

**DEVELOPMENT AT RISK:
RETHINKING UN-BUSINESS PARTNERSHIPS**

Ann Zammit

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THE SOUTH CENTRE AND UNRISD**

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PREFACE

In recent years there has been an upsurge of initiatives that engage companies and the United Nations in collaborative ventures that are commonly called partnerships. Under the umbrella of “UN-business partnerships” are a variety of initiatives, involving, for example, specific projects, global health programmes and multi-stakeholder initiatives such as the Global Compact.

These new relationships have attracted considerable attention and controversy. For some, they constitute a pragmatic way of sensitizing the business community to development issues and improving the developmental impacts of transnational corporations and other business enterprises. Partnerships are part and parcel of contemporary policy trends associated with corporate social responsibility and good governance. For others, partnerships constitute a mechanism through which large corporations can gain undue influence over the public policy process and enhance their image and competitive advantage. In the case of the Global Compact, there are concerns that such gains are being achieved in return for relatively little, given the weak mechanisms that exist to ensure that companies actually adhere to the nine human rights, labour and environmental principles promoted by this initiative.

In view of these debates, UNRISD commissioned this report by Ann Zammit. It forms part of a broader UNRISD inquiry into the developmental and regulatory implications of corporate social responsibility and the potential and limits of so-called voluntary initiatives for improving the social and environmental performance of large corporations.

I would like to take this opportunity to thank the South Centre for co-publishing this report and for facilitating its dissemination in developing countries. I am also grateful to the MacArthur Foundation and UNRISD’s core donors, the Governments of Denmark, Finland, Mexico, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom, for having supported the Institute’s work in this area.

A handwritten signature in black ink, consisting of a series of fluid, connected strokes that form a stylized representation of the name Thandika Mkandawire.

Thandika Mkandawire
Director

United Nations Research Institute for Social Development

FOREWORD


The issue of transnational corporations (TNCs), their roles in development processes, and their behaviour and actions in developing countries have been important to North-South relations, and have figured prominently in the work of the United Nations. This included efforts spearheaded by the Group of 77 to negotiate codes of conduct, promote the transfer of technology, and control restrictive business practices. These efforts were not crowned with success and the initiatives were shelved under the impacts of the rising tide of globalization. Indeed, the whole focus shifted radically, with developed countries assuming the initiative and seeking “national treatment” and “a level playing field” for their corporations investing in the South.

On both accounts, and for obvious reasons, developing countries were concerned. Since the issue of transnationals loomed larger than ever, including through their increasing presence in the intergovernmental circuit and in organizations dealing with subjects of interest to them, and given the pressure from the North to secure full access to the UN for business as part of civil society, there was a need for the UN to respond. This gave rise to the UN Secretary-General’s proposal on the “global compact”, and to various other “partnership” initiatives, aimed at involving the business community in promoting and attaining development objectives and goals.

Developing countries have looked with a degree of scepticism “jaundiced eye” at these developments. Many among them feel that these undertakings, accompanied with the usual publicity, would give an impression that something significant is being done for their development, while foreclosing attention to the deeper, structural and policy-related issues having to do with TNCs, and which should be on the UN agenda. They see the “global compact” as having the potential to infringe on their national sovereignty, and as an additional dimension in their asymmetrical relationship with the countries of the North. Using TNCs to promote human rights and environmental goals in the South seems odd, in view of the nature of the North-South debate on these issues in the UN and in the WTO. The developing countries are also weary of mounting influence of the Northern TNCs in the UN and other international organizations, including through funding of specific activities or institutions, especially in some domains with significant political and economic implications.

Symptomatically, no in-depth and systematic policy analysis of and debate on these issues has been taking place in the UN. As well, the developing countries have not been able to evolve a common position and examine in a comprehensive manner the various implications of the current situation and ongoing trends.

The South Centre is pleased, on the occasion of the 2003 G77 Marrakech High Level Conference on South-South Cooperation, to join with UNRISD in co-publishing this important report prepared by Ann Zammit, in the framework of the broader study of UNRISD on the issue of corporate social responsibility. The study is to be welcomed by all concerned. It provides a wealth of empirical information and a series of important questions and policy conclusions which will contribute to the international debates and raise the level of awareness. In particular, the study should be useful to developing countries who need to probe carefully these “liaisons dangereuses” that the UN and international organizations have entered into and evolve appropriate policies and responses.

A handwritten signature in dark ink, appearing to read 'Boutros Boutros-Ghali', with a stylized flourish at the end.

Boutros Boutros-Ghali
Chairman of the South Centre Board

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Sincere thanks are owed to a number of people for supporting this work in different ways. First to UNRISD staff Peter Utting and Thandika Mkandawire, whose commissioning of this study indicated confidence in my ability to navigate uncharted waters. Other UNRISD staff, in particular Désirée Abrahams, Suroor Alikhan, Anita Tombez and Pam Smaridge, provided a supportive environment throughout. Anita deserves special thanks for her unstinting help in preparing the final text, as does Jenifer Freedman for her editing. Thanks are also due to Jem Bendell, Edouard Dommen, Branislav Gosovic, Cynthia Hewitt de Alcántara, Thandika Mkandawire, Marybeth Mor-sink, Judith Richter, Michael Zammit Cutajar and Peter Utting who were generous with their time and commented on the lengthy draft. My thanks also to the United Nations Global Compact Office, in particular to Georg Kell and Gavin Power for their comments and clarifications. Last, but far from least, Ajit Singh was an ever-ready intellectual sounding board, for whose critical support I am immensely appreciative. The usual caveats, however, apply.

The MacArthur Foundation provided financial support for this study and UNRISD provided core funding.

ABOUT THE AUTHOR

Ann Zammit studied economics and political science at Ruskin, the adult workers' college in Oxford, and economics at the University of Cambridge, in England. While raising a family, she has also had a varied working life as a consultant with international organizations (the Organisation for Economic Co-operation and Development, the United Nations and the Organization of American States) and as a university lecturer and researcher in the United Kingdom and in Chile. She has also been a development journalist and helped establish the International Broadcasting Trust, a non-profit film production company, for which she researched and/or co-produced television documentary films on global development issues. Her most recent employment was at the Geneva-based South Centre, an intergovernmental organization of developing countries.

OVERVIEW

In brief

In recent years the United Nations (UN) has increasingly engaged in what it refers to as partnership with the private sector in order to hasten the achievement of the development goals of the United Nations (UN). This idea underpins the United Nations Global Compact, an initiative launched in 2000 that aims to encourage business participants to improve their corporate social and environmental behaviour in line with nine principles. These principles reflect certain labour, human rights and environmental standards that are already established in international law and that many civil society groups had wished to have included in internationally binding trade rules under the World Trade Organization (WTO), a proposal that has been firmly rejected by both the business sector and developing countries. Also under the partnership banner, the UN engages with business in a multitude of ways to undertake specific tasks that directly or indirectly are expected to speed development in the South.

To claim that such efforts to promote shared values, improve corporate social responsibility (CSR) and deal with urgent development tasks are anything but laudable would seem almost churlish or perverse. Nevertheless, this study suggests that, under present arrangements, partnerships cannot make a significant contribution to development. Indeed they may actually be counterproductive. This conclusion derives from the fact that no amount of effort through the Global Compact and specific partnerships can compensate for the negative development impact caused by the current global and national economic policy regimes that are heavily promoted by transnational corporations (TNCs).

The UN and TNCs: Conflicting interests?

While the UN often refers to the need to engage the “private sector” in its development efforts, in practice this means that it is often large Northern firms, which are considered to have the relevant expertise or specific products for the task in question, who are involved in many of the partnerships. Such firms themselves also actively seek partnerships with the UN, as these provide a valuable vehicle for promoting corporate strategy. As with all public-private partnerships (PPPs), the issue of identity or conflict of interest between the “partners” has to be addressed. While at one level there can be easy agreement on immediate goals or outputs, this does not necessarily entail an identity of ultimate interests. Partnerships therefore need to be assessed not only in terms of whether the specified immediate partnership goals or outputs are achieved, but also in terms of other, possibly unintended, outcomes that have development implications. Thus partnerships to undertake development-related tasks in countries of the South (such as “providing cheap medicines to save lives”) also provide opportunities for corporate image enhancement, vehicles for market penetration by providing already powerful enterprises with preferential access to developing country markets, and other means of increasing competitive advantage and policy influence, for example, through privileged access to developing country governments.

It is also necessary to be circumspect about the increasingly popular idea in UN circles that foreign direct investment (FDI) is, in and of itself, an act of CSR and thus, by definition, will contribute to the achievement of the UN Millennium Development Goals. Even if TNCs paid greater attention to improving their social and environmental behaviour, the notion of “FDI as a manifestation of CSR” would still be highly contentious. Not all FDI brings benefits in terms of net additions to employment, net foreign exchange inflows or transfers of technology. Moreover, there is considerable empirical evidence to show that foreign investment often does not behave in ways that can be regarded as responsible from the host country’s perspective, as, for example, when enterprises engage in corruption and tax avoidance. Furthermore, unfettered flows of FDI create problems for macroeco-

conomic management and lead to financial crises, and are therefore not in the interests of most developing countries.

This brings to the fore an overriding issue that tends to be overlooked when discussing partnership between business and the UN: the basic inconsistency between the policy interests of developing countries and the policies promoted by the UN's corporate partners. This is not just the view of those protesting against the current form of globalization: the work of many scholars and institutions demonstrates that neo-liberal economic policies, which are both the progeny and the promoters of TNCs, do much to inhibit economic and social development in many parts of the world. There is now a wide measure of agreement on how the current global economic regime enshrined in the current global rules under the WTO and the Bretton Woods institutions could be made more conducive to development, but these changes are opposed by powerful business lobbies.

Moreover, in considering the value of UN-business partnerships it is important to take into account their impact on the UN, and to guard against the idea that relations between business and the UN are between equal partners. The UN, the linchpin of the multilateral system and the global institution that approximates most closely to an embryonic form of global government, is the guardian of the global public good and public interests must be paramount. It is also important to be sensitive to the fact that close relations between the UN and big business provide ample scope for "capture". Partnership with the UN not only provides opportunities for business to pursue more directly its own policy interests within the UN, but the public purpose of the UN becomes subverted if it begins to promote the policy goals preferred by business when these are far from universally approved.

Corporate social responsibility: The limits of voluntary approaches

The impact of the Global Compact and other forms of UN-business partnerships would have to be very significant indeed to outweigh the negative development impact of the neoliberal global economic regime.

But this study points to a number of factors that limit the extent to which the Global Compact and other partnership arrangements can give globalization a more human face. Since its inception, the range of businesses participating in the Compact has increased substantially, and the types of mechanisms and activities undertaken to promote corporate responsibility have multiplied. In “learning by doing” in its first three years, the Compact has responded to criticisms regarding the complexity and limited usefulness of its electronic reporting and learning mechanisms, somewhat refining these and, at the same time, promoting dialogues to explore the business case for CSR and other aspects of the business role in promoting sustainable development. It has also made efforts to encourage small- and medium-sized enterprises (SMEs) to adhere to the Compact’s principles and participate in other Compact initiatives, though their capacity to do so is severely limited.

In practice, however, the arrangements for monitoring and evaluating efforts by business to implement the principles, which were hesitant from the outset, have essentially shifted outside the Compact. Participating companies now commit themselves to setting out in their company annual reports how they comply with the Compact’s principles. Ultimately, it is up to civil society groups, including shareholder activists, to monitor companies’ efforts and goad them into improved CSR performance.

Company reporting on CSR is notorious for being strong on rhetoric and good intentions but weak on indicators of measurable progress. Moreover, the intended recipients of such reports -- shareholders and potential investors -- are not renowned for their vigilance regarding the social and environmental behaviour of firms, though this is slowly changing. And, bearing in mind that a large and increasing proportion of Compact participants are developing country firms, many of which are likely to be family firms, this reporting procedure may be even be irrelevant -- and, if not irrelevant, exceedingly time-consuming and difficult to undertake in a meaningful way, as is acknowledged even by large corporations.

Structural limits to corporate social responsibility in developing countries

There are also a number of structural factors that need to be taken into account when assessing the scope for change through voluntary efforts to improve CSR in developing countries. These include the structure of production, the segmented labour market and firm-size distribution, among others. The Compact has recently begun to put more emphasis on drawing SMEs enterprises into its activities, which should widen the scope of improvements well beyond what can be achieved through the efforts of TNCs. Nevertheless, since a large proportion of the population earns its livelihood in activities not encompassed in “formal” firms, other ways need to be found of improving standards for the bulk of the working population. The growing numbers of National-level Compacts involving businesses and some non-governmental organizations (NGOs) may provide more appropriate forums for seeking ways to make the principles operational in different national contexts, according to national priorities, the size of local firms and local forms of corporate governance, among other things. By promoting greater discussion on how the various labour, human rights and environmental principles could be made operational in developing countries, National Compacts may also contribute to greater national discussion on how to generate decent work for the large numbers labouring in the urban informal sector and in subsistence and semi-subsistence agriculture.

Corporate social responsibility: A systemic issue

Yet there remains the question of how far social and environmental behaviour can be improved through voluntary efforts by businesses themselves. This study argues that this is a complex systemic issue, and the answer depends primarily on the economic cost and the impact of CSR measures on profit levels, rather than on the morality of corporate managers or shareholders. An estimation of both short- and long-term costs and benefits of CSR measures is necessary to the calculation, with the benefits covering a range of factors associated with corporate strategy, including increasing market share and raising share value. This is illustrated by examining the workings of the Anglo-Saxon model of

corporate governance in recent decades. Under other models of capitalism and forms of corporate governance, the means of improving corporate social and environmental responsibility would be handled differently. But at the end of the day, in the absence of government subsidies or considerable governmental regulation, there are limits to the extent to which firms will undertake voluntarily society's demands for greater corporate responsibility.

In a number of advanced industrialized countries operating under the Anglo-Saxon model, in which the promotion of CSR has become a virtual industry and in which large firms have a public reputation to defend, CSR can be used by firms as a public relations tool to enhance the corporate image -- reputations and brand-names are highly valuable intangible assets. Large corporations, in particular, are in a position to advertise their association with the UN Global Compact with a view to massaging their image and benefiting from the association with the UN, while doing little of real substance to improve their social and environmental behaviour. What is more, the Compact's existence is used by some of its larger corporate participants to fend off arguments for establishing multilaterally agreed standards and rules of conduct for TNCs. Yet such a tactic is only useful as long as there are concrete indications that the present voluntary approach is producing results. As mentioned above, the capacity of the Compact to deliver is constrained by the fact that it has no effective internal monitoring or compliance mechanisms.

The need for public regulation

The fact that, over the decades, the standards of business social and environmental behaviour have tended to improve in many countries is due as much to technological change, collaborative social institutions and government regulation as to voluntary efforts. In countries where Anglo-Saxon capitalism predominates, big business itself promotes the idea of the "business case" for voluntarily improving CSR, that is, the idea that it may be of short- or long-run benefit to the firm. Nevertheless, even if companies did take more serious steps to improve CSR, leaving the matter to voluntary efforts through codes of conduct and

multistakeholder initiatives does not necessarily produce the optimal outcome from society's point of view. In effect, leaving companies to choose which CSR measures are adopted means that the decision is based on which civil society pressures bear most heavily and, thus, which would be most costly to ignore. Allowing companies to choose between the expressed priorities of different single-issue civil society groups does not necessarily coincide with the priorities that might emerge through a more democratic political process.

UN-business partnerships: What kind of reform?

Turning to the arrangements between the UN and individual firms that the UN refers to as partnerships, a review of the situation reveals that this term covers a multitude of activities and relationships, perhaps best conceptualized as a special case of “close” rather than “arms-length” relationships between government and business. Though there are UN guidelines for selecting business partners and conducting the relationships, these seem to be observed more in the breach than the practice. Moreover, as yet there is no central register of such partnerships that would make them easily available for public inspection. Many partnership activities are such as to enhance the market position of the large companies involved, possibly to the detriment of developing country firms.

Reforms to increase the effectiveness of the Global Compact and efforts to rationalize and make marginal improvements to the current UN-business partnership arrangements are unlikely to yield sufficiently significant results as to overcome the negative effects of the current global policy regime. It is hardly rational, therefore, for the UN to continue to draught in companies as “development partners”, while these same firms continue to promote policies that have not proved conducive to promoting patterns of development that reduce poverty and stimulate balanced and sustained economic growth.

Moreover, UN partnerships, including Compact activities, present major opportunities for large businesses in particular to be seen to be active in efforts promoting CSR. But whether this translates into

significant changes in corporate practice regarding the principles is not known. The existence of the Global Compact is used as a pretext by some business interests to thwart efforts in other parts of the UN to establish multilateral codes of conduct for TNCs, even though there is little concrete evidence to indicate that voluntary efforts are fully effective or that TNC conduct is beyond reproach.

The question also arises whether the present situation, whereby different UN agencies and programmes each develop partnerships with business -- possibly in competition for relations with the same firms and on their own contractual terms -- is conducive to achieving an optimal allocation of public resources and optimal partnership terms and conditions. These are issues that need serious attention by the UN, with regard both to their development impact and the integrity of the UN.

Policy conclusions: The need for a development-oriented strategy

This study concludes that there are limits to the improvements in CSR that can be achieved through the current arrangements in place under the Global Compact. Nevertheless, more could be achieved if the Global Compact were to divert its energies and resources to boosting developing country efforts to improve labour, human rights and environmental standards in ways that contributed to more socially inclusive patterns of development. Clearly, when the UN engages in partnerships with businesses to achieve specific development tasks, the relationships should be rooted in a framework of accountability and responsibility that also includes a commitment to adhere to the Compact's principles. However, the formal requirements of the UN's business partners should go beyond this to include other commitments, not least a commitment to shun transfer pricing and to pay local taxes, rather than negotiate tax reductions or exemptions.

The UN in fact needs to go even further, by highlighting the fact that voluntary CSR efforts and public regulation are not substitutes but serve to reinforce one another. This is essential if the Global Compact is not to be seen as a mechanism that gives succour to the idea that

multilateral regulation of international business is unnecessary and counterproductive. Yet even this would be insufficient to counter the present situation whereby, in partnering with powerful private sector interests, the UN directly and indirectly legitimizes the policy interests of TNCs, even though various UN studies have pointed to the need for changes in the current policy regime. With respect to FDI, there is wide agreement that, rather than accord right of entry and costly incentives to foreign investors, developing countries need the freedom to select both the level and kind of FDI that is consistent with their economic situation and poverty reduction strategies. They also need the flexibility to set the national policy framework within which FDI is to operate.

Thus the study also concludes that, if the UN is serious about speeding up development in the South while involving the private sector in a more purposeful manner, it is crucial that a new strategy and policy framework be devised. Such a strategy would aim to bolster developing countries' efforts to draw up their poverty reduction strategies and, importantly, determine the critical mass of co-ordinated investments needed to generate positive externalities and a virtuous circle of growth and development so as to achieve the goals within a set timeframe. The UN would play a pivotal role in this strategy by facilitating, where necessary, the kind of assistance required in undertaking this latter technical task. Equally if not more importantly, the UN (for example, the United Nations Development Programme -- UNDP) would work to ensure that, for each country, a fund were available from national, bilateral and multilateral sources (including debt relief) that was sufficient to finance the co-ordinated investments needed to expand infrastructure, improve public services and social investments such as health and education, as well as to facilitate the actions needed to develop local production capabilities and capacities and promote national and social integration. Industrial policy and competition policy would be designed to enhance local production capacities and FDI would play its part as and when crucial to, and compatible with, this fast-track plan and macroeconomic and other policies that promote sustainable development.

Where the involvement of foreign firms was required in order to undertake specific tasks, such as developing public services, they would be engaged on a contractual basis that also involved a commitment to help build up local capacities to expand and manage such infrastructure or services, where possible on a turnkey basis.

Such a strategy -- designed to reach clear social and economic goals embracing the whole population -- would provide a more attractive investment scenario for foreign investors than that found in many developing countries at present, even if it demanded a more significant TNC commitment to CSR. Thus foreign investment under these circumstances would demonstrate a clear commitment to CSR and to development. Whether the UN would be able to mobilize and co-ordinate the international community to provide the necessary funding, and gain wider acceptance for the appropriate national and multilateral policy framework, would still depend, however, on the political will of the world's major industrial powers.

In sum, large companies would be clearly manifesting greater CSR if, and only if, in addition to demonstrating good practice with respect to labour, environmental and human rights standards, they were to promote and work within an economic policy framework, including rules for FDI, that was more conducive to sustainable development and poverty reduction in the South.

ABBREVIATIONS AND ACRONYMS

AAI	Accelerated Access Initiative
ABB	Asea Brown Boveri
AIDS	Acquired Immunodeficiency Syndrome
BITC	Business in the Community
BPD	Business Partners for Development
BSR	Business for Social Responsibility
CBOs	Community-based organizations
CEO	chief executive officer
CERES	Coalition for Environmentally Responsible Economics
CIP	Competitive industrial performance
CIS	Co-operative Insurance Company
COMECON	Council for Mutual Economic Assistance
CSD	Commission for Sustainable Development (United Nations)
CSI	Coalition of Service Industries
CSOs	civil society organizations
CSR	corporate social responsibility
CVI	Children's Vaccine Initiative
ECLAC	UN Economic Commission for Latin America and the Caribbean
ECOSOC	United Nations Economic and Social Council
EPI	Expanded Programme for Immunization
EPZs	export processing zones
ESN	European Services Network
FDI	foreign direct investment
FAO	Food and Agricultural Organization
GA	General Assembly
GAIN	Global Alliance for Improved Nutrition
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccination and Immunization
GDP	gross domestic product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GL	globalization and liberalization
GPPN	Global Public Policy Network
GPPPs	global public-private partnerships

GRAMA	Groupe de recherché sur les activités minières en Afrique
GRI	Global Reporting Initiative
GSDF	Global Sustainable Development Facility
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IAVI	International AIDS Vaccine Initiative
IBFAN	International Baby Food Action Network
IBLF	International Business Leaders Forum
ICC	International Chamber of Commerce
ICFD	International Conference on Financing for Development
ICFTU	International Confederation of Free Trade Unions
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
INSEAD	Institut Européen d'Administration des Affaires (European Institute of Business Management)
IOE	International Organization of Employers
ION	inter-organizational network
IPPR	Institute of Public Policy Research
IT	information technology
M&As	mergers and acquisitions
MAI	Multilateral Agreement on Investment
MFN	most favoured nation
MMV	Medicines for Malaria Venture
NAM	Non-Aligned Movement
NGOs	non-governmental organizations
NICs	newly industrialized countries
NOP	National Opinion Poll
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the United Nations High Commissioner for Human Rights
PFI s	Private financing initiatives
PPP s	public-private partnerships
PR	public relations
R&D	research and development
SD	Sustainable development
SDT	special and differential treatment
SEE	social, ethical and environmental

SMEs	small- and medium-sized enterprises
SRI	socially responsible investment
TB	Tuberculosis
TNCs	transnational corporations
TRIMs	trade-related investment measures
TRIPs	trade-related intellectual property rights
UDHR	Universal Declaration of Human Rights
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCED	United Nations Conference on Environment and Development
UNCSD	United Nations Commission for Sustainable Development
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFIP	United Nations Fund for International Partnerships
UNFPA	United Nations Population Fund
UNHCHR	United Nations High Commission on Human Rights
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
UNU/WIDER	United Nations University, World Institute for Development Economics Research
USAID	United States Agency for International Development
USS	Universities Superannuation Scheme (UK)
WBCSD	World Business Council on Sustainable Development
WBI	World Bank Institute
WHO	World Health Organization
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

I. UN-BUSINESS PARTNERSHIPS -- WHAT IS AT STAKE?

Let us choose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations. (*Kofi Annan, Secretary-General of the United Nations, addressing the World Economic Forum, 30 January, United Nations 1998a*)

Corporate social responsibility (CSR) has emerged in recent years as an issue that increasingly galvanizes civil society and the business sector in advanced industrial countries, especially those where the Anglo-Saxon model of capitalism reigns. The promotion of ethical business behaviour has spawned a whole new “industry”, involving single-issue campaigning non-governmental organizations (NGOs), activist shareholder groups, voluntary standard-setting and monitoring bodies, and profit-making consultancies, among others. Discussion of “ethical business” is almost daily fare in the quality press and the subject motivates considerable research.

What is CSR? There is no easy response: the term seems to cover whatever corporations or their critics think it should embrace. For example, Business in the Community, an organization based in the United Kingdom, has indicators to quantify business CSR performance under the headings “marketplace”, “community”, “environment”, “workplace” and “human rights”. Other organizations and businesses include safety, health and the environment, waste recycling, and the proportion of non-Caucasians and women employed around the world (Bowen 2003). For some businesses, CSR embraces actions that are indistinguishable from traditional acts of philanthropy.

An important dimension of this new mood (whether labelled fad or meaningful change in sociopolitical concerns) is the increasing emphasis placed by the United Nations (UN) on engaging the private sec-

tor in “partnerships” to achieve improved CSR and the UN’s development goals (see Box 1). Since inaugurating the high-profile Global Compact in July 2000, “partnership” has become a constant UN refrain. The formation in July 2003 of a high-level Commission under the aegis of the United Nations Development Programme (UNDP) on the Private Sector and Development was, for the UN Secretary-General, “. . . yet another illustration of the rapidly growing partnership . . . in our work to reach the Millennium Development Goals” (UNDP 2003a). UNDP head Mark Malloch Brown billed it as “the next big thing” in Third World development policy (Turner 2003).

The idea of pulling together to “get things done” seems an eminently sensible one. Most discussions on partnership between the UN and the private sector assume that, by definition, the private sector has a wholly positive development role: it creates products, employment, new technology and production facilities that all lead to economic growth and rising standards of living. If, in addition, businesses made greater efforts to adhere to labour, environmental and human rights standards, particularly in their activities in developing countries, their contribution to development would be even higher. And, were they also to invest more in developing countries, their net contribution would make all the difference to the prospects for world development.

On this basis it is easy to sell the UN-business partnership idea. But the above scenario is an overly simplistic and even misleading one, as it masks many of the real issues at stake. Indeed it is somewhat ironical that, in partnering with business to tackle pressing development problems left unresolved by neoliberal globalization policies, the UN is working with the main protagonists of the economic regime that was to have worked the magic of the market but failed. In forging closer relations with the private sector, the UN is swimming with the intellectual and political tide and, in so doing, may reinforce the goals of big business, including that of keeping intergovernmental regulation at bay.¹ It is also staking its reputation on a rather risky venture.

¹ Neoliberal policies are founded on neoclassical economic growth models which predict rising standards of living and growth in developing countries as free trade, capital movements and greater competition, aided by faster and cheaper transportation and communications, ensure that capital shifts to where

Box 1: Millennium Development Goals

These goals have been approved by the General Assembly and are part of the Secretary-General's road map towards implementing the Millennium Declaration.

Goal 1: Eradicate extreme poverty and hunger

Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4: Reduce child mortality

Target 5: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve maternal health

Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Have halted by 2015 the spread of HIV/AIDS.

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

(continued on next page)

the return is highest. As capital and information, and to a lesser extent technology, flow more freely, there will be factor-price equalization and economies are expected to converge, as productivity and differences in real income within and between countries narrow to the point of disappearing. These neoclassical models contain a number of assumptions that bear little or no relationship to the real world. There was a resurgence of this neoclassical economics that inspires neoliberal policies when, following the long postwar boom, existing institutions were unable to deal with the consequences of the declining effectiveness of Keynesian macroeconomic policies.

(continued from previous page)

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water.

Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8: Develop a global partnership for development

Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction -- both nationally and internationally).

Target 13: Address the special needs of the least developed countries (includes tariff- and quota-free access for exports, enhanced programme of debt relief for and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty-reduction).

Target 14: Address the special needs of land-locked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions).

Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth.

Target 17: In co-operation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

Target 18: In co-operation with the private sector make available the benefits of new technologies, especially information and communications technologies.

Source: UNDP, 2003b.

Note: UNDP worked with other UN departments, funds and programmes, the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) to identify over 40 quantifiable indicators to assess progress.

The central purpose of this study is to examine the development implications of UN-business partnerships. It is clearly beyond the capacity of any one writer to carry out a full evaluation of the numerous and varied relationships and actions subsumed under the partnership umbrella. This study therefore aims to draw attention to what the author considers to be the issues crucial to any assessment of the development potential of UN-business partnerships. In doing so, it questions whether the efforts of the UN Global Compact are likely to make a significant difference to corporate behaviour in relation to labour, environmental and human rights standards. It also questions whether public-private partnerships (PPPs) involving the United Nations, or other close relations between the organization and the private sector, are likely to improve the chances of meeting the UN Millennium Development Goals.

These questions have received little attention to date, and serious discussions on the matter in the UN have been conspicuous by their absence. UNDP's *Human Development Report 2003* hardly scratches the surface of the matter when discussing its proposal for a Millennium Development Compact. It is to be hoped that the autumn 2003 UN General Assembly debate on Global Partnerships will contribute to a fuller assessment of UN-business relations from a development perspective.² A study being undertaken by the United Nations Intellectual History Project (provisionally titled *The United Nations and Transnational Corporations: From Code to Compact -- In the Eye of the Storm*) may also shed light on the development and usefulness of the UN's partnership approach.³

The term partnership, used by the UN to cover a multitude of activities and relationships, is perhaps best conceptualized as a special

² This study was completed prior to this UN debate and hence does not take account of the deliberations.

³ The United Nations Intellectual History Project was established to provide a history of the UN that traces the role of the UN in creating and nurturing ideas and concepts that have permeated international public policy discourse, sometimes gaining support and sometimes being implemented. The project has two main components: a series of books on specific topics, and oral histories. For information, see www.unhistory.org

case of “close” rather than “arms-length” relationships between government and business. While neither compulsory nor regulatory, they have some similarities with the relationships between government and business characteristic of the developmentalist model of the 1960s and 1970s and, until more recently, in some of the newly industrialized countries (NICs) in Asia. The academic literature on development in the NICs raises a number of issues relevant to a discussion of UN-business partnerships, some of which are outlined in this study. In fact partnerships between the UN and business may be subject to many of the standard criticisms made by neoclassical economists as well as those grounded in a political economy perspective.

In some Asian countries, under the developmental state there was a degree of contest-based competition between firms for close relations with government that was crucial to the success of this approach to industrialization. In other words, there was a close association between government and business and the former’s assistance to business was linked to the latter’s compliance with standards set by the government. The fact that in many UN-business partnerships there is only one business “partner” raises concerns regarding the privileging of certain firms, and the frameworks of accountability and responsibility that structure the relationship. UN-business partnerships also raise issues regarding competition and the implications for less advanced countries.⁴ Partnerships between business and the UN could give rise to market distortions by providing some firms, particularly TNCs (which already have a comparative advantage), with competitive advantages, because of the benefits of association with the UN and the preferential access to developing country markets, among other things. Moreover, competition among different UN agencies for resources and partners can lead to a sub-optimal allocation of public resources.

The Global Compact promotes implementation of nine principles covering labour and environmental standards and human rights (see Box 3) to give globalization a more human face. But what evidence is there of real change? The Global Compact relies on advocacy and

⁴ These sorts of issues will also need to be considered by the new UN Commission on the Private Sector and Development, which seeks to strengthen the domestic private sector in developing countries.

education to achieve voluntary change, and some critics argue that the level of rhetoric and “spin” is high. What performance standards are applied to gauge progress in implementation? In the absence of these and monitoring mechanisms, business partners may benefit from their relationship with the UN while doing little to earn this reward, giving rise to allegations of “bluewash”. If the Global Compact’s mechanisms to ensure compliance with the nine principles are not sufficiently robust, then what will goad business into improving its behaviour? Would further voluntary measures be sufficient, or do they need to be supplemented by international regulation? These are some of the important matters that need to be addressed.

If there are no limits to corporate willingness to improve CSR, then why has business not already made substantial improvements to its social and environmental behaviour? Is CSR an ethical or a systemic matter? This forces one to consider whether there are factors internal or external to the firm that propel or inhibit the adoption of principles whose implementation would demonstrate greater CSR. In assessing the extent of change that can be affected through voluntary adoption of the Compact’s principles, account has to be taken of corporate governance matters: corporations are complex social institutions that operate in a world structured by other institutions and policies, and they face multiple societal demands in a highly competitive environment. In addition, structural characteristics of developing country economies -- such as the structure of production, firm size and highly segmented labour markets -- are also of relevance to a discussion of CSR.

When considering partnerships between the UN and business, there are three sets of key interests to take into account: those of developing countries, those of business and those of the UN. Whether there is an identity or conflict of interest between the partners is a central issue. There can be full agreement between the UN and business on specific immediate goals or outputs, but this does not necessarily entail an identity of ultimate interests. Long-run interests may coincide only under particular circumstances. While there is a growing measure of agreement among UN bodies and development economists on the institutions and policies that would best align these interests, there is still a considerable gap between these views and those of big business.

While many see TNCs as unquestioned purveyors of development and progress, for others TNCs will not further development in the South unless these firms operate within an internationally agreed framework of ground-rules. This view is espoused not only by those protesting against the current form of globalization: the work of many scholars demonstrates that neoliberal economic policies -- which are both the creatures and the progenitors of TNCs -- do much to inhibit economic and social development in many parts of the world. This poses an important challenge to the UN partnership approach.

For the UN, close relations with business carry the risk of subverting the public purpose of the organization. There is a tendency to consider the relationship between the UN and business as one between equal partners. Yet the UN, the linchpin of the multilateral system and the global institution that approximates most closely to an embryonic form of global governance, is the guardian of the global public good and these interests must be paramount. Moreover, close relations between the UN and big business provide ample scope for "capture", such that the UN -- the supposed rule-setter -- wittingly or otherwise begins to adopt the agenda of business partners without debate and due democratic procedure. There is a real risk, as UN-business partnerships offer various mechanisms whereby business can promote its own policy interests directly within the UN.

It is not difficult to envisage practical remedies for many of the shortcomings of partnerships between the UN and business; whether they are politically feasible is another matter. But a more complex question arises if one concludes that many, if not most, UN partnerships with business have broader implications for development and that these are such as to dwarf the gains to be made through the Global Compact's efforts to improve labour and environmental standards and human rights. In such a situation, it is questionable whether it would be worth spending considerable UN time and resources on efforts to increase the effectiveness of the Global Compact and to strengthen the rules framing partnerships with a view to increasing the level of implementation.

It is important to note that much of the discourse on corporate citizenship and CSR, including the discussion below, is very much influenced by, and centred on, the concepts, terminology and practices employed in advanced economies, particularly those where Anglo-Saxon shareholder capitalism and corporate governance predominate. It is, however, this “reality” -- which informs and explicitly or implicitly permeates and patterns the UN’s efforts to promote CSR -- that is under discussion in this study. It seems to be forgotten that institutions (organizations and ways of doing things) are not mere technical fixes but politically, socially and economically determined responses. Similarly, management “theories” of corporate governance and practice are not objective or value free. And, as theory becomes dogma and managers act out what theory proposes, repetition and advocacy influence the real world.⁵

The apparent absence of similar civil society, business or government institutions and activities to promote CSR elsewhere in the world is often taken as a lack of concern, rather than evidence that there may be different structures of corporate governance, other ways of channelling or expressing CSR-type concerns, or different overriding national priorities. For example, in poor developing countries there are many issues that are likely to take precedence over the social and environmental behaviour of individual firms. Some, if not most, such issues are highly political and need to be tackled through the overall political process -- such as the struggle to provide even minimum access to food, or to establish appropriate macroeconomic policies to achieve growth, industrialization, employment and poverty reduction, in the face of Bretton Woods dogma and an inappropriate global economic regime.

The Republic of Korea provides an example of a different way of pursuing CSR objectives under different structures of corporate governance. Over several decades and with considerable economic and

⁵ Thus Goshall (2003) argues that business school academics have a lot to answer for. Their courses on the “agency problem” and stock options, as a means of aligning manager and shareholder interests, provided intellectual backing, if not inspiration, for the granting of excessive stock options for chief executives of large corporations.

social success, there was what was tantamount to a compact between government and business in which the government pursued policies to promote industrialization, growth and employment, while enterprises undertook to provide corporate welfare. Under subsequent liberalization, in the wake of the 1997 economic crisis, the nature of corporate governance and of CSR has undergone some change, though partly as a result of external pressure to model Korean business on the Anglo-Saxon pattern.

In Japan, the pattern of company ownership is somewhat different though changing (see further below). There are fewer unit trusts and socially responsible investment (SRI) funds, and shareholder activism is rather limited (Baue 2003). This reflects a very different structure of corporate governance, as a recent Japanese Ministry of Finance report makes clear: "The American style is not universally valid as a model of improvement for Japan. Separating management and oversight and introducing external directors does not necessarily enhance corporate performance. ... The system is being introduced regardless of organizational necessity." It also argues that "the US approach is inappropriate for a consensus-driven society such as Japan's that strives to benefit all stakeholders" (cited in Jopson and Pilling 2003).

With the spread of Northern TNCs largely patterned on the Anglo-Saxon model (through FDI, privatization, and mergers and acquisitions), the associated corporate governance and CSR discussions and practices are gradually extending their influence. Anglo-Saxon CSR institutions and practices are also spreading via other mechanisms: "Japan Inc. is seeing the importance of another feature of western business culture -- the corporate governance activist fund. ... It is seeded by the California Public Employees Retirement System, the influential and activist US pension fund" (Tassell 2003a). High-level events on business ethics and CSR are another vehicle for disseminating these ideas and practices. For example, efforts are being made to further disseminate CSR in the Americas by means of an Inter-American Conference on Corporate Responsibility: CSR as a Tool for Competitiveness (Inter-American Conference 2003).⁶ In Singapore, in September 2003, a

⁶ This follows a previous Inter-American conference on Alliances for Development organized in response to a request from the Presidents of the Western

conference on Ethical Corporation Asia 2003 brought together senior executives from multinationals and large domestic firms from Asian countries to discuss why corporate responsibility is “essential” for Asian Business (Ethical Corporation 2003).⁷ In both instances, the conference agenda items and the terminology employed make it clear that the content and objectives are a faithful reflection of Anglo-Saxon ideas and practices in this field, suggesting more than a hint of cultural imperialism.

The analysis and argument in this study is developed in the following sequence. Chapter 2 outlines the extent and nature of the development problems that partnerships between the UN and business are intended to help redress. It draws on recent literature regarding the central development challenges such as inequality and poverty, and the industrialization and technology gaps that developing countries face. It also refers to the Millennium Development Goals, towards whose realization UN-business partnerships and the efforts of the Global Compact are intended to contribute.

Chapter 3 provides background to the UN’s partnership approach. It outlines the ideological underpinnings of UN-business partnerships, the principal conjunctural factors that help to explain the proliferation of UN-business partnerships, and the UN’s stated rationale for promoting partnerships with business. This chapter also discusses the notion of partnership, and indicates the wide range of relationships and activities that qualify under this label in the UN.

Hemisphere at the Summit of the Americas in Quebec City, 2001 (www.csramerica.org).

⁷ According to conference publicity, participants are to “hear case studies from those companies leading the way in responsible management” and “learn how to manage to meet and exceed the expectations of investors and partners in Asia”. The expected expert speakers are from 30 “leading companies in corporate responsibility management”, including Sony, Citybank, NEC, Standard Chartered Bank, DHL, Gap, Adidas-Salomon, BSAF, Hewlett Packard, Skanska, Rio Tinto, Parkway Healthcare, Pfizer, British American Tobacco, and some large developing country companies (Ethical Corporation 2003).

Chapter 4 focuses on the Global Compact, which was established principally to encourage businesses to adopt and promote labour, environmental and human rights standards. The chapter begins by setting out the rationale for the Compact, as conceived by its architects. The nature of its participants is also discussed here, as this has important implications for economic development in the South. In addition, in view of the importance attached to the Compact as a learning exercise, both organizational and network learning are discussed briefly. The changes introduced thus far since the Compact was established are also examined with a view to assessing their potential for improving CSR.

Chapter 5 discusses the predominant form of corporate governance under Anglo-Saxon capitalism in recent years, in order to demonstrate that voluntary CSR is essentially a systemic issue. It is argued that the limits to voluntary efforts to improve social and environmental standards are determined by market considerations rather than ethics.

Chapter 6 considers some of the structural factors in developing countries that limit the pace and extent of improvements in labour and environmental standards through corporate action, especially that by large companies. Now that FDI is frequently portrayed as an act of CSR, this chapter points to the clash between the supposed benefits of FDI and the empirical evidence. It points to the lack of consistency between corporate behaviour that would constitute positive CSR actions in the eyes of developing countries, and the actual behaviour of TNCs. Attention is also drawn to other implications of transnational corporation (TNC) investment for host developing countries, such as the competition arising from TNC presence that can hinder the growth of the local business sector.

Chapter 7 looks in more detail at the policy interests of big business, especially TNCs, as these are likely to be among the main UN partners. It illustrates the very significant influence that big business interests have on the global policy regime, and shows the considerable lack of coincidence between TNC and developing country policy interests. The kinds of economic policies that would generate a national and international environment conducive to development are also outlined.

Chapter 8 discusses the matter of identity, or convergence, of interests that has to be taken into consideration when assessing close relations between business and the UN. It draws attention to some of the controversial aspects of global policy networks. To illustrate some of the key policy issues, a brief overview of one type of partnership is provided: product-based partnerships in the field of health.

Drawing together the conclusions from earlier chapters regarding the limitations, weaknesses and contradictions that permeate the UN partnership approach to meeting the development challenge, chapter 9 questions its ability to make a valuable contribution to meeting key development goals, and to maintaining if not enhancing the integrity of the UN. It presents the sorts of changes that would provide a stronger framework of responsibilities and accountability as well as other ground rules for the conduct of partnerships. However, it is considered that such changes will do little to resolve the basic clash of policy interests detected earlier, or to ensure that partnerships do not compound the competitive advantage of the larger firms involved. Instead, it is necessary to go back to the drawing board. In this spirit, the paper outlines a rather different approach that would mesh well with other UN efforts to speed up development in the South, while offering the possibility of a clearer demonstration of CSR. The success of such an alternative approach depends on the UN's capacity to mobilize and co-ordinate. And this ultimately depends on the political will of the world's major powers.

II. THE NATURE OF THE DEVELOPMENT CHALLENGE

The crux of the matter

Policies promoting globalization through economic deregulation and liberalization have been widely adopted since the early 1980s as neoliberal economic orthodoxy gained ground across continents. Its advocates projected substantial benefits for developing countries as a result of the expected increase in international trade and capital flows.⁸ But rather than steady growth, development and convergence, many developing countries have experienced weak growth, widening income disparities, persistent poverty, growing debt and financial crises. The magnitude of the development problems facing the South cannot be overstated. Much of the blame for these outcomes, however, is attributed by bilateral and multilateral donors to “bad governance”, including poor corporate governance and “crony capitalism” in developing countries. While these may play some part in certain situations, focusing on these factors diverts attention away from the role of the global policy regime that has been in place for the last two decades.

In recent years there have been increasingly frequent and widespread manifestations of disillusionment with “globalization” and the overemphasis on market-supremacy policies. An eclectic range of citizen organizations from many different countries are now linked in a “globalization of citizen politics” that seeks a new approach to global-

⁸ Economists also include international migration in their list of economic forces that would help smooth out differences in productivity levels, real incomes and living standards between countries. It is significant that the advanced countries have been keen to engage in multilateral negotiations on trade and all manner of trade-related matters including investment, in order to promote free trade and capital flows, but are resistant to promoting greater freedom for flows of labour.

ization involving both different policies and institutions.⁹ Opinion polls around the world reflect a growing rejection of both neoliberal policies and democratic political institutions. In Latin America, if opinion surveys are to be believed, confidence in democratic government is faltering (Lapper 2002).¹⁰ In Southeast Asia, the public and political leaders have not become so hostile to globalization as elsewhere, but enthusiasm seems to be waning as economic momentum winds down (Bowring 2002). The World Economic Forum that hosts world political and business leaders in Davos, Switzerland, recently conducted a survey of 36,000 people in 47 countries to rate their trust in 17 institutions. Those deemed to be most trustworthy were “armies, charities, schools and religion”. At the very bottom were “parliaments (or legislatures), large companies, the International Monetary Fund and the legal system” (Caldwell 2003).

The following paragraphs attempt to put these matters into perspective by providing a brief overview of recent literature on trends in inequality and poverty, and of the relationship between these and liberalization and deregulation. Developed countries, too, have experienced weak growth, widening income disparities, persistent poverty and financial crises, but they have far greater resources and capacity to tackle the problems if there is the political will. Here the focus is on the countries of the South, whose severe development problems the UN intends to address partly through partnerships with business.

⁹ Whereas in the English-speaking world such people are generally referred to as being anti-globalization, in French they are referred to as *altermondialiste*, emphasizing that they are seeking alternatives, in contrast to *antimondialiste* -- that is, against globalization.

¹⁰ The recent report *Situación y perspectivas* published by the United Nations Economic Commission for Latin America (ECLAC) labels the past five years as the “lost half decade”, comparing it with the “lost decade of the 1980s at the end of which the continent’s inhabitants were poorer than at the beginning.” It reports that half the countries in the region have seen GDP per head fall in the last five years, and the economies that grew rapidly in the 1990s have slowed down. ECLAC considers that the most important cause is to be found in the international capital markets (ECLAC 2002).

Inequality and poverty

An important rationale for UN-business partnerships is the need to demonstrate that “globalization can work for the poor” by helping to achieve the Millennium Development Goals, whose central development objectives focus on human well-being and poverty reduction, rather than exclusively on economic growth.

Despite the data deficiencies and other problems associated with studies on inequality, especially in developing countries, there is broad agreement among economists that the level of income inequality in many developing countries is very high. Furthermore, within-country inequality has worsened in 75 per cent of developing countries since about the beginning of the 1980s (Berry 2002; Cornia and Court 2001; Quiggin 2002).

Regarding *world* income inequality, a plethora of econometric and other studies produce conflicting evidence, giving rise to a lively debate among economists. Berry (2002) reviews much of the work in this field and concludes that there has probably been a slight decline in global inequality over the last two decades. This result is based on population-weighted measures that reflect the rapid growth of average real income in China over the past 20 years and in India over the past 15 years. If the data for the world’s two most populous and low-income nations is excluded, the evidence points to a marked increase in world inequality. It is important to note, however, that even within China and India income distribution has worsened.¹¹

On balance there is broad agreement that, over the last 40 years, there has been no decisive trend towards convergence between developing and advanced countries.¹² A World Bank study undertaken by Milanovic (1999) estimates that, at the end of the 1990s, high-income countries representing 14 per cent of the world’s population accounted

¹¹ In India the experience of the last two decades is in marked contrast to the previous continuing reduction in inequality.

¹² In the terminology of economists, a convergence in income levels involves a reduction in the variance of distribution of output per worker levels (or total factor productivity levels, or real wage levels) across countries.

for over three fourths of the world income -- about the same as at the beginning of the decade.¹³

There is mixed evidence on whether, overall, the global incidence of poverty is declining. One World Bank study indicates that it fell by an almost negligible 0.2 per cent a year between 1988 and 1998 (Milanovic 1999). Another World Bank study (Chen and Ravallion 2000) reports that during the 1990s there was a meagre 4 per cent net decline in the incidence of poverty, despite aggregate economic growth in the developing world. UNDP (2002a) reports a decline in the percentage of people living in extreme poverty -- from 29 per cent in 1990 to 23 per cent in 1999. Much of the gain was accounted for by reductions in the poverty rate in China and India.¹⁴

However, reductions in poverty rates do not necessarily mean a decline in the absolute numbers of people living in extreme poverty. There is broad agreement on the fact that, over the past two decades, income levels in many countries have fallen, not just in relative terms but also in absolute terms (Dowrick and DeLong 2001). At the beginning of the millennium, according to the United Nations Industrial Development Organization (UNIDO, 2002a), some 15 per cent more people lived in poverty in developing countries compared with 10 years earlier. In both India and China, the absolute numbers of the poor increased. Between 1990 and 1999, average per capita incomes fell in 23 of the 50 poorest countries. The other 27 are only barely managing to

¹³ Do increasing intra-country and inter-country inequalities really matter if they occur on a rising trend, such that, on the whole, there is an absolute improvement in most people's lives? With respect to intra-country income gaps, a central issue is whether rising inequalities facilitate or hinder poverty reduction; that is, is inequality good or bad for growth? This involves questions regarding the impact on savings rates, investable surpluses and market size, among other things. Regarding inter-country income divergence, it could be argued that the faster improvement in income levels in richer economies than in poor ones is an illusory problem, as the growth in poor countries, though relatively less, is better than no growth at all. However, leaving aside the moral issue, such a situation does not augur well for global peace and security.

¹⁴ See also Berry (2002); Cornia and Court (2001); Sala-i-Martin (2002) and *The Economist* (2002a).

keep pace with population growth (UNIDO 2002a). UNDP (2003b) reports that between 1990 and 1999, 54 countries mainly from sub-Saharan Africa, Central and Eastern Europe and the Commonwealth of Independent States grew poorer: the numbers living on \$1 a day increased in these regions, while in Latin America and the Caribbean the number remained about the same.¹⁵ The situation in Africa and Latin America in recent years has hardly improved. In the latter, according to ECLAC (2003), a combination of factors has meant that average per capita gross domestic product (GDP) was still 2 per cent below 1997 levels. In 2002, 15 of the 41 least developed countries for which data are available experienced a decline in per capita income (United Nations 2003a). In the words of the IMF,

While some developing countries have made impressive progress in raising living standards in recent decades, too many countries and nearly one fifth of the world population has regressed in relative and sometimes even in absolute terms. This is arguably one of the greatest economic failures of the twentieth century. (IMF 2000: ch. 4)¹⁶

The World Bank's estimates of the numbers in poverty at the beginning of the new millennium were 1.2 billion, using the \$1 per day poverty line, and 2.8 billion if calculated at \$2 per day. However, the ambiguity of concepts, differences over estimation methods and data problems plague research in this field and assessments of whether the World Bank's estimation methods underestimate the numbers in poverty.¹⁷ What is important to note from this debate is the fact that, if the real extent, trend, and geographic distribution of severe poverty is unknown, it will be difficult to effectively tackle the poverty problem that is at the forefront of the Millennium Development Goals. Neverthe-

¹⁵ See also United Nations (2003a).

¹⁶ For a useful summary of the nature of poverty in least developed countries, see UNCTAD (2002a).

¹⁷ See, for example, Nelson (1998); Reddy and Pogge (2003); Ravallion (2002); Deaton (2002).

less, there is no doubt about the vast magnitude and urgency of the problem.¹⁸

UNDP, appointed “scorekeeper” and “campaign-manager” for the Millennium Goals, reports that “progress towards the goals has been mixed; some countries are on track for some of the goals, some have gone backwards, but none of the goals are likely to be reached at the current rate of progress.” (UNDP 2003b) It estimates that, at the current pace of change, sub-Saharan Africa will not attain international poverty reduction goals until 2147 (the goal was to halve the poverty level by 2015). And on current trends, UNDP estimates that it will take more than 130 years to rid the world of hunger, a prime indicator of poverty. The reasons are many, but they often include insufficient and inefficient public spending, crippling debt burdens, inadequate market access for developing countries in rich country markets, and declining official assistance (UNDP 2002a). Moreover, hunger will not be banished while the poor in developing countries do not have adequate *access* or entitlements to food (Sen 1981; Sen and Dreze 1990).

In the UN’s estimation, the goals for eradicating poverty can be achieved “only through stronger partnerships among development actors and through increased action by rich countries -- expanding trade, relieving debt, transferring technology and providing aid.” (UNDP 2003b:27) As UNDP (2003b:30) points out, however, the goals themselves have been criticized on a number of grounds, including for being too narrow and for missing out a number of crucial development concerns. It is these development concerns that are the prism through which partnerships between the UN and business are assessed in this study.

Liberalization, income inequality and poverty

Turning to explanations for the trends in income inequality and poverty, the main debate focuses on the extent to which these are due to economic liberalization and globalization (the main thrust of policies

¹⁸ See also Griffin (2003) and Sutcliffe (2003).

introduced under the neoliberal regime of the last couple of decades). These are controversial issues, and the academic literature on the relationship between free trade and development is vast.

Research results and historical experience demonstrate that there are no uniform results of external liberalization; the relationship between openness, growth and inequality is highly disputed. Sachs and Warner (1995) found a positive relationship between trade and development. But Rodriguez and Rodrik (1999) provide analysis and evidence to indicate that the methods used in previous studies (including Sachs and Warner 1995) were questionable and the evidence biased. Dollar and Kraay (2001) present evidence that trade liberalization leads to faster growth in average incomes and that growth in the latter, in turn, increases the incomes of the poor “proportionately”. However, Nye et al. (2003) find both the arguments and the evidence flawed and unconvincing. Rodrik (2001) and Stiglitz (2002) present forceful arguments against the liberal global trade regime.

Lindert and Williamson (2001), on the basis of an overview of four kinds of studies on the gains from freer trade, conclude that, while “no one study can establish that trade openness has unambiguously helped the representative Third World economy, the preponderance of evidence does seem to support this conclusion.”¹⁹ World Bank studies are also more positive about the contribution of openness to lessening the income gap. However, United Nations University/World Institute for Development Economics Research (UNU/WIDER) (Cornia and Court 2001), and the United Nations Conference on Trade and Development (UNCTAD) (1997) suggest that liberalization has been a key factor contributing to increasing world inequality. Watkins (2002a) argues that international trade is reinforcing income inequalities and that,

¹⁹ The four types of studies covered were those exploring the sectoral connections between protection and growth; cross-country studies comparing the growth performance of relatively open and closed economies; event studies examining the growth impact of opening up in specific countries; and studies using multivariate econometric analysis.

unless developing countries increase their share of exports, trade will continue to generate widening gaps in absolute income.²⁰

Berry (2002:47), in an extensive overview of work in this field, concludes that “The record of the impact of globalization and liberalization (GL) on inequality and poverty thus remains murky, but a reasonable guess would be that these phenomena cannot be credited either with a major positive contribution or a major negative one at world level, though their impacts in specific countries could be much greater.” He goes on to say that “It may be that, if GL does have significant growth-producing effects (not cancelled out by growth-retarding effects), these occur more in some types of countries than in others and in some ranges of the spectrum from autarky to free trade (or from very high levels of government intervention to very low ones.) Even if GL has contributed significantly to Chinese and Indian growth, will it fail to have similar benefits in Subsaharan Africa?”

Often studies on this issue are not measuring free trade against non-trade situations, and they often take into consideration factors other than trade. For example, Dollar and Kraay (2002), referring to their 2001 study, state that “increased participation in world trade, together with good economic and social policies, has worked well for a diverse group of poor countries” and that “openness in and of itself is not a poverty-reduction strategy. The evidence suggests that a more liberal trade regime is one part of a policy package for successful growth and poverty reduction.”²¹

²⁰ The fact that exports are growing faster than global GDP means that they have an increasingly strong influence on income distribution, and shares in world trade mirror income distribution patterns. For every dollar generated through export activity, \$0.75 goes to the world’s richest countries, while low-income countries receive about \$0.03 (Watkins (2002a:2).

²¹ The other factors that affect the intra- and inter-country outcomes regarding income, which result from deregulation and liberalization, include frictional job loss and lower incomes in some sectors due to competition, to volatility and crisis on the financial front (discussed further below) and to the impact of other parts of the structural adjustment policy package prescribed by the Bretton Woods institutions in relation to fiscal policy and social spending.

Controversy over this relationship is likely to continue. It is the core of one of the major ideological divides in recent decades, with those who assert the undoubted benefits of unfettered trade and capital movements (and the same global rules for all countries irrespective of levels of development) pitted against those who are more circumspect or sceptical about whether maximum openness is beneficial to growth and improved income distribution.

The latter position has recently gained an important new protagonist -- the Director-General of the World Trade Organization (WTO) himself. In an article arguing that, in following the path of trade liberalization, governments must take adequate measures to ensure that those who lose out are looked after, he stated "The question is not whether to accept liberalization of markets and integration into the world marketplace but how such integration should take place and at what pace. For many of the world's poorest areas, rapid integration without an adequate economic, regulatory, legal and technological foundation could hold adverse consequences. . . . No single system can be applied to all nations." He added that " . . . every government has the responsibility to implement programmes so that those not yet prepared for greater competition are looked after. Failure to take such action would only erode public support in the WTO and the global trading system." (Supachai 2002).

Convergence, industrialization and technological gaps

Even if there were evidence of improved average incomes in developing countries over a short span of years and signs of convergence, development economists would wish to see convergence judged in more structural terms that provided evidence of the growing capacity of developing countries to achieve sustained growth and to meet the continuing challenge of converging towards the *moving* target of rising productivity in advanced countries. Such evidence would relate, among other things, to industrialization, capacity to innovate and levels of education. On the basis of such criteria, in the period 1950-2000, apart from some East Asian economies joining the OECD "convergence" club, there has been little catching-up by developing countries (Dow-

rick and DeLong 2001).²² China and India may also be en route, judging by the post-1980 growth in productivity levels and real income, their rapid adoption and adaptation of industrial technologies and rapidly changing economic structures, all of which are essential ingredients of convergence (Porter and Sachs 2000).

UNIDO (2002a) reports that inequality has increased in the manufacturing sector, both between industrialized and developing countries and within the developing world. In 1985 per capita manufacturing value-added in the most industrialized 5 per cent of countries was 297 times greater than in the least industrialized 5 per cent, while in 2000 it was 344 times as high. Among developing countries, the top five industrial leaders also did well: whereas in 1985 their manufacturing value-added was 276 times that of the bottom five, in 2000 it was 437 times as high.

Great hopes have been pinned on industrialization in developing countries, as it usually brings in its train higher productivity, improved terms of trade, economic growth, and more and better-remunerated jobs. An ability to achieve structural change and technological innovation are crucial in the open and highly competitive world economy. Economies, in particular the least developed, that continue to rely principally on the production and export of primary resources and on cheap unskilled labour are unlikely to be able to generate the dynamic efficiency gains that provide rising wages and employment, and hence improved standards of living for the whole population on a continuing basis.²³

²² Using a concept of “convergence club”, based on the extent of industrial development and structural change, Dowrick and DeLong (2001) examine its changing membership over almost two centuries and conclude that convergence has been limited in geography and time, and divergence has been the general rule. See also Lindert and Williamson (2001).

²³ For a discussion of the problems generally associated with commodity economies and that have been evident for several decades (poor and deteriorating terms of trade, unstable revenue flows and balance of payments problems among others), see South Centre (1996a).

UNIDO (2002a) presents a dismal picture of wide and growing dispersion of levels of industrial development. Very few developing countries have managed to achieve a significant improvement in economic performance, in particular in industrial performance, while a large number have done badly. The organization's ranking of 87 economies, according to a competitive industrial performance (CIP) index, shows advanced industrial economies bunched near the top, transition and middle-income countries in the middle and low-income developing economies and the least developed at the bottom.²⁴ Over the period 1985 to 1998, the gap between the least developed and other developing countries widened. The technology structure of 48 of the 58 sample developing countries remained essentially unchanged during this period, leaving only 16 that showed a shift towards more dynamic and technology-intensive structures and products. Significantly, there is high concentration of developing country industrial production and manufactured exports: the top five countries account for 60 per cent of developing country industrial production and 61 per cent of exports. The bottom 30 countries account for only 2 per cent and 1 per cent, respectively.²⁵ These shares declined during the period 1985–1998 (UNIDO 2002a).

The poverty trap

The age-old problem of the poverty trap -- low income, low savings and low investment, and low levels of education -- persists (UNCTAD 2002a; UNDP 2003b). It has been difficult to accumulate surpluses of

²⁴ This index measures the ability of countries to produce and export manufactures competitively. The four indicators used to construct the index are: manufacturing value-added per capita; manufactured exports per capita; the shares of medium- and high-tech products in manufacturing value-added and also in manufactured exports. The first two indicators reflect industrial capacity, while the other two reflect technological complexity and industrial upgrading (UNIDO 2002a:3).

