

the corporate responsibility report

Volume 1
Summer 2004



Welcome Message -from PwC Global Sustainability Leader: Sunny Misser

PricewaterhouseCoopers is pleased to present the first issue of our newsletter -- *The Corporate Responsibility Report*. From issue to issue, *The Corporate Responsibility Report* will be dedicated to exploring sustainability issues that have a real impact on and within organisations and their stakeholders. As well, we will share news from the PricewaterhouseCoopers Sustainability network.

Each issue will feature our client's business initiatives, discussions with PricewaterhouseCoopers global practitioners, in-depth perspectives on a specific industry (such as pharmaceuticals, retail, oil & gas, and finance), white paper summaries, news of upcoming industry events, reader polls, articles authored by members of our global practice that have appeared in industry publications, and more.

We encourage you to share your thoughts and feedback about this publication through the *Rate Our Newsletter* section.

We welcome you to our newsletter and look forward to sharing our experiences and insights with you.

Regards,



Sunny Misser
Global Sustainability Leader



Discussion With PwC Managing Partner: Willem Bröcker

Why is Corporate Responsibility/Sustainability an important issue for global companies? From your perspective, what is the business case for Corporate Responsibility?

Willem: Over the past several years, we have witnessed unprecedented change on the corporate landscape and, as a result, shareholders demanding more transparency and accountability from companies. Because financial results, alone, are not enough to predict future performance, companies need to report performance in a holistic manner across multiple dimensions. By embracing sustainable development, companies can increase their competitiveness, performance, and improve their image. For many corporations, sustainability is becoming not just "a nice thing to do" but a core requirement, enabling them to increase their value and sustain profitability in the long term.

Where does PwC stand with regard to sustainability?

Willem: Sustainability is an extremely important issue for us. We do our best to "walk the talk". It is not always easy, but we have moved forward significantly in the past several years, in terms of implementing leading sustainability practices. Within our organisation, PwC territories around the world are undertaking a broad range of programs and activities that have a significant positive impact on their environments, value chains and communities.

At the global level, we participate in and support various sustainability programs. We are signatories to the United Nations Global Compact and actively participate in conferences organised by the UN on sustainability issues. Our global CEO, Sam DiPiazza, member of

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the World Business Council for Sustainable Development (WBCSD) Executive Council, chairs the working group on Transparency and Accountability at the WBCSD. PwC is a charter sponsor of the Global Reporting Initiative and actively participates in several working groups.

I would highlight one program in particular — Project Ulysses. Developing next-generation business leaders is critical in today's global business world. We developed Ulysses as a pro-bono program designed to identify future leaders and give them the opportunity for professional growth and the chance to experience PwC's commitment to corporate social responsibility.

Ulysses features eight-week project assignments in a developing country with an NGO or Inter-Governmental (e.g. UN) partner. Since it started in 2001, we have seen 24 partners from 19 countries complete projects such as:

- Developing a project management system for the Alliance of Mayors' Initiative for Community Action on HIV/AIDS in Namibia;
- Evaluating eco-tourism potential in Belize; and
- Creating an integrity matrix on good governance for the UN development program in Moldova.

This year, 18 young partners have been selected from 17 different territory firms for what I'm sure they will find to be a powerful learning experience through projects in Peru, Uganda, India, Ecuador, East Timor and Eritrea. They will have hands-on experience in addressing the business challenge of sustainability.

Each year, our published Annual Review reports on PwC programs in diversity, global deployment, code of conduct, environmental impact, human rights, quality, independence, and much more. It is part of our efforts to increase transparency and demonstrate accountability towards our people and communities where we operate.

At the global level, we support activities that relate to our core businesses. This allows us, both to learn through our participation and to ensure that we communicate PwC's positions on these issues.

Is Corporate Responsibility an important growth business for PwC?

Willem: As trusted business advisors, we see Corporate Responsibility as an area where we can add significant value for our clients.

We have deep expertise in many sustainability-related practice areas (e.g., Responsible Supply Chain Management, Stakeholder Engagement, Reporting and Assurance of Non-Financial Information, Environment, Health and Safety, Sustainability Program Development and Implementation, etc.), with nearly 400 sustainability practitioners in 39 territories globally.

We view this area as a significant opportunity to grow the business and provide our clients with highly needed and relevant services. The market for sustainability services is growing rapidly. We help our clients improve their processes and assure their processes in the domain of Corporate Responsibility.

How did you get involved in sustainability thinking and programs?

Willem: In the Netherlands, sustainability principles are a part of life. The country has always had limited resources, and we have needed to ensure that we stay in harmony with our environment and safeguard the welfare of our communities. This imperative applies to us all at every level—corporations, government, the not-for-profit sector, and each and every Dutch citizen. Sustainability, for us, is essential. It's not a matter of choice, but rather a critical element to ensure a prosperous and safe future for the generations to come.

The majority of leading companies in the Netherlands are developing corporate social responsibility programs aimed at increasing their positive contributions to society. For example, TPG, a post and logistics multinational based in the Netherlands, has established a "Moving the World" program. Through this program, in partnership with the United Nations, TPG commits its people and logistical resources to help to deliver food to people in need in developing countries. The critical point in all such programs is to align them with the company's strategy and core businesses. When this is achieved, the societal benefits are maximised.

Do you think that's the case for other nations in Europe and rest of the world?

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Willem: Countries are at very different stages of development and have different mindsets at the leadership level. That influences their approach to sustainability and investments in it.

You could say that there is a slow global negotiation under way between countries that have opted for sustainability as a core value and other countries that, for quite varied reasons, are currently less committed. Nevertheless, I see significant

support around the world for sustainability and related issues. The very positive fact is that all major stakeholder groups are involved in dialogues, trying to understand each other and jointly decide on solutions to move forward.

To find out more

Contact Willem Bröcker, PricewaterhouseCoopers Managing Partner — Markets, The Netherlands.

