was estimated to be US$14 billion.[8]

Governments and companies both have a responsibility to address this injustice. Governments are responsible for establishing regulatory environments and incentives to ensure that the corporate sector contributes effectively to economic development through (amongst other things) contributing fully to the tax base (this, of course, requires political will). Donors can play a critical role here by providing support to LICs for capacity-building of their tax authorities. Companies have responsibilities to make full and proper payments of tax.

Further, World Vision strongly encourages MNCs and large national corporations not only to 'follow the rules', but to play a role in *promoting* good governance within a country. In fragile states in particular, World Vision calls on private sector actors not only to comply with existing governance structures, but to actively support efforts to introduce greater transparency around government revenues and spending (improvements which can, in turn, benefit companies by way of consequential reductions in socio-political risk).

Responsibilities on this issue are not restricted to governments in developing countries. One of the main mechanisms for tax dodging is the use, and abuse, by MNCs of transfer pricing and 'tax havens' – by which

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they use internal transactions to move profits to countries with the lowest tax rates.

Several commentators have stressed that the post-2015 framework needs to be a truly shared, global agenda, with government engagement (beyond just ODA) from the richer countries as well as the poorer.[9] Corporate tax is just such an issue, requiring multilateral action and cooperation.

World Vision welcomes the commitment of UK Prime Minister David Cameron, who is also co-chair of the UN Secretary General's High Level Panel on post-2015, to include the issue of tax on the agenda for the G8 (which the UK chairs in 2013).[10] Specific actions that have been proposed by NGOs and others,[11] and that could be supported within the post-2015 framework, include

- a global agreement for all countries' tax authorities to share information[12]
- a requirement on all MNCs to provide country-by-country reporting on their taxes[13]
- positive action on tax havens.

Natural resource wealth in poor countries

One area in which the issue of transparency of payments is particularly acute (and where experience might usefully be leveraged for broader application) is the extractive industries.

Some of the countries in most need of more domestic funds (for basic services) also have some of the world's richest endowments of natural resources. For example, the Democratic Republic of the Congo, currently ranked lowest (187th of 187 countries) on the UN's Human Development Index[14] and with one of the worst rates of under-5 mortality in the world,[15] is sitting on an estimated 24 *trillion* dollars of mineral wealth.[16] Critical to achieving a sustainable end to poverty in such countries is ensuring that extractive companies are making fair payments, that these are ending up in government funds, and that the wealth is then used for pro-poor development.

> The Extractive Industries Transparency Initiative (EITI) is a global standard – implemented by individual countries – that was established to ensure transparency of payments from natural resources. Under this methodology, extractive companies disclose the payments they make and governments disclose receipt of payments, with both being independently verified, reconciled and published in an EITI report.[17]

A 10-year-old worker in a copper mine, Democratic Republic of the Congo
Alain Mwaku/World Vision

The Extractive Industries Transparency Initiative (see text box) is an important contribution towards increasing transparency with regard to natural resources. Another important element is the recent Dodd-Frank act in the US which requires (under section 1504) US-listed extractive industry companies to report their payments to governments on a country-by-country and project-by-project basis.[18] Similar legislation is hoped for soon from the EU.

However, more work is needed if these gains on transparency are to be converted into real improvements in accountability. For example, in many places, there is a need for greater capacity of both government and civil society to analyse and leverage all the information that will become available.

World Vision calls for the post-2015 discussions to consider the very particular needs of poor but 'resource-rich' countries. This would include questions of how the post-2015 framework could facilitate transparency and accountability and how natural resource revenues could be used to fund specific post-2015 goals and commitments.

For example, a hypothecated (or 'earmarked') tax could be used to ensure that the necessary domestic funding is made available to meet targets on maternal

World Vision would like to see how natural resource revenues could be used to fund specific post-2015 goals and commitments.

and child health. A targeted approach of this kind in a resource-rich country (assuming, of course, additionality of funding) could substantially increase both the domestic revenue base for and commitment to significant improvements in reducing child mortality.[19]

An enabling environment for government–business–civil society initiatives

World Vision welcomes the increasing engagement of government, business and civil society with concepts such as shared value (where economic value is created in a way that also creates value for wider society)[20] and their expression in the creation of multi-stakeholder initiatives. We urge both government and business to consider how such initiatives can be used to reach the *poorest* – particularly the world's most vulnerable children – who have been left behind by the MDGs' focus on global aggregates.

Whilst we celebrate the success of the MDGs in galvanising global action on issues such as maternal and child health, rising levels of inequality around the world have shown that, although development and economic growth have improved the lives of millions of poor people, the *poorest* have not benefited. The rising tide has been shown not to lift all boats.

Interventions are needed that specifically target the needs of the *most vulnerable children*. The approach of partnering amongst government, business, and civil society has tremendous potential to accelerate progress towards the goal of *universal* access to services that is so critical to addressing vulnerability.