²⁵ De-industrialization (involving a move towards natural resource-based comparative advantage) has occurred in many Latin American countries over the last 10 years since tariffs were unilaterally cut. This has led to significantly greater informalization of the Latin American labour force.

capital and foreign exchange with which to finance investment in new sectors. One set of contributing factors has been the low income levels and low savings rates associated with an initial dependency on the production and export of primary products, and the consequent price instability (due to considerable fluctuations in demand), and often declining prices owing to oversupply and lower world demand (due to slower economic growth, lower raw material content per unit of output, or product substitution). In addition, the need to service foreign debt has encouraged developing countries to increase commodity exports, thus aggravating further the terms-of-trade problem. Moreover, the “fallacy of composition” problem resulting from simultaneous export orientation and competition among many developing countries on world markets that previously applied to commodities now also occurs in relation to labour-intensive manufactures (UNCTAD 2002a, 2002b).²⁶ Balance of payments constraints, due to declining terms of trade and the debt burden, have reduced the capacity of many developing countries to finance the imports of capital essential for technological change, industrialization and the development of infrastructure necessary for a dynamic economy. Moreover, the relative price of capital goods has risen as the terms of trade deteriorated. Thus recent experience has again shown how difficult it is to escape the vicious circle linking primary commodity dependence, unsustainable external debt and extreme poverty.

In sum, there is little evidence that rapid liberalization and deregulation of trade and capital flows, as prescribed and implemented under orthodox structural adjustment policies and in line with new international commitments under the WTO global policy regime, have brought about growth and the promised automatic shift in production structures and technological change in the South (South Centre 1996b). In fact, it is precisely during this recent period of liberalization that the

²⁶ Development strategies that put almost exclusive emphasis on export orientation encouraged an increase in exports of primary products and labour-intensive manufactures at a time when world demand was low, resulting in declining prices. This has had serious economic implications for low-income countries at the bottom of the manufacturing ladder and important lessons for development policy. For a discussion of this issue see UNCTAD (2002b:83, 114).

benefits of openness seem to have diminished (Dowrick and DeLong 2001:44–45). There are many grounds for arguing that opening up developing economies in a precipitate manner to global market forces does not remove automatically, or speedily, the various structural factors impeding industrialization and development. In some cases this has led to de-industrialization and impoverishment (Singh 1997; Katz 2000).

No mean task

The above provides an indication of the magnitude and complexity of the development challenge. To address this enormous task, the Millennium Development Goals have been agreed by the international community, specifying goals, targets and actions to be taken.²⁷ UN-business partnerships can be seen as one manifestation of Millennium Development Goal 8 “Develop a global partnership for development”. For example, the UN Global Compact, by encouraging business to implement labour, environmental and human rights standards, is intended to spread the benefits of “globalization” more widely so as to give capitalism a more “human face” and thereby help counter the growing perception that globalization has not delivered the promised benefits. The aims of other UN-business partnerships cover a wide spectrum, but most, if not all, claim to be directly or indirectly geared to development objectives. But whether such partnerships make a substantial contribution to ending poverty and hastening economic and social development in the South is open to question. For, while UN-business partnerships may help to tackle some of the symptoms of underdevelopment, specific partnerships and close relations between the UN and business in general may do little or nothing to remove what several UN agencies and many economists perceive to be the root causes of poverty and underdevelopment. Often, the underlying issue is a matter of economic policy. This is made very clear in the case of target 12 of Millennium Development Goal 8 (see Box 1): “Develop further an open, rule-based, predictable, non-discriminatory trading and financial system ...” While this may be partly a matter of interpretation, the issue of open-

²⁷ For the purposes of this study, the Millennium Development Goals and the associated targets are taken at face value.

ness continues to be one of great contention, as indicated above, for it is a question concerning “the degree to which one opens up and submits oneself mindlessly to surrounding forces” (Helleiner 2001:28). The matter is of particular concern when examining the potential of UN-business partnerships to hasten development, for big business has its own interests at stake on this and related matters. In the following analysis, attention is drawn to various issues that need to be taken into account when assessing the extent to which partnerships between the United Nations and business can promote widespread economic and social development.

III. UN-BUSINESS PARTNERSHIPS: AN ALL PURPOSE DEVELOPMENT TOOL?

The UN and the business sector: Ever-closer relations

Almost since its inception the United Nations has had various types of relationships with business associations and coalitions. In the case of the International Labour Organization (ILO), the International Organization of Employers (IOE) has been a structural part of the tripartite organization since its creation in 1918. Many business organizations have had consultative status with the United Nations Economic and Social Council (ECOSOC). Over time, the range of interests represented has widened, from trade and industry associations such as the International Chamber of Commerce (ICC), to industry associations such as the International Federation of Pharmaceutical Manufacturers Associations, and, more recently, business groups whose declared interest is to promote good corporate citizenship and to address global economic and social issues. While partnerships between the UN and individual private companies may have only recently entered the wider public consciousness (partly due to prominent press and television advertising by certain of the companies involved), they are not a new phenomenon. In recent years, however, there has been a proliferation of partnerships between the UN, its agencies and funds, and the private sector.²⁸ (For a history of UN-business partnerships until the turn of the twentieth century, see Tesner 2000.)

²⁸ In the UN Secretary-General's 2001(a) report, *Co-operation between the United Nations and All Relevant Partners, in Particular the Private Sector*, the private sector is defined as all individual, for-profit commercial enterprises or businesses, business associations, and coalitions. Corporate philanthropic foundations directly funded and/or governed by business are not included as part of the private sector. Such foundations usually operate independently of the companies providing the foundations' finance and are not inspired by the profit motive. However, where a current business funds a foundation, such as in the case of

Since the early 1990s, representatives of the business world have been invited to attend and make inputs into major global conferences such as the 1992 United Nations Conference on Environment and Development (UNCED), the 1995 World Summit on Social Development, and the 2002 World Summit on Sustainable Development (WSSD), which have helped to shape the UN's agenda:

... non-state actors are now engaged to an unprecedented degree in most areas of United Nations endeavour. This ranges from peacekeeping and disarmament to human rights, good governance, sustainable development and the eradication of poverty. They are also engaged in most United Nations activities, ranging from its policy dialogue, standard setting and normative work to its operational activities, advocacy and information work. (United Nations 2001a:7)

While involvement of the business (mainly private) sector in UN initiatives is clearly not new, there has recently been "a fundamental shift in the way that the United Nations approaches the private sector, and perhaps in the way that the private sector sees the United Nations." (Mezzalama and Ouedraogo 1999a:4) The UN Joint Inspection Unit Report notes "the strong leadership of the Secretary General in this endeavour and his expressed conviction that the goals of the United Nations and the private sector can be mutually supportive." (Mezzalama and Ouedraogo 1999a:5)²⁹ Indeed, active collaboration between the United Nations and the private sector seems to have been integral to Secretary-General Kofi Annan's agenda for the UN almost from the beginning of his mandate at the start of 1997. In his January 1997 address to the World Economic Forum, he emphasized the role of the private sector and the fact that United Nations programmes, funds and

the Bill and Melinda Gates Foundation, there are grounds for considering such entities as part of the private sector in that the foundation's public purpose initiatives can influence public attitudes towards the business enterprise itself. In this paper the term business, private business and the private sector will be used interchangeably, similarly with corporation, company, firm and enterprise.

²⁹ See also Kell and Levin (2002:6).

specialized agencies “are working with member states, as never before, to foster policies that encourage further growth of the private sector and the free market. ... Strengthening partnerships between the United Nations and the private sector will be one of the priorities of my term as Secretary-General.” (United Nations 1997a:1, 3) In his report to the General Assembly on Reforming the United Nations (United Nations 1997a) presented just a few months after assuming office, the Secretary-General emphasized the importance he attached to increasing the role of civil society in shaping policy, and included corporations in his definition of civil society. He stressed the importance he attached to the issue of a rapprochement with the private sector, and pledged that arrangements would be made with leading business organizations to facilitate dialogue between representatives of business and the United Nations.³⁰

The Secretary-General’s January 1998 speech to the World Economic Forum (United Nations 1998a) reiterated this intent. In explaining his overhaul of the United Nations, the Secretary-General argued that this would enable it “to face the challenges of a new global era”, and would also place it in “a stronger position to work with business and industry”. “If reform was the dominant theme of my first year in office, the role of the private sector in economic development was a strong sub-theme. A fundamental shift has occurred. The United Nations once dealt only with governments. By now we know that peace and prosperity cannot be achieved without active partnerships involving governments, international organizations, the business community and civil society. In today’s world we depend on each other. The business of the United Nations involves the businesses of the world.” Recognizing that the United Nations and the private sector had “distinct strengths and roles”, and that “we are still overcoming a legacy of suspicion”, he suggested that “if we are bold we can bridge these differences and turn what have been fledgling arrangements of co-operation into an even stronger force.”³¹

³⁰ See also United Nations (2002a).

³¹ The reform referred to in the above quote included new management structures; appointing new leaders of UN agencies in the fields of human rights and health among others; and new budgeting procedures (result-based budgeting). See South Centre (1997a) and Bertrand (2002).

Later, in his speech to the Chamber of Commerce of the United States, the UN Secretary-General elaborated on this fundamental shift: "Confrontation has taken a back seat to co-operation. Polemics have given way to partnerships." Pointing to the "soft infrastructure" of the global economy -- values, stability and services -- provided by the UN and its agencies, "all of which ensured the free flow of goods, services, finance and ideas", the Secretary-General commented "it is no surprise that the United Nations and the private sector are joining forces. The voice of business is now heard in UN policy debates. Corporations are also offering concrete support." (United Nations 1999a)

At the January 1999 Davos World Economic Forum, observing that "in the past two years, our relationship has taken great strides" through "co-operative ventures -- both at the policy level and on the ground" the UN Secretary-General suggested that business leaders and the UN initiate "a global compact of shared values and principles, which will give a human face to the global market." (United Nations 1999b) Two years later at Davos, he made it clear that, for the UN, engaging with the private sector was not an option, but an imperative (World Economic Forum 2001).

According to a recent report commissioned by the UN (United Nations 2002b:2), many of these co-operative initiatives are "shaped by a single underlying imperative: the need to address increasingly complex and interconnected social, economic and environmental challenges that have important implications for both public policy and business strategy, but which neither the public sector nor private sector can tackle on its own."

To understand better the Secretary-General's reasoning, it is useful to examine briefly some of the ideas and forces that help to explain this shift in policy that involves much closer and direct relationships between the UN and business.

The ideological background

The free market will not on its own build a society free of hunger, ill health and insecurity. The other essential feature of building the framework for sustainable progress is building a sense of partnership within society which can both tackle these pressing social issues and bond people together in a common endeavour. (President, International Business Leaders Forum, cited in United Nations 2002b:3)

The new phenomenon of private sector engagement in close partnerships with government and with the UN is closely associated with efforts in the 1990s by some citizens and politicians, particularly in the United Kingdom and the United States, to introduce a new policy and institutional framework as an alternative to, or compromise between, the welfare state and social democratic traditions of Europe and the Reagan/Thatcher conservative free market systems. Both of these were considered by “Third Way” advocates to be discredited and outdated. This search for political renewal has occurred in a period when major changes, especially relating to the so-called information age and globalization, have been transforming economies and societies worldwide. It is argued that societal issues have become so complex and interdependent that traditional, single sector approaches, involving only the government, business, or the “voluntary”/civil society sector, are inadequate.

One of the principal ideologues of the Third Way expresses the search for an effective balance between government, markets and civil society as follows: “You want enough civil society to create decent government and an effective framework for market economy.” (Giddens 2000:3)

Proponents of this “third” or new way believe that conflicting interests can be reconciled through increased efficiency and goodwill, and that different social groups can be embraced within one political party, founded on an ethic of mutual responsibility that rejects both the politics of entitlement (extensive rights to state welfare) and the politics

of social abandonment. Phrases such as “stakeholder society” or “communitarianism” are increasingly used to describe this new approach.

Rejecting both top-down redistribution and *laissez-faire*, the emphasis in this new ideology is on creating an “enabling” rather than a “bureaucratic” government, and on promoting technological innovation, competitive enterprise and the use of market means to achieve public ends. It also puts emphasis on education as the means to economic opportunity and security, and on expanding choices for citizens. In the 1990s the perceptions of some influential thinkers that there was both government “failure” and market “failure” led to efforts to shift policy emphasis away from further attempts at market liberalization to modifying government by changing structures, including the relationship between the public and private sectors. Thus a multiplicity of suppliers providing a range of choice for consumers, public-private partnerships (PPPs) and a maximum of local autonomy are advocated to achieve improvements in, for example, schools and hospitals that serve their community.³²

The essential elements, however, are the encouragement of civic and community institutions and according the private sector a larger role in public life. These aspirations and characteristics of the Third Way are well summed up as follows:

Its first principle and enduring purpose is opportunity for all, special privileges for none. Its public ethic is mutual responsibility. Its core value is community. Its outlook is global and its modern means are fostering private sector economic growth, today’s prerequisite for opportunity for all, and promoting an empowering government that equips citizens with tools to solve their own problems in their own communities. Opportunity, responsibility, community.” (Al From, President, Democratic Leadership Council of the USA, 1999)³³

³² See, for example, Kjærgaard and Westphalen (2001).

³³ In the 1990s the centrist Democratic Leadership Council (DLC) formed the Praetorian Guard of the Democratic Party in the United States. Bill Clinton

Authors Nelson and Zadek (2000) observe that a more complex balance of power is developing in which both citizens and companies play an active role in shaping socioeconomic change and in addressing problems that were previously the sole responsibility of government, or were addressed through formal consultation and negotiation between governments and the “social partners”, namely the representatives of employers and workers. They note the development of a wide variety of mechanisms, processes, institutions and relationships (including PPPs) through which individual citizens, groups and organizations and corporations can express their interests, exercise their rights and responsibilities, and mediate their differences. Hopkins (1999:2) argues that, increasingly, “the promotion of social development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector.”

While these new ideas have a lot to recommend them, they do not provide easy answers to defining the common good. On the political front, the existence of multiple channels for the expression and representation of interests has been paralleled in some countries by a fragmentation of political pressures and processes, and a declining involvement and interest in party politics and the democratic process, demonstrated, for example, by low turn-out in elections (Skocpol 2003). These developments pose a number of dilemmas concerning representativeness and legitimacy. Moreover, the participation of civil society in dialogues and policy discussions in international forums has been accepted without adequate consideration of the most appropriate manner of reflecting the concerns of a wide range of interest groups, or of the consequences of according various “stakeholders” a say in policy making.

In Europe, the Third Way movement found its strongest expression under New Labour in the United Kingdom, where the neoliberal politics of the 1980s had eroded a considerable part of the social de-

was chairman and ran for president on the DLC ticket, eventually governing on New Democrat lines, characterized by fiscal rectitude, welfare reform and law and order.

mocratic framework.³⁴ It also partly underpinned the political platform of the New Democrat party in the US in the 1990s. It has been less influential in continental Europe and where the nature of capitalism and corporate governance are still somewhat different. Prime Minister Tony Blair has made vigorous efforts to promote Third Way ideas in Europe. But the Third Way had little success in rallying the rest of Europe under its banner to form a new overarching European political philosophy or movement, partly because the ideas had less appeal in countries where social democratic approaches had been undermined to a lesser extent than in Britain. The Third Way philosophy “was too vague to catch on and much of the European left disliked what little it understood of it, assuming it was a code for some kind of soft-edged Thatcherism.” (*The Economist* 2002c:40) The theoretical base has not been well developed and there are many, in the UK and elsewhere, who consider that this political philosophy constitutes little more than an attempt to develop a theory in order to rationalize and legitimize neo-liberal “market supremacy” (Elliot 2003).³⁵ In Germany, some aspects of the “Third Way”, described by Giddens (2003) as “modernized so-

³⁴ Central policy elements in Third Way thinking are: the restructuring of the state and government to make them more democratic and accountable; reform of welfare systems to align them better with the risks that people face today; an emphasis on job creation together with labour market reform; a commitment to fiscal discipline; investment in public services, though in conjunction with reform; investment in human capital as crucial to success in the knowledge economy; balancing the rights and responsibilities of citizens; and a multilateral approach to globalization and international relations (Giddens 2003). In this same article, Giddens (who chairs the policy groups for the Progressive Governance Summits [1997 and 2003] that assembles centre-left leaders from around the world) now stresses that progressive thinking needs to make a more robust defence of public goods and public interest and that greater attention needs to be given to developing new models of corporate governance.

³⁵ Recent discussion in the UK of “foundation hospitals” and PPPs that form the basis of New Labour’s proposals for national health service reform, while presented in the language of social democracy, have met greater favour with the conservative opposition, than within the governing labour party itself. In the words of a shadow cabinet minister (i.e., the opposition party), “Tony is helping to make popular things we believe in.” (*The Economist* 2002b:40.)

cial democracy”, are being grudgingly introduced, but not without fierce opposition from organized labour.

In the international arena, the World Bank has long been a forceful advocate of neoliberal market-friendly policies and of policies to strengthen the private sector. Its neoclassical research has supported the policy platform for privatization and a “small” (lean) state that, in contrast to the supposedly heavy-handed state which predominated until recently, is an “enabling” state giving greater scope for initiative and enterprise, including through PPPs. The Bank’s policy strictures and conditionalities attaching to structural adjustment policies have also been important vehicles for spreading its ideas on development, good governance and democracy, including encouraging a greater role for civil society organizations -- both NGOs and community-based organizations (CBOs).³⁶ The International Finance Corporation (IFC), one of the Bank’s associate institutions, directly finances the development of the private sector in developing countries, providing loans to developing country affiliates of TNCs as well as to locally owned businesses.

To promote the role of the private sector and advocate partnerships, in 1998 the World Bank established Business Partners for Development (BPD), a network of business and civil society organizations that, among other things, was intended to provide “a powerful additional instrument for the World Bank’s advisory service to governments, particularly as they relate to the social consequences of privatization.” (Wolfensohn 1997) The World Bank’s efforts to advocate and promote PPPs to attain socioeconomic objectives and public goals can be interpreted either as suggesting that the market has a greater capacity than government to get things done, or that markets do not automatically fill all of society’s needs or resolve all of its problems. The World Bank (2001) clearly recognized that promoting markets is not sufficient: institutional arrangements, such as competition policy and competition authorities, are needed to support markets and ensure that they function efficiently. More recently, World Bank president Wolfensohn (2003), in a comment released to coincide with the 2003 Porto Alegre World Social Forum, stressed that “Without enlarging the real oppor-

³⁶ For a discussion of excessive conditionality, see Feldstein (1998).

tunities available to all citizens, the markets will only work for the elites. This means providing everyone with access to education, health care, decent work and . . . with at least three meals a day.” These problems could be solved “only if we forge a new development path linking economic growth to social and environmental responsibility.” The Bank’s new strategy of focusing on the Millennium Development Goals was presented as an emerging “global partnership for poverty reduction”.

Other forceful protagonists -- think-tanks and influential business associations among others -- have become deeply involved in promoting, establishing and participating in PPPs in and through the UN.³⁷ This trend requires particular attention to be given to defining and monitoring the public responsibilities and accountability of private sector firms. But there is also the need for strong ethical and other frameworks in public service to safeguard the public interest and ensure democratic governance. Indeed, possible conflict of interest is emerging as a key issue for UN staff involved in developing or implementing partnership arrangements.

³⁷ Jane Nelson of the International Business Leaders Forum (IBLF) authored the UN publication *Building Partnerships. Co-operation between the United Nations System and the Private Sector* (United Nations 2002b), which was commissioned by the United Nations Global Compact Office and co-published by the UN and the Prince of Wales Business Leaders Forum (PWBLF), now IBLF. “For profit” and non-profit organizations to promote CSR and partnerships are springing up in many countries. To mention just a few, in Europe there is Business Action for Sustainable Development (Paris), Copenhagen Centre (Denmark), Entreprendre pour La Cité (France), Sodalitas (Italy), Fundación Empresa y Sociedad (Spain). In the UK, there is Business in the Community, the Centre for Tomorrow’s Company, the International Business Leaders Forum, SustainAbility and the Department for International Development (DfID). There is also the Geneva-based World Business Council for Sustainable Development (WBCSD) and the European Business Network for Social Cohesion which has national partner organizations in most members of the European Union. In the US there is Business for Social Responsibility. One of Brazil’s leading institutions in this matter is Instituto Ethos.

The shift to voluntary regulation

The UN's shift towards closer relations with the private sector, particularly in relation to the Global Compact, also reflects changing attitudes especially in the advanced industrial countries and the Bretton Woods institutions regarding the balance between state regulation and voluntary regulation of business. In the ideological climate prevailing from the early 1980s onwards, government regulation of business became unfashionable and attempts to establish multilaterally agreed codes of conduct for TNCs were aborted, despite the objections of many developing countries, some of whom felt pressured into accepting this de-nouement. Deregulation and privatization have become policy mantras, and voluntary or self-regulation by the business sector itself has been regarded by business and governments as a more flexible approach that fits the new climate of greater international competition.³⁸ In 2000, the OECD (2000b) considerably revamped its own Guidelines for Multinational Enterprises by adding recommendations to eliminate child and forced labour, improve workplace conditions and internal environmental management, address human rights, and also to introduce new standards for corporate governance, including finding methods to fight corruption, improve disclosure and transparency (World Bank 2003).

One example of a new voluntary code (June 2003) is that involving nine major banks from seven countries (ABN Amro, Barclays, Citigroup, WestLB, Credit Lyonnais, Credit Suisse First Boston, Westpac Banking Corporation, Rabobank and HVB), with several others said to be likely to join. To encourage socially responsible lending for project financing in emerging markets they have adopted the Equator Principles under which they commit themselves to the IFC's social and environmental guidelines for sustainable development, covering, among other things, environmental assessment, occupational health and safety, use of dangerous substances, pollution prevention, impacts on indigenous peoples, and other human rights issues. The banks will "not provide loans directly to projects where the borrower will not, or is unable to, comply with our environmental and social policies and processes."

³⁸ See Jenkins (2001); ILO (1998a, 1998b, 1998c); and OECD (2000a) for surveys and analyses of corporate codes of conduct.

Each bank will be responsible for monitoring or enforcing compliance and the IFC is to act as a consultant (Sevastopulo 2003a).³⁹

The UK financial sector has adopted the London Principles of Sustainable Development, comprising a set of seven principles “that propose conditions for a financial system, and the role of financial institutions within that system, that will enhance the financing of sustainable development.” (Corporation of London 2002) UK insurance companies have also adopted a voluntary industry code. Other actions to promote sustainable development include ethical investment funds, and loans from banking institutions that are conditional on prior environmental risk assessment.

The “self-regulation” approach is riddled with contradictions and problems. Particularly in a highly competitive national and international environment, corporations cannot be relied upon to regulate themselves (Bendell 2003). In keeping with the spirit of the times, civil society activism at the national and international level has developed as a countervailing power, setting out its expectations regarding corporate practice and exerting pressure to gain corporate compliance.⁴⁰ As a re-

³⁹ This initiative was not, however, altogether spontaneous. In January 2003, over 100 civil society groups, noting how the financial sector lagged behind other sectors “in understanding its role and responsibilities in advancing sustainability”, had endorsed the Collevocchio Declaration which called for financial institutions to take steps to become more environmentally and socially responsible. Welcoming the banks’ move in principle, the Rainforest Action Alliance, representing many important NGOs from around the world, pointed out that the extent to which the Equator Principles initiative was significant or otherwise depended on the banks’ willingness to strengthen the principles and be forceful and transparent in their implementation (Rainforest Action Alliance 2003). The Equator Principles have been criticized for their relative weakness on social issues, and for not addressing the core issue of whether or not banks invest in projects that destroy endangered ecosystems and native communities. A clear example would be Rio Tinto Zinc’s plans to dredge hundreds of millions of tons of soil over 6,000 hectares of primeval rainforest in Southern Madagascar to extract the mineral ilmenite that is used to make paint and toothpaste (Carroll 2003).

⁴⁰ Civil action to induce change in businesses and establish “soft law” takes various forms. One typology of “civil regulation” by civil society groups distin-

sult, “multistakeholder” initiatives bringing together national and international NGOs, special interest groups such as labour organizations, and sometimes government agencies or multilateral bodies, have emerged as the new institutional approach to improving corporate behaviour in the social and environmental fields (Utting 2002a).⁴¹

Initiatives to encourage companies to improve CSR include a range of actions that set social and environmental standards, monitor compliance, promote social and environmental reporting and auditing, certify good practice (including through labeling), and encourage dialogue and “social learning” among the participants. The result has been the growth of “soft law” -- that is, rules other than laws, regulations and contracts applied on a consensual basis, with no legal force. For many of the protagonists, these arrangements are considered the optimal rather than second-best policy solution as they embody the newly fashionable notions of dialogue, responsibility, voluntary interaction, and co-operation between community and corporate interests. This approach has been particularly popular among activists in countries having an Anglo-Saxon model of capitalism and corporate governance, but is now gaining ground more widely. However, these close relations between civil society groups and the more powerful government institutions and businesses carry with them the risk of “capture”, that is, the distortion of the priorities and practices of NGOs and similar groups.

Despite the rapid growth of voluntary codes at the sectoral and national level, they still cover but a small fraction of the potential area of concern or action, and, in some cases, the results are not exactly as intended (Bendell 2003).⁴² As various analyses reveal, while these new

guishes between actions forcing change, promoting change, facilitating change and those producing change. For a description of these and examples of action in the four designated categories, see Bendell (2003).

⁴¹ Examples of multistakeholder initiatives include: the Clean Clothes Campaign; the Fair Labour Association (FLA), the Forest Stewardship Council; the Marine Stewardship Council; the Global Reporting Initiative (GRI); and SA8000.

⁴² For example, in the early 1990s there was growing concern at the effect of the international timber trade on tropical deforestation. Civil society groups began forestry certification efforts that were overseen and accredited by the

methods attempt to address some of the defects of earlier voluntary corporate codes (as, for example, in relation to labour rights in supply chains), they too are subject to a number of weaknesses. Principal among these are the failure to consult or include in the process various actors in developing countries, and hence take into account the needs and priorities of the very people the initiatives are intended to benefit directly. They also suffer from a lack of transparency and a lack of clarity regarding lines of accountability. Moreover, the implementation of the schemes can be complex, costly and lengthy if they are to be effective, which limits their scope and pace of expansion. The multiplicity of schemes has itself generated problems; the differing standards as well as overlap suggest that efforts to harmonize and standardize are increasingly needed (ILO 1998a; Kemp 2001; Utting 2002a).

The Global Compact, the UN's highly publicized initiative to improve levels of CSR and to marshal business behind the UN's development goals, has a number of elements in common with these multistakeholder initiatives and may be seen both as deriving from and complementing them. Nevertheless, several features distinguish the Global Compact in important ways from these processes. In particular, the Global Compact has global reach and some of its activities and ideas raise important questions regarding the future direction of global economic policy and global governance. (These matters and that of CSR are discussed in detail in later chapters.)

Wooring business and the US government

The UN's bid in the latter part of the 1990s to encourage the business community to "do business" with the UN can also be seen as part of a strategy to diminish the anti-UN sentiments of an influential part of the

Forest Stewardship Council (FSC) that aimed to provide a credible guarantee to consumers that wood products came from responsibly managed forests. By October 2001 345 logging operations and 23.8 million hectares of forests were under the FSC certification label. However, closer analysis revealed that 84 per cent of all certified forests were in the North and hence non-tropical, and that large commercial operations owned 85 per cent of all certified forests (Bendell 2003).

US political spectrum, including important sectors of business (Paine 2000). Conservative foundations and think-tanks, hostile to the UN's "development role" and its efforts to develop codes of conduct for transnationals, worked vigorously in the 1980s to foster opposition to the UN, to the point where "the UN" became a prominent issue in US domestic politics and was widely portrayed as statist, anti-market, costly and inefficient.⁴³ Perhaps the most distorted of images was that widely held in the United States portraying the UN "as a highly expensive and dangerous conspiracy intent on building up the power of a non-elected bureaucracy, thereby threatening the basic sovereign rights of the major powers, and at the expense of the latter's tax payers."⁴⁴ (South Centre 1997a:42)

Such distortions were used to great political effect. The UN was subjected to a no-growth budget and a freeze on hiring personnel that severely restricted its ability to carry out its mandates and the increasing tasks assigned to it. In the mid-1990s, the organization was brought virtually to the brink of bankruptcy by the deliberate withholding of legally obligated dues in order to press certain political and administrative preferences on the UN (South Centre 1997a).⁴⁵ Moreover, volun-

⁴³ For an analysis of the real situation, see Urquhart and Childers (1990); Childers and Urquhart (1994).

⁴⁴ In 1996, the total UN budget, combining both assessed and voluntary contributions, stood at US\$4.5 billion, a figure which at the time was less than the combined cost of the City of New York's Fire and Police Departments (South Centre 1997a:52).

⁴⁵ The underlying principle regarding UN funding is that it is apportioned among all members according to their relative capacity to contribute. Countries which fall behind by an amount equal to or exceeding the amount of contributions due from them for the proceeding two full years lose their voting rights in the General Assembly, unless the General Assembly is satisfied that failure to pay is beyond the control of the member. The United States, which until recently contributed 25 per cent of the regular budget, has regularly held back its contributions until the last minute, in order to press for changes in the voting procedures and for specific administrative and budgetary changes which it desired in the UN (South Centre 1997a). In 1997, the UN was brought to the brink of crisis due to large US payments arrears (US\$1.5 billion). Ted Turner, the founder of CNN, stepped in to avert the immediate crisis, by establishing a United Nations Foundation which would provide US\$1 billion to be spent on

tary public funding for the programmes of UN agencies, funds, and programmes not only failed to keep up with needs, it actually shrank.

As a result, many UN organizations were “clearly attempting to woo the business community into forging closer links with them.” (Mezzalama and Ouedraogo 1999:1) When trying to convince the US private sector that the UN was essential to its interests by giving examples of UN activities that were crucial to the functioning of business, the UN Secretary-General also asked business leaders to speak up “loud and clear” to persuade the US Senate and Congress to deal with US arrears (United Nations 1999c). The UN Secretary-General’s efforts to cast the UN as “good for business” can thus be seen as an attempt to undermine this damaging anti-UN stance and restore the UN’s finances.⁴⁶

The 1990s was also a time when the demise of the all-powerful state and state-controlled enterprises in the Council for Mutual Economic Assistance (COMECON) gave an added boost to “market triumphalism”. At the same time, the effects of the weakening of states in the developing world were becoming increasingly obvious; the debt crisis, poor terms of trade and the policy preference of donor countries for a “minimalist” state undermined the capacity of developing country governments to finance and organize even basic infrastructure and services. These developments have served to justify drafting the private sector into partnerships intended to help put the world’s wrongs to right.⁴⁷

UN activities over 10 years. Whether his action shamed the US into paying, or wiser counsel prevailed in the US Congress, the US government paid its dues, though not without achieving some of its reform proposals for the UN.

⁴⁶ In the United States, the United Nations Association, a non-profit body devoted to the support and promotion of the ideals and purposes of the UN and currently run by the former US ambassador to the UN, has been a proponent of UN-business partnerships. It has published a handbook entitled *How to Do Business with the UN* (UNA-USA 2002), indicating the business opportunities available to potential suppliers.

⁴⁷ Business, that is, activities associated with the production and distribution of goods and services, has underpinned or reflected the productive and socioeconomic structure and development of society for many centuries. To say that

Whether greater private sector involvement in the UN has significantly increased the finances available to the UN or, more importantly, made a substantial difference to the level of development efforts under its aegis is hard to ascertain. The United Nations Fund for International Partnerships (UNFIP) has received considerable contributions from private foundations established by business leaders, in particular Ted Turner's United Nations Foundation, as well as from individual businesses.⁴⁸ But while governments and foundations are allowed to contribute to a Secretary-General's Trust Fund to facilitate the work of the Global Compact, businesses are precluded from doing so in order to avoid undue influence and conflict of interest (United Nations 2002b:140).⁴⁹ There is no simple or direct way of assessing the business contribution: the multitude of "partnerships" under the aegis of a range of UN agencies cover a very diverse bundle of relationships and activities, in which the contribution may be in cash, kind or mere physical presence. In the interests of greater transparency, this information needs to be brought together, and it would also be an important element in assessing the nature and desirability of relations between the UN and private business.

business has grown is saying little more than that economic activity has grown. What is new is that, in recent years, with the demise of centrally planned economies and the triumph of neoliberal orthodoxy, the influence of the private sector has increased. Some businesses have grown on such a scale that, in terms of value-added, they are larger than some national economies and hence exert considerable influence in the global economy.

⁴⁸ The most well-known is the United Nations Foundation of Ted Turner. The Foundation's Board now suggests that the Foundation be continued beyond its proposed life of 10 years, as it has become "so skilled at creating partnerships and raising money through matching grants that it still might disburse more than US\$100 million a year." (Melvin 2002) See Mezzalama and Ouedraogo (1999:8–9) for examples of private sector contributions in cash and kind. As of December 2001, the UNFIP programmed over US\$420 million for 223 projects in 24 countries involving 30 UN entities. (Information as of 2 April 2003 on www.unfip.org.)

⁴⁹ Switzerland, Germany, the United Kingdom, Norway and Sweden were among the original contributors, and have continued to be the principal donors.

Restoring the relevance of the United Nations

It is widely acknowledged that the UN's role in the economic sphere has been considerably eroded in recent decades. Under an increasing division of labour between multilateral institutions, based on presumed comparative advantage, the UN's influence in shaping international economic relations and the global economic regime has much diminished, while the policy role of the World Bank and the IMF in economic affairs has been consciously promoted by the major industrial powers, to the detriment of the UN. Similarly, the WTO has emerged as an important focus of global policy making. As a result, the UN's sphere of responsibilities is now seen to lie mainly in the areas of peace and security, humanitarian affairs and the social aspects of development.⁵⁰ Despite widespread and growing criticism of the current form of globalization, neither the UN Secretariat nor UN member states have provided a powerful intellectual and political response. In this context, the Global Compact is considered to be a clear reflection of the "Secretary-General's resolve to revitalize the UN", and to use it as a means of "enhancing the UN's relevance by strategically positioning the institution as part of the solution to the problems of globalization", and as "a strategy to make the UN relevant by leveraging its authority and convening powers in ways that will actually produce the social change it desires." (Kell and Levin 2002:17, 5, 2)

Another reason given for drawing in the business sector to work in partnership with the UN to help reach the Millennium Development Goals is the fact that in the past UN resolutions and decisions were not translated into immediate action (witness the outstanding problems highlighted various UN reports). The direct involvement of business is expected to change things for the better.

⁵⁰ This division of labour has become increasingly anomalous and counterproductive if it is accepted that economic development policies must themselves foster social development. "Add-on" social measures do not fully resolve the problems and a new approach to development policy is required.

Turning the anti-globalization tide

The idea of partnerships between the UN and private businesses took on a new aura with the launching of the Global Compact in 1999. An appeal was made by the UN Secretary-General to international business to engage with the UN in activities that would remove the perceived threats to the global economic regime: "Today, market capitalism has no major ideological rival. Its biggest threat is from within itself. If it cannot promote both prosperity and justice, it will not have succeeded." (United Nations 1997b:2)

Those involved in developing the Global Compact provide a political-economy-type rationale for its existence, arguing that globalization has eroded the post Second World War arrangements based on an ideological consensus regarding the role of the state in providing domestic employment, price stability and social safety nets, and agreement on international co-operation through a set of international institutions -- the Bretton Woods institutions, the General Agreement on Tariffs and Trade (GATT) and the United Nations. The result is a serious imbalance due to the fact that the economic sphere (production and finance) has become "disconnected" from the overall system of institutional relations, giving rise to disequilibria in the world economy "which will persist unless and until the strictly economic sphere is embedded once more in broader frameworks of shared values and institutionalized practices." (Kell and Ruggie 1999)⁵¹

Failing this, the UN argues, the current open global system is likely to be threatened by a growing tide of protest from those not benefiting from globalization and from successful efforts by labour and environmental interest groups to have global standards on these mat-

⁵¹ This Ruggie and Kell article, perhaps unintentionally, gives the impression that globalization and the fact that the economic sphere is no longer embedded in a broader framework of shared values and institutionalized practices are fortuitous developments, rather than being associated with changes in ideology and power relations. Whatever the case, the absence of any critical comment on the present approach to globalization suggests that the solution presented in the form of the Global Compact is intended to accommodate the current global economic regime.

ters written into the WTO multilateral arrangements on trade and trade-related issues. The idea has met criticism from many economists as an inappropriate solution to developing country problems, and has been rejected by most developing country representatives. Business interests have also been largely opposed to incorporating labour and environmental standards in the WTO framework on the grounds that it may stifle trade and investment. The UN's contribution to helping resolve the problem has therefore been to establish the Global Compact, which encourages business to engage voluntarily in raising standards.

Whatever the explicit or underlying rationale for partnerships between the UN and business, UN advocacy of the idea conveys a sense of missionary zeal: "It is difficult to capture the dynamism, energy, experimentation, trust-building and pioneering spirit that permeates these examples (of UN-business relationships) They require a difficult balance of idealism and pragmatism, passion and patience, action and reflection, creative vision and hard work, pooled resources and independent contributions, a strong commitment to principles and a willingness to compromise and adapt." (United Nations 2002b:6)

Member states' attitudes to partnerships

The idea that the UN should engage with the private sector more seriously was announced by the Secretary-General to world business and political leaders at the 1999 Davos Forum (United Nations 1999b, 1999c). However, as a membership organization the UN General Assembly is at liberty to form its own judgements and proposals, and hence to reject or amend proposals coming from the Secretary-General. In their September 2000 Millennium Declaration, heads of state and government broadly endorsed the Secretary-General's idea when they resolved "to give greater opportunities to the private sector, non-governmental organizations and civil society, in general, to contribute to the realization of the Organization's goals and programmes." (United Nations 2000a) General Assembly discussions in October 2000 (United Nations 2000b) led to a lukewarm resolution (A/RES/55/215) on global partnerships (United Nations 2001b). In the wide-ranging General Assembly debate, the Group of 77 developing countries in

particular expressed a number of reservations and caveats that are reflected in the resolution (A/RES/55/215), which invites the UN system to continue to adhere to a common approach to partnerships which, without imposing undue rigidity in partnership agreements, includes the following principles: common purpose, transparency, bestowing no unfair advantage on any partner of the United Nations, mutual benefits and mutual respect, accountability, respect for the modalities of the United Nations, striving for balanced representation of relevant partners from developed and developing countries and countries with economies in transition, and not compromising the independence and neutrality of the United Nations system in general and the agencies in particular.

Further discussions in November 2001 resulted in a resolution (A/RES/56/76) *Towards Global Partnerships* (United Nations 2002c) that gave a provisional blessing to the Global Compact. The General Assembly's approval was given on the understanding that the Global Compact would operate as a network and not be considered a formal UN institutional structure requiring intergovernmental oversight, and that its operation should continue pending the results of a detailed review in 2003.

The business response

Globalization has placed business in a complex situation: it has opened up enormous opportunities for business but at the same time made it more exposed to criticism. The very simplicity of the central globalization message that free markets operate in the interests of all has led many governments and peoples to believe that liberalization could deliver all manner of things.⁵² The disappointments and persistence of the

⁵² Boiled down to its essence, neoliberal doctrine postulates that government should concern itself with managing only a few aspects of the economy -- essentially monetary and fiscal policy -- and deregulate product, labour and financial markets. Under such conditions the economy and the population will ostensibly prosper. Promising to reduce the cost of government and absolve national decision makers from having to make complex and often conflictual socioeconomic choices, it is clearly an attractive proposition. The problem is

sorts of problems to which the Millennium Goals are addressed has mobilized large numbers of people and their organizations behind demands for change. Global corporations, widely identified as the protagonists, vehicles and beneficiaries of globalization, have become the focus of much of the public's frustration and anger. Big business can therefore be expected to welcome opportunities to associate with the UN where it could be seen to be "doing good", the more so since it had in any case been seeking closer relations with, and influence within, the UN for some time.

In June 1997 a high-level meeting co-hosted by the executive director of the World Business Council on Sustainable Development (WBCSD), established to represent the interests of TNCs at the 1992 UN Conference on Environment and Development in Rio, was held with the president of the UN General Assembly to "examine steps towards establishing terms of reference for business sector participation in the policy setting process of the UN and partnering in the uses of UN development assistance funds." (Korten 1997)

The International Chamber of Commerce (ICC), comprising several thousand businesses and business associations from over 100 countries, had been concerned for some time that its voice was insufficiently heeded at the global level. To enhance its visibility and to become *the* voice of business in the UN, it embarked on a "systematic dialogue with the United Nations", with a view to enhancing its influence over the world body (Livanos Cattai 1998a, 1998b). The Geneva Business Partnership was formed in September 1998 by the ICC with a view to facilitating discussions between over 400 business leaders and representatives of international organizations, including the ILO and the World Health Organization (WHO), on "how to establish global rules for an ordered liberalism" (Corporate Europe Observatory 1998). "In fact", says the ICC, regarding the Global Compact, "ICC and the UN were cultivating a closer relationship for many months preceding Kofi Annan's public appeal in January 1999" (International Chamber of Commerce 1999a).

that the underlying assumptions are far removed from reality and hence the outcomes are rarely as promised.

Not surprisingly, therefore, the initial reactions expressed by the ICC in March 1999, in the wake of the launch of the Global Compact, were positive, though, among other things, the ICC pointed out that, in adopting the Compact's principles, businesses could not ignore their basic responsibilities to customers, employees and shareholders (Livanos Cattau 1999). A July 1999 joint statement by the ICC and the UN Secretary-General, following a continuing dialogue between the two organizations over the previous 15 months, expressed the readiness of business leaders to co-operate with the UN in the common endeavour of the Global Compact, which was seen as "reinforcing the collaborative partnership between the United Nations and the ICC that is now well established" and which offered "great potential for the goals of the United Nations -- peace and development -- and the goals of business -- wealth creation and prosperity -- to be mutually supportive." (UN and ICC 1999)

The IOE has also declared its support for, and commitment to, the Global Compact, stating that it would work with the Global Compact Office and the UN agencies directly involved to make the principles "a reality on the ground". However, in its Employers' Guide to the Compact, the IOE states that the Compact is "inspirational" and that the Compact "plays a role in promoting the good practices that have been inspired by the nine principles. It was not established to provide a forum in which to debate the meaning of the principles or measure performance."⁵³

The World Economic Forum that hosted the event at which the Global Compact was announced clearly welcomed and supported the launch of the Global Compact. It was seen as a means of strengthening the UN's collaboration with the private sector, and "providing a high profile, global and much respected platform and network for raising awareness about corporate citizenship." Perceiving that the credibility of business and of the market-driven system itself was under attack, the Compact seemed to offer a means whereby "business can take the lead...and reposition itself as being clearly and convincingly part of society." (Schwab 2002) The IBLF (formerly Prince of Wales Interna-

⁵³ See IOE, www.ioe-emp.org. See also, United States Council for International Business -- USCIB -- (2002).

tional Business Leaders Forum -- PWIBLF) has also become highly active in support of partnerships between business and the UN (see PWIBLF 2001).

The lists of companies and business associations in Global Compact dialogues and other Compact meetings leave little room for doubt that business interest is high, perhaps because they provide companies with a potentially fruitful means of expressing CSR in a manner that may provide benefits at little cost.

Partnership: What's in a name?

For a couple of decades now, in the UN and in other international development discourse, the terms “partnership” and “partners” have been used in place of “donors” and “recipient”. This was no casual change in words. The change was inspired by the Pearson Commission whose deliberations on international development suggested the need to change the nature of the “aid” relationship to one focusing on “development assistance” in which partnerships had clear objectives and partners had clearly defined rights, responsibilities and obligations (Pearson Commission 1969).

For the United Nations (2002b:46), “Partnership is a voluntary and collaborative agreement between one or more partners of the UN system and non-state actors, in which all participants agree to work together to achieve a common purpose of undertaking a specific task and to share risks, responsibilities, resources, competencies and benefits.” Many UN entities, however, use the term to refer to almost any relationship with the private sector, and few clearly set out respective rights and responsibilities or clarify how the risks will be shared.

The UN's classification of the partnerships that are found under the UN banner (see Box 2) indicate how very heterogeneous the partnership category is in the UN. Moreover, it is clear that it would be difficult, if not irrelevant, to attempt to analyse some of these types of so-called partnerships, using the sorts of criteria that one would normally be applied in an evaluation of formal business partnerships in

which the objectives, rights and obligations of the respective partners, the sharing of risks and gains, and the balance of power between partners, among other things, are clearly specified.

Box 2
Categories of partnerships under the UN banner

Public policy networks
Voluntary standards initiatives on sustainable development
Advocacy and fund-raising partnerships
Partnerships to facilitate private investment
Global knowledge and learning networks
Operational delivery partnerships
Country-level co-operation
Building partnership capacity in developing countries
Partnerships to address global health issues
Partnerships to address global environmental issues

Source: United Nations (2001a:Annex II), which provides details of the various partnerships in each of the above categories in 2001. (For other lists, see United Nations, 1998b, 2001a:Annex II.)

Note: Operational delivery partnerships do not include those business relationships with the UN involving direct commercial transactions in which private firms supply goods and services to the UN for the purposes of its normal work and operations.

“Partnership” has joined “sustainable development” as a buzzword in the world at large. Due to widespread use of the word in the national and international political sphere, in corporate advertising and corporate reporting, and in endless other situations, the epithet “partnership” is now so ubiquitous that it has become almost trite if not devoid of meaning.⁵⁴

⁵⁴ The Danish State Secretary, speaking for the EU on a new energy partnership that was announced at the recent WSSD, in response to a question about what such a partnership was, replied that it was “an attempt to get new part-

Worldwide television advertising by UBS, the large Swiss financial company, featuring an international yachting contest refers to the “power of partnership”, when the real relationship is one of finance -- sponsorship from a large bank. The oil company Chevron’s television advertisement that portrays workers on oil rigs around the world refers to “partnership” and the picture of men “pulling together” both suggests that labour relations are not an issue and diverts attention away from issues related to the production process or the product (oil); indeed the product is not mentioned at all. In 2001 and 2002, there were numerous such examples of television and press advertising using the word partnership to elicit a positive emotive response towards the company or organization in question.

In the United States, labour-management relations that go beyond negotiating or bargaining activities are now labelled labour-management partnerships. However, while they involve labour in workplace decisions to raise productivity and improve competitiveness, such partnerships rarely extend to involving workers in business decisions such as financial matters and planning of operations.⁵⁵ If judged in terms of one of the established definitions of partnership referring to shared responsibilities, profits and losses, there is little real substance to the partnership relationship: many workers face prompt dismissal on the eruption of corporate financial crises precipitated by management decisions (wise or otherwise), in which the workforce had no say.⁵⁶

ners actively involved” and that partnerships were intended to “secure more financing, and additional resources for development through contributions from private companies and civil society”, which “will not only mean more money, hopefully, but also a broadening of ownership.” For the poverty alleviation officer of the UN Food and Agricultural Organizations (FAO), partnership was a means of enabling “committed people to assist other committed people.” (James 2002)

⁵⁵ Heralded as “win-win” solutions in conceptual and practical terms, assessment of these partnerships yields mixed results (Quan 2000).

⁵⁶ Alan Greenspan, Chairman of the US Federal Reserve, referred recently to the “infectious greed” that distorted American capitalism in the late 1990s. A *Financial Times* survey documents this “greed” in a study of the gains made in the three years between 1999 and 2001 by executives and directors in Enron, Global Crossing, WorldCom and other failed companies. The 208 executives of the 25 largest companies that went bankrupt in the past 18 months bene-

Concern over terminology is no mere sophistry: particular words shape our responses to particular ideas and can be instrumental in eliciting particular responses (Caplan 2003). The theoretical literature on the nature and function of buzzwords indicates that these experience a kind of life cycle (see, for example, Dommen 1994 and forthcoming). Initially they serve a useful purpose in that their emotive and non-conflictual connotation insinuates that what is being portrayed or done is morally good, thus attracting adherents to the cause.⁵⁷ However, the initial lack of analytical precision that gains initial public approval for the concept is soon found to be unsatisfactory and gives rise to demands for clearer definition. Yet efforts to apply the notion to apparently relevant but very heterogeneous situations tend to render it devoid of real meaning. Furthermore, introducing greater technical precision so as to make the concept operational may alienate different interests as they find that their interests do not really coincide. Eventually, the initiatives generated through the galvanizing power of the buzzword may lose their cohesion or dynamism and may even collapse, and the word may no longer conjure up positive images and thoughts.

Thus, the initial elastic use of the buzzword “partnership”, evoking notions of trust, common goals and voluntary commitment, may well spawn partnerships galore, due to its “feel-good” overtones and lack of definition. But its “numerical” success may well give rise to scepticism, suspicion or cynicism regarding anything termed partnership. For the Chairman of W.H. Smith, a major British company, “partners” is “a weasel word used in business by people who want to take advantage of you.” (Taylor 2002)

The fact that fewer television and press advertisements using the partnership notion to create the idea of a bond appeared during 2003 may well be a sign that the essential function of the partnership buzz-

fited from salaries and the proceeds of share sales to the value of US\$3.3 billion over the three-year period. Job losses among workers in these firms totalled 94,182 (Cheng 2002; *Financial Times* 2002a).

⁵⁷ One of the definitions of partnership in the *Shorter Oxford Dictionary* is “An association of two or more persons for the carrying on of a business, of which they share the expenses, profit and loss,” the partners being “the persons so associated collectively.”

word -- its ability to rally people around an unalloyed good -- has been eroded and that the “partnership” gambit in company and UN advertising may well have run its course.

Partnerships galore

The Johannesburg World Summit for Sustainable Development can be considered to have been a signal failure: no agreement was concluded between governments on quantitative goals for renewable energy in order to deal with the matter of global warming and promote sustainable development. Even some big businesses themselves consider such agreement a necessary framework for private sector action. But if press reports are any guide, the WSSD was celebrated by many as the occasion on which the PPP approach triumphed as a way of getting things done.

The UN Secretary-General, frustrated with the slow process of government decision making regarding setting targets for energy production from non-hydro renewable sources, had urged business to press ahead with initiatives, without waiting for governments to make decisions and laws (Mason and Lamont 2002). Over 700 businesses were present and, according to the James (2002) “for some of the companies . . . this could almost be the second gold rush.” In the event, over 240 partnerships were announced, in the fields of water and energy among other things.⁵⁸ However, closer examination of the partnerships list gives little cause for great expectations: more in the nature of a bulletin board, carrying notices of both existing and new proposals looking for partners and providing details of the “lead” partners, it gave little indication, if any, regarding who the other UN or business partners are.⁵⁹

⁵⁸ UNEP, WBSCD and the ICC, together with a large number of trade and industry associations, have been engaged in preparing an overview of how the private sector has been implementing Agenda 21.

⁵⁹ For an updated list of partnerships for sustainable development, see UN Division for Sustainable Development, www.un.org/esa/sustdev/partnerships/list_partnerships.htm

Nevertheless, the event seems to have established the idea that global public-private partnerships or multistakeholder partnerships (referred to as Type 2 partnerships) are the route to take. Indeed the wide range of initiatives and range of objectives and sectors they cover suggest that partnerships have come to be regarded as an “all-purpose” development tool. The World Bank goes further and calls partnerships an “emerging development methodology”.

At the May 2003 meeting of the Commission on Sustainable Development (CSD), which in principle covers the economic, social and environmental dimensions of sustainability, partnerships were seen to be a central mechanism for implementing the outcomes of the WSSD, and a Partnerships Fair was organized to further this approach and establish new partnerships (UNCSD 2003a). During the Multistakeholder Dialogue at this meeting the business community expressed the view that they regarded voluntary partnerships as a key instrument to mobilize business support for achieving the CSD’s objectives. Job creation, providing services and developing innovative technologies were seen as key contributions (UNCSD 2003b). Of the five priority areas emphasized at the Johannesburg summit -- water, energy, health, agriculture and biodiversity -- the first two were given special emphasis.⁶⁰

The types of partnerships listed below, while incomplete, gives a flavour of the range of activities and types of relationships assumed under the UN partnership banner.

Global Compact partnerships

In the early days, the Global Compact described itself as a UN-business partnership. Now, however, it refers to itself as a worldwide network of stakeholders. Its activities fall into four broad categories in terms of the thrust of what they do: sharing and spreading universal values, harnessing resources and competencies to support UN goals, promoting pri-

⁶⁰ A Global Forum on Sustainable Energy: Public-Private Partnerships for Rural Energy Development has been established under CSD. For details, see www.un.org/esa/sustdev/partnerships.

vate sector development in developing and transition economies, and enhancing the direct development impacts and multipliers of private investment. However, there is still the intent to form specific partnerships with the private sector under the aegis of the Compact, as well as to engage in various joint activities within the Compact. While aiming to improve corporate behaviour in relation to the Compact principles and helping reach the Millennium Goals, these partnerships are to focus on activities considered to be the core business of the companies concerned and regarding which they are said to have the relevant expertise.⁶¹

Partnerships to facilitate foreign investment and private sector development

Partnerships in this field aim mainly to increase the level of FDI in developing countries, increase their capacity to attract FDI, and improve the capacity and quality of their infrastructure and services. For example, an UNCTAD-ICC partnership, now supported by the Global Compact and involving developing country governments, domestic business associations, and over 20 TNCs, aims to promote FDI in some of the world's poorest countries. Projects under this partnership include the preparation of investment guides and capacity building. An Investment Advisory Council for least developed countries has been established comprising high-level executives from TNCs and senior government officials to provide advice on increasing the level and quality of FDI and to raise international business awareness of investment opportunities in these countries.⁶²

A Money Matters Initiative was launched by World Times Inc. at the 1995 World Summit on Social Development in Copenhagen, with support from UNDP and the World Bank and in co-operation with representatives from the financial and business communities. Its activities include financial innovation to enhance the use of private capital for sustainable human development. Since 1995 it has held global and regional meetings co-sponsored by UNDP and private corporations,

⁶¹ See Global Compact Partnership Projects, http://www.unglobalcompact.org/content/Projects/Overview_Projects.htm.

⁶² For other examples, see United Nations (2002b:Box 11).

such as State Street Bank, Fidelity Investment and Arthur Anderson. This initiative was also engaged in supporting the preparation of the International Conference on Financing for Development (ICFD), held in Monterrey, Mexico in 2002 and undertakes research to strengthen developing countries' capacity to attract and retain private capital, and to channel it into development.

Partnerships to assist and promote small and medium-sized enterprises

Global "value chains" that involve North-based TNCs and developing country SMEs are a growing phenomenon and are contributing to development in a number of countries. In order to assist developing country SMEs improve their supply capacity and competitiveness, efforts to provide SMEs collectively with information, knowledge, technology and skills are needed. PPPs constitute one approach to filling this need by delivering products and services to SMEs, through a combination of funding and technical assistance (United Nations 2002b:Box 10). UNIDO has been active in developing partnerships to promote developing country SMEs (UNIDO 2002b, 2000).⁶³

⁶³ One such project is UNIDO's multi-party partnership to support the development of the primarily SME-based automotive component industry in the western region of India. It aims to enhance competitiveness and the global integration of the SMEs involved, but also to improve their social and environmental importance. The pilot project involved the government of India, the Automotive Component Manufacturers Association of India, the Italian company Fiat, the Automotive Research Association of India, the European Business Association, INSEAD (European Institute of Business Management), the IBLF, academics and civil society, UNIDO, as well as SMEs. Success of the pilot phase led to its extension to southern India and the inclusion of Ford (India) and Ashok Leyland. Other examples of UN-business partnerships aiming to enhance the capacity of SMEs in developing countries include the EMPRETEC programme (co-ordinated by UNCTAD), UNIDO's Microstart programme, ILO's small enterprise economic development (SEED) programme and UNEP's Efficient Entrepreneur Calendar.

Partnerships to deal with energy, climate change and other environmental issues

In this field, activities described as partnerships have mushroomed in recent years and cover a very wide range of arrangements and activities, including think-tanks, consultative bodies, monitoring bodies, advocacy, training, promotion of new technologies and practical projects. The considerable number listed in United Nations 2002b pages 282 and 291) is said to be only a small sample of the hundreds of examples in this field alone. Recent partnerships in the environmental field are listed on the website of the United Nations Division for Sustainable Development.⁶⁴

Partnerships for health

One of the most flourishing parts of the partnerships industry is to be found in the field of health, in response to the drastic situation in large parts of the South and the limited local capacity to deal with longstanding and new health problems. PPPs are being established involving various parts of the UN system and its agencies. They include the Global Polio Eradication Initiative (established in 1998), Roll Back Malaria (1998), the Global Alliance to Eliminate Leprosy, the Special Programme for Research and Training in Tropical Diseases, the Global Fund to Fight AIDS, Tuberculosis and Malaria -- GFATM (2001).⁶⁵ Washing Hands (to save lives) -- a PPP involving several UN agencies and businesses that was announced at the Johannesburg WSSD -- is an example of a different type of preventive measure. Chapter 8 contains a brief analysis of some of the issues arising in relation to global PPPs in the field of health.

⁶⁴ See <http://www.un.org/esa/sustdev/partnerships/list-partnerships.htm> UNRISD (2000) provides a brief overview of the shift from "confrontation to partnership" regarding environmental issues.

⁶⁵ For details on these and other partnerships set up to deal with global health issues, see United Nations (2002b:Boxes 37 and 38).

Other partnerships involving UN programmes and agencies

The United Nations Children's Fund (UNICEF) has been active in developing partnerships with a view to raising funds to advance its work, while at the same time generating wider awareness of the organization and its activities. Olilla (2003) reported that about 17 per cent of its funding originated from the private sector and NGOs in 2000–2001. A further 14 per cent came from foundations. UNICEF anticipated that its relationship with Coca-Cola could help in the distribution of HIV/AIDS drugs, and that Nokia's involvement in the Global Movement for Children would encourage the Finnish government to increase its funding for UNICEF. The partnership with American Express generates funds for vaccines, vitamin A supplements and school exercise books.

UNDP has many partnerships with the private sector, often with a single company (UNDP 2002b). For example, it is working with Coca-Cola and the government of Malaysia to develop joint programmes that provide information technology (IT) resources for secondary education by establishing IT "hubs" in selected schools. Recently in Angola, UNDP signed an agreement with ChevronTexaco "to promote sustainable economic and social growth" (*sic*). The initial focus is to support small business development through the Angola Enterprise Fund established to facilitate the partnership.

When stated in summary fashion, as above, partnerships rarely elicit anything but a positive reaction. However, in many instances the "devil is in the detail", as can be seen in the following examples.

The multistakeholder partnership Washing Hands, referred to above, is financed by the World Bank, and involves the UN agencies UNICEF and WHO, the United States Agency for International Development (USAID), the London School of Hygiene and Tropical Medicine, and major TNC soap producers such as Procter and Gamble, Unilever, and Colgate Palmolive. The aim is to save lives in the state of Kerala, India, by reducing diarrhoeal diseases by half. This involves encouraging a doubling of hand washing and the use of soap. Apart from concerns raised by the direct involvement of TNC produc-

ers of soap in this initiative, the project has raised criticism by virtue of the fact that Kerala has one of the highest hygiene and lowest infant mortality records in India, and has effective, locally produced, natural and non-polluting hygiene products (Shiva 2002).

