Development Cooperation and corporate social responsibility

exploring the role of development cooperation agencies

Stockholm, 22nd - 23rd March 2004

Appendix 1:

Summaries of presentations and workshops

NB if printing: this document is 53 pages long

Note: what follows is the conference agenda, followed by the authors' interpretations - rather than verbatim transcriptions - of the presentations and workshops that took place at the 'Development cooperation and corporate social responsibility' conference in Stockholm, 22nd – 23rd March, 2004. We therefore take responsibility for any errors, omissions or misrepresentations. *Thanks to Sofia Calltorp, Elenore Kanter and Jo Hamlyn for their assistance in compiling these notes.*

Tom Fox and Dave Prescott
30 April, 2004

REGERINGSKANSLIET
Ministry for Foreign Affairs Sweden

Sida

IBLF
THE PRINCE OF WALES INTERNATIONAL BUSINESS LEADERS FORUM

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Hosted by the Swedish Minister for International Development Cooperation, Carin Jämtin, together with Sida, the Prince of Wales International Business Leaders Forum, the International Institute for Environment and Development and the World Bank.

Venue:	**Polstjärnan Konferens, Sveavägen 77, Stockholm**

Monday 22 March

0800	Registration and coffee
0900 - 1045	**Plenary One – Setting the scene**
Chair:	**Ambassador Mia Horn af Rantzien**, Ministry for Foreign Affairs, Sweden

- Welcome and objectives of the meeting by **Carin Jämtin**, Minister for Development Cooperation, Sweden
- Responsible business practices in the South, **Oded Grajew**, Instituto Ethos de Empresas e Responsabilidade Social
- Public policy, development cooperation and corporate social responsibility – recent international developments, **Halina Ward**, International Institute for Environment and Development
- The enabling environment for responsible business, **Jane Nelson**, IBLF and Kennedy School of Government, Harvard University
- Discussion

1045 - 1115	Break
1115 - 1300	**Workshops**
Workshop 1:	**Building local responsible business practices**
Chair:	**Jonas Moberg,** the International Business Leaders Forum
Rapporteur:	**Albena Melin,** UK Department for International Development
Contributors include:	**Tran Van Nhan**, Institute for National Environment, Science and Technology, Vietnam **Tran Ngoc Ca,** National Institute for Science Technology Policies, Vietnam **Dang Than Thuy**, Xuan Thoa Company, Vietnam **Syed Asif Hasnain,** UNIDO **Karl-Anders Larsson**, Swedish Embassy, Hanoi **Paul Kapelus,** African Institute of Corporate Citizenship **Anita Normark**, International Federation of Building and Wood Workers
Session questions:	- How can donors act as partners in building local responsible business practices? - What is the role of the donors and how can donors collaborate with other stakeholders in building of local responsible business practices?

Workshop 2:	**Corruption and Transparency - donors assisting governments and the private sector**
Chair:	**Jens Berthelsen**, Confederation of Danish Industries
Rapporteur:	**Martin Kalunga Banda**, Oxfam
Contributors include:	**Karugor Gatamah,** Center for Corporate Governance, Kenya **Carin Norberg**, Transparency International **Malaika Culverwell,** UK Department for International Development **Henry Parham,** Publish What You Pay Campaign **Axel Wenblad**, Skanska AB
Session questions:	- What can donors do to promote private sector transparency and combat corruption? - How can donors support implementation of initiatives such as the Extractive Industries Transparency Initiative? - What is the role of the donors and how can donors collaborate with or support other stakeholders?
Workshop 3:	**CSR standards and norms in developing countries**
Chair:	**Nigel Twose**, The World Bank Group
Rapporteur:	**Ritu Kumar,** Teri-Europe
Contributors include:	**Aron Cramer**, Business for Social Responsibility **Luis Fernandos Guerdes Pinto**, Imaflora, Brazil **Patrick Mallet,** International Social and Environmental Accreditation and Labeling Alliance **Neil Kearney,** International Textile, Garment and Leather Workers' Federation **Sandra Polaski**, Carnegie Endowment for International Peace **Peder Michael Pruzan-Jørgensen**, PriceWaterhouseCoopers
Session questions:	- How and what can donors do to promote and support appropriate codes of conducts and standards promoting responsible business practices? - How can donors support both the public and private sector in developing countries in meeting the growing demand for corporate social responsibilities from buyers, NGOs, businesses and investors? - How can donors support the implementation and monitoring of codes and standards?
Workshop 4:	**Private companies operating in conflict-prone areas**
Chair:	**Kathryn McPhail**, International Council on Mining and Metals
Rapporteur:	**David Nyheim**
Contributors include:	**Edgar Bullecer**, The Paglas Corporation, The Philippines **Brenda Mendoza,** National Economic and Development Authority, The Philippines **Keti Dgebuadze**, International Information Center of Social Reform, Georgia **Claude Voillat,** International Committee of the Red Cross

