

# Better Returns in a Better World

January 2009



In November 2008, Oxfam<sup>1</sup> and Insight launched a new, year-long project: Better Returns in a Better World. The overall objective of this project is to assess the potential for investors to contribute to poverty alleviation through their investment activities. The project also aims to raise investor awareness of the importance of poverty alleviation as a corporate responsibility issue, to identify the key barriers to institutional investor action on poverty alleviation and development, and to develop proposals to help overcome these barriers.

## The Millennium Development Goals

In 2000, world leaders gathered at the United Nations and adopted the Millennium Development Goals (MDGs)<sup>2</sup>, committing themselves to take co-ordinated action to reduce extreme poverty. The MDGs are a set of eight

targets to be achieved by 2015, ranging from halving income poverty to tackling the spread of HIV and AIDS to providing universal primary education. Together, the MDGs – agreed by all of the world's countries and leading development institutions – form the principal framework for global efforts to tackle poverty.

In recent years, we have seen significant progress towards the realisation of the MDGs: the number of people living on less than \$1 a day fell by 278 million between 1990 and 2004, two million lives are saved every year by immunisation, and two million people now receive AIDS treatment. Yet, 1.4 billion people still live in extreme poverty, 10 million children a year die before their fifth birthday, and 1.1 billion people do not have access to safe drinking water. Furthermore, there is a risk that the gains that have been made may be undermined by the current

financial crisis, the effects of climate change and the impacts of energy and food insecurity.

## The role of investors

A key barrier to the realisation of the MDGs is access to capital. Under the right conditions, private investment can provide substantial development benefits through supporting economic growth, helping build essential infrastructure, and paying the taxes needed to provide schools, hospitals and other essential infrastructure and services. However, investments in developing countries have not been unambiguously positive. Capital flows have concentrated in a handful of large, middle-income countries such as China, India, and Thailand (with low-income countries receiving relatively little investment), many of the investment flows have been highly volatile, and

<sup>1</sup> An international development non-governmental organisation (NGO). See [http://www.oxfam.org.uk/oxfam\\_in\\_action/](http://www.oxfam.org.uk/oxfam_in_action/).

<sup>2</sup> See UN Millennium Development Goals 'Background' at [www.un.org/millenniumgoals/bkgd.shtml](http://www.un.org/millenniumgoals/bkgd.shtml). (Last checked October 2008.)

foreign direct investment has, on occasion, been controversial because of concerns about human rights or environmental impacts.

Beyond the allocation of capital, institutional investors can also contribute to poverty alleviation through their engagement with companies and governments. In recent years, investors have helped deliver a series of important outcomes, such as dramatically reduced prices of AIDS medicines and significant improvements in labour conditions in retail supply chains. Investors have also lent valuable support to the Extractive Industries Transparency Initiative (EITI) and to government efforts to develop a long-term international climate change policy framework.

There are compelling reasons for companies to proactively manage their social and environmental impacts. Issues such as environmental degradation, climate change, HIV and AIDS, ethnic conflict, and inadequate health and education systems can impact negatively on business costs and present significant risks to corporate assets and reputations. There are also wider business benefits to be derived from operating in increasingly more prosperous and stable societies, such as having access to a healthy and competent workforce, more prosperous consumers, predictable trading and financial systems, and a well-governed economy. In addition, companies may be able to access new business opportunities by, for example, developing new products, services,

and technologies, or even transforming business models to address social and environmental challenges.

The arguments for companies to take a proactive approach are not confined to the business case; there are also important ethical dimensions, with many large companies recognising that they have obligations to behave in a responsible manner.

## Taking the project forwards

The project and an initial briefing note – **Responsible Investment as a Force for Development: Framing the Debate** – was launched on 4 November 2008 by Oxfam's CEO Dame Barbara Stocking at a breakfast event with investors. The event was used as an opportunity to invite investors to participate in the project and to seek initial input to the scope and objectives of the project. We subsequently met with a number of investors and experts on various development issues to review and refine the scope and objectives of the project.

The project will be taken forwards through a series of roundtables and discussions with investors over the period January to October 2009. Considering the potential contribution of investors as allocators of capital, as influences on the policies and practices of companies in which they invest, and as influences on the public policy debate, the project will focus on the following questions:

- How can poverty-related issues be incorporated into investment analysis?

- What are the appropriate time frames for considering poverty-related issues in investment analysis?
- What should be the objectives of investor engagement on poverty alleviation and development? Should investors have different expectations of companies from developed and developing countries?
- What information should companies report to enable their contribution to poverty alleviation to be assessed?
- What are the barriers (e.g. motivations, assumptions, incentives) to longer-term investment in developing countries?
- What regulatory changes or other incentives might be used to produce better outcomes for pro-poor development?

A final briefing paper will conclude the project. This paper will compile the findings of the project, identify areas where investors could play a greater role in poverty alleviation, and present proposals for future work in this area. The paper will be presented to investors at an event in London in late 2009.

A **special web page** has been set up for the project where all of the project information will be made available. This also includes the facility for people to post comments, and provide information.

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