In July 2002 UNICEF and McDonald's (among the world's leading food-service retailers) announced plans to team up in an arrangement whereby, on a day designated World Children's Day, funds would be raised to support Ronald McDonald House Charities (RMHC) worldwide and UNICEF programmes in selected countries.⁶⁶ Thirty thousand McDonald's restaurants in 121 countries were to take part in the programme on 20 November, the anniversary of the Convention on the Rights of the Child, when McDonald's was to distribute UNICEF "trick or treat" collection boxes. This initiative provoked an outcry from an international coalition of public health professionals and activists on account of the nutritional harm done by McDonald's global promotion and popularizing of fatty and sugary foods. These foods are alleged to contribute to rapidly rising rates of childhood obesity, type 2 diabetes, and to the disruption of traditional ways of food preparation in families and in different cultures. UNICEF was asked to reconsider its partnership with McDonald's.⁶⁷ In the event, the project went ahead in the US only and is not to be repeated.

UNDP's ambitious effort to establish a Global Sustainable Development Facility (GSDF) aimed to bring two billion new people into the global market economy by the year 2020 by, among other things, developing products and services adapted to the poor in emerging markets. It was to involve several large corporations (16 had joined by March 1999), each of which was committed to pay UNDP US\$50,000. The GSDF was to be established as a separate legal entity outside the UN system and "primarily governed by participating corporations" and benefiting "from the advice and support of UNDP through a special relationship" (UNDP 1998). Following criticism that it ignored UNDP's own guidelines regarding funding, advertising and other mat-

⁶⁶ See www.media.mcdonalds.com/corporate/press.

⁶⁷ *Commercial Alert* 2002; <http://www.lists.essential.org>; United Nations System 2002.

ters, and that it seemed likely to divert UNDP programmes and priorities to serve corporate ends, the initiative was aborted.⁶⁸

In a newer partnership UNDP, the petroleum company BP and the government of Indonesia are working together in a Diversified Growth Strategy in the Papuan Province, which is soon to be affected by two mega-projects -- the Tangguh Liquefied Natural Gas and Gag Island Nickel mining projects. The partnership aims to promote activities "that will strengthen the institutional capacity of local government and population to strategically manage the changes associated with the implementation of the large-scale resource projects in the region. The agreement covers co-operation in regional development planning, drafting regional regulations, human resources development and partnership improvements between the government, public and business sector." (Personal communication from UNDP) To date, there are few examples of this type of investment where social and environmental considerations have been fully taken into account, and it remains to be seen how successful this project will be in providing adequately for the needs of the local population and in avoiding environmental degradation.

A United Nations Population Fund (UNFPA) initiative (which involved pharmaceutical companies in conducting market research on products in developing countries) illustrates the complexity of partnerships and their multiple social and developmental implications. The governments concerned agreed to lower tariffs for the products and demanded "reasonable" prices in return for granting the companies the right to conduct the research (UNFPA 1999).

These few examples illustrate that each partnership has wider implications and outcomes affecting development that need to be taken into account when assessing their value. This becomes more obvious when one takes into account the specific business partners or the reasons that motivate business interest in partnerships.

⁶⁸ A full evaluation of UN-business partnerships should include a study of the partnerships that have been aborted before being put into practice or been terminated before the specified time of completion, including the internal and external reasons for their failure.

The UN's partners

If one is to assess partnerships as a development tool, it is necessary to take into consideration the nature of the private sector partners. The above far from complete list of partnership arrangements and activities suggests that a wide range of businesses in terms of size, nationality and sector might be involved. The Global Compact (discussed below) has declared explicitly its intention to involve small, medium and large businesses from developed and developing countries, and, indeed, the number of SMEs participating is growing. However, closer examination suggests that it is likely to be large companies that are involved in direct partnership relations with the UN. In the context of partnerships to promote development and the achievement of the Millennium Goals, business partners are considered by the UN to be a source of funds, while at the same time raising the UN's profile by promoting widespread awareness of specific UN aims and programmes through the associated corporate advertising.⁶⁹ In addition, business partners are said by the UN to be valued due to their relevant technical know-how and their experience about what works.⁷⁰ This suggests that the UN mainly has big business in mind. Similarly, for the reasons outlined in chapter 4 on the Global Compact, large firms are likely to be the principal active participants in many of the Compact's activities.

There is considerable lack of clarity regarding the "selection" of the UN's business partners. While the Secretary-General has set guidelines to orient the whole system, different agencies appear to follow their own guidelines. Too great a concern for the credentials of potential partners may be dismissed as irrelevant, in view of the pressing nature of the problems to be tackled through partnership. However, bearing in mind the emphasis the UN is placing on partnership with the private sector and the potential for damage to the UN's reputation, there is a strong case for establishing clear, firm criteria and careful vet-

⁶⁹ One example is UNICEF's association with 13 airlines in UNICEF Change for Good through which passengers' small change is collected and used to finance social programmes for children.

⁷⁰ This raises questions concerning the co-option of the UN and associated policy issues, such as the regulation of TNCs -- matters that are discussed below.

ting procedures. Yet, even with clear-cut criteria and reference to company reports to assess their suitability as future partners, it will not always be possible to capture all the relevant facts, as recent corporate scandals in the US and elsewhere illustrate. Novartis, the Swiss pharmaceuticals company, which has set up a Global Compact Steering Committee and a Global Compact Clearing House and which participates in a partnership with the WHO, has been held up by the Compact as an example to others (Leisinger 2002a). Yet, closer examination of even its philanthropic projects reveals a far from impeccable record. For example, Novartis announced it would provide free supplies of Glivec, an ostensibly revolutionary cancer drug that costs US\$27,000 a year, to people around the world who otherwise could not afford it (as many as 600,000 according to experts). In practice, a variety of tactics have been employed in different countries to use Glivec as part of a marketing strategy, including encouraging patients who have received free drugs to press public health systems to pay high prices for the drug. According to a *New York Times* report, only 1,500 patients outside the US have benefited from the “patient assistance programme”, of which only 11 were in the poorest countries, where Novartis had estimated that 9,500 could be helped by Glivec. Not surprisingly, this project has exposed the company to the criticism that “its charity is a stalking horse for its commercial goal of building Glivec sales to US\$1 billion annually (Strom and Fleischer-Black 2003).

Novartis reached for the stars in another unethical marketing ploy: it employed Lauren Bacall in efforts to capture consumers and enlarge its market.⁷¹ The company has also been part of the pharma-

⁷¹ Lauren Bacall -- once glamour girl of the Hollywood screen -- appeared on NBC's *Today* programme in March 2002 and “happened” to talk about a good friend who had gone blind from an eye disease. In the process she mentioned Visudyne, a new treatment produced by Novartis for macular degeneration. What the audience did not know was that Novartis had chosen Lauren Bacall for her appeal to the over 50s, the primary market for the drug, and that she had been paid by the company for her appearance. (The company has declined to reveal how much she was paid.) “We realized people would accept what she was telling them. Our whole intent is to let people know they don’t have to go blind.” Novartis is not the only pharmaceutical company resorting to such methods. Petersen (2002) of the *New York Times* cites other instances from the

ceutical industry lobby pressuring the US to maintain a restrictive position regarding pharmaceuticals patents -- efforts that were successful in holding up agreement in WTO discussions on trade-related intellectual property rights (TRIPs) until August 2003.

In another case from the pharmaceutical industry, at least two companies (Aventis and BASF) -- both of which are on the Global Compact's list of participants -- have been involved in downright illegal activity. These and other companies were fined a total of £530 million by the European Commission for taking part in a cartel to fix the price of bulk vitamins as raw materials for supplements and foodstuffs (*Pharmaceutical Journal* 2001).⁷²

In 2003, the US Federal Prosecutors launched an official investigation into Coca-Cola, pursuing allegations of improper accounting and alleged fraud in a test marketing scheme with Burger King (Liu 2003).⁷³

dozens of examples of celebrities who have been paid hefty fees to appear on television talk shows and morning news programmes to disclose intimate details of ailments that afflict them or people close to them and to mention brand-name drugs without disclosing the financial ties they have to the pharmaceutical company whose product they are advertising. Such methods of advertising for prescription drugs and health products raise important ethical issues. The earlier practice of Nestlé's use of agents dressed in nurse's uniform to promote their baby milk product in Africa raises similar ethical issues.

⁷² See European Competition Authority website (<http://Europa.eu.int/comm./competition>) for cases that have come before the European competition authorities). Regarding the vitamins case, the Competition Authority Chairman, Dr. John Fingleton, in a speech on 21 November 2001 welcoming the European Commission's imposition of these fines on European and Japanese companies, commented "This case illustrates how a secret cartel can steal from consumers indirectly and invisibly, without consumers having been aware that they have been ripped off. Vitamins are mostly sold to food manufacturers as additives for every day products. The effect of the price increases on final products like milk, orange juice, meats etc. was imperceptible. Yet, when added over the large range of everyday foodstuffs that contain added vitamins, it amounted to an enormous fraud on consumers." (Fingleton 2001)

⁷³ Coca-Cola ranks twentieth among the world's largest corporations (*Financial Times Global 500* 2003). The Coca-Cola operation that is listed as a Global

American Express and UNICEF are engaged in a partnership scheme that allows members' spending points to be credited to UNICEF to support health, education and child protection programmes. This financial services company was one of the key corporate protagonists in the US that set up the Coalition of Service Industries (CSI), which was successful in lobbying to get trade in services placed on the negotiating agenda of the WTO, in the face of fierce opposition from developing countries. This issue is discussed below.

Nestlé, the world's largest food company with interests in a vast range of foods is now the global market leader in bottled water, in which its portfolio includes Perrier, San Pellegrino and Vittel brands.⁷⁴ Nestlé is a participant in the Global Compact and a UNDP partner.⁷⁵ Due to its unethical marketing practices relating to breastmilk substitutes, UNICEF excluded this company and other infant food produc-

Compact participant as of 14 May 2003 was the Coca-Cola Bottling Company for Ghana Ltd.

⁷⁴ Nestlé's investment in capturing a large part of the bottled water market is a highly strategic one in view of the fact that water itself is becoming a strategic issue and that world sales of expensive bottled water are booming (Matsuura 2003; Gersema 2003). But whatever the motives, Nestlé's behaviour in provisioning bottled water seems far from pure. Its method of extraction, treatment and bottling of its Pure Lift brand of mineral water from the famed sources of the Water Park in São Lourenço, Minas Gerais, Brazil, has been the cause of popular mobilization and the company is now the subject of a government inquiry (Cataldi 2003). Nestlé is also facing a US lawsuit accusing the company of falsely labelling its Poland Spring brand of bottled water as natural spring water when in fact it is well water or groundwater quality (Bottled Water Fraud 2003; Nestlé Waters North America Inc. 2003). In relation to the Millennium Development Goal of increasing access to clean water and sanitation services in developing countries, see the private sector's proposals for increasing the number of viable water projects in developing countries (Business Partners for Development, 2002). Michel Camdessus, chair of the World Panel on Financing Water Infrastructure and former managing director of the IMF, in presenting the Panel's recommendations on how to halve within 12 years the number of people without access to water or sanitation, referred to the need for PPPs. Small and medium-sized private companies were also to be encouraged in this activity "by measures such as micro-credit" (Mason and Houlder 2003).

⁷⁵ See Richter 2003a for a critique of the Global Compact and Nestlé's participation in the Compact.

ers from partnership possibilities for a long time. Now UN policy is to exclude companies found to be in violation of the 1981 International Code of Breastmilk Substitutes.⁷⁶

Nestlé recently claimed US\$6 million compensation from the government of Ethiopia, a drought stricken country with the lowest per capita income in the world. In 2002, the company with net profits of US\$5.65 billion, had sought this compensation for the 1975 nationalization of a German business in Ethiopia whose parent company was bought by Nestlé in 1986. The Ethiopian government offered to pay US\$1.5 million (just over half the company's value at the time of nationalization), including interest. Nestlé has insisted that the payment be made at the 1975 exchange rate, thereby raising that sum by US\$4.5 million. Nestlé's chief executive officer defended the claim as "a matter of principle", as "We do think its important for the long-term welfare of the people of Africa that their governments demonstrate a capacity to comply with international law, but we are not interested in taking money from the country of Ethiopia when it is in such a desperate state of human need." The World Bank was brought in to negotiate. Following adverse publicity, Nestlé announced that the sum already offered by the Ethiopian government would be contributed to famine relief efforts for Ethiopia. But it appears that this will not be an internal transfer in the government's accounting books, but rather a transfer from public funds via Nestlé to an international NGO (possibly the International Federation of Red Cross and Red Crescent Societies, depending on the outcome of discussions).

These are far from isolated instances: each week, the world's financial press provides a number of examples of companies, including those with a household name and worldwide activities, engaging in questionable behaviour or outright malfeasance. Some are to be found among the Global Compact's list of participating businesses. But, in its defense, the Compact is likely to argue that the whole purpose of the

⁷⁶ Nestlé's role in promoting the marketing and sale of breastmilk substitutes and its efforts to weaken and undermine the 1981 International Code on Breastmilk Substitutes are a matter of continuing controversy. The International Baby Food Action Network (IBFAN) has been particularly active on this issue. See <http://www.ibfan.org>; IGBM 1997; Richter 2001.

initiative is to enhance CSR and improve corporate practices, at least with reference to the nine principles.

The need to evaluate

The above review indicates that a wide spectrum of relationships between business and the UN and its agencies and programmes is subsumed under the term partnership. This, in turn, suggests that there is likely to be little uniformity in the contractual arrangements underpinning the various partnerships. While complete uniformity is not expected, there is a need to ensure that there is precise designation of purpose and of concrete targets or outputs, specification of how each partnership will make a unique, crucial and lasting contribution to resolving the development task at hand, and identification of what each party is expected to contribute and get out of the partnership. Without such information it is impossible to make a meaningful assessment of the value of UN-business partnerships. Indeed, an examination of the adequacy of the terms and conditions of partnership arrangements between the UN and business is essential to this assessment.

Such an examination might lead to some revision and standardization of contractual arrangements, but, rather than standardization for its own sake, the main purpose of introducing a manageable and rational system would be to facilitate oversight and proper management of partnerships in the interests of transparency and accountability, and of protecting the credibility and integrity of the UN, the linchpin of the multilateral system.

An exercise of this nature would only be worth undertaking if there were firm reasons for believing that partnership between the UN and the private sector was an appropriate tool for promoting development in the South. This would rest on there being clear evidence that, in addition to positive partnership “outputs”, the wider and sometimes less tangible “outcomes” were also positive for the developing country concerned. In other words, such direct or indirect outcomes should increase the developing country’s own capacity to deal with its problems on a sustainable basis.

Even a cursory glance at the partial list of partnerships provided above and a moment's reflection on the questions that arise indicate the scope and complexity of any in-depth assessment of the role of partnerships. Clearly the task is beyond the capacity and scope of a single study.

The chapters below, therefore, explore some of the wider issues that are crucial to an assessment of partnerships as a mechanism to achieve development but which, to date, have largely been left out of the reckoning, no doubt because they are both sensitive and complex. First, however, there is a brief assessment of the UN Global Compact. This is not only because of the importance the UN attaches to what has been considered its flagship partnership, but also because the Compact illustrates some of the issues at stake when one takes the development objectives of developing countries as the overriding concern.

IV. THE GLOBAL COMPACT

What it is and what it isn't

The Global Compact is a highly ambitious initiative on which the UN appears to pin many hopes.⁷⁷ Launched as a flagship UN-business partnership idea in 1999, formally inaugurated in July 2000 and up and going in 2001, the Compact now claims to be the “only true global corporate citizenship initiative” and works with five UN agencies -- ILO, UNDP, the United Nations Environment Programme (UNEP), UNIDO and the Office of the United Nations High Commissioner for Human Rights (OHCHR) -- (UN Global Compact 2003a). As of mid-2003, there were three principal elements: the promotion of greater CSR in relation to nine universal principles; the forming of partnerships between the UN and the private sector to benefit developing countries, especially the least developed; and the engagement of businesses in policy dialogue with civil society participants in the Global Compact on key issues that involve business directly and hence supposedly renders business part of the solution (Kell 2002).⁷⁸ The non-business participants include human rights NGOs and labour organizations, among others, and an increasing number of academics are involved in an advisory capacity.⁷⁹

The nine principles that the international business community is encouraged to build into its strategic vision and daily practices (see Box

⁷⁷ For a history of its early evolution, see Kell and Levin (2002). Georg Kell is Executive Officer of the Global Compact. For documentation on the Global Compact, including membership and activities, consult www.unglobalcompact.org.

⁷⁸ In addition to individual businesses, international inter-sectoral business associations, labour organizations and civil society organizations also support the Global Compact. (See the Global Compact website.)

⁷⁹ For the current lists, see the Global Compact website.

3) derive from existing international commitments and conventions, namely the Universal Declaration of Human Rights (UDHR), the 1992 UNCED Rio Declaration, and the four fundamental principles and rights at work adopted at the 1995 World Summit for Social Development and confirmed in an ILO Declaration in 1999. These nine principles are deemed to be the most relevant at the corporate level as well as at the level of global rule-making (Kell and Ruggie 1999).

Being selective, the Global Compact principles elevate certain rights and principles above others that are also enshrined in the various UN conventions. How the composition of the list of principles was determined is a matter of conjecture. Political bargaining between different UN agencies no doubt played some part, as perhaps did the relative strength of external pressures from Northern civil society organizations. The inclusion in both the ILO Convention and in the list of Global Compact principles of the rights to organize and bargain collectively was no doubt a strategic choice in that enjoyment of these rights gives workers leverage to acquire other benefits and rights.

There have been suggestions that the Global Compact should include principles relating to other key concerns such as health, for which international agreements exist on certain marketing practices and products that have negative health implications. To extend the list further would, however, raise serious practical issues regarding the best means of achieving particular ends and the effectiveness of the Global Compact as a mechanism to help promote an extended list of principles, apart from what criteria should be used to determine where the list of principles should end. (See later discussion on goal proliferation and mission creep.)

The essence of the conceptual and political framework for the Global Compact is that adoption of the nine principles is deemed to be a direct means of promoting sustainable development, by virtue of “embedding liberalism in social norms”.⁸⁰ Those in the United Nations involved in the Compact’s early development regard it as an advance in global governance, whereby standards will be set (albeit voluntarily) in

⁸⁰ See, for example, Ruggie forthcoming; Kell and Ruggie 2001, 1999.

the social and environmental field to match the global economic regime established principally through the WTO, IMF and World Bank. These new social norms at the global level need to be established in order to complement or stand in place of the social compacts in advanced industrial countries that are now becoming frayed under the pressures of economic globalization.

Box 3

The Nine Principles of the Global Compact

Human rights

- | | |
|--------------|--|
| Principle 1. | Business should support and respect the protection of internationally proclaimed human rights. |
| Principle 2. | Business should make sure not to be complicit in human rights abuses. |

Labour standards

- | | |
|--------------|--|
| Principle 3. | Business should uphold the freedom of association and the effective recognition of the right to collective bargaining. |
| Principle 4. | The elimination of all forms of forced and compulsory labour. |
| Principle 5. | The effective abolition of child labour. |
| Principle 6. | The elimination of discrimination in respect of employment and occupation. |

Environment

- | | |
|--------------|---|
| Principle 7. | Business should support a precautionary approach to environmental challenges. |
| Principle 8. | Undertake initiatives to promote greater environmental responsibility. |
| Principle 9. | Encourage the development and diffusion of environmentally friendly technologies. |

Source: United Nations Global Compact Office, www.unglobalcompact.org.

This is to be achieved by engaging the corporate sector, whose economic interests and policy pressures promote porous if not completely open economic borders, in efforts that will counter the growing economic insecurity and the sense of loss of control perceived by populations in the North (Ruggie forthcoming). The reasoning is that efforts to improve TNCs' social and environmental practices in developing countries, where standards and the governments' ability to enforce them are weaker, will help to remove fears in the North of a "race to the bottom" and avert pressures for protectionism.⁸¹ However, while labour and other standards continue to vary from country to country and capital is footloose, people's fears of such a lowering of standards will not disappear. Indeed, the mobility of capital, that is, TNCs shifting investment, or even the threat of such, is the root cause of such fears.

Not all sizes and types of firms in different country settings will find the nine universal principles equally easy to apply. This is especially so if it is expected, inappropriately, that advanced country models of, for example, collective bargaining can be simply transferred (Singh and Zammit 2000a). Moreover, there are considerable sectors of the working population in developing countries for whom some of the Compact's nine principals do not feature among their highest priorities (Kemp 2001). Indeed, there is growing evidence that developing country SMEs, as well as larger enterprises, manifest CSR in ways that, while not always registering points on the nine principles score card, do qualify as ethically and socially responsible behaviour (UNIDO 2002b). If greater progress is to be made in raising standards in developing countries, the Compact needs to foster a greater interchange of ideas among developing country participants on ways in which the Compact principles could be translated into appropriate forms of practice in their

⁸¹ It is often forgotten that advanced industrial countries themselves are still protectionist vis-à-vis developing countries, despite various rounds of trade liberalization in the GATT and WTO. Market access for developing country textile and agricultural exports has not been increased at the pace expected under the Uruguay Round, continuing tariff escalation according to degree of processing still discriminates against developing country products, and an increasing range of non-tariff measures introduced for ostensibly legitimate reasons serve as *de facto* protective barriers.

small and medium firms. Whether this will occur in the context of National Compacts remains to be seen.

It is important to note that the promotion of FDI has now come to be regarded as an important objective of the Global Compact Office.⁸² FDI is advocated so as “also to address the development dimension” in the Compact, as though the implementation of the Compact principles in existing business activities was completely devoid of such a dimension.⁸³ Whether in partnership or otherwise, the Compact Office and business participants now seem to imply that, in view of developing countries’ lack of capital, foreign investment in developing countries by Northern companies in the normal course of business is a clear manifestation of corporate responsibility.⁸⁴ It is also perceived as a contribution *per se* to meeting the Millennium Development Goals, irrespective of whether the investment has any direct connection with one or another of the listed goals (Kell 2002; Brown 2003). Promoting FDI now features prominently as a subject in Compact thinking, writing and activities, including in UN-ICC dialogues and partnerships. Foreign investment was a central issue in the 2002 Global Compact Dialogue on Business and Sustainable Development that has resulted in practical pilot projects.⁸⁵ The high-level meeting organized by the Global Com-

⁸² FDI occurs “when an investor based in one country (the home country) acquires an asset in another country (the host country) *with the intent to manage that asset*” (WTO 1996). The threshold level of assets that count as FDI is normally taken to be 10 per cent.

⁸³ A broad and more satisfactory view of development would include social improvements in core labour standards, and respect for human rights and good environmental practices, rendering development sustainable.

⁸⁴ This notion, currently popular in Northern business circles, is clearly a convenient one, and reflects the neoliberal assumption that deregulation and liberalization of capital markets are the optimal means of bringing about growth and development.

⁸⁵ The work of this policy dialogue was carried out in three working groups: the first on “growing business in the Least Developed Countries”, the second on “financing for sustainable entrepreneurship” and the third on “the responsiveness of financial markets to sustainability performance”. The first working group examined the “possibility of a voluntary commitment by companies participating in the Global Compact to grow a proportion of their business in Least Developed Countries.” The first pilot effort will be made with respect to

pact at the 2002 World Summit on Sustainable Development to discuss “Growing Sustainable Businesses in the Least Developed Countries” was prompted by concern over the low level of FDI in least developed countries.⁸⁶ At the Global Compact meeting held with Swiss business in November 2002 in Geneva, the UN Secretary-General’s message told business that “By using the Global Compact as a platform for investment and partnership, you will be making three important contributions. You will create new opportunities for the poor to improve their standards of living. You will increase the chances of our meeting the Millennium Development Goals. And you will promote universal values, which are essential for the long-term legitimacy of markets.” (United Nations 2002d) Northern business enthusiasm about FDI as an important manifestation of CSR was evident. But this is hardly surprising if undertaking FDI brings kudos and if, as the following analysis of the Global Compact suggests, the Compact’s demands on business are hardly onerous. For many, FDI may well be “business as usual”, with little but lip service to the nine principles.

To avoid confusion in the following discussion of the Global Compact and UN partnerships with business, it is necessary to note that, strictly speaking, there is a distinction between the concept “corporate social responsibility” and that of “good corporate citizenship”. The latter has usually been used in the literature to imply a balancing of the rights of companies with responsibilities and obligations, the obligations often being enforceable, rather than just moral. CSR has traditionally referred to voluntary actions that manifest improved corporate behaviour. The Global Compact, however, defines good corporate citizenship as “embracing the Global Compact’s universal principles within a company’s sphere of influence and making them part of cor-

Ethiopia. (See the Dialogues section of the Global Compact website for further information.)

⁸⁶ At this meeting, Secretary-General Kofi Annan noted that “Growing sustainable business in the world’s Least Developed Countries is arguably the most promising pathway in overcoming the poverty trap. By working together to mobilize sustainable investment in the least developed countries, governments, business and civil society give hope and opportunity to the world’s poorest.” (See report in the Policy Dialogue section of the Global Compact website.)

porate strategy and operations, while at the same time contributing positively to the society where the company operates” (United Nations Global Compact 2003a:10). For the Inter-American Development Bank (IDB) and World Bank Institute (WBI), CSR generally refers to “A collection of policies and practices linked to relationships with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environment; and the commitment of business to contribute to sustainable development.” (World Bank Institute website.)⁸⁷ In practice, in the literature and discussions the concepts of CSR and corporate citizenship are now being used interchangeably, and hence losing an important distinction. In what follows, the term corporate social responsibility will be generally used.

Assessing the Global Compact

Any instrument set up to achieve an objective can only be as good as the mechanisms it employs. Unlike many other initiatives to encourage improved CSR, the Global Compact has stated from the start that it is not intended to be a code of conduct or regulatory framework involving certification and social reporting. Indeed, as will be seen below, much of the reporting that is to be done under the Compact’s new arrangements is to be done outside the Compact itself. The Global Compact is intended to undergo a process of continual evolution and to that extent it is a moving target. Indeed, it has already undergone considerable change, and commenting on its framework and structures therefore runs the risk of reaching conclusions that have recently been overtaken by events. Nevertheless, some of the following observations remain relevant in the context of any further revamping or reform.

The terms of engagement

At the start of the initiative to foster partnerships with the private sector, the Secretary-General laid down guidelines for identifying, selecting and accepting partners and on the use of the UN’s name and emblem,

⁸⁷ World Bank Institute <http://worldbank.org/wbi/corpgov/csr/eforum.html>.

in order to protect the integrity and image of the UN (United Nations 2000c; United Nations 2002b:152–153 and Appendix VII: Guidelines).⁸⁸ These guidelines are intended to serve as a common framework for all organizations in the UN proper and may also serve as a framework for other organizations in the UN system (para. 8). Further efforts are to be made to devise a common selection tool for use by the UN's agencies, funds and programmes. As of January 2002, Calvert, the ethical investment firm, was to be involved in the selection assessments.⁸⁹

Section III of the guidelines dealing with choosing a partner states that the Global Compact is to serve as an overall value framework for co-operation with the business community and that UN organizations should use the Compact principles as a point of reference when choosing business partners. Furthermore “Business entities that are complicit in human rights abuses, tolerate forced or compulsory labour or the use of child labour, are involved in the sale or manufacture of anti-personnel mines or their components, or that otherwise do not meet relevant obligations or responsibilities by the United Nations, are not eligible for partnership.” (United Nations 2002b, Appendix VII, para. III.12.c). In addition to the environmental, labour standards and human rights criteria, a number of health criteria have now been added.⁹⁰

During the Global Compact's first two years, an open invitation was extended to business to apply for membership. Intending busi-

⁸⁸ The ostensibly strict guidelines on use of the UN emblem also provide that “In principle, and subject to the appropriate terms and conditions, a business entity may be authorized to use the name and emblem (of the UN) on a non-exclusive basis.” Moreover, the UN makes clear it has “no control over an image of a decomposed globe, which is not copyright protected”. The use by businesses of what are “look-alike” images to the inexperienced eye can give the impression that the business concerned has the blessing of the UN, something which has considerable business value. For criticism of the Global Compact on this and other issues, see Alliance for a Corporate Free UN (2002).

⁸⁹ According to Olilla (2003:56), UNICEF is not taking part in this process, and will continue to rely on its own screening system.

⁹⁰ Personal communication from Judith Richter.

nesses were to submit a letter of intent to the UN Secretary-General expressing support for the Compact and agreeing to advocate the Compact and its principles, and were to submit at least once a year one or more concrete examples of good practice in relation to at least one of the nine principles.⁹¹ This measure was adopted in order “to guard against companies getting a free PR ride” (Power 2002).⁹²

The procedures applied during this initial phase suggest that, at least as regards the Global Compact, no full screening process was undertaken by the UN. Information regarding the types of behaviour that disqualified firms from Compact membership was not made explicit, nor was it evident on that part of the website concerning how to become a member of the Compact. Apparently screening for eligibility went only as far as ensuring that applicants did not produce landmines or weapons. In cases of repeated accusations of corporate misconduct, the Compact Office considered these grounds for engaging in dialogue with the company concerned, exclusion being the last resort (reported by Olilla 2002, on the basis of interviews).

There was to be no monitoring or evaluation of the examples of good practice that were submitted. In practice, however, few companies complied with this reporting requirement. Once admitted as members, they were eligible to engage in other Compact activities or form partnerships with UN bodies or with other businesses within the Compact. The lack of clear procedures and the rather minimal reporting requirements rightly drew considerable criticism. Even had the rules

⁹¹ It is not stated whether the examples submitted had to be examples of new endeavours in relation to any of the principles.

⁹² The list of *examples* of good practice at the end of October 2002 indicated that 20 of the 72 examples were from companies in developing countries. Eight of the advanced country companies posted more than one example, as did two developing country companies. Of the 60 *companies* posting information, 18 were from developing countries (10 of them in India), while about 43 per cent of the advanced country companies were from English-speaking countries. The fact that the learning forum and website language is English renders participation easier for companies from English-speaking countries and for TNCs. Language could therefore present a barrier for many developing country small and medium enterprises.

been more strict and applied more rigorously, recent events in the corporate world have shown, both in the United States as well as elsewhere, that published company accounts do not provide clear evidence regarding which companies and executives are above-board, and which are guilty of malfeasance or criminal actions.

Later, in 2002, the *membership* approach to the Compact ended and in January 2003 “an entirely new model” was introduced that was deemed to be a “more strategic approach to realize the visions” and intended “to devolve responsibility away from the UN to the public domain by devolving more of the activity to local structures.” Under the new approach that involves *participation* rather than membership, there is no initial screening of those companies wishing to participate. To indicate “engagement and participation”, a company’s chief executive officer (CEO), endorsed by the company’s Board, must take the initiative to write to the Secretary General stating the organization’s commitment to the Compact and its principles. This engagement is expected to set in motion “changes in the business’s operations such that the Compact’s principles become part of the company’s strategy, culture and day-to-day operations.”

The letter of acknowledgement sent by the Compact to companies in response to their letters and/or postings does not, according to the Compact, “mean that we recognize or certify that companies have fulfilled the Compact’s principles” (United Nations Global Compact 2003c). Moreover, the Compact has stated that “appropriate measures will be taken if individual participants use their association with the Compact for purposes other than its stated goals or if their individual behaviour threatens the initiative’s integrity”. As argued in the letter by the four major NGO Compact participants referred to above, “clear criteria need to be adopted to deal with cases where companies are alleged to breach the Global Compact principles”. In this regard, Oxfam’s proposal for an Ombudsperson, or similar mechanism, is to be discussed by the Compact’s Advisory Council. Some tightening-up of procedures through “the further development of integrity measures” is promised but, at the time of writing (mid-2003), no details of such new procedures were available (United Nations Global Compact 2003a, 2003b).

It should also be noted that, now that the Compact has participants rather than members, the words “partner” and “partnership” are rarely used. In a recent report (United Nations Global Compact 2003a:1), the Compact refers to itself as “an extensive worldwide network of stakeholders -- working collaboratively at the global and local levels”. In terms of business participants it has over-fulfilled its target of 1,000. While the Compact is keen to respond to criticism that it has not done enough to involve civil society in the national compacts and other activities, civil society organizations (CSOs), unlike business actors, are now subject to what appear to be fairly stringent selection criteria that may be difficult to apply. The four criteria are “willingness to engage with all actors of society; the proven ability to make a substantive contribution; the ability to transcend a single-issue orientation; and the proof of a minimum level of transparency and accountability in matters like membership and funding.” As no details are yet available of what mechanism will be employed to undertake this selection task, the idea has given cause for consternation among NGOs and other civil society groups.

In this context it is important to note a recent business-funded report on NGOs prepared by SustainAbility (2003) and co-published by SustainAbility, the Global Compact and UNEP. This is not the place to comment in detail on the appropriateness of the report’s perceptions, prognostications and policy advice to NGOs. More crucial to note are the signals it emits regarding the Global Compact’s evolving philosophy, concerns and priorities. Written by a profit-making consulting group often mistaken for an NGO, the report is infused with market ideology and modern “business” terminology that is used to both describe the NGO world and also frame advice regarding the future role and evolution of NGOs. Thus, the authors “sense an urgent need to review -- and further evolve -- NGO ‘business models’ and detect that for NGOs “a new market-focused opportunity space is opening up, but this often requires solutions that are not simply based on single-issue responses...so public and private sector partnerships are increasingly essential in leveraging change.” Considerable emphasis is given to the need to improve NGO governance, accountability and transparency. The report’s emphasis on the need for greater NGO accountability was eagerly latched onto by the *Financial Times*, whose edi-

torial (2003a) “Biters bit” urges NGOs themselves to start practicing what they preach to others.

Why the Global Compact and UNEP should co-publish this externally prepared report on NGOs, which comprise a small proportion of Compact participants, while no such detailed attention is paid to matters concerning the business sector, is a moot question. The study sheds some light on this matter when it says that, in shifting from a confrontational stance to one of engagement with business, most NGOs lack the accountability that companies demand. The report’s emphasis on NGO transparency and accountability, and the view that multi-dimension, rather than single issue, NGOs will be the more successful NGOs of the future, seems intentionally or otherwise to provide intellectual justification for the creeping conditionalities that seem to be attached to NGO participation. The report suggests in various ways that NGOs must recognize that market-based solutions are the only alternative and points to PPPs as one of the important mechanisms to achieve socioeconomic goals, thereby providing justification for the Global Compact and other UN-business partnerships. In many ways the report seems to reflect the “footprint” of big business.⁹³

This SustainAbility report appears at a time when there are other manifestations of a growing wariness of NGOs. In June 2003 in the United States the conservative American Enterprise Institute (a number of whose members are close advisors to the Bush administration) and the Federalist Society for Law and Public Policy Studies set up NGOWatch to “bring clarity and accountability to the burgeoning world of NGOs.”⁹⁴

⁹³ For early responses to this report, see Tindale (2003); Bendell and Visser (2003).

⁹⁴ www.ngowatch.org. The US administration has decided to keep humanitarian and religious NGOs on a tight leash. Andrew Natsios, the head of USAID, announced that US NGOs working in Iraq on US government contracts were “an arm of the US government” and that they were to make it clear that the medicines etc. supplied in their relief work were provided courtesy of the US government; failure to do so could lead to loss of contract. They are prohibited from speaking to the media -- all requests for interviews need to be passed through Washington (Klein 2003).

While the formal requirement for the submission of examples by companies wishing to participate in the Global Compact has been dropped, companies are still encouraged to post examples of good practice and case studies on the Compact's website database to facilitate shared learning (Locke 2001; United Nations Global Compact 2003b). But the essential new feature is that participants are asked to include information describing their actions concerning the Compact principles in their "annual financial reports and/or other prominent public corporate reports such as a sustainability document" (United Nations Global Compact 2003b). The Compact's website now carries the names of the companies that have sent letters of support and provides links to the reports, but at the end of May 2003 only a small proportion of companies had indicated the availability of reports.⁹⁵

Concern has been expressed over the quality of such reports, criticisms indicating that these are often of limited usefulness as a basis for assessing companies' CSR credentials or real commitment to ethical behaviour. ⁹⁶ A 1994 UNEP study of 100 pioneering firms that re-

⁹⁵ See the CSR section of the *Friends Provident Annual Report and Accounts 2002* (Friends Provident 2002a) and the *Social Accountability Report 2002* of the Co-operative Insurance Society (CIS) (Co-operative Insurance Society 2002) for examples of CSR reports. Neither of these UK financial sector companies are members of the Global Compact.

⁹⁶ A short review of pharmaceutical company GlaxoSmithKline's second social and environmental report illustrates the sort of issues that arise in reporting. While giving prominence to some important matters, it avoids any reference to thorny ones such as the issue of patents and executive pay. But the principal problem is the lack of performance data and, in the opinion of Baker (2003), the report does not provide "anything other than a surface-level understanding". Nowadays, many company documents and reports are replete with phrases and words that serve as a sort of shorthand and have the character of buzzwords, purportedly inferring something laudable, yet which often are little more than obfuscating jargon: for example, "change agent", "repurpose", "mindshare", "value-driven", "mission-critical", "leverage", "synergize" and sentences such as "We envision a center of excellence where our accelerated change agents can maximize their core competencies." The more objectionable of the words that serve to save space are now referred to as "bullwords". An unexpected tool is now available to readers of company reports, including social responsibility reports, ironically from no other than Deloitte Consulting, an

ported they were adopting ethical measures indicated that only 5 per cent of the firms were found to contain meaningful performance data (UNRISD 2000). Reporting standards and practices have improved since then, partly due to the development of new voluntary accounting standards and to increased vigilance and monitoring on the part of NGOs and other bodies. Nevertheless, there is considerable room for further improvement and, to help remedy the problem, companies in the Global Compact are encouraged to use the Global Reporting Initiative (GRI) reporting standards (United Nations Global Compact 2003c).⁹⁷ The Global Compact has, however, stated that it is not in a position to embark on efforts to achieve coherence of reporting and that, while suggesting that companies use the GRI indicators, companies are encouraged to develop their own performance indicators.⁹⁸

The switch to an approach based on reporting CSR measures in participants' corporate reports may, under certain circumstances, do as much, if not more, to encourage greater CSR than the previous membership system that, in theory, applied an initial screening process and the posting of examples. Indeed, the revamping of the Global Compact

arm of Deloitte Touche Tohmatsu. This firm has developed a free software programme called Bullfighter that will identify ostensibly important-sounding words in a business document and help the reader to decipher what the company is trying to say (Glater 2003). See Deloitte Consulting (www.dc.com/bullfighter) for the software and Kellaway (2003) for a review of the product.

⁹⁷ In 1997 the GRI was established as a collaborative initiative involving the Coalition for Environmentally Responsible Economics (CERES) and the United Nations Environmental Programme. The purpose was to develop globally applicable guidelines for reporting on the economic, environmental and social performance initially of corporations and eventually of government and non-government organizations. Draft guidelines were produced in March 1999 and, following comments and draft testing, revised guidelines were presented in June 2002. GRI's aim is to become a permanent institution that would function as an independent unified global reporting system (www.globalreporting.org). In March 2003, AA1000, "the first international standard designed to ensure the credibility of social and environmental reporting", was launched in London with the backing of the UK government, audit firms and leading companies (Maitland 2003a).

⁹⁸ Personal communication from the Chief Executive of the Global Compact with staff member of the United Nations.

initiative in some measure responds to earlier criticisms, particularly regarding the issue of picking and choosing between principles to implement, and also regarding the content and quality of the electronic “learning forum”.

For their part, four major NGO participants of the Compact (Oxfam International, Amnesty International, Lawyers Committee for Human Rights and Human Rights Watch) in a recent letter to the UN Deputy Secretary-General have argued that “the basic requirement that participating companies report annually on their compliance with the principles must be monitored”, monitoring whether companies are in fact reporting, reminding companies which do not that they are required to do so, and each year making a public assessment of the overall quality of the information that companies provide (Oxfam et al. 2003).

Perhaps prompted by expression of concern on the part of NGO members of the Compact’s Advisory Council, the Compact now proposes to undertake a modicum of monitoring: in cases where companies have addressed only one or several principles during a given year in their company reports, they will be asked to describe how they plan to address the other principles in the future. In addition, the website will indicate which companies have published such a “communication of progress” and which have not.⁹⁹ This may have some “shaming” effect, depending on the manner and detail in which this is done. In addition, the Compact reports that it is developing a Performance Framework to help analyse and increase the real change resulting from its activities.¹⁰⁰ Judgement on this must therefore be suspended until the details of the framework and examples of its application are available sometime between 2003 and 2004.

⁹⁹ Personal communication from the UN Global Compact Office, 28 April 2003.

¹⁰⁰ In the Compact’s language, “the goal is to identify key performance drivers, measure them, and use the information to improve decision-making and resource allocation. . . . performance should be analysed at three different levels: resource inputs, engagement Models, and positive social outcomes.” (United Nations Global Compact 2003a)

It is in any case unlikely the Compact will go far in monitoring and evaluating company performance on these matters, bearing in mind its recent restatement that it “neither regulates nor monitors a company’s submissions and initiatives” (United Nations Global Compact 2003b). Leaving aside whether the Compact has the capacity to assess the veracity or effectiveness of statements of policy and practice, and hence to assess the degree of real compliance with public statements, at present it does not have the mandate.

Moreover, it is unclear how far the Global Compact can move in this direction. In the IEO’s Employers Guide to the Global Compact it is made clear that the Global Compact is not a code of conduct nor is it a prescriptive instrument linked with external monitoring or auditing of company efforts by either the UN or any other group or body.¹⁰¹

As things stand at the moment (mid-2003), it seems that the monitoring of companies’ corporate statements to assess the extent to which their apparent commitments to observance of the nine principles is matched in practice will fall largely to civil society organizations, including certain shareholder activist groups such as Actares in Switzerland and the European Network of Ethical Shareholders.¹⁰² The Corporate Europe Observatory and the US-based CorpWatch (a non-profit body that functions as the secretariat of the Alliance for a Corporate Free United Nations, an alliance composed of several leading research and advocacy NGOs in both the developed and developing world) have been particularly critical of the UN’s engagement with large corporations. They argue that the UN risks being tainted by association with unsavoury corporations involved in the Global Compact while, at the same time, businesses benefit from “bluewashing” by virtue of their association with the UN (Bruno and Karliner 2000) and have been active in “naming and shaming” large corporations involved in the Compact whose behaviour is found to be inconsistent with the nine principles.¹⁰³

¹⁰¹ See <http://www.ieo-emp.org>

¹⁰² See <http://www.ethicalshareholders.org>

¹⁰³ In January 2000, in Davos, citizen organizations and movements that support the mission and values of the UN, concerned that these should not be subordinated to commercial interests, proposed a compact between the UN

The view is widely shared that many companies' social responsibility and similar reports are highly adept at adopting the language of the CSR discourse, but that, all too often, this is mere "dressing" in language appropriate to "caring" companies but bereft of real content. This underlines the increased importance of developing standards and verification systems for proper social and environmental reporting. But, even here, there is need for caution. NGOs themselves may not have the requisite skills and experience to undertake the necessary detailed verification of implementation.

If civil society groups are to be effective in exercising their public watchdog function and become effective agents of change, there is also need to establish clear evaluation criteria and the Compact will need to be more specific about what might constitute appropriate behaviour (Oxfam et al. 2003). In this regard, the four NGO members of the Compact Advisory Council mentioned earlier suggest that Policy Dialogues be devoted to greater precision in the language of some of the principles, such as the meaning of "complicity" (principle 2) and "precautionary approach" (principle 7).

But other bodies with greater capacity and skills are not necessarily a guarantee of quality when it comes to verification processes. Some of the world's top auditing and consultancy firms, such as KPMG and PwC (participants in the Global Compact) and Ernst and Young, who have become engaged in the business of verifying the application of codes and standards, have been found guilty of malpractice in relation to audits in the United States.¹⁰⁴ Enron, the US energy company that filed for bankruptcy late in 2001, is considering suing 15 banks (including Citigroup and others among the world's largest banks,

and civil society, regarding the UN's relationship with the private sector. They specified nine principles that, in their view, would safeguard the image, mission and credibility of the United Nations as it deals with the private sector (CorpWatch 2000).

¹⁰⁴ The "big four" (Ernst and Young, PwC, KPMG and Deloitte Touche Tohmatsu) work with Korean accounting firms who pay to use their brand name. They work with their Korean partners on some of the biggest accounts and are therefore also the target of criticism relating to accounting irregularities and fraud in Korean *chaebol* (Ward 2003).

of which UBS, Credit Suisse First Boston and Deutsche Bank are participants in the Global Compact) on the basis that the banks may have “participated in transactions and structures despite having knowledge (imputed or actual) of [Enron’s] shaky financial situation and the effects such deals could have on [its] affairs” (Hill 2003a).¹⁰⁵

The Compact’s new reporting arrangements have done little to strengthen corporate accountability *within* the Compact, rather the reverse seems to have occurred. As indicated above, they push the critical issues of compliance and accountability further down the line, beyond the UN. The issue of accountability arises for a number of reasons, in particular due to the fact that a “compact” implies commitment and accountability and without the latter there is a danger that the Compact becomes a mere bluewashing instrument of benefit particularly to large companies.

Whether the Compact itself will ever be given responsibility for verifying or enforcing compliance is an open question: this will depend partly on the evolving “politics” of the initiative and what regulatory proposals are on the international agenda. Oxfam et al. (2003) suggest that, in view of the fact that the Global Compact constitutes the UN’s most high-profile engagement with the private sector, is a personal initiative of the UN Secretary-General and is not a regulatory body, it ought “at a minimum to support initiatives elsewhere in the UN to strengthen accountability in relation to the private sector’s respect for human rights”. In this connection, they propose that there be a public statement of support from the Global Compact for the “Draft Norms on Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights”, which is being developed in the UN Commission for the Promotion and Protection of Human Rights.

¹⁰⁵ The Financial Times Global 500 (2003) ranks Citigroup as the world’s largest bank in terms of market capitalization and sixth largest corporation in the world. UBS ranks sixth among the world’s largest banks and 49th in the world’s largest companies. (Market capitalization also contains a “forward looking” element, in the sense that share prices include investors’ expectations.) It should be noted that firms may rise or descend in their ranking from one year to the next, even by a considerable number of places.

The international business community and leadership

At the start, when the Compact was organized on a membership basis, Compact statements declared that the membership goal was 100 transnational corporations (TNCs) and 1,000 other companies mainly from developing countries, including small and medium enterprises.¹⁰⁶ Nevertheless, frequent reference to the “international business community” in UN texts concerning the Global Compact introduce an important ambiguity. Often it is not clear whether businesses that are international in scope (TNCs) are being referred to or the business community throughout the world, whether in advanced industrial countries or in developing countries.

In terms of the rationale for the Compact outlined earlier, it would be logical to assume that big businesses and especially TNCs are the intended prime “partners” in efforts to change business behaviour, as these are the standard bearers and the public face of globalization whose behaviour is to be changed. In the Compact’s initial months it was indeed mainly large Northern businesses that were listed as members. Subsequently, however, a larger number of developing country firms, presumably smaller than those of the North, featured on the list. In October 2002, 60 companies had submitted at least one “example of an action taken or a lesson learned”.¹⁰⁷ Of these 60 companies, 7 were among the world’s top 100 non-financial TNCs in terms of foreign assets, and all were advanced country enterprises (UNCTAD 2002c).

This list of 60 companies included 15 companies that are also members of WBCSD, a coalition of over 160 international financial and non-financial firms (as at March 2002), and “united by a shared

¹⁰⁶ UNCTAD defines transnational corporations (TNCs) as incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates (subsidiaries, associate and branches). A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity stake. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets.

¹⁰⁷ See <http://65.214.34.30/un/gc/unweb/nsf/content/actors.htm>.

commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress” (WBCSD, website). The bulk of the large firms in the Compact’s list were based in the United States, Europe and Japan and, of the rest, only a handful were from developing countries. Thirty of its members featured among the list of the world’s top 100 non-financial TNCs in terms of foreign assets in 2000 (UNCTAD 2002c).

By February 2003 when the Global Compact had abandoned the membership system and instead sought to attract “participants”, the website indicated 694 participants from 48 countries. The top six countries -- by numbers of companies participating -- were Spain (119), followed by the Philippines (91), India (86), US (40), Panama (28) and Turkey (26). Around 200 of the letters received by the Compact from CEOs were from leading global corporations (United Nations Global Compact 2003d).

Such “a commitment letter by the chief executive officer and endorsed by the company’s board of directors” is now considered to be the “point of entry” to the Compact, the letter representing a manifestation of leadership and seriousness of intent. This and the commitment to report progress made in implementing Compact principles in company reports suggests that the Compact still has large companies mainly in mind when designing and describing the various mechanisms to advance its objectives.

Yet, by early July 2003, when the number of participating firms exceeded the target figure of 1,000, nearly two thirds of these were small and medium enterprises, mainly from developing countries. (Japanese and US firms were relatively few.¹⁰⁸) While this demonstrates success in the Compact’s efforts to attract participation by such firms, it is not clear how such firms, often family-owned, fit in the Compact picture. Family-owned firms can, of course, present a letter of commitment, even if there is no board of directors to back it up. But, when

¹⁰⁸ However, during April 2003, Hewlett-Packard and Pfizer brought together 50 representatives from 29 leading US firms to establish a North American Global Compact Learning Forum, greater US participation being said to be essential to the success of the Global Compact initiative.

there are no shareholders, the firm's financial accounts or reports are likely to be for the eyes of the owner and the tax authorities only and thus will hardly be likely to spell out what steps have been taken to implement compact principles. Even when there are a handful of shareholders, it would seem unlikely that such information would be included. Similarly, it is unlikely that corporate social responsibility reports would be prepared in the case of small and medium enterprises, particularly in developing countries.

References in the Compact's recent statements (2003b, 2003c) to "a leadership model" based on "a critical mass of business leaders", "public corporate reports" and other characteristics associated in the main with large businesses provide grounds for thinking that large firms are likely to continue to feature prominently in Compact activities and processes. Certainly, influential business organizations have a powerful presence -- the ICC, IOE, IBLF, WBCSD, Business for Social Responsibility (BSR), CSR Europe, Instituto Ethos (Brazil), Asian Institute of Management, and the African Institute of Corporate Citizenship are all in the Compact. Global labour bodies have also increased their involvement and over 20 other global civil society organizations have been involved, as well as a large number of local civil society bodies.

Indeed by mid-2003, the language used to describe the Compact had changed: the Compact considered itself "an ambitious experiment in the possibilities of multistakeholder co-operation" and the word partnerships featured less frequently (Kell 2003).

The Compact as a learning exercise

The Global Compact Office sees its "learning platform" or "learning network" as a central feature that enables it to go beyond advocacy to implementation. These aspects of the Global Compact therefore merit some discussion.

Kell and Levin (2002) see the Global Compact as a specific type of what Ruggie (2001) referred to as an "inter-organizational network"

(ION), which has four main features: autonomous organizations combine their efforts voluntarily to achieve goals they do not reach as effectively or at all on their own; they help the participants understand and deal with shared complex and ambiguous challenges; they operate as shared conceptual systems within which the participating entities perceive, understand and frame aspects of their behaviour; the organizational form involves loose coupling, based on non-directive horizontal organizing principles.¹⁰⁹

The Global Compact is also considered to be a learning network defined as “groups of organizations that interact with the express purpose of learning together, from one another and through their interaction.” Ruggie (2001) further defines the Global Compact as an “an expanding set of nested networks”.¹¹⁰

Kell and Levin’s (2002) analysis of “the application of network theory to the Global Compact” is intended to illustrate its potential. This theory provides some broad means of judging the Compact’s likely impact. The entire Global Compact initiative is “an extensive wide network of loosely organized stakeholders” (the stakeholders being labour, business and NGO actors), which is conceived as “a value-based platform designed to promote institutional learning with few formalities and no rigid bureaucratic structures.” (p. 14) The four loosely interrelated networks each comprise “a learning forum”. The four networks are (a) the website (carrying examples of “good practice”) together with the annual evaluation conferences; (b) the policy dialogues taking place in thematic conferences and smaller networks within an overall Global Public Policy Network (GPPN); (c) multistakeholder collaborative development projects; and (d) the country-level compacts and networks.¹¹¹ Of these four networks, all except perhaps the multistakeholder collaborative development projects are what Kell and Levin describe as “wide” nested networks (defined as loosely connected groups or organizations that do not jointly share resources). The possible exception perhaps qualifies as a “strategic net-

¹⁰⁹ In this article Kell and Levin provide an account of the early development of the Global Compact.

¹¹⁰ See also Ruggie (2002).

¹¹¹ See also United Nations Global Compact (2002a, 2002b, 2003b, 2003c).

work” (comprising more closely bonded, autonomous organizations that engage in collective action). As will be seen below, this is an important distinction when considering the learning dimensions of the Compact.

This “multistakeholder learning platform” is seen as a mechanism to promote new understanding and establish “clear learning objectives”. When the cognitive and behavioural learning that are involved are combined (integrative learning), they generate new knowledge that leads to new behaviour. As such, the Compact is advocated as a model of dynamic change.

Perceiving the Global Compact in the way just described suggests that the initiative has considerable potential for good while being economical on resources, though in its early days, the Compact Office’s claims regarding the Compact’s contribution to effecting change were modest. The institutional learning involved in the Global Compact is said to involve both *network learning* (learning accomplished by organizations as a group), and *organizational learning* (which occurs when an organization institutionalizes new structures, routines, or strategies to effect). A brief consideration of even a few aspects of the learning processes and other key related issues suggests there is need for caution regarding what can be achieved.

Network learning

Taking network learning first, in the context of the Global Compact the central issue considered here concerns the extent of learning that is likely to occur, bearing in mind the number and heterogeneity of participants, and the cohesiveness of the network in terms of goals, among other things.

In principle, the idea of an electronic learning network has a lot to recommend it. The Compact website -- the hub of the network -- has the virtue of being open to all, both Compact participants and supporters and any other interested companies, organizations or persons. However, the usefulness of the Global Compact website as a support

and stimulus to cognitive learning is, as for any other electronic network, partly a function of the quality, quantity and presentation of its content. Thus not only does it require that examples and case studies be well prepared, but also that information be provided regarding the means or processes whereby new practices were introduced. Without this, it is difficult for others to follow suit. Recognition of such problems in the Compact's initial approach prompted a reform of the system, the learning network itself being very much an example of "learning by doing".

Under the earlier scheme, the content of the Compact's electronic learning forum comprised annual submissions from Compact "members" on concrete actions undertaken in applying at least one of the principles, but without being subject to monitoring or verification. This approach was criticized for seeming to favour large companies, particularly TNCs with various affiliates, who could gain kudos by picking and choosing between the principles and whose few examples posted on the website were not subject to verification.¹¹² The new model, which expects participant companies to describe in their annual reports and/or other corporate reports the actions they have taken, is intended to increase the likelihood that Compact principles become part of business strategy and operations (United Nations Global Compact 2003d).

In addition, the examples of corporate action and outcomes posted on the website are now to be prepared according to a common format. Judging by the guidelines for the preparation of case studies, which are to be more elaborated versions of examples of good practice, this will be a highly demanding process, requiring considerable work on the part of companies, even now that there is help available from an academic network comprising more than 50 institutions. While in principle these new procedures should improve the quality of case studies and hence increase their usefulness, the involvement of academics themselves needs to be monitored, in view of the fact that some are from business schools and similar bodies that have indirect corporate

¹¹² Had it been a member, Enron, with its alleged good record for CSR, would surely have been able to find one example from among its estimated 2,400 to 3,000 subsidiaries.

links by virtue of receiving corporate funding, including for work on corporate ethics and CSR.

Whatever the case, it is not clear that many companies will search the web postings for inspiration as to what to do, or even whether firms of different sizes and very different characteristics can learn very much from one another. For this to happen, the website information would need to be carefully structured in a way that makes it easier for firms in similar circumstances to learn from each other.

It is still large developed country firms that are likely to better handle and even benefit from the Global Compact initiative, which partly explains why many large TNCs are among the most vocal advocates of CSR and of the business case for CSR. These firms, if any, have the capacity to undertake CSR actions; medium and small firms have less access to information on what actions would be useful, less access to capital, lower margins of reserves to cushion risks and also fewer or no subsidiaries among which to spread the costs, even the cost of failure.

It is questionable how many developing country firms, whatever their size, will be able to engage in the reporting exercise. Apart from being more constrained by their marketing environment, few, if any, such firms already produce social or environmental reports, partly due to their relatively small size and to the fact that public opinion and civil society do not generally operate in the same way on these issues as in Europe and the United States. This is especially so if firms are family-owned and have no shareholders. Many developing country SMEs lack the resources and institutional machinery to fulfil the Compact's reporting requirements or to be able to participate in web-based exchange.

Finally, there is a question regarding the extent to which there exists a motivating and galvanizing common vision sufficient to render the website and related conferences important and influential instruments of learning. The central issue of whether ethics or pecuniary concerns motivate corporate interest in the Compact and other efforts to promote CSR is discussed in a later chapter.

Organizational learning

While network learning may provide some of the information required for improving business behaviour with regard to the nine principles, organizational learning plays an equally if not more important role. It is through organizational learning (learning that occurs through a process that is internal to the enterprise and is both collective and cumulative as opposed to individual and discrete) that enterprises acquire and develop cognitive and behavioural knowledge as a basis for innovation. Though usually discussed in relation to technical innovation, which is essential to successful corporate strategy, organizational learning can also apply to corporate learning in relation to the Global Compact initiative. Irrespective of motive, in order to participate in and achieve the aims of the Global Compact (that is, better corporate behaviour in the social, ethical and environmental fields), firms themselves need to engage in “social” innovation.

This organizational learning, which is essential if enterprises are to make appropriate strategic decisions, is a complex matter and much debated in the theoretical and empirical literature. For present purposes, one of the essential points to note is that organizational learning processes differ according to the nature of social relations within the enterprise, including the nature of corporate governance, and also according to the different and changing nature of technology in different production sectors. In some industries (for example, automobiles), an organizational learning strategy that is inclusive and broad-based in terms of which parts of the organizational structure and work force are included is more appropriate than one comprising a narrow base of insiders. The latter, however, is said to function adequately in sectors such as pharmaceuticals (Lazonick 1998; O’Sullivan 1998). As these authors point out, for appropriate and adequate organizational learning to occur, a firm needs to build the necessary social foundations for the process and this requires making the necessary investment in this process. In corporations such a decision is made by the chief executive officer or board but, where the cost is significant, it will ultimately require the approval of shareholders as, by definition, the cost is paid out of corporate earnings, thus reducing the level of profits redistributed to

shareholders (Lazonick 1998; O'Sullivan 1998; Cowling and Sugden 1998). (This issue is discussed further in chapter 5 on CSR.)

Similarly, the improvement of corporate environmental behaviour may well require research and development to find appropriate solutions, which in turn requires investment. It is this innovative action that, if successful, generates a financial return, due to the competitive advantage it creates for the firm. For this reason, it is something to be carefully guarded. Firms providing examples of good practice on the Compact website are therefore likely to be reluctant to provide precise information concerning how they were able to improve their environmental practices without losing money. To do so could lead to rapid imitation and subsequent erosion of the erstwhile "monopoly" profit.

Considerations such as these clearly pertain mainly to large enterprises. However, in view of the Compact's expectations regarding learning, the way in which organizational learning occurs within TNCs with many subsidiaries or in firms with lengthy supply chains (which can be considered to be the same organization, even when there is no organic financial connection), is something that merits careful study (Cowling and Sugden 1998).

How small and medium enterprises engage consciously, if at all, in organizational learning also needs to be considered when assessing how far the Compact's learning process can go in achieving the overall aims of bringing balance into globalization through changes in business behaviour. Compared with large firms, the processes and strategies of SMEs may well be less ambitious and sophisticated. Such firms are not necessarily seeking to be innovative leaders, whether in relation to products or technological processes, or social change. Unlike large firms, they are more likely to adopt an adaptive strategy, that is, one that draws on common or standardized knowledge and, as such, are less likely to gain any sustained competitive advantage.