		Nick Killick, International Alert **Andrew Pendleton**, Christian Aid
Session questions:		- How can donors and companies work to ensure that companies operating in conflict-prone areas are a force for good? - What is an effective division of responsibility between donor agencies and other actors and stakeholders with regard to the private sector and security issues? - How can donors cooperate effectively with other actors in ensuring that the private sector is a force for good?
1300		Lunch
Speech		**Rt. Hon The Lord Holme of Cheltenham, CBE,** Special Advisor to the Chairman, Rio Tinto plc
1415 - 1515		**Continuation of Workshops**
1515 - 1545		Break
1545 – 1700		**Plenary Two – Building local capacity to enable responsible business**
Chair:		**Jan Bjerninger**, Sida
		- Building local capacity, **Tariq Banuri**, Stockholm Environment Institute Asia Centre, Thailand - Building local capacity, **Anita Normark**, International Federation of Building and Wood Workers - Building local capacity, **Viraf Mehta**, Partners in Change, India - Building local capacity, **Jorge Cardenas**, Corona Foundation, Colombia - Discussion
1700		Ends
1830		**Reception at the Ministry for Foreign Affairs,** Gustav Adolfs torg 1, hosted by **Carin Jämtin**
1930		**Buffet Dinner,** Operahuset, Operaterrassen, Karl XIIs torg, hosted by **Maria Norrfalk,** Director General, Swedish International Development Agency

Tuesday 23 March	
0900 – 0920	The role of business beyond its traditional boundaries, **Jean-François Rischard,** The World Bank
0920 – 1100	**Plenary Three** – What donors can do to promote responsible business practices
Chair:	**Jane Nelson**, IBLF and Kennedy School of Government, Harvard University - **Panel discussion with the rapporteurs from the workshops**
1100 – 1130	Break
1130 - 1300	**Plenary Four** – Development cooperation and good public and private governance
Chair:	**Annika Söder**, State Secretary, Ministry for Foreign Affairs, Sweden
	- Development cooperation and the promotion of responsible business practices, **Maria Norrfalk**, Swedish International Development Agency - Development cooperation coordination, **Richard Manning**, OECD-DAC - Facilitating responsible business practices and investments in developing countries, **Bruce Jenks**, UNDP - Development cooperation and CSR, perspectives from the International Finance Corporation, **Rachel Kyte**, IFC - Facilitating responsible business practices and investments in developing countries, **Karl Sauvant**, UNCTAD - Discussion
1300 – 1430	**Lunch at the Stockholm School of Economics,** Sveavägen 65
1430 - 1600	**Plenary Five** – Corporate Social Responsibility and international standards and principles – the role of development agencies
Chair:	**Ambassador Remo Gautschi**, Swiss Agency for Development Cooperation
	- The importance of aligning principles and projects, **Georg Kell**, Global Compact - The OECD Guidelines and Development cooperation, **Marinus Sikkel**, OECD-CIME - The development case for Core Labour Standards, **Hans Hofmeijer**, International Labour Organisation - Agence Française de Développement and international standards and principles, **François Pacquement**, AFD - Discussion
1600 – 1700	**Final Plenary**
Chair:	**Carin Jämtin**, Minister for Development Cooperation, Sweden - Panel discussion feedback and conclusions: **Richard Manning,** OECD-DAC **Richard Sandbrook,** Growing Sustainable Business Initiative of UNDP **Holly Wise,** USAID **Camilla Toulmin,** International Institute for Environment and Development **Karugor Gatamah,** Centre for Corporate Governance, Kenya
1700	Ends

Plenary One – setting the scene

Ambassador Mia Horn af Rantzien, who heads the Swedish Partnership for Global Responsibility (SPGR), introduced the first session of the conference. **Carin Jämtin**, Swedish Minister for Development Cooperation, opened the conference, describing it as a contribution to globalised development, working in the interest of humankind. She explained why corporate social responsibility (CSR) is important, and its link with development. As the number of multinational enterprises and the amount of foreign direct investment (FDI) has increased, aid flows have remained stable. The economic growth that has come with investment is important for poverty alleviation. But globalisation speeds up the pace of change, sometimes too much. The fruits of growth are unequally distributed and there are feelings of insecurity. As the balance of power shifts from state to markets, the ability of the state to legislate is weaker. Any society, global or local, needs trust. CSR can help to ensure that globalisation works for development.

We need to work together, to use norms and conventions more effectively, in order to create the necessary framework. We have a common agenda in the Millennium Development Goals (MDGs), Doha, WSSD, and Monterrey. But getting from words to deeds needs collaboration, hence Kofi Annan's challenge in 1999 to the business community to become part of the solution with an active role in human rights, on the environment, etc. This often means good business – but demands on companies are growing and they are expected to take responsibility. There is a mixed response, with some leaders but some freeriders. The forerunners will be the winners in the long run. Sweden will continue to support the UN Global Compact in 2004. The link between our trade policy and foreign policy stresses the importance of human rights and sustainable development. Our Prime Minister launched the SPGR in 2002, encouraging Swedish companies to become ambassadors around the world. The points of departure are the OECD Guidelines and the UN Global Compact Principles. If we are willing to converge around global principles we can move forward – and Sweden is keen to do its part.

CSR can help but a number of questions remain, in relation to:

- Division of roles, especially between companies and other actors, and where partnerships can help.
- Harmonisation of information, guidelines and measurements.
- Development aspects of CSR, recognising criticism that the CSR agenda is formulated by northern actors without sufficient southern stakeholder involvement, with the risk of protectionist results. CSR needs to be a joint venture between North and South, that maximises the development impact and makes the most of the possibilities that globalisation offers.