Corporate Responsibility in the Pharmaceutical Industry

By Thomas Schweiwiller
Partner, Sustainability Leadership Team,
PricewaterhouseCoopers

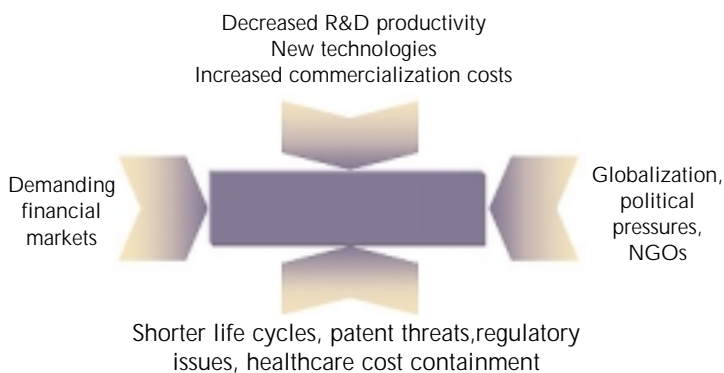
The pharmaceutical industry is undergoing a challenging period. It has led to Corporate Responsibility becoming one of the leading business issues that pharmaceutical CEOs are addressing today. This industry is experiencing a time of intensified competition and strategic consolidation. One of the major factors generating this trend is the shift in different stakeholder positions with regards to the industry.

Pharma companies are facing informed and active stakeholder pressure from government, media, NGOs and the public. At the same time, financial stakeholders and regulators continue to become more demanding in terms of information requirements.

The diagram below represents the vision of top management at a global pharma company and sums up the principal forces acting in the industry today.

The focal issue

In terms of corporate responsibility, however, perhaps the most critical long-term issue concerns ‘access to health’. Patent protection and affordability are two of the most important topics related to this particular issue.



So where do we stand at the moment? There is a need to supply effective medication at an affordable cost to those who need it, notably in developing countries, but also to those in the developed world who lack adequate insurance coverage. Pharma companies, who currently adhere to the WTO Agreement on Intellectual Property Rights and patent protection, have to focus on recovering their research and development costs on new medicines in order to do business. Meanwhile, public health care in many of the countries where affordable medicine is most needed suffers inherently from inefficiencies and inequalities. The UN Universal Declaration of Human Rights states that one of the fundamental human rights is the right to health.

Access to health is, therefore, a complex, high profile and emotional industry issue that is far from resolved. Communication and dialogue between “Big Pharma” and their stakeholders will be key going forward.

The WHO recently presented a report showing how disease is a drain on development, stating that improving people’s health may be the single most important determinant of development in countries such as Africa. Global, local NGO and campaign groups are among some of the most vocal opponents of pharma companies’ current efforts to tackle the health crisis in developing countries.

Investors, too, are voicing concerns on this issue. Recently, a group of Europe’s biggest investors — controlling \$900 billion of assets —

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have written to 20 of the world's top pharmaceuticals companies outlining the steps they believe need to be taken to reduce the risks to the industry's reputation from crises such as the AIDS pandemic.

The industry is responding to these concerns and some pharma companies have introduced measures, including:

- Discount pricing of medicines;
- Free distribution of certain medicines to the least developed countries through joint public-private partnerships with organisations such as the UN; and
- Donations to global funds aimed at improving diagnosis and treatment of specific chronic diseases.

In addition, most global pharma companies are involved in active, transparent stakeholder engagement in the search for an appropriate and acceptable solution to the access to health issue.

Industry performance: Solid growth

The pharma industry itself, however, is showing solid growth, despite a difficult global economic climate. According to IMS Health, global audited sales of pharmaceuticals rose 8% in 2002 to reach \$400.6 billion.

Underlying demand for modern pharma products and prescription drugs remains strong from aging populations and other groups. Reasons for this include increased available consumer income, changes in lifestyle and diet prompting an increase in heart disease, diabetes and cancer, improved diagnostics bringing earlier and longer treatment, and unsatisfied medical needs including higher use of treatments for chronic conditions.

Experts believe that these fundamentals should ensure continued industry growth going forward. However, meeting this increased demand within the constraints of satisfying all stakeholders is where the challenge lies for pharmaceutical companies.

Global pharma companies are now among the largest companies in the world in terms of market cap. The 4th Annual Pharma Executive 50 reports that each of the top 10 pharma companies:

- Had sales of more than \$11.5 billion in 2002;
- Posted growth figures over the previous year except for Bristol Myers-Squibb;

- Marketed a combined total of 23 products that made more than \$1 billion each in sales; and
- To varying extents, addressed corporate responsibility issues, developed stakeholder dialogue and engagement, and reported on their social and environmental performance.

Stakeholder expectations are influencing the whole pharma industry value chain. In this article, we broadly divide the pharma value chain into three categories: R&D, Manufacturing, and Sales and Marketing, in order look closer at some of the key corporate responsibility issues currently affecting this industry:

Value Chain Category #1: Research & Development

The mainstay of the pharmaceutical industry's long-term competitiveness is its ability to pay for Research & Development. Pharma R&D is extremely costly and has a high failure rate, even at the later testing stage. The time taken to develop a new drug varies, but recent evidence suggests the average is around 12 years. Nevertheless, the trends show that over the last 10 years, global R&D investment has been steadily increasing, not only to improve innovation rates but also to meet the rising costs of creating a new product.

However, the pharma industry is faced with stakeholders such as pressure groups, NGOs and international organisations — notably the WHO — that are demanding further evaluation of and philosophical debate on the social and ethical implications of biotechnology in medicine. Their goal is to ensure a balance between scientific progress and public accountability, respect and transparency in terms of the potential future risks in research in this area.

Read More.

Value Chain Category #2: Manufacturing

Pharma manufacturing quality is an important driver in successful and timely product launches, the optimization of revenue streams, the enhancement of a company's reputation, and ultimately the maximisation of shareholder value.

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PwC Sustainability Pharma Experience

PricewaterhouseCoopers has deep expertise in the pharmaceuticals industry. One shining example is a case study on our Sustainability Solutions: Provision of Assurance for Non-Financial Information for a Global Pharmaceutical Company

Other recent engagements in the pharma industry for global leading organisations include:

- A post-merger Environmental Health & Safety strategy and implementation to develop an approach to harmonise goals with a newly merged firm. The approach involved facilitated dialogue with internal and external stakeholders and the formulation and communication of the EH&S strategy.
- Development and implementation of a process-oriented and integrated Quality Environmental, Health & Safety System, capturing the sites' activities in more than 80 well-defined processes (R&D, manufacturing, management processes, and more).
- Responsible Supply Chain Monitoring to ensure the compliance with corporate policy of sourcing and procurement activities for a company's manufacturing operations in China.
- Global inventory assessment of a company's Corporate Citizenship program: The engagement included inventorying current Corporate Citizenship activities and identifying opportunities to showcase, integrate, document, and enhance a company's Corporate Citizenship performance.