Parallel to the changes referred to above regarding the procedures relating to participation in the Compact and some changes in the learning process, greater emphasis is now placed on dialogue, local

networks and projects as means of enabling co-operation between different stakeholders and facilitating practical solutions.

Dialogue

From the beginning of 2003, the Global Compact began to place greater emphasis on policy dialogues as a means of fulfilling Compact goals. The overarching aim of dialogues is to facilitate “mutual understanding and joint efforts among business, labour and NGOs in solving key challenges of globalization working with governments and with the UN. The objective is both to influence policy-making and the behaviour of all stakeholders” (United Nations Global Compact 2003b). If the stakeholders concerned are those involved in the Global Compact, this implies a shift from business as the principal target group towards labour and NGOs. It is not clear in what ways it is sought to change their behaviour, other than encouraging greater joint efforts.

Each year several dialogues are to be convened that address key globalization/corporate citizenship issues identified by business or civil society Compact participants as important. In 2003, the themes are: HIV/AIDS; Supply Chain Management/Partnerships; the Roles and Responsibilities of Societal Actors; Transparency/Corruption and Promoting, and Communicating Sustainable Consumption. Such dialogues were first held at the UN headquarters in New York, which meant that the bulk of businesses attending comprised large firms from advanced countries.¹¹³ But no matter where the dialogues are held, it is easier for larger firms to spare the staff time and bear the costs of participation and, in general, they have more to gain by attending and being seen to attend -- attendance can compound their strategic advantage through gaining knowledge and contacts and a heightened reputation.

If the Global Compact is to be genuinely global, greater efforts are needed to encourage and facilitate the participation of developing

¹¹³ Representatives of 40 companies, seven business associations and 12 NGOs attended the dialogue on Business and Sustainable Development. The majority of firms were well-known North-based TNCs.

country firms in the policy dialogues. Even then, however, it is doubtful that developing country firms -- whether TNCs or otherwise -- will be able to influence the CSR debate in ways that will promote the principles while enhancing national development.

Replicating the Compact at national level

The Compact, in its efforts to promote the underlying ideas and good practice more widely, has extended its reach by establishing national networks in around 50 countries. These are intended as mechanisms for advocacy and to be the main means of recruiting additional corporate participants. The overall aim is “to enable the functioning of self-sustained, decentralized and self-motivated networks” (United Nations Global Compact 2003c:5). This spawning of national networks that mirror the New York Global Compact Office is perhaps the most important development in the Global Compact’s evolution over the last two years.

UNDP Country Offices have launched the National Compacts, using a “roundtable dialogue strategy” in which business, civil society and government participants are introduced to the Global Compact principles and exchange ideas on how to work in partnership to demonstrate their commitment to the principles and to advance UNDP goals. The roundtables are also a forum for finding common interests among three sectors for partnership projects. In practice, the composition of these local-level arrangements varies, in some countries involving only businesses. In others, NGOs and/or the government sector are involved.¹¹⁴

Operating within the common Compact framework, but within a national context, could render learning about good practice more effective by virtue of enterprises sharing a similar environment in certain respects, and by making it easier for those in common situations to share experience and ideas. It is a more promising way of involving more SMEs from developing countries. If local businesses were serious

¹¹⁴ For examples, see the Global Compact website:
http://65.214.34.30/un/gc/unweb.nsf/content/Country_Examples.htm.

about complying with the Compact principles, these local initiatives involving unions, NGOs and CSOs might provide the necessary critical mass to encourage government to introduce legislation where it does not exist, to enforce existing national legislation and to seek ways to apply the principles in the informal and small firm sector.

There is a danger, however, that the involvement of TNC subsidiaries in the National Compacts may give them added access to government and hence the possibility of influencing other areas of government policy in ways that may not be in the short- or long-run interests of the economy and society. TNCs may also be better placed to take advantage of any image enhancement deriving from participation in the Compact and thereby increase their share of the local market.

Network activities in developing countries now “often focus on partnership projects, encouraging investments and growing sustainable business in Least Developed Countries (e.g. Shell in Ethiopia) and post-conflict economies (e.g. Sri Lanka)” (United Nations Global Compact 2003a:41). The frequent emphasis in National Compact arrangements on “development” efforts in the local community raises sensitive issues. For example, corporate funding of local schools or health services, or the provision of scholarships, may appear an obvious demonstration of CSR. But it is likely to do just as much if not more for corporate image than for sustainable development. (See further below.) More might be achieved if company resources were devoted to paying taxes to either local or central government. If starved of revenues, developing country governments (national or local) will never be in a position to develop the necessary structures and services that not only provide a crucial framework for national and local development, but also provide an enabling environment for business itself to flourish on a sustainable basis.

The Compact’s learning objectives

The preceding paragraphs focused on the learning process that is deemed to be central to the Global Compact. It is, however, necessary to focus attention on what can be learned. For Kell and Levin

(2002:16) “The learning forum should ultimately serve as an information bank of disparate experiences . . . some successful some not . . . of company efforts to implement the Global Compact’s nine founding principles. From this reservoir of learning experiences, the network as a whole will hopefully learn the general business case for corporate citizenship as well as how location, scale and industrial contexts influence the equation.” By early 2003, however, the website learning forum only provided information on ostensibly positive steps taken by participating enterprises. Information on what has not worked or under what circumstances efforts have succeeded or failed was as yet not available.

The apparent simplicity of the notion “learning forum” is deceiving: it is not easy to envisage how it would be possible to identify what is learned and how, without considerable research. Nor is it easy to see how the “network as whole will hopefully learn the general business case for corporate citizenship, as well as how location, scale and industrial contexts influence the equation” (Kell and Levin 2002:17). An increasing number of publications point to the various dimensions of the business case, many providing examples that purport to demonstrate that CSR is good for business (SustainAbility et al. 2002; Zadek 2002). But, as argued in chapter 5, while there are many instances where CSR makes good sense from the business point of view, this cannot be made a general proposition.

The above description of the Global Compact learning mechanisms indicates that the Compact has focused most on promoting learning by example, whereby various learning mechanisms have been devised that enable firms to see what others have done in relation to one principle or another, or even all of them. However, apart from the axiom that a “good firm” would be one that implemented principles, little effort appears to have been devoted by the Compact to spelling out what sort of practices constitute the essence of a good firm. Backing up the broad statement of principles with feasible operational ideas would help firms see what sort of thing they should be aiming for, depending on their own and local circumstances. The apparent lack of Compact debate on this matter suggests that designating the broad contours of the “good firm” would be seen by participating companies as overly prescriptive. However, some thought has gone into this mat-

ter elsewhere in the UN: as part of the ILO's efforts to operationalize the concept of decent work, efforts have been made to outline the nature of a "decent work enterprise" (Standing 2003).

The elusive notion of "network"

References to "the network" by Compact staff suggest that it has an increasingly corporate identity and engages in collective tasks as, for example, dialogues or collective initiatives to determine its future. This suggests that it is akin to a "strategic" network, which, in a business context, would refer to shaping the future direction and scope of Global Compact activities and to determining how the available resources were to be spent.¹¹⁵ To date, the evidence does not suggest that the network itself is sufficiently cohesive as to be able to undertake such collective and concerted action. Moreover, statements by Compact personnel cited above lead one to expect it to continue to evolve in a rather organic fashion. Indeed, it is the Compact's view that the greatest advantage of the network model is its openness and flexibility. The intention is also that it remain essentially non-hierarchical. Nevertheless, the Global Compact has an Advisory Council that partly reflects the various constituencies of Compact members and whose responsibilities include strategic planning. The Council's membership is selected by the UN Secretary-General, and is not a democratically elected sub-set of the network membership. It therefore remains unclear who or what determines the future evolution or direction of the Compact.

What can we expect?

Almost from its outset the Compact ran the risk of promising what could not be delivered. Billed in the early days as a modest contribution to overall efforts to improve global human rights, labour and environ-

¹¹⁵ The other specific responsibilities of the Global Compact Advisory Council involve reviewing standards and expectations for participation, championing the initiative in its expansion in new locations, and ensuring the integrity of the Global Compact as its membership and activities expand.

mental standards, subsequent efforts to conceptualize the learning process and improve some of the learning “tools” soon rendered the initiative far more ambitious. Much more research would be required to establish the extent to which firms use electronic networks and databases in order to learn about good corporate practice relating to the nine principles. Furthermore, it is highly questionable how far firms of different size and operating in very different contexts in developed and developing countries can learn from one another. To increase its learning potential, it would be necessary to organize the database in ways that make reference and learning more amenable, particularly for small and medium firms that have fewer resources than large ones. National networks may play an important role in this respect, depending on how well they develop.

The Compact’s suggestion that the network as a whole will hopefully learn the “general business case” for corporate citizenship as well as how location, scale and industrial contexts influence the equation, sounds promising. But the general business case is little more than a platitude in that it states that acts of CSR can, in certain circumstances, bring financial gain. Clearly, socio-political factors related to corporate governance and other important economic factors need to be taken into consideration, but these are often almost completely ignored.

New mechanisms to facilitate advocacy of the principles, such as the national compacts and policy dialogues to discuss various ways of engaging business in global issues and initiatives, have been introduced into the Compact. However, while the Compact urges corporate citizenship, which, as pointed out earlier, entails responsibility and accountability, evidence of actual progress in changing corporate behaviour is elusive. Some NGO participants (referred to above) now seek tangible evidence of progress as a prerequisite for continuing their involvement (Oxfam et al. 2003).

The Compact has adapted and grown in a rather haphazard manner, reflecting a process of learning by doing -- what works and what does not. Yet if website learning has its limitations, so too does the Compact’s recent decision to require CSR reporting through annual

company reports, which many small or family-owned companies do not produce. Moreover, judging by the quality of company reports, this procedure has its own limitations. Whether the Global Compact itself will exert pressure to improve reporting, rather than just encourage it, is doubtful; the weakening rather than strengthening of the UN's already very tentative mechanisms to induce business to comply with the nine principles seems to reflect a UN retreat under pressure from the business sector.

Concern over the composition of the Compact's business participants continues, despite successful efforts to increase participation by SMEs. How the latter can become involved in all aspects of the Compact is not at all clear. Various Compact activities, such as policy dialogues and specific UN development activities, including partnerships, are more likely to attract large firms: participation for them is easier and the outcomes often more worthwhile. In addition, large firms or TNCs are more able and accustomed to furnishing the reports that ostensibly demonstrate commitment and change.

Moreover, recent statements and publications by the Compact that suggest selection (screening) of NGO participants and emphasize the need for accountability give cause for concern. These uncertainties and the weakening of the UN's role in gaining corporate adherence to the principles may combine to deter NGO participation in the Compact, especially as, under the new rules of the game, the responsibility for monitoring and evaluating progress on the implementation of the principles falls in any case squarely on the shoulders of civil society bodies, whether in or out of the Compact.

Although in its early days much was made of the Compact's potential for spawning specific partnerships that would undertake development tasks, little systematic information has been available regarding the number and nature of such partnerships or their participants, or with respect to identifiable improvements in corporate behaviour. This lack of information, the growing emphasis on FDI as a manifestation of CSR, together with the lack of robust instruments for ensuring greater compliance with the principles, give rise to concern that the Compact may serve little purpose other than to legitimize TNC behav-

ious, while at the same time furthering their interests and extending their influence. This is a matter of even greater concern if there is no evidence regarding progress in meeting development goals. A number of issues pertinent to this assessment are raised in the following chapters.

V. CORPORATE SOCIAL RESPONSIBILITY: A SYSTEMIC ISSUE

“When the right and the left agree, then you know that something is wrong” (Unattributed).

The essential question for this chapter is how far it is possible for corporate members of the Global Compact to go in internalizing the Compact’s nine principles and thus become more socially responsible. Can the perceived failure of firms to consider wider interests than those of shareholders (and sometimes workers) be attributed to a lack of values on the part of business executives or shareholders, or is the problem essentially a systemic one? The answer has important implications for the success or otherwise of the UN’s overall efforts to resolve key development problems through close relations with business. In attempting to answer these questions, this chapter outlines briefly the growing interest in “corporate social responsibility” and then reviews its links with corporate governance, focusing mainly on the Anglo-Saxon model.¹¹⁶ It then looks at the case made that CSR is good for business in that it has a positive impact on companies’ financial performance. And finally it discusses briefly the case for regulation.

Corporate social responsibility

In the post-Second World War period until the 1970s (“the golden age”), advanced industrial countries’ institutional arrangements supported a “social compact” embracing the idea that company management was responsible not only to shareholders but also to workers and, to some extent, to the local community. When the political tide turned in the 1980s, particularly in the United States and the United Kingdom, and as shareholding became more dispersed due to the growth of pen-

¹¹⁶ This is sometimes referred to as the Anglo-American model.

sion funds and unit trusts, there was a shift to the view that the sole responsibility of management was to shareholders.

In recent years, however, a strong CSR movement has emerged that is exerting pressure on businesses to take account of the social and environmental aspects of what they do and to make themselves accountable for their performance. For Kell and Ruggie (1999:108), “CSR can be understood as the conditions under which society grants private corporations the right to pursue the maximization of profits. This social contract between a corporation and its host society implies legal requirements or can be understood to include implicit assumptions and expectations.”

Stating the issue in this way highlights the essential issues: in pursuit of their legitimate business to make profit (to be allocated between investment and shareholders), what responsibilities do enterprises have to society (and its various segments) in addition to those prescribed by law? Which of society’s concerns are considered “musts” and therefore to be enshrined in the law; which are “oughts”, and which would be considered merely “desirable”? (Leisinger 2002b) Whether and how “oughts” become “musts” and are regulated by law in different societies and socioeconomic systems is the stuff of lengthy social and political struggles, as the economic, social and political history of the last two centuries testifies. In the words of a renowned scholar of the making of the English working class, E.P. Thompson (1963:9), “The working class did not rise like the sun, at an appointed time. It was present at its own making.”¹¹⁷

Several of the principles to which Global Compact participants are ostensibly committed are derived from international conventions that, in theory, are part of national law in countries signatories to the conventions. However, not all countries have introduced legislation on these matters, there are not always clearly stipulated ways of implementing the principles, and many countries do not have the capacity to monitor or enforce compliance with their regulations. Moreover, the global reach of TNCs makes it all too easy to avoid adherence to the

¹¹⁷ See also Hobsbawm (1964).

law, especially when local efforts to ensure compliance are weak. Thus encouraging companies to participate in the Global Compact and subscribe to and implement its principles, which are deemed to be common universal values, is in effect synonymous with asking them to voluntarily take greater steps to demonstrate CSR.

Indeed, one factor that propels the CSR movement is the increasingly high degree of international integration of formerly separate markets and of production, under the management and control of North-based TNCs. There is intense global competition in product markets and, while capital is highly mobile, the movement of labour is highly restricted. As mentioned earlier, for many trade unionists and environmentalists, especially in the North, this raises the spectre of a race to the bottom in labour and environmental standards, with the risk that standards in the advanced industrial countries become eroded as “footloose” capital continually shifts to locations with lower wage costs and lower or non-existent labour or environmental regulations.¹¹⁸

In the 1990s, this concern to protect the gains achieved through decades, if not centuries, of struggle prompted the labour movement, especially in the United States to begin to press for the inclusion of labour standards as part of the conditionality of trade within the WTO trade regime. Whether this is the most appropriate approach is subject to heated debate, with many arguing that, though well-intended, the idea is misdirected and could work against the interests of workers in both North and South (Singh and Zammit 2000a; Bhagwati 2001, 2002). For their part, environmentalists fear that intense international competition arising from production in economies subject to lower environmental standards will hasten global environmental degradation and work against sustainability. Others object to the fact that the cost of rapacious exploitation of developing country resources is borne by those less able to deal with the consequences.

Big business and its representative body the ICC put up strong resistance to the insertion of social and environmental clauses in the global rules of the game in WTO, and TNCs, the linchpin of the inte-

¹¹⁸ The reasoning behind some of these fears is disputed in Singh and Zammit (2000a).

grated global production system, have thus become more susceptible to pressure from the growing number of labour, environmental and human rights activists to incorporate “societal demands” into normal business activity through voluntary codes of conduct.

“Globalization” together with rising civil society activism have put CSR clearly on the agenda and an increasing number of businesses are now raising the CSR banner, though the underlying motives are often obscured. Some use ethical reasoning, arguing that businesses need to work closely with a range of different “stakeholders”, both to satisfy the latter’s sectional interests and to further the goal of sustainable development.¹¹⁹ The potential cost of a damaged business reputation or lost business clearly prompts others, especially those with an established brand name. Some businesses, including those in the financial sector, have become arch-protagonists of CSR, not simply as a defense mechanism, but on the ostensible grounds that it is positively good for long-run commercial success. Indeed, the number of advocates and promoters of CSR that argue that there is a “business case” for CSR is growing rapidly.

How far and how deep these initiatives go is subject to doubt; corporate image can be gilded at least for a short while by efforts to enhance appearances rather than by changing substance. The fact that the Global Compact established a dialogue on “The responsiveness of financial markets to sustainability performance”, in which participants identified some of the barriers to translating sustainable operations into financial value and examined the ways to make “sustainability” more attractive for investors, suggests that the business case for CSR is not that well established.

A crucial question posed as a result of the ignominious and spectacular downfall of Enron, for example, is whether, under current regulations and procedures, CSR measures are “a mere ethical gloss that can hide any amount of skulduggery beneath the surface” (Maitland 2002a).

¹¹⁹ Where possible in this text, the term “stakeholder” is avoided. While making it clear that different people or groups may have a stake in particular concerns, it tends to direct attention away from the idea that there might be a conflict between different societal groups.

Before its demise, Enron gave the impression of being an upright member of corporate society: it published a corporate responsibility report; it had a board committee responsible for overseeing social and environmental issues, and a code of ethics. It was ranked as one of the 100 best companies to work for in the United States and the environmental awards it won indicated public recognition for its endeavours. But the public was largely ignorant of the seamier side of its activities, including the fact that not one cent in tax was paid on reported profits of US\$2 billion for the period 1996–1999, owing to taxation avoidance schemes devised by the company's accountants, investment bankers and law firms (*International Herald Tribune* 2003).¹²⁰ Enron's board overrode the company's code of ethics and the seismic waves from the collapse of Enron had a dire impact on its workers, on the Florida Retirement Fund, and beyond.¹²¹

These recent drastic events at capitalism's core are beginning to exert their own internal and external pressures on business, convincing it not only to improve its CSR image, but also to work harder to justify any claims it makes to act in a socially responsible manner. CSR is now the focus of various activities that constitute a burgeoning new industry that has some of the characteristics of a moral crusade. It involves a plethora of civil society campaigners and pressure groups, including investor pressure groups ("ethical missionaries", in the words of Ottaway 2001), code setters, standards setters, monitors, monitors of the monitors, evaluators, business association and individual enterprise advocates, and new financial instruments and institutions. Emerging from all this is a vast literature, especially in the United Kingdom and

¹²⁰ After a decade in which the enforcement of tax law became increasingly lax, the tax shelter industry burgeoned, and the possibility of opening secret off-shore bank accounts (a tax crime) was widely advertised. The US Internal Revenue Service began a crack-down in 2003. In the process, as an object lesson, big accounting firms are being summoned for not having registered the tax avoidance schemes they devised and sold to clients. These accounting firms are also being pressed to reveal the names of the clients who purchased their tax avoidance schemes (Johnston 2003).

¹²¹ For studies of Enron and its corporate governance, see Deakin (2002) and Cornford (2003).

the United States, for the subject attracts increasing academic interest and features almost daily in the financial press.

Despite this moral aura surrounding the idea of CSR, there are “hard” issues to consider. Clearly, companies’ behaviour falls short of what is demanded of them by various sectors of society, especially when all taken together. As part of an assessment of the extent to which CSR is likely to be pursued, it is essential to consider the encouragements and constraints internal to the firm. Since voluntary CSR efforts generally compete with other uses of funds, a brief discussion of some aspects of corporate governance, in particular in relation to the tensions, if any, between owners/shareholders and management regarding profits and their distribution, is essential. In addition, discussions on the extent of, or increase in, “ethical” business practices often embrace issues that are normally classed in the corporate governance category, in addition to those fitting more clearly in the CSR category (such as the Global Compact principles).¹²²

Corporate governance and corporate behaviour

“What went wrong was not the people but the system. The forces at work undermined integrity. Honesty was virtually impossible.” (Martin Wolf, *Financial Times*, 7 May 2003a)

Broadly speaking, corporate governance issues concern the structures and procedures that are associated with different means of financing firms, and of ownership and control of firms. Models of corporate governance differ according to the model of capitalism with which they are associated, and the movement to promote CSR has emerged as a powerful force, particularly in countries where the so-called Anglo-Saxon model of capitalism and corporate governance predominate.

Under “Anglo-Saxon capitalism” a high proportion of a corporation’s shares are owned by a number of different financial institutions

¹²² For example, surveys assessing levels of good governance often include questions concerning the firm’s employment practices, or the wider social or charitable actions undertaken by the firm.

such as pension funds and savings mechanisms such as unit trusts (on average 60 per cent in the United Kingdom).¹²³ In general, however, each financial institution usually invests only a small proportion of its funds in the shares of any one firm. A central matter for corporate governance in this system is the company's accountability to its owners/shareholders (in relation to financial reporting and accounting, remuneration of directors, separation of powers, and minority shareholder rights).¹²⁴ The market for corporate control is a central issue.

In Germany, however, on average 80 per cent of a firm's shares are controlled by only one or two financial institutions, a situation that could provide strong property rights and decision-making power. But, in practice, the property rights of shareholders are weakened by the system of co-determination. Under this system, in firms of 2,000 or more workers, decision making regarding major investments or the sale of the company is shared between the shareholders and workers. Both sides -- workers and management -- work to achieve consensus. The controlling bank has a long-term commitment to the enterprise, there is less pressure to maximize short-term share value, and take-over bids can be rejected.¹²⁵

¹²³ The UK and US systems have enough in common to merit this title, though there are differences between the UK and the US systems of corporate governance, both with respect to the structure and division of responsibilities of board members, and also regarding the accounting framework. (In the case of the United States, the latter is rule based whereas the UK system is one based more on principles. Rule-based systems are said to encourage a large "avoidance industry".)

¹²⁴ In many countries, shareholders do not have ownership rights in the firm.

¹²⁵ In Germany, the code specifying the appropriate relationship between the supervisory and management boards in the two-tier system and that codifies tasks of these boards was recently revised. According to the German businessman responsible for elaborating the recommended improvements in German corporate governance, the corporate governance debate in Germany is "hampered by the indiscriminate, wholesale adoption of Anglo-Saxon terms". Other business leaders are said to argue that Anglo-Saxon practices as well as terms are impinging on a system that, since the earlier reforms, has worked well (Williamson 2003).

In the Republic of Korea, large industrial conglomerates are family-owned, with few shares belonging to other individuals or investment funds. In Japan, banks, through cross holdings and loans, until recently controlled the corporations that comprised the higher levels of corporate Japan, both in the industrial and the financial sector (Ibison 2003). The interlocking pattern of share ownership meant that around 75 per cent of shares were owned by friendly parties, outsiders being able to buy only the remaining 25 per cent. As the majority shareholding was not highly fragmented, it was difficult to obtain shareholder consent to a takeover. However, the last 10 years have witnessed a massive change: whereas before mutual funds, individuals, foreign investors and pension funds between them owned 50 per cent of the equity market, they now own 74 per cent. Cross-shareholdings have dropped from 50 per cent to less than 26 per cent (Tassell 2003a).

The Anglo-Saxon model tends to emphasize a free-market approach to product, capital and labour markets. This contrasts with the continental European model whose common defining features have been “less willingness to accept as given that the outcome of free competition between individuals is by definition right, attractive and unchangeable; much greater willingness to accept that there is such a thing as ‘society’ which can and should modulate the outcomes of individual competition” (Turner 2001:166).

These differences have influenced the characteristics of the CSR movement and the degree to which it is given government encouragement on either side of the Atlantic. In Europe, “social” thinking that says that government and business together should respond to the needs of society has given rise to a growing national policy framework that encourages greater CSR.¹²⁶ In the United States, greater trust has

¹²⁶ Belgian, French and German laws encourage environmental and social reporting. Britain has begun to move in this direction: UK law requires pension funds to disclose how they take social, ethical and environmental issues into account in their investments. In France, the New Economic Regulations introduced in February 2002 require companies to disclose information on social and environmental issues such as stakeholder dialogue and human rights. A Europe-wide campaign to require business to produce annual social and environmental reports met partial success in May 2002, when the European Union

traditionally been placed in the market to solve problems and the idea of “giving back” to society still inspires a “philanthropic” approach by many businesses and by those who have been enriched through business. To date, it has not been official policy to encourage CSR. Nevertheless, socially responsible investment funds in which activist shareholders seek to influence corporate behaviour first emerged in a big way in the United States and, since the mid-1990s, increasing numbers of US corporations have joined their European counterparts in declaring that they have CSR policies.

In recent years, the “stakeholder” and more corporatist forms of corporate governance seem to have been losing out to the more short-termist Anglo-Saxon shareholder value or equity-driven model. Many large firms worldwide, and most large TNCs, now operate under this system. Among the principal reasons for this development are the growing influence of neoliberal thinking that has favoured deregulation, privatization and liberalization, these having facilitated increased FDI and mergers and acquisitions by large Northern TNCs worldwide. The European “single market” project, capital account liberalization and mergers and acquisitions (M&As) have increased the presence in continental Europe of TNCs from the United States and the United Kingdom, along with their approach to corporate governance. Especially in the “new economy”, the rapid innovation by small firms requiring venture capital has been another factor (Turner 2001). In addition, the policy prescriptions and conditionalities related to IMF lending particularly during and after the Asian crisis have led to wider adoption of the Anglo-Saxon model of corporate governance in this region.¹²⁷

voted to include the issue of CSR in its forthcoming review of the EU’s Fourth Company Law Directive. Within the European Union, under Italy’s presidency beginning in July 2003, CSR will be one of the main themes. If press reports are any indication, the intention is to urge businesses to go beyond legal compliance and to become involved in tackling social problems and in environmental projects, as part of a drive to make the European economy more dynamic and more inclusive (Maitland 2003b).

¹²⁷ Different forms of corporate financing and corporate governance have significant implications for the economic and social system, and represent different forms of capitalism. Many economists, especially in the IMF, attributed the 1996 Asian crisis to crony capitalism and poor corporate governance. As in

Under the Anglo-Saxon shareholder model of capitalism, management in theory acts on behalf of shareholders and can in principle be overruled by them.¹²⁸ However, because shareholders are dispersed, it is generally managers who actively control the company.¹²⁹ Financial

many other aspects of economic and political life, Northern standards and preferences are deemed to be the best and were pressed on the crisis economies as part of the conditionalities attached to multilateral and bilateral loans. Recently, an international economic adviser to former US President Bill Clinton, who drafted some of the speeches on good corporate governance, commented “We were in the awkward position of lecturing all countries on regulation, bankruptcy procedures, international accounting standards. In an ideal world, we would now admit we had a lot of problems of our own and welcome some ideas from the rest of the world.” (Quoted in Sanger 2002.)

¹²⁸ For a discussion of how the ideas and theories promoted by business schools and academics have contributed to recent management practice and to the “pathological behaviour on the part of managers and companies”, see Goshal (2003).

¹²⁹ In theory, should management choose to operate the company in its own interests it would be betraying its fiduciary duty to shareholders. In many states in the United States, members of pension and similar types of funds may sue the fund trustees if it is considered that the trustees are not making the best use of their money when putting it to social ends (Hertz 2001:195). In practice, the US courts use the rule of reason doctrine, meaning that managers of corporations can pursue their own interest as long as it does not involve criminal fraud. In this context, it is interesting to consider the case of Calpers (the California Public Employees’ Retirement System), which is the nation’s largest pension fund (more than US\$145 billion in 2003) and which is responsible for guaranteeing the pensions of 1.3 million public employees. The board now largely comprises persons favouring social activism and is investing increasingly in venture capital funds and projects to regenerate poor communities, fight urban decay, create jobs and affordable housing and similar projects serving the public purpose. While the board of trustees argue that they continue to seek maximize returns, Calpers is criticized by some of the fund-holders for steering large blocks of capital towards investments that generate employment and favour the current labour force, arguing that their own retirement nest eggs are not a suitable mechanism for advancing social causes, irrespective of how worthy they are. Calpers’ ethical and financial standards (that include criteria such as political stability, transparency, and labour practices), preclude investment in many of the world’s leading emerging markets such as China, India, Russia and Indonesia. The non-permissible list also includes Colombia,

incentives are given to ensure that the “agents” (managers) who are delegated authority to run the company on behalf of the shareholders (the “principals”) actually do pursue strategies and policies that maximize shareholder value.¹³⁰ Chief executives’ remuneration packages are therefore often performance related (that is, to the value of company stock and profits) and include share options.¹³¹ Enormous salaries have become the norm with vast retirement pensions to match, and very considerable fringe benefits.¹³²

Egypt, Malaysia, Morocco, Pakistan, Sri Lanka, Thailand and Venezuela. Philippines is on the “watchlist” (Wine 2003).

¹³⁰ Shareholder value of a firm in the long run depends on enterprise growth and sustainability, which is partly a function of investment (including R&D). However, stock market capitalism and investors with short-term interests tend to encourage the directors and management responsible for strategic decisions to focus on short-term shareholder value (that is, the maximization of share value on the stock exchange) and short-term returns for investors rather than long-term investment and value for the company. Share prices can move sharply when companies miss or beat their quarterly earnings forecasts and analysts’ expectations regarding quarterly earnings.

¹³¹ An executive stock or share option is a legal contract that grants its owner the right to buy stock in his or her company at a certain price -- often the date on which the option was granted. If the market price then increases, the chief executive makes a profit. CEOs therefore have added reason to pursue policies that raise share values particularly to coincide with the date when they are allowed to sell the shares under option. In recent years executive stock options have been much abused and top business people made fortunes as their companies were heading for disaster. The timing of the awarding of options has been used to maximize their appreciation, and often these stocks are not counted as an expense in the same way as other forms of executive compensation such as salaries and bonuses. This inflates corporate profits, which in turn raises the performance-related earnings of the companies’ CEOs.

¹³² Until recently multi-million dollar executive pay packages were essentially an American phenomenon. While many, including the recipients themselves, argue that market forces determine the level of executive pay, this abstracts from other more sociological explanations and motivations that play a part including prestige, power, and conceptions of self-value and relative standing within the peer group (Prowse 2003; Kay 2003a). Very high levels of remuneration for US corporate executives has become socially acceptable and contributed to the massive rise in incomes in the top few percentiles of the US population that largely accounts for the increase in income inequality in the US (Krugman

Small individual shareholders do not have the incentive or ability to become sufficiently informed to concern themselves about how the company is run (this costs time and money). Big institutions, however, have both the ability and the incentive but, in view of their relatively small shareholding, they have not shown interest in assuming this responsibility, at least until recently. The main power that shareholders have had over management is the prerogative to sell their shares if they are dissatisfied with the way management runs the company.

In these circumstances, neither small nor large shareholders have shown a commitment to the companies in which they invest; their main

2002; Atkinson 2000). There is now increasing evidence in Europe of contagion from US-style boardroom awards, giving rise to increasing criticism (*Financial Times* 2002b; Prowse 2003; Plender 2003a). But in the wake of the downturn in the stock market on the ending of the investment bubble, the continuing high level of executive remuneration at a time of low profits following widespread corporate scandals has caused some worker and shareholder groups to react (Hill and Daniel 2003). For example, recently a majority of investors including institutional investors in GlaxoSmithKline, the UK-US company, rejected the company's policy for executive pay and severance terms (Dyer 2003a, 2003b). German prosecutors have recently laid charges against six individuals, including the former chief executive of Mannesman, the chief executive of Deutsche Bank, and the chairman of IG Metall trade union, regarding severance payments to executives of Mannesman. The central charge is "breach of trust" or failure to act in the interests of shareholders (*Financial Times* 2003c). The trial hinges on the interpretation of article 87 of German law on stock corporations that requires supervisory board members to ensure that "total remuneration stands in appropriate relation to the management board member's work and to the company's situation". The case is related to a hostile takeover bid, which according to Benoit (2003a) was the biggest in corporate history. It remains to be seen whether these are early signals of a turn in the tide on the matter of corporate remuneration levels, at least in Europe. See Benoit (2003b) for details of German proposals for a code to encourage large companies to publish the details of executive directors' salaries. The case of Jean-Marie Messier, CEO of French company Vivendi Universal, is one of the most notorious. See Cassen (2003) on excessive corporate salaries in France. The former chief executive of ABB, appointed as special advisor to the UN Secretary-General regarding the Global Compact, had pension benefits of US\$50 million. Public revelation of this information and the fact that the company asked him to repay a portion, led to him resigning his UN advisory post.

interest has been to have a liquid financial market so that they can buy and sell shares. In practice, it is speculators (who have little or no interest in commitment to any company) who dominate the market under the Anglo-Saxon model and the financial market's demands for short-term profits and rising share values encourage management to adopt short-termist policies rather than pursuing a long-term investment strategy. (Focusing on achieving high share values in the short term enhances a firm's ability to raise capital and avert hostile takeovers).

High and continuously rising share values also encourage managers to demand large share options, which, in turn, act as an incentive for them to pursue policies that result in high short-term share values, from which they benefit directly through their share options.

As Frits Bolkestein, the EU internal market commissioner commented, this system of linking managers' remuneration to share prices rather than profits is akin to "tying the cat to the bacon" (Guerrera 2003). John Plender (2003b) was more forthright in his article lauding Microsoft's decision to stop handing out stock options to managers and employees. The technology group, he commented, "has debunked the myth that options are an efficient motivator, capable of aligning employee interests with those of outside shareholders...stock options have exerted an extraordinarily malign influence on business over the past decade. For a start they have provided the vehicle for a generation of managers to engage in legalized looting at shareholders' expense."¹³³ The same message was conveyed in a *Financial Times* editorial (2003b).¹³⁴

The financial market's (institutional shareholders') short-term expectations have led managers to connive in "aggressive" and "creative" accounting practices (only some of which can be considered "irregular"). These often involve "tweaking the figures" regarding earnings and profits forecasts and actual accounting profit, leading to an

¹³³ In Plender's opinion, this was not always "witting theft" and he explains how the stock option operated and affected firms' profits and share prices.

¹³⁴ For a discussion of the Anglo-Saxon system and its current crisis, see also Plender (2003c).

inflation of share values, as well as to the enormous compensation packages as the norm.

During the recent stock market boom companies had to report earnings growth in excess of 10 per cent a year, just in order to maintain their share price (Kay 2002). Market exuberance provided the opportunity for securities analysts to give overly optimistic reports on major companies in the hope that such recommendations would bring lucrative business to the investment bank employing them. Securities analysts themselves therefore played an active part in the bubble-inflating machine, as the ratio of “buy” to “sell” options rose from 6 to 1 in 1990 to 100 to 1 in 2000 (Coffee 2002).¹³⁵ In the spring of 2003, 10 of the largest investment banks on Wall Street signed a US\$1.4 billion out of court settlement, without admitting or denying charges that they misled investors “by promising flattering stock research in exchange for investment banking mandates” and publishing research they knew was wrong (Chaffin 2003; Hill 2003b; Skapinker 2003).

There are several examples of prominent investment banks that illustrate the unethical if not illegal behaviour facilitated by close relations between their research and banking arms and the associated conflict of interest. They include Goldman Sachs, Morgan Stanley, Citigroup, Credit Suisse First Boston and Merrill Lynch. The last three were found guilty of fraudulent behaviour. However the most notable scandal was that involving Citigroup, the world’s largest financial services group. Its chairman and chief executive Sandy Weill and Jack Grubman, the latter once its star telecommunications analyst at Salomon Smith Barney (owned by Citigroup), were the subject of legal action concerning allegations that the bank issued fraudulent research to gain investment banking business. The trial resulted in Grubman being banned for life from the industry and having to pay a US\$15 million penalty. (Between 1999 and August 2002 Citigroup had paid him al-

¹³⁵ According to this *New York Times* report, the quality of financial reporting and analysis declined during the 1990s. From 1990 to 1997, earnings restatements by companies averaged 49 a year. In 1998 they reached 91, in 1999 there were 150 and in 2000 there were 156. The author suggests that this suggests that accountants deferred excessively to their clients, and is not necessarily proof of fraud. See also Mallaby (2002).

most US\$70 million, despite concerns in some parts of the organization regarding his analyses.) The bank paid a total of US\$400 million in penalties and consented to a number of controls on its operations. In the Grubman trial it was revealed that Citigroup pledged US\$1 million over five years to a New York nursery school so that Grubman's twin children would get a place in the much-sought after establishment (Strom 2002; Michaels 2003a). Grubman is only one of the top financial persons to face such charges.

The past couple of years have seen a level of corporate scandals and failures unprecedented in recent times, particularly in the United States (involving Enron, Global Crossing, WorldCom, Kmart, US Airways and United Airlines, among others). Protection under Chapter 11 of the US bankruptcy procedure that allows companies to continue in business while restructuring and which keeps creditors at bay has been sought by several "new economy" giants as well as by long-established "old economy" firms.¹³⁶

Enron, for example, had between 2,400 and 3,000 "subsidiaries" many of which comprised "special purpose entities" with financial arrangements (off-book balance sheets) that helped boost the company's profit figures and share value, yet which involved large financial risk and eventually major losses to the company (Deakin 2002). Arthur Anderson, Enron's auditors, assisted in these creative measures and suffered an ignominious demise after investigations by the US Department of Justice.

Three major US banks -- Merrill Lynch, Citigroup and J.P. Morgan -- have paid large sums in settlement of civil cases alleging that they helped Enron in its financial engineering that hid the real state of the

¹³⁶ Larry Thompson, in charge of the US Corporate Fraud Task Force, reported in July 2003 that the force had obtained over 250 corporate fraud convictions or guilty pleas, including guilty pleas or convictions of at least 25 former CEOs. In addition, in 169 further cases, 354 defendants had been charged with some type of corporate fraud. Over 320 investigations were pending, involving over 500 individuals and companies. Only one CEO was sentenced to gaol (Sam Waksal, formerly CEO of ImClone, for insider trading). See Mokhiber and Weissman (2003).

company's profit situation from investors. The banks earned hundreds of millions of dollars in fees in providing loans that were misreported as commodity trades so that they did not appear as debt on Enron's balance sheet (Michaels 2003b).

The financial press provides almost daily details of legal charges made against world-class financial and accounting firms for aiding and abetting corporations in schemes to enhance balance sheet profits. In fact the reputations of several of the world's major auditing firms have been considerably tarnished and their integrity questioned following a number of enquiries, investigations and fines over their conduct. In response, the "big four" accounting firms (PricewaterhouseCoopers (PwC), KPMG, Deloitte Touch Tohmatsu and Ernst & Young) have been vigorously lobbying the US Securities and Exchange Commission to drop proposals to ban accounting firms from doing "aggressive" tax work for audit clients, that is, to prevent them from inventing novel strategies to minimize clients' tax (Parker 2003). PwC, the world's largest auditing firm and a participant in the Global Compact, was recently fined US\$5 million to be paid over six years for alleged violations of accounting rules. Recently it faced another civil enforcement case (paying US\$1 million without admitting to wrongdoing) in which it was accused of altering and deleting a client's records with the knowledge of the senior partners (Michaels 2003c).¹³⁷ Another example is that of Deloitte Touche Tohmatsu (another Global Compact participant), which was responsible for the audit of Ahold, the Dutch retailing firm currently embroiled in a fraud scandal in the United States.

These modern measures to inflate profits are additional to older methods of transfer pricing and registering companies in offshore tax havens. Nightingale (2001) reckons that 64 per cent of the world's capital passed through offshore centres in 2000, mainly to reduce companies' and individuals' tax bills. Tax shelters are said to deprive the US Treasury of US\$50 billion a year (*International Herald Tribune* 2003).

¹³⁷ It is not surprising, therefore, to find that PwC has resorted to TV and press advertising to project a new image, conveying images and messages suggesting a clear conscience, internal controls, the role of corporate boards and what a principles-based accounting system implies (Michaels and Parker 2003).

Europe, however, is not exempt from such scandals. In addition to Ahold (the Dutch grocery group) which is being investigated for malpractice and fraud, Vivendi Universal (France) and ABB are among other European companies that have demonstrated major problems that reflect failings in their corporate governance.¹³⁸

Situations and events such as those referred to above reveal the anomalies of a system in which a firm's "downsizing" immediately raises the stock market valuation of its shares, and in which the rewards of an average CEO of a major company rose from 45 times that of an average worker in 1973 to 500 times the amount in 2002. Such corporate excesses and failings could be ascribed to various failings: avarice, lack of integrity or dishonesty on the part of business leaders, or all three. Nevertheless, even if only a momentary fall from grace, such occurrences were widespread enough for one influential US commentator to suggest that America had lost "the moral high-ground" (Sanger 2002). An Aspen Institute survey of the attitudes of MBA students at 12 top US business schools found that 72 per cent of the respondents believed that the personality of the executive rather than corporate culture was the most important factor contributing to corporate scandal (Bradshaw 2003). President Bush, in his 2002 Wall Street speech, was the most prominent voice pronouncing the ethical explanation: "At this moment America's greatest economic need is higher ethical standards, standards enforced by strict laws and upheld by responsible business leaders. . . . Too many corporations seem disconnected from the values of our country. . . . All investment is an act of faith, and faith is earned by integrity. In the long run, there is no capitalism without conscience, there is no wealth without character." (Bush 2002) It was unlikely, in any case, that a president elected on a Republican ticket and with deep

¹³⁸ The French finance minister, in the context of proposing a series of measures to restore confidence in the stock market, including the creation of a financial super-regulator and a tightening of controls over the accounting profession, commented that France had "nothing to be embarrassed about" in the recent governance of its quoted companies and observed that most scandals involved US companies (Johnson 2003). Japanese and Korean conglomerates, too, have been involved in corporate scandals relating to accounting fraud that has involved the "big four" accounting companies referred to above.

roots in and connections with the business sector would suggest otherwise.

It is important to appreciate, however, that the various practices described above pervaded the very top levels of industry and financial services for quite some time and provide clear evidence of systemic failure: these practices had become the way of doing business and contributed both to the investment bubble as well as to its subsequent bursting. The Anglo-Saxon capitalist system has provided incentives that make it all too easy for corporations to engage in “imaginative” schemes that cross the threshold between proper and improper or downright fraudulent or criminal behaviour. This interpretation finds wide support in the financial press. *Fortune*, the US business magazine, headed a cover story with the caption “System failure. Corporate America has lost its way.” (Nocera 2002) *Financial Times* columnist Kay (2002) talks of “profits without honour” and argues that “shareholder value has produced distortions reminiscent of Soviet planning”. John Plender (2003d) also writing in the *Financial Times* states that the American way of business “has been hijacked by the values of the financial community that is so preoccupied with trading and deal-making that it has lost sight of the purposes of its own existence. There is indeed a crisis of legitimacy of modern capitalism.”

In sum, in recent decades Anglo-Saxon capitalism has lacked a longer-term perspective on the wealth creation process. The financial system (institutional investors) have made increasing demands for short-term performance and, for many parts of the investment system, business “is not so much an investment in the long-term creation of value as a constant process of arbitrage” (Sunderland 2003). This context is particularly conducive to the generation of frequently occurring investment bubbles (every 10 years or so -- Kindleberger 1996) that are caused by too much investor exuberance, egged on by business executives and their attendant advisors consultants, brokers and bankers. In order to please shareholders and the market (and hence have access to capital and keep corporate raiders at bay), these various actors take a rosy view of future earnings and boost profit forecasts, each vying with the other to predict and promise good performance and retain shareholder confidence. On the basis of historical evidence, Kindleberger

argues that shareholders rarely learn from the past or heed those who warn that share values are losing touch with reality. When the market begins a downturn, excessive pessimism takes over and shares are off-loaded causing the bubble to burst. Shareholders and workers only seem to question what is happening once the bubble bursts or bankruptcy looms, when CEOs are found to have made fortunes on their share options or severance packages and huge executive remuneration packages continue, while enterprise profits decline and shareholders' and pension funds' capital and income shrink, and corporate downsizing throws thousands of employees out of their jobs.

The response to this current episode of capitalist crisis has been to introduce a set of rules to "clean up" the US business sector, including accounting rules and a requirement that two senior officers in large companies attest to the veracity of the accounts, and rules to separate investment analysts' work from investment banking. In the United Kingdom, under a revised Combined Code of Corporate Governance about to be approved by the Financial Reporting Council, companies are urged to take a tougher line in tackling excessive executive pay and to prevent excessive payments for failed executives (Tassell 2003b). The European Union has unveiled what have been described as far-reaching plans on corporate governance and statutory audits -- "a mixture of legislative ambition and exhortation" (Dombey 2003a, 2003b). The EU's Action Plan includes recommended measures that could also have the effect of enhancing "shareholder democracy".

However, as *The Economist* (2002d) points out, one can question how effective these changes will be:

. . . when markets begin to roar again, and there seems to be myriad opportunities for making money fast, clever people find new ways to bend or evade rules, no matter how carefully they have been crafted, and to mislead stampeding investors. But it would be a mistake to be too pessimistic. Rules and laws never eradicate wrongdoing entirely. But they can constrain it, and some of America's new measures may well do that. Capitalism requires clear rules and credible markets and, if the evolution of financial mar-

kets over the past decades have taught anything, it is that the price of credibility is eternal vigilance.

However, these new regulations and oversight bodies leave essentially intact the system in which the maximization of short-term profit and shareholder value has been the paramount feature. It is also a system in which the security of increasing numbers of working people is affected by the market economy and the financial system, owing to the increasing privatization of pensions and health care systems. Whether the longer-term perspectives that are beginning to emerge will prevail more widely is yet to be seen.

In this context, it is significant that Coca-Cola's chairman and CEO recently attacked Wall Street's focus on short-term profits and announced that the company would no longer provide guidance on its quarterly earnings outlook (Liu and Hill 2002). He stated that investors should concentrate on the company's long-term growth strategies, rather than its setting and meeting of quarterly forecasts.¹³⁹ Other companies have followed suit, and their action may well help to fuel debate over the Wall Street obsession with short-term performance.

The disastrous implications of the recent scandals in corporate America for workers and company pension funds, among others, have stirred a more intensive debate on where to strike the regulatory balance between managers, directors, shareholders.¹⁴⁰ These dramas and

¹³⁹ Coca-Cola board member Warren Buffet, the billionaire investor whose fame derives from the fact that he seems to have been better able to buck the tide with his investments, has long been an advocate of taking the long view when investing, and has adopted such an approach in his own company and others on whose board he serves. Some commentators are sceptical about this move by Coca-Cola, the biggest company at the time to date to drop quarterly guidance. The skepticism was due to the fact that, over the previous year, it failed to meet analysts' forecasts and, when it cut its earnings forecast in October 2002, the share price fell by 10 per cent.

¹⁴⁰ In the case of Enron's "insider pensions", the company's workers were encouraged but not obliged to use their pension money to buy company shares. This practice is more typical of France and Germany, particularly the latter.

the economic downturn have also given new impetus to those seeking ways of according constituencies other than shareholders a greater role in corporate governance. Some CSR protagonists urge a shift away from shareholder capitalism to a modern approach to stakeholder capitalism. Most, however, do not profess to seek fundamental changes either in the model of corporate governance or in the nature of the capitalist system. Nevertheless, theoretical and empirical analysis would suggest that, if expectations regarding CSR are to be taken seriously, changes would be needed in the overarching policy framework of market capitalism. The editor of the US journal *Business Ethics*, for example, has concluded that, rather than continue to focus on voluntary CSR initiatives, good intentions and “toothless” codes, a campaign for economic democracy was needed that would release company executives from the “destructive mandate to maximize shareholder gain at any cost.” (Business Ethics Magazine, n/d)

More relevant to the discussion here, however, are the implications of the above sketch of shareholder capitalism and corporate governance for current efforts to increase CSR through voluntary initiatives.

Corporate social responsibility: An ethical or a systemic issue?

CSR campaign literature and criticisms of corporate behaviour often give the impression that CSR and implementation of the Global Compact’s nine principles are largely a matter of corporate ethics: improved corporate behaviour assumed to be dependent on the moral integrity of entrepreneurs and shareholders. However, in the absence of government-set standards or subsidies, the extent to which businesses will improve corporate behaviour in relation to, for example, the Global Compact’s principles, depends largely on economic decisions involving calculations of profit and complex issues of corporate governance. Increased CSR, by paying greater attention to the concerns of groups other than shareholders, has financial implications for the firm’s profit levels, and its investment and profits distribution policies, among other things. In this connection, the following two comments are apposite:

I profoundly believe that shareholder value includes behaving in a socially responsible manner and, specifically, the way Shell articulates its way of doing business is that we want to contribute to sustainable development, which is the difficult task of finding the balance of economics, environment and social aspects of everything we do around the world. (Sir Philip Watts, Chairman, Royal Dutch/Shell, and chairman of the World Business Council, cited in Hoyos and McNulty 2003).

We won't jump on the bandwagon just because others may have a different view... we don't invest to make social statements at the expense of shareholder return. (Lee Raymond, Chairman and Chief Executive, ExxonMobil, the world's biggest publicly traded oil company, cited in Hoyos and McNulty 2003.)

These two perspectives on CSR seem to present contradictory reflections on corporate social responsibility. Leaving aside whether the differences are due to “spin” or rhetoric, closer examination suggests that the statements do not necessarily differ.

To begin this discussion, it is worth noting that some neoclassical economists consider voluntary efforts to promote CSR to be utterly wrong-headed and counterproductive. For example, former chief economist at the OECD, David Henderson (2001) suggests that proposing to give capitalism a “human face” through acts of CSR to meet society's expectations mistakenly identifies defense of the market economy with making businesses more popular. He contends that the fad for CSR demonstrates a lack of understanding of how capitalism works. His objection is not that CSR is a sham, or a harmless distraction, but that it does real harm. The pursuit of economic, social and environmental goals through voluntary corporate measures is, he argues, welfare reducing, and ignores the fact that the case for private business rests on competition and economic freedom. But this freedom is within bounds.

Thus Henderson argues that the task of managers is to serve the shareholders so long as they stay within the law and common decency, and it is for governments to decide on what additional responsibilities are mandatory. He further argues that voluntary CSR initiatives lead inevitably to further government regulation, as businesses that have taken significant steps (voluntarily or under pressure from civil society groups) to increase CSR will have a strong interest in having government set a level playing field by introducing regulations that force all businesses to comply with the same rules.

Neoclassical theory builds on the basic proposition that, if all individuals and businesses pursue their own individual (selfish) ends, social welfare will be maximized and no one can be made better off without making someone else worse off (the so-called Pareto optimum). Thus, putting productive assets to their most profitable use will ensure an optimal social allocation of resources and maximum social welfare. In other words, social progress results not from seeking to do good through CSR but from profit-seeking, the profit rate being the yardstick by which a business is measured and the central criteria for allocating investment efficiently in the current capitalist system. Since the onset of the current neoliberal era, the profit criterion has come to rule in an ever-wider range of social and economic activities as economic ideology drives additional areas of life into the market, including health insurance, health care and pension provision.

Thus, in considering CSR, the core question is whether, under contemporary capitalism, whatever the specific mode, there is a contradiction between the implementation of CSR (for example, the Compact's principles) and profit-maximizing, and between short and long-term shareholder value.

Neoliberal economists such as Henderson argue that those urging CSR pay too little attention to the effects on both costs and revenues at the margin, both in the short- and long-run, or to differences in circumstances. Thus the voluntary adoption by businesses of broader objectives, more complex procedures, and more exacting standards tends to impair enterprise performance. This raises costs and prices, though whether it reduces profits depends on market conditions. If

other firms choose, or are forced, to follow suit this imposes additional costs that are borne by society as a whole.

Another Henderson criticism is that the adoption by individual firms of CSR can lead to reduced competition and lower economic efficiency. Thus, if voluntary CSR measures incur costs and lower the profit level, firms may be subject to takeover through the stock market or by other firms who believe they could put the assets to more profitable use. Increased firm concentration and less competition would reduce economy-wide efficiency. Also, the raising of international labour and environmental standards could limit the amount of competition by eliminating unprofitable firms, could put developing countries at a competitive disadvantage, and generally worsen the performance of the global economy.

Such analysis is, however, essentially static and, together with the highly unrealistic assumptions on which neoclassical analysis is based, renders some of the conclusions highly questionable. These restrictive assumptions include: no economies of scale, individual utility functions independent of one another, all actors have complete knowledge, perfect competition (large numbers of buyers and sellers with no individual unit large enough to influence price) and no externalities (that is, situations where one person's or business's actions impose costs or benefits on third parties).

Economic arguments against CSR, such as those above, are considerably weakened if some of the CSR efforts in question can be considered to be investments in innovation or image enhancement that generate financial returns. McWilliams and Siegel (2001), for example, suggest that firms will invest in process and product innovation until the cost of the investment equals the benefits, in terms of increased market share or brand values. CSR will be adopted by others across industry, up to the point where the return on such investment is the same as the "normal" return on investments across all sectors. In an equilibrium situation, responsible firms will be no more or less profitable than others. Theory would also suggest that there may be a competitive advantage in being the first in an industry to take CSR actions, as investment in CSR can reduce costs and provide tangible benefits,

including through increased market share as a results of improved corporate image and high customer evaluation.

Nevertheless, account also needs to be taken of the fact that CSR activities usually involve expenditures or investments that are in competition with other uses of retained profits. As such, this may affect the allocation of profits between retained and distributed profits, a cause of potential tension or conflict with shareholder interests and grounds for a possible takeover threat. A central issue here is the time horizon over which any anticipated benefits are expected to materialize. If CSR incurs significant short-term costs while returns will be realized only in the medium or longer term, then lower short-term profits have implications for shareholder value and competition and may prompt takeovers. It can, however, be argued that failure to deal with some issues like working conditions or environmental matters may itself impose costs or constraints on business. Some non-CSR firms may therefore be just as likely to be candidates for take-over as firms whose profits are lower due to CSR commitments. It is also possible that greater social harmony and stability due to greater attention to CSR across an industry might help to maintain the overall rate of profit, and serve shareholder interests.

Free-market economist Milton Friedman perceived CSR to be an area of conflict between the interests of managers and shareholders. He argued that managers might adopt CSR policies to further their own interests (whether social, political or career agendas), and that this would be at the expense of shareholders, as it would lower short-term profits. His central contention regarding CSR was, and is, that "The only responsibility of companies is to make a profit" (Friedman 1970, 1962; London 2003).

Even if, under current shareholder capitalism, it is the duty of management to look after the interests of shareholders, the potential for conflict of interest between management and shareholders in relation to CSR is more complex than appears in the Friedman proposition. Shareholders are not a homogeneous group in terms of their expectations. Some categories of investors, particularly those whose livelihoods depend on invested pension funds, may have an interest in

short-term corporate profits and share values, especially if other sources of possible income are in decline. Others may have an interest in longer-term value and profits so as to boost future income. Some may want both and look for a reasonable balance between the two. In view of their personal economic circumstances, there are also investors who are willing to put faith in CSR actions generating longer-term gains. Some may even be willing to forgo some financial gain, if their investment helps to promote social and environmental improvements. This does not necessarily demonstrate investor irrationality; such investors may consider the hoped-for social gain achieved to be part of their preference schedule.

Different constituencies -- workers, consumers and citizens in general -- each have their own expectations of how business should behave and what it should deliver, in the short, medium and longer term. The various lobby groups pressing for improved CSR and representing different interests (labour, human rights, environment etc.) are in competition with one another if the CSR improvements are a financial charge on business. If, however, what was good for each of these various sectional interests in terms of CSR all happened to be good for business (and hence all shareholders, to whom there is a prime fiduciary duty), no conflict would arise. This might be the case if all workers and consumers were among the ranks of shareholders, whether directly or through their pension funds and new savings instruments. But this would still leave unresolved the conflict implicit in the short-termism of the predominant model of corporate governance and capitalism and the need for wider and longer-term interests to be given greater consideration.¹⁴¹

¹⁴¹ Institutional investors (such as fund managers who run the bulk of pension assets in the UK) are believed to be largely responsible for short-termism, though Fisher and Korine (2003) believe that everyone in the investment system -- fund managers, investment consultants, company directors among others -- shares some responsibility. In the new post-bubble investment climate, there are an increasing number of pension and investment funds and fund managers who are taking more interest in corporate strategy and looking to protect and enhance shareholder value, rather than sell shares in companies that "go wrong" or disappoint.

CSR proponents often argue that, over time, companies can balance the interests of shareholders, employees and unions, communities, governments, environmentalists or any other interest groups so that all are satisfied. But a moment's reflection reveals how complex many of the demands are for big businesses, each CSR issue having its own inherent conflict, and each party wanting its own concerns dealt with in the short term rather than in some indeterminate future. Indeed it is difficult to conceive of balancing the needs of shareholders employees, customers, communities (domestic and overseas) and other interest groups: the actual and potential conflicts of interest, both within the shareholder category, and between different interested parties, suggest that CSR is a socio-political as well as a systemic economic issue.

The dilemmas are well illustrated by taking the case of workers. Workers as "stakeholders" may be interested in CSR initiatives that redound to their immediate benefit in the workplace, and also have a self-interest in retaining their jobs. Providing for these and similar concerns may conflict with the overriding objective of using capital efficiently. But workers may also benefit from higher investment to provide future growth, for this would help guarantee continuing employment, improve wages and conditions, and benefit company pensions and the value of any share options they may have. The implications for different categories of shareholders would vary.

Large companies in particular are subject to competing pressures from different interest groups -- human rights, labour standards and environmental activists among others. It is questionable whether it is for corporate management to select from among these competing social, economic and environmental goals for implementation in voluntary pursuit of CSR. Litvin (2003a, 2003b) provides an apposite illustration of the dilemma in relation to oil companies operating in developing countries run by corrupt or repressive regimes. Selling the operation may be interpreted by many investors (shareholders) as betraying their interests. Staying put raises questions regarding how far they should go in influencing the government to improve its behaviour; serious transgressions can hardly be ignored, but heavy interference is tantamount to colonial interference. The issue is commonly resolved by

responding to the more forceful activist pressures that, if ignored, would damage the company's reputation.

Reebok, the sportswear purchasing company, provides an example of how difficult it is for a company to steer the voluntary approach. In order to comply with the commitment in its company code to respect the right of workers to freedom of association and to collective bargaining, Reebok took steps to promote and democratize plant-level unions in two large supplier factories in China (Maitland 2002b). These initiatives have both short- and potential longer-term cost implications, though by improving worker management relations they may also raise productivity. Similarly, the company argues that, while improving health and safety standards and making life more comfortable for workers costs money, it can also bring savings by reducing accident rates and labour turnover.

Importantly, however, Reebok's vice-president for human-rights programmes has stated that Reebok would gain from a level playing field. This suggests that the company recognizes there is a possibility that its competitive position may be adversely affected by its CSR policies. This would be the case if Reebok as the purchasing company rather than the companies in the supply chain bore the cost of any short- or longer-term rise in supply price. But Reebok may also pay a cost in terms of lost reputation if it fails to ensure implementation of its code right down the supply chain (therefore shouldering, if necessary, the financial burden it would imply for small suppliers).¹⁴²

In sum, the above discussion has drawn attention to a number of systemic considerations that would appear to set limits to voluntary CSR efforts. In the end "Profitability must come first. Indeed, one of the dangers of a loosely-defined CSR movement is that it has become a Trojan horse for political or social agendas that are inimical to profits." (Fuller 2003) However, to see how business deals with the CSR issue in practice, it is necessary to examine the business case for CSR.