Oded Grajew of Instituto Ethos de Empresas e Responsabilidade Social spoke on responsible business practices in the South, focusing on Brazil. Ethos was founded in 1988, in the wake of democratisation in Brazil in 1985, before which there lacked the free press, unions and NGOs that are essential for business responsibility. Nowadays you don't find any companies, whether large or small, that are not involved in some sort of philanthropic programme. Ethos was founded with 11 companies; there are now 800 members, of all sizes, both national companies and MNEs, representing about 30% of the national economy. We work with companies to introduce tools to manage social responsibility, but we also work with journalists, NGOs and universities to create a favourable environment that presses companies to be responsible. This year we are trying to involve business in public policies, with the MDGs as a basis and based on UN Global Compact principles and Ethos indicators. We are trying to shift the paradigm from competition to cooperation, from development to sustainable development, and from free markets to socially responsible markets. But there are big risks – society wants concrete results and if they don't get them, they won't believe that we are doing any more than marketing and showing off. The risk is that with the economic model that we are following, and the debt burden that our countries face, there is no chance that we can meet the MDGs, and people won't see any change from our actions. There are the resources to do it – look at subsidies and the military expenditure allocated to fight terror. But you see nothing in the papers about the 30,000 children that die every day due to hunger. This is a matter of political will. We need to force ourselves to make the right choices.

Halina Ward looked at recent international developments in public policy, development cooperation and corporate social responsibility. The current conference is the latest in a number of conferences looking at the enabling environment for CSR. In particular, a major antecedent for this conference was the meeting in London in January 2002, hosted by DfID and CIDA and facilitated by IIED, which brought together nine bilateral and six multilateral agencies, to talk about their role in CSR. The bilaterals wanted to share their experience of working in partnerships – and public-private partnerships continue to be a central theme for many bilateral cooperation agencies, as indicated by the notes in delegate packs *(see appendix 2)*

Just as NGOs and businesses continue to face dilemmas on boundaries and scope of value-added on CSR, so are bilaterals facing these issues. How can bilaterals work most effectively with companies in particular, and also with others? The substance of that meeting was the development aspects of CSR agenda (which has moved on a lot over last 2 years). There were four working groups: one looked at how the CSR agenda can be moved to the south, and the need to engage with the stakeholder base in middle and low-income countries. Participants talked about an increasing resistance to 'northern' ideologies. A second working group looked at understanding the terminology that has emerged around CSR, including capacity issues, and the potential for divisive relationships between civil society and private sector. A third group looked at the proliferation of standards and initiatives in the CSR agenda, and whether this was a problem or an opportunity. It was decided that the proliferation can confuse companies, but can also help raise awareness of CSR. The codes and standards agenda has moved on substantially, as today's session will further explore. A fourth working group focused on definitions of CSR, recognizing that entry points differ widely. A practical strategy was suggested at that meeting – given the differences in terminology and vocabulary, it may be better to think in terms of the purpose of CSR: to act as prerequisite for investment in developing countries, to help overcome market inefficiencies and gaps in governance, and a means to form synergies between public and private sectors to overcome social challenges.

The summary documents from bilaterals in conference packs *(see appendix 2)* reflect the wide range of entry points to CSR, ranging from the observation that business leverages far greater money than bilaterals; to the view that partnerships are the only way forward; to the view that SMEs are crucial to economic development. The meeting in London was before WSSD. This year, the Global Compact Leaders' Summit is the crucial one, although it's important not to focus on the immediate time horizon.

A World Bank initiative was discussed at the London meeting – exploring the role of public sector agencies in CSR and led to a World Bank conference in Washington looked at role of public sector agencies in low-income countries. Here, the focus is on OECD-based bilaterals. The World Bank work looked at how public sector goals can be aligned with CSR in low-income countries, eg how can CSR be plugged into national competitiveness strategies, how can it be localised so that CSR is relevant to countries, while respecting the need for some basic international guidelines and norms.

In conclusion – there are lots of underlying questions over next two days. Development cooperation agencies can help build drivers for CSR, create and sustain business incentives, help to develop tools for CSR, uphold standards and guidelines and also help to develop human capacities and institutions that are necessary to underpin sustained effort at CSR.

Jane Nelson, of the IBLF and the Harvard University, spoke about defining CSR and responsible business engagement in development

Defining CSR

- It is critical to think of CSR beyond PR and philanthropy if business is to play a serious role in development.
- CSR is about what business does in different spheres of influence:
    1. core business activities - corporate governance, of MNCs and large national companies; workplace practices and operational impacts; products and services – affordability, access; and supply chain management – how far down supply chain should companies be responsible?)
    2. community investment and philanthropy – although CSR is not primarily about philanthropy, it remains very important. The combined total budget of the top 50 corporate foundations and corporate philanthropy budgets was equal to entire operating budget of UNDP in 1999
    3. capacity and institution building, public policy dialogue
- Also CSR is two key things:
    - Business should *do no harm* – compliance with norms and standards and laws, and its own standards, controlling costs and negative impacts
    - Business should be a *positive force for good* – through new business models and social investment, collaborating with governments

The 'business case' for engaging in development

- *Investing in a stable and prosperous operating environment:*
    a. locally, companies must accept that they can't operate in areas where society is failing;
    b. at a national level companies need to tackle social challenges such as bribery and corruption, education (companies can't succeed without skilled workforces and consumers - NBI and Instituto Ethos are both investing in education)
    c. globally, there is a growing recognition in the post-9/11 world that business needs to get more engaged in international development issues. Without business involvement, globalisation and democracy are both threatened. WEF's Global Governance Initiative has taken six themes under the MDGs and scored business and governments out of ten on each of the six themes. The general conclusion that the world is doing pretty badly - the highest

ranking was 4 out of 10. The 'Battle of Seattle' helped to raise the debate about all this, and the Seattle Initiative for Global Development (www.seattleinitiative.org) is a group of 60 business and civil society leaders calling on the US government to reduce global poverty as the most crucial step that the US can take to improve economy

