



# FORGING A PATHWAY TO TRUST

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How Public-Private  
Engagement Can Find  
Its Footing

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***Forging a Pathway to Trust*** provides a new framework for motivating business, government, and civil society to work together to achieve the UN Sustainable Development Goals. The authors show through case studies and actionable proposals how it is the relationships we forge – and the trust we create – that matters most to our success.

- Peter M. Robinson, USCIB CEO and President of The USCIB Foundation, Inc.



# EXECUTIVE SUMMARY

Business plays an essential and foundational role in the creation of a just and prosperous world, but an erosion of trust undermines confidence that it will act in the best interests of society as a whole. Profit motives present in the minds of many an inherent conflict of interest that threatens the credibility of big business as a steward of society's broader goals. This growing distrust leads to ever increasing calls for transparency that often hinder rather than strengthen public private engagement.

In a world faced with unprecedented complexity and challenges – from the environment to human rights to unemployment – the expectations of business are changing and balancing the profit motive with the creation of societal value is becoming a precondition for long-term success. While at the same time business is called upon to present solutions and deliver results, it is too often excluded from the conversations that frame the roles various stakeholders can and should play. The disconnect between multilateral agencies, government, civil society, and business impairs progress on key components of the Sustainable Development Goals (SDGs) and other shared societal interests.

Forging a new dynamic between business and society demands a renewed commitment to dialogue that: 1) helps business coalesce around principles of engagement that can lead to more productive interaction between institutional stakeholders and society; 2) assesses new tools available for data collection, transparency, and accountability structures able to legitimately deliver a shared mission and preferred outcomes; and 3) points the way to new organizing principles and platforms for engagement that will catalyze the enormous and essential contributions of business to the SDGs and beyond.

This report aims to break down some of the impediments to better public and private engagement toward tangible and shared social outcomes. The intent is to openly acknowledge a lack of trust between key institutional stakeholders and to explore a better pathway forward. If society as a whole intends to leverage all of its capabilities – from business resources and innovation to multilateral institutional support – the status quo demands a hard look at identifying new and better ways of doing things on behalf of shared goals. Dialogue is required but not sufficient. Each part of society will need to think beyond traditional boundaries to pursue what could make the decade ahead the most prosperous and transformational in human history.

## OVERVIEW

Throughout human history, business has been the engine of economic, technological, and social progress. So pervasive has been the impact of business on society that it is difficult to imagine living in a world without it: one with no basic services such as electricity, water, sanitation; no public infrastructure like roads and buildings; few entertainment goods like music, movies, books that most societies take for granted; not to mention a vast, unemployed workforce. In both concrete and intangible ways, business provides people with goods and services that satisfy their needs. Today, business continues to shape society thanks to its immense ability to generate wealth, drive innovations, create jobs, and change lives.

Yet while business's role in society has remained mostly constant, its public image has changed in the past few decades.<sup>1</sup> Increasingly, business is perceived not as a solution to, but a perpetrator of, a broad array of social and environmental problems—poverty, inequality, ecological degradation, to name a few. In an online survey of 27 markets with more than 33,000 respondents over the past two decades, the Edelman Trust Barometer highlights “a progressive destruction of trust in societal institutions,” including businesses. While results have shifted in particular subcategories from year to year, the report's overall trend paints a discouraging picture: between 2017 and 2018, Americans' trust in business declined by 10 percentage points, and similar trends are found in India, Brazil, South Africa, and Italy, among others.<sup>2</sup>

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1 World Economic Forum. “What is the Role of Business?” <https://www.weforum.org/agenda/2014/01/role-business/>

2 Edelman Trust Barometer, <https://www.edelman.com/trust-barometer>

Society as a whole has moved well beyond the sentiments of Nobel Prize-winning economist Milton Friedman, who determined “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits.”<sup>3</sup> Every day, the media bombards readers with sensational headlines vilifying corporate greed in which companies stand accused of turning their back on society’s needs in their quest for profits. Demands for more accountability on the part of business flow from multiple factors but have generally led to a call for a thorough reinforcement of rules and standards. All in all, these trends stem from the view that business and society exist in a zero-sum game: that it is impossible to advance one set of interests without undermining the other. In this view, the only way to ensure good social outcomes is to subject business to a stringent set of rules and standards that constrain and regulate their behavior.

This approach, however, is likely to be counterproductive. By emphasizing restrictions on business above all else, it directs business’s energy toward meeting minimum standards and away from pursuing aspirations to effect positive social change. Moreover, it fails to account for a key strength of business: its ability to redefine itself and adapt to new social demands and expectations. It is this adaptability that leads business to develop new views of its obligations, its values, and its place in society.

Today, the need for a different approach to business-society relations is more pressing than ever. The scope and gravity of global challenges means that no single institution – be it business, governments, civil society, or multilateral entities – can solve them on its own. Rather, overcoming these challenges and achieving the Sustainable Development Goals will require coordinated efforts among all stakeholders and especially an active role for the private sector.

To this end, business and other institutional actors need to redefine their relationship. An effective framework for engagement should not be centered on mere compliance, but rather should be grounded in dialogue, cooperation, and trust. Such a framework gives business the freedom to learn, respond to mistakes, redefine its purpose, and ultimately achieve the goal of “doing well by doing good.”

## BUSINESS IS ESSENTIAL TO HUMAN WELFARE

Business is the engine of development and progress. It creates job opportunities and it represents, in the words of economist Michael Klein “key vehicles that spread best practices and jobs to areas where poor people live.”<sup>4</sup> Under the right macroeconomic conditions, business makes foreign and domestic investment and leads global trade, which has been shown to contribute decisively to poverty reduction, human capital development, and overall economic growth in developing countries.<sup>5</sup> Throughout history business has driven innovations, disrupted old and inefficient production practices, and enabled more efficient allocation of resources. Across countries, the growth of business has been tied to boosts in national income, which could in turn be invested by governments in public goods and human development. Though business is often seen as separate from, and sometimes opposed to, civil society interests, many companies have performed roles that advanced humanitarian causes through social responsibility, skills and knowledge transfer, and initiatives on promoting progressive social standards.