Pharma companies are widely expected to address the corporate responsibility issues of appropriate working and employment conditions and Health, Safety and Environmental (HSE) performance with regard to their manufacturing operations.

Read More.

Value Chain Category #3: Sales and Marketing

As R&D and manufacturing activities continue to be outsourced to specialists, pharma companies are focusing on tasks that provide potential in terms of differentiation and value. One of these areas is marketing and selling.

A key target group for the pharma sales forces are prescribing doctors. The discussion about unethical business practices in marketing such as overly influencing prescribing doctors and providing important donations to medical associations in return for positive articles published in trade journals is high on the agenda. Pharma companies try to ensure regulatory compliance, among other things, through implementing codes of conduct.

Read More.

The PricewaterhouseCoopers Pharma Offering

A coherent business-oriented approach to corporate responsibility can serve both to limit the downside risk, as well as provide new business opportunities for companies in the pharmaceutical industry.

PricewaterhouseCoopers' Sustainability Business Solutions professionals have solid experience in working with pharma companies on addressing corporate responsibility issues such as those detailed in this article.

PwC is also able to leverage a solid knowledge of this industry sector given that we audit the majority of the world's largest pharmaceutical companies. We have also developed an internal industry-based training programme (Industry Insights) that ensures that our professionals develop and maintain a deep understanding of industry structures and issues. Furthermore, our Pharma Networks of Excellence Intranet and other sites provide up-to-date industry-specific information.

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A Responsible Supply Chain Case Study: IKEA

Description of Client's Business



The IKEA Group is one of the world's largest home furnishings

companies. It operates 165 stores in Europe, North America and Asia and sources products from approximately 1,600 suppliers in 55 countries. IKEA has a strong company culture based on IKEA's fundamental values of creating a better everyday life for as many as possible. Therefore, it is a natural part of IKEA's business to ensure that all products are produced considering strong environmental and social standards.

'The IKEA Way on Purchasing Home Furnishing Products' is IKEA's Code of Conduct that states the minimum demands expected of all IKEA suppliers. It defines IKEA's requirements regarding social and working conditions, child labour, environment and forestry.

The Client's Challenge

IKEA has considered the incorporation of

the values in the entire supply chain to be a long process of learning. Through their trading service offices, IKEA works closely with their suppliers and visits them on a regular basis. IKEA has contact both locally and internationally with organisations such as UNICEF, Save The Children, the International Labour Organisation (ILO), WWF and Greenpeace. IKEA also has an agreement with IFBWW.

"One of the big challenges," says Annemette Nielsen, Project Manager, PricewaterhouseCoopers, Denmark, "was that local governments need to get more involved in improving the conditions at suppliers in developing countries. A new WorldBank study by PwC will focus on how governments can help in the process of improving social, working and environmental conditions."

"Today," she continues, "more and more companies are being asked by their customers to document that they comply with the customers' Codes of Conduct,

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Helle Bank Jorgensen
Director, PwC Denmark



Annemette Nielsen
Senior Consultant, PwC Denmark

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inspiring the companies to develop their own or join into a industry or standard Code of Conduct, and starting evaluating whether their own suppliers comply with the social and environmental requirements."

"Companies use great amounts of resources on branding their products and companies," adds Ms. Nielsen. "If resources are only used on telling the right story and not on ensuring that the story they tell is true, they not only lose the resources spend on branding, but they also are worse off damaging the reputation and brand. "Responsible business leaders, therefore, need to ensure compliance," says Ms. Jorgensen, "both in terms of compliance with the law, but also in terms of compliance with consumer expectations."

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IKEA wanted to create a strategic and systematic approach to responsible supply chain management. Therefore, they contacted PricewaterhouseCoopers to have procedures further developed and incorporated in order to ensure that all their suppliers produce in accordance with internationally recognised conventions and standards within environment, forestry, social and working conditions.

The PricewaterhouseCoopers Solution

"The cooperation between our two companies started in 2000 and has continued since," says Helle Bank Jorgensen, Project Manager, PricewaterhouseCoopers, Denmark. "It began with reviewing IKEA's Code of Conduct and auditing tools. Next, PwC participated in the training of IKEA's internal auditors, performed independent party monitoring visits of IKEA's suppliers in order to determine compliance with IKEA code of Conduct, and we evaluated the performance of IKEA's internal auditors' work."

PwC took a global approach to creating a solution. Our project teams provided:

- Advisory Services in connection with the development of an internal compliance organisation, control and reporting tools to ensure consistent compliance with IKEA's Code of Conduct.
- Development and training of IKEA's

internal auditors, calibration visits to IKEA suppliers, including on-site training at supplier's premises of IKEA's internal audits, and independent monitoring visits at suppliers that define IKEA's requirements regarding social and working conditions, child labour, environment and forestry. As IKEA puts it "ensuring acceptable social, working and environmental conditions at suppliers is a process, not a project."

- Advisory services regarding development of routines, procedures and distribution of roles and responsibilities within IKEA.
- Third party monitoring visits to randomly selected IKEA suppliers to ensure suppliers' compliance to IKEA Code of Conduct and provide an overall evaluation of IKEA's compliance system.

Benefits/Results to the Client

The implementation of PricewaterhouseCoopers' solution contributes to IKEA being able to:

- Have an internally embedded responsible supply chain program -- including trained internal auditors;
- Better ensure acceptable conditions in the supply chain within environment, working conditions and human rights; and
- Improve compliance processes and procedures via feedback from calibration visits and PricewaterhouseCoopers' overall evaluation of the Compliance system.

Instead off waiting for NGO's and the media to find areas for improvement, IKEA has taken a proactive approach. Via a network of Trading Service Offices, IKEA helps suppliers to improve their operations. In addition, an internal support and monitoring group follows up developments on a global basis. PwC then externally monitors this work for suppliers located in Europe and America.

"A company that has strong values is IKEA," concludes Ms. Jorgensen. IKEA's vision is to create a better everyday life for as many people as possible. This also led IKEA to start working with Responsible Supply Chain management. It is a natural part of IKEA's business to ensure that all products are produced considering strong environmental and social standards."

"Being successful with social and environmental work is not an easy thing," says Anders Dahlvig, President of the IKEA Group. It takes a dedicated organisation. It

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A 2003 PwC CEO Survey Reveals that CSR is Viewed Strategically Important by Leaders of the World's Largest Companies.