- *Managing direct costs, risks and reputation*
    a. In the last five years, there has been a large number of areas where business has incurred increased costs and reputation damage, eg corporate governance, the pharmaceutical sector and HIV/Aids, environmental crises, conflict diamonds, human rights problems, fair trade issues
- *Harnessing new business opportunities*.
    a. New products, processes, business models, to meet environmental challenges and serve poor communities. WBCSD has launched a new report *doing business with the poor*, which reflects the growing business case for companies to reach consumers at the 'bottom of the pyramid'. There are high risks and high returns accruing from investment in large markets (China, Asia, Latin America, India).
    b. There is also an increasing acceptance of the need for business to invest in failed states and very poor countries, possibly in partnership with development cooperation agencies.

Creating an enabling environment for responsible business

- What can governments and donor agencies do to pressurize, incentivise and support business growth?
    a. Rules - not just legislation, which is important for laggards, but a range of 'soft law', eg procurement requirements, stock exchange requirements – there is a wide range of rules from government and other actors that set the parameters within which business operates
    b. Rewards – tax and procurement incentives, consumer labeling, other market mechanisms
    c. Resources – financial and technical (eg IFC corporate citizenship facility, DfID challenge funds), technical assistance to companies and national governments to help them work more with business
    d. Recognition – how can governments acknowledge businesses that are acting responsibly?
    e. Relationships – to address problems that can be addressed alone
- There are four critical areas for collaboration:
    1. *Supporting private sector development*, including SME development, by creating supportive macro-economic policy conditions so that there is a level playing field; providing access to finance and information, skills and markets, to make it easier for SMEs to succeed to develop a healthy private sector
    2. *Improving business accountability and performance*, acknowledging code fatigue – there are some standards at corporate level (eg Equator Principles, EITI, GC, GRI, Instituto Ethos work) – and some at a project level standards, eg Chad Cameroon pipeline, revenue mechanisms, standards along global supply chains
    3. *Mobilising private resources to tackle development challenges and humanitarian crises*, through core business or social investment, eg Eskon and electricity with the South African government; a number of companies in Latin America working

to reach people at the bottom of the economic pyramid; ChevronTexaco, USAID and UNDP in Angola; Merck in Botswana (education, health and humanitarian crises); Eskom's 'first on the ground' framework to get resources onto the ground quicker than agencies can alone

4. *Relationships between three sectors on shaping good governance and public policy* – an increasingly sensitive but essential area, this includes national initiatives to reduce corruption; looking at the role business plays in global rule-making, eg can it address agricultural subsidies. Clearly this is difficult for companies to do alone, but business could do more collectively, rather than simply opposing global rule making. Again, the *Seattle Initiative* is saying that government could change in this area, eg tackling debt and subsidies.

- In summary – CSR and the link to development has three core components – firstly, companies being more transparent and accountable, and helping to build more transparent and accountable public frameworks; secondly, the role of companies as problem solvers, eg energy, water and health; thirdly, new models of cooperation and leadership between business, government and development cooperation agencies.

The **discussion** following these presentations covered the following issues:

- SMEs need much more help than big companies with all of this – and not just in OECD, also in the South. In Brazil, there is a programme to work with SMEs. There are two challenges: firstly, to show that CSR is not the same as philanthropy, and secondly, that it is not only for big companies, but for everyone. We are engaging government and business to act on supply chain to include SMEs.
- By endorsing the CSR agenda, are development cooperation agencies endorsing voluntarism? Certainly the biggest asset of government is its credibility, and if CSR doesn't have credibility, it's not going to work. The main goal of companies is to make profits, so CSR is not natural agenda of business, it is the natural agenda of society. Voluntarism is not enough. Development cooperation agencies can help government to improve existing legislation (technical assistance). Corp resp needs to be balance between voluntarism, market mechanisms and legislation.
- There is a need to bring developing countries into the discussion. This is important for both the process and content of CSR. From a developing country point of view, the single most important issue is advancing development. This is not to say that human rights, social and environmental issues have nothing to do with dev, but that economic development is essential, ie how to have less poverty for countries. The concept of CSR seems to place emphasis less on economic development and more on other issues (which are important). In UN, good corporate citizenship is the term used, which includes economic development. what is the meaning of 'economic development'? In Latin America, there has been a lot of economic development, but without social justice. Economic development is possible without creating jobs, or without creating decent jobs. Economic development is crucial, but there should be a goal to create decent work for everyone. There will be no economic development, social justice, CSR or democracy, if we don't work to real goals of problems, ie how to have economic development, and everything else, in the context of overwhelming debt and closed northern markets. Business and society will fight for mere survival with huge inequality, unemployment etc. If rich countries don't address these problems, it would be like treating cancer with aspirin. A radical solution is required. Otherwise these problems will affect

everyone – we are increasingly interlinked. The debt being paid by developing countries is far higher than the budget of development agencies. Development has to be sustainable in order for it to be development. There is no opposition between economic growth and development, as long as it includes human rights, environmental justice, etc. It must not lose sight of existing norms and standards, without taking away the responsibilities of national governments. There is a labour market dialogue from Sweden between governments and trade unions to improve conditions