## BUSINESS IS ESSENTIAL TO ACHIEVING THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGs)

In particular, the private sector has been called on to partner with other stakeholders—the public sector, multilateral institutions, and NGOs—in advancing the global development agenda captured in the Sustainable Development Goals (SDGs). While businesses have encountered major challenges

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3 Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1982), pg. 133

4 Klein M. (2003) “Ways out of poverty”, World Bank Policy Research Working Paper 2990, March, Available at <http://documents.worldbank.org/curated/en/982301468741366568/pdf/multi0page.pdf>

5 Michael Klein, Carl Aaron, and Bitu Hadjimichael, “Foreign Direct Investment and Poverty Reduction,” <https://pdfs.semanticscholar.org/f726/718f6e33fc2a4a9a0e1b13086db4c56e2add.pdf>

in doing their part, their achievements in emerging markets in Asia, Latin America, and Africa demonstrate that when operating in favorable environments and pursuing appropriate strategies, businesses can play a vital role in the achievement of the SDG agenda. In a recent Policy Note, the OECD outlines the ways businesses can make substantial contributions to the SDGs. Businesses can boost productivity, create higher-skilled jobs, and drive technological progress through such initiatives as R&D partnerships, technology transfer, knowledge-sharing platforms, and infrastructure investment.<sup>6</sup> In addition, businesses create jobs, which in turn can raise living standards, increase productivity, and build strong communities.<sup>7</sup>



## A CALL FOR ACCOUNTABILITY

In recent years, governments and civil society have become much more aggressive in pressuring business to attend to the priorities and interests of a wide range of stakeholders. Key areas of concern are 1) transparency in corporate governance, 2) demonstrable commitment to employment, health, safety, and environmental standards, 3) respect for human rights, and 4) contribution to improving the livelihoods of surrounding communities. This has been driven partly by a number of trends:

- Government-imposed demand for more transparency on the part of financial institutions in wake of financial crisis in 2008
- Emergence of investigative media to report the impact of business on society<sup>8</sup>
- Growth of NGOs in the transparency area, such as Transparency International and Global Witness
- Greater scrutiny of global supply chains and contractors that represent the entirety of the private sector footprint

Extractive industries have seen a particularly high degree of scrutiny. Concerns related to corruption, the impact of the sector in zones of conflict, and exploitation of local communities led to demands for information along the value chain from the point of extraction and how revenue makes its way through government and contributes to the economy. Launched in 2003, the Extractive Industries Transparency

6 OECD, "Policy Note on Sustainability. Better Business for 2030: Putting the SDGs at the Core" [https://www.oecd.org/dev/SDG2017\\_Better\\_Business\\_2030\\_Putting\\_SDGs\\_Core\\_Web.pdf](https://www.oecd.org/dev/SDG2017_Better_Business_2030_Putting_SDGs_Core_Web.pdf)

7 Ibid.

8 "Holding Businesses Accountable," Nieman Reports, <https://niemanreports.org/articles/holding-businesses-accountable/>

Initiative (EITI) now covers 52 countries, each with its own national secretariat and multi-stakeholder group made up of representatives from government, extractive companies, and civil society. The European Union has instituted its own requirements for country-by-country and even project-by-project reporting of payments to governments by oil, gas and mining as well as forestry companies. The extractive industry is not alone as more sectors face greater calls for transparency and public visibility. The pharmaceuticals industry has come under unprecedented pressure from government and the public alike. Food and beverage companies face a host of questions from environmental impact to nutritional content. No business sector is immune.

For example, the rising political and social priority assigned to climate change is catalyzing widespread calls for business accountability and transparency, not to mention assertions of traceable liability and accusations of withheld information from investors relating to impacts of greenhouse gas emissions and fossil fuel use. Given the pervasiveness of carbon-emitting energy and its direct and indirect role in nearly every dimension of economic and commercial activity, public pressures on companies and societal demands strained by what is perceived as weak private sector credibility are a major challenge for businesses of every sector. How are businesses to address and respond to the plethora of investment, supply and value chains risks and impacts linked to climate change, added to reporting obligations and regulation, across global jurisdictions?

A more far-reaching and global framework emerged in 2008 when then UN Special Representative John Ruggie first laid out the Guiding Principles on Business and Human Rights. Unanimously adopted by the Human Rights Council, the framework articulated three guiding principles: 1) the state duty to **Protect** against human rights abuses by third parties, including business; 2) the corporate responsibility to **Respect** human rights; and 3) greater access by victims to effective **Remedy**, both judicial and non-judicial.<sup>9</sup> While the Principles offered an important step forward for how states and business may understand their respective roles when it comes to universally established norms for human rights, the framework offered less toward the understanding of a positive and forward looking agenda around sustainable development engagement. More recently, the “Smart Mix” of mandatory domestic and international HR obligations coupled with voluntary measures risks the unintended consequence of leading to a lowest common denominator approach in which business is compelled to achieve a minimum standard but not incentivized to pursue policies that can lead to better social outcomes.<sup>10</sup>

Similarly, the Kimberly Process<sup>11</sup> governing conduct related to conflict diamonds impose important restrictions on business behavior but are constrained by their sector-specific nature. The Global Sullivan Principles<sup>12</sup> helped expand the construct of voluntary business conduct across sectors. More recently, the UN Global Compact and organizations like the US Council for International Business advanced discussion around the notion that sustainability begins with a principles-based approach to doing business.

This evolution of values-based engagement through global business practices stands in contrast to a compliance-based construct that would govern business behavior through international law rooted in economic, social, and cultural rights. The tension between the two approaches restricts efforts to harness the broadly accepted capacity of the private sector to contribute significantly to economic growth and human welfare globally. Such debate also fails to account for the changing nature of how business itself views its role in society.

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9 The United Nations, “Guiding Principles on Business and Human Rights” [https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr\\_eN.pdf](https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf)

10 Rachel Davis, “Beyond Voluntary: What it Means for States to Play an Active Role in Fostering Business Respect for Human Rights,” Shift, February 2019, <https://www.shiftproject.org/resources/viewpoints/beyond-voluntary-states-active-role-business-respect-human-rights/>

11 The Kimberly Process, <https://www.kimberleyprocess.com/en/about>

12 Clinton Global Initiative, “Global Sullivan Principles,” <https://www.clintonfoundation.org/clinton-global-initiative/commitments/global-sullivan-principles>

# COMPLIANCE-BASED FRAMEWORK

## Definition

The compliance-based framework is centered on rules or norms devised by non-business stakeholders—such as international development agencies, multilateral institutions, and human rights NGOs—with which businesses are obliged to comply. The idea of compliance originates in the human rights agenda promoted by development NGOs following the United Nations' 1948 Declaration of Human Rights. A core feature of the compliance-based framework is its emphasis on the responsibility of the “duty bearers”—states and, increasingly, corporations—toward “rights-holders”—populations impacted by the activities of the former. Over time, as the definition of human rights broadened, duty-bearers are expected to respect not just civil human rights but also social, economic, cultural rights of the affected communities.