¹⁴² The implications of CSR initiatives by TNCs for developing country firms and workers are discussed in the next chapter.

The “business case” for corporate social responsibility

The Global Compact has had little difficulty in attracting a number of businesses, including a number of highly prominent corporations, to sign up to the commitment to adopt and promote CSR. Powerful business organizations including the WBCSD and IBLF and some individual businesses in the production, services and financial sectors are now among the most fervent and vociferous proponents of CSR. They contend that introducing CSR into firm behaviour and business strategy is positively good for business and hence for shareholders, a position they consider consistent with their other objectives of obtaining “a license to operate” and of keeping corporate citizenship initiatives within the voluntary realm.¹⁴³

Zadek (2002), an advocate of UN-business partnerships, in addressing the issue “Why should businesses partner with multilaterals such as the United Nations” highlights the potential benefits and provides specific examples demonstrating how these benefits accrue. Four incentives to business are identified: risk management (some partnerships enable participating companies to minimize their individual and collective business risk); market development (referring to potential increases in market size or share); legal and contract compliance (providing concrete demonstration to other international agencies outside the partnership that they can deal with the complex issues that are often involved in their sphere of business); and business processes and productivity (association with the UN gives credibility and provides access and knowledge that enhance future business prospects).

Among other things, implementing responsible business practices and engaging in cross-sector partnerships are said to help companies improve the motivation, retention and development of employees; support strategic market positioning and market entry; increase operational efficiency and quality; promote better risk management and access to financing; encourage innovation and new ways of thinking; ensure compliance with changing regulatory requirements and evolving

¹⁴³ Nowadays, “license to operate” refers to earning the trust and respect of the various groups of people who have a direct interest in, or are affected by, the actions of the company in question.

stakeholder expectations; and enable a more stable society and healthy economy (United Nations 2002b). The World Bank Institute¹⁴⁴ presents many reasons why, apart from the need to get “a license to operate from key stakeholders not just shareholders”, it pays for companies, both big business as well as small and medium enterprises, to be socially responsible: there are benefits in terms of sustainable competitiveness; creating new business opportunities; attracting and retaining quality investors and business partners; avoiding crisis due to CSR misconduct; government support; and building political capital. Others refer to the higher productivity levels and lower running costs resulting from enhanced staff morale and lower staff turnover.

Warhurst (2000:1) provides brief details of tri-sector partnerships in the oil, gas and mining sectors, illustrating in a concrete manner the so-called “license to operate” and the possible gains to corporate reputations resulting from social investments in the communities in which the corporations operate. Nevertheless, hard business calculations are involved: “more than 90 international banks undertake environment-related financial risk assessment of their borrowers, and, of these, 50 incorporate environmental and social liability into loan terms.”

The WBCSD, in its preliminary document for the Johannesburg World Summit on Sustainable Development, declared its business case for sustainable development as follows:

“Pursuing a mission of sustainable development can make our firms more competitive, more resilient to shock, nimbler in a fast changing world, more unified in purpose, more likely to attract customers and the best employees, and more at ease with regulators, banks, insurers and financial markets...the business case...has a financial bottom line. However, our rationale is not based solely on short-term, financial returns. Companies comprise, are led by, and serve people with vision and values. Companies that do not reflect their people’s vision and values in their actions will

¹⁴⁴ See <http://www.worldbank.org/wbi/corpgov/eforum.html>.

wither in the marketplace in the long-term.” (WBCSD 2002:2)

Whether the business case is robust depends of course on the extent to which it is backed up by empirical evidence that stands up to rigorous analysis. It is still early days in this respect, and while some of the evidence goes beyond the anecdotal much of it still lacks methodological rigour. The following examples illustrate the sorts of issues that enter the equation.

The evidence

A small number of studies have appeared recently providing empirical evidence to back up these claims. SustainAbility (2001), through research relating to its Sustainable Business Value ©Matrix, claims to have uncovered the business case for corporate sustainability (sic).¹⁴⁵ The matrix comprises 10 measures of business success (shareholder value, revenue, operating efficiency, access to capital, customer attraction, brand value and reputation, human and intellectual capital, risk profile, innovation, and license to operate) and 10 dimensions of corporate sustainable development (SD) performance, under the categories of governance, general environment, socioeconomic, and stakeholder engagement. The study concludes that “Overall, corporate SD performance has a positive impact on business success...there is an impressive and growing body of research analyzing the business case for sustainable development. To date, the large majority of the research supports at least a weak to moderate correlation between SD and business performance.” Of the authors’ 10 key messages for companies, the first is “that a strategic focus on SD performance aligns well with mainstream business purpose” and the second is that “a business case analysis should not focus exclusively on financial measures.” (p. 46)¹⁴⁶ The authors admit to possible methodological bias in their work: the “business affiliations of many business case authors can cast doubt on

¹⁴⁵ SustainAbility is a “for profit” consultancy firm that works on sustainable development issues.

¹⁴⁶ See page 34 of the same publication for data on shareholder value and page 35 for data on revenues.

the research objectivity”. Nevertheless, they suggest that their findings reflect current reality “quite accurately...particularly given the increasing outputs from academics.” (SustainAbility 2001:8)

Apart from the very considerable methodological issues that this (and other) studies raise, it is important to note that the authors find that the most compelling case can be made in relation to “environmental process” (namely, the “extent to which the company minimizes any adverse environmental impacts associated with its production processes, through, for example, changes to materials, equipment of practices.” (SustainAbility 2001:10)

Publications that present a traditional shareholder-driven view on business, such as the *Harvard Business Review*, *Fortune*, *Business Week*, *The Economist* and the *Wall Street Journal*, also report results showing a net positive relationship between a company’s SD performance and its business success.

A study by SustainAbility et al. (2002) provides new evidence from 240 examples (some of which received investment from the International Finance Corporation or IFC, one of the report’s sponsors and publishers) in 60 emerging markets that is said to affirm the business case for sustainability.¹⁴⁷ It shows “how owners and managers of all sizes and types of business have enjoyed business success as a result of improved environmental, social or governance performance, despite

¹⁴⁷ The SustainAbility et al. (2002) publication, like the SustainAbility (2001) report, uses the matrix idea developed by SustainAbility. The study is claimed by the authors to be the first large-scale study to analyse the extent and nature of the financial benefits that companies in emerging markets gain from sound environmental practice, social development and economic progress -- described as the “business case” for sustainability (which the authors regard as being synonymous with “corporate social responsibility” or “corporate citizenship”(p.7). In this report, “sustainability” is about “ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society. We use the term...to refer to the private sector’s contribution to sustainable development, generally defined as ‘meeting the needs of the present generation without compromising the ability of the future generations to meet their needs’.”

some of the risks.” (p. 6) It is reported that “companies worldwide have undertaken action in areas such as social development or environmental improvements. As a result, they have reduced costs, increased revenues, found new markets, improved access to capital, addressed risks, or achieved other business benefits.” The study does not indicate the strength of the impact of the sustainability factors or the extent of the business benefit. Moreover, on the important issue of methodology the report is clear: “Inevitably, there is a bias towards cases that build the business case, because companies are less willing to share information on sustainability initiatives that went wrong.” Elsewhere, the report notes: “we have not gathered negative evidence.” The authors express the hope that these positive cases “may help to ‘sell’ the business case to any skeptics remaining in the (business) organization or to business partners such as suppliers.” (p. 7) Many of the cases considered are not sufficiently detailed to be able to show on what basis the decisions were made: the short- and longer-term costs, the risks taken into account or details of profit rates before and after, etc.

It is also important to note that, as indicated above, the report states that businesses of all types and sizes had enjoyed success, including small and medium enterprises (SMEs). In this report, SMEs are dealt with as a single category being defined as “up to 300 employees, total assets of up to \$15 million, and total annual sales of up to \$15 million”, a classification that is said to be that used by most other financial institutions (p. 56). However, it is clear that what the report considers to be small and medium sized firms are quite sizeable by developing country standards.¹⁴⁸ It is unlikely that many of the SMEs found by the study to enjoy business success as a result of improved environmental, social or governance performance were developing country firms.

In pointing to the many businesses that have gained “valuable business benefits” from initiatives that help progress towards sustainable development, the report “aims to help business people in emerg-

¹⁴⁸ The IFC defines small enterprises as those employing between 10 and 50 employees with assets and total annual sales from US\$100,000 up to US\$3 million, and micro enterprises are those employing 10 or fewer persons and having assets and total annual sales of up to US\$100,000.

ing markets identify these opportunities to increase profits by making progress on sustainability.” (p. 4) Thus, this report adds to the increasing numbers who consider societal and environmental risks as a strategic opportunity, if dealt with in an innovative and value-added way.

These two publications referred to above have been mentioned in particular because they constitute two large studies that purport to show that adopting policies that fit under the CSR umbrella is good for business. It would be highly encouraging if one could accept the results of this research as positive proof of the compatibility of CSR policies and business interests. However, the fact that it is arch-protagonists of CSR (SustainAbility, Instituto Ethos, WBCSD, IBLF among others) themselves who are often the authors or co-authors of prominently publicized studies suggests that they need particularly careful scrutiny.

It is not surprising that positive results have been indicated in relation to the environmental aspects of CSR, for it is an area subject to some of the most intense efforts to introduce regulation. Similarly, environmental activism has been quite successful in putting the public spotlight on the environmental impact of large corporations in the resource prospecting and extraction industries. Furthermore, corporate investments in product and process innovation to improve environmental standards are more susceptible than some other areas of CSR to cost-benefit analysis. Company strategies and management practices in which improvements on environmental matters are routine also yield measurable results. If they are likely to improve corporate financial performance, significantly increase competitive advantage or draw public acclaim, then they are clearly compatible with business interests. Co-operative Insurance Society/Forum for the Future (2002) reports that recent studies provide evidence of a significant impact of “environmental CSR”, but that this is due more to firm capabilities and management strategies than “end-of-pipe” solutions.

Quantifying the impact of a company’s CSR practices on its “bottom line” is generally acknowledged to be exceedingly difficult, and few companies engage in such an exercise. One example is that of British Telecom which, using customer surveys and mathematical modelling, calculated that its social and environmental performance accounts

for more than 25 per cent of its overall image and reputation, which, in turn, is the second biggest factor in driving change in its customer satisfaction rates (Maitland 2002a).

Co-operative Insurance Society/Forum for the Future (2002) examines the business case for CSR by considering the results of a considerable number of studies (and re-evaluations of studies using improved methodologies) carried out from the 1970s onwards which assess the correlation between CSR performance and corporate financial performance.¹⁴⁹ It reports that earlier studies that find a positive correlation far outweigh those that do not. (It is important to note that a large proportion of the more detailed studies focused on environmental aspects.) The report also refers to research (McWilliams et al. 1999; McWilliams and Siegel 2000) that, on adjusting for the flaws in previous studies, found that the impact of “CSR events” (e.g. oil spills), on short-term market performance became insignificant. It was also found that when an improved methodology was used to reassess other types of earlier research, their positive findings were not confirmed.

McWilliams and Siegel (2000) and McWilliams et al. (1999) call into question the emerging consensus that good CSR is good for business, by taking into account other factors that might account for the supposed positive CSR effect. Thus, when expenditures on research and development (R&D) and on advertising are taken into account, the CSR effect on financial performance becomes insignificant.

Clearly the relationship between CSR and financial performance is highly complex, requiring methodologically rigorous research that takes into account a range of factors such as company size, risk, the industry in which the company operates, economic growth rates, nationality of the firm and the state of the stock market in the period un-

¹⁴⁹ It is interesting to note that this study, whose findings cast doubt on the proposition that better CSR performance invariably improves corporate financial performance, was conducted for a UK company with a strong CSR ethic. This company -- the Co-operative Insurance Society (CIS) -- is a major insurance and investment company that could be deemed to have an interest in results showing a positive correlation between CSR or socially responsible investment (SRI) and corporate financial performance.

der discussion. The conclusion drawn from the Co-operative Insurance Society/Forum for the Future review of much of the literature on this issue is that the studies reviewed “provide no support for the view that CSR will make corporate financial outperformance possible.” (p. 29) What they do show is that the CSR effect is “neutral on short-term market and financial performance.”

In sum, it can be concluded that companies will invest in CSR until the point at which the cost is no longer matched by benefits. In sum, recent evidence shows that “CSR can create shareholder value for some issues, in some industries, with some companies and for some management strategies.” (p. 29.)

A recent study by GovernanceMetrics International, an independent New York corporate governance ratings agency, using a ranking methodology employing a heterogeneous bundle of around 600 measures to identify “good governance citizens”, found that the stocks of companies at the top of this firm’s ranking list outperformed (in terms of measures like return on assets, return on investment, and return on capital) the Standard and Poor 500 stock index (Morgenson 2003). However, a ranking index based on such a large number of indicators, including, among others, labour practices, environmental activities, workplace safety, litigation approach, provisions to prevent takeovers, independence of board members and restatement of past earnings raises considerable doubts about the validity of the results.

Socially responsible investment

So, I’ve got to say that I’ve got higher priorities. I’m not a do-gooder. I want to do what I get paid for, and shareholder activism isn’t what I get paid for. (Tom Jones, Head of Citigroup’s fund management and private banking business, referring to activism by the fund regarding the companies in which Citigroup invests, cited in Targett 2003a.)

Ethical investment funds (managed equity assets invested in a socially responsible manner, using different approaches such as negative or

positive screening strategies or engagement strategies) are said to have mushroomed in recent years, growing at an annual rate of 100 per cent or more in the United Kingdom and Europe. While technically this may be true, the fact is that they have grown from a very low base and in 2003 SRI still amounted to less than 1 per cent of managed equity assets of the United Kingdom and eurozone (Kiernan 2003).¹⁵⁰ However, it has to be noted that this period is known as the “bull” years, when the rise in the stock market seemed to know no limits.

Ethical investment funds cater for investors who wish to avoid gaining benefit from activities of which they disapprove, or to use their investments as a means of trying to influence company policy.¹⁵¹ And, as mentioned earlier, some investors are willing to receive a lower return if this is the price of investing according to their principles. An increasing number of financial institutions now argue that the financial returns on investments selected on social and environmental criteria compare well with investments that have no explicit ethical concerns.

The general investment rationale of ethical funds is that socially responsible companies will deliver higher returns over the long run, as

¹⁵⁰ Negative screened funds are so called because they screen out or avoid investing in companies whose products or activities they disapprove of, while positive screening involves selecting firms with better social or environmental performance. Other funds adopt an “engagement” approach whereby they enter into dialogue with a company to try to improve its practice. Some funds employ both approaches. Insight Investment, the £68 billion fund management arm of the financial services group HBOS, announced in 2003 that it is to publish quarterly reports of its lobbying activities and its meetings with companies in which it holds investments for pension fund clients in order to discuss concern about issues such as child labour, sweatshops, and preferential drug pricing for AIDS drugs for developing countries. According to the Insight team head, the report was designed to counter the criticism that engagement was “a kid glove version of SRI” (Gimbel 2003a).

¹⁵¹ For example, 11 of Europe’s biggest investment funds joined together to issue a warning to 20 of the world’s top pharmaceuticals firms that their profitability could be damaged by their lax response to public health crises in developing countries (Dyer 2003c).

the WBCSD quote above indicated.¹⁵² Calvert (an American screened fund), spells out its position as follows: “Calvert believes there is a direct relationship between a company’s labour and diversity record and its financial and performance activities. It is our opinion that companies with well-developed workplace policies, comprehensive programmes and strong leadership commitment tend to fair (sic) better than their counterparts.” (Calvert Online 2002a)¹⁵³

Friends Provident (a UK financial services company) recently announced a new fund, Ecotec,

“which invests in a diversified portfolio of ‘environmental technology’ stocks. These are carefully selected companies whose environmental activities are expected to be significant drivers of their future share price. They specialize in areas such as alternative energy, renewable energy, waste management and remediation, water treatment or any others that are likely to aid the transition towards a more sustainable economy. But they must also offer good investment potential. . . . The specialist focus of Ecotec means that direct investment in the fund is most likely to be appropriate for investors looking for long-term capital growth prospects but who are prepared to accept an above-average risk profile.” (Friends Provident 2002b)

However, as one somewhat irreverent financial journalist pointed out, ethical funds that apply social and environmental criteria in their investments are not altogether free of anomalies: “In short, the compilers

¹⁵² Only a minority of individual investors have sufficient other means to sustain their livelihood such that they are willing to forgo some profit for the sake of “doing good”. Under the 1995 UK Pensions Act, revised in 2000, pension fund trustees are required to disclose in their statement of investment principles the extent to which social, environmental or ethical (SEE) considerations have been taken into account in the selection, retention and realization of investments and the policy, if any, of directing the exercise of the rights, including voting rights, attached to investments.

¹⁵³ The reference to “diversity record” is a reference to non-discrimination policies. See Calvert Online (2002b) for its own investment philosophy.

of the FTSE4Good have no better idea of where to draw the line than anyone else”, referring to the puzzling selection criteria (Collins 2001).¹⁵⁴

The principles, aims and expectations in the above Calper’s and Friends Provident statements are laudable, but whether they can be regarded as rational depends on whether all CSR practices are unequivocally good for business and for shareholders. One therefore has to look to the empirical evidence to find whether there is in fact substantial proof of a positive correlation between CSR and financial performance.

The findings

WBCSD (2002:2) provides positive evidence of the financial bottom line as follows: “During the five years before August 2001 the Dow Jones Sustainability Index (DJSI) clearly outperformed the Dow Jones Global index (DJGI). While the DJSI had an annualized return of 15.8 per cent, the DJGI increased by 12.5 per cent in that period. The DJSI consists of the top 10 per cent of companies in 68 industry groups in 21 countries seen as leaders in sustainable development.”

Various ethical funds and financial journalists have presented similar reports in recent years. However, much of the academic and institutional research providing evidence that socially responsible investment funds out-performed others can be challenged on methodological grounds; the sample being too small, too partial or too narrow and the time-frame too short. In a study undertaken in 2000 by the Equity Derivatives Research Group of UBS Warburg, Larry Chen concluded that, while there was no cast-iron link between social responsibility and outperformance, nobody had proved the reverse either (cited in Cowe 2002). This neutral finding is supported in a recent academic study by Otten et al. (2002) also cited in Cowe (2002). On the basis of a complex study of 103 funds from Britain, Germany and the United States, the UBS authors conclude, “Even after controlling for invest-

¹⁵⁴ Opinions differ on the usefulness of ethical indices such as the FTSE4Good and the Dow Jones Sustainability Index.

ment style, we find no significant differences in risk-adjusted returns between ethical and conventional funds.”

The Co-operative Insurance Society/Forum for the Future (2002) survey of evidence from studies measuring the environmental and social performance of SRI using “passive screens” (screening out some types of investment and others in), concludes that

“the balance of evidence, then, suggests that any advantage that an investor gains from the social, ethical and environmental (SEE) effect is likely to be equalled by the costs of lower diversification. While this may not support the case for higher returns from SRI, it certainly shows that investing in line with his or her beliefs does not imply that an investor must accept lower returns, as is often assumed. ... The evidence reviewed here suggests that the use of SEE screens does not impact negatively on share performance. At best, as new and more sophisticated approaches are developed, the evidence appears to be moving towards a ‘SEE effect’ that contributes to portfolio out-performance, though this suggests that an investment policy using SEE screens is unlikely to harm financial returns.” (pp. 25–26)¹⁵⁵

The Institute of Business Ethics (2003) studied a group of companies in the FTSE 250 index over a period of four years, divided into those that had had codes of ethics for five years or more and those that explicitly said they did not. The ethical companies outperformed the others in terms of economic value-added (a measure of long-term shareholder wealth creation), market value-added, and stability in the price/earnings ratios. The results on the basis of return on capital employed, were more mixed. However, the time period covered by the study is hardly long enough to obtain robust results. Moreover, to take ethical codes as a proxy for ethical behaviour weakens the conclusions. In order to strengthen the assumption that companies with codes usually took ethics seriously, the researchers tested the effectiveness of the codes against two external measures -- risk ratings and peer group rank-

¹⁵⁵ SEE refers to social, environmental and ethical criteria that are used to screen companies in or out of socially responsible investment funds.

ings. These showed that companies with established codes were generally better at risk management than those without one and a higher proportion of those with codes also featured on the list of Britain's "most admired companies" published by *Management Today* (Dickson 2003; Maitland 2003c).

In the recent economic and investment climate of falling markets, SRI indexes have shown little resilience, and over the long haul they have performed no better than other equities. This may well be due to the fact that funds that screened out some types of shares on ethical grounds tended to put greater emphasis on technology stocks, only to be hit by the subsequent bursting of the bubble that hit information technology shares particularly hard. There is some evidence to show that ethical investors who flocked to the market during the investment boom intended to stick with their funds (Lewis and MacKenzie 1999).¹⁵⁶ However, whether ethical funds retained investors as share prices fell and returns diminished can only be determined by examining the numbers of fund holders and the size of inflows and outflows for particular funds.

In the current less buoyant investment climate many investors are said to be looking beyond the morality issue and seeking mature companies that generate cash. There are now fund managers who appeal to investors' baser instincts, as, for example, the recently launched Vice Fund in the United States that invests in tobacco, alcohol, defence and gambling. Commenting on the interest in "vice" funds, the founder and chief executive of the ethical Domini Social Investments of New York suggested that, following the Enron and similar corporate disasters, "There may be a sense among investors now that investing is a rigged game, that you can't win. ... People will always drink and smoke, and maybe they are going with that -- rather than taking a look at the long-term investment approach." (Earle and Gimbel 2002)

¹⁵⁶ In Lewis's survey in 2000 in the United Kingdom covering 1,000 ethical investors, 80 per cent of respondents said they would stay with the funds they had invested in.

Investment in tobacco shares illustrates some of the complex issues concerning ethical investing. Some ethical funds shun tobacco shares, and litigation cases may tarnish the industry's image and its profit level. The WHO Framework Convention on tobacco control is also likely to have a negative affect on the industry. But, in July 2003, tobacco company shares were among the current favourites of UK non-ethical fund managers, prompted by hopes of higher future profits due to an expected wave of acquisitions if the proposed privatizations and industry consolidation took place in a number of countries, including Italy, Japan, the Republic of Korea, Thailand, and Turkey (Kipphoff 2003; Targett 2003a, 2003b, 2003c).¹⁵⁷

To conclude, it is important to note that, as various independent financial analysts indicate, investment performance depends as much on investment factors such as sector, industry, geography and capitalization as on corporate social and environmental behaviour factors. There is no reason to think socially responsible investing has better or worse performance on a consistent basis than mainstream investing: pending much more substantial proof of a positive correlation between CSR and higher financial performance, a degree of scepticism is required on this matter.

The limits of voluntary corporate social responsibility

The above overview of evidence regarding the financial impact of corporate CSR efforts suggests that, on the basis of present research evidence, there is no general business case for CSR. Similarly, the financial performance of SRI does not consistently outperform non-ethical funds.¹⁵⁸ These conclusions help to answer the question posed earlier --

¹⁵⁷ Yach et al. (2001) discusses SRI and the tobacco industry, based partly on a survey conducted by the WHO's Tobacco Free Initiative, prior to approval of the WHO Framework Convention approved by over 100 countries and aiming to reduce deaths from tobacco smoking.

¹⁵⁸ As discussed earlier, CSR and SRI also have implications for corporate governance, especially in a climate of activism by shareholders and various NGO interests; how, for example, are competing pressures on a company to adopt CSR policies to be accommodated; who is to choose which of the various so-

why, if profitability is not eroded by adopting CSR, more businesses did not become enthusiastic protagonists and practitioners of CSR before?

To put this matter in context, Maitland (2002a) reports that the director of policy and research at IBLF, one of the major business associations working to promote CSR, estimates that only 300–400 companies worldwide are taking CSR seriously.

Further evidence indicating the limited extent of CSR efforts is contained in a report prepared for the UK Institute of Directors by the Institute of Public Policy Research (IPPR), an influential think-tank with links to UK Prime Minister Tony Blair. The report detects a considerable gap between the rhetoric supportive of CSR and the actual situation. Based on a National Opinion Poll (NOP) survey of 500 businesses, the report finds, among other things, that only four out of 10 company boards discussed social and environmental issues either routinely or occasionally; only 34 per cent of businesses had a board member with an environmental remit; and only 22 per cent had a board member with an interest in social issues. Eight out of 10 directors said that their organization did not publish reports on their social or environmental impact.¹⁵⁹ Ella Joseph, the report's author, suggests that the findings point to business "hypocrisy": "The cosy confines of the CSR-world are inundated with reports and case studies based on the responsible endeavours of business leaders and corporate representatives who are largely self-selecting and who often represent large FTSE-listed companies. This report is a reality check." (cited in Morgan 2002)

A June 2002 survey by the UK organization Business in the Community (BITC) found that the large majority of chief executives in Europe believed responsible practices improved competitiveness, in-

cietal interests should be given priority. These become relevant questions when there are significant costs involved, or investment on which returns are only realized in the medium or longer term.

¹⁵⁹ The Institute of Directors that paid for the survey refused permission for IPPR to publish the report, saying that the study is not a fair reflection of the views expressed. IPPR, in defense of its work, claims that its interpretation of the survey results has been endorsed by NOP.

novation and bottom line. However, while most of the 200 companies questioned said they had boardroom statements or codes relating to CSR, fewer than one third had assessed their social and environmental risks and only one half had set performance targets. In the words of BITC, “the hearts are won but not the minds” (Maitland 2002a).¹⁶⁰

The situation is further illustrated by the specific case of Reebok. *The Economist* (2002e) reports the head of human rights at Reebok as stating that the company does no research to correlate social responsibility with sales or shareholder value. Nor does he know what his division costs the company (see Reebok response: Cahn 2002). Yet Reebok is a TNC that claims to have pioneered good corporate practice and has a long involvement in ethical trading, albeit largely as a result of consumer campaign pressures.

However, there is increasing evidence of firms being goaded into adopting policies of greater social responsibility by institutional investors aware of the potential damage to the long-term value of their investments and the need to avert risk to the firms’ reputations and future business. They are urging companies to change course, particularly in industries whose activities are very much in the public eye, either because of the nature of their product and activities, the geographical location of some of their activities, or the role they play in relation to certain prominent global issues. In the United Kingdom, a number of powerful ethical investor groups are planning to form a core group of ethical investors as a central hub for existing initiatives such as the Institutional Investors Group on Climate Change and the Pharmaceutical Shareowners Group (Gimbel 2003b).

Institutional investors have been particularly vociferous regarding pharmaceutical companies’ manner of dealing with the developing world’s health problems to date. A prominent example is that of 11 financial institutions, including ethical investment fund managers, large pension funds and mainstream investors, which between them have

¹⁶⁰ However, some of the businesses objected to their ranking in this Corporate Responsibility Index. Reuters, the media group, said they had been marked down on issues such as global warming and solid waste which they regarded as irrelevant to their business (Maitland 2003d).

£600 billion in assets under management and most of whom have more than 5 per cent of their assets in the pharmaceuticals sector. The group comprises CIS, Ethos, Henderson Global Investors, Insight Investment, ISIS Asset Management, Jupiter Asset Management, Morley Fund Management, Legal and General, PCGM, Schroders and the UK Universities Superannuation Scheme (USS). It has called for pharmaceutical firms to take action on global health issues, as increasing numbers of people are affected by AIDS, malaria, tuberculosis (TB) and other infectious diseases. Shareholder activism of this type is said to represent an important example indicating SRI concerns penetrating mainstream investment. However, this initiative is clearly more than an ethical response to the plight of millions in the developing world.

The investors' concern is more to do with the long-term value of their pharmaceutical holdings if companies fail to respond to the crisis in a coherent way, fearing that their companies' long-term performance may be undermined by greater pressures from developing country governments for new pricing policies and less stringent patent protection. The group's statement calls on companies to demonstrate that they have fully considered the risks and opportunities they face and have effective policies and processes in place to deal with the challenges they face (Dyer 2003c). ISIS Asset Management and the USS are launching a statement of good practice, outlining the steps the investors believe should be taken to reduce the risks to the industry's reputation resulting from the way it responds to the AIDS pandemic among other health crises. This voluntary framework of good practice is intended to be an additional instrument that investors and analysts can use to assess the long-term investment value of pharmaceutical companies. The investor groups also call for partnership with governments in order to improve developing country access to urgently needed medicines, a matter that is discussed in chapter 8 on public-private partnerships.

Pressures such as those described above no doubt partly account for the recent initiative by five of the world's pharmaceutical giants (GlaxoSmithkline, Bristol-Myers Squibb, Merck Sharp and Dohme, F. Hoffman-La Roche and Boehringer-Ingelheim) who together have agreed to lower the price of triple-combination therapy drugs to treat AIDS patients in Costa Rica, Guatemala, Honduras, El Salvador, Nica-

ragua and Panama, where 25,000 people suffer from AIDS and 180,000 test positive for the HIV virus (Silver 2003).

Nevertheless, CoreRatings' assessment of drug companies' policies to deal with issues such as the AIDS pandemic concluded that the global pharmaceuticals industry has "a long way to go" if it is "to avoid the huge potential risks to its business model" posed by health crises in the developing world. Companies are rated on the basis of an assessment of their policies regarding patent flexibility, pricing and testing of essential drugs in poor countries and efforts to avoid bribery. (The two biggest risks for drug companies are deemed to be access in developing countries to affordable medicines and to procedures for testing drugs in poor countries (Dyer 2003d).

The purpose of the above discussion was to illustrate that there are factors other than ethical ones that influence the extent of improvement in CSR. The need to satisfy shareholders, as well as CSR activists, dictates that CSR requires as much of a hard-headed business calculation as any other corporate expenditure and investment decision: CSR is a cost-benefit calculation. The Anglo-Saxon corporate governance model that in recent years has been driven by institutional investors' demand for short-term profit and share value has been not been good for the health of the corporate sector or the economy. Nor has it provided a context conducive to CSR actions that require investment of company resources, despite the fashionable argument that voluntary CSR is good for business. In fact, the general maxim holds that, in the absence of government subsidies or other special arrangements to induce specific improvements in CSR, there are limits to voluntary CSR efforts, whatever the form of corporate governance within a capitalist model.

Whether the present more sober investment climate, reforms to improve corporate governance and accounting standards, and increasing signs of pension and mutual fund demands for greater attention to long-term value, will together improve the prospects for voluntary CSR is not clear. The mounting evidence that few businesses take CSR seriously suggest that a note of realism is necessary when considering how much can be achieved through the Global Compact or any other vol-

untary CSR initiative. Moreover, if left to voluntary initiatives, the outcome will depend to a considerable extent on the capacity of civil society to perform the important public function of “corporate watchdog”, and on the capacity of NGOs and CSOs to verify the extent to which corporate codes and socially and environmental responsibility reports are actually reflected in concrete action.

Voluntary efforts lie at one end of the spectrum of the complex regulation continuum that embraces government fiat, democratically determined policies, government guidelines “enforced” and monitored by industry itself, and wholly voluntary initiatives, sometimes in association with NGO and other activist groups. Whether voluntary initiatives are sufficient or whether they need to be supplemented by public regulation is becoming an increasingly relevant question in an increasingly interconnected and liberalized world economy.

The case for public regulation

Current economic ideology dictates that, where externalities require adjustments in behaviour, social ends are best achieved through market solutions rather than government regulation. The basic economic reasoning is that of the neoclassical economists who regard capitalism as the complete embodiment of social justice such that it should be left free of any restraints, the only duty of government being to protect its citizens from force or fraud. In other words, a minimum of public regulation is best for the “public good” -- a stance that rests on the premise that government failure is invariably more heinous or damaging than market failure.

Stated more precisely, however, the theory argues that, where there are well-defined property rights, low bargaining costs, perfect competition, perfect information and the absence of wealth and income effects, society’s resources will be used most efficiently by letting private agents work out these problems to their own mutual benefit (especially Coase 1960, 1988).¹⁶¹ It requires little insight to see that the

¹⁶¹ There is a very considerable literature on this theory, especially in the context of efforts to draw on it for purposes of policy recommendations. The lit-

very conditions under which the private solution is said to be optimal are mostly absent from the real world.¹⁶²

Market solutions have recently been introduced to deal with international environmental problems, though whether they are the optimal solution is still hotly debated. Voluntary codes of conduct, sets of guidelines, and reporting and accountability standards now number in their hundreds, reflecting a response to multiple pressures exerted on business by different sections of society. These various forms of “soft law” now constitute a maze through which all but the biggest enterprises have difficulty in finding their way, and even the largest well-resourced TNCs have expressed frustration at the complexity and time-consuming nature of the exercise.

To date, the almost complete absence of accountability rules and monitoring in the Global Compact and other UN-business partnerships has presented business with an extremely soft option. Business has been provided with a much-coveted opportunity to engage in high-profile initiatives that ostensibly demonstrate commitment to enhancing CSR, which has also presented it with a rationale for keeping at bay pressures for UN monitoring or regulation. At its May 2000 World Congress, the ICC announced plans to exploit the public relations (PR) potential of the Global Compact, partly by “enlisting the support of international media organizations to make the business response to the Global Compact even more widely known.” (Corporate Europe Observatory 2001) Close relations between business and the UN have also

erature reveals that in most real world situations the theorem simply does not apply. Moreover, a particular definition of rights is required for the theorem to work: not the right of individuals or agents *to* something, as for example clean water, but the right to collect damages if water is unclear. But, this in turn raises another problem: it is not easy to identify who or what is the source of the problem, and who should pay. For discussion of the Coase theorem see Newman et al. (1999). For a plain-English review of Coasian theory, see Medema (1994) and, for a rebuttal see Mishan (1993).

¹⁶² The theory regarding “incomplete markets” (crudely stated as a situation in which there are not enough buyers or sellers) also suggests that market solutions are not always the optimal solution.

provided considerable space for business interests to exert policy influence within the UN, including with regard to public regulation issues.

Utting (2002b:645) expresses a basic concern that UN-TNC partnerships in general “reflect a shift in approach whereby lukewarm voluntary initiatives have crowded out important mechanisms and institutional arrangements involving new forms of international law, oversight or monitoring of TNC activities, mediation or arbitration of disputes, and critical research into regulatory alternatives, as well as on the social, environmental and developmental impacts of TNCs.”¹⁶³

A clear illustration of this is provided by the stance of some business groups in discussions at the 54th Session of the Sub-Commission of the United Nations High Commission on Human Rights (UNHCHR). Under the item “Promotion and Protection of Human Rights”, discussion focused on a draft concerning “Human Rights Principles and Responsibilities for Transnational Corporations and Other Business Enterprises” prepared by the working group on Working Methods and Activities of Transnational Corporations.¹⁶⁴ The meeting was intended to help make the Universal Declaration of Human Rights (that is applicable to both states and businesses) more directly applicable to the business sector. The draft covered issues such as workers’ rights, the need to observe obligations with regard to consumer and environmental protection, the right of people to security, and the need for companies to respect national sovereignty and local communities. Some business entities, such as the IBLF and FTSE4Good (a SRI initiative) responded favourably to this initiative, reflecting the views of some businesses that regulation is needed to provide a level playing field, though their key objective is often one of self-protection in a highly competitive market.

For the ICC, however, “to be effective and relevant to a company’s specific circumstances, business principles and responsibilities should be developed and implemented by the companies themselves.” It also considers that the draft principles indicated “confusion within the UN” and the proposal “weakens its credibility just when it is trying,

¹⁶³ See also Utting (2003).

¹⁶⁴ See <http://www.unhcr.ch/Huridocda.nsf>

more than ever, to engage with the business community.” (Bendell and Abrahams 2002)

In affirming IOE support for the Global Compact, the IOE president is quoted as saying that “the principles of the Global Compact are primarily the responsibility of governments. ... “While it is neither appropriate nor feasible for business to assume such responsibilities, there is a lot employers can do within their own sphere of influence -- on their own or in partnership with others -- to advance the Global Compact’s principles.” (United States Council for International Business 2002) Even in corporate governance structures that embrace worker “stakeholders”, there are limits to how far a firm will go beyond legal requirements in responding to the needs and claims of immediate and other stakeholders.

Business leaders put their case on these matters to the G8 meeting of Heads of State prior to their meeting in Evian in June 2003. In its statement for the forthcoming event the ICC declared that “business is worried by the growing tendency of voluntary initiatives in the corporate social responsibility field to become mandatory in practice.” On corporate responsibility, business representatives insisted that corporate responsibility should be a voluntary commitment that went beyond legal requirements, arguing that good practice is best spread by example, persuasion and peer pressure, rather than by prescriptive codes and regulations. The concern was also expressed that companies were increasingly being pressed to assume responsibilities that were properly those of government (Betts 2003).

In August 2003, the Sub-Commission referred to above adopted Norms on Responsibilities of Transnational Corporations with Regard to Human Rights and called for companies to be “subject to periodic monitoring and verification by the UN”. The ICC again criticized this initiative as being “at odds with ‘voluntarist’ efforts to promote global corporate responsibility” (United Nations 2003b; Birchall 2003).

However, voluntary CSR efforts do not necessarily produce the changes in CSR that would result from democratic national or multinational deliberations on these matters. Selecting CSR commitments by

reacting to “naming and shaming”, public pressure campaigns, or shareholder action, for example, is hardly a process that produces the most democratic outcome. In effect, such a selection method results in adopting commitments on the basis of the campaign strength of different organizations, the emotional appeal of their cause, or their financial clout. A burgeoning voluntary CSR industry, while involving social activism that may promise further gains, is far from a democratic decision-making process. In the words of *The Economist* “It is no advance for democracy when public policy is ‘privatized’ and corporate boards take it upon themselves to weigh competing social, economic and environmental goals. That is the job for governments, which remain competent to do it if they choose.” (*The Economist* 2001:84)¹⁶⁵

Bearing in mind that one of the main objectives of CSR efforts is to make a difference in the developing world, greater effort is needed to rectify the imbalance that the current voluntary system creates in the process of setting CSR objectives and agendas. The fact that many CSR campaigns to change corporate behaviour reflect Northern priorities is not sufficiently recognized. Even well-intentioned civil society groups can be myopic, due mainly to lack of detailed knowledge concerning developing country situations. Particularly now that an increasing number of society’s concerns can no longer be dealt with adequately at the national level (the externalities of national business are increasingly experienced elsewhere in the world), reasons of equity, efficiency and democracy require the international community to try once more to multilaterally establish standards of behaviour for businesses that embrace social and environmental aspects as well as other dimensions of business responsibility.¹⁶⁶

¹⁶⁵ A similar point was made earlier in the life of the Global Compact by UN Secretary-General Kofi Annan (UN Office at Geneva 2001): “Clearly business is about making profits, and public policy is the responsibility of States. If the 20th century taught us anything, it is that when one tries to do the other’s job, all sorts of things go wrong.”

¹⁶⁶ See Dell (1990) for a historical account of some of the major activities of the United Nations that have implications for business and the regulation of international business; see UNCTAD (1985) for the Draft International Code of Conduct on the Transfer of Technology; and United Nations (1988) for the Code of Conduct on Transnational Corporations.

In the political arena, few nations and peoples have doubted the need for UN mediation and regulation on major conflict issues, though recent events in the Middle East indicate that such a proposition does not always hold. In the social and economic domain, broad sections of the public in many countries seemed to have acquiesced in neoliberal policies of deregulation and privatization. But, judging by recent trenchant parliamentary debates in many social democratic countries and the mounting protests by a wide array of civil society groups around the world, there is a growing consensus that deregulation as a major policy tenet has gone too far. Once again, the idea is gaining ground among the public that governmental oversight is needed to ensure that corporations behave more responsibly and are more accountable for outcomes. On many issues only intergovernmental regulatory arrangements will be sufficient to deal with increasingly footloose enterprises.

Just as those arguing for a multilateral investment agreement to maximize freedom for capital movements justify this on the grounds that rationalizing the many bilateral agreements under one multilateral arrangement would be more efficient, there are strong grounds for arguing that common rules for TNCs need to be established on the basis of priorities decided democratically at the global level. However, it is essential that rules for an investment regime and a code of conduct for business be kept quite separate. This is necessary bearing in mind that the basic intent of developed countries in efforts to gain a multilateral agreement on investment is to strengthen the right of entry for TNCs, whereas CSR-oriented guidelines and ground rules deal with corporate responsibilities and accountability. Any body of ground rules that sets standards of conduct for TNCs should not provide a back door for Northern proposals regarding a wholly liberalized FDI regime, for, as argued below, current ideas on this matter are far from meeting the concerns of developing countries, witness the breakdown of the September 2003 Cancún negotiations.

Developing countries were and continue to be opposed to negotiating standards for social and environmental matters in the WTO. There is a greater likelihood that their interests would be taken into account if multilateral negotiations focusing on the responsibilities of

TNCs were to be conducted under the aegis of the UN proper, where all interests and perspectives can be considered.

There is a very substantial academic literature on the complex subject of regulation and the related issues of both government and market failure.¹⁶⁷ In contrast to the neoclassical literature referred to above that, on the basis of very weak assumptions, concludes that market solutions are optimal, the literature has increasingly come to appreciate that the neoliberal proposition that government failure is always more serious than market failure is far from universally valid. It is now widely recognized that there is no simple relationship between, for example, government intervention, rent-seeking and corruption, and long-run economic development.¹⁶⁸ This is one reason why there has been a shift away from Washington consensus policies, even among their erstwhile protagonists.

Indeed, there is a large body of theoretical and empirical work indicating that it is for the government to set the framework within which business operates. Moreover, the literature on economic development points strongly to the fact that those interventionist states that are successful in getting business to adhere to performance standards are successful in achieving long-term economic and social development. Others are less so, or not at all. Complementarity between markets and governments and the requisite supporting institutions are essential, and if governments fail so do markets. (For a discussion of relations between government and market in East Asia, see Wade 1990.)

¹⁶⁷ For recent contributions relevant to this discussion, see, for example, Picciotto and Mayne (1999); Braithwaite and Drahos (2000).

¹⁶⁸ To illustrate, Suharto's Indonesia, which many now regard as a prime example of a corrupt interventionist state, had a very respectable long-term growth record and, more significantly, one of the best developing country records of poverty reduction over the last four decades. The point here is not to condone corruption but to note the complexity of the issues involved and to emphasize the point made by Joseph Stiglitz that it is necessary to distinguish between corruption in Mobutu's Zaire (now Congo) and corruption in the Republic of Korea, where two recent presidents have been convicted for corruption involving millions of dollars.

VI. CORPORATE SOCIAL RESPONSIBILITY AND DEVELOPING COUNTRIES

These two dimensions of good corporate citizenship -- internalizing the principles within corporate domains of operations and contributing proactively in support of broader societal goals, especially with respect to development -- are complementary and inseparable. (United Nations Global Compact 2003a:10)

Earlier, chapter 2 provided an overview of the magnitude of the development challenge that UN-business partnerships are intended to help confront. The analysis in chapter 5 concluded that the nature of corporate governance in modern capitalism sets limits to the extent to which firms undertake voluntary acts of CSR. The present chapter focuses in more detail on the development dimension of CSR, briefly looking at some structural matters -- labour markets, SMEs, FDI and the competition implications of UN-business partnerships -- in order to assess the likely development impact of current Northern approaches and initiatives promoting CSR.

The Global Compact and labour standards

The nine principles promoted by the Compact derive from international conventions and hence are considered by many to be universally accepted. That the list is, however, a selective one, perhaps reflecting the need to change corporate practices in areas where TNCs have been most exposed to criticism from Northern trade union and other civil society groups. Whatever the case, the implementation of the Compact's principles is a highly complex and controversial matter, the more so when this involves Northern firms taking action in developing countries to implement principles whose practical expression needs to take into account different economic, cultural, institutional and legislative contexts.

Included in the Compact's principles are the ILO "core labour standards", relating to child labour, forced labour, discrimination in employment and rights to freedom of association and collective bargaining, that are enshrined in the ILO's Declaration of Fundamental Rights and Responsibilities at Work.¹⁶⁹ Campaigns to gain observance of these rights in developing countries have been pursued particularly vigorously by worker groups in the North who complain of competition from "cheap labour" resulting from low standards in the South. They contend that, unless labour standards are universally applied, there will be a "race to the bottom" with respect to the terms and conditions of work (ICFTU 1999). The perception is that the generally lower level of labour standards in the South poses threats to employment, wage levels and wage bargaining in the North.¹⁷⁰ This widely accepted argument is subject to a number of important qualifications that, along with political considerations, have meant that efforts to gain the imposition of labour standards through the multilateral process in the WTO have not met with success (Singh and Zammit 2000a, forthcoming).

The Compact thus provides an alternative route to gaining wider implementation of these standards worldwide, though one which is fraught with uncertainties. It will be argued here that, while success in this endeavour will depend on the Compact's powers of advocacy, the nature of the participating companies and the lengths to which they are willing to go, much depends on the structural aspects of the economy and labour market.

In considering labour standards in developing countries, it first needs to be appreciated that there is no solid evidence to support the conventional wisdom that foreign investors favour countries with

¹⁶⁹ Contrary to widespread belief, the practices of forced labour and slavery still abound. In fact, they are on the increase, if account is taken of the very considerable transnational and clandestine trafficking of women and children.

¹⁷⁰ Aside from ethical concerns, objections to child labour and forced labour also fit within this economic logic as they can be paid extremely low wages, if any, thereby exerting downward pressure on other segments of the labour market.

lower labour standards (Kucera 2001). The OECD study (Oman 2000) on competition for FDI concluded that “FDI location decisions are not significantly affected by labour standards *per se* -- or more accurately that low labour standards are not an attraction and can be a deterrent to most FDI. Furthermore, OECD (2000c) found that “there is no robust evidence that low-standard countries provide a haven for foreign firms.”

Moreover, OECD (2000a) found no evidence associating low *core* labour standards with low labour costs; rather, real wages grew faster than productivity growth in a number of low labour standard countries from the mid-1980s to the mid-1990s. Ghose (2000) finds that between 1981 and the mid-1990s real wages per worker grew faster in the export-oriented industries of Indonesia, the Republic of Korea, Malaysia and the Philippines than in the export-oriented industries of the United States and Japan (whose exports are capital intensive). Moreover, his work suggests that, except in the case of the Philippines, the growth of real wages in the export-oriented industries of these countries was faster than real wage growth in the manufacturing sector as a whole.

Notwithstanding the foregoing, ILO (1998d) documents widespread evidence regarding the lack of adequate labour standards, including the lack of trade union rights, in most of the 850 or more export processing zones (EPZs) around the world that employ about 27 million people. The same report notes, however, that the large majority of EPZs are covered by national labour laws and industrial relations legislation, and that national minimum labour standards and minimum wages apply.¹⁷¹ There is little to suggest, however, that “core” labour standards are better outside these zones in many developing countries.

However, none of this is to deny that the bargaining position of workers, North and South, is adversely affected by the mobility of capital, whether its destination is a rich or poor country. Irrespective of actual intent to relocate, the “footloose” character of capital hangs as a

¹⁷¹ While labour standards may be legislated for, often there is little government machinery for ensuring compliance.

threat over labour and weakens the latter's bargaining power vis-à-vis capital.

TNCs, with their very considerable resources, geographical spread and often extensive supplier and customer networks, clearly have the potential to introduce and to encourage widespread improvements in core labour standards.¹⁷² A good number of TNCs are already involved in sectoral codes of conduct or multistakeholder initiatives in one or other field of CSR.¹⁷³ However, "many codes do not even cover the ILO core labour standards, particularly those on freedom of association and collective bargaining, let alone go beyond these core standards to include other aspects of workers rights, such as security of employment." (Jenkins 2001:26–27) Furthermore, workers not employed directly by firms that act as suppliers to TNC purchasing companies are rarely included in codes. What is more, research on the implementation of codes of conduct by large developed country firms indicates that these firms give less attention to implementing labour standards than other CSR actions in their subsidiaries (ILO 1998c). Whether TNCs' participation in the Compact will mean that company codes will become more than general statements of business ethics with

¹⁷²Advanced country TNCs vary considerably in size and include what, in the country of origin, are deemed to be medium-sized enterprises. Unlike Nike, which has around 750 suppliers but few overseas factories, these smaller-sized TNCs may not have vast supplier networks.

¹⁷³ The growing number and range of cross-cutting codes of conduct and standards, now numbering over 250, makes it difficult for even large well-resourced firms to navigate their way. The chairman of the TNC Cadbury Schweppes recently commented that "an increasing amount of a company's time is spent on matters of compliance, regulation and reporting" (Sunderland 2003). A recent survey by Environmental Resources Management (an international consultancy) found that "half of the 25 TNCs surveyed spend more than 500 working days a year tracking environmental and corporate social responsibility issues. Nearly 30 per cent allocate more than 1,000 days to this" (Maitland 2003d). Developing country firms will face difficulties in dealing with the plethora of CSR expectations related to the Global Compact and other voluntary codes of conduct. This applies particularly to small and medium firms that have fewer resources and lack experience and support networks, whether or not linked into TNC supply chains.

little or no concrete indication of the way in which they are to be implemented remains to be seen, especially in view of the fact that the Compact itself will not be engaged in assessing how firms live up to their CSR statements.

TNCs generally state their policy to be one of compliance with locally set labour standards, including in developing countries. How far TNCs should promote changes that disturb local arrangements regarding freedom of association and collective bargaining, when these do not conform to what outsiders consider to be appropriate arrangements, is a complex and sensitive matter. Companies may have to take into account the damage that campaigners can do to their reputation, or their relations with national governments, but they are also subject to pressure from the financial markets. Morgan Stanley's recent advice to financial markets, based on its analysis that unionized companies do not provide shareholder value, is that investors should "look for the union label . . . and run the other way" (Beard 2002).

With respect to forced labour and child labour, TNCs are already under combined pressure from activists and press reporting to improve their practices and face the challenge of how far down the supply chain their responsibility extends.¹⁷⁴ In eliminating employment and occupational discrimination, TNCs have a particularly difficult course to steer. These and other large firms worldwide tend to perpetuate the gendered structure of labour markets, but could introduce practices that establish new role models. On the other hand, changing practices in the workplace cannot proceed at a pace much faster than in society as a whole when predominant practices reflect deep-rooted cultural norms that

¹⁷⁴It is now widely agreed that a set of complementary measures are needed to reduce child labour in a manner that benefits the child and the family. This is not a matter that can be left to corporate philanthropy: governments and the international community need to be involved in the provision of schooling and income support schemes such as the Brazilian Bolsa-Escola (Buarque 2000). The capacity of the local and central state to deal with such matters would, however, be considerably stronger if foreign investors were not exempted from paying taxes to the state or if TNCs and other large firms in developing countries were to commit resources to a government fund to promote such schemes on a large scale.

also structure wider social and economic relationships.¹⁷⁵ Evidence suggests that only the continued scrutiny of large TNCs and civil society activism will persuade TNCs to act on the Global Compact's principles and meet its expectations (Kemp 2001).

The extent to which smaller Northern firms in developing countries are likely to improve corporate behaviour in relation to labour standards is difficult to assess. Referring to CSR in broad terms, the chairman of the Swiss business federation recently argued that "CSR is not and cannot be a matter of size" (Forster 2002:2). However, he suggested that CSR is a more natural element of entrepreneurship in SMEs. In view of the closer proximity of owners and management to the workforce and surrounding community, CSR was likely to be manifested in the normal course of business.¹⁷⁶ However, "the more lean and informal organization of SMEs" meant that SMEs did not draft special reports on their CSR activities, and precluded the setting up special structures to implement CSR standards and gauge compliance. SMEs were also more limited in how far they could significantly influence the CSR practices of suppliers and customers.

Notwithstanding TNC and civil society efforts, improvements in core labour standards in developing countries will in any case be limited in view of the small proportion of the world's workforce that TNCs employ both directly and indirectly. According to UNCTAD (2002c), in 2001 foreign affiliates accounted for about 54 million employees compared to 24 million in 1990.

¹⁷⁵For a useful discussion of the complex issue of universal values and cultural relativism in the context of women's rights and discrimination against women, see Phillips (2001). For an analysis of how gendered employment patterns affect women's livelihoods in times of growth and crisis and the implications for social welfare rights in the Republic of Korea, see Hyoungh et al. forthcoming.

¹⁷⁶The representatives of SMEs in developing countries also argue that, being rooted in the local community, they would not survive if they were not socially responsible. However, this argument is far from fully convincing: when jobs are scarce and workers desperate, they are likely to put up with poor terms and conditions of employment in order to earn even the most meagre income.

Corporate social responsibility and small- and medium-sized enterprises

SMEs are essential to the 'path out of poverty' for many developing countries. If CSR demands are protectionist, culturally inappropriate or unreasonably bureaucratic the net effect will be to undermine livelihoods in the South. On the other hand the small and medium sized enterprise (SME) sector must not be allowed to become a loophole in which polluting exploitative industries flourish. However, support for SME development can be an important part of the CSR commitment of big companies, and improvements in social and environmental impact can go hand in hand with improvements in quality and management. (UNIDO 2002b)

The highly dualistic enterprise and employment structure characteristic of developing economies sets limits to how far changes in firm behaviour can improve labour standards overall in most developing countries. Alongside TNC affiliates and modern domestically owned large firms (sometimes conglomerates), there are substantial numbers of small firms. In South Africa, one of sub-Saharan Africa's more industrialized economies, TNCs and large companies employ only 4 out of 20 million workers. UNIDO (2002b) estimates that, worldwide, SMEs constitute over 90 per cent of businesses and account for between 50 and 60 per cent of employment.¹⁷⁷ These figures mask very considerable differences between developed and developing countries. In the latter, not only is the average firm size far smaller compared with that in developed countries and with TNCs in particular, but the predominant small firms are very small indeed. (See footnote 148.)

In India, small enterprises with less than five workers (technically micro-enterprises) account for 42 per cent of total employment, in Ghana 56 per cent, in Kenya 84 per cent, and in Indonesia 77 per cent, whereas in the United States firms employing less than 10 workers ac-

¹⁷⁷ The publication gives no definition of SMEs in terms of size.

count for 4 per cent of employed labour (Tybout 2000). In addition, a substantial proportion of the developing country labour force is employed in the non-corporate sector, that is, in informal urban and rural activities, including subsistence or semi-subsistence farming.¹⁷⁸ Such labour constitutes a large reserve army of unskilled, low-productivity labour that is forced to eke out a living no matter how poor the remuneration. The vast majority of the workforce in small and micro-enterprises and the so-called semi-subsistence economy are well beyond the direct reach of corporate initiatives under the Global Compact (Banuri and Spanger-Siegfried 2001; RING 2000). The type of institutional arrangements traditionally associated with unionization and collective bargaining and the ILO Conventions Nos. 87 and 98 are hardly relevant in these circumstances (Singh and Zammit 2000a).

Action by individual large and medium formal sector firms to improve core labour standards may achieve little in the short to medium term to reduce the gap between the relatively highly paid workers with a degree of job security and those in small-sized firms and the informal labour force, and hence will not reduce social tensions or lessen labour market distortions. To the extent that members of the same household or extended family may have work in both the formal and the informal sector and share their incomes, there may be some spill-over and averaging of incomes. But this does little or nothing to lessen the possible distorting effects on the labour market of higher formal sector labour standards, especially when economic growth rates are low.

Greater importance therefore needs to be attached to additional initiatives. The National Compacts developing under the aegis of the Global Compact could play a significant role in this respect by providing a forum for national dialogues among a wide range of actors (beyond the business sector) on how best to improve the terms and conditions of labour in the national context. Types of representation and

¹⁷⁸ The informal sector is “usually defined by negation” and deemed to comprise activities that lack legal status and are beyond the state’s purview (Dasgupta 2003). As such it is highly heterogeneous: some informal sector activities may be regular, some irregular, some survivalist, some productive and some criminal (ibid).

“voice” appropriate to broader sectors of the labour force need to be fostered, as do new ways of encouraging improvements in the terms and conditions of work in small and medium enterprises and in the “livelihood” (informal) sector (Banuri and Spanger-Siegfried 2001; Singh and Zammit 2000a; Dasgupta 2003). But equally, if not more importantly, developing country governments need to deal with distributional issues in a manner that advances labour standards and the country’s economic development in tandem (ILO 1999; ECLAC 2000).

All of this suggests that the decision of the Global Compact to devote more of its efforts to fostering and nurturing National Compacts is a welcome move. By bringing together different actors, among which nationals would likely predominate, it may be possible to forge alliances and “social compacts” that correspond to local circumstances and needs.

Foreign direct investment and developing countries

As mentioned earlier, the idea is now in vogue that businesses demonstrate CSR by undertaking FDI in developing countries. Indeed FDI seems to have assumed a prime place in the Global Compact agenda, rivalling the promotion of the Compact’s nine principles as the centre-piece of the Compact’s efforts. The main thrust of the 2002 Global Compact Policy Dialogue on Business and Sustainable Development was FDI, and working groups involving the UN, business and civil society representatives discussed how to “increase private investment and public-private partnerships that support sustainable development in the least developed countries; increase flows of private financing to sustainable development entrepreneurs; and improve internal company performance in and implementing (*sic*) the Global Compact’s nine principles.” (United Nations 2002b:144) At the 2002 meeting in Geneva of the Global Compact and Swiss Business that assembled a large number of representatives from the business sector, a considerable proportion of interventions from the floor focused on the benefits of FDI. FDI is in any case at the core of some UN-business partnerships that are intended to undertake specific tasks such as the provision of safe water.

The case for greater FDI has been built up in the UN in recent years and has become a major policy issue. The rationale is that the level of domestic savings in many developing countries has been low and hindered the process of capital accumulation and industrialization, and has made it difficult to invest in health, education, clean water and other basics. Not only has the level of domestic savings been low, but liberalization of capital flows has facilitated “capital flight”, that is, it has made it possible for whatever savings there are to leave the country. UNCTAD (1999) suggests that developing countries’ need for external finance has increased in recent years, as these countries have become more balance-of-payments constrained, due in part to the liberalization of trade and capital flows.¹⁷⁹ Business advocates of FDI refer to the organizational and managerial skills and new technology that it will bring to poorer countries. Thus, apart from encouraging Global Compact partners to invest in developing countries, specific UN-business partnerships are seen as vehicles to provide investment in infrastructure and public services that are usually unattractive to private

¹⁷⁹ International flows of private capital have increased enormously in recent decades, though the bulk of the increase has been between the rich OECD countries. Mergers and acquisitions accounted for an increasing proportion of these flows in recent years, until the investment bubble burst. Developed countries account for more than three quarters of global inflows. In the year 2000, the European Union, the United States and Japan accounted for 71 per cent of world inflows and 82 per cent of world outflows. In 1999 and 2000, while inflows to developing countries rose, their share of total inflows declined (UNCTAD 1999). These statistics portray very starkly the global misallocation of capital, if capital is supposed to flow to where it is most scarce and therefore brings higher returns. Over this period, the composition of flows to developing countries has changed, with an increasing share comprising private capital. This has encouraged those who see private capital as a complement to or even substitute for shrinking public flows. Capital flows to developing countries are, however, concentrated on the more developed economies among them or those with large and growing markets. To date, developing countries with little or no infrastructure, a small internal market, and an unskilled and unhealthy labour force have generally not been attractive to foreign investors, unless there are particularly remunerative resources to be extracted and high rents obtained. The 49 least developed countries received only 0.3 per cent of world inflows of FDI in 2000 (UNCTAD 2002c). See also South Centre (1999, 2002a).

capital.¹⁸⁰ Other benefits of FDI often referred to in discussions include integration into international marketing, distribution and production networks, improving the international competitiveness of local firms and the economic performance of host countries. Such arguments are advanced particularly by those companies likely to benefit from FDI and from UN-business partnerships. Yet, a considerable amount of academic work questions the validity of these claims. Much depends on the local policy and economic environment, and here one can only refer to some of the evidence that suggests a more circumspect position is required on the matter of FDI.