- On public policy, Skanska was involved in the World Commission on Dams, which cost $10m and took three years, but then the World Bank walked away from the guidelines and nothing happened, so the guidelines didn't have the development impact they should have had. We are now moving away from dams, which leaves room for cowboys. So we need to look at why this failed.
- Some people say that CSR is a mechanism to take away the advantage of developing countries to create jobs in the West, because if you can't have the advantages that we have today, eg cheap labour, no one will invest. CSR is substituting the role of government in ensuring equitable wealth distribution and imposing certain standards. Corporate governance is likely to be one of the top three crucial areas for CSR in the next five years. Corporate governance not only in top MNEs, but also SMEs. In Asia, interesting stuff is taking place on corporate governance, especially in India and Japan.
- Thanks to Sweden for being good at international development, wish other countries could be so good. More than MDGs ask for (0.7% of GDP). Trade question is in 8th MDG. In panels, need to think about the impact of standards, community building and partnership etc. for people, how they can support and advance MDGs and Global Compact.
- 30,000 children are dying every day, and one woman per minute is dying because she is pregnant and there is no qualified medical help. Donors are not providing financing, governments are not providing health services. If she survived, her children would have had more chance of going to school and getting education, she would have possibility of working somewhere where they followed norms and standards. This would create a more stable society, more economically sustainable growth, better environment for her and for us. Response to corporate governance question: In Sweden, people are scared because of offshoring. But there will always be jobs in rich countries, and it is important to continue providing jobs there. Norms and standards must not be a hindrance to development, they should benefit poor people more than rich people to create fairer society rather than setting up barriers. The Swedish parliament has a new policy on global development, which includes overarching aim for all areas, not just development, to achieve sustainable development in all aspects of government policy. Underlines the fact that cooperation between all societies must be strengthened to achieve fairer world. The Swedish trade minister should mention this at GC meeting in July.

Summaries of the workshops appear at the end of this document

Lunch speech: Rt. Hon. the Lord Holme of Cheltenham CBE

Sustainable development is the greatest challenge for global security – our interdependence means the world is all our homeland. There is a global coalition against terrorism but real security would only come with a parallel coalition for sustainable development. We need a world in which millions of people no longer feel that the terrorists are on their side.

The corporate sector has to deal with the global-local paradigm. Many companies fear and don't have the capacity to engage in global processes. But responsible corporations realise they have to do this, and are getting involved in global processes such as the Sullivan Principles and the UN Global Compact, and sectoral initiatives such as those seen in the extractives sector. But companies need to engage in the debate about market access. They should be lobbying for northern markets to be opened to southern products. Corporate commitment needs to be at global level; not only corporate HQ but at management levels and processes. You need a culture of support to allow people to do this.

At the micro level, how can companies do more? There are two models on offer. The first is the 'US Air Force' model – an island in a strange land. Fly in, fly out. The second deals with the following questions, which are relevant to all companies operating in developing countries:

- How open is the communication system with the host country?
- How rapid is the indigenisation of the workforce?
- How are training systems in place to allow this in the future?
- Have we H&S systems as they would exist in OECD countries (avoiding double standards)?
- Are we using local suppliers instead of importing where we can?
- What is the extent of outsourcing to local companies where this is possible?
- Have we taken every reasonable measure to minimise environmental impacts?
- Have we understood how marginal changes to our infrastructure plans can have huge positive impacts?
- Are we clear that management will not give or receive bribes?

But many companies need help with dealing with these questions. This is where donor agencies can help, with skills. So this conference is very timely. There are six ways of using business better for good outcomes, especially for the poor:

1. Identify specific outcomes and share them (applying businesses' results culture) – align those results with what you want to achieve.
2. Use, don't abuse, markets. In last few years half a billion people have been lifted out of poverty. Recognise entrepreneurial instincts and use markets to achieve goals.
3. Emphasise ingenuity and innovation – be pragmatic and solutions-oriented.
4. Disaggregate poverty. Everyone has something. Companies are in a good position to do this, viewing people as consumers, employees, etc.
5. Use process as a path to achieve outcomes, not to fuel paranoia. As long as everything is only process it's not possible to engage business. But business has to accept that the right processes that allow transparency are essential to overcome mistrust.
6. Remember that people in business are human beings as well. Companies need profit to keep on in business, just as NGOs need donations, and politicians need votes. But companies are made up of human beings so treating them otherwise means you won't get the best out of them.

PLENARY TWO: Building local capacity to enable responsible business

Tariq Banuri, director of the Stockholm Environment Institute Asia Centre in Thailand. There is only one homeland. The debate about CSR is emerging from this realization. Engagement with developing countries is of fundamental importance. Kofi Annan has talked about economic globalisation, leading to greater economic growth, and ethical globalisation, which will support the former. Rich country populations should feel responsible for those in India etc. We are a single polity, a single ethical community.

History and voluntarism and history of development have gone down two separate tracks. There is a need to combine these two and share lessons between them.

Corporate social responsibility/voluntarism has a long and illustrious history. 100 years ago, the world was going through a very similar period to the present time in many ways, illustrated by the pace and scale of technological change. In 1899, speaking in the period after the discovery of electricity and increased mechanization - including the invention of the internal combustion engine - the head of the US patent office, said: 'Everything that could possibly be invented has been invented'.