In this view, creating economic and social values are often seen as separate, and sometimes opposing, activities. The compliance-based framework views the role of business in society as, at best, ambivalent: while businesses can generate wealth, they also create negative externalities that are harmful to society and that need to be corrected for. The focus is on mitigating harm, rather than generating mutual benefits. Moreover, proponents of a compliance-based approach often see business (and especially corporations) as harboring malign motives, driven purely by corporate greed and often failing to act in the interest of society. This view gained credence from recent headlines exposing deception at all levels of business. It is reflected in the proliferation of international standards, often formulated without input from business actors, which seek to hold business accountable for perceived wrongdoings.

## The Rise of ESG

The rapid growth in the Socially Responsible Investment (SRI) movement gave rise to the integration of environmental, social, and corporate governance (ESG) – a term first used in 2005 in a study entitled “Who Cares Wins.”<sup>13</sup> ESG measures usefully moved analysis from the overly simplistic ethical and moral realm that branded entire sectors like alcohol, tobacco, and firearms as off limits, to a more measured perspective that ESG factors play directly into a company's financial fitness. In fact, some \$20 trillion, or a quarter of all professionally managed assets around the world, are subject to some form of ESG evaluation. Advancements in smart algorithms and big data give the ESG, or non-traditional financial information, enhanced impact and seemingly reflect the growing premium many investors place on new means of expressing their personal values without necessarily undermining the importance of returns. Corporations have taken notice and many accept the challenge of adapting to this new environment set on smarter, cleaner, and healthier products and services.

Taken as a whole, the convergence of values-based engagement together with compliance-based frameworks and the SRI movement offers society, together with the private sector, new opportunities to shape and define the role of business. How these approaches assume the appropriate mix and fully engage business in the process remains a challenge. Businesses come in many forms and are not monolithic. From small and medium sized businesses to multinational corporations and even state owned enterprises, there is a lack of consensus on how to harness the best capabilities and attributes of business in society.

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13 World Bank, 2017. “Who cares wins: connecting financial markets to a changing world,” Washington, D.C. <http://documents.worldbank.org/curated/en/280911488968799581/Who-cares-wins-connecting-financial-markets-to-a-changing-world>



# Business and International Human Rights Standards

The 21st century has seen a proliferation of business-human rights frameworks, formulated by nation states with the backing of multilateral institutions and human rights NGOs, that seek to elaborate on human rights responsibilities of MNCs and other business entities.

## 2000

The United Nations established the UN Global Compact, a voluntary initiative with the goal of encouraging business to pursue sustainable policies and to report on their progress. Currently, it is the largest corporate social responsibility initiative in the world.

## 2003

The Business and Human Rights Resource Center was established with the goal of raising awareness of MNCs' human rights obligation.

## 2003

Draft Norms penned by the UN Sub-Commission on the Promotion and Protection of Human Rights. The Draft Norms demanded that corporations be assigned the same duties to protect human rights as states.

## 2008

The UN Guiding Principles on Business and Human Rights, endorsed by the UN Human Rights Council, highlight governments' obligation to protect and businesses' to respect and remedy human rights transgressions. In addition, Working Groups on Human Rights and Transnational Corporations and Other Business Enterprises were established. Though not legally binding, the Guiding Principles animated the debate about whether MNCs should be subjected to international human rights law.

## 2013

Ecuador issued a Statement on behalf of a Group of Countries at the 24th Session of the Human Rights Council.

## 2014

Norway drafted a resolution, sponsored by 44 other countries, requesting that the UN Working Group consider the benefits and limitations of legally binding instruments.



# THE CASE FOR A NEW APPROACH

On the one hand, the compliance-based framework has several notable strengths. Most importantly, it has shown to be effective at holding powerful business actors accountable for their actions. Increasingly, businesses have embraced the fact that their activities – from hiring practices to emission levels – can affect society in significant ways.<sup>14</sup> A clear set of standards that communicate societal expectations can serve as guidance for business concerned with upholding their reputation and, as such, can be a useful instrument for organizations. At the same time, however, the framework has two serious limitations.

## Data

In the past three decades, heightened public scrutiny has given rise to an enormous ranking industry, which assesses companies' social and environmental performance. Environmental, Social, and Corporate Governance (ESG) standards cover a wide spectrum of issues that traditionally are not part of financial analysis, yet many believe have important financial relevance. The industry has gained significant attention in the media, is used widely by investors worldwide, and challenges businesses to think about their performance in far reaching terms beyond traditional profitability. In theory, ranking and publicizing social performance can be an effective way to discipline corporations into responsible behavior. At the same time, however, various ranking schemes and ESG criteria find business struggling with how to integrate “bottom line” ambitions unrestricted by narrower definitions of shareholder value and reward. On a more practical level, what was once a choice of the socially aware few in the business world now demands the attention of corporations across sectors and in all regions.

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**The sheer number and diversity of ratings agencies, criteria, and methodologies create more confusion among stakeholders than they provide constructive guidance. By some estimates, there are roughly 400 rating systems and 10,000 performance metrics, generating an overwhelming amount of data in the ranking landscape. The lack of standardization among these systems and metrics only adds to the cacophony. In addition, there is little guidance for companies as to which indicators should be prioritized, or which intermediary agency to engage with.<sup>15</sup> As a result, companies often suffer from “reporting fatigue.” This is not surprising given that there is simply no consensus on what ESG really is yet companies spend significant time and money filling out questionnaires on top of their normal sustainability reporting function.<sup>16</sup>**

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Adding to that is the flawed methodology with which companies are often evaluated. Oftentimes, ratings rely on unverifiable data (such as companies' self-reports), which undermine the validity of the final assessment. Research on KLD, one of the world's most prominent ratings agencies, reveals that its methods are limited and have low predictive power.<sup>17</sup> In addition, the sheer complexity of a company's operations makes accurate assessment of its behavior extremely difficult. As a result, rating agencies turn to metrics for which data are available, even if these are completely unrelated to the object of measurement. Yet even if the metrics are reliable, the different ways in which they are

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14 Michael E. Porter and Mark R. Kramer, “Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility,” [http://bear.warrington.ufl.edu/williams/MAR\\_6930/Readings\\_files/Porter%20%26%20Kramer.pdf](http://bear.warrington.ufl.edu/williams/MAR_6930/Readings_files/Porter%20%26%20Kramer.pdf)

15 Stephanie Mooij, “Reporting fatigue and the ESG rating and ranking industry.” <https://ccbriefing.corporate-citizenship.com/2017/07/18/reporting-fatigue-esg-rating-ranking-industry/>

16 Ibid.

17 Aaron K. Chatterji, David I. Levine, and Michael W. Toffel, “How Well Do Social Ratings Actually Measure Corporate Social Responsibility,” <https://www.hbs.edu/faculty/Publication%20Files/07-051.pdf>

weighed can significantly bias the final scoring. The Dow Jones Sustainability Index weights customer service almost 50% more heavily than corporate citizenship, whereas the FTSE4Good Index discards these variables altogether.<sup>18</sup>

## Priority Mismatch

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**The second weakness of the compliance-based framework is the priority mismatch that inevitably arises as external stakeholders—governments, activists, the media—unilaterally impose demands on businesses without considering their individual capabilities, constraints, and business priorities.**

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Coordinating initiatives like the UN Global Compact provide useful mechanisms for public and private engagement, but in order to thrive they require the input and ownership of all stakeholders. An early seat at the table for all parties helps to ensure that the necessary deployment of time and resources will promote a shared mission and jointly owned outcomes.