The argument for FDI as a preferred capital inflow is based on evidence regarding the volatile nature of short-term capital flows and the herd-like behaviour of portfolio investors. The conclusion drawn is that developing countries need “patient” long-term capital, that is, long-term loans and foreign direct investment. Thus Stiglitz argues the case that “the argument for foreign direct investment, for instance, is compelling. Such investment brings with it not only resources, but technology, access to markets, and (hopefully) valuable training, an improvement in human capital.” He goes on to say that “Foreign direct investment is not as volatile -- and therefore as disruptive -- as the short-term flows that can rush into and, just as precipitously, rush out.” (Stiglitz 2000)

In urging or seeking greater flows of FDI, the problems that such flows pose for macroeconomic management in developing countries are generally overlooked. It is common belief that FDI is a preferable form of foreign investment because it comprises “bricks and mortar”, cannot be quickly liquidated and entails longer-term commitment. It is therefore supposed that it does not lead to the sort of financial crises associated with portfolio and other short-term investments that

¹⁸⁰ There are also some who suggest that leading institutional investors should take on a “global responsibility” and elevate their aspirations beyond “business as usual” and make their investment markets more global by moving into emerging markets (Spina 2002).

have plagued developing countries in recent decades.¹⁸¹ However, there is considerable evidence that shows that FDI is also subject to volatility and cyclical behaviour.¹⁸² Surges in FDI can lead to over-valuation of the currency, causing current account disequilibrium and hence the need to devalue. Apart from generating financial instability, FDI flows may give rise to fluctuations in output and employment.

A further critical issue to be considered when assessing the impact of FDI on the economy in developing countries is its impact on the rate of domestic savings and investment. Studies show that FDI is not necessarily associated with a rise in total investment and that there is little relationship with the rate of savings (World Bank 2001; Agosin and Mayer (2000). Thus FDI does not necessarily boost the rate of growth or generate an increase in the level of domestically financed investment that could serve to diminish a country's dependence on FDI. A host country's efforts to develop its own industries may be jeopardized by inward FDI that "crowds out" local enterprises.

The Novartis Foundation for Sustainable Development (NFSDF), which is funded by the large pharmaceuticals firm Novartis and has development projects of its own, extols the virtues of FDI. It points to multinationals' positive contribution to the economic growth of devel-

¹⁸¹Developing countries' experience in recent years has shown them to be particularly vulnerable to acute financial crises as a result of the overly rapid opening up of the capital account, the deregulation of financial markets and the failure to introduce adequate prudential regulations and monitoring mechanisms (Eatwell 1997; South Centre 1997b, 1999, 2002a; Singh 2002a). In Mexico, Malaysia, Thailand, Indonesia, Argentina and elsewhere, financial crises related to private capital flows have often had severe economic and social repercussions, which often exacerbate social and ethnic tensions (Jomo 1998; Singh and Zammit 2000b; Cornia and Küski 2001; Oxfam America 2002).

¹⁸² The liberalization of financial markets and the development of new financial instruments such as derivatives, and the expansion of existing instruments such as hedging, have blurred the distinction between FDI and portfolio investment in terms of their volatility (South Centre 1997b, 1999, 2002a). Another reason why FDI flows may also be just as volatile as portfolio investment is that both profit remittances and retained profits of the subsidiary in the host country constitute part of FDI flows and these are highly volatile, particularly in times of economic crisis. See Singh (2002a) for a discussion of these issues.

oping countries through, among other things, their investments, products and services, primarily through providing access to modern technology and management know-how (e.g. research, development, marketing, finance) and employment and training in all areas, on all hierarchical levels (Novartis Foundation 2002).¹⁸³ The Foundation refers to comparative ILO surveys of social conditions, effects on employment, choice of technology and training by multinationals and local companies which are said to “paint a positive picture for multinationals – certainly in comparison with local companies”, a picture which it contrasts with the earlier “negative verdict” regarding the benefits of multinationals’ activities in developing countries based on a theoretical background “from the ideological left”.

There is, however, a vast literature from across the ideological spectrum on FDI and TNC presence in developing countries that points to potentially significant costs and risks - as well as benefits - or host developing countries (UNRISD 1995; South Centre 1997b; Singh 2001). Balance of payments problems, “crowding out”, transfer pricing, abuse of market power, labour issues and environmental effects are among the most significant negative impacts that may be associated with FDI. Moreover, in developing countries with limited local capabilities any benefits attached to inward FDI may only be static (UNCTAD 2002d:3).

Among the potential benefits of FDI that capture the most attention are those concerning skills and technology. Compared with local firms in developing countries, TNCs have the tangible and intangible assets needed to change the level of local skills, technologies and technical capacity. To a considerable extent, TNCs are the producers (through R&D) or the buyers (through mergers and acquisitions) of the new technologies on which competitiveness in the global market depends. They also control their technology through patents, and, to an increasing extent, technologies are only available through intra-company transfers. FDI by TNCs is therefore advocated as the main route by which to acquire technology, modern management and organizational methods, as well as access to markets. However, evidence sug-

¹⁸³ Some, including the ICC, refer to “multinationals” rather than the UN term “TNCs”.

gests that developing countries participating in international production networks are not involved in the skill- and technology-intensive parts of the overall production process. The “know-how and technology is kept within the TNCs themselves; they often enjoy monopolistic positions, as high costs of managing and coordinating such complex units constitute important barriers to entry into such sectors.” (UNCTAD 2002b:63) Moreover, there is considerable evidence that TNCs downgrade developing countries’ technical capacities when buying up local firms, as, for example, in Brazil where TNCs taking over local producers of parts for automobiles downgraded or closed the R&D facilities of these firms (Oxfam 2002).

Where labour-intensive segments of the production process can be separated from capital- and skill-intensive segments and located in low-wage areas, international production networks are organized on the basis of subcontracting, with the lead firm usually concentrating on R&D, design, finance, logistics and marketing, often with no involvement in production activities (UNCTAD 2002b). This arrangement leaves the local small and medium firms with the full burden of retrenchment in times of low world demand or economic crisis, or when TNCs change the source of supplies in response to cheaper supplies being available in other countries.

Linking up with TNC supply chains has, however, been a significant means for many developing countries to acquire technology and develop industrial capacities. Nevertheless, local enterprises need to be able to flourish independently of a relationship with a particular TNC, especially because investments and buyer/supplier relationships in international production networks are highly volatile. But to do this requires considerable skills and a clear strategy, something that is often best achieved through government measures to promote co-operation and competition between domestic firms.

General references to the employment-generating capacity of FDI in developing countries or to the potential foreign exchange earnings capacity often neglect to consider the net impact on employment. A slow-growing economy and slow structural change cannot provide

alternative high productivity jobs for any whose jobs were lost to the new incoming investment.

Rapid liberalization and deregulation around the world have spurred FDI by large corporations in resource-extractive industries, especially in developing countries. Large foreign corporations are often engaged in rapacious exploitation of resources under the dual pressures of international competition and profit maximization (Welford 2002; Martinez-Alier 2002). Many such investments provide little in the way of net foreign exchange earnings for governments, are often cost-cutting, and, using lower standards of environmental practice than at home, are destructive of the local environment, sometimes also fuelling social conflict (Utting 2002c; Martinez Alier 2002). In fact, the environmental needs of host developing countries often differ from those of the investor's home country and need to be considered in their own right. The South to North transfer of non-renewable resources is unlikely to be resolved by voluntary measures, no matter how well corporate practices are improved through voluntary codes of conduct, either in response to growing criticism from environmental and consumer activists, or in response to the Global Compact's advocacy of the principles concerning environmental standards. The poor terms on which these resources are traded and the gradual exhaustion of the South's resources, both affect the South's own capacity for sustainable development. The expanding "environmental footprint" of TNCs in developing countries, especially those involved in the exploration, mining and exporting or processing of natural resources, is therefore often inimical to these countries' development interests. A wholly different approach is therefore required if the South's interests are to be taken into account.

The above overview of findings regarding both micro and macro considerations concerning FDI puts in question the implied assumption underlying much of the advocacy of FDI that developing countries will always benefit from FDI and that these countries should accept all the FDI that they can attract or that is offered.¹⁸⁴ Rather, the evidence

¹⁸⁴ Free capital movements are more likely to lead to financial fragility in developing than developed countries as they are more subject to internal and external shocks.

suggests that developing country governments should concern themselves with both the kind of FDI and the amount they accept (Kregel 1996; South Centre 1997b, 1999; Singh 2002a).¹⁸⁵ Indeed, just as there is an optimum level of sustainable debt for any particular country, so too there is a mix and amount of FDI inflows and stocks which is optimal from the point of view of financial stability and hence economic development (South Centre 1997b). And, in many situations, if the maximum dynamic benefits are to be gained from FDI, conscious efforts are needed to ensure that FDI generates local capabilities.

A conclusion widely arrived at in studies on the transfer of technology is that developing countries are more likely to benefit from TNC investment if such investment is integrated into its national technological development plans (Dunning 1994, Milberg 1999; Singh 2002a).

Corporate social responsibility and foreign direct investment: Pulling in the same direction?

In addition to the possible destabilizing effects of FDI and to the fact that the ostensible benefits of FDI for developing countries are often exaggerated, it is important to appreciate that, in practice, there is a large measure of incongruity between actual business behaviour as regards FDI and the aspirations of the Global Compact principles.

Business decisions about whether and where to invest depend to a considerable extent on the local “business environment” -- the “situational analysis” undertaken by TNCs, taking into account both economic and political factors. The weight given to the different components depends on the particular production or services sector in which the business is involved and business’s own subjective judgements.

Among the objective factors to be taken into account are the classical ones, such as proximity to customers, sources of raw materials and transportation costs. And, nowadays, other important factors are

¹⁸⁵ For a country case study demonstrating this proposition see, Dommen and Dommen (1999).

the size of a host country market, expected growth, physical infrastructure, the presence of sectoral agglomerations and regional industrial clusters, the benefits of locating within a country or region bounded by tariff and non-tariff barriers, as well as input costs, including considerations regarding the quantity and quality or skills of the labour force.

TNCs also attach importance to the macroeconomic policy environment, such as fiscal discipline and openness to trade. Legal, financial and political frameworks and institutions deemed conducive to a good business environment are also considered important. For TNCs, these include the existence of a stock market and financial institutions that facilitate capital deepening and an independent central bank, though these policy and institutional desiderata are subjective views of what is good for the economy and for business, which are contested by some economists.¹⁸⁶ Indeed, there may be a clash between these and CSR measures as well as with developing country policy objectives.

Closer consideration of the issue of fiscal discipline, for example, reveals dichotomies and contradictions between TNC preferences and behaviour, and corporate responsibility ideals. Business regards fiscal discipline as conducive to a good business environment as it is considered that excessive government borrowing leading to fiscal deficits endangers price stability. Reducing budget deficits may involve a combination of expenditure reduction, privatization (to bring in revenues) and tax reform. TNCs, however, often contribute to budget deficits by virtue of benefiting from host country infrastructure and services provided by the government at cheap rates, while also benefiting from tax reductions or exemptions under generous investment incentive packages.¹⁸⁷ Moreover, TNCs are known for their expertise at transfer pric-

¹⁸⁶ See, for example, Singh (1999) on why stock markets are not necessarily good for poor developing countries.

¹⁸⁷ In order to create a policy environment attractive to foreign investors, Tanzania offers unrestricted repatriation of profits and capital, a very low royalty rate of 3 per cent, and other incentives such as waived import duties and tax exemptions. There is no local content requirement that stipulates procurement of local goods and services. In addition, 100 per cent foreign ownership is allowed, and guarantees are provided against nationalization and expropriation. Mali and Guinea, among others, have similar policies that foster inward in-

ing and creative accounting in order to shift profits to countries where the tax regime is most beneficial to them. Deprived of fiscal revenues, developing country governments are less able to make crucial improvements in social and infrastructure investments or afford maintenance and running costs that assure sustained development. Fiscal pressures are also one of the factors contributing to decisions to privatize public services, decisions from which TNCs often benefit rather than national firms.¹⁸⁸

Not only do TNCs generally seek to minimize their tax contribution, they also want a liberal capital account regime that gives them the freedom to repatriate earnings and make overseas dividend distributions. But such policies also give nationals greater freedom to transfer their savings abroad (capital flight) and thus deprive the government of revenues from wealth and other taxes if these exist and are effectively imposed.

Political and social factors also enter into the “risk” assessments undertaken by intending foreign investors.¹⁸⁹ The risk of policy rever-

vestment but do little to foster longer-term development objectives (Groupe de recherche sur les activités minières en Afrique (GRAMA) 2003).

¹⁸⁸ The *Human Development Report 2003* (UNDP 2003b) joins others in criticizing the dogmatic devotion to privatization, pointing to evidence that private sector provision of public services such as water has not served poor people at all well.

¹⁸⁹ The Economist Intelligence Unit’s *World Investment Prospects*, which provides an annual assessment of many countries’ business environment, includes 70 different indicators (something that might help explain the purchase price that excludes all but intending investors). See <http://www.economist.com/countries/index.cfm>. Political risk assessment is provided by the World Bank (World Bank Indicators: <http://info.worldbank.org>) which ranks countries according to corruption control, rule of law, regulatory quality, government effectiveness and political stability/no violence, and voice and accountability. See also the World Bank’s Country Policy and Institutional Assessment (CPIA) that assesses the quality of country’s present policies and institutional framework as seen by the World Bank country economists. PRS is among the private business institutions that provide country risk assessments: see their International Country Risk Guide Index (see <http://www.prsgroup.com/icrg/icrg.html>) that reflects the opinions of banks, TNCs and other institutional

sals that affect profits, profit repatriation and taxation policies means that TNCs take into account data on indices measuring government stability, socioeconomic conditions, internal conflict, military involvement in politics, religious and ethnic tensions, and law and order. The “quality of governance” is taken into consideration -- that is, how well a country is governed -- and the predictability of the business environment. For this, assessments are sought regarding the rule of law (the degree to which a country’s citizens are willing to grant the established national institutions the authority to make and implement laws and adjudicate disputes), corruption, the regulatory climate (the quality of rules, regulations and administrative procedures for enforcement), the institutional framework (sound political and judicial institutions, and the quality of the countries’ present policies), government effectiveness and the quality of the bureaucracy and its ability to carry out government policy. (The World Bank’s “governance” indicators also include “voice and accountability”).

It cannot be assumed, however, that countries that have low scores on these governance issues that reflect Northern ideas of what is good and proper will be shunned by foreign investors. In general, there is stated preference for countries providing evidence of policies of liberalization and privatization, and at least a genuflection in the direction of democracy and respect for human rights. Thus the bulk of global FDI, in terms of both flows and stocks, comprises investments by TNCs from one advanced democratic country to another, signaling a seeming preference for developed democracies. But, when considering emerging (developing) economies as host countries for FDI, other considerations weigh heavily. According to the chief economist of ABN Amro Bank, India, most studies find no link between democracy and FDI. Some, however, have found a U-shaped relationship, holding other things constant. In other words, FDI seems to like a fully-fledged system of guaranteed rights and freedoms, or none at all (Ranade 2002). For foreign investors, political stability counts for more than democracy: for example, the uncertainty associated with the potential for social unrest heralded by the 2002 electoral victory of Luis Ignacio Da Silva in Brazil prompted foreign investors to rid themselves of the

investors. Another source for assessing risk is the United States CIA (2002). See also Pigato (2001) and Judy (2002).

local currency and bonds. It also led to a drastic downward revision of FDI.

China provides the prime example: it has large markets, a high growth rate, current political stability and a degree of economic policy stability. But China's stability is achieved partly by political means that would be classed by many as undemocratic and that have neglected certain human rights. Moreover, its property rights are considered ill-defined. It is, however, the biggest recipient of FDI among developing countries. Resource-rich countries, too, attract FDI, irrespective of the type of governance and the fact that there is political instability and there is a "poor" policy environment (Pigato 2001).

Under the Global Compact, participants commit themselves to ensure that they support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses. Yet there is ample evidence that TNCs, especially those involved in outsourcing and supply chains or in resource extraction, do not do enough to ensure that they are not complicit in abuses.

The inclusion of corruption indices in risk assessments would suggest that investors might shun countries where corruption was found to be high. Yet in sub-Saharan Africa corruption has risen in countries where liberalization and privatization have taken place and where there is likely to have been foreign investment (Pigato 2001). As the saying goes, it takes "two to tango" and TNCs are often one of the partners. The example of bid-rigging through collusion between AES and Enron (two large US energy companies) in the 1998 privatization of Brazil's Eletropaulo Metropolitano, which was to have been the largest privatization ever in Latin America, deprived the Brazilian government of several hundred million dollars. Yet, in return for not bidding, Enron received handsome contracts in Brazil from AES (Sevastopulo 2003b).

Other evidence on the mismatch between foreign investor behaviour and what helps the poor is provided in a study that seeks to show to what extent different types of governance can be identified as pro-poor (Moore et al. 1999). This study assesses the efficiency of na-

tional policies, relative to one another, in converting a given volume of material resources (GNP per capita) into “human development” per citizen, in terms of life expectancy and educational levels. To rank countries according to “good governance”, the authors use the International Country Risk Guide, which consists of measures based on expert opinion on good governance and which, in fact, reflect the concerns of international investors and lenders (see footnote 189). The authors find that there “is strong evidence that ‘governance’ factors that matter to international investors and lenders are significantly different from those that relate to poverty”.

More broadly it can also be questioned how far TNCs are contributing to development or manifesting CSR when they downsize, change suppliers or relocate operations to countries where there are lower social and environmental standards (UNRISD 2000).

On matters of FDI and development, the study by Groupe de recherche sur les activités minières en Afrique (GRAMA 2003) on TNC investment in mining in Africa is highly poignant (see also *Mining Journal* 2003). In an effort to improve its understanding of investment decisions in developing countries, the World Bank undertook a survey 10 years ago of 80 mining companies. This revealed that, after mineral potential and existing infrastructure, the main investment criterion was a satisfactory legal and fiscal framework -- satisfactory, that is, to the companies concerned. Three generations of reform were analysed and the report concludes that these measures have “entailed a redefinition of the role of the state that is so profound that it has no historical precedent”. The report warns that the various reforms have the potential of “driving down standards in areas of critical importance for social and economic development, as well as in protection of the environment in the countries concerned.” It also questions whether a country that deregulates and liberalizes to be fully competitive and respect its obligations under the WTO can enforce environmental standards and pursue wider development strategies, including, for example, developing value-added processing of minerals and export/import restrictions to stimulate local activities. In this context, it is also doubtful whether voluntary acts of local community development or observance of certain labour standards would, in and of themselves, be sufficient to

override the detrimental impact of policy frameworks geared to suit the interests of foreign investors.

The above considerations make a powerful case for arguing that, instead of promoting the idea that FDI is an important means of achieving the Millennium Goals, the Global Compact and the UN more generally need to adopt a more circumspect attitude to FDI. Furthermore, the above suggests that a more development-oriented regulatory framework for FDI is required. Developing countries need to retain the right to choose the level and content of FDI and not be constrained to join multilateral arrangements that stipulate a right of entry for foreign investors.¹⁹⁰ Moreover, while the UN, including the Global Compact, can emphasize that it is as important for TNCs to pay taxes as to engage in CSR, the problem will only be resolved in this increasingly seamless world by introducing international rules regarding taxation of TNCs and other matters concerning corporate behaviour.¹⁹¹

¹⁹⁰ As, for example, the thwarted OECD Multilateral Agreement on Investment (MAI) -- a proposal that, for the time, is shelved. However, efforts are still being made by the EU to put similar proposals, though relating to FDI only, on the negotiating agenda of the WTO.

¹⁹¹ One new initiative launched in May 2003 by a group of 10 big investors led by ISIS Asset Management, the UK fund manager, involves a campaign to stamp out corruption in developing countries that depend on oil production and mining -- countries which are more likely to suffer from corruption, poverty, war and dictatorial government. These investors are calling for taxes, royalties, "sign-on" bonuses and other legal payments to be made public as part of the Extractive Industries Transparency Initiative, to which it is hoped that developing country governments will be persuaded to subscribe. Making such information public might also have the unintended effect of providing CSR protagonists and economists with data that would allow better assessment of the corporate contributions to the local economy, on the basis of which more precise and targeted criticisms could be made. Publish What You Pay (a coalition of non-government organizations led by George Soros, the billionaire financier and philanthropist) considers that a strictly voluntary approach will produce little result and argues that stronger measures are required, such as getting developed country stock market regulators to include transparency payments in companies' listing requirements (Gimbel 2003c).

The sort of policy framework that would optimize the role of FDI in developing countries is outlined in chapter 7, and chapter 9 describes some measures that could be adopted that might encourage TNCs to make greater efforts to act in a more responsible manner rather than just paying lip-service to the CSR idea.

The Global Compact: Compounding the advantages of TNCs

The varying capacity of different sized firms to take meaningful steps to engage in CSR (whether in relation to the Compact's principles or more widely) has potentially significant implications for developing countries. Among other things, it can affect the degree of concentration among firms in the domestic market, the level of competition, the ability of local firms to survive, and the complexity of macroeconomic management

In chapter 5 reference was made to a point made by Henderson (2001) that engaging in CSR beyond what is stipulated by the law would damage a company's competitive position in view of the costs involved, and competition would ensure that good "corporate citizens" were taken over by those whose profits had not been eroded by CSR actions (Henderson 2001). Yet, as mentioned earlier, much of the CSR literature in developed countries is now replete with statements asserting that CSR, promoting the Compact principles, and engaging as partners with the UN, give firms a competitive edge. IFC (2002), for example, suggests that "... sustainability factors could be used as one of the market differentiating factors to gain competitive advantage and leadership in this field." Leisinger (2002a:1) of Novartis Foundation is of the view that "... it is likely that a new form of competition is developing out of this as well -- between the large pharmaceutical companies, for example, treating their company-ethics profile as a new level of competition and putting a corresponding effort into it." If it is true that CSR can be successfully used as part of corporate strategy by TNCs to gain market share or ensure long-term competitiveness in the quest for profit maximization, there may well be detrimental consequences for developing countries. This subject is clearly one that merits serious study.

On the issue of competition, the World Bank Institute considers that competition itself influences the “soundness” of CSR by empowering customers, and encouraging new entry and the adoption of best practices.¹⁹² “Overall, open and competitive markets are powerful prerequisites for CSR, as well as poverty reduction. The weaker the governance climate in a country, more the justification for free entry and choice for citizens. Competition and citizen pressure (through choices) will force companies to behave more responsibly.” Such an argument is, however, highly contestable on a number of grounds, as clearly illustrated by the above discussion on FDI and development and by the specific instances of corporate behaviour. Moreover, economic and political circumstances in developing countries are not always conducive to civil society activism.

Notwithstanding the above, CSR has clearly become a factor increasingly taken into account, particularly by big businesses that are exposed to public and shareholder scrutiny, and whose reputation is worth considerable sums to shareholders. But whether globalization and fierce international competition give rise to increased emphasis on CSR as a competitive strategy, and in which parts of the triple bottom line there is evidence of real change in corporate practice, are matters that require investigation.

Whatever the case, competition from TNCs poses potentially serious problems for developing countries. While the main concern of TNCs may be to gain a greater competitive edge over their major global competitors, the greater economic strength derived from FDI and TNC mergers and acquisitions in developing countries often leads to a higher degree of market concentration and monopoly or oligopolistic power in the host country. TNC efforts to increase market share may well be at the expense of developing country firms and TNC expansion makes it increasingly difficult for developing country firms to exist as economically autonomous units. Mergers and acquisitions by TNCs that involve developing country firms not only assist TNCs in positioning themselves strategically in developing country markets but also pose serious policy issues for developing countries. Most will find it difficult

¹⁹² See <http://www.worldbank.org/wbi/corpgov/csr/eforum.html>

to prevent anti-competitive behaviour (restrictive practices, etc.) by TNC subsidiaries. Thus what is good for TNC market share and competitiveness is not necessarily in the short- or long-term interests of developing countries.

In some instances, CSR policies pose a potential threat to developing country SMEs. The latter often have limited financial and managerial capacity to transform their systems of production or to adhere to a range of different standards being pressed on them from outside. Demands that TNCs improve their CSR impose increasing pressures on developing country suppliers who cannot easily respond. The internalization of some Compact principles may not yield the other improvements in technology, management, and marketing that SMEs urgently need if they are to improve their business capacity. In effect this raises barriers to market entry for small and new suppliers from developing countries (UNCTAD 2002c). This point was recently made by none other than the chairman of the WBCSD who, in the context of the discussion on the global framework for the Global Reporting Initiative (relating to environmental sustainability) at the Johannesburg World Summit on Sustainable Development, expressed the view that the reporting requirements might cripple SMEs, especially smaller developing country companies that do not have the financial means to comply.

If more costly standards are to be introduced by suppliers in compliance with TNC demands without prejudicing SME interests, the obvious conclusion to be drawn is that TNCs themselves need to bear some of these costs. Some initial steps are being taken in this direction by a few North-based businesses, one example being the Co-operative Society in Britain.

Another point rarely considered is that SMEs and even larger developing country firms are not visible in the global market or in the heavy advertising intended to bring the reputational advantages and brand value that are highly valuable business assets. (Banuri and Spanger-Siegfried 2001). Developing country firms that supply famous brand name companies get no public recognition, nor do they receive long-term commitment from the TNC purchasing companies. Evi-

dence indicates that the latter switch suppliers in response to even small changes in relative costs, leaving previous suppliers in the lurch.

Developing country firms' own CSR initiatives tend to be eclipsed by the publicity given to TNCs' reputation for "good corporate citizenship" such as helping fund local schools or hospitals or providing scholarships, even while these corporations are extracting products at exploitative rates from supply chains to which they have no medium or long-term commitment. It is ironic, if not perverse, that developing country firms' efforts to ensure their workforce has adequate housing, health care and education tend to be considered as philanthropic, and brings them little national or international kudos. But, when undertaken by TNCs, whether under "partnerships" or otherwise, such actions are deemed to be good CSR practices and, as such, gild the company image and bolster share values.

One of the justifications for such local TNC efforts under the CSR insignia is that developing country governments are not always acting on behalf of all citizens when striking deals with TNCs, so the latter feel the need to strike their own bargains with the local community as a means of gaining a "social license" to operate. The Royal Dutch Shell Group, for example, states that it sees its role "not just as commercial operators, but as investors in communities, in people, in societies around the world." Since the late 1990s Shell has made what UNIDO (2002b:26) describes as "a serious commitment to sustainable development, which it sees as strategic to its business". UNIDO refers to Shell's sustainable development reports "that document the considerable efforts the company makes to help the local population and limit environmental damage", and relates that even Shell's harshest critics such as Human Rights Watch admit that "development spending by the oil companies has also brought schools, clinics, and other infrastructure to remote parts of the country that might otherwise be far more marginalized by the Nigerian Government." However, the extent of Shell's community commitment can be questioned: in June 2003 thousands of youths from two Nigerian communities demonstrated in protest against Shell Petroleum Development Company's failure to complete a road and bridge link joining the Udoni and Egbema communities of Rivers and Imo states -- the project had been promised two

years earlier and Shell had been drilling in the area for almost 30 years (Bassey 2003).¹⁹³

Even ostensibly positive local CSR initiatives attract criticism. A perhaps surprising proponent of the view that companies should get on with their principal business, rather than assume CSR type commitment, is Orono Douglas (2003), a Nigerian lawyer and human rights activist. His view is that Nigeria's interests would be better served if Americans were to encourage the government to fight corruption while pressing the oil companies to take care of business instead of undertaking community development projects.

Summing up

The above brief discussion of certain structural characteristics of developing country economies suggests that the Global Compact and UN-business partnerships are likely to make only marginal improvements, at best, in labour, environmental and human rights standards in developing countries. Also, as Reindorp of Oxfam International comments: "The private sector has a role in generating more equitable growth. But there is concern that these initiatives offer only a philanthropic icing, while core business remains unchanged. The challenge is to see companies genuinely practicing what they preach, not just creating a public relations (UN) 'blue-wash'." (quoted in Turner 2003) Moreover, consideration of the impact of FDI and M&As on the degree of competition suggests that these may have negative consequences for host economies and local firms.

¹⁹³ Royal Dutch Shell's partnership with the US Smithsonian Institution to assess the impact of its Gabon oilfield on the local natural habitat was the subject of a TV documentary broadcast in September 2003 by BBC World, a programme that provided a highly favourable overall impression of the company. However, other aspects of the company's behaviour get little such exposure, such as the fact that it was fined \$50 million by a Texas court in July 2003 for knowingly selling to a US energy company a leaking pipeline that polluted drinking water. Boxes of repair logs, environmental and other documents relating to the pipeline were found buried in the New Mexico desert (Hoyos 2003).

As Kemp (2001) concludes from her study of CSR in Indonesia, "It is pertinent to ask whether CSR and voluntary initiatives, which are largely Western led, comprise a diversion from the real issues of legislative reform and multilevel political and social development."

To achieve widespread development and improved social and environmental standards in the South would require giving far greater attention to ways of improving the productivity and terms and conditions of work of the bulk of the population who labour in SMEs, "self-employment" and informal work, and to ways of organizing such workers to gain representation of their interests. This would involve the UN's TNC partners in activities to promote the technological development and competitive power of developing country SMEs, something that can and often should be done independently of FDI, rather than as part of TNC expansion. However, judging by the report on the Global Compact's September 2002 high-level round-table on Growing Sustainable Business in the Least Developed Countries: Supporting Sustainable Entrepreneurship, these two aspects are considered by the UN's partners to be almost inseparable. The meeting was presented with a plan that would "commit partners to identifying...business opportunities in specific Least Developed Countries that would be sustainable and designed in ways to help grow local small and medium-sized businesses", a plan that was said to illustrate the development dimension of the Global Compact.¹⁹⁴ In the following 12 months companies were to "identify specific Least Development Countries that they will target for business development in partnership with other stakeholders and in line with the nine principles of the Global Compact." This suggests that the improvement of developing country SMEs is considered to be tied to, or as a *quid pro quo*, foreign investment by TNCs in the countries concerned.

¹⁹⁴ The round-table was part of the Global Compact's 2002 Policy Dialogue on Business and Sustainable Development. It was attended by six heads of state or government and six government ministers from North and South. In addition, representatives from almost 20 mainly large North-based TNCs and seven mainly North-based business associations attended, as well as representatives from seven different parts of the UN system and 10 NGOs, both national and international. (See <http://www.unglobalcompact.org/content/NewsEvents/NewsArchive/joroundtable.htm>.)

The deliberations of the UN Commission for Private Sector and Development, referred to earlier, are intended to focus on local business in developing countries and on removing “obstacles to budding entrepreneurs” in the developing world. Whether it will produce policy ideas that are capable of developing a strong local private sector and that bring about much-needed structural change, social development and poverty reduction remains to be seen.

Among the policies determining these outcomes, the most important are macroeconomic policy and industrial policy. These are explored in chapter 7 in the context of an overview of the policy interests of TNCs -- the UN’s main business partners.

VII. TNCs AS PARTNERS IN DEVELOPMENT: FACT OR FICTION?

Attention was drawn in chapter 5 to important factors relating to corporate governance that may set limits to the extent to which businesses pursue CSR and implement the Global Compact's principles. Chapter 6 discussed briefly some of the structural factors in developing countries that constrain the degree of improvement that could be achieved through initiatives such as the Global Compact and specific UN-business partnerships. It also referred to the possible implications for developing countries if CSR efforts by TNCs result in an enhancement of these corporations' competitive position. Here in chapter 7 the discussion focuses on TNCs (to date the principal international business "partners" in development) and on the "enabling international economic environment" that is needed if the Millennium Development Goals are to be quickly reached.

The challenge to business

The ICC (representing many thousands of businesses from over 130 countries) has few doubts regarding the role of business in development (contributing to economic growth, wealth creation, raising living standards, providing employment, protecting the environment, and the spread of technology) a role that it claims is acknowledged by the UN and the overwhelming majority of its member governments. (See, for example, ICC 2001a.)

It is clear from UN press releases, speeches and reports referring to the potential role of the private sector in development that the UN has mainly had TNCs in mind when considering partnerships. *A priori* they are likely to constitute the bulk of the UN's partners in development tasks, owing to their comparative advantage with respect to the required knowledge and skills for particular development tasks, their

financial resources and their experience in working abroad, and not least their lobbying power.

Unlike other firms, particularly developing country firms of whatever size, many TNCs have established a worldwide presence and image that, with the help of advertising, has made their names or logos global icons: Pfizer and Novartis (pharmaceuticals), Unilever, Nestlé and Coca-Cola (food and beverage giants), and Shell, BP, TotalfinaElf, Chevron-Texaco and Repsol (petroleum), Rio Tinto (mining), UBS (banking) and Nokia (information technology) are but a few (Klein 2001; Hertz 2001).¹⁹⁵ These companies, along with others that top the list of leading sectors in terms of company market value, are the “face” of the North that is most easily visible in the South and nowadays are particularly susceptible to scrutiny and criticism by an expanding range of NGOs.¹⁹⁶ Such brand name firms are particularly likely to engage in CSR if this will protect and enhance their image, and association with the UN forms part of their image management strategy and the engineering of consent (Richter 1998).¹⁹⁷ The image of those involved in

¹⁹⁵ Pfizer and Novartis are the first and fifth largest pharmaceutical companies worldwide and the fifth and twentieth largest corporations in the world in terms of market value (*Financial Times Global 500* 2003). Unilever, Nestlé and Coca-Cola are, respectively, 41st, 27th and 20th in the *Financial Times Global 500* ranking of the world's top companies. Most of these corporate giants are North-based: 240 of the *FT Global 500* are US companies (five times as many as Japan, the closest competitor). The US has 14 of the world's 20 most highly valued companies and 33 of the top 50. The UK ranks second in terms of market capitalization (market value rather than numbers of constituent firms). However, in the mining sector developing country firms are to be found among the top companies.

¹⁹⁶ The Tell Shell Forum on Shell's website has a posting which asks “How can multinationals not have blood money when all they do is bribe the dictators of Third World countries for their own greedy, soulless and merciless directors and shareholders?” As one commentator suggests, “Why does Shell choose to criticize itself if not to win points from the public. It discovered a while ago that it is better to attract fire to its own website than to be assaulted elsewhere” (Bowen 2003).

¹⁹⁷ Worldwide viewers of the BBC World News in 2002 cannot fail to have noticed the advertising by major TNCs in the financial and the petroleum sector emphasizing “partnership”. But the notion of partnership conveyed was

resource extraction, particularly oil, are particularly “at risk” due to the activism of consumers and environmentalists. Such firms have been among the most active in massive worldwide advertising that projects a socially responsible image, even if this publicity also attracts greater public scrutiny. It is therefore of little surprise to find Pfizer, Novartis, Unilever, Nestlé, Shell, BP, TotalfinaElf, and UBS among the Global Compact’s participants and partnering with one or other UN agency.

Brand names, goodwill and reputation are no small matter. These intangible assets together with patents and trademarks constitute a very significant part of companies’ market value. In 1998, around 71 per cent of the market value of the FTSE100 companies was said to be made up of these intangible values (that is, reputation, brand, strategic positions, alliances and knowledge).¹⁹⁸ A 2003 estimate was that intangibles represented 27 per cent of the value of the FTSE100 (Fuller 2003).¹⁹⁹ US\$68 billion of Coca-Cola’s market value of almost US\$ 101 billion in 2003, that is 68 per cent, was based on the value of its brand (Liu 2003). Environmental reputation can be worth a substantial proportion of company value: it was equal to around 9 per cent of the value of a company’s physical assets according to a study of the Standard & Poor 500 stock index (Co-operative Insurance Society/Forum for the Future 2002). Large firms and TNCs, more than others, therefore have much to gain by trying to be seen to “do good” through

fuzzy in the extreme. Some programmes on environmental or biodiversity issues broadcast by BBC World (sometimes with what presumably is meant to suggest a UN logo) appear to have received corporate sponsorship. The caption “global problems, local solutions” for one series of programmes no doubt strikes a sensible note. But these come at a time when there is a dearth of programmes that deal with the systemic or macro aspects of the development problems and that also assess the role of TNCs. In the absence of broad balance across programming, only the “caring” face of certain large corporations is on view to the public.

¹⁹⁸ A firm’s reputation affects a number of things crucial to its profitability, for example, a consumer’s decision whether or not to buy a product or service, who the company is able to recruit to work for it, and the degree of workers’ commitment and level of productivity among other things.

¹⁹⁹ The substantial drop in the market value of intangibles is partly accounted for by the decline in company reputations at a time of widespread scandals and by the demise of IT firms in particular as the investment bubble burst.

partnering with the UN, with a view to countering negative public images and to abate or pre-empt civil society activism. Ultimately, however, the value given to intangibles is determined by the assessments of financial market analysts and whoever or whatever else influences their views, including civil society activists (as well as the over-close relationship between analysts and investment bank that recently “talked up” share values).

Involvement in the UN through partnerships can be of strategic importance to TNCs in other ways. Participation in UN dialogues, major meetings and public policy networks provides them with opportunities to advance their business interests, whether through new investments, acquisitions consequent on privatizations, or PPPs in utilities, all of which can improve their competitive position. Partnerships involving the provision of products and services can provide direct access to new markets, and possibilities of increasing market share.

Broadly speaking, TNCs are likely to claim that the pursuit of corporate objectives is synonymous with promoting development and most would subscribe to the opinion expressed in the following quote:

No other institution, public or private, has the motivation, resources and the power to tackle global inequities as effectively as [multinational corporations ... These corporations] have a powerful self-interest...and a clear stake in the development of a harmonious and non-coercive world order. That multinationals have the ability to enhance the quality of life in the underdeveloped world is no longer debatable. The continuing transfer of capital, technology and managerial and entrepreneurial skills from the rich to the poorer countries has become the classic justification of global multinational activity. (A.W. Clausen, a former president of the World Bank and former chief executive officer of the Bank of America, cited in the speech made by the Representative of Singapore at the General Assembly (fifty-fifth session, 31 October 2000, Agenda item 173, Towards Global Partnerships, United Nations 2000c. No source reference given.)

However, it will be argued below that, under present circumstances, there is a basic contradiction involved in the UN partnering with TNCs if the aim is to achieve rapid economic and social development in the South.

TNCs: Protagonists and products of globalization

To better understand the significance of TNCs a few statistics speak volumes. UNCTAD (2003) reported around 64,000 TNCs with over 870,000 affiliates abroad. And UNCTAD (2002c) reported that, of the world's largest 100 non-financial firms (in terms of *foreign* assets), 90 per cent had their headquarters in the European Union, the United States and Japan.²⁰⁰ More than half of these largest firms were concentrated in a few industries: electrical and electronic equipment, motor vehicles, and petroleum exploration and distribution. Three developing country firms figured in the top 100: Hutchinson Whampoa (Hong Kong, China, diversified products) ranked 14th, Cemex, Mexico (non-metallic mineral products) ranked 76th, and Petroléos de Venezuela (petroleum exploration, refining and distribution) ranked 97th. (L.G. Electronics (Republic of Korea, electrical and electronics) ranked 92nd.) The top 50 developing country TNCs were concentrated in 13 industrializing countries in Asia and Latin America and in South Africa, and 33 of the 50 firms were concentrated in a very few sectors, namely petroleum (six) food and beverages (six), electrical and electronic (six), metal and metal products (three) while 12 firms had diversified output. The top 50 developing country non-financial TNCs roughly equate in size to the smallest of the North's top 100 TNCs.

It is also relevant to point out that 29 of the world's top economic entities, in terms of value-added, were TNCs. To put this in context, this means that ExxonMobil, which is number 45 on the list,

²⁰⁰ Financial firms are not included in the UNCTAD listings of TNCs "because of the different functions of assets of financial and non-financial firms and the unavailability of relevant data for the former." (UNCTAD 2001:119)

ranks just below Chile and slightly ahead of Pakistan, and BT, the hundredth, was level with Syria (UNCTAD, 2002c: Box IV.1).²⁰¹

Mooney (1999) provides other indicators of TNCs' economic power: at the end of the twentieth century the world's top 200 corporations accounted for 28 per cent of global economic activity: the top 500 accounted for 70 per cent of world trade, and the top 1,000 companies accounted for more than 80 per cent of the world's industrial output. In terms of employment, however, TNCs accounted directly for only 3 to 4 per cent of world employment, though, through supply chains, they were indirectly responsible for perhaps considerably more (UNRISD 1995).

One of the important features of the recent closer integration of the world economy and growth in world trade is the shift from international production and trading to *integrated* international production, as the links between domestic and transnational firms of whatever size increase and intensify. Under the aegis of TNCs, international production networks have developed involving the separation and location of activities in different sites, such that many more firms and industries are becoming interdependent and involved in "production sharing" (Kozul-Wright 1995; UNCTAD 2002b).²⁰²

TNCs seek to maximize their profits by selecting production locations that combine high labour productivity and relatively low wage and infrastructure costs, as well as other more political considerations referred to in the preceding chapter. TNCs involved in resource explo-

²⁰¹ Mainly as a result of M&As, in the year 2000 the foreign assets of the 100 largest TNCs increased by 20 per cent and the volume of sales by 15 per cent (UNCTAD 2002c:xv). The subsequent bursting of the investment bubble and deflated asset values as a result of major business scandals may well have put such growth into reverse. Global FDI inflows (especially into rich countries) are expected to have experienced a 27 per cent decline in 2002, after the collapse of world cross-border mergers and acquisitions (Williams 2002).

²⁰² These international production networks are largely concentrated in labour-intensive industries such as clothing and footwear industries, or comprise labour-intensive segments of otherwise technologically complex production processes, in for example electronics and the automotive industry.

ration and extraction by definition have at least parts of their operations in places where the natural resources are to be found, though the further processing will take place according to transports costs, relative costs, skills, and the taxation advantages of other locations, though, for some strategic products, security considerations also play a role.

The great majority of TNCs, however, are not yet in the category of those such as Unilever, who pursue a global strategy. Though their main focus is on their domestic market, their overseas operations overseas and considerable intra-firm trade suggest that their short-term policy interests are likely to be similar to those of the larger TNCs.

TNCs, partnerships and the economic policy regime

What businesses need in order to promote foreign investment are market access and high standards of investor protection. Yet negotiators in Geneva have taken market access off the table to respect national sovereignty. Further they will not discuss such time-honoured protection standards as direct and indirect expropriation, have omitted protection of transfers of profits and capital and have excised any possibility of investor-state dispute settlement procedures.

Some developing countries are demanding a high price for even the watered-down agenda that seems to be emerging, including requirements for global companies to transfer technology, exceptions for balance of payments (even though no transfer will exist) and home governments' responsibilities to refrain from policies that are adverse to the host country (whatever those may be). (Thomas M.T. Niles, President, United States Council for International Business. Excerpt from letter "What businesses need in trade negotiations" to the *Financial Times*, 5 August 2003.)

The UN report on Business and Development states that, while governments are responsible for a transparent and regulatory framework,

there is a clearly expressed demand for good corporate citizenship, for private sector corporations to voluntarily enforce corporate accountability, and to engage in the development process as reliable and consistent partners. The report also reiterates the injunction of the Johannesburg Declaration and the Monterrey Consensus that business should “take into account not only the economic and financial, but also the developmental, social, gender and environmental implications of their undertakings”. Attention is also drawn to the fact that “national government and business efforts need to be supported by an enabling international economic environment.” In addition to factors such as improved market access, debt relief, increased flows of development assistance, non-volatile private capital flows, especially in the form of FDI, and access to and transfer of knowledge and technology, the report stresses the importance of a “universal, rule-based, open, non-discriminatory and equitable multilateral trading system”, as well as “meaningful trade liberalization”. It also states that it is important to resolve “issues of particular concern to developing countries and countries with economies in transition.”(United Nations 2002f:5)²⁰³

In the previous chapter it was argued that CSR actions and FDI that increase the investing corporation’s competitiveness and enhance its market share are not necessarily compatible with the developing country goals of building up their own industrial capacity of developing their domestic markets.²⁰⁴ More generally, TNC interests are not neces-

²⁰³ This report is the Secretary-General’s follow-up report to the fifty-seventh session of the UN General Assembly on the continuing implementation of resolution 54/204 of 22 December 1999 on business and development. This report was preceded by another on the same subject to the fifty-sixth session of the General Assembly (A/56/442).

²⁰⁴ Novartis Foundation (2002) points to a number of possible conflicts of interest between corporate objectives and developing country interests. For example, “repatriation of profits to the parent company is in most cases essential in order to contribute to overhead costs incurred at headquarters (e.g. for research and development) as well as to corporate profits as repayment for financial risks. Host countries often consider this a regrettable drain on limited foreign exchange and a burden on the balance of payments.” While there is some truth in this statement, this and similar statements from pharmaceutical companies and others should not be taken at face value: a considerable amount of “creative accounting” in undertaken in order to shift profits to the parent

sarily compatible with the longer-term interests of developing country firms, including those involved in international production networks.

In what follows, the focus is on the “enabling international economic environment” that is needed if economic and social progress are to be achieved in developing countries. One target of Millennium Goal 8 (Develop a global partnership for development) is of particular relevance here. As summarized in UNDP (2003b:2), it reads, “Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (including a commitment to good governance, development, and poverty reduction -- both nationally and internationally).”²⁰⁵ Yet, this idea that the open rule-based trading and financial system should be *further* developed presents a serious dilemma in the context of UN partnerships to achieve the Millennium Development Goals. Indeed, many economists and policy makers would argue that it is the present global economic policy regime that is at the root of many problems experienced by developing countries.

The corporate objectives of TNCs in particular have their counterpart in a clear policy agenda, hence business interests cannot be considered a neutral actor in the world policy arena, whether in the UN or other multilateral bodies, as has been apparent in recent years in the case of the pharmaceuticals industry. This fact needs to be explicitly recognized in any assessment of UN-business partnerships, in part because such partnerships may themselves be vehicles for attaining TNC objectives that are incompatible with developing country interests.

One can question the appropriateness of the UN partnering with the ICC. Following a long period of hostility between the UN and the business sector, referred to earlier, top-level UN personnel and the ICC agreed on 9 February 1998 to “forge a close global partnership to se-

company and wherever it is most convenient for those profits to accumulate, bearing in mind tax regimes.

²⁰⁵ The specified actions to help meet Goal 8, that addresses the least developed countries’ special needs, include “projects in the field of targeted research to better understand the problem, further projects on good governance and the rule of law, job creation projects for the youth, affordable access to essential drugs, access to information and communications technologies, etc.”

cure greater business input into the world's economic decision making and boost the private sector in the least developed countries.” (Corporate Europe Observatory n/d a). While it is unlikely that there exists a complete identity of short- and long-term interests between all large and small businesses or between firms in advanced industrial or developing countries, the ICC nevertheless claims to speak on behalf of all. There can be little doubt, however, that ICC's general policy objectives reflect the interests of much of big business, particularly TNCs.

This new phase in ICC-UN relations identified two main areas of co-operation: first, “establishing an effective regulatory framework for globalization, including investment, capital markets, competition, intellectual property rights and trade facilitation”; and second, “raising the productive potential of the least developed countries by building up the private sector and encouraging inward foreign investment.” (International Chamber of Commerce 2001b) One ICC partnership with UNCTAD involves producing a series of guidelines to assist least developed countries in attracting private investment.²⁰⁶ In this work, large companies are to assist “in the identification of past practices and optimal conditions to create a favourable investment climate for FDI.” However, the resulting work does not consider sufficiently those aspects of a regulatory framework for FDI that would help developing countries select the kind of FDI and the level of FDI appropriate to their circumstances. The ICC is also involved in UNCTAD's work to help developing countries formulate competition policy, which is another area where short-term corporate policy interests are far from

²⁰⁶ Since the decision to shut down the UN Centre on Transnational Corporations (UNCTC), UNCTAD has acted as the UN focal point for work on TNCs. ICC and UNCTAD have been engaged in joint work to help six least developed countries (Bangladesh, Ethiopia, Madagascar, Mali, Mozambique and Uganda) “to become better known and more attractive to foreign investment, including by providing assistance to investment promotion agencies and government officials who are responsible for investment policy.” Another partnership, GSDF, involving UNDP and several major corporations, was formed with the aim “to eradicate poverty, create sustainable economic growth and allow the private sector to prosper” by the “inclusion of two billion new people in the global market economy” by 2020. Following criticism from a coalition of NGOs, the plan was dropped.

identical with those of developing countries. Partnerships such as this clearly provide business with a direct means of influencing developing country policy makers and even prejudicing later multilateral negotiations on such matters.

ICC president Helmut Maucher (1997) stated that “We want neither to be the secret girlfriend of the WTO nor should the ICC have to enter the World Trade Organization through the servants’ entrance.” In 1998 he urged “Broader efforts should now follow in order to foster rules-based freedom for business, with the WTO assuming a key role” (Maucher 1998). To have global rules enshrined in WTO agreements is crucial to business, for, once there, they become international commitments subject to conditionality and ratchet upwards the level of international obligations.

The broad stance of business can be ascertained from other statements by the ICC for whom the “growing globaphobia and rising criticism of multinational business pose a special challenge to ICC”. Following the failure of the WTO Seattle meeting, the ICC stated its paramount strategic objective to be “restoring the momentum of trade liberalization.” (Corporate Europe Observatory 2000) In its efforts to keep “globaphobia” at bay, the ICC regards the Global Compact as a tool to dilute any regulatory threat to free trade and unfettered capital movements, and it banks on the UN Secretary-General to stand by his commitment to keep markets open.

Kozul-Wright (1995), in discussing the increasing interdependence of firms and countries consequent on the increased spread and influence of TNCs, argues that the increased links between more locations of varying efficiency and income levels has generated pressures for conformity in a wide range of economic policy measures that until recently had been determined by national governments. He suggests that these policy pressures are likely to “impose considerable convergence costs on some countries and regions” (p. 159) and concludes that “there is no reason to assume that TNCs, any more than free international trade, will by themselves remove inequalities between and within regions.

TNCs in particular have strong interests in promoting a liberal capital account regime to allow free flows of investment, profits and other payments, a liberal investment regime and a restrictive intellectual property rights regime. Moreover, TNCs in the production sector will be as concerned as large financial firms to press for liberalizing trade in financial services in order to be able to rely on a global network of banking and financial services. In order to further corporate objectives including that of increasing market share, big business (both financial and non-financial firms) has exerted pressure on governments in advanced industrial countries to push for an international regime of free trade in products and services, unfettered capital movements, restrictive trade-related investment measures (TRIMs) and a strengthening of the intellectual property rights regime.

The ICC has long advocated the liberalization of international capital flows. Its contribution to Proposals from Business on Strengthening Financing for Development (presented at the UN International Conference on Financing for Development, Monterrey, Mexico, in 2001) asserted the need for free capital movements “in the interests of promoting world trade, cross-border direct investment, and allocation of capital to its most productive uses. Much progress has been made in that direction in the past decade as a result of technological progress and policy reform at both national and international levels -- developments which have spurred the advance of globalization” (Business Interlocutors 2001).²⁰⁷ Despite the devastating financial and economic crisis in Asia due to the increasingly free flows of capital and the relaxation of the IMF’s position on capital account liberalization (see below), the ICC has maintained its position:

“It would be a grave mistake to use the current financial crisis affecting emerging markets as an argument against the liberalization of international capital movements and in favour of controls on capital inflows...it is in the clear interest of emerging markets to avoid measures that deter the expansion of foreign direct investment and that risk jeop-

²⁰⁷ A notable and perverse characteristic of international capital flows, including FDI, is that the bulk flows between the advanced industrial countries, and not to the countries where it is most needed.

ardizing a mutually beneficial long-term partnership. ... In the current financial crisis, the emerging markets most directly affected also need the restoration of inflows of shorter-term private finance for funding sound and profitable commercial ventures, and for financing trade transactions which will be an essential element in their economic recovery.” (see Business Interlocutors 2001: Annex P on capital control and hot money)²⁰⁸

The policy interests and influence of TNCs are also well illustrated in relation to OECD efforts between 1995 and 1998 to establish a “seamless world” with respect to FDI (defined as including intangible as well as tangible assets). The OECD’s aim was to establish a Multilateral Agreement on Investment (MAI) that, among other things, would enshrine the right of entry and of national treatment to all intending foreign investment. While partly presented as efforts to rationalize the multiplicity of existing bilateral agreements, it would have broken new ground. An important early input into the process was a 1996 ICC publication, *Multilateral Rules for Investment*, and the ICC was among the corporate lobby groups that worked closely with the Business and Industry Advisory Council Group, a formal consultative body to the OECD. The MAI protagonists hoped that the agreement would attract countries beyond the OECD. But more importantly, the intention was to “multilateralize” the initiative through the WTO.²⁰⁹ In actively lobbying developing country governments to support this idea, the ICC Secretary-General Livanos Cattai claimed “If ever there was a piece of international legislation that is in the interests of the developing world, it

²⁰⁸ The UN-sanctioned Business Interlocutors to the ICFD Monterrey Conference comprised the ICC, Business Council for the United Nations (USA), Money Matters Institute, Renaissance Strategy, Samuel Associates and World Economic Forum. In addition to the comments of the above business organizations on the Monterrey Consensus, the document includes a proposal by George Soros to increase significantly resources for development assistance and global public goods.

²⁰⁹ The MAI agreement was aborted, due to internal differences and to public criticism.

is a comprehensive and uniform agreement to govern foreign direct investment.” (see Corporate Europe Observatory n/d b)²¹⁰

Another field in which the ICC has been active concerns the international financial architecture. One of the issues on which it presented its case at the Monterrey Conference was the “Tobin tax”, which some advocate as a mechanism to lessen flows of hot money and raise new finance for the UN and public goods. Speaking as “the only representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world” the ICC’s view was that “it would not be feasible to implement a Tobin tax. And even if it were feasible, such a tax would neither significantly prevent speculative attacks on currencies nor increase national economic autonomy. The tax would throw sand in the wheels of international trade and investment” and would be harmful to “economic growth and welfare and businesses throughout the world.” (Business Interlocutors 2001: Annex Q on the “Tobin tax” -- a business viewpoint.) It did, however, express

²¹⁰ While Europe in particular has been more intent on pursuing the idea of a multilateral agreement on investment through the WTO, though one based on the elective principle adopted in the General Agreement on Trade in Services, the United States has been pressing its own policies on capital flows by including restrictions on capital controls in bilateral trade agreements, such as those with Chile and Singapore. However, these were not agreed to easily: the Singapore ambassador to the US is reported as saying that “The enormous economic power of the United States was put in service of an ideology and some economic interests and Singapore assented” (Alden 2003). Chile and Singapore had rules to stem damaging outflows of “hot money”, but the bilateral agreements will largely prevent their use in an economic crisis. Even so, US financial companies were critical of these deals, arguing that they were too restrictive of capital movements and that these agreements should not set a precedent. More generally, recent experience has shown that the United States has been able to include long-sought-after policies into bilateral agreements, with stringent conditions attached, that they were otherwise unable to obtain via multilateral negotiations in the WTO. Negotiating individually or in small blocs, developing countries have much less bargaining power than if they work together collectively to achieve multilateral agreements in areas of concern to them (Fred L. Smith Jr., President, Competitive Enterprise Institute, letter to the *Financial Times* “Developing world’s moral voice absent in bilateral agreements”, 4 August 2003).

support for the vague statement in the draft conference declaration that was eventually agreed by member states, namely that “We agree to study in the appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance...” (United Nations 2002e).

These central TNC policy interests have constituted the main thrust of the North’s global policy initiatives in recent decades, first through the stabilization and adjustment policies with their attached conditionalities promoted by the Bretton Woods institutions, and then locked into international commitments in the Uruguay Round Agreements on trade- and trade-related matters, under which cross-sanctions can be imposed in cases of proven infringement of rules.²¹¹ The Uruguay Round Agreements strengthened certain rights which *de facto* are rights available mainly to large companies (intellectual property rights), and diminished the potential competitive threat posed by developing country firms by prohibiting policy measures previously used by both advanced countries and newly industrialized countries to promote growth and development of their economies and firms. In effect the Uruguay Round established a global “level playing field” for firms and countries worldwide, irrespective of size and level of development.

TNCs: A power unto themselves

The above overview of TNC policy interests suggests that big business seeks maximum latitude to pursue its own interests in the global economy and is concerned to ensure that the economic ideology it espouses is embedded in a multilaterally negotiated policy regime that, in most respects, establishes standard policies for all. However, this kind of level playing field limits the room for policy manoeuvre needed by developing countries. It is therefore a matter of some considerable importance to ascertain whose interests generally prevail

²¹¹ For reasons of cost, lack of expertise and other reasons, it is much more difficult for developing countries to take developed countries to the WTO Dispute Settlement Mechanism.

The data ranking both countries and businesses by the criterion of value-added indicate that many corporations have massive economic power. Whether this is growing or declining is in dispute; some argue that liberalization has led to a decline in the economic power of corporations, citing evidence that there is no increase in the concentration ratio -- the indicator of capacity to make monopoly profits, or it is argued that, over the past 20 years, the world's biggest firms have grown more slowly than the world economy as a whole (Wolf 2002; Mickelthwaite and Wooldridge 2003). Whatever the case, the very considerable economic power of some TNCs compared with that of many developing countries and their large firms is undeniable. The flexibility that TNCs have to change or move their assets gives them enormous leverage, particularly over small states. For smaller countries and weak states, bargaining with multinationals can be likened to "playing poker with an opponent who can freely exchange cards, while they are stuck with the same hand" (Lekkerkerk 2003 in response to Mickelthwaite and Wooldridge 2003).

While in theory governments wield ultimate political power, in practice they are constrained by the multilateral agreements to which they are party, willingly or otherwise. However, the negotiations that lead to such agreements are often only multilateral in a formal sense in that the bargaining power of the respective negotiating "partners" is far from equal. In the WTO in particular, the developing countries are "rule-takers" rather than "rule-makers". Much needs to be done to reform the governance and procedures of this institution and to strengthen the negotiating capacity of developing countries in order to introduce some semblance of parity in the process (South Centre 1998a; Narlikar 2001; Fatoumata and Kwa 2003). In general, in the sphere of international economic relations and economic policy, the advanced industrial countries exert excessive influence, by virtue of their economic power and greater organizing and co-ordinating capacity, through a number of institutions at their disposal -- OECD, G7/G8, EU Commission (not to mention the World Bank and the IMF), among others.

The openness of economic borders under liberalization has to some extent diminished the regulatory or coercive power of many indi-

vidual states, while in many parts of the developing world states have been even further weakened in recent decades. They are bereft of the resources necessary to carry out basic administrative and security functions, let alone provide the basic infrastructure, services and social investment necessary for development and a thriving and healthy society. The reasons are manifold: poor revenue collecting capacity (owing to a poorly funded administration); the low taxable base of the broad population; the abolition of import and export taxes (under the new international trade regime); competitive tax incentives (i.e., “tax holidays” and other benefits) to attract foreign investors; and the ability of the business sector, particularly multinational companies, to engage in transfer pricing and other methods of juggling profits so as to reduce their total tax burden; as well as outright tax avoidance.²¹² Weak states do not have the capacity to define clearly and to defend their own national policy interests, either in dealings with donors, the increasingly powerful domestic and foreign-owned business sector, or in the multilateral arena (UNRISD 2000).

Since the UN’s inception, member states have found it increasingly necessary to engage in multilateral discussions and negotiations on a widening range of issues, providing the framework for increasing trade and industry. Individuals from the business sector and business organizations have long been involved in standard setting within the UN on a variety of matters. What on the surface often appear to be purely technical issues are, on closer examination, matters that have serious policy implications. From a developing country perspective, standard-setting is often a highly contentious matter as many developing countries often do not have sufficient expertise to make the necessary input on the matters under discussion (as, for example, Codex Alimentarius or sanitary and phytosanitary standards) and yet the resulting standards and rules can in effect operate as non-tariff barriers to their trade (Zarrilli, 1999).²¹³

²¹² A prime example of corporations’ ability to contrive to pay minimum or zero taxes is that of mining companies in Chile (Riesco forthcoming).