The globalisation is increasing. Companies are moving their production to low-cost countries where the actual environmental, social, health and safety conditions are below the standard consumers can accept. Often, the lower standard is not due to deficient local laws, but due to missing compliance with the law, including ILO conventions ratified by the countries.

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A WorldBank study that PwC conducted, involving consultation of a wide range of suppliers, buyers and international and local NGO's, donors, and unions, stressed that to improve the conditions at suppliers, the suppliers have to "own" the focus on CSR and they have to see the business case. Many companies have realised this.

Instead, these countries have, for a while, been auditing their suppliers, but now realise that it is not a simple task or a single string task to ensure acceptable working conditions at suppliers. Control alone is not efficient. Global corporations are becoming more and more concerned about finding out how to develop and implement responsible supply chain programmes that are wider in their approach, including audits of suppliers, education of employees involved with the suppliers, training of suppliers, cooperation with local and international NGO's to help the suppliers improve the conditions, and more.

"It seems as if some already are going in the right direction, looking at a citation from an Indian supplier involved in the WB study," says Ms. Nielsen. "Buyers' efforts in this area had achieved more in a few years than the Indian labour inspectorates had in 30 years."

takes clear goals, strategies, time plans and responsibilities. And above all, it takes a vision to create a better everyday life for the many people. We have a business idea based on low prices and cost-efficiency. And we have values that support a humble, cost conscious and humanistic way of behaving. All this is a real strength in our work with social and environmental responsibility.”

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Country Focus: The Rising Tide of East Africa

By Nancy Asiko Onyango
 Director, PricewaterhouseCoopers,
 Eastern Africa

A few years ago, professional services currently offered under the Sustainability banner were little known in East Africa. Not any more. With the clamour for proper corporate governance, responsible supply chain management, corporate social responsibility, and the need to address risks posed by HIV/AIDS at a strategic level within organisations, the services are getting more popular.

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So why is sustainability attracting such interest? Executives within the East African business community perceive this as an opportunity to build their reputation. An increasing number of executives now realise that certain issues related to sustainability enhance corporate image.

Currently, business executives are drawn to the practice and debate around sustainability by the glamour and publicity related to corporate social responsibility (CSR), which has emerged as a factor that contributes towards better corporate reputation. No wonder most multi-nationals have adopted CSR in one form or other. But leading companies have fine-tuned their CSR response to provide some competitive advantage, essentially a tie-breaker in highly competitive sectors such as oil, banking, and telecommunication.

Noteworthy events build Sustainability’s credibility

The growth of numerous award schemes and forums that recognise sustainability have made the topic hard to brush off. A big event like the FIRE (Financial Reporting) Awards in Kenya is noteworthy.

This is an annual event by the Institute of Certified Public Accountant of Kenya (ICPAK), an accountants’ forum, and brings

together over 65 companies to recognise best practices in financial reporting. Here, companies have embraced this scheme that goes beyond its core purpose of raising standards of financial reporting to also encourage companies to report on corporate governance, environmental prudence and corporate responsibility.

Every year, the Federation of Uganda Employers also rewards best practice in corporate social responsibility and ethics. East African Business Summit is a regional forum, where PricewaterhouseCoopers — playing a key role — also has urged CEOs to address environment degradation, corporate governance and the frightening ravages of HIV/AIDS. Also conducted by PricewaterhouseCoopers is The East African Most Respected Company survey. Based on peer reviews amongst CEOs the survey assesses corporate reputation based on number of attributes including social and environmental responsibility.

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As a result of these events, company executives have begun to address sustainability issues and build non-financial disclosure into their annual reports.

Activism and stringent standards jolt executives into reality

On the flip side though, emerging issues surrounding sustainability have brought along enormous risks. For instance, activism is rife, and the export markets have imposed stringent standards that threaten to shut out errant companies. These trends such as the supply chain pressure and activism have jolted executives to the reality that failure to respond to sustainability issues can affect business operations and even lead to untold agony.

NGO activism has become common in the region and companies are increasingly falling prey. It is worrying that NGOs have, in fact, formed an industry that targets misbehaving companies. Now the activists

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are increasingly bold and take on their corporate victims at will.

Recent examples include:

- The boycott of Del Monte products, which sprung from a case of labour rights violations at one of their fruit processing plant in Kenya.
- Tiomin, a Canadian mining operation, was held ransom for over two years by NGOs for insufficient compensation to local communities and a sloppy environmental management plan.
- Under the guidance of some local NGO, part of the Maasai community recently protested its isolation by a subsidiary of Brunner Mond, a UK-based soda ash manufacturer.

More examples in horticulture and EPZs

In both the horticulture sector and export processing zones (EPZs) the tale is the same. The suppliers are engaged in protracted wrangles over labour issues. As always, the tobacco industry has not been spared. Besides health concerns for smokers, in Kenya and Uganda, activists have widened the debate to stormy issues on health, safety, compensation of the tobacco farmers, and underage smoking. The heat seems slightly off for pharmaceutical companies, but reading from the placards brandished at the US President during his recent visit to Uganda, it's obvious that issues related to pricing and availability of antiretroviral drugs have not abated.

These incidents have raised supply chain concerns in both the regional and global markets. Mainly, products for export to Europe and USA have been affected. Suppliers of tea, horticulture and apparel products are being monitored closely to ensure they adhere to minimum standards of labour practices and even chemical residues.

Daunting corporate governance challenges

As is the case globally, companies in the East African region face daunting corporate governance challenges. Recently, embarrassing incidents such as boardroom coups and stormy AGMs have received unflattering media coverage. Corporate scandals and collapse have also created

anxiety among investors, depositors and regulators, especially in the financial sectors.

In East Africa, the corporate board is now under scrutiny, and is being pressured to steer company affairs off "troubled waters".

PricewaterhouseCoopers' Sustainable Business Solutions have recognised the challenge the preceding factors posed to our clients and are responding to these through:

- Supply Chain Monitoring — In Kenya, we are already working with PwC UK to monitor labour practices on behalf of the Tea Sourcing Partnership. This monitoring effort will soon expand into Tanzania. We've also been part of a World Bank study that analysed effectiveness of buyer driven codes in influencing supply chains.
- HIV/AIDS Risk Evaluation and strategy formulation — An increasing number of companies realise that HIV/AIDS at the work place is a business risk that they must address.
- Corporate Governance Risk Evaluation and compliance to legislation.
- Stakeholders' Management Solutions, especially for companies in embattled sectors such as EPZs, horticulture tobacco and mining.
- Non-Financial Reporting, e.g. Triple Bottom Line reporting for the companies that want to improve disclosure.