Expectations for businesses, especially large corporations, have never been higher. They are not only expected to follow the law and uphold various labor and environmental standards, but also expected to solve a broad variety of global challenges.<sup>19</sup> Companies in different industries are encouraged if not compelled to engage a list of worthy causes, but many struggle to apply their capabilities to development challenges well outside of their core business functions. At the same time, the unprecedented ability of external stakeholders to monitor corporate actions means that any sign of negligence can cost companies their reputations and survival.

With this approach come several unfortunate consequences. Businesses often pursue CSR separately from a business' core activities and, as such, their CSR efforts are less likely to have meaning to their internal strategy nor create value for the external environment. Furthermore, this practice causes stakeholders to mistake public relations success as social impact. Overall, this approach leads to wasted resources, misguided thinking, and lost opportunities. According to a 2013 McKinsey report, many CEOs have acknowledged that a large number of past CSR efforts have failed to live up to their core imperative of “building stronger relationships with the external world.”



**Without institutional purpose,  
no company or individual can  
achieve their full potential...they  
lose their license to operate  
from stakeholders.**

- Laurence Fink, Blackrock CEO

CSR should not be treated as a reputational barrier for businesses to overcome. Rather, it should be a rich source of opportunities for meaningful engagement with the outside world. It is a chance for companies to deploy their resources and know-how to solve problems that are both meaningful to society and relevant to their business vision. To do so, businesses should be allowed more space and freedom to set their own CSR agendas. They should also be incentivized to think critically about ways to incorporate social considerations into their long-term strategic visions.

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<sup>18</sup> Porter and Kramer, p.4

<sup>19</sup> John Browne and Robin Nuttall, “Beyond corporate social responsibility: Integrated external management,” McKinsey & Company, March 2013, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/beyond-corporate-social-responsibility-integrated-external-engagement>

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**A consensus is taking hold among corporations that the “shared value” approach, which seeks to accomplish the dual goals of financial success and social benefit, is the future of business.**

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That several corporations, like Nestlé and Unilever have succeeded in delivering large-scale positive impact through a shared value approach is proof that businesses have the resilience and ingenuity needed to learn from past mistakes, to innovate the ways they engage with surrounding communities and, through that, to make unique, lasting contributions to society.

All this will not be possible without the support of external stakeholders, from governments to NGOs to the United Nations. So long as the latter distrust corporate leadership and initiative, businesses will have little incentive to treat CSR as anything more than a burden or, at best, a “do-gooding sideshow.”<sup>20</sup> So long as business voices are not meaningfully represented in multilateral dialogues, CSR will remain a box-ticking exercise where businesses react passively to externally imposed demands.

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**As valuable as outsiders’ input can be, it is almost never informed by a complete understanding of a company’s capabilities, constraints, and trade-offs.<sup>21</sup>**

**The only actors capable of setting businesses’ CSR agenda are businesses themselves, and a framework that allows businesses to explore their potential for unique contributions to society is necessary for a better future.**

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In a groundbreaking statement of purpose made by the Business Roundtable on August 19, 2019, 181 out of 188 CEOs of major US corporations agreed that business decisions should no longer only take into account the profit of shareholders. This acknowledgement of the evolving role of business in society offered a significant philosophical shift toward the view that “all stakeholders” - including employees, customers, and society as a whole -

### **Unilever Takes Bold Steps**

As the fifth largest consumer products company in the world, Unilever has established its reputation as a forward-leaning actor in the socially responsible business realm. The recent announcement by CEO Alan Jope takes that commitment to a decisively higher level.

The company announced in June 2019 that it was considering the removal of brands that fail to measure up to the company’s social commitments. Of the company’s 1,000 brands, Jope notes that the 28 most committed to social justice are driving 75% of the company’s growth. Unilever believes that socially conscious millennials and the younger generations will endorse this decision.

According to the 2018 State of Sustainability in America survey produced by the Natural Marketing Institute, Unilever may be on to something with more consumers looking for products that are both healthier and more environmentally friendly.

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20 The Economist, “Just Good Business.” 2008, <https://www.economist.com/special-report/2008/01/19/just-good-business>

21 Ibid.



must be taken into account.<sup>22</sup> While many were quick to praise the landmark shift, the Council of Institutional Investors leader, Ken Bertsch, noted “there’s no mechanism of accountability to anyone else.” Rather than pour cold water on the announcement, US business leaders should be commended and then challenged to engage with governments, communities, workers, and consumers to make the commitment real and tangible.



**The American dream is alive, but fraying. Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community’s unwavering commitment to continue to push for an economy that serves all Americans.**

- Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and  
Chairman of Business Roundtable

## CONNECTING BUSINESS AND SUSTAINABLE DEVELOPMENT

The need for a constructive business-society relation is more pressing than ever, given the consensus among the global policy community that private sector engagement is indispensable for the attainment of the SDGs. Business maintains important platforms to organize itself, not least of which is the International Chamber of Commerce (ICC), representing 45 million companies of all sizes in over 100 countries, including through its US National Committee the US Council for International Business (USCIB). The International Organization of Employers (IOE) representing 153 national employer organization members in 143 countries recognizes that only successful and sustainable businesses can contribute to the 2030 Agenda. SDG Goal 8’s particular focus on economic growth and the link to decent work puts IOE in an important position to educate about the tie between employers and all of the SDGs. Similarly, Business at the OECD or BIAAC engages particular areas of the development agenda and has, for example, proactively sought to address the global challenge of youth unemployment through engagement with the Global Apprenticeship Network (GAN). BIAAC is the officially recognized voice of business to the OECD and efforts by its members help forge a path for business within multilateral agencies in relation to the 2030 development agenda.