²¹³ The Codex Alimentarius is a joint FAO/WHO body on food safety and quality standards. While comprising experts, critics point out that many of the members have close ties with the food and related industries.

Individual firms and national business organizations engage in both open and more covert forms of lobbying to achieve the sort of policy framework that best suits their interests.²¹⁴ In some countries, the lobbying power of corporations is assisted by a system that permits electoral funding by business. Corruption, often under the guise of “legitimate business expenses”, helps in other situations.

Other means by which large corporations exercise political pressure include widespread “intimate” relations between government and business, involving not only influence but also an interchange of personnel. These close connections are also manifested in the context of multilateral negotiations. At the 2002 Johannesburg World Summit on Sustainable Development, leaders of big business formed part of the British delegation led by Prime Minister Blair. Thames Water and Rio Tinto Zinc (the world’s largest mining company), both of which have “dubious green credentials” were on the delegation (Vidal and White 2002). The environmental minister, who described himself as “a lone voice in the wilderness”, was only included in the delegation after last minute haggling. Though the business leaders had to pay their way, the price comes cheap when one considers the lobbying opportunities available at a gathering that was to spawn a considerable number of PPPs.²¹⁵

The borders between government and business are often highly porous: government appointments are given to people from the highest echelons in business, thus introducing “an understanding” of business

²¹⁴ It is not always easy to establish the membership of lobbying coalitions in the US. Owing to a loophole in the US federal lobbying law, companies and individuals, especially those pursuing controversial or especially embarrassing causes, can use coalitions to conceal their identities and avoid the disclosure requirements. In some cases, for example on business tax issues, all but four of the 28 lobbying groups were represented by what, until recently, were the “big five” (global) accounting firms such as now defunct Arthur Andersen or PricewaterhouseCoopers until it sold its tax lobbying arm (Mitchell 2002a, 2002b).

²¹⁵ Thames Water is a privatized water supplier that has an interest in buying up newly privatized water facilities abroad, including in developing countries (see Watkins 2002b).

needs directly into policy formulation. Similarly, previously high-ranking members of government or the civil service who become directors, advisors or top employees in private sector firms bring with them information and contacts of immense benefit to large firms. Intimacy between business and government is far from being just the “Asian way of doing business”: crony capitalism is found in most if not all advanced industrial countries (Institute of Policy Studies 2002). The Carlyle Group in the United States, a private equity firm that manages billions of US dollars, including some Bin Laden family wealth at one point, is built to a considerable degree on cronyism and brings together industry, government and the military at the highest levels. Regarded as possibly the investment firm with the world’s best political connections, George W. Bush, former statesmen such as James Baker (secretary of state in the Bush Senior administration), and Frank Carlucci (Ronald Reagan’s defence secretary) are involved in the group and former UK prime minister John Major oversees its European operations (*The Economist* 2003; Spiegel and Smith 2003).²¹⁶

Since crucial dimensions of economic policy have been increasingly decided at the international level through multilateral negotiations, pressure from business organizations and sectoral lobbies in multilateral bodies has become far more intense. The ICC, a permanent lobbying organization for business in different UN bodies, has referred to itself as “a vector for business input into the WTO” (Corporate Europe Observatory n/d b). In 1998 the president of the ICC made it clear that business had extended its sights in terms of what it wanted from the UN: “As trade and markets become global, and many problems can no longer be solved at a national level, we need effective decision making and institutions; and we need a meaningful international policy dialogue involving business.” (United Nations 1998c)

Oxfam (2002:228) cites the role of the United States Coalition of Service Industries (CSI) in bringing private commercial interests onto the multilateral trade agenda, despite the objections of developing countries. WTO Director of the Services Division, David Hartridge, is

²¹⁶ The investment activities of this group have recently been the cause of considerable consternation in Europe where it has been on a purchasing spree for armaments and defence research companies.

quoted as saying “Without the enormous pressure generated by the American financial services sector, particularly companies like American Express and Citicorp, there would have been no services agreement.”²¹⁷

Not only do big business lobbies pressure their governments to promote at international level the broad policy approaches that reflect their commercial interests, country delegations negotiating in Geneva, for example, sometimes also include industry representatives. In the case of the negotiations on trade-related intellectual property rights (TRIPs), 12 CEOs of US pharmaceutical firms were involved in drafting the negotiating text presented by advanced industrial countries (Sell 1999).²¹⁸

Concerted action of this sort by powerful private collective interests generates unbalanced political outcomes. The matter is sufficiently serious to have prompted Supachai Panitchpakdi, just before assuming his post as Director-General of the WTO in 2002, to express his intention of trying to introduce rules to prevent lobbying by multinational companies aimed at influencing the world trading system. He cited the WTO intellectual property agreement (which slowed developing country access to affordable drugs), as one example of powerful

²¹⁷ In 1982, the CSI was formed by American Express, Citicorp and other financial conglomerates, with a view to enlarge overseas markets for US services by working to get a standard set of global binding rules agreed as part of the Uruguay Round negotiations. The services sector in the United State wields powerful influence, as there is a positive balance on trade in services in contrast to the large deficit in trade in goods. The CSI has intimate links with the US government, and has been headed by a former US assistant treasury secretary. It exercises considerable influence over US government policy and over the international negotiating agenda, as the United States is the world's largest exporter of services (Oxfam 2002:228, Box 8.1).

²¹⁸ Actions taken by business in defense of its interests sometimes extend well beyond efforts to influence policy debates and negotiations: at times, the pressure is tantamount to blackmail, as happened when 39 global pharmaceutical companies backed a legal suit against the South African government in efforts to pressure it into dealing with the AIDS crisis in a manner that complied with the international pharmaceutical industry's own interpretation of the TRIPs agreement (*South Letter* 2001a). (The case was withdrawn in April 2001.)

business interests overriding those of poor countries (Mathiason 2002).²¹⁹ However, once in post, this statement was retracted, Supachai explaining that he had not made himself fully clear on the matter and that there was no intention to try to regulate lobbying by business.

The tense and drawn-out negotiations on TRIPs resulted in a final agreement that has meant different things to different sets of interests. Developing countries considered that paragraph 4 of the Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights relating to public health adopted by the WTO Fourth Ministerial Meeting in Doha (9–14 November 2001) took care of their concerns, when it stated that the agreement should be implemented in a manner supportive of members' right to protect public health and, in particular, to promote access to medicines for all, and when it agreed that countries could override patent rules and license local producers to copy essential drugs. This paragraph was heralded by the UN as an indication of the changing attitudes of business and of the latter's recognition that ensuring that globalization becomes a positive force for all the world's peoples is in the long-term interest of the business sector itself (United Nations 2002f:8). However, the agreement did not spell out in detail how developing countries with no manufacturing capacity would be able to obtain the medicines, causing major pharmaceutical producers to object that developing country generics manufacturers in Brazil and India would reap the benefit at their expense (Denny 2003; Sulston 2003). This caused the US government (influenced by the pharmaceutical lobby) to continue to block an agreement at the WTO

²¹⁹ PHARMA, the pharmaceutical manufacturers association, is an extremely powerful lobby in the WHO and WTO. Pharmaceutical industry TNCs exerted strong pressure to ensure that the Uruguay Round Agreement on Intellectual Property Rights (TRIPs) reflected their particular concerns (Supachai 2002). In addition, in the debate relating to the review of article 27.3b (biodiversity provision) of the WTO TRIPs Agreement, the ICC's position papers (drafted by the chairman of ICI India, in the chemicals and pharmaceuticals industry), stated that if a conflict were found between TRIPs (which gives weight to the rights of corporations) and the Convention on Biodiversity (which stipulates that local communities should benefit from the use of genetic resources), the ICC "will argue strongly against the weakening of the existing provision of TRIPs."

that would lift restrictions on developing country exports of cheap generic medicines to other developing countries.

In June 2003, the African, Caribbean and Pacific developing countries group comprising more than 70 developing countries sent a letter to the WTO's council on TRIPs castigating the United States for blocking a deal and stating that a solution needed to be found "as a matter of urgency" (Williams 2003a, 2003b). In early August 2003 agreement on this matter had still not been reached. In the words of a *Financial Times* editorial, "by pandering to objections by US drugs companies, the White House invites accusations of siding with wealthy campaign donors against the world's sick and poor" (*Financial Times* 2003d). The same editorial argues that Doha "can succeed only if governments have the political carriage to stand firm against obstructionism by domestic lobbies. The US and the European Union, the two biggest trade powers, share a responsibility to lead by example." However, at the end of August, the US government finally agreed a deal in the WTO that would allow the import of generic drugs on public health grounds, on condition that safeguards would be introduced to prevent diversion of the cheaper drugs back to developed country markets.²²⁰

The tobacco industry has made systematic (though ultimately unsuccessful) efforts to prevent the introduction of a tobacco treaty that would serve to curb tobacco consumption -- the cause of more deaths worldwide than AIDS. While trying to increase sales in developing countries to compensate for declining markets in advanced industrial countries as a result of rising health concerns, the industry has attempted to undermine the WHO, to pit other UN agencies against the WHO, and to win developing countries over to the view that the tobacco control campaign was wholly at the expense of developing countries. These charges against the tobacco industry are substantiated by a very considerable amount of evidence, based on internal documents

²²⁰ The agreement has been criticized by Médecins Sans Frontières, Oxfam and other NGOs on the grounds that the safeguards (a limit on the quantity of generics to be produced, expensive packaging to prevent re-export and double licensing arrangements) will limit its effectiveness.

from the industry itself that have surfaced as a result of a number of high profile court cases (Zeltner et al. 2000).

A further recent telling example is that of the European Services Network (ESN) -- a grouping of executives from 50 financial sector firms, including Goldman Sachs and HSBC Holdings and chaired by the chairperson of Barclays. This body was largely responsible for drafting the EU's 1,000 page negotiating text for WTO negotiations on the General Agreement on Trade in Services (GATS). According to Watkins (2002b:21), the ESN "has enjoyed privileged access to the so-called Article 133 committee in the European Commission -- the body responsible for drafting negotiating texts. If it wanted to sue the EU for plagiarism, the ESN would have a watertight case."

How much power corporations exercise is, however, subject to debate. Martin Wolf (2002) argues " ... corporations are not unchallenged masters of the universe. What changed in the 1980s and the 1990s was not corporate power itself but what governments thought would work. The change we have seen over the past 20 years should not be called 'corporate globalization'. It is market-driven globalization unleashed, consciously and voluntarily, by governments." There is a large degree of truth in this: governments, formed by parties inspired by neoliberal dogma, have opted for policies of deregulation and liberalization. But often they are the party of choice of major sectors of business, which pressure government to pursue policies in their favour. Even governments with a social democratic leaning have come to believe that, now that the world has become more a more highly competitive place, they have no choice but to adopt liberalizing policies at home and promote them internationally. Big business interests in particular have had considerable influence in effecting this change in policy direction, lobbying at both at national and international levels. Thus TNCs are joint architect, offspring, and beneficiaries of the current global regime.

Yet, there is a considerable body of empirical evidence and theoretical research suggesting that policies of free trade and capital flows and other components of the current global economic regime do not serve the development interests of a large part of the South; indeed

they are inimical to widespread development. This is of major significance when discussing partnerships between the UN and business. While partnerships may result in some specific improvements, they also serve to legitimize and strengthen the business partners involved. What is more, partnerships offer scope for TNCs to influence the approaches to be adopted on specific issues in the UN, but, equally if not more importantly, they provide opportunities for business to attempt to shift the overall policy perspectives of the UN towards the policy approaches preferred by TNCs (privatization, unfettered FDI, among others). These not only serve to strengthen TNCs but also the short-term interests of advanced industrial economies.

Sustainable development, TNCs and environmental space

The pursuit of high and rising consumption in the North and of development in the South have together led to the increasing exploitation of natural resources in unsustainable ways, often by TNC investment in resource-extractive industries in developing countries. Policies focusing on liberalization, deregulation and export orientation respond to the logic of short-term profit maximization and international competition that intensifies the need for cost-cutting. The result is the rapacious exploitation and wasteful use of natural resources. Much of the non-renewable resource extraction occurs in developing countries, where such resources are still to be found in relative abundance, and the resulting rise in the South to North flow of raw materials has given rise to ecologically unequal trade (Martinez-Alier 2002) as well as poor commodity terms-of-trade. While there may be some short-term benefits for certain sectors of the local population (though corporate policies often limit the returns to the host economy), the long-term cost for the economy and sustainable development can be very substantial, especially if industrial development is slow (Welford 2002; Martinez-Alier 2002).

The corporations involved in the energy and extractive sectors are among the world's largest and wield considerable power. They have not shown themselves ready to address the central challenges posed in relation to sustainable development (Utting 2000, 2002c; Barraclough

2002; Hansen 2002; Welford 2002).²²¹ However, now that they are subject to growing scrutiny and criticism from environmental and consumer activists, they are beginning to respond in measured ways to criticism and showing interest in the activities of the UN Global Compact.

Climate change, which is largely a result of the North's level and pattern of consumption, has serious implications for the developing countries. Their very underdevelopment makes them particularly vulnerable to damage resulting from climate change, as they are less able to prepare against or cope with the worsening floods, droughts, storms and health emergencies resulting from global warming. However, as mentioned earlier, the concerted and persistent efforts of some Northern oil and energy companies were instrumental in preventing agreement on international regulation through government-imposed emissions limitations. Instead, emission limitation under the Kyoto protocol has taken the form of emission trading (a "market for pollution rights"). The preference of important parts of the corporate sector for voluntary initiatives also includes accounting standards such as the ISO14000 standards for environmental management.²²²

²²¹ Many of the companies involved are among the world's largest and wield considerable power. Operating under a considerable degree of freedom with regard to their international business activities, they have come under growing scrutiny and criticism on the part of both environmental and consumer activists.

²²² Proposals for international environmental codes of conduct for TNCs made little headway in the climate of the "hands-off" approach to government of the 1980s (Hansen 2002). However, the international agreements reached in the 1990s -- the Montreal Protocol and the Agenda 21 Rio Agreements -- engendered hopes for progress. In the event such hopes were frustrated by lack of implementation and follow-up, as was demonstrated at the 2002 Johannesburg Summit. However, the growth of voluntary or self-regulatory initiatives since the beginning of the 1990s suggests that businesses may be responding in measured ways to the increasingly forceful criticism of their environmental practices. Adoption of ISO14000 reporting standards by some corporations may also be seen as progress. But it remains to be seen what difference improved environmental reporting standards have really made to corporate environmental performance or to the capacity of external groups to monitor companies' performance.

Nevertheless, such measures are of limited value: not all environmental problems can be satisfactorily resolved through voluntary measures or codes of conduct, or through CSR efforts within the Global Compact or other partnerships. While voluntary or regulatory “end of pipe” measures to deal with pollution may partially attenuate some aspects of the problem, these are rather marginal responses to the basic problem, which is the need to build environmental considerations into products and production processes from the start. This is clearly illustrated by the United Nations Environmental Programme report (UNEP 2002) on 22 industry studies. This indicates that, despite the efforts of some individual companies, the environmental state of the planet is worsening for two principal reasons. First, in most industry sectors, only a small number of companies are actively striving for sustainability, that is, actively integrating social and environmental factors into business decisions. Second, improvements are being overtaken by economic growth and increasing demand for goods and services, that is, growing consumption levels are overtaking environmental gains.

Considering the macro and global dimensions of environmental issues, there is a fundamental conflict between the needs of the South for “environmental space” to achieve its own development on the one hand, and the current demands placed on the environment by levels and patterns of consumption and growth in the North (Barraclough 2002; *Le Monde Diplomatique* 2002; South Centre 1998b, 2002b; Hansen 2002). This was graphically illustrated in the context of negotiations leading up to the Kyoto Protocol when the US government felt able to declare that the standard of living of its population was not negotiable - an attitude that underpins the negative attitude to later international discussions on this matter. For their part, developing countries argue that, in view of their need to industrialize so as to provide decent standards of living for all their citizens, they should not be expected to bear a large share of the burden of reducing greenhouse gas emissions. As latecomers to industrialization, they should not be held back by environmental factors caused principally by the North, which owes a “carbon debt” to the South. This “luxury” versus “livelihood” emissions conflict has potentially severe consequences for the international community (Agarwal and Narian 1991; Martinez-Alier 2002). Striking the right balance in finding appropriate new international policies to re-

solve the interrelated problems of environmental governance and poverty reduction will to some extent depend on the attitude of big business. It is questionable whether businesses that do not assume leadership in efforts to promote national and international policies to deal more effectively with sustainable development issues should be considered suitable business partners for the UN.

The present global policy regime

The above paragraphs briefly outlined some of the economic challenges facing many developing countries under the current global policy framework. It was suggested that the WTO negotiating agenda largely reflects the trade and trade-related concerns of the advanced industrial countries and their TNCs, whose influence pervades the multilateral negotiating processes (South Centre 1998b; Narlikar 2001; Oxfam 2002; Helleiner 2001).²²³ Many of the crucial international trade issues of concern to developing countries (commodity issues, restrictive business practices and problems associated with market dominance in goods and services) are ignored. At the same time, the WTO trade regime extends well beyond international trade *per se* and the rules prevent developing countries from using a number of policy instruments traditionally used, including by developed countries, to advance their industrial development.²²⁴ (South Centre 1998a, 1998b; Chang, 2002.) Developing countries are bound to these rules establishing so-called “level playing fields”. The special dispensations to take care of their reduced capacity to comply owing to their lower level of development

²²³ For many developing countries, adequate participation in the lengthy and complex WTO negotiating processes in Geneva is beyond their reach, due to lack of financial resources and in some case sufficient skilled personnel. Moreover, owing to their training and work experience, many trade experts often fail to appreciate the wider development ramifications of some of the policies under negotiation.

²²⁴ WTO agreements that preclude developing countries from using tried and tested development policy instruments include those on trade-related investment measures (TRIMs), trade-related intellectual property rights (TRIPs), the Agreement on Subsidies and others. (See Chang 2002; Chang and Green, 2003.)

are limited to a somewhat longer period for implementation and a few minor exemptions. Rules that subject all countries to the same policies, irrespective of their level of development, are profoundly prejudicial to developing countries in view of their weaker capacities to engage in the highly competitive global market (Oxfam 2002; Youssef 1999).

Wittingly or unwittingly, and under duress, developing countries ceded on some of their interests during the Uruguay Round in exchange for ostensible improvements in their trading position (for example, increased access to developed country markets for products in which they have a present comparative advantage -- such as agricultural products and textiles). As a result, they are expected to reduce their trade barriers while advanced industrial countries maintain or even raise their own. Many have pointed to the hypocrisy of advanced industrial countries that in effect are saying "do as we say and not as we do". In the words of a *Financial Times* editorial (2002c) "Developing countries are hit hardest by Northern agricultural protection and subsidies -- which the US plans to increase still further. They are also victimized by textile and clothing restrictions, discriminatory tariff structures and the abuse of anti-dumping and safeguards measures. Such practices make a mockery of rich countries' pious words about alleviating world poverty." This protectionist stance of the advanced industrial countries particularly on products of export interest to developing countries is widely considered to be a hindrance to development in the South (Oxfam 2002; UNCTAD 2002a; UNCTAD 2002b:128–132).²²⁵

²²⁵ While many will agree that ending Europe's subsidies to agriculture and opening developed country agricultural markets will benefit developing countries, it would not be in the interests of most developing countries to advocate free trade in agricultural goods. Free trade is not necessarily always in the interests of everyone, everywhere. The comparative advantage of many poor developing countries is largely theoretical; free trade in agriculture is likely to benefit existing major agricultural producers and some emerging developing country agricultural exporters rather than the poorer developing countries. The latter need supportive measures and some protection in order to first develop their agricultural sector before they can take advantage of open markets (Kay 2003b).

Developing countries have also been constrained to follow the policy preferences of the multilateral financial institutions and introduce what is widely considered to be premature capital account liberalization. Persistent lobbying by certain financial interests and the swing away from interventions to greater use of markets “combined to induce amnesia at the IMF about the need for emerging markets to exercise prudence in freeing capital flows” (Bhagwati and Tarullo 2003). It was only in the wake of the Asian crisis that IMF conceded that a regime of free capital flows is not the most appropriate policy in all circumstances. One wonders how long it will be before the IMF absorbs the conclusions of new work on capital flows by its staff (Prasad et al. 2003) referred to earlier and alters its policies accordingly.²²⁶

There is now a considerable body of evidence from recent research on continuing poverty and inequality that macroeconomic policies that ostensibly raise growth levels do not automatically diminish poverty or associated problems such as access to education, health, clean water, etc. Rather, specific policies have to be designed with these goals in mind. (See Berry (2002) for an illuminating discussion of the way policy has developed on these issues.) Nevertheless, greater consistency between macroeconomic policy and social goals is rendered extremely difficult in a developing country context in which the global policy regime hinders rather than helps development in many respects.

What developing countries need

The above policy framework, which structures the terms and extent of globalization, does not “work for the poor”, nor does it lead to rapid development (South Centre 1996b; UNCTAD 1997). Ocampo (2002), former executive secretary of the UN Economic Commission for Latin America, reflects the broad intent of many critics of orthodox policies

²²⁶ Nevertheless, the US government, which exercises strong influence over IMF policy decisions and which itself is heavily influenced by certain financial interests, is still strongly against allowing developing countries to exercise control over capital flows. In new bilateral trade agreements, as for example with Chile, the current US administration has attempted to include rigid rules against capital controls.

when he calls for a development agenda based on the following five premises: a more balanced form of globalization, reflecting a genuine respect for diversity; a broad view of macroeconomic stability, which provides an adequate role for counter-cyclical policies; the need to complement macroeconomic stability with active productive development policies; strong social policies and the mainstreaming of social objectives into economic policies to guarantee adequate linkages between economic and social development; and the recognition that development involves broader human development goals.

UNIDO (2002a:1) stresses that “The international community and national governments together have to address the growing structural gaps which drive divergence” and the international community has a clear responsibility to “to ensure that they are not denied the dynamics of industrial development.” Pursuing the recommended innovation and learning strategy “takes more than just opening up to world market forces and linking with foreign partners.” The building of the necessary industrial capabilities requires “extensive policy support, including industrial policy. When referring to the need for the international community to articulate a vision and formulate a strategy to narrow the widening gap in industrial capabilities between nations, UNIDO (2002a:2) states that this vision must not only be supported by financial and other resources but also by “appropriate changes to the rules of economic life.” These changes should be such as to facilitate “strategic integration” of developing countries into the global economy as the optimal policy for developing countries.

Policy space

This requires them to have greater policy autonomy both with respect to the degree and pace of their integration into the global economy and to the kind of national industrial policies which would enhance their supply capacity and promote structural change (UNCTAD 2002a, 2002b; Helleiner 2001; South Centre 1996b, 1998b; Supachai 2002). A *Financial Times* (2003e) editorial commented “If the case of China teaches us anything, however, it is that economies can be reformed without resorting to all the Washington orthodoxies. Development

policy has to improve many things simultaneously: low tariff barriers are well and good but little use to a country without roads, banks and healthy workforce.” In relation to financial integration or financial globalization of developing economies, a recent IMF study on *de facto* capital flows concluded that “if financial integration has a positive effect on growth, there is as yet no clear and robust empirical proof that the effect is quantitatively significant.” It also finds that the evidence does not provide a “clear road map for the optimal pace and sequencing of integration. Such questions can be best addressed only in the context of country-specific circumstances and institutional features.” (Prasad et al. 2003)

The adoption of Part IV of the GATT, following the first UNCTAD conference in 1964, accorded differential policy treatment to developing countries, allowing them to use import controls to protect their infant industries. In addition, under the IMF Articles of Agreement, they could use exchange controls to protect their balance of payments.²²⁷ The post-Uruguay Round WTO regime needs to be adapted so as to re-establish the possibility for developing countries to adopt national development strategies and policies appropriate to their respective situations. New, more significant, forms of special and differential treatment (SDT) and principles need to be introduced with respect to trade and trade-related issues, including trade-related investment measures (TRIMs) and trade-related intellectual property rights (TRIPs). SDT should also underpin any new agreements in the WTO, such as any agreement on the treatment of foreign investment (Buck 2003a).²²⁸

Negotiations in services under GATS need to be grounded in a framework that takes into account the development needs of the

²²⁷ In the period following the Second World War and until the late 1970s developing countries experienced rapid growth and considerable improvements in a number of social indicators. This was partly due to the favourable external policy environment, as well as to high growth rates and full employment in the North and expanding world trade in manufactures.

²²⁸ For a discussion of SDT, see Oxfam (2002); UNCTAD (2002b:42); NAM Ad Hoc Panel (1999); NAM (2003); Melamed (2003); A.Singh (2003a); Stevens (2003); Youssef (1999).

South. Developing countries fear that an influx of foreign service providers will prevent the development of their own service industries, while strengthening the economic power of TNCs. Mexico offers a poignant example: owing to FDI and takeovers, most of the financial services sector is in foreign hands, and almost 90 per cent of the banks are now foreign-owned (Authers 2003).²²⁹

In the same vein, any policy proposals that may emerge from current discussions in the WTO on international competition policy must address the problems faced by developing countries that, from an already relatively weak position, are forced under current rules to operate in a level playing field against foreign firms, many of which are exceedingly powerful TNCs.²³⁰ No country should be put in a situation where the commanding heights of its economy are all in the hands of foreign enterprises, even if these were to have impeccable records regarding CSR.

Hence, appropriate competition policies would include those that allowed developing countries to strengthen their own business sector.²³¹ Included among these would be competition policies that differed in significant ways from those established in Europe and in the United States and that aimed to promote dynamic rather than static efficiency, and allow for an optimum combination of competition and co-operation among firms (Singh and Dhumale 1999).²³² Such policies should facilitate the merging of local firms so as to be able to compete with TNCs and also foster co-operative arrangements among small firms that would strengthen their capacity and lower their costs, thus

²²⁹ For developing country perspectives on GATS, see Sexton (2001); Nogués (2002); Mashayekhi and Julsaint (2002); and Mashayekhi and Tuerk (2003).

²³⁰ On competition policy and development, see A. Singh (2002b, 2003b).

²³¹ Different countries and different sectors may benefit from different degrees of competition. In some circumstances, perfect competition or approximation to this may be less beneficial to an economy than imperfect competition, as the latter may generate higher profits that can be used to foster faster innovation, improved efficiency and economic growth.

²³² These authors also propose the establishment of an international competition authority to prevent restrictive business practices and other competition-reducing behaviour by TNCs.

enabling them to become financially and technologically stronger and more able to operate independently rather than merely at the bottom of the supply chain.

Regarding FDI, rather than policies to ensure unfettered international flows and guarantee the right of establishment and national treatment for foreign investors, developing countries need the policy space to determine the level and timing of FDI in the light of economic circumstances and with a view to proper macroeconomic management. Rules that promote far-reaching market access for foreign investors through right of entry, removing the developing countries' right to discriminate in favour of their nascent industries, could undermine industrial development. There is a strong case for attaching conditions to TNC access to certain sectors, whether production or services, so as to prevent anti-competitive practices by TNCs. The development concerns of low-income and least developed countries in particular would be best served by rules that allowed developing countries to differentiate in their treatment of foreign and domestically owned companies.²³³

These developing country policy positions are well grounded in economic analysis and theory and are advocated by the Non-Aligned Movement (NAM) and the G77 -- the collective bodies of the South -- as well as by prominent economists (Helleiner, Ocampo, Singh and Stiglitz, among others), and by UN bodies such as UNCTAD and UNDP. Many of these ideas form part of the developing countries' policy platform in negotiations in the WTO.

²³³ Stiff developing country opposition at the 1996 Singapore WTO ministerial meeting to the North's proposals for a WTO multilateral investment agreement prevented the item being placed on the WTO negotiating agenda, though a working group was established to study the issue. More than 50 development and campaign groups have launched a lobby campaign against an agreement, which they claim would give multinationals a free hand in the developing world. Developing countries therefore tried to resist pressures to authorize ministerial negotiations on FDI at the September 2003 WTO Cancún meeting. (On the OECD MAI, see for example, Picciotto and Mayne (1999); ActionAid (2003); Oxfam America (2002); South Centre (1997b); K. Singh (2003a, 2003b); Livanos Cattai (2003).

Higher growth

The old cliché still holds true that unless there is growth in poor countries there is little to redistribute or to build up from.²³⁴ In arguing the central importance of promoting rapid and sustained economic growth in the least developed countries, UNCTAD (2002a (Overview):26–28) emphasizes that what is needed is not simply an expansion of GDP but growth “which is founded on the accumulation of capital and skills and productivity growth, and the expansion of sustainable livelihoods and employment opportunities, and which thereby expands the consumption possibilities of households and individuals.” UNDP (2003b) also emphasizes the powerful contribution of economic growth and the need to remove the structural constraints to economic growth and human development.

But it is also true that if developing countries are to prosper there is an urgent need for a higher level of world economic growth. The main onus in this respect is on advanced industrial countries, as the combined economic weight of developing countries is too little to exercise the necessary leverage (Singh 2000).²³⁵

If the advanced industrial countries were to do more to speed up growth and development in the South, it would redound to their own benefit by helping them to attain the rates of growth they enjoyed in very recent decades -- rates that were actually lower than in the decades immediately following the Second World War.

But, in reaching for higher growth, advanced industrial countries need to achieve this in a manner that protects the global environment and puts an end to rapacious resource extraction in the South. Different patterns of consumption and production in the North, as well as different aid and trade relationships with the South aimed at promoting

²³⁴ The work of a number of scholars suggests that the lower rate of growth of recent decades can be attributed in part to policies of liberalization and globalization. See, for example, Singh (1997); Stiglitz (2002) and South Centre (1996b).

²³⁵ Developing countries account for 80 per cent of the world’s population but only 20 per cent of GDP, equal to US\$6 trillion.

industrial development in an eco-efficient manner, would enable developing countries to rely less on resource intensive exports.

UN-TNC partnerships: Dysfunctional relations

By participating in partnerships with the UN, TNCs ostensibly take on wider commitments in the global development arena and, in some cases, their efforts result in some immediate good, either in the form of better labour, environmental or human rights standards, or in making some improvement in the economic or social situation in developing countries.

How extensive this will be is an empirical question. Early chapters focused on two principal sets of factors affecting the outcome. One concerned corporate governance issues, which made it clear that CSR is a systemic and not an ethical issues. The other concerned certain structural aspects of developing country economies that influence the extent to which current voluntary approaches to improving CSR are likely to bring about widespread improvements in standards.

It was also observed that, even were there to be more such partnerships, this would not alter significantly the resource intensive and environmentally damaging production and consumption patterns or production processes that, together, contribute to an unsustainable development process.

Chapter 7 focused on an issue that is often ignored in discussions on UN-business partnerships, namely, the policy interests of TNCs and the extent to which these can be said to promote widespread sustainable development. The discussion pointed to significant differences between the policy interests of TNCs and those of developing countries: the economic policies advocated by TNCs are widely criticized as being inappropriate if promoting widespread development and narrowing the gap between rich and poor countries are the central objective. Vice versa, it was argued that policies that are conducive to building up developing countries' own industrial capacity and domestic markets do not find favour in the business sector, judging by the policy

statements and actions of the ICC or business lobbying activities in relation to multilateral negotiations in, for example, the WTO. In sum, even TNCs ostensibly committed to improving their CSR in developing countries have economic policy agendas which are neither optimal from the point of view of national development or good for domestic businesses.

Big business already enjoys considerable degrees of freedom in its global activities and has few duties or clearly stipulated obligations at the international level. Close relations with the UN through participation in the Global Compact, UN partnerships or in National Compacts gives businesses additional scope for exercising influence over global policy. TNC participation in compacts in developing countries also presents opportunities to influence host country economic policy in ways that are not necessarily conducive to host country development or of benefit to local firms. Moreover, in providing additional encouragement to and opportunities for FDI in developing countries, the UN not only overlooks a number of potential costs and risks for developing countries, but also runs the risk of being perceived as captive to TNC interests.

Yet, close relations between business and the UN enable large firms in particular to reap considerable advantages, not least gaining public legitimacy for what may be rather minor and relatively cost-free measures to satisfy the Global Compact's requirements. Indeed, the earlier mechanisms that facilitated a modicum of monitoring and verification regarding implementation of the principles have been shifted outside of the Compact. Global Compact publicity, corporate reporting and the "engineering" of widespread press reports that portray companies as good corporate citizens help them to gain greater legitimacy and capitalize on the value of their brand, all of which helps to raise the value of their assets and increase their competitive strength vis-à-vis other businesses and particularly developing country firms. The highly publicized CSR conferences in which TNCs participate help to create the impression that large TNCs are paragons of virtue.

When the above economic policy considerations are taken into account, the UN Global Compact and partnerships between the UN

and TNCs manifest a fundamental incongruity or contradiction. Put bluntly, under current circumstances the short-term development gains achieved through the Compact and UN-business partnership activities are far outweighed by the impact of the detrimental policy environment that is promoted by the UN's business partners. Partnerships are being formed precisely with those economic forces that have had considerable influence in determining the global economic policy regime, which, in many respects, stands in stark contrast to that which is needed to promote faster economic and social development in the South. This provides strong grounds for believing that partnership between the UN and large Northern businesses to promote development and CSR may be counterproductive from the point of view of sustainable development in the South. Far too little attention is paid to these implications and outcomes of UN partnerships with business. Indeed, any serious consideration of this crucially important issue is almost wholly absent from UN discussions and documents on partnerships between the UN and business.

Both with respect to the Global Compact and specific UN-business partnerships, the conflicts of interest and the gaps between rhetoric and outcomes are so substantial that any notion of trade-off between immediate benefits and ultimate impacts is largely irrelevant. One is therefore led to conclude that the present close relations between the UN and business are dysfunctional in the sense that they serve to uphold the current international policy regime that has done so little to promote worldwide development. At the September 2003 WTO Ministerial meeting in Cancún, the arguments and actions of the developing countries indicated clearly that having no agreement on trade and investment is preferable to a bad one. Clearly, new thinking is needed on how to harness the private sector to the UN's development efforts.

VIII. PUBLIC-PRIVATE PARTNERSHIPS: A HOLY ALLIANCE?

Convergence of interests?

UN-business partnerships have taken on a moral mantle: it is widely assumed that bringing together different public and private competences benefits everyone, while few seem to question how real the benefits are, or whether they are commensurate or comparable.

The joint statement by the UN and ICC (1999) that was referred to earlier suggested that the goals of the UN and of business were mutually supportive. Authors Kell and Ruggie (1999) refer to the “shared values” which bind together members of the Global Compact, and Kell and Levin (2002) refer to a “common vision” shared by the autonomous organizations. Nevertheless, as Carol Bellamy, Executive Director of UNICEF, has emphasized,

“ ... it is dangerous to assume that the goals of the private sector are somehow synonymous with those of the United Nations, because they most emphatically are not. Business and industry are driven by the profit motive -- as they should and must be, both for their shareholders and their employees. The work of the UN, on the other hand, is driven by a set of ethical principles that sustain its mission - - the principles set out in the Charter of the United Nations...and elsewhere. ... It is perfectly right and legitimate for both to be pursuing their singular mandates -- and where they can work together as partners so much the better. But in coming together with the private sector, the UN must carefully, and constantly, appraise the relationship.”
(UNICEF 1999)

When considering identity or conflict of interest, the devil is often in the detail. If one considers the social objectives of a partnership (say,

improved economic and social development, the eradication of poverty, a healthy society), these are so broad as to elicit universal approval. But when agreed goals are more specific (for example, the provision of clean water to greater numbers of people, or access to affordable medicines), conflicts of interest may emerge due to the means of delivery, or to the fact that the project may advance the strategic interests of the corporate partners, to the detriment of others.²³⁶

Even if there were a long-run identity of interests, it cannot be assumed that each side experiences the gains or losses simultaneously; some capital-intensive projects financed by large borrowing may have a financial time horizon stretching over 20 years or more, too distant a horizon for some companies and their shareholders, unless other clear immediate benefits are also obtained. Some gains and losses may be hard to identify and quantify, especially when they relate to less tangible assets or where the quantifiable benefits (say, rise in share value), if any, may only be realized in the medium term. Furthermore, in view of the very different nature of the partners -- the UN and commercial enterprises -- what are considered gains, losses, or risks incurred by each side will in general be different. Businesses may make additional profit, make no loss, or gain little in the way of image enhancement. For the UN, apart from matters of UN integrity, the concrete gains, if any, will generally accrue to individual developing countries. Hence an assessment of UN-business partnerships as a tool to serve the purposes both of the UN as a collectivity and of its individual members will be a com-

²³⁶ Press reports are often written on the basis of information and public relations packs provided by the UN agencies or private companies involved, or by journalists paid by UN agencies to report on particular projects. Pfizer, a research-based TNC pharmaceutical giant, has paid for a prominent Pfizer Forum (A World of Ideas on Public Policy) advertising series in the *International Herald Tribune* and *The Economist* "in the interest of encouraging public discussion on policy questions and featuring a wide variety of views from leading policy experts." (www.pfizerforum.com) However, the central message in individual articles and across the series as a whole is that PPPs are in the public interest and that criticisms of the major drug companies regarding TRIPS and patent protection, for example, are misplaced.

plex process that involves approaching the matter from a number of different angles.²³⁷

Some solutions to a problem may conflict in a critical way with the longer-term interests of developing countries. For example, Northern companies involved in partnerships to provide medical treatments at discounted prices may use the situation to persuade developing country governments to desist from interpreting the WTO agreement on TRIPs in the manner endorsed in the WTO but which still meets opposition from the pharmaceutical industry (South Centre 1997c; Correa 1999, 2000a, 2000b). Similarly, major Northern water companies involved in partnerships to bring clean water supplies to communities in developing countries may be in a position to influence policy makers on the matter of privatization and may also derive a strategic competitive advantage over domestic or regional firms. The UN and its agencies and programmes have a fiduciary duty to member states to ensure that the partnership approach, and the measures that are adopted, serve not only the short-term needs of developing countries but also protect their longer-run interests. Conflict of interest issues should not be ignored: either partnership arrangements have to be carefully designed to pre-empt any unfair advantage accruing to the UN's business partners, or the UN should desist from promoting or entering into such arrangements.

Notwithstanding the undoubted contribution that business can make to resolving specific development problems under appropriate arrangements, there is a more persistent and fundamental conflict of interest involved in close relations between the UN and large companies, particularly TNCs. It is not a matter of "uncivil" or irresponsible behaviour on the part of individual firms, though this often does occur. Rather, as noted in chapter 7, the conflict lies in the fact that large in-

²³⁷ In cases where there is a clear project, it will be essential that, from the start, there is proper project planning in which objectives, goals, the division of responsibilities, etc., are clearly specified so that there are adequate benchmarks against which to assess implementation and results. It is also crucial that important social concerns are taken on board, so that, for example, the interests of particular social groups (ethnic minorities, or women) are not ignored.

ternational companies in particular have economic policy objectives that, to a considerable degree, are inimical to the resolution of the overall problems facing developing countries, and may actually aggravate them.

Public responsibility and the United Nations

Close relations between the UN and business raise particularly complex issues for the UN and for global governance. In UN-business partnerships it is the UN Secretariat or the executive heads of UN agencies and programmes that represent the international community or public interest. They appear to have considerable leeway to promote partnership initiatives, especially in view of the fact that the guidelines and procedures drawing the line between public and private interest are still insufficiently demarcated or asserted.

The “visible” hand of government is not very evident, while the supposedly “invisible” hand of the market appears all too visible. The lack of firm ground rules for partnerships and their casual implementation, together with the absence or weakness of requisite structures, staff skills and experience for handling relations with powerful private institutions, renders the UN subject to the possibility of “capture”. This problem can arise when relations between the “regulated” and the “regulator” become too close. For example, the UN can become overly understanding of the business view that FDI in and of itself is an act of CSR.²³⁸

²³⁸ “Regulatory capture occurs when regulated firms are more organized than the consumers that the regulator represents. As a consequence, the firms have the power to lobby the regulator more effectively. Such lobbying many influence the regulator’s objectives and lead to the regulators representing the interests of the industry not the consumer”. (Read “UN” for “regulator”, and “member states” for consumers.) Lipczynski and Wilson (2001) The issue is exemplified in a very explicit way by Enron and the major accountancy firms that departed so far from their audit functions as to assist companies in falsifying their books and avoid taxes, as a result of which they were fined for fraud.

The Global Compact itself gives cause for concern on this and other matters. The abandoning of the initial website learning forum that was based on obligatory postings of at least one example of good practice by member companies may have been due to the excessive complexity of the exercise. But a contributory factor may have been corporate dissatisfaction with the approach, as it provided an immediate window for criticism. Other aspects of the Compact lend themselves to possible abuse. For example, academics from business schools are being increasingly drawn into Compact activities, such as helping to develop methodologies and prepare company reports and case studies. Since academic institutions and business schools are increasingly in receipt of corporate funding, prudence suggests that every effort should be taken to ensure that the expertise drawn on by the Compact is not so rapt by the voluntary CSR approach or particular CSR initiatives that lax standards are applied in report and case study presentation and evaluation work.²³⁹

One concrete example concerns the relations between McKinsey and Company, the management consulting firm, and the Global Fund to Fight AIDS, Tuberculosis and Malaria -- the prominent public-private initiative involving UNAIDS, WHO and the World Bank. The managing director of McKinsey (worldwide) is on the board of this fund.²⁴⁰ Yet the same firm has been appointed as consultant to the GFATM to advise it on relations with business. Even if this arrangement does not fall foul of the fund's own Policy on Ethics and Conflict of Interest (The Global Fund 2002) it is likely to raise doubts in the public's mind.

In referring to the renewal of the United Nations from within, the Global Compact asks whether "the United Nations as a hierarchical and bureaucratic entity is capable of sustaining the creative and entrepreneurial space that the Global Compact requires to grow." (United Nations Global Compact 2003a:2) While innovative methods may be

²³⁹ Shell recently provided the money for a Shell professorship of sustainable business growth at IMD, the business school in Lausanne, Switzerland (Maitland 2003e). The Warwick Business School in the UK is also business financed, providing courses on and assessments of CSR.

²⁴⁰ Verbal communication from Jem Bendell to the author, June 2003.

helpful or even essential, sight should never be lost of the overriding need to ensure that all UN initiatives correspond to UN decisions and UN policies, and that “nurturing and encouraging experimentation” (p. 2) does not provide a vehicle for promoting the agendas of powerful business interests.

In advocating and offering partnerships with the business sector, the UN Secretariat at the highest levels specified the UN side of the bargain in the following terms: “More important, perhaps, is what we can do for you in the political arena to make the case for, and maintain, an environment that favours trade and open markets.” (UN Secretary-General 1999b) Certainly in the first two years of the Compact, the UN Secretary-General on many occasions advocated the case for a liberalized world economy.²⁴¹ Business interests therefore already have a powerful advocate of their central economic policy perspectives within the UN.²⁴²

Business is able to achieve its clearly expressed goal of wielding greater policy influence within the UN in multiple ways. UN-business partnerships that involve “project” work provide powerful business associations and individual businesses with direct access to UN policy

²⁴¹ Nevertheless, research undertaken by other parts of the UN, notably UNCTAD, has questioned the wisdom of policies promoting unfettered trade and capital flows. Such policy matters are the prerogative of member states, working through the multilateral process, as recognized by the UN Secretary-General in his recent report *Strengthening of the United Nations* (United Nations 2002a:7).

²⁴² At the start of the Global Compact, the rationale was that it would give globalization a human face and thus help keep markets open, a proposition that has some validity. Subsequently, the Global Compact Report for 2002–2003 posits that “If nations devolve into inward-looking orientations, protectionist tendencies and commercial unilateralism, the Global Compact will not be able to deliver on its promise.” (United Nations Global Compact 2003a:2) The reasoning behind this latter statement is not clear: CSR initiatives could still take place and be worthwhile within less open markets; and experience shows that commercial unilateralism is not confined to periods of inward-orientation or of higher levels of protection. Nor would a greater degree of inward-orientation in developing countries prevent or render irrelevant local networks engaging in advocacy of the Compact’s principles.

deliberations, enable them to promote activities that influence attitudes on key development issues and policies, and narrow the range of policy options that are considered. Facilitating their involvement in UN work that has a considerable influence on policy choices, norms and standards, suggests that businesses are considered to be equal in status to member countries of the UN, even though there are no valid grounds for such. These are no mere technical matters. If the UN fails to assert the primacy of democratic governance, the impression that the UN is becoming hostage to private and sectional interests will gain further ground and its integrity put in question.

A central function of the UN is to provide a democratic process through which conflicts of interest between state members of the international community can be mediated in order to reach a broadly accepted political accommodation. But now the business sector, an already powerful economic and political actor, is allowed to participate in key UN intergovernmental meetings that define UN policy, such as those of the Commission on Sustainable Development. This provides the business sector with numerous opportunities to influence key policy issues in directions that suit its interests.

Finally, the expanding Global Compact and other UN initiatives involving close relations between the UN and the private sector, and sometimes NGOs too, raise questions not only about the UN's integrity but also its effectiveness and how it is perceived. Under the banner of "partnerships" and "civil society engagement" the UN has experienced "mission creep" -- a proliferation of the organization's goals and an expansion of the scope of its work. There is a danger that this will contribute to a lack of effectiveness and tarnish the UN's reputation, particularly if resources are scarce and the partnership initiatives are not established and managed within a coherent and clear framework.²⁴³

²⁴³ See Wade (2001) for a discussion of such issues in relation to the malaise at the World Bank.

The United Nations and global public policy networks

We are seeing the emergence of a new, much less formal structure of global governance, where governments and partners in civil society, the private sector, and others are forming functional coalitions across geographical borders and traditional political lines to move public policy in ways that meet the aspirations of a global citizenry. ... These coalitions use the convening power and the consensus-building, standard-setting and implementing roles of the United Nations, the Bretton Woods institutions and international organizations, but their key strength is that they are bigger than any of us and give new expression to the UN Charter's 'We, the peoples.' (Mark Malloch Brown, UNDP administrator, UNDP, 1999: Foreword)

The clearly laudatory tone to the above observation suggests that these recent developments reflect a considered choice of policy direction on the part of the UN Secretariat, both with regard to the greater involvement of both the business sector and civil society organizations. There are numerous explanations and arguments for such developments.²⁴⁴ Deacon et al. (2003) see the resort to the network processes of the Global Compact and the Millennium Project in terms of the "in-house (policy) fragmentation in the UN" (between the social and the economic), and the "unworkable political process flowing from the flawed UN concept of one nation one vote" and "continued appeal of national sovereignty" (p. 23). (See also Deacon, 2003)²⁴⁵ Whether the "one nation, one vote" principle is flawed is highly debatable, but it is certainly questionable whether giving businesses and NGOs equal weight to that of governments in crucial policy decisions is an acceptable alternative.

²⁴⁴ See, for example, Streck (2002); United Nations (2000d); Simmons and de Jonge Oudraat (2001); and Deacon et al. (2003).

²⁴⁵ The Millennium Project is a three-year initiative to recommend the best strategies for achieving the Millennium Development Goals and to devise a plan of implementation. Its 10 thematic task forces undertake most of the research (<http://www.unmillenniumproject.org/html/about.shtml>)

In essence, global policy networks, in which governments, public and private organizations and individuals together address global problems, represent a form of horizontal rather than vertical policy making. Reinicke and Deng (2000:6) argue that such networks cut “cleanly across the fault lines between different sectors, existing organizations and sovereign territories” and are meant to complement public policy institutions rather than replace them. For these authors, “the future of global policy networks is the future of the United Nations and vice versa”, but the UN has “yet to develop a strategic approach on how best to co-ordinate its efforts to engage in global public policy networks.” (p. 12) They consider that the UN “needs to pay attention to its ability to offer itself as a safe place, not only for its traditional stakeholders -- member governments -- but also for the business community and civil society. Trisectoral networks provide a mechanism for the United Nations to rebuild its credibility, and indeed the only way to achieve its increasingly complex missions with scarce resources in the twenty-first century.” (p. 14) “By making itself a safe place for *all* the key actors to convene and negotiate politically controversial issues, the United Nations could fill a major gap in governance.” (p.14) It is further suggested that global public policy networks “represent a unique opportunity for governments to regain the initiative in the debate over the future of global governance.”

The idea of involving business to a greater extent in matters of international policy was put as a proposition for public discussion by the electronic Communication Initiative (2002)²⁴⁶ as follows: “There is an apparent trend in international development towards major private sector companies having a seat at the policy and strategy tables alongside governments, NGOs and not-for profits. This is a positive trend in international development.” Of the respondents 55.81% agreed, 39.53% were against and 4.65% were unsure. In view of the number of respondents (43) and the sample base (people sufficiently interested in development matters to refer to the Drum Beat website newsletter), the results are far from robust. However, the respondents’ opinions are a useful entry point for discussion of the issue. Broadly, the responses can be summarized as follows. Those in favour see the trend as a logi-

²⁴⁶ See <http://comminet.com/PulseComments>.

cal and desirable development, as it draws in the expertise and support of the private sector, and is realistic in that the private sector is an important factor in the world. Nevertheless, a number of respondents expressed reservations, including the following: all views, including those of big business must be balanced alongside wider societal priorities; there should not be over-representation of transnationals, but rather a balance of international, national and local companies, and large and small; private sector involvement in strategizing international development issues should not be a license for them to unduly influence global development policies for profits at the expense of citizens of the developing world, or to use the occasion to inject their own agenda into the debate. These caveats expressed by those in favour of the proposition are fairly strong qualifications and strike at the very root of the dilemma as to how to guard against business using such occasions for promoting its own perspectives and interests. The comments of those disagreeing with the proposition were quite forthright in their views, and their concerns largely coincided with the caveats of those saying they favoured the idea.

The overall reaction is reflected in three responses, namely “Too open to abuse”; “Eventually, special interest will take priority in policies and strategies”, and “Since the purpose of private sector companies is to make a profit and not necessarily to serve the community, they should follow the guidelines set by the public and non-profit sectors rather than aid in shaping that policy.”

Global public-policy networks that are lodged inside the UN raise a number of complex questions. While in a broad sense it can be argued that the UN stands for the international public interest (and in some instances represents the collectivity of governments) it is a moot point how far the UN Global Compact, as currently structured, can claim such a function. It has been argued, however, that the participation of civil society organizations (until now self-appointed) vouchsafes for the public interest. But their participation is somewhat reticent and weak when compared with that of the business sector.²⁴⁷ Moreover,

²⁴⁷ See the Global Compact website for a list of participating civil society organizations. As mentioned earlier when discussing the Global Compact, new criteria have been mooted that are designed to exclude “single issue” civil soci-

increasing financial dependency on funding from joint projects (not necessarily as part of UN-business partnerships) may diminish their independence of thought and action. Whether the issue of public interest can be resolved by changes in structure and process, by the appointment of watchdogs that are external to the Global Compact, or other measures is a matter that needs full discussion in the UN.

This is not, however, to argue that the Global Compact should be developed on a trisectoral basis so as to make the UN “a safe place for all the key actors to convene and negotiate politically controversial issues.” (Reinicke et. al. 2000) Rather, attention should be focused on how to ensure that governments regain the initiative and retain the decision-making power in global governance, including the governance of the increasingly powerful business sector.

In brokering and/or engaging in partnerships with business, the UN is accountable in relation to two interrelated sets of responsibilities -- maintaining the integrity of the organization by upholding the Charter, and vouchsafing for the interests of those member countries who are “beneficiaries” of partnerships. This means devising appropriate procedures to ensure that the interests of member countries are fully taken into account in any particular partnership. It is also essential that partnership proposals having potentially important policy implications for all member countries are first discussed in appropriate UN forums in order to establish an appropriate framework for the project or programme, assuming it is endorsed. In view of the fact that the respective partners not only have distinct strengths and roles, but often have agendas and ultimate objectives which go beyond the immediate stated purposes of the partnership activity, the UN has responsibility for ensuring that the unintended consequences of particular partnerships are taken into consideration from the very start.

The concerns outlined above are not hypothetical. They are well illustrated in the field of health, where the partnership approach has flourished in recent years.

ety bodies -- a category that would seem designed to exclude, among others, NGOs that are critical of TNCs and the Global Compact.

Global public-private partnerships in the field of health

As indicated earlier, UN interest in forming partnerships with the private sector increased considerably following the emphasis put on this approach by UN Secretary-General Kofi Annan. Gro Harlem Brundtland, following her election as WHO Director-General in 1998, was similarly instrumental in furthering the idea of PPPs in the field of health. Partnerships in this field of crucial global concern, but of especial importance for developing countries, make them a pertinent subject for examining some of the issues that arise with respect to health issues in the developing world and with respect to governance and policy matters.

The partnership idea was advanced in high-level contacts between WHO and industry in 1998 -- the first of a continuing "round table process established with CEOs of the International Federation of Pharmaceutical Manufacturers Associations and the World Self-Medication Industry" that was intended to "build trust with these bodies...raising differences and identifying prospective partnerships." (Buse and Waxman 2001; Olilla 2003)²⁴⁸

The following *Financial Times* editorial (2003f) provides a useful if contentious background against which to consider global public-private partnerships for health (GPPPs for health) in the ambit of the WHO.²⁴⁹

²⁴⁸ One useful working definition of partnerships in this context is that offered by Buse and Walt (2002:171), namely, "collaborative relationships that transcend national boundaries and bring together at least three parties -- among them a corporation and/or industry association, and an intergovernmental organization -- so as to achieve a shared health-creating goal on the basis of a mutually agreed and explicitly defined division of labour".

²⁴⁹ The proliferation of so-called partnerships in the field of health goes well beyond the WHO. Agencies such as UNICEF and the UNFPA also have health activities that involve partnership-type arrangements and sponsorship. The database of the Initiative on Public-Private Partnerships for Health (a non-profit research and advisory group) listed 79 global health PPPs as at April 2002. WHO also engages in various other types of relationship with the private sector, each of which has implications for the UN's role of agenda setting and standard setting. Examples include the participation of the tobacco industry in

Another achievement by Dr. Brundtland has been to involve the pharmaceutical industry more closely in the WHO's work. ... Drug and healthcare companies have provided much needed expertise and resources without threatening the WHO's much prized neutrality ... But the highest priority (for the new director-general) will be to defend the WHO's broad overall mission to promote health worldwide, in the face of demands from some quarters that the organization should narrow its focus and concentrate on the big infectious diseases of the developing world. It is important for humanity that the WHO should maintain a global agenda, including action on the diseases associated with relative affluence such as diabetes, heart disease and cancer. The organization should also maintain pressure on the tobacco industry -- smoking kills more people than Aids.

Similarly provocative is the opinion of the Commission on Macroeconomics and Health (appointed by Brundtland and chaired by economist Jeffrey Sachs) that, in view of the role of PPPs, the WHO governing body should not constrain the organization's work by raising concerns about conflicts of interest (Commission on Macroeconomics and Health 2001).

In December 1999, the WHO (1999a) adopted a corporate strategy that was ostensibly designed to ensure that the WHO met four new challenges, namely the changing understanding of the causes and consequences of ill-health, the increasing complexity of health systems, the increasing prominence of safeguarding health as a component of humanitarian action, and the fact that the world looked increasingly to the United Nations for leadership.²⁵⁰ In efforts to increase the WHO's

WHO's Scientific Advisory Committee on Tobacco Product Regulation, and the participation of company employees, either seconded or in a personal capacity, in WHO decision-making bodies.

²⁵⁰ It is not clear whether the WHO governing council ever gave an explicit mandate for the organization to embark on partnership as a strategy (Olilla 2003).

technical, intellectual and political leadership, one of the five areas of focus for the Secretariat was the negotiation and sustaining of national and global partnerships.

The alleged benefits to the UN of GPPPs for health are said to be the enhancement of its capacity to fulfil its mandate, giving it access to private sector skills and management talents, and bestowing business credibility and authority on the organization. Moreover, they “do not replace any organization in the fight against disease” and “are assets that help create new tools more quickly and flexibly” (Wheeler and Berkley 2001). The general inference seems to be that, since under current circumstances there appears to be no other way of achieving the designated goals, the partnership approach must, by definition, be in the public interest.

Buse and Walt (2002:180, Box 1) list various objectives sought to be achieved by the WHO in establishing partnerships with business, namely:

- encourage industry to abide by the universal health principles established in Health for All;
- facilitate universal access to essential drugs and health services;
- accelerate R&D in the fields of vaccines, diagnostics, and drugs for neglected diseases;
- prevent premature mortality, morbidity, and disability by giving special attention to policies and behavioural change;
- encourage industry to develop products in ways that are less harmful to workers and the environment;
- integrate health in all sectors for sustainable development;
- acquire knowledge and expertise from the commercial sector; and
- enhance WHO’s image among constituencies hostile to the UN.

The summary record of the WHO Executive Board discussions on PPPs (WHO 1999b; WHO 1999c) indicates that there was a general

welcome for such initiatives, especially because it was felt that the WHO alone could not achieve what was expected of it. Nevertheless, concern was expressed that the WHO should not become “market-controlled”. Some members suggested that the relationship between the WHO and other partners in the public and private sectors should be subject to regular examination.

To date, there has been no full-scale and in-depth evaluation of GPPPs in the field of health. This would be a gargantuan task, requiring considerable preparatory work in establishing useful categories. (Box 4, setting out some of the different classifications of GPPPs for health, indicates the complexity of establishing an appropriate typology and classifying such partnerships.) More important, however, would be to establish clarity regarding the purposes of the evaluation and clear assessment criteria. It is suggested here that any analysis of health partnerships and their impact should be centrally concerned with their implications for the WHO’s target of “health for all”, which requires consideration of matters such as equity of access; sustainability of health services and programmes; development of comprehensive national essential drug policies as part of national health policies; strengthening of national health delivery infrastructure; and national and local participation in the designation of the priorities, design and thrust of programmes. Moreover, partnerships need to be assessed in terms of the extent to which they support the WHO’s leadership role and its core activities as designated by the World Health Assembly. In this respect, Buse and Walt (2002:182, Table 7.1) list four critical and unique functions of the WHO and their respective enabling attributes: setting normative frameworks; establishing global norms and standards; promoting the global health commons; and providing supportive co-operation at the country level. These authors map out both positive and negative influences of partnerships in relation to each of these -- an assessment of which would be essential to any review of the WHO’s relations with the business sector.

In view of the magnitude of such an undertaking, it is clear that the present study can only scratch the surface by drawing attention to some of the dilemmas and contradictions that raise doubts as to whether global PPPs for health invariably serve the public interest, and

also to some of the implications for developing countries. The brief discussion draws on literature analysing complex, highly structured and sharply focused partnerships, namely those that aim to improve market access in developing countries to existing medicines and vaccines by means of product donations and discounted prices, as well as to develop new health products to fill gaps in treatments for developing countries. This subset of GPPPs for health has been selected for attention here because the issues at stake and the publicity given to corporate involvement convey the impression that they must be a force for unmitigated good. This is not to deny the need to analyse other instances of WHO involvement with the private sector, as for example the tobacco industry, or to assess the relationships between other UN agencies such as UNICEF or UNDP with food and beverage companies whose products and marketing strategies are in many circumstances detrimental to healthy living.²⁵¹

²⁵¹ There is rising concern regarding TNC promotion of particular food, beverage and other products whose consumption can have serious health consequences. For example, Cadbury's marketing of chocolate whose wrappers could be exchanged for sports equipment has generated widespread criticism. Nestlé, the world's largest food conglomerate and a participant in the Global Compact and provider of funds to UNDP, ran a nationwide caravan tour in Thailand as a marketing ploy involving consumer rewards (gold chains and very substantial cash prizes) in a campaign "designed to display Nestlé's leadership in nutritional products" (*Bangkok Post* 2002). Marketing practices that encourage unhealthy consumption habits -- some of which are beginning to have serious implications for the individuals concerned, for government health budgets and for health insurance companies -- are attracting increasing criticism. The WHO has already established a code intended to prevent unethical marketing practices relating to breastmilk substitutes. The recently concluded tobacco treaty (the 2003 Framework Convention on Tobacco Control) is another example of global efforts to curb health-damaging consumption patterns promoted by powerful TNCs. The European Commission is proposing a ban on food company advertising that claims that their products "improve overall good health or well-being" but do this in "non-specific" ways. This means that widely used slogans claiming that products "help support the body's natural defences" "boost the immune system" or "reinforce the body's resistance" without providing supporting evidence will be outlawed. Under the proposed new rules, companies would be banned from claiming that their products help slimming or weight control. Food giants like Nestlé of Switzerland, Danone of France and Kellogg of the United States would be affected and the food indus-

Box 4

Types of public-private partnerships in the field of health

Buse and Walt (2000) distinguish three types of global health PPPs: product-based; product-development based, and issues/systems based.