The period was also characterized by the rise of the factory, which is echoed today by the rise of global value chains. The rise of factories gave rise of one type of voluntarism, with such philanthropists as Rockefeller, Ford and Carnegie. The rise of global value chains has given rise to social investment and CSR. The labour movement arose from concern about conditions of factory work. The environmental movement, feminism etc has arisen partly due to the impact of global value chains. 100 years ago, there was a dramatic mainstreaming of these social changes into political process through Labour parties. Now the mainstreaming is occurring through the development of NGOs and other civil groups.

What this shows is that we can apply the lessons from a century ago to today's situation. In 1877, Andrew Carnegie produced an article called 'Wealth', arguing that philanthropy is a means for legitimizing capitalism. Carnegie felt that accumulators of wealth should give it back to society, in order to be able to continue to operate. He said: 'Whoever dies rich dies disgraced'. At the same time, Ford reduced the working day, increased wages, and built a long-term relationship with his workers – all of which he did on a voluntary basis. Again there is some parallel with today's search for global CSR standards.

And rather than concentrating on the middle class, Ford made products that workers can buy. When Nixon visited the Soviet Union, rather than taking missiles and bombs with him to convince Brezhnev of the superiority of the US, he took fridges and kitchen items, which have had a major impact on quality of life of the working classes. Today, there is a real need to refocus on poorer markets. Recently, C K Pralahad and Stuart Hart produced an article 'The Fortune at the Bottom of the Pyramid', which suggested that, with a few exceptions including Unilever and the Grameen Bank, multinationals are largely ignoring the needs of the poorest 40% of the world's consumers.

What all this suggests is that voluntarism is fine, but it needs help to address four broad gaps:

1 A policy gap: the current international public policy framework was established following World War Two, to respond to the needs of the time. However, thanks to the process of economic globalisation mentioned above, there are significant gaps in this international public policy framework, including the current system of international debt. For example, if a country is struggling under an externally-enforced finance structure, such as Brazil's mandatory surplus of 4.25%, resources are simply not available to address this policy gap. Also, there is a need for greater public understanding of how policy works. Research by Stockholm Environment Institute in 35 countries found that it takes, on average, from time that policy is enacted, to the time at which it begins to bite. takes a long time for all parties to engage with it. Strategically, eg canceling debt. give governments a chance to think about these issues. Can also apply principles of corporate responsibility to development cooperation. support independent voices and engage with stakeholders on this basis.

2 a social gap – which was originally filled by the labour movement through process rights it is not enough to have outcome rights – there is also a need to have rights of association and collective bargaining. The collective bargaining capacity is now missing. Required response: think of self in village where there is a large company. How to protect rights of the community in a harmonious rather than conflicting manner? Lots of experience of community development, CSR people meet in another world. Need to get these two together.

3 political gap: what is the political process that provides this voice, apart from NGOs and research community? Who will assess what is going on and provide new answers? Knowledge, research and advocacy are all important. These have become attenuated in South, with lots of bespoke consultancy, an no one is responsible for larger social agenda. There are independent centers in industrialised countries, and there is scope to establish more of these in developing countries as well. It is possible to support independent education and knowledge production in countries in which there is an interest in CSR. Strategically, can also incubate civic entrepreneurs.

4 business gap: how can companies change their business model in order to address this gap?

Jorge Cardenas spoke about the Corona Foundation's work to build local capacity in Colombia, and how donors might be able to leverage key domestic resources and involve local actors. In Latin America, CSR activities operate in the context of poverty, famine, unemployment, conflict and low social spending. But it is possible to work at various levels – at the individual level through universities and management training; at the corporate level to raise management awareness of social issues; and at the sectoral and national levels. The Corona Foundation works on education, health, entrepreneurial development and community development. Activities include workshops at sectoral level, and working with the media and chambers of commerce to measure and report on quality of life indicators. Through such initiatives, it is possible to bring the private sector into advocacy and make it a key actor in driving development. There are many other examples of activities in Latin America, including:

- Redeamerica, a regional network of foundations working on community development
- SEKA, a network of business schools showing how businesses can engage with the social sector through case studies
- Ethos, an association of companies helping businesses to operate responsibly

- Colombian Centre for Entrepreneurial Responsibility

The key point about these examples is that it is the coordination of activities that enhances social impact. Development agencies could help to mobilize domestic resources and raise awareness among businesses by working with local partners.

Anita Normark, General Secretary of the International Federation of Building and Wood Workers spoke of its efforts to build local capacity, with the support of many donors. The IFBWW works on human and trade union rights in the building, wood and forestry sectors. Development issues are central to our work – for example, about 75% of the hundred million workers in the construction industry are in developing countries. Examples of our work include:

- Working with environmental organizations to apply global standards at local level, for example on timber certification.
- Global health and safety programme, working with national governments to put labour standards into practice in many countries, and trying to integrate health and safety issues into procurement and loan agreements through the World Bank.
- Integrating HIV-Aids into health and safety programmes, and supporting theatre groups to overcome taboo issues in workplaces.
- Taking a practical approach to child labour, providing educational opportunities and teaching parents to negotiate higher wages so that their children don't need to work.
- Working with MNCs such as Ikea through global agreements and joint audits

Union federations are able to make use of their global network to disseminate information about workplace problems and to exert pressure where there is no resolution at workplace level. Companies should not only implement, but also report on their activities according to the Global Reporting Initiative framework. These are voluntary initiatives and shouldn't replace national instruments. But if companies show willingness to develop a very practical approach and really do something in practice, they should be rewarded. I hope it's possible to discuss how development cooperation agencies could promote this.