In some instances, business looks to development financing agencies to catalyze and help shape specific investments in sustainable development. The world’s premier development agencies such as the US Agency for International Development (USAID), the UK’s DFID, Germany’s GiZ, Japan’s JICA, and the European Union have recognized that addressing today’s global challenges requires far more resources than are available to governments, and that private sector contributions are critical to this effort. Global Development Alliances, for instance, envision a close relationship between USAID and the private sector to “jointly identify, define, and solve key business and development challenges.”<sup>23</sup> In the words of Elizabeth Littlefield, former Chairman, President and CEO of the US Overseas Private Investment Corporation (OPIC): “Whether the \$3 trillion or more a year needed to achieve the United Nations’ Sustainable Development Goals (SDGs), or the \$12 trillion needed in clean energy investment in the next 25 years to meet Paris Climate Agreement, private sector dollars will be imperative to tackle humanity’s common challenges in the years to come.”<sup>24</sup>

22 David Benoit, Wall Street Journal, 2019 “Move Over, Shareholders: Top CEOs Say Companies Have Obligations to Society,” <https://www.wsj.com/articles/business-roundtable-steps-back-from-milton-friedman-theory-11566205200>

23 “Global Development Alliances,” USAID, <https://www.usaid.gov/gda>

24 OPIC 2016 Annual Report, [https://www.opic.gov/sites/default/files/files/OPIC\\_Annual\\_Report\\_2016\\_web.pdf](https://www.opic.gov/sites/default/files/files/OPIC_Annual_Report_2016_web.pdf)

The changing landscape of the US foreign aid industry is a case in point. USAID's Private Sector Engagement Strategy (PSE) outlines a new emphasis on consulting, aligning, and collaborating with the private sector in order to achieve greater scale, sustainability, and effectiveness of both development and humanitarian programs.<sup>25</sup> The renewed commitment to working with and through the private sector is a clear acknowledgment that the amount of foreign capital entering the developing world far outstrips aid dollars (Figure 1).<sup>26</sup> This trend will most likely continue in the years to come, with the launch of new development finance initiatives and institutions by the United States government to keep pace with China's state-run investment activities. Of note, the United States International Development Finance Corporation (USIDFC) has been hailed as a "bigger, more transparent, more competitive" vehicle of development

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**Private sector dollars will be imperative to tackle humanity's common challenges in the years to come.**

- Elizabeth Littlefield, former OPIC Chairman, President, and CEO

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**Private enterprise is the single most powerful force for lifting lives, strengthening communities, and accelerating self-reliance.**

- Mark Green, USAID Administrator

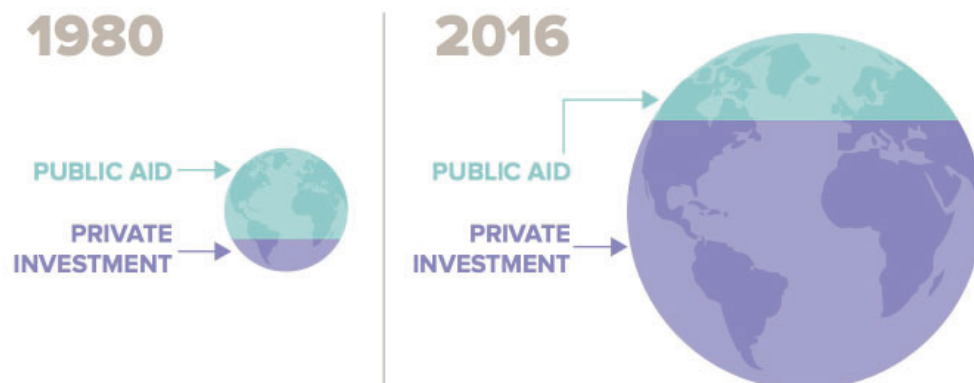
finance, signaling a new era of public-private engagement.<sup>27</sup> Moreover, as a counterpart to China's development financing push, USIDFC can be an instrument for advancing US national interests. Through promoting American businesses around the world, USIDFC allows American business to compete evenly with Chinese firms in emerging markets, assists strategic allies with economic growth, and strengthens the United States' leadership in global poverty reduction efforts.

Far from serving a limited role as a philanthropic financing channel, business provides the primary

vehicle for promoting technology cooperation, human resource training and capacity building, sharing best practices across countries and regions, and raising of global standards. This reality creates shared responsibility for the joint creation of multi-stakeholder engagement that incentivizes business to help tackle hard development and humanitarian challenges.

**Figure 1: The ratio of public aid to private investment in 1980 and 2016.**  
Source: OPIC Annual Report, 2016

## THEN AND NOW—AID AND INVESTMENT IN GLOBAL DEVELOPMENT



<sup>25</sup> USAID, "Private Sector Engagement," 2019, <https://www.usaid.gov/work-usaid/private-sector-engagement>

<sup>26</sup> Ibid.

<sup>27</sup> Center for Global Development, "Boom: A New US Development Finance Corporation" <https://www.cgdev.org/blog/boom-new-us-development-finance-corporation>

# UNLEASHING THE POWER OF BUSINESS: ROLE OF GOVERNMENT

To say that the public sector has an important role to play in the private sector's success seems almost a cliché. However, too often governments—especially many in emerging markets—struggle with creating favorable conditions for businesses to enter and operate. Through fostering a good investment climate, pursuing market and competition policies, and sustaining dialogues with business, governments can create an environment where business can grow and compete.

## Fostering a sound investment climate

Across the developing world, businesses are encountering major barriers to their operations. According to a study conducted by the World Bank Group's Enterprise Surveys, which analyzed the data of 45,000 companies, one of the most widely cited barriers to business operations is a poor investment climate. A country's investment climate depends on a multitude of factors, including “informality, tax rates, customs and labor regulation, tax administration, business licensing and permit, courts, access to land, and corruption” (see Figure 2).<sup>28</sup>

It is important to note that these factors are often mutually reinforcing; as such, investment climate reforms should not address each of them in isolation. A better approach would be to tackle the problem at its root: complex, cumbersome regulations that hamper competition and create market inefficiencies. Through simplifying regulation, governments can create enabling conditions for entrepreneurs to set up businesses, for investors to enter their markets, and for existing firms to grow.

## Coca-Cola's Coletivo Program in Brazil

One of the world's largest beverage companies, Coca-Cola offers more than 500 brand lines in more than 200 countries. The company enjoys a strong presence in Brazil, where its products account for 7 percent of its global volume.

In 2009, Coca-Cola advanced a shared value initiative to bolster its relevance in low-income areas. By addressing youth unemployment in poor urban areas (or favelas), Coca-Cola successfully capitalized on a major business opportunity. It launched Coletivo Retail, an eight-week training program to empower unemployed youths and help them find new employments. The program operates in 26 sites across Brazil and has supported 60,000 youths as of 2013. More than 30 percent of graduates found a job within six months of graduation; among these, their household income rose by 50 percent, raising the standards of living for a significant portion of Coletivo communities. The social improvements that resulted from Coletivo Retail yielded considerable financial dividends. Thanks to increased productivity and living standards in Coletivo communities, the company's sales grew 9.5 percent.