There are some very encouraging initiatives emerging, but one of the key challenges currently is lack of scale: if partnerships, as a mechanism, are to make a meaningful contribution to a problem the size of global poverty we need more of them – and rolling out at a faster rate. World Vision suggests that the post-2015 framework incorporate a response to this challenge.

MDG 8 (the 'how' to the other MDGs' 'what') set targets for access to both essential drugs and new technologies in cooperation with the corporate sector (targets 8E and 8F). Progress thus far on both has been disappointing.[21] The UN System Task Team has acknowledged criticisms that MDG 8 was not well-defined:

> *The links between MDG 8 and MDGs 1–7 are not very explicit, the targets of MDG 8 are not explicit and do not capture all of the actions that countries need to undertake.*[22]

The post-2015 framework will need a much more substantive 'how' component. And given the high expectations of the private sector's contributions to the achievement of any post-2015 agenda, it is critical that companies are engaged in this part of the debate, in particular to ensure that any potential barriers to their partnering with government and civil society – at scale – are properly understood.

In principle (in the absence of the post-2015 framework itself at this stage), World Vision supports the UN System Task Team's proposal of 'mainstreaming partnerships under each of the thematic goals (i.e. the successors to Goals 1–7), allowing a stronger link between the desired outcomes and means for achieving them'.[23] This approach would need further strengthening with specific guidance (possibly in the form of sub-targets) on how to create an equitable and enabling environment for such multi-stakeholder initiatives. This might include the following:

- **Governments should provide the lead on setting priorities.** The priority areas for multi-stakeholder initiatives should be based, first and foremost, on the priority development needs of the country (rather than, for example, on what potential partners are offering to bring to the table). Any major initiative should also be clearly situated and integrated within an overall country-led plan (e.g. on health).
- **Multi-stakeholder initiatives should draw on a broad range of partners.** The most impactful initiatives are likely to be cross-sector: the solutions to really complex issues will rarely reside in just one government department or one industry (for example, the basic determinants of child health include water and sanitation, good nutrition, education and household energy access). To ensure long-term sustainability and capture the full economic development benefits, it is suggested that private sector partners should include *domestic* companies and not just MNCs – and ideally not only national companies, but also smaller and more local enterprises (which could be appropriate and achievable on some issues through a partnership with an industry association or other alliance). Civil society also has a critical role to play, not least in ensuring the inclusion of community voice throughout the process – in defining needs, creating solutions, and monitoring delivery.
- **All stakeholders should commit to regular reporting.** Transparency and reporting on commitments from all partners is essential not only as a means to accountability but also for learning (and, thereby, capacity-building) and effective coordination.

- **Governments should help companies structure their investments (within such partnerships) so as to maximise the benefits to the poor:** In establishing the contractual environment for partnerships with business, governments should seek ways to encourage business investments that maximise contribution to development outcomes through, for example, employment (in accordance with International Labour Organization standards), transferring skills, scaling the impact of pro-poor products/services, encouraging innovation, investing in infrastructure in the poorest regions, supporting indigenous industries and pursuing sustainable business practices throughout supply chains.
- **Governments should consider creating partnership platforms at national level:** Whilst successful partnerships can be hugely beneficial, they require a lot of effort and support. Platforms could be created at national level where stakeholders – including civil society – can come together to discuss areas of common interest, build mutual understanding of issues and opportunities, and explore possible collaborations. Such platforms could also provide a mechanism for delivering critical expertise in areas such as partnership brokering.[24]

Recommendations

With regard to the potential contribution of business to the post-2015 agenda, World Vision makes the following recommendations:

- **Broader and deeper engagement from companies is needed on the questions of how post-2015 goals could be achieved. Given the high expectations of the private sector's contributions to the achievement of any post-2015 goals, it is critical that companies are engaged in this part of the post-2015 debate – at both global and national levels.**
- **The post-2015 framework should include measures to ensure that companies make full and proper contributions of tax, so as to increase the domestic resources of low-income countries – and noting that governments in developed countries also have responsibilities on this issue.**
- **Consideration of the very particular needs of poor, 'resource-rich' countries should be included in the post-2015 discussions. This would include questions of how the post-2015 framework could facilitate increases in transparency and accountability, but also of how natural resource revenues could be used to fund specific post-2015 goals and commitments.**
- **The post-2015 framework needs a much more substantive 'how' component than that offered by MDG 8. This might include mainstreaming multi-stakeholder initiatives under each of the thematic goals (i.e. the successors to Goals 1–7).**
- **Government and business should be urged to consider how cross-sector, multi-stakeholder initiatives could be used to meet the needs of the world's most vulnerable children.**
- **The post-2015 framework should include measures (possibly in the form of sub-targets) to ensure an enabling environment for cross-sector, multi-stakeholder initiatives, so that these partnerships bringing together government, business, and civil society can be rolled out more quickly and at greater scale.**

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