Discussion arising from the presentations covered the following issues:

- The respective roles of private foundations and development cooperation agencies: Both can bring people to the table, and operating where there is no market. Because foundations are outside political processes, they are able to focus on an agenda in the long-term. There is no need to be formal about this division of roles – the important thing is that there are visionary people who can provide a degree of leadership and innovation. There is a need to bring energy into mainstream discussions, so we don't have to rely on foundations to deal with particular social issues.
- Users of sustainability reports, and building people's capacity to read and comment on them: The key here is to develop a future constituency that has the confidence and capacity to use data and publications. One step is to get the issue onto business schools' agendas. There is a need to reinforce domestic organizations that have a local understanding about CSR, who can then raise awareness of the issue, rather than concentrating on reporting first.
- The barriers to creating more global agreements between unions and companies: these include scepticism from companies, who realize that a partnership with a union will be a serious undertaking, and from workers, who doubt that companies will indeed change. It takes time to establish trust. There is a need for training and joint awareness raising at national as well as global levels.

Jean Francois Rischard, World Bank vice-president for Europe, looked at the role of business beyond its traditional boundaries.

1 The planet faces enormous challenges - not in next 30-50 years, but in next 20 years

- One of the world's biggest challenges is poverty.
- Half of the world's people live on less than 2 dollars a day.
- 15% of people command 85% of the income.
- Poverty breeds disease, civil war, rogue migration, rogue states etc.
- By 2025 the world could become even more dangerous, with a population increase from 6 to 8bn, with most of increase in poor world.
- The MDGs promise to cut poverty proportions by 2015, but much remains to be done.
- Rich countries have chosen to reduce aid effort 0-34 % to 0.23% today.
- The commitment in Monterrey to increase aid has not been met. 90% of increased efforts have come in form of debt relief, technical assistance etc, rather than cash
- The world is far from having achieved MDGs, or even being on the road there.
- We still have not recovered from setback in Cancun, with agricultural subsidies remaining the stumbling block.
- And it's not just poverty. There are around another 20 issues that are urgent over the next 20 years:
    1. *sharing our planet*: environmental issues, eg biodiversity losses, global warming, deforestation, species loss, water deficits, maritime safety and pollution, overfishing
    2. *sharing our humanity*: step-up in the fight against poverty, peace-keeping, conflict prevention, fighting global terrorism, education for all, AIDS, malaria, TB, SARS, Avian flu, digital divide, natural disaster prevention
    3. *sharing our rulebook:* re-inventing taxation, biotech rules, global financial architecture, illegal drugs, trade, investment and competition rules, intellectual property rights, e-commerce rules, international labour and migration rules
- Few of these issues are currently being solved by the current international system or by nation-states.

2 Governments will not be able to manage these issues alone

- The model under which government, business and civil society remain in separate corners is running out of steam.
- Civil society is becoming a very powerful force. Able to act globally and create NGO swarms using new technology. Can acquire enormous knowledge, and wins highest rankings on public opinion polls.
- Business has advantage of globality over governments, and often has the advantage of means and expertise over them, and are often looking further out than governments. Business can be a global enforcer of norms, eg green investment.
- Governments are increasingly overwhelmed by the complexity of these issues, and suffers when the best and brightest shun public sector jobs.
- Government is impeded by its territorial nature, and by the short term nature of the electoral cycles. Issues are becoming global and long term, but governments are territorial and short term.
- In rich countries, govts entering difficult period in terms of fiscal deficits. This is the beginning of a long period of problems to do with aging population and pension

burdens.

- To solve these issues, it will clearly need the input of all three sectors.

3 Companies will have no choice but to engage beyond their natural boundaries

- The private sector has become more involved and gone beyond its traditional borders. Has moved through five stages:
  - *Charity*, motivated by CEO or his wife, often resulted in creation of foundations. This stage is largely over. Chevron states that its intervention in Angola is 'more than philanthropy'
  - *Defensive CSR*. Good corporate citizenship, motivated by reputation protection or risk management. Motivation is no longer philanthropy. Examples are suppliers or retailers, pharmaceutical companies, and companies integrating complex product safety and environmental management systems, eg Exxon's oil spill response readiness system.
  - *Offensive CSR*. Lots of companies are at this stage, where they are no longer simply reacting to attacks. Instead, they are seeking to act as role models. Motivation is being world-class and building world-class profile and image. Examples include BP's investment into renewable energy, DaimlerChrysler treating employees for Aids, many large companies adopting environmental best practice world wide, regardless of local legislation, Exxon Mobil promising it will follow VPs on security and human rights, companies adopting 1300 voluntary labour codes, Levis in 1991 was the first, now on factory floors, 20-30 labour codes from various companies. Danone's 130 indicators on CSR, evaluated by outside agencies.
  - *Development agent* (either on poverty or sustainability front). Either in development or poverty-mitigation area. No longer motivated by being world-class or defending reputation, but needing to help out where governments are failing. Often working together with NGOs. Many companies at this stage, eg Cisco training more than 2000 students on its networking academies. Many oil and mining companies undertaking community programmes in developing countries. Coca Cola becoming large education players, Merck, being mail pillar of education efforts for river blindness, partnership with Botswana on Aids, footing bill of $10m/year over the next five year. Exxon supporting anti-malarial programes. Unilever, Nestlé and Danone's sustainable agricultural programmes. Many type two partnerships at WSSD were of this type of CSR. The Business as Partners in Development programme, in 30 countries, found lots of examples of these partnerships.
  - *Global problem-solver*. As the current international set-up fails to solve major global issues, some companies engage to play their part, in four areas:
    - *Treaties and conventions*, very slow, and often not enforced. There have been140 treaties on environment, but none are adequately enforced
    - *Big UN conferences*, useful to raise awareness of issues for a while, but not a problem solver.
    - *Government groupings* such as G8 or G20, but they have been very reactive and shallow when it comes to deep global issues.
    - Then the *45 multilateral agencies*, World Bank and UN agencies, which are useful in their own areas but not strong and independent enough to be able to solve any of these issues alone.