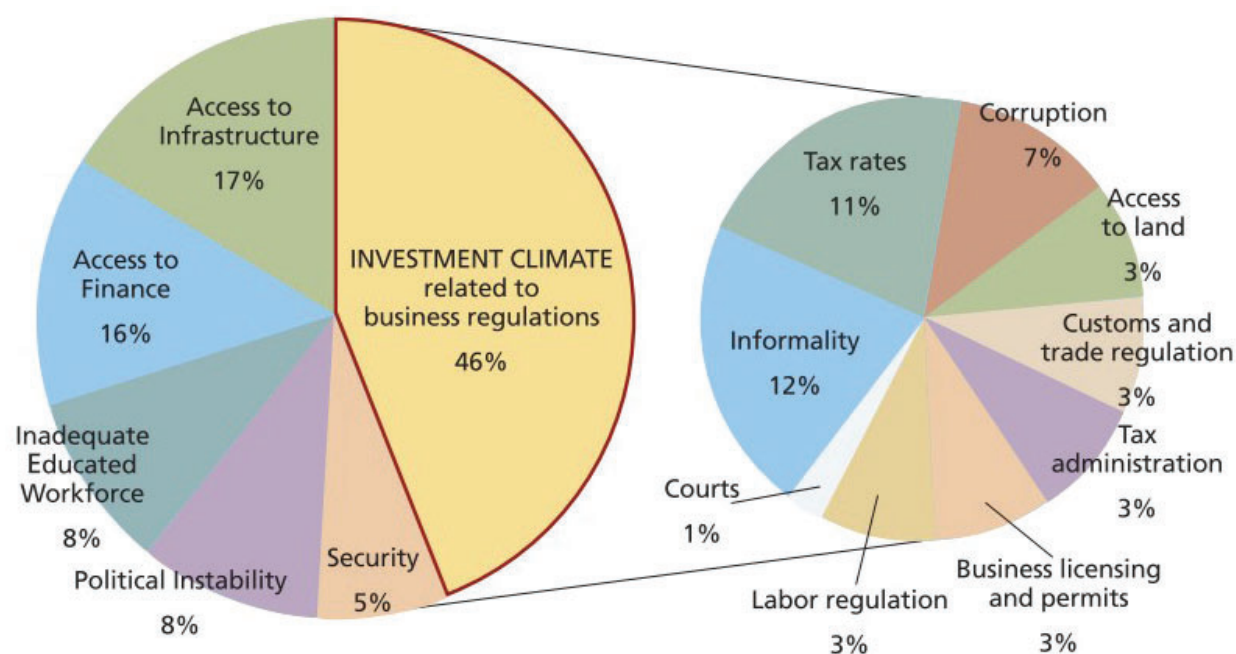
Today, Coletivo Retail has been scaled up to incorporate additional models of training and empowering low-income communities across Brazil. The Coletivo platform now consists of seven distinct models, spanning across the company's value chain. By the end of 2013, the different Coletivo models operated in 500 communities across Brazil and supported over 70,000 people.

Source: <https://www.sharedvalue.org/sites/default/files/resource-files/Thirsty%20for%20More%20-%20Coletivo%20Case%20Study%20Final.pdf>

<sup>28</sup> Enterprise Surveys database, <http://www.enterprisesurveys.org>, World Bank



**Figure 2: Breaking down investment climate.**  
Source: World Bank Group Enterprise Survey



**Business entry reforms.** Governments should work to simplify the procedures for registering new businesses, or existing businesses that are previously unregistered. By reforming business entry, governments can reduce the time and cost involved in starting a business.<sup>29</sup> Notable is the success of the Indian government at boosting the number of registered businesses after abolishing the License Raj (the system of regulations on business entry and production).<sup>30</sup>

**Competition policy reforms.** Many developing countries have yet to achieve a true level playing field in which businesses can effectively compete. Across all levels of administration, distortive regulations and anti-competition persist, often penalizing privately owned small and medium businesses while granting undue advantage to state-owned enterprises.<sup>31</sup> To address this issue, the Markets and Competition Policy cluster of the World Bank Group advises governments to “design pro-competition market regulation, embed competition principles in broader public policies, reform the competition framework and its implementation, and foster competitive neutrality in markets with direct state participation.”<sup>32</sup>

**Taxation reforms.** Businesses in developing countries typically bear high tax rates, often a result of multiple overlapping taxes imposed by different levels of governments.<sup>33</sup> In addition, the lengthy, tedious procedures of tax filing and inspections often incur significant administrative cost to companies, especially SMEs. For instance, a study on businesses in Bihar, India conducted by the World Bank shows that the cost of tax compliance is particularly onerous on small firms, equivalent to a 3.5% sales tax (in comparison to 0.8% and 0.2%, respectively, for medium and large businesses).

<sup>29</sup> Ibid.

<sup>30</sup> Aghion, Philippe, Robin Burgess, Stephen J. Redding, and Fabrizio Zilibotti. 2008. “The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India.” *American Economic Review* 98 (4): 1397–412.

<sup>31</sup> “Markets & Competition Policy: Fostering growth and shared prosperity by opening and transforming markets,” World Bank Group, <https://www.worldbank.org/en/topic/competition-policy>

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

### **Secured transactions legal reforms.**

A good investment climate is one that enables smooth business transactions and proper enforcement of contracts. Secured transaction laws are, as such, vitally important to economic prosperity. By promising creditors legal relief in case of default, secured transaction laws lubricate the movement of credit in the economy and, in turn, fuel economic growth. Developing countries can look to China's example in modernizing their secured transaction law under the guidance of the IFC.<sup>34</sup>

**Inspection reforms.** To protect consumers and businesses from health, professional, and environmental hazards, governments need to enforce strong standards. Government inspections, typically scheduled or random visits by officials to companies' facilities, can be a powerful mechanism to ensure standards are met. At the same time, however, excessively complex inspection regulations could create significant burden for businesses, distract firms from core productive activities, and discourage entrepreneurs from joining the formal economic sector. Reforms that simplify inspection reforms will save businesses considerable costs and attract more investment.<sup>35</sup>

**Business licenses and permit.** A typical example of regulatory burden is the byzantine and expensive licensing procedures that characterize many developing economies. By making it difficult for entrepreneurs to start a business, red tape ends up obstructing economic growth and deterring foreign investment. Reforming licensing and permitting processes (for instance, reducing wait time for enterprises to obtain a business license) can create a more transparent business environment and, in turn, a more attractive investment climate.