The WHO director-general has specified the following priority areas for public-private interactions for health (Olilla, 2003: 47):

- support to member states on public-private interactions;
- commodity donation programmes;
- lower prices for commodities;
- product research and development;
- advocacy and behavioural change; and
- corporate workplace health programmes.

Widdus et al. (2001) classify health partnerships according to objectives, as follows:

- partnerships for disease control -- product development;
- partnerships for disease control -- product distribution;
- partnerships for strengthening health services;
- partnerships to commercialize traditional medicines;
- partnerships for health programme co-ordination;
- other international health partnerships;
- country level partnerships;
- private sector coalitions for health;
- partnerships for product donations; and
- partnerships for health service delivery.

Richter's (2003b:21) broad typology is: old interactions under a new name, including fundraising/resource mobilization (in cash and kind -- including donations of pharmaceuticals); negotiations for lower product prices and research collaboration (often publicly funded); new "social experiment interactions"; global health alliances (Global Alliance for Vaccination and Immunization -- GAVI, Global Alliance for Improved Nutrition -- GAIN and GFATM) and high-level policy PPPs (Global Compact).

Note: For a description of specific PPPs in the field of health, see Richter 2003b:17–46.

try is lobbying against the proposals, which they regard as "unacceptable" (Buck 2003b).

Product-related global health partnerships

In the language of economists, the principal rationale for global PPPs that provide donated or cheaply priced drugs to developing countries is that they provide a solution in situations where there is said to be both “government failure” and “market failure”. In other words neither governments nor enterprises on their own can succeed in fulfilling the WHO’s objective of providing “health for all”.²⁵² Most low-income developing countries lack the resources to provide even the most basic primary health care systems or to provide affordable and effective medicines and vaccines to deal with infectious and non-infectious endemic diseases to all who need them. Public sector health research to develop appropriate drugs and vaccines treatments where none already exist has always been under-funded and has been affected by the recent policy emphasis on a “shrinking state” and lower public expenditure. The WHO’s own contribution to such efforts are in turn limited by the paucity of government contributions to its regular budget and its grow-

²⁵²It is a well-established fact that the world’s large pharmaceutical firms focus their efforts on developing treatments for which there is a lucrative market, namely in high-income countries where public, private or social insurance resources to pay for pharmaceutical products are high enough to provide a financial return that will satisfy pharmaceutical firms’ shareholders. The prices of the drugs and vaccines is beyond what developing countries can afford, or, due to the lack of a lucrative market, appropriate products have simply not been developed. Developing country governments lack the revenues and skills to deliver all the population’s health requirements and markets cannot provide health for all in view of the fact that pharmaceutical TNCs’ emphasis on profit-maximizing in order to satisfy shareholders deters them from supplying treatments at prices that the poor or poor governments can afford. However, such a situation is not god-given, but results from political decisions and value systems. In discussing the UN and “universal” norms and values, Buse and Walt (2002:181) observe “... in societies characterized by goals of universality and equity, based on principles of risk pooling and resource redistribution, citizens have different expectations of the state than do those in societies driven by individualism and markets, with collective response often limited to instances of market failure.” Perhaps because of these underlying differences in norms and values, differences also exist in the perception of the legitimacy of close connections between the corporate world and the public sector.

ing dependence on voluntary contributions that facilitate a “pick and choose” approach to project funding.²⁵³

At the same time, various factors deter the major established North-based pharmaceutical firms from undertaking the necessary R&D investment to provide pharmaceutical products for low-income country populations. Among the most important are the perceived low market returns for such R&D investments, particularly when the market for such products and the resulting profits may be reduced by parallel importing, compulsory licensing, or the availability of generic drugs on developing country markets. Distributional difficulties in countries with poor health infrastructure also limit the potential market.²⁵⁴ Mäkelä and Nohynek (2003:1) point to other factors. In the late 1990s vaccine development “was plagued by mergers which threatened vaccine development as well as production in the long term. Globally, vaccines form a very small market share within the big pharmaceuticals, and often those working with vaccines within industry have to fiercely defend their existence within the multinational mother corporations. Further, the competition for return value led several companies to stop

²⁵³ In 1999, funds from the private sector represented less than 1 per cent of the WHO’s resources. However, Olilla (2002:Box 1) indicates that, in 2000–2001, 17 per cent of voluntary contributions to the WHO were provided by the private sector and NGOs, the NGO funding also including corporate funding that was channeled through the US Association for UNICEF for taxation reasons. Foundations (which may include foundations associated with major corporations) provided another 14 per cent of the WHO’s extrabudgetary funds. Member states contributed 70 per cent of extrabudgetary finance). Not all such assistance can be regarded as altruistic or manifesting “solidarity”: increasingly porous borders due to greater and wider international travel means that each nation can be affected by infectious diseases, especially when vaccines and medicines are not wholly effective, have yet to be discovered or are not available for all.

²⁵⁴ Parallel importing refers to the importation, without the authorization of the owner of an intellectual property right, of a protected product marketed abroad by the patentee or by an authorized party. A compulsory licence refers to the authorization given by a judicial or administrative authority to a third party for the use of a patented invention, without the consent of the patentee, on various grounds of public interest (absence of working, public health, anti-competitive practices, emergency, national defence) (Correa 2000b).

producing the EPI (Expanded Programme for Immunization) vaccines". Such considerations lead pharmaceutical companies to argue that the costs and risks of product R&D to develop and test medicines and vaccinations to improve public health in developing countries must be shared between the private and the public sectors.

"Partnership" between the WHO and pharmaceutical companies is therefore seen as a means of helping fill the gap and GPPPs have been formed under which the private sector agrees to provide pharmaceutical products (medicines and vaccines) at specially negotiated lower prices for developing countries. Initiatives of this nature include GAVI, GFATM and GAIN.²⁵⁵ In addition, GPPPs that are intended to work towards designated common R&D objectives have been established, but in these cases they are provided with public "venture capital", on the grounds that "a hands-on role in drug development is not well suited to broad multilateral agencies" and "small and targeted social venture capital funds can excel in this realm." (Wheeler and Berkley 2001:730)²⁵⁶ Prominent early examples of such social "venture capital" funds are the International AIDS Vaccine Initiative (IAVI), Medicines for Malaria Venture (MMV) and Global Alliance for TB Drug Development. These have been established as separate non-profit entities so as to avoid the ostensibly ponderous bureaucratic ways of the WHO, and the directors are elected for their expertise and not because they represent donor stakeholders.

²⁵⁵ In February 2003, the GFATM announced that it had almost run out of funds (Dyer 2003e). See also Sachs (2003).

²⁵⁶ These focus on high-risk, high-cost projects to convert basic scientific discoveries into usable products and involve more than one company (linked competitively) as well as industry groups, academic institutions, non-profit community efforts and developing country and advanced industrial country governments. They operate in a similar way to private venture capital initiatives in which the projects are screened for feasibility, and the arrangement is structured so that the goals and assets of the investing organization match those of the project (Wheeler and Berkley 2001). The goals referred to here are clearly the immediate project goals and not the partners' ultimate goals which will generally differ according to the type of entity.

These and other UN-private sector initiatives classified as partnerships comprise very different types of relationship between the WHO and the private sector.²⁵⁷ In general, they correspond in part to the fact that, with changing attitudes regarding the respective roles of the private and public sectors, the private business sector outweighs the public sector in the invention, development and commercialization of pharmaceutical drugs and vaccines, though private sector product development draws heavily on public sector basic research in the advanced industrial countries. Studies by Olilla (2003) and Richter (2003b) differentiate between the different types of relationship, draw conclusions regarding their effectiveness, and examine their implications for the WHO's normative policy setting role.

“Choosing” business partners

For selection and screening of potential partners, the UN Secretary-General's guidelines are intended to provide a common framework, and the UN is planning to draw up a common assessment mechanism, to screen the suitability of candidate firms, containing criteria relating to human rights, labour and environmental standards, product characteristics and involvement in the manufacturing of dangerous products, among other things. Individual UN agencies are also encouraged to develop guidelines of their own. The WHO's guidelines on working with the private sector to achieve health outcomes and its annex on draft guidelines (WHO 2000) drew criticism in the 2001 Executive Board meeting (WHO 2001a, 2001b) and it was resolved to hold an electronic discussion to elaborate the guidelines further. Shortly after this meeting, and despite criticism of the guidelines, “the Director-General endorsed the guidelines as managerial tools for the WHO Secretariat” without the proposed electronic discussion having taken place. However, the guidelines were discussed subsequently at a November 2001 Executive Board retreat, an event for which published records are not available. At the January 2002 meeting of the Executive Board, the director-general's report on PPPs for health was discussed and again criticisms were voiced concerning the risks that interaction

²⁵⁷ For a review of various GPPPs for health see Olilla 2003; Richter 2003b.

with the private sector posed for the WHO, though in more muted tones (Olilla 2003:41; Health Action International 2001; WHO 2002; Olilla 2002; Richter 2003b). Buse and Walt (2002) find the WHO guidelines lacking in various respects and suggest that “there are grounds for a wider debate on a regulatory framework that can differentiate between acceptable and unacceptable global PPPs for health by ensuring that the former meet specific minimum conditions.”

Research, based partly on interviews, on the policies and guidelines intended to govern the relations of a range of multilateral organizations with the commercial sector reveals that the WHO corporate assessment mechanism has been used only sporadically and in an ad hoc manner over the last two years.²⁵⁸ Olilla (2003:55) indicates that not all proposed initiatives are processed through the agreed mechanisms; some such as GAIN being decided on by upper management without proper consultation. There has been an increasing delegation of authority to WHO technical programme clusters that allows these “to work independently with the private sector in the context of an evolving framework of organizational rules” (Buse and Walt 2002:749). Even assuming the guidelines and organizational rules were sufficiently developed and unambiguous, such delegation could result in a weakening of the level of vigilance, especially if staff are not adequately trained in the ethics of public service or do not have the skills required to handle such complex and sensitive matters.²⁵⁹

²⁵⁸ Information based on a personal communication. Regarding the “selection” of “partners”, the Global Alliance and MMV rely on competitive calls for project proposals. In the case of IAVI, selection was carried out through meetings, literature and expert advice.

²⁵⁹ In addition to the vetting procedures employed when considering potential business partners, and other internal procedures for handling partnerships, the WHO has produced conflict of interest forms that apply when hiring consultants. The UN document *Status, Basic Rights and Duties of United Nations Staff Members* (United Nations 2002g) emphasizes that international civil service relies on the great traditions of public administration -- competence, integrity, impartiality, independence and discretion. This document has the following to say on the matter of conflict of interest: “Conflict of interest includes circumstances in which international civil servants, directly or indirectly, would appear to benefit improperly, or allow a third party to benefit improperly, from their association in the management or the holding of a financial interest in an en-

To facilitate the selection and funding of projects that will best advance possible drugs towards final products, business partners from the pharmaceutical and biotechnology industries must respond to technical criteria, demonstrating a thorough knowledge of the illness concerned and the situation regarding R&D in the area of focus (Wheeler and Berkley 2001). This, the high level of concentration in the pharmaceutical industry (the large firms in this sector are among the largest of the world's TNCs in terms of their capitalization and dominated by US and European TNCs with strong brand names), and the relatively recent emergence of the biotechnology sector, mean that there is a somewhat restricted pool of firms available to engage in the sorts of programmes promoted by the WHO to provide free or cheaper medicines (see Financial Times Global 500, 2003). This is especially true if such efforts are predicated on the assumption that it is pharmaceutical products under patent protection that are to be provided.

Buse and Walt (2002) indicate that it is usually private sector firms themselves that have taken the initiative and proposed drug donation programmes or ones providing drugs at lower costs. These authors suggest that "accrediting" GPPPs for health may allay the concerns of critics and at the same time benefit the private sponsors of partnerships as well. The fact that pharmaceutical firms need little encouragement to participate in GPPPs, whose nature intimates acts of pure philanthropy, points to the need for careful analysis of the costs and benefits to the various parties. Moreover, the eagerness of some firms to participate and the restricted pool of candidates suggest that there is an ever-present danger of some of the WHO's screening criteria being overridden, if indeed they are ever applied.

For the pharmaceutical firms involved in GPPPs for product development, an important strategic consideration is whether they will receive the patent and licensing rights to manufacture and distribute the final product, and have preferential access to developing country mar-

terprise that engages in any business or transaction with the organization. There can be no question but that international civil servants should avoid assisting private bodies or persons in their dealings with their organization where this might lead to actual or perceived preferential treatment." (paragraphs 21 and 22)

kets to compensate for any agreed lower prices. In some instances the rights have been awarded to participating firms and in others the intellectual property rights are retained by the partnership so as to retain public leverage over product pricing (Buse and Walt 2002; Wheeler and Berkley 2001).

Similar pressures apply with respect to the provision of patented drugs at discounted prices. The UN, WHO and the Joint United Nations Programme on HIV/AIDS (UNAIDS) were pressured by pharmaceutical companies to engage with them in what is known as the Accelerated Access Initiative (AAI). In forging a partnership with UN organizations to increase access to AIDS medications, five major pharmaceutical companies conditioned their partnership on agreement by the public sector organizations involved to commit themselves to strengthened intellectual property as a recognition of the significant investment that these companies had made in product R&D (Gellman 2000). However, in this case, pressure from UN agencies, some governments, NGOs and AIDS activists acted as a counter pressure on industry, as a result of which the GFTM is allowed to provide antiretroviral drugs from generic manufacturers rather than rely only on patent-protected pharmaceuticals (McNeil 2002).

Global product-related PPPs place the powerful pharmaceutical industry in what is a highly contested area of global policy, and the power of the pharmaceutical industry to influence public policy has already been referred to in an earlier chapter. A central concern of the pharmaceutical TNCs has been to pre-empt developing country efforts to resort to compulsory licensing, as in the case of AIDS drugs, and to forestall developing country imports of generic products from developing country producers that operate under compulsory licenses. (The WTO TRIPs agreement allows a government to grant compulsory licenses on grounds of public health so that third parties are authorized to manufacture an already patented health product without the consent of the patent holder. However, the pharmaceutical industry has disputed the interpretation of the agreement's clauses on "public health" grounds for overriding patent law, and also disputes the range of illnesses that are to be considered as serious public health threats in developing countries. Indeed, in June 2003 the sector's efforts to defend

its interests were still holding up international agreement in the WTO on rules regarding the access to cheap drugs for poor countries (Williams 2003a, 2003b).²⁶⁰ However, in August 2003, the US government changed its position on the matter, thereby removing the remaining obstacle to agreement on the matter in the WTO.

Other business benefits

Global PPPs for pharmaceutical product development and those to increase the access of poor populations to medicines for widespread diseases tend to provide wider benefits to already well-established companies: they are mechanisms that facilitate penetration into new markets in a manner that establishes or enhances their name as a valued provider and may also bring import duty and other tax concessions, as well raise sales and profits (lower margins but higher volume). Well-advertised participation in such WHO-associated arrangements attests to a company's ostensible CSR credentials and thus helps to enhance corporate image and brand name, thereby increasing the value of intangible assets, raising share value and making access to capital markets easier.²⁶¹ In other words, association with a UN agency can increase

²⁶⁰ In February 2001, Oxfam International launched a Cut the Cost campaign to draw attention to what it sees to be the unnecessarily restrictive use of patents by pharmaceutical companies to stop the production or import of cheap copies of patented drugs in developing countries. As part of its campaign it produced a briefing entitled *Dare to Lead: Public Health and Company Wealth* (Oxfam International 2001a). See also Oxfam International (2001b). For an interesting account of shareholder engagement on this matter, involving the pharmaceutical firm GlaxoSmithKline, see Co-operative Insurance Society/Forum for the Future (2002), Case study 3 in Chapter 3.

²⁶¹ The pharmaceutical giants have cause to concern themselves with protecting their image by improving the health of the poor in developing countries (often at little or no cost to themselves), for various companies have been facing individual and class action lawsuits by patients and government authorities. For example, in a case concerning drugs with damaging or fatal side-effects, Bayer and Smith Klein Beecham have been facing crippling lawsuits in relation to Bayer's cholesterol-lowering drug Bycol and government authorities have filed criminal lawsuits against executives of the companies for gross negligence (Rath 2003). Another instance is that mentioned earlier regarding the pressure

TNC legitimacy, while providing useful political contacts, both of which are useful in efforts to expand markets for existing as well as new products (Buse and Walt 2002:178).²⁶²

Wheeler and Berkley (2001), for example, highlight those elements of IAVI, MMV and the Global Alliance for TB Drug Development that they consider to be essential to the success of these ventures to develop new drugs, and they illustrate the various ways in which these partnerships reduce the costs and risks that normally deter companies from undertaking R&D for products for developing country markets. IAVI, for example, allows large companies “to cherry-pick” the most promising potential products.

Partnership alliances also help private companies gain “platform technology that can be applied in developing other more profitable drugs”, and companies can “use the products resulting from partnerships to meet the needs of profitable niches in both the industrialized and developing countries”(Wheeler and Berkley 2001:732).

Barriers to entry for developing countries

The high knowledge and skills threshold for entry into partnerships and the prevalence of advanced country firms in the pharmaceutical and biotechnology industries combine to exclude developing country firms becoming partners in these initiatives. “Preferential treatment”

exerted by the pharmaceutical industry on South Africa as a result of its efforts to deal with the AIDS crisis in a manner that complied with developing countries’ interpretation of the TRIPs agreement, but that is contested by the drugs industry and also the US government (*South Letter* 2001a). Pfizer is facing a civil action case in New York in relation to drugs testing: the allegation is that some of the children participating in a field trial of an antibiotics in Nigeria were killed or harmed during the field trial (*South Letter* 2001b; Dyer 2003d).

²⁶² Buse and Walt (2002:178) quote the president of the medical systems unit of Becton Dickinson and Co. as saying “Of course we want to help eradicate neonatal tetanus, but we also want to stimulate the use of non-reusable injection devices, and to build relationships with ministries of health that might buy other products from us as their economies develop.”

afforded pharmaceutical and biotechnology firms by virtue of their engagement with the WHO or other UN agencies could lead to further market concentration in the sector through mergers and acquisitions. While benefiting the firms taking the initiative, there may be undesirable consequences for consumers in general and for development in the South.

Public sector subsidy for product discovery, development and commercialization, and the low level of risk, if any, adds to the comparative advantage of advanced industrial country firms in several ways, thus increasing their capacity to penetrate developing country markets. This strengthening of the capacity and competitive position of Northern firms in the pharmaceutical and biotechnology industries through global PPPs for health increases the barriers to entry for developing country firms.²⁶³

Recognizing this problem, Médecins Sans Frontières together with public health institutes in India, Brazil, Kenya and Malaysia have launched a Drugs for Neglected Diseases initiative to develop drugs for diseases such as leishmaniasis, sleeping sickness and Chaga's disease, from which millions in the South die but which are ignored by Northern pharmaceutical companies and the developing country pharmaceutical industry that focuses mainly on drugs for the rich.²⁶⁴ Rather than a PPP, this is a public sector initiative that will accept assistance from private companies (Luce and Marcelo 2003). South-South co-operation of this sort, besides helping to develop South R&D capacities, may

²⁶³ In addition, most of the participating scientists are from the advanced industrial countries -- the United States and Europe -- and the civil society bodies involved are largely North-based.

²⁶⁴ Only 10 per cent of global research funding is spent on diseases that account for 90 per cent of the world's disease burden. More than 1,400 drugs have been developed in the North over 25 years, of which only 15 are relevant to the diseases of the developing country poor (Luce and Marcelo 2003). One of the reasons given for the recent poor record regarding profits growth and stock values in the pharmaceuticals industry in Europe is the fact that half of the lower number of patent applications in 2002 were for so-called "orphan drugs", that is medicines for diseases where there is a limited commercial market (Dyer 2003f).

eventually boost developing countries' own production capacity in pharmaceuticals, rather than those of the Northern pharmaceuticals giants.

Health partnerships and corporate strategy

It may seem paradoxical, but the readiness of pharmaceutical TNCs to join the WHO and other UN agencies in initiatives to improve health in developing countries is explained not least by the fact that their ranking among some of the biggest of the world's top 500 firms and their business actions, or lack of such, places them very much in the public eye. Global health PPPs serve both to advance their corporate marketing and market domination strategies and to reduce reputation risk. Indeed, an assessment by CoreRatings of the policies developed by drugs companies to deal with issues such as the AIDS pandemic concluded that the global pharmaceuticals industry has "a long way to go" if it is "to avoid the huge potential risks to its business model" posed by health crises in the developing world. These ratings are based on assessment of patent flexibility, pricing and testing of essential drugs in poor countries, and efforts to avoid bribery -- the two biggest risks for drug companies being access to medicines and procedures for testing drugs in poor countries (Dyer 2003d).²⁶⁵ As mentioned before, institutional investors are becoming increasingly concerned that the way that companies deal with the developing world's health problems could both undermine their long-term performance and lead to greater pressures from developed country governments for new pricing policies and less stringent patent protection.

²⁶⁵ GlaxoSmithKline, the UK-based group that has been under pressure from AIDS activists from the Oxfam public campaign referred to earlier, as well as shareholder activists over its executive pay policy, was judged to have done more than any of the 11 top drugs companies to address potential risks. Its decision to allow a South African company to produce generic versions of its AIDS drug contributed to its high score in this ratings exercise (Dyer 2003d).

The public agenda and governance

In their assessment of global PPPs for health, Buse and Walt (2002:184) comment “Optimistically, many believe that increased interaction through partnership will be transformative in a more positive manner. In particular, that partnership will promote more socially responsible business entities and practices, which actively promote and uphold the values and norms enshrined within the UN Charter and subsequent conventions. And that some of the strategic, outcome-oriented methods of the private sector might be absorbed into the UN.” Their own analysis, and that of a number of other authors, suggest that this is indeed a rosy picture. These important analytical issues clearly require careful research. But a central issue must be how to structure and situate health partnerships intended to achieve specific practical objectives in a manner that safeguards the central critical functions of the WHO as *the* organization responsible for setting global policy and strategies to achieve *health for all*.

A frequent retort to criticisms of partnership-type arrangements in the field of health is that these initiatives are not only crucial in view of the health crisis in many developing countries, but that the involvement of the commercial sector facilitates *additional* responses to the massive challenges in the field of health. But such a response ignores certain important matters that need to be kept fully in mind when considering the role of global PPPs in the field of health, as also in other fields. Two such matters are funding and public accountability, both of which have implications for global public policy and priorities.

Arrangements involving private sector provision of cheap or free medicines and preventive treatments also require public funds and hence compete with WHO and other agencies’ requirements for funds from the same sources. One result is greater uncertainty regarding funding for core programmes that reflect decisions taken by the WHO’s assembly. Another is the impact on overall decision making in relation to health matters: the fragmenting of decision making among different health PPPs may weaken and even displace the WHO’s normative functions, making it more difficult to formulate a clear global strategy on public health matters and to set priorities backed up by

funding. However, as global PPPs dealing with infectious diseases can be created or used to advance corporate goals and increase corporate influence in global policy making, the WHO, whose central remit is to bring health to the marginalized and dispossessed, is at risk of capture. While the business sector is right to stress the need for clear focus in projects and programmes, unless conceived and channeled within a well-defined framework of public health objectives, partnerships may serve private interests and subvert WHO goals and the public interest.²⁶⁶

The problem posed by lack of overall policy direction and coherence is aggravated by the complexity of various PPP structures that involve shared decision-making, a matter that is made more acute in the absence of full transparency. It has been argued that the involvement UN agencies in PPPs tends to increase UN accountability to the corporate partners while decreasing their direct accountability to their own governing bodies (Olilla 2003). This issue is increasingly problematic in instances such as GAVI, GFATM and GAIN, which operate through structures largely independent of the major UN decision-making processes. They involve a shift away from vertical to horizontal forms of governance and accountability, and put in question the role and integrity of the WHO/United Nations, the more so when established as separate legal entities.

These developments suggest the need for a full review of the structures for global PPPs in health with the public purpose and the role of the WHO and other UN agencies firmly anchored as the linchpin. This demands the utmost clarity on the part of the UN Secretariat with respect to UN goals and mandates. Moreover, much greater attention needs to be paid within UN agencies to staff training and codes that assert the centrality of the public interest and heighten awareness of the types of conflict of interest that can arise -- public-private, as well as personal -- and that ensure the highest ethical behaviour. The WHO has yet to introduce staff training on these matters and on how to manage conflict of interest (Olilla 2003).

²⁶⁶ Buse and Walt 2002:186; Olilla 2003; Richter 2003b

Focusing on providing ad hoc responses to specific health challenges in developing countries through global PPPs (for example, the development of drugs for malaria and TB, or facilitating the wider provision and use of vaccines for HIV/AIDS or other illnesses) may seem an appropriate response in the public eye, in view of the urgent need to save children's lives. But these and other programmes can "crowd out" efforts to strengthen national delivery systems that are crucial to effective public health efforts, whatever the country. For example, programmes focusing on a single illness may divert resources into the development of parallel delivery systems that are not supportive of overall government efforts to develop the primary health-care system. Yet Ridley (2001) suggests that one of the biggest incentives for companies and private foundations to commit themselves to partnership is the confidence that the public sector will develop the necessary infrastructure and capacities.

The lack of adequate primary health care services through which vaccination and similar programmes can be delivered means that they are not as effective as they otherwise might be, and sometimes lead to the creation of "dedicated" parallel services in a situation where resources are scarce. This suggests the need to ensure a balanced agenda and a strengthening of WHO efforts to build up primary health care systems in the South. Such efforts are in any case essential in developing countries if more emphasis is to be put on "prevention" as opposed to "cure". This may not be among pharmaceutical companies' highest priorities, as their market share and profits depend to a considerable extent on the repeated sale of treatments.

Another question that has to be faced is whether these PPP initiatives are sustainable: their very structure and financing -- short-term goals, high-profile philanthropic funding, and participation by a few large TNCs -- suggests that some of these global PPPs may be ephemeral, while the need for vaccination programmes, for example, will persist. This consideration reinforces the need to consider how public health programmes can best be developed and sustained.

GAVI, launched in 2000 with an initial donation of US\$ 750 million from the Bill and Melinda Gates Foundation, has been criticized

by civil society groups, among others, on a number of counts.²⁶⁷ One of the main criticisms is that those children who most need the vaccines are likely to remain unvaccinated: countries with low vaccination coverage have been given less attention, and countries with the lowest coverage have received the least funds. Moreover, at least in the initial years, a high proportion of the funding was spent on new vaccines, mainly against Hepatitis B. (For a defence of the GAVI initiative, see Mäkelä and Nohynek 2003.)

Sometimes, depending on the illness, it may be appropriate to target drug-donation programmes at specific countries. However, there are many illnesses that afflict large sectors of the population in many developing countries and, in the absence of sufficient drug contributions or other resources, country selection becomes necessary. Selection criteria can be invidious: the exclusion of countries because of inept or disreputable regimes punishes the population for the sins of their leaders, and an emphasis on the ability to achieve results may well exclude countries whose public resources cannot stretch to providing the necessary ancillary expenditures for storage, service delivery, staff training etc. -- the very countries that may be most in need. This again emphasizes the need for greater levels of WHO (multilateral) assistance to complement national efforts to build up basic health care systems.

Without a closer questioning of “who gains what”, much-publicized global PPP health initiatives to deal with major diseases may operate to further dispose influential sectors of public opinion towards a greater role for private as opposed to public efforts, both in relation to health R&D and to health provision, to the detriment of public efforts and of the access of the poor in particular to affordable health care. When public sector diagnostic and health care services are perceived to be poor, due to lack of resources, the market is likely to become fragmented as higher income clients are served by private health care services.²⁶⁸ The rest will be served by a public system continually

²⁶⁷Brugha et al. 2002; Hardon 2001; Olilla 2003; and Richter 2003b. For a detailed analysis of the Children’s Vaccine Initiative (CVI), the failed predecessor of GAVI, see Muraskin (2002).

²⁶⁸ The tendency for this to happen in developing countries would be reinforced if the health services sector were opened up to foreign firms under the

starved of resources, with little hope of support from the WHO if funds and initiatives are focused on high-profile and profitable activities under partnerships.

To sum up, there is a widespread *a priori* assumption that global PPPs for the promotion of health provide significant health benefits to developing countries and particularly their poorest citizens, whose health needs are paramount, and that these efforts are sustainable. How far this is true can only be proven by extensive and in-depth empirical research. The central question that needs to be answered is how the health improvements for developing countries resulting from global PPPs affect the development of public health infrastructure and programmes. Another question is whether global PPPs for health promote or inhibit industrial development in health-related fields in developing countries so that developing countries themselves are able to contribute more effectively to the resolution of their health problems. The possible “trade-off” between these short- and longer-term goals can only be resolved by considering what policies would render them compatible.

Whatever the case on this matter, the literature points to another danger: that these global PPP health initiatives may weaken multilateral governance. Some initiatives clearly involve a transfer of control and authority from the governing body of the WHO to the steering groups of global PPPs. Indeed, there is evidence that some global PPP protagonists have been motivated by the desire to reduce the role of the UN system: independent PPPs with shared responsibilities, such as GAVI and GFATM, are said to be valued by the corporate participants precisely because they circumvent WHO governing bodies (Yamey 2002).

Moreover, the WHO’s own agenda priorities may be gradually shifted by virtue of privileging certain areas of health action through partnerships and the fact that policies, strategies, resource allocation and activities may be subject to the influence or approval of the pharmaceutical/health industry. The literature on partnerships in the health

WTO GATS agreement and if a WTO multilateral agreement on investment that reinforces international capital flows were to be agreed.

sector reflects the widely expressed concern that the UN's credibility, impartiality, and integrity can easily be compromised by its involvement with the private sector, including norm-setting activities.²⁶⁹ If the WHO and other UN agencies are to safeguard their integrity, greater attention must be given to improving systems of institutional governance so as protect the public's interest.

Even carefully structured and targeted partnerships for health give rise to governance and developmental concerns. If -- no matter how well-focused the partnerships are or how good the institutional arrangements to broadly protect the UN's integrity -- UN-business partnerships do little to improve, or they even impede, the economic and industrial development in the South, there is a *prime facie* case for reconsidering other means of achieving the urgent health objectives. The 2003 World Health Assembly endorsed a resolution that instructs the WHO to set up an expert group to examine the issue of intellectual property rights, innovation and public health, including how to provide funds and incentives for the development of drugs for diseases that disproportionately affect poor developing countries (Williams 2003c). But as importantly, the WHO needs to examine how its health policies and partnerships can be recast so that they do more to enhance the South's own capacity to tackle its health problems.

Wider implications

The above discussion regarding partnerships between UN bodies or specialized agencies and business to provide free or cheap drugs, or develop such products, to deal with some of the developing world's major health problems reveals a number of issues of considerable public concern. They apply equally, if not more forcefully, to partnership arrangements to tackle other development problems, such as the provision of safe water. Essentially, the issue is not just about designated quantifiable outputs -- for example how many children are vaccinated or how people have easy access to clean water -- but also about development outcomes for the country concerned. In view of the accumu-

²⁶⁹ Buse and Walt (2002); Buse and Waxman (2001); Olilla (2003); Richter (2003b).

lating evidence that private provision of public services has a poor record in providing services for the poor in particular, partnerships to provide water, for example, should only be established in ways that cater adequately for the poor. Moreover, “partnerships” should not be used as vehicles for either covert or open privatization, particularly if no parallel efforts are made to develop adequate institutions to safeguard the public interest (UNDP 2003b: chapter 5). Other outcomes of partnerships and of FDI, such as their impact on competition, market concentration and the growth of domestic firms are other factors, as mentioned earlier, that need to be taken into account. This is especially so, bearing in mind that competition policy is only in its infancy in many developing countries, especially the poorest, and that these countries are being pressured to introduce inappropriate competition rules, often to the detriment of their own industrialization.

In the case of the Global Compact, forging closer relations with businesses, as part of its advocacy and other activities, provides considerable space for TNCs to promote their own business interests and to exert influence on UN policy. The UN therefore needs to be particularly vigilant in maintaining its overarching position in public policy formation. In other words, it needs to develop and strengthen mechanisms to maintain its central role in multilateral decision making on development and related issues, and not become embroiled in relationships with the business sector that serve to promote this sector’s other far-reaching policy objectives.

IX. A NEW DEVELOPMENT STRATEGY AND TRUE TEST OF CORPORATE RESPONSIBILITY

Encouraging greater CSR is generally regarded as beneficial and forming partnerships between business and the UN ostensibly demonstrates CSR, hence such partnerships must by definition be a good idea. To suggest otherwise would therefore seem churlish or perverse. Yet, the highly elastic manner in which the term partnership has been applied to almost any relationship between the UN and business has greatly “devalued the currency”. It raises the suspicion that the “ethical” value of the term covers up for the lack of sensible propositions and positive results. This makes it all the more important to assess the value of partnerships to the UN and to the developing world.

Previous chapters pinpointed a number of issues that would need to be addressed in any detailed assessment of partnerships between the UN and the private sector. Some of these issues are already beginning to receive attention, including that of the UN Secretary-General. However, there is a singular lack of discussion on the apparent contradiction involved in partnerships involving big business which pursues and presses for policies that are often inimical to the development prospects of large parts of the South. This chapter discusses how this dilemma might be resolved.

UN-Business partnerships: What would we need to establish?

At the 56th session of the General Assembly (5 November 2001) in the debate on involvement of the private sector (Agenda item 39), Iran, speaking on behalf of the Group of 77 and China (the universal and deliberative body of developing countries at the United Nations), stated that “... as a matter of principle, great importance is attached to the role and participation of stakeholders, including the private sector, in activities towards the realization of the United Nations goals and objec-

tives.” It was the view of the G77, however, that “these initiatives should be thoroughly reviewed, discussed and refined by member states. In other words, any actual progress on forging partnerships must by necessity await the intergovernmental body’s elaboration and, more importantly, adoption of the requisite elements and modalities for intended partnerships” (United Nations 2001c:1).

In this context it should be recalled that General Assembly resolution A/RES/56/76 “invites the UN system to continue to adhere to a common approach to partnerships which, without imposing undue rigidity in partnership agreements, includes the following principles: common purpose, transparency, bestowing no unfair advantage among any partner of the United Nations, mutual benefits and mutual respect, accountability, respect for the modalities of the United Nations, striving for balanced representation of relevant partners from developed and developing countries and countries with economies in transition, and not comprising the independence and neutrality of the United Nations system in general and the agencies in particular.” (United Nations 2002c)

The vast array of partnership arrangements set up to achieve a widely disparate set of objectives hardly conveys the impression that they conform to a clear common framework of concepts, modalities or principles. Indeed, if a common approach to partnerships does exist, it seems to be “anything goes”. For example, there is little evidence to show that progress has been made on finding “a common understanding for the scope and modalities of partnerships to be developed as part of the outcomes of the World Summit on Sustainable Development (‘type 2’ outcomes, namely PPPs)”. To date, the draft (so-called Bali) guiding principles for partnerships to deal with environmental issues do not seem to have been further developed or adhered to (UNCSD 2002).²⁷⁰ Moreover, there is little sign that clear UN-wide

²⁷⁰ The principles concern Objectives of Partnerships, Voluntary nature/respect for fundamental principles and ideas, Link with globally agreed outcomes, Integrated approach to sustainable development, Multistakeholder approach, Transparency and accountability, Tangible results, Funding arrangements, New/value-added partnerships, Local involvement and international impact, Follow-up process.

rules for transparency, accountability and reporting have been elaborated or implemented. There therefore remains much work to be done before the Secretary-General's proposal to streamline and rationalize the UN's approach to partnerships with the private sector is achieved.

The proposed across-the-board evaluation at the 2003 UN General Assembly could have been expected to play an important role in such rationalization. A full assessment of UN-business partnerships would inevitably involve considering the sort of issues that arise in relation to the private financing initiatives (PFIs) and PPPs that are increasingly adopted as a means of quasi-privatization and ostensibly keeping public expenditure to a minimum. These economic and political arrangements are complex and highly controversial, and attract considerable attention from politicians, academics and independent researchers. As yet, however, there is relatively little independent evidence regarding, for example, whether the major problems lie with the quality of the public sector's commissioning or the private sector's ability to deliver (Timmins 2002). Nevertheless, the currently available analytical work provides useful ideas on concepts and methodology, and also valuable insights for the UN's assessment of its own partnerships.

However, only a few weeks before the General Assembly debate, UN agencies have not provided the detailed assessments of partnerships that would facilitate a detailed discussion and the drawing of practical conclusions. In the absence of such information, it is doubtful whether member states will be able to assess whether partnerships meet the UN's budget and programming criteria, namely that they be SMART, that is, specific, measurable, achievable, results-focused and time bound.²⁷¹ It is even less clear whether evidence is available that would indicate how far UN-business partnerships meet their stated objectives, let alone evidence or analysis regarding their wider implications for development.

²⁷¹ Considerable emphasis was put on the SMART approach at an OECD Working Party of the Public Management Service on results-based programming, management and budgeting. While to some extent effective in a national context, the introduction of this approach into the UN has not proved particularly helpful in efforts to achieve sound and business-like management, efficiency and effectiveness (Bertrand 2002).

It is not possible here to discuss the scope and the minutiae of what needs to be assessed in any UN evaluation of UN-business partnerships. The following list of mainly technical and operational questions indicates only a few of the issues that need to be examined, the relevance of each question varying according to the purpose and operational form of specific UN-business partnerships:

1. Is a full social cost-benefit exercise carried out in relation to each partnership project, where such assessment methods are feasible?
2. How are the financial benefits that accrue to private sector partners shared with the public sector?
3. When foreign enterprises are involved in partnerships, what conditions are set regarding the reinvestment or repatriation of profits generated by the partnership project/investment?
4. Which party is responsible for the fixed and recurrent costs?
5. What mechanisms are in place to ensure that partnerships providing services, such as water or electricity, or products such as medicines, are provided on terms appropriate to poorer or more isolated consumers on a sustainable basis?²⁷²
6. Who bears the financial risks in cases where partnerships involving large capital-intensive initiatives break down, or if the firms, for whatever reason, become bankrupt in the

²⁷² IFC and other loans could be made to developing country enterprises rather than, say, Electricité de France (EDF). See Electricité de France (2002a, 2002b, 2002c) for lengthy and detailed advertisements on each day of the Johannesburg World Summit for Sustainable Development “presenting information on its concrete commitments towards sustainable development”.

course of the project?²⁷³ Does final liability fall wholly on the public sector?

7. Which mechanisms are in place to provide space for expressions of concern on the part of developing country governments and different sections of society?
8. Are UN bodies and their staff adequately equipped and trained to handle UN relationships with private sector bodies, especially in view of the fact that partnerships often involve complex conflicts of interest?
9. What are the broader indirect implications of UN-business partnerships regarding, for example, the consequences for sectoral concentration of firms and their ownership, the development of domestic firms?
10. Under current arrangements is there, or could there be, balanced representation among business partners from North and South, and is it possible to guarantee that there is no unfair advantage to some firms?

Reforming the terms of engagement?

The need for transparency and to know to whom UN-business partnerships and the Global Compact are accountable for the use of funds and for results throughout the life of partnerships are highly pertinent matters. Ways to improve the Global Compact and specific UN-business partnerships through reform, rationalization, and tightening-up and further development of the modalities are not hard to envisage. In his report (United Nations 2002a), Secretary-General Kofi Annan proposed that a Partnerships Office be established that would bring

²⁷³ In relation to the PPP to improve London's underground network, the chief advisor to the UK Treasury suggested there should be limits to which private firms should be allowed to take public sector roles. Moreover, the extent of state assistance to private firms in the case of project breakdown is a vexed political issue (Macalister and Clark 2002).

under a common umbrella the Global Compact Office and the United Nations Fund for International Partnerships (that facilitates and mobilizes resources for partnerships).²⁷⁴ This new institution could be given responsibility for establishing a common framework for all arrangements between the UN (all UN agencies) and business, and hold a register with the terms of all contracts or arrangements between UN agencies and businesses or business organizations open for public perusal.

To avoid wasting already meagre resources on too many disparate goals and to enable the UN to handle relations with business in a businesslike manner, partnerships would need to be limited to a smaller range of activities or objectives. Tesner of the organization Resurgence Strategy (part of Business Interlocutors) also suggests such a strategy (Business Interlocutors, 2001: Annex O). Moreover, leaving aside business self-interest, there is no overriding reason why business partners should not be selected through tender, when more than one enterprise is able to undertake the task. Apart from crucial cost and technical criteria, the company's CSR record should be taken into account. Among other things, contracts would specify accountability measures regarding both performance and financial matters, and would be carefully structured so as to safeguard the public purpose and interest.

Where there is more than one producer or provider of the specific products and services required, contractual arrangements should involve more than one business so as to ensure that, as far as possible, no single firm derives advantage (whether in direct business terms or from enhanced reputation). Furthermore, efforts should be made to involve developing country business partners. In cases where firms are likely to gain "rent" from the designated activity, there is need for the UN to consider how this rent could be partially captured by the developing country/countries where the activity takes place.

Furthermore, no relations between the UN and business, whether close or loose, should be formed with business lobbies or in-

²⁷⁴ "Funding for posts and activities will continue to come from essentially extra-budgetary resources, and the Global Compact will continue its policy of raising its funding from Member States and foundations and not from private sector companies" (United Nations 2002a:25).

dividual businesses for tasks or activities that centre on policy matters such as privatization, FDI, or competition. Furthermore, quid pro quo clauses that imply policy commitments on the part of the UN should be precluded from UN-business contractual arrangements.²⁷⁵ In other words, the business sector should not be treated on the same level as, or accorded the prerogatives of, member states. The legitimate right of business to promote its own policy interests should be confined to lobbying activities on the *fringes* of UN activities proper, as should be the case for NGOs and other civil society bodies. Nor are there grounds for allowing businesses to use the UN logo; its use (or of semblances of the logo) in relation to partnerships should be proscribed. Insinuating an association with the UN should be cause for censure on the Global Compact website and exclusion from the Compact and other relations with the UN.

As concerns the Global Compact, the recent shift from a system based on *membership* and a commitment to reporting best practices on a Compact website (that is, within the UN) to one in which *participating* companies declare they will report in their company accounts or reports (outside the UN) their efforts to implement the Compact principles weakens the UN's own involvement in gaining compliance with the principles. This change complies with the commitment made by the Compact at its start that it would not monitor business compliance with the principles and perhaps also reflects business efforts to hold the UN to this commitment. Nevertheless, there clearly needs to be some threshold for non-compliance or abuse at which business participants should be excluded both from the Compact and other UN-business partnerships. Public confidence in the Compact would be greater if, in addition to relying on civil society to monitor compliance, the UN were also seen to be concerning itself with how seriously companies took their commitment. Whether such monitoring is best undertaken within the Global Compact or by another UN institution, already

²⁷⁵ Likewise greater efforts need to be made to ensure that business interests from advanced industrial countries do not have open or covert influence in the setting of norms and standards in the UN.

existing non-UN body or newly created one, is the subject of discussion in various forums.²⁷⁶

However, bearing in mind the broader challenges and dilemmas posed by partnership between the UN and businesses, the above proposals constitute a minimal and insufficient response. Improving transparency, reporting, monitoring and accountability all contribute to getting the immediate job done (for example, providing medicines to save lives): but they ignore other deep-rooted implications for development. Little contribution to the UN's development goals will have been made if partnership efforts do little to enhance developing countries' own capacity to provide social investment, products and services, or to enhance the capacity of developing country firms to gain experience and strength to compete nationally and internationally. Nor will development goals be attained if current global economic policies are allowed to persist and developing countries' policy needs continue to be ignored or rejected.

Almost all UN partnerships with business pose dilemmas regarding actual or potential conflict of interest. They also raise complex questions about compromises or trade-offs, and positive or negative spill-over effects which can have significant ramifications for development and economic policy. Whether unavoidable, unintended or otherwise, these externalities or wider implications of partnerships, have

²⁷⁶ Many proposals have been floated for accountability and monitoring mechanisms: there are various proposals for giving responsibility to UNHCHR -- the UN's human rights machinery -- which, as mentioned above, has already been engaged in discussing Human Rights Principles and Responsibilities for Transnational Corporations and Other Business Enterprises. Other proposals include that of Friends of the Earth International's proposal for the establishment of a Corporate Accountability Convention; and that of the International Forum on Globalization's ideas for a UN Organization for Corporate Accountability. There are also proposals for a Global Regulation Authority and for reviving the defunct UN Centre on Transnational Corporations (UNCTC), whose residual functions are now undertaken by UNCTAD (Utting 2002b:646). A website (www.benchpost.com/untic) is now being developed to make more accessible UNCTC's reports and studies. Each of these proposals puts a different emphasis on various possible elements, such as standard-setting, incentives, reporting, monitoring compliance and legal action.

generally been ignored. This may be because it is assumed that the problems can always be sorted out to mutual benefit over time through dialogue or that in the medium- or long-term the problem will have resolved itself. Enthusiasm and wishful thinking do not, however, provide firm foundations for an initiative on which, apart from anything else, the UN's reputation and integrity are staked. Without satisfactory responses to such dilemmas and conflicts, partnerships between the UN and business may do more to further the interests of TNCs and developed countries than those of the developing world.

The short- and long-term development implications of business collaboration with the UN cannot be left to trust. It is of central concern whether UN partnerships with the business sector serve the public purpose, as represented by the UN. This is particularly important at a time when major political and military developments are combining to undermine the rather fragile multilateral world order established under the UN and its Charter.

Ratcheting up the policy framework

A more development-oriented approach to UN-business partnerships would demand a "ratcheting up" of policy commitment on the part of business as part of the ground rules for UN-business relations and activities. This is essential if the UN is to continue to encourage greater FDI in developing countries, as part of efforts to "... ensure that globalization becomes a positive force for all." In short, the business sector needs to be engaged in ways that avoid creating dependency either on particular foreign companies or on foreign capital more generally, and in a manner that prevents foreign interests from influencing or determining national macroeconomic and social priorities or the productive structure. However, the earlier discussion on policy and on TNC lobbying powers illustrates the difficulties involved in developing a new framework for partnerships that would be satisfactory for the UN, for developing countries and for businesses.²⁷⁷

²⁷⁷ The discussion and conclusions in the present study stand in stark contrast to the recent major report published by the UN on the subject of UN-business partnerships that in effect represents strong advocacy for such partnerships on

It was also argued that unfettered FDI is not in the interests of developing countries and that, for FDI to make its maximum development contribution, developing country governments need to be able to exercise policy discretion regarding the quantity, sequencing and quality of FDI. In recent years, however, the willingness and ability to adopt such an approach has greatly diminished, in face of the growing influence of the ideology of deregulation and liberalization and to Washington consensus policies and conditionalities. Moreover, when there is high capital mobility, it is difficult for individual developing countries to set national parameters for FDI, whether in relation to CSR-type issues or regarding economic development objectives, unless they have sought-after natural resources or other great potential of interest to TNCs.

To tackle the problem of market failure with regard to developing countries' needs for suitable FDI, the UN therefore needs to work to establish a development-oriented framework for corporate responsibility in the field of FDI that would apply to businesses that participate in the Global Compact and in other close relations with the UN. Such a framework would need to include at least the following broad commitments as *sine qua non* for partnership with the UN (Global Compact or otherwise):

- Regarding global policy, businesses would be expected to agree to give explicit support to developing country demands for greater policy flexibility under the WTO regime. They would also be committed to supporting developing countries' demands that reciprocity and MFN treatment not be expected of them in WTO agreements, in recognition of their development needs. Another commitment would be to support the kind of competition policy that promoted the growth of domestic firms in developing countries. TNCs would also be expected to refrain from pressing for a multilateral investment agreement under the aegis of the

the basis of little analysis. It is significant that this UN publication is the product of a joint initiative with The Prince of Wales International Business Leaders Forum (now the International Business Leaders Forum) one of whose leading employees at the time authored the report (United Nations 2002b).

WTO, especially one that guaranteed the principles of right of access and national treatment.

- Commitment to abide by host country regulations regarding national and local taxes, together with a commitment to refrain from pressing for exemption from tax and customs duties and to abstain from transfer pricing as a means of reducing taxable revenue.
- Commitment to implement the OECD Guidelines for Multinational Enterprises and other similar sets of principles for investment guidelines.²⁷⁸
- Commitment to refrain from exercising policy influence, but to do so in a manner that goes beyond the OECD guidelines stipulating that enterprises should “abstain from an improper involvement in local political activities” (OECD 2000b). The UN’s TNC partners should abstain from participation in public-private dialogues and pressure groups that advise on, or lobby for, investment conditions that largely benefit foreign investors. Nor should TNCs serve on host developing country government advisory panels or standard-setting bodies.
- Support the further development of the Norms on the Responsibilities of Transnational Corporations and Other Businesses with Regard to Human Rights.

²⁷⁸ The OECD guidelines address issues of concern to both developed and developing countries. The 1998 European Union guidelines for “European Enterprises operating in Developing Countries” are another example. The policy framework for UN partnerships with business needs to go beyond these if it is to take developing country concerns more fully into account.

Businesses associated with the UN would be expected to adopt the following as standard practices regarding their FDI:

- Give priority to green field investments (that is creating new assets) rather than increasing TNC presence by acquiring existing assets through mergers and acquisitions.
- Undertake FDI as a long-term commitment, and undertake eventual decisions to relocate in ways that minimize the negative consequences for the country concerned.
- Promote local sourcing, and assist the technological upgrading of local suppliers.

Adherence to such principles and practices would present a true test of TNCs' commitment to enhancing their contribution to development. Clearly such commitments will be considered a tall order by many TNCs. But, just as the Global Compact is largely aspirational regarding its nine principles (especially bearing in mind the lack of monitoring and supervisory functions) so too principles regarding FDI could stand initially as a public statement of intent rooted in the one UN institution that at the moment expresses the intent to improve business responsibility and promote development.

The changes outlined in the previous two subsections would transform partnership arrangements into a more transparent and structured approach that has a clearer development commitment. To effect such changes would be no small undertaking. The various UN agencies involved may be unable to reach agreement. Such ground rules are likely be resisted by business, on the basis that the changes erode the underlying bargain on which the Global Compact and other UN partnerships are founded, namely that no efforts will be made to change the rules of the game. Failing the introduction of such changes, the UN's relations with business should be limited to advocacy of the Compact's nine principles through National Compact mechanisms. Other close relations between the UN and business should be abandoned.

Back to the drawing board: A new development strategy

There is, nevertheless, a different approach to UN-business partnerships that would remove several of the most serious problems associated with current approach. Briefly, it is suggested that the UN should concentrate its efforts on existing priority activities rather than dissipate its resources in “mission creep” that has few identifiable benefits. Instead of putting all its efforts into streamlining and improving the current diffuse and unsatisfactory partnership arrangements, or expanding Global Compact activities, UN resources and energies would be put to better use if devoted to making developing country poverty reduction strategies more effective and to strengthening the UN plan of action for least developed countries.

This could be done by focusing UN efforts on helping developing countries establish concerted and integrated development strategies, and on using its convening power to encourage foreign investors to participate on the basis of committed CSR as outlined above. If these countries are to be released from the poverty trap in which they are caught, an energetic and more focused effort is called for.

Evidence of the dire need for such fast-track efforts is provided by a number of recent UN reports that record the slow progress in meeting development goals in most least developed countries, and a fall in per capita incomes in several of them.²⁷⁹ United Nations (2003a), referring to the continuing challenge of implementing the special Brussels Programme of Action (2001) for least developed countries, points to the major challenge of “development of sufficient national capacities to implement the Programme, the cost associated with the implementation process. ... Successful implementation of the Programme of Action will ultimately depend on the spirit of shared responsibility and global partnership that was forged at Brussels.”

This poverty reduction strategy for individual countries would require the level and spread of investments to be determined -- the level being that which would constitute the critical mass needed to gen-

²⁷⁹ United Nations (2003a); UNDP (2003b). See also Williams (2003d).

erate positive intersectoral externalities and a virtuous circle of growth and development. Such investment would be financed and implemented in a co-ordinated fashion that attempted to overcome current social and infrastructure bottlenecks. An investment fund to achieve the investment targets would have to be established from national, multilateral, bilateral and possibly business sources. However, unlike at present, concessional finance should be provided free of conditionalities that are not integral to fund and project management.

The co-ordination of investment would help to overcome market failure in the poorer developing countries and provide a clearer way out of the poverty trap. A carefully targeted strategy would also constitute a more forceful and co-ordinated structural approach to dealing with major development challenges, such as the promotion and upgrading of local businesses, or major health problems.²⁸⁰ Moreover, an adequately funded and purposeful initiative of this kind would generate a more integrated and dynamic environment in which business could prosper and contribute to more rapid and widespread growth and development.

Both national and foreign firms would be involved in this co-ordinated investment initiative and measures would need to be adopted to prevent “crowding out” of local firms. Indeed a central plank of such a strategy would be the development of local business.²⁸¹ Co-ordinated national strategies would also provide a more fertile environment for scaled-up efforts of the sort envisaged by UNIDO to increase the capacities of developing country small and medium enterprises. As part of industrial policy, finance would be available to enable local firms to participate as partners in “joint ventures”, or to engage in

²⁸⁰ The experience of Global Funds and UN-business initiatives for the prevention and treatment of diseases such as AIDS, TB, and malaria has made health experts, development agencies and governments increasingly aware that these and other endemic and killer diseases can only be tackled effectively on the scale necessary by investing in basic infrastructure, health systems and staff.

²⁸¹ See Eurodad (2002) for a critical comment on the World Bank Group’s strategy for private sector development and the link to PRSPs.

“learning experience”.²⁸² Considerable experience is available from many parts of the world on how to establish and run a development bank to provide relatively inexpensive long- and short-term credit to local businesses that lack capital and funds for development, and in financing programmes supported by multilateral institutions. Finance from such a bank could help foster state projects to develop national capacity in the provision of public services. No doubt the recently established UN Commission on the Private Sector and Development will focus attention on means of enhancing developing countries’ own business sector.

Where very specific tasks required the contribution of foreign enterprises, selection and engagement would be based on a tendering process and contractual arrangements that included accountability for outcomes as well as outputs. Not only would foreign firms need to demonstrate commitment to promoting the Global Compact principles, they would also be expected to commit themselves to respecting the host government’s policies on the treatment of FDI, competition policy, capital controls, and taxation rules. The duration of TNC presence would be determined on the basis of the nature of the particular task at hand, and the potential for national firms to develop sufficiently so as to be able take on such activities. However, some TNCs might be expected to commit themselves to a minimum number of years (that is be prepared to commit themselves as “patient” capital). Others, depending on the type of investment and circumstances, might be subject to “sunset” clauses so that after a determined period they would “bow out”.

A strategy of this sort would be geared to a selective approach to FDI; that is, specific FDI that contributes to the designated economic and social development goals would be sought, and on the basis of policies suited to the country’s level of development, as outlined above.

Some TNCs urge that public policy makers need to explore new ways to involve the private sector -- both domestic and international --

²⁸² Gordon Brown (2003), UK Chancellor of the Exchequer, recently launched the idea of a Finance Facility for a “global new deal” inspired by the Marshall Plan.

in planning and decision-making processes, and suggest forming Country Investor Networks and Independent Advisory Groups (Business Interlocutors 2001). This should be guarded against: to draw TNCs into either the heart or even the margins of developing country policy making processes runs the risk of allowing TNC strategic interests to become the determining influence both with respect to investment projects and policy. And, were the UN to continue to adhere to the idea of close relations with business, this threat would become more real.

While continuing to promote the nine principles, the focus of the Global Compact should shift to the national level, where all sectors of business and civil society could float ideas and seek means of implementing the principles in ways appropriate to each particular economy and society. Development goals would be more likely to be achieved, if the piecemeal approach to partnerships with business were abandoned in favour of concentrating energies and resources on a concerted fast-track development strategy rooted in a development-friendly policy for FDI. But it would also help to ensure that partnerships did not facilitate collusion or capture of governments or the UN by business interests. This, in turn, would help promote institutional development to ensure the autonomy of government relative to business and the market, and strengthening the ability of developing country governments and the UN to set the framework within which business operates.

TNC involvement on the lines sketched out above would demonstrate a more substantial commitment to CSR than that elicited under present UN-business partnership arrangements. Indeed the strategy would provide grounds for considering some if not most FDI to be an act of corporate responsibility. Furthermore, a growth-promoting development strategy that concentrated on national integration and making concerted efforts to reach specified targets would have lower short-term risks for business while improving the longer-term prospects for business, both from the South and the North.

In reality, the strategy outlined above is not an outlandish suggestion. The recently published UNDP *Human Development Report* (2003b) is devoted to the idea of a Millennium Development Pact con-

sisting of additional donor finance and “shared responsibilities among major stakeholders”, through which “the world community can work together to help poor countries achieve the Millennium Development Goals.” UNDP proposes that meeting the goals “should start with the recognition that each country must pursue a development strategy that meets its specific needs” (p. 15) and that “escaping poverty traps requires countries to reach certain critical thresholds -- of health, education, infrastructure and governance -- that will permit them to take off to achieve sustained economic growth.” (p. 5)

As indicated earlier when discussing government regulation, the literature on economic development points strongly to the fact that those interventionist states that have been successful in getting business to adhere to performance standards are successful in achieving long-term economic and social development. Moreover, the proposed strategy provides the necessary complementarity of markets and governments and the supporting institutions -- an important analytical point emerging from the economics literature. If governments fail, so do markets. Without a strong and capable government, markets cannot succeed. If markets do not work effectively and productively, confidence in the government is lost as well. It is for this reason that both issues must be tackled simultaneously in economic development. (See World Bank, 2002)












The above strategy thus provides a focused and concrete way of translating into practice the good intentions and observations set out in the following words of the UN Secretary-General’s November 2002 report on Business and Development (United Nations 2002f:3–4).

There is now universal recognition that individual Governments have overall primary responsibility for managing their countries’ efforts to achieve their national development goals. They therefore have to ensure that, for its part, the business sector, both domestic and international, contributes as far as possible to the attainment of those goals. ... One of the strengths of the private sector is its ability, within its overall profit-oriented structure, to adjust promptly and efficiently to changing conditions. ... How-

ever, the full benefits of this flexibility are unlikely to be realized -- or may be very costly to realize -- in an environment of underlying uncertainty. Under such circumstances, businesses are more likely to focus on maximizing their own short term economic gains, seeing less benefit to be derived from contributing to the country's longer-term economic, social and environmental development objectives.

. . . Regardless of the specific development goals and policies pursued, one of the key functions of individual Governments vis-à-vis the business sector should therefore be to provide clarity and stability about the expected role of business within a country's development strategy over the medium term and to provide a regulatory framework so as to promote national economic, social and environmental objectives. In this context, the need for appropriate national strategies, policies and regulatory frameworks cannot be overemphasized.

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