However, not all companies are rising with the sustainability tide. A majority, especially the local companies, lag behind and are yet to recognise the value of responding to the challenge.

Find out more...

To find out more about PwC's efforts in Sustainability in East Africa, please contact Nancy Asiko Onyango, Director, PricewaterhouseCoopers Global Risk Management Solutions, Eastern Africa. Telephone: +254 (0)20 285 5000 Fax: +254 (0)20 271 1184

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Presentation to FEDERE 2004, the European Forum on Environment and Socially Responsible Enterprises

March 29-30, 2004

Thierry Raes

Sustainable Development and Corporate Social Responsibility Department Partner, Sustainability Leadership Team, PricewaterhouseCoopers President, Ecobilan

Do private companies exist to carry the burdens of the entire human race? One could be enticed to believe so when reading a number of reports and statements of companies on sustainable development.

The wording used to speak about these concepts is far from trifling: between 'sustainable development' and 'corporate social responsibility', one somehow loses track as to the exact meaning behind those concepts, and none of them gathers a shared understanding from the stakeholders.

I believe that the democratic State and the citizen are there to build the world in which we want to live in. This has been summed up by the Heads of States in the United Nation's Millennium Development Goals. The States and citizens have a greater responsibility for sustainable development than companies do. The choice for sustainable development comes from society, not from the private sector.

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It is the company's duty to act in a responsible way, respectful of its internal and external stakeholders, and to consider — in line with its business management — the consequences of its activities on present and future generations. Otherwise, its license to operate could be withdrawn by society.

The terms of "Social Responsibility" are hard to accept

Unfortunately, for some company directors, the terms of "social responsibility", especially in their French translation, are hard to accept. They ultimately prefer the ambiguity of the terms "sustainable development", stressing especially the second word, and sometimes keeping the confusion going on between business and human development.

Having said this, integrating these concepts into the company strategy (instead of having a specific sustainable development strategy) involves making some choices. These choices should normally deal with key elements of the company life cycle,

which include the staff and the product portfolio.

In the context of standard human relations procedures or of contract making, the integration of all this into a company's strategy includes:

- Identifying ways to develop company members, as well as their families, in particular through work/life balance, to encourage the progress of subcontractors, and their stakeholders in general; and
- Reconsidering the product portfolio and research, choosing to encourage innovation in fields that prove to be helpful to society, to the development of the people, to health, to mobility, to feeding, etc., accordingly to the company's core business.

Does CSR harbour something truly new?

A company that bankrupts its shareholders is not sustainable. A company that does not listen to its customers can be considered dead. A company that despises its employees will perish in contempt. Everyone knows this. So what is new with stakeholder management?

All companies implement "standard" management procedures, the ones you learn in school, for profitability, human resources and sales.

Upon closer inspection of its processes, the company notices that a continuous progress approach increase performance: you then talk about better financial communication, you shift from "staff" to human capital, and from sales to Customer Relationship Management. All in all, respecting stakeholders and managing well meet naturally.

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True, but there's a catch, a new stakeholder is showing up and has started shaking things up, the famous civil society, well-known of the politicians: composed of those not registered in the voting lists, either because they do not vote — the landscape, air quality — either because they are not yet born — future generations — either because they do not buy, and more than one billion people live with less than a dollar a day.

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They can launch an Internet site from their garage

They are not on the radar screen. They do not answer polls. They are not included in market studies. But they have representatives which, in a democratic world — no CSR without democracy — can launch an Internet site from their garage attracting more interest than those of the companies they denounce, can stop a pipeline construction, can cause the fall of the Berlin Wall or the Carnation Revolution, or claim the right to health.

These social progress expectations put pressure on the private sector, which are not responsible for hunger in the world, nor AIDS, nor access to water, but to whom society turns, because States and global governance do not do their job well enough, nor quickly enough.

This atmosphere leads companies to progress, but slightly changing the paradigm: from financial communication, they shift to governance, and Board of Directors subcommittees on ethics; from human capital management, they start considering diversity and equal opportunities; from customer relationship,

they shift to eco-design and fair trade.

Under the pressure of the new stakeholders, the enterprise continues to progress, adopts a more empathic organisation, better tuned with society.

But beware of the possible incident touching the sinews of war: companies were seen parading ahead of CSR indexes but drowning in losses, under the pressure of the markets. Just like a television game show where the earnings pyramid collapses and restarts from zero, the cost cutting programs hit the non-strategic activities hard, and the President who supported a CSR program finds himself accused of scattering, losing focus on management.

It is clearly visible that there is no point in leading a CSR strategy, but on the contrary one should have a unique strategy towards economic and social progress, increasingly empathic, without forgetting that an excess of altruism will be severely sanctioned.

For More Information...

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New Publications From PricewaterhouseCoopers

“Social Report: A Fourth Basic Financial Statement: On The Social Dimension of Enterprises”

— by Luis Perera Aldama, Partner and Co-Leader of SBS Chile, PricewaterhouseCoopers

Historically, the preparation of social reports has moved in different directions, from long narrative descriptions to precarious or disintegrated information. Typically, these reports utilise a genuine desire of showing a social action. Unfortunately, the reports sometime look for notoriety, for marketing or to improve a company's corporate image.

Nowadays, to report on Corporate Social Responsibilities actions, integrating with the world and stating a competitive advantage have become necessities.

Because of these factors, companies have been induced to develop efforts to make progress and divulge their activities on CSR. This has caused an increasing interest in their so-called social reports.

As focused as financial statements

“After dealing with conventional financial statements for so many years,” says Perera, speaking from his office in Santiago, “it came to me that, to make social reports credible and transparent, they should be focused in the same way as financial statements.”

“What was lacking,” continues Perera, “was a format. I read many reports from all over the world and noticed there was no uniformity. I found a lot of good intentions, but no standard that would help make things comparable within industries and geographies — even within companies.”

Setting a new standard

Nevertheless, the challenge has been to show the company as integrated, and not as two separate companies — economic and social —, one in spite of the other.

With this in mind, Perera set out to create and propose a new standard. His book shows that a fourth financial statement, describing an organisation's behaviour in terms of corporate citizenship and social actions, can use the generally accepted accounting principles it already uses in its balance sheet, income statement, and cash flow statement.

The book is aimed at a wide range of readers: companies and entrepreneurs, regional and international groups of

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companies promoting corporate social responsibility, as well as accountants and auditors focused on working in this area.