**Trade policy reforms.** There is considerable evidence that countries with high economic freedom tend to also attract business. Notably, Corcoran and Gillanders (2013) used World Bank's *Ease of Doing Business* ranking to investigate the effect of favorable business regulation on a country's amount of FDI.<sup>36</sup> The study shows that a country's Trade Rank (the ease of trading across borders) is the most decisive in shaping foreign firms' decision whether to enter its market. The more favorable a country's trade regulations, the more FDI that country attracts. It is important to note, though, that the significant effects were detected only in middle-income countries.<sup>37</sup>

### **Case Study: China**

By reforming its investment environment, China has grown its economy tremendously in the past decade and made significant progress toward reducing poverty.

Starting in the late 1970s, under the leadership of Deng Xiaoping the country took the first steps toward economic reform. Terming their economic model "socialist market economy," the communist leadership introduced mechanisms to protect property rights and encourage private enterprise, opened up to trade and foreign investment, and implemented other measures to improve China's investment climate.

As a result, the private sector expanded dramatically, accounting for 60% of the country's GDP and nearly 80% of urban jobs by 2018. Per capita GDP increased tenfold from \$440 in 1980 to \$4475 in 2002, and poverty was reduced dramatically throughout the country.

Source: [http://siteresources.worldbank.org/INTWDR2005/Resources/complete\\_report.pdf](http://siteresources.worldbank.org/INTWDR2005/Resources/complete_report.pdf)

<sup>34</sup> Ibid., 49

<sup>35</sup> Ibid., 50

<sup>36</sup> Adrian Corcoran and Robert Gillanders. "Foreign Direct Investment and the Ease of Doing Business" (December 2013), available at <https://core.ac.uk/download/pdf/155272266.pdf>

<sup>37</sup> Ibid.

### Case Study: Rwanda

Recovering from a devastating civil war in 1994, Rwanda has transformed itself into a model of economic development through policies that reformed its business environment and attracted foreign investment into the country. Within the past two decades, Rwanda has distinguished itself through one of the world's most sweeping business reform agendas, according to the World Bank's East of Doing Business Index. The Rwandan government put in place measures that made it easier for entrepreneurs to start a business, pay taxes, and register property. In addition, the country is planning to reduce red tape to simplify land issuance, and vowed to cooperate with other East African countries to remove non-tariff barriers.

The results of Rwanda's reform were striking. In 2018, Rwanda was ranked 29 among 190 countries in the ease of doing business, having risen from 41st place in 2017. From a predominantly agrarian economy, the country has become a regional service hub with blooming financial, IT, and tourism industries. Foreign direct investment has increased sharply as well: from \$650.4 million in 2016 to more than \$1 billion in 2017.

Source: [http://www.xinhuanet.com/english/2018-01/19/c\\_136906436.htm](http://www.xinhuanet.com/english/2018-01/19/c_136906436.htm)

## Public-Private Dialogue

Beyond concrete policy changes, governments may open up channels of communication with the private sector to better understand their needs. The growth of the private sector in Rwanda exemplifies the economic potential of effective public-private dialogue mechanisms. Such dialogues can be particularly powerful in a country with a young private sector and large swaths of marginalized communities. By working with a broad range of stakeholders, PPDs can promote the growth of the private sector, engage civil society, and empower traditionally marginalized groups, such as women, minorities.<sup>38</sup>

### Public-Private Dialogue in Vietnam

One of the pillars of Vietnam's economic reform agenda is public-private dialogues, through which government officials conduct meetings with business leaders—both domestic and foreign—to better understand their needs. One such meeting occurred in October 2018 during Vietnamese prime minister Nguyen Xuan Phuc's state visit to Japan. There, Phuc co-chaired a dialogue with leaders from Japanese corporations. Discussion focused on three major areas: 1) promoting internationally competitive industries, 2) facilitating the growth of Vietnam's energy sector, and 3) addressing social and environmental challenges. Throughout the dialogue, leaders of Japan's corporations shared with the Vietnamese prime minister their vision and presented their feedback on Vietnam's investment policies. In return, Phuc reaffirmed the Vietnamese government's commitment to promoting bilateral trade, economic, and investment cooperation between the two nations. This is one among many successful public-private dialogues between Vietnam and Japan in the past five years, which have strengthened Vietnam's engagement with Japan and contributed to the economic growth of both nations.

Source: <https://www.vietinbank.vn/en/new/Prime-Minister-Nguyen-Xuan-Phuc-chaired-Dialogue-with-leading-Japanese-corporations-20181102085250.html>

<sup>38</sup> Ibid, 43.



# UNLEASHING THE POWER OF BUSINESS: ROLE OF MULTILATERAL INSTITUTIONS

The multilateral system is under tremendous pressure in a rapidly changing world, and this includes the multilateral institutions that provide its underpinnings. Globalization continues to create unprecedented growth and lift millions of people out of poverty, but counter pressures in the form of protectionism threaten to undermine international cooperation at a time when it is most needed. The trend led Chinese President Xi Jinping to remark at Davos in 2017 that the global market system is the ocean we all swim in and “it is up to us to make sure that everybody can swim in that ocean.”<sup>39</sup>

Multilateral development banks, such as the World Bank, are evolving to meet these challenges, and they find natural partners in the business community. Part of the common agenda is promoting greater inclusion in the global system by promoting the rule of law and helping countries design and implement better policies for investment climate. Given that emerging economies make up more than 80 percent of the global population, the ability to leverage private finance and work through the private sector offers new opportunities to focus on important development goals such as public health and education. Incentivizing business to enter markets and deploy much needed technology, training, and job creation will provide a boost to multilateralism and at the same time reinvigorate the Agenda 2030.

As the United Nations closes in on its 75th anniversary in 2020, the Sustainable Development Goals are lagging. The rallying call may start in New York and Geneva, but implementation happens at the country level. Business needs a greater voice in the Voluntary National Review process and standardized reporting formats and metrics will help highlight gaps. Up-to-date and open data on SDG advancement is in order. Importantly, the UN and its government members need a good shot of entrepreneurial zeal to develop fresh approaches and better engage the private sector – this means putting business at the table as new partnerships are co-created.

## TAKING THE DISCUSSION FORWARD: RESHAPING THE MULTI-STAKEHOLDER DIALOGUE

The positive role of business in society rests on a fundamental reshaping of the trust relationship between disparate actors. The case for businesses large and small to contribute to the pressing development and social challenges of the world has never been clearer and the alignment of purpose has never been more pressing.

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**The Sustainable Development Goals will not be met without the private sector.**

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The tools for measuring progress have never been more available. Bridging the apparent disconnect between social institutions and society at large requires a commitment to dialogue and a new framework that will lead to tangible outcomes. **The SDGs provide a common agenda, a starting point, but the architecture and even the vocabulary to describe a shared mission is missing.**

There is no silver bullet solution and perspectives will collide, but common ground – a vision for how institutions can play their appropriate role in society – must be forged. A construct built on the regulators and regulated, the shareholders and the rest, the policy leaders and ungrounded highly ambitious targets leaves a muddled path forward.

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<sup>39</sup> Victoria Kwakwa, Vice President East Asia and Pacific, World Bank – China Daily

As a starting point, a common language must be developed. Business cannot turn a blind eye to its broader role in society. Governments, multilateral agencies, and advocacy groups cannot fail to cast common goals in terms understandable to the short- and long-term objectives of corporations constrained by market forces and environments.

Dialogue will be critical and must be sustained, but it is not the end goal. The heavy lifting of bringing parties together to produce a shared value approach means that much of the work must be done before partners come to the table. This also means that institutions, companies, or entire sectors cannot be excluded from the table based on preconceived notions about their ability to contribute. Multi-stakeholder should not be a catchphrase. While there should be no preconditions when it comes to inclusion, there must be expectations that dialogue is a means to an end – a product, a set of actions, a commitment to a process focused on tangible outcomes.

**Proposal #1:** Initiate a series of facilitated dialogues led by business to:

- Take stock of existing engagement platforms, data and compliance regimes, and monitoring and evaluation mechanisms in place or proposed.
- Disaggregate legal and regulatory compliance obligations from voluntary measures that can directly contribute to SDG outcomes.
- Explore unifying principles of engagement that draw on clear opportunities and constraints faced by business in the pursuit of SDG contributions.
- Develop a shared vision and mission that business can confidently draw upon to engage with other institutional stakeholders and society.

**Proposal #2:** Convene a multi-stakeholder, multi-sector platform for on-going dialogue to co-create the framework for public and private engagement that applies a wide lens to encompass perspectives from business, government, and civil society, keeps the SDG's agenda at their core, and considers on-the-ground realities, to include:

- A frank discussion around what is working well and the existing pressure points that constrain outcome-oriented results.
- The legitimacy of existing public and private engagement mechanisms and how they could be restructured to harness the unique roles and contributions of each institution.
- The utility of data, monitoring and evaluation, transparency and accountability structures for directly addressing shared mission and delivering preferred outcomes. Potential timelines for a multi-stakeholder “reset” aimed at constructive and measurable engagement that delivers tangible SDG-related outputs.
- Potential governance structure with multi-stakeholder “chairs” aimed at engagement that develops programs for impactful SDG-related outputs.

**Proposal #3:** Create or modify an organizing principle with a hub or platform that can efficiently and sustainably deliver new forms of public and private engagement in direct support of the SDGs, to include:

- Content generation, best practices, and scalable case studies to be replicated and spread from one sector to another.
- Resource mobilization that leverages catalytic funding models, institutional engagement support, and wraps project level efforts with appropriate reporting and human resources.

- Match making and relationship brokering to ensure common language shared between institutions, adherence to guiding principles, and placed within the legitimacy of recognized partnership frameworks.
- Intellectual leadership focused beyond project level achievements to provide unified policy positions, recognition, and SDG centered advocacy.

## CONCLUSION

A breakdown in trust cannot be reversed overnight but instead will require systematic engagement by all parts of society toward shared goals organized around broadly accepted principles of engagement. Such a transformative realignment is not likely to bring every player from every institution to the same vision, however crosscutting global challenges deserve concerted efforts that start by giving all stakeholders a respected seat at the table. Business engagement in the SDGs and other society goals remains underutilized and poorly structured.

Global data shows clearly that where business is encouraged through transparent governance and support for a better investment climate, economies grow and help lift millions out of poverty. Perhaps as important, governments and multilateral institutions that engage the business community as essential partners more successfully leverage the collective capacity of the private sector toward broader social outcomes. Moving beyond the anecdotal to a more systematic form of cooperation requires a basic reset around the roles and responsibilities of each institution.

The evolution from a purely regulatory and legal compliance-based approach toward a more holistic view that mixes voluntary principles of engagement takes advantage of the changing nature of business' role in society. As the market place assesses business on the basis of adherence to shared values and social outcomes, more companies invest in sustainability that encompasses a broad array of social and development goals. This is a positive trend but can present a confusing picture for companies and other institutional players. Ever increasing data and reporting schemes will do little to promote common goals if a legitimizing system cannot bring these important tools to bear more uniformly and transparently.

Dialogue, intentional and focused, will help business align itself around guiding principles of engagement, will help diverse stakeholders accurately assess current gaps and disconnects impairing progress toward common development goals, and will help generate new organizing principles and reinvigorated platforms for productive engagement. This is not a simple recipe nor is dialogue sufficient. It must be coupled with openness to change, respect for the essential roles that each institutional player brings to the table, and most critically, it must result in demonstrable action.

Business in society is evolving and rebuilding trust will help determine how quickly it can assume its essential role. There is significant common ground in that all institutions acknowledge that business as a key member of society possesses indispensable resources, capabilities, and reach needed to achieve social and development goals. Whether institutional players can or will break out of the current paradigm remains an open question. Still, there is great hope in the opportunity presented by the most prosperous time in human history. Forging a pathway to a sustainably shared mission built on unity of purpose, mutual respect, and commitment to engagement is the only way to meet the challenges of tomorrow.



## About the Authors

**Tom Woods** is the President and CEO of Woods International, LLC, a Washington, DC-based consulting firm focused on building public and private engagement strategies for global development and business solutions. Tom is also a senior consultant for the World Bank, where he is Chairman of the Global Steering Committee (GSC) for Quality Assurance of Health Products. The GSC is the only coordinating body that helps donor agencies and the private sector work together on issues of falsified and substandard quality medicines globally. Tom also co-founded the Global Health Assurance Partnership as both a Swiss non-profit and a US-based corporation to deliver pharmaceutical quality assurance training and services globally.

Tom also serves as Chairman of the Wilton Park USA Foundation. The Foundation organizes and facilitates high-level dialogues that address a broad range of issues from international security to global health to the future of workforce development. As an independent US 501 (c)(3), the Foundation builds on the long tradition of Wilton Park in the UK.

From 2004-2006, Tom was the Deputy Assistant Secretary for Africa at the US State Department and oversaw policy and programs for 25 US embassies in west and southern Africa in addition to managing the trade portfolio. Tom also served as the Deputy Assistant Administrator for Africa at USAID (2002-2004) during a time of great transformation for US assistance to the continent. Tom entered the State Department as a Presidential Management Fellow and has received numerous superior and meritorious honors.

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