Specifically, "The Fourth Basic Financial Statement":

- Is intended as a basic text that serves as a reference;
- Includes examples of practical application, with a model as the missing link for companies to report systematically on their social responsibility actions, easy to understand but with technical precision;
- Allows companies to be regarded as agents for social change;
- Offers advice that transparency of a company's action, from a financial and social view, is also a contribution to improve its image, its reputation, and creates a new paradigm: the current company is its people, acts with the people, and acts for the people.

"Finally!" writes Bob Willard, author of "The Sustainability Advantage." "Here is an innovative way to concisely capture and allocate the social value contributed by a business to its various stakeholders, building on traditional financial statements. A much-needed job well done."

For More Information

This book is currently available in Spanish and English. To purchase this publication, please contact Luis Perera Aldama, 56 2 94 00 008.

Señor Perera is a 30-year PwC veteran and co-leader for the Sustainable business Services for the South and Central America territory.

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In the News: Hong Kong MTR Project

Assurance on MTR's Sustainability Reports 2003- 2005 and Improvement on Sustainability Processes, Systems and Governance Structure

MTR Corporation (MTR) operates Hong Kong's commuter railway system. With over 115 km of track and 6 lines, the railway system transported over 775 million passengers and generated a net profit of over US\$500 million in 2003. MTR is also involved in property development and management, as well as offering railway consulting services in more than 20 overseas cities.

Listed on Hong Kong's Hang Seng Index constituent, MTR is included on DJSI and FTSE4Good Indexes as well. Under the direction of its Sustainability Development Manager, Glenn Frommer, MTR actively participates in the implementation of UITP's (Union of International Transport Providers) Charter on Sustainable Development.

PricewaterhouseCoopers' SBS team in Hong Kong, led by Simon Copley, has been engaged by MTR in a 3-year program to strengthen its sustainability reporting systems and related internal controls in order to provide enhanced comfort to management and stakeholders over the quality of information provided.

The 5-phase engagement starts with the provision of a limited assurance on MTR's Sustainability Report 2003. The subsequent phases look at improving MTR's Sustainability management, reporting processes and systems, as well as its governance structure with a view of providing a higher level of assurance in 2004 and 2005.

For more information

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PwC team: Andrea Oschetti, Isabelle Kan and Simon Copley

In the News: PwC Launches Ireland Sustainability Practice

First to market amongst its competitors, PwC in Ireland launched its new Corporate Social Responsibility (CSR) Practice at a breakfast briefing in January 2004. PwC in Ireland sees CSR as becoming an area of sharper focus for business and this new service is in response to client demand.

The new service was formally launched by Ireland's Deputy Prime Minister, Mary

Harney TD and Minister for Enterprise, Trade and Employment who gave the keynote address. Also speaking was Seamus Scally, Group Managing Director, Musgrave Group, Ireland's largest family-owned retail company and first in Ireland to produce a CSR Report.

This new CSR service:

- Is headed by Niamh Whooley who

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Pictured in The Irish Times are, left to right: Seamus Scally, Group Managing Director, Musgrave Group; Mary Harney, Ireland's Deputy Prime Minister, and Donal O'Connor, Senior Partner, PwC Ireland

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outlined the CSR concept and her insights into developing a CSR Strategy.

- Surrounds the important area of defining a set of values demonstrating how a company plays its part in society across four dimensions: workplace, marketplace, environment and community.
- Provides a framework for linking all stakeholder concerns and expectations into business strategy and operations.

In addition, analysts and investors are also enthusiastic about CSR reports as they include social and environmental information in addition to financial criteria, providing them with a better snapshot of the performance of a company. It has been proven that good corporate social responsibility will enhance long-term shareholder value.

For further details or queries about CSR contact Niamh Whooley at +00 353 1 662 6805 or email niamh.whooley@ie.pwc.com.

MICROSOFT: Challenges for Corporate Citizenship

By Dan Bross, Microsoft Global Director of Corporate Citizenship

Why does Microsoft care about corporate citizenship?

Our commitment to corporate citizenship is driven by two beliefs — first, a simple recognition that as Microsoft has grown, so has our impact on society. We recognise that our decisions have significant consequences for other companies, for the technology industry, and for people and communities worldwide. We take that responsibility very seriously.

Second, we believe that there is a business case for corporate citizenship. The long-term success of any business, ultimately, is dependent on strong relationships with key stakeholders — customers, partners, employees and the greater community in which we live and work.

Those relationships are built on trust. Over our 30-year history, we've learned a lot about what it takes to build trust and keep it, to earn respect and return it, and to create the kind of business environment that inspires successful partnerships and collaboration. Responsible corporate citizenship forms the foundation of our efforts to build (and maintain) that kind of trust.

What does corporate citizenship mean for Microsoft?

Citizenship at Microsoft is:

- An approach to doing business that emphasizes our roles and responsibilities as a global corporate citizen, and responsible industry leader;

- A standard of conduct that strengthens our relationships—with customers, partners, investors, employees and communities—through the choices and actions we make every day; and
- A system of values that guides our business decisions, enabling us to address society's ethical, legal, & commercial expectations of business.

These guiding principles shape our commitments as a company. Our citizenship efforts are built on three key corporate commitments:

- **Helping individuals and businesses realize their potential:** Microsoft's mission—what drives our employees every day—is developing new technologies that help individuals and businesses to achieve their goals. This includes our commitments to our customers in the public and private sectors, our partners and employees, and individual consumers. But it also extends to the broader community — particularly those that are underserved. Microsoft has made a comprehensive commitment to digital inclusion — helping individuals, communities, and nations gain access to the technology tools, skills and innovation they need to operate in the changing economy. The company is committed to: helping make software more available, helping make software easier to use, particularly for individuals with disabilities, helping people access technology skills training, and helping create commercial opportunity through our products and services.
- **Responsible industry leadership:** Microsoft strives to be a responsible industry leader, and actively partners

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with governments and many other companies on public policy issues that are important to consumers and the overall health of the technology industry. A key component of corporate citizenship for us focuses squarely on ensuring that technology moves forward in a way that ensures both that its benefits are disseminated broadly and that there are strong technology and societal solutions to the technology problems that emerge. This involves our participation on issues such as security, privacy and children's safety online. Responsible leadership also extends to our commitment to maintaining open and transparent business practices—living by high standards and guidelines regarding our standards of conduct, our financial reporting and corporate governance, and our reporting policies.

- **Enabling opportunity:** Through our partner-based business model, Microsoft helps to create economic opportunity and is an important part of the local economic base in countries and communities around the world. In recent years, the IT industry has emerged as an engine of growth and opportunity. The global market for IT products and services is projected to exceed \$1.4 trillion in 2005. In countries worldwide, Microsoft works with partners to develop innovative products and to implement technology solutions that generate skilled jobs and billions of dollars in local revenues.

For example:

- 1500 Microsoft IT Academies worldwide provide education and certification in technology and Microsoft products;
- 600,000 company partners help bring technology and solutions to customers and communities around the globe – and provide jobs and economic growth;
- 22,000 technology companies worldwide earn an average \$8 for every \$1 earned by Microsoft; 89% of revenue generated by solutions partners that use Microsoft stay with partners.

What are the major corporate citizenship challenges Microsoft faces?

We operate, together with other companies, at the forefront of an industry that is changing the way people work and interact. The rapid change in information technology is one of the driving forces of

our economy and defining features for our generation. This clearly creates important responsibilities for us as a company and more broadly for us as an industry. But it also creates a number of challenges for society. We think about challenges such as online security, privacy, spam, inequitable access to technology, children's safety online, and other similar issues on a daily basis. We're working to address these challenges head on — but these are areas where there's no existing blueprint, so it requires a good deal of creative thought and innovation. We're fortunate in that innovation is a key character of our DNA!

Additionally, we have a number of very important legal obligations that come out of the challenging antitrust litigation experience we have gone through as a company, and still continue to go through with the European Union case. Most notably, we devote substantial resources to ensuring we are in full compliance with the consent decree we entered into with the U.S. Department of Justice and eighteen states. (On June 30th, the U.S. Court of Appeals for the District of Columbia Circuit issued a unanimous, six-judge ruling affirming Microsoft Corp.'s settlement and final judgment with these parties. While we are very pleased with the progress we have made to date in reaching settlement with Sun Microsystems, AOL/Time Warner, as well as ten private state class action suits, we are continuing to work hard to resolve other pending litigation. We are committed to moving beyond issues of the past to build more constructive relationships with governments and industry and to understand the important role we play in the industry.

What are the key objectives of the Corporate Citizenship project with PwC? (from your perspective)

Quite simply, our goals for this project were to conduct a comprehensive assessment of our citizenship efforts — including an honest appraisal of our areas of strength and an identification of those areas where we need to focus on improving our performance.

What do you see as the key benefits of this project?

The report's recommendations provide a clear roadmap for the work we need to do in both the short- and long-term. It helps us to assess ourselves objectively and to better understand what we need to do to be responsive to our company's multiple stakeholders — be they our customers, our employees, our investors or the CSR community at-large. Ultimately, this project is a critical tool in helping us shape our corporate citizenship efforts — and to continue our efforts to build trust with the global community.

“Unfamiliar Territory”: Discussion with Professor Peter Senge, Massachusetts Institute of Technology

Reprinted with permission of “Link” — A monthly PricewaterhouseCoopers internal newsletter, February 2004

Link: In a nutshell, what is the main mission for Society for Organizational Learning?

Peter: The basic idea is very simple: that world organisations can do together what they can't possibly do by themselves. SoL sets out to enable collective or collaborative change, and reveal knowledge that can be as widely shared as possible. The whole area of sustainability is a prime example. There's very little that any one company by itself can do to lead industrial societies toward a way of living that conserves rather than destroys our social and natural capital.

Link: Can you give us some examples?

Peter: Well, one example of what's going on in the sustainability consortium is the materials pooling project. That tackles a very, very complex change process where no company by itself can make much headway. The basic idea is, how can we learn to collaborate across very complex supply chains so as to systematically identify and eliminate sources of waste and toxicity? If companies work at it together and create a demand for environmentally sound alternatives, then something may be really changed.

Our goal right now is to see if we can make some headway around three or four material platforms. For example, we're trying to get a good cross-section of auto industry people and others that use dangerous anti-corrosion metal treatments and companies that supply those customers. We're also concentrating on leather — the standard processes for tanning leather are pretty horrific. They cause a lot of fatalities around the world and produce lots of chemicals that are very destructive to ecosystems.

Link: But how do you make a business case for improving the situation?

Peter: If you look hard at any long-term investment or new technology, the idea that there is a cut-and-dried quantitative business case is nonsense. There's an argument you can make, but lots of times you're wrong. What's the business case for investing in your people? What's the business case for a major acquisition? There's never a cut-and-dried business case for any significant long-term investment, but we make such investments nonetheless all the time.

But there are some investments that companies are used to making. Others, they're very unused to making. So I think the main issue here is that this is unfamiliar territory.

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I can give you one example of how companies come to some reasonable determination. One of the largest sellers of fish products and agricultural goods in the world is also one of the largest users of water. They look at global practices in fishing, agriculture, and water, and they basically say, the business case [for sustainable development] for us is survival. That's one type of business case, and believe me, it's very compelling.

Link: Do you think the sustainability movement is changing? How do you see the next 10 years?

Peter: I think this decade is a crucial decade. I think it's probably going to see more dramatic social or political and environmental disruption. These two are always very closely connected. Look at the tragic case of water. Increasing numbers of people in the world are headed toward situations of severe dehydration. Meanwhile, the soft drink industry collectively already controls probably close to 10 percent of the world's drinkable water, and it's growing rapidly. I think you're going to see some significant shifts starting to occur.

Consider materials. You know, it's not bad luck that cancer rates are going through the roof in all the advanced countries. There are two obvious sources of this — our food and our products. I expect to see more class-action suits. All of a sudden, business is going to go, “Oh, my God. We always used the cheapest thing we could use from a materials standpoint, if it provided some functionality we desired. And we can no longer think about it that way.”

Link: Where do you think the political leadership in sustainability is coming from?

Peter: Europe has clearly taken leadership in some areas, such as end-of-vehicle-lifetime directives. If you sell a car in Europe today, for example, you are responsible for taking the car back at the end of its productive life. Similar legislative initiatives are taking shape with other products, like consumer electronics. So I think in this decade we should see some real breakthroughs, with a significant

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percentage of products being designed for remanufacture and recycling, so less and less toxic material will end up in waste dumps.

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China is also creating major ripples, for example in the auto industry. Will they elect to develop manufacturing capacity focused on traditional internal combustion technology, or seek to "leapfrog" to far more environmentally sound options? In many ways they are in a commanding position, given the enormous growth in private cars predicted.

I think the Chinese government may get more and more vocal in making very strong demands for the partnership contracts with western multinationals that focus on next-generation technologies in core industries.

The other thing that's very interesting today is the way economic activity is integrated around the world. So any major trading block has a lot of leverage. For example, the European Union (EU) end-of-vehicle lifetime mandates are in fact becoming global mandates. If you're an auto manufacturer, you're going to go through all the trouble of figuring out a way to eliminate mercury from your switches for the cars you sell in Europe and not do the same for the cars you sell all around the world. You've worked for years to build integrated product platforms, and you really can't afford to have totally different switches around the world. The same will probably be true of many of the materials changes that the EU is driving.

One interesting thing about that is it means the US political process, which has been so stalemated on most environmental issues, is becoming less and less relevant. That, to me, is one of the most important dynamics starting to play out in the world. The US electorate seems so unmoved by problems like global warming. But people in other parts of the world are very moved. I expect other major trading blocks to take more initiative, from demanding alternative technologies to enacting tariffs or other penalties for those who generate large amounts of carbon dioxide emission.

Link: You've been named one of the 24 most important contributors to business strategy in the 20th century. Who are your personal heroes?

Peter: That's a lovely question. Well, I was

very fortunate to get to know Ed Demming in the last few years of his life. He was a wonderful combination of a very deep thinker who was a lifelong learner. And he had a huge impact on the world — a real intellectual leader. Intellect and heart, that's what really matters to me.

I've also in the last four or five years gotten to know Peter Drucker a bit. I think everybody admires his ability to think about such broad and diverse issues and to be able to deal with them in a very practical way that really makes sense. I really admire his mastery of being able to talk about very complex issues in a way that can really communicate to the nontechnical expert.

Gosh, there are so many other people I admire a lot. Barbara Stocking is somebody I admire a great deal. She's the president of Oxfam UK — a really masterful manager, really helping people achieve tangible results in a way that grows people and builds a foundation for innovation in the long term.

Link: Do you have any advice for PwC's Sustainable Business Solutions practice?

Peter: I think you guys are in a fortunate position, in that you can get really good clients, and that's always the key, in any kind of service business. If you can get really, really good clients, you're going to learn a ton. Then you share it with many other clients.

A consultancy company and an accountancy always have a very high potential for influence on industry behaviour — for better or worse, right? I wish I did know how to offer advice. The only thing I can say is, it seems to me that the key to your long-term success is to have the very best clients, and that doesn't necessarily mean the biggest. It doesn't mean the most famous. It basically means the most serious. It means the ones that have capacity to innovate, companies that are really pioneers — even if you may not make quite as much money working with them.

About The Author

Peter M. Senge is an acclaimed author and a senior lecturer at the Massachusetts Institute of Technology. He also co-chairs the Society for Organization Learning, a global community of corporations, researchers, and consultants dedicated to the "interdependent development of people and their institutions."

Join Us At These Global Sustainability Conferences & Events

AICC

21-22 July 2004

Johannesburg, South Africa

Second Bi-Annual Corporate Citizenship Convention

"Building on the success of the 2002 convention in defining Corporate Citizenship in Africa, 2004 will set the benchmark for linking Corporate Citizenship to growth and competitiveness." Philip A. Armstrong, Chairman of the AICC and Principal Convenor and Editor of the King Report on Corporate Governance for South Africa 2002.

The convention is an extraordinary opportunity to shape the African business agenda in line with strong international moves to integrate corporate citizenship into mainstream business practice. Africa's challenges of corporate governance, HIV/AIDS, local content and SMME development, poverty alleviation and the digital divide will be addressed at the convention.

A highly interactive networking and learning experience, enabling delegates to take away a practical framework to progress their corporate citizenship strategies.

Attend this function if you are an executive, manager, practitioner, policy maker, regulator or academic who wants to be part of shaping the future of business in Africa.

Interactive Sessions Covering:

- Linking core business strategy to sustainability for long-term competitiveness;
- Making codes and standards work for your organization;
- Market and opportunity creation as a competitive differentiator;
- Corporate governance and sustainability reporting;
- Brand & reputation stewardship as a tool for competitiveness;
- Risk management;
- Country level competitiveness through Corporate Citizenship.

Includes official international launch of the African Corporate Citizenship Forum – a multistakeholder platform for action

Inviting CSR teams from organisations to attend. Facilitators will be available to optimise company specific learning outcomes.

For more information, contact Nkosithabile Ndlovu on +27 11 643 6604 or email nkosi@aiccafrica.org

5th International Sustainability Forum

26-27 August 2004

Rüschlikon/Zurich, Switzerland

Business Investment in Development: Experiences. Scenarios.

Swiss Re's Center for Global Dialogue

Is there really a "business case for development"? Poverty, underdevelopment and wrong development do certainly constitute challenges for politics, but do they also offer real opportunities for the private sector? The main thesis to be discussed at the Sustainability Forum 2004 is this: based on its expertise in strategically important sectors like agriculture, health provision and finance, the private sector can make a substantial contribution to development in poor countries; and this contribution from the private sector is indispensable for getting closer to achieving the United Nations' Millennium Development Goals.

This thesis opens up a set of key questions that will be discussed at the forum:

- Which strategic contributions can the private sector make to development in what way, based on its specific expertise and resources?

- Which practical experiences lead to which conclusions for the future?
- What principles and rules of the game are essential for the cooperation between the private sector, state agencies and civil society institutions — and how can they be lived in a trustworthy way?
- How can the private sector's contribution be credibly communicated?
- What scenarios can be built for the private sector's future involvement in development processes?

On August 27, Thomas Scheiwiller and Tom Craren, Sustainability Business Solutions, PricewaterhouseCoopers, are featured speakers, presenting a case study and panel discussion entitled, "Transparency".

Register online www.sustainability-zurich.org

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19th World Energy Congress & Exhibition

September 5-9, 2004, Sydney, Australia

BSR 2004 Annual Conference

Integrating CSR: New Risks, New Rewards

November 9-12, 2004, New York, NY

Consistently drawing attendance from more than 1,000 leaders of business, civil society and the public sector, and representation from more than 35 countries, the Conference is one of the largest and most valuable networking events for CSR practitioners. Early registrants receive a

discounted fee through July 31, 2004. Additional discounts are available to BSR members.

Visit the BSR Conferences section for more information.

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