- We don't have the luxury of creating a global government, which would take 100 years to set up and there would be no guarantee that it would work.
- Which is where business comes in as global problem-solver. There are a growing number of stage 5 precedents:
    - *Global policy makers*: eg World Commission on Dams, sustainable forestry alliance, where companies are involved in these difficult questions. These have not been perfect experiments, but they have had an influence on how things have run.
    - *Global enforcers*, eg Unilever and sustainable fisheries, diamond companies and the Kimberly process, pensions funds , eg Calpers not investing in seven countries because they abused human rights etc. If lots more pension funds did this it would be very effective. Or companies participating in Publish What You Pay, whereby payments by mining and oil companies in Africa and other places would be declared so parliaments knew how much money flowed into their jurisdiction. Exxon Mobil specifying age limit on cargoes over 80000 tons.
    - *Global lobbyists*. Exxon being a leading advocate for maritime safety. 50 multinationals urging US governments to sign up to Kyoto. Nestlé, Danone and others advocating sustainable agriculture
    - *Global Thought-Leaders*, eg Shell scenario planning.
- The motivation for business involvement is not being a role model or helping out failing governments, but they are beginning to worry about what state the world will be in 10 or 50 years from now unless we become much better at global problem solving.
- Not a rigorous framework, stage 2 and 3 merge. Stage 4 a grown up version of stage 1, etc. Stages 4 and 5 are more likely to help change the world, they are about what companies can do.
- There is a limit to stages 2 and 3 because they won't change the world by themselves because governments themselves are laggards.
- Chirac said companies need CSR enforcement. Nonsense – governments need to reform. Companies offer huge leverage through means, knowledge, supply chains, network of influence, eg the 250m Asian farmers that Nestlé is in contact with every day.
- If business doesn't act, we will all fail within next 20 or 30 years.

Discussion covered the following issues

- It is potentially terrifying that unelected bodies play role in policy making. Therefore it is possible to police this, where for each of 20 issues, there is an issues network, where there is a multilateral policing the process which brings a third from each sector where there are clear rules of the game, and that each will behave. Once in the network, organizations become 'global citizens' and they are there to solve problems on behalf of everyone. There are norms and standards imposed on companies and on nation states. There are ways to do this beyond being elected or not. Being elected is part of being a nation state, with short-term view and territoriality. There should be another track to do with global citizenship, norm setting and rules.
- Volunteering has great potential for development, and stage 4 has lots of this.
- Unclear if the stages represented progress from one to the next. There were very

anecdotal examples, and one can always find certain things that companies are doing that aren't a natural progression from stage one, eg Anglo American doing lots of good things but ignoring Zambia, where it pulled out at very short notice. But it is more or less a sequence, with most companies only in 2 a while ago. But now, more companies are reaching stage 5.

- Companies are often good because a good leader is doing well – not necessarily because they are inherently, completely good companies. JFR has found himself more likely to have a good conversation on these issues with business leaders rather than with prime ministers. Planetary statesmanship occurs currently at the World Bank, in some big companies, and in some NGOs. One is least likely to find it in the nation state. Whoever is into long distance problem solving is needed now. Important not to look for blame – but should worry about why not all knowledge of world isn't coming together to solve global problems.

PLENARY THREE: report back from workshops ***(full summaries of the workshops are available at the end of this document)***

Jane Nelson invited the rapporteurs from each workshop to report back four key messages, reminding the conference that the variety of donors needs to be taken into account when considering what agencies can do to promote responsible business practices.

Workshop 1: Building local responsible business practices

Albena Melin of DFID presented the key messages from the first workshop, which had a particular focus on Vietnam:

- Donors can help to create supporting networks and to facilitate dialogue that joins up different actors and leverage the strengths of each sector. Donors should concentrate on activities that are in line with, or create, a business case for the private sector.
- Donors can help the private sector to apply its resources usefully, by raising awareness and establishing ways of working together. This means talking to the private sector in business language, not just development jargon.
- Donors have an important role in enabling the public sector to play its role, through support for policy and lawmaking.
- Rather than simply providing subsidies to the private sector, donors should form intermediary organizations that facilitate responsible purchasing and investment.

Comments from the floor underlined the need for donors to simplify their language, and to fund intermediary organizations and the staff within them.

Workshop 2: Corruption and transparency

Martin Kalungu-Banda of Oxfam reported the following key messages:

- Donors should lead by example, adhering to the standards and processes that they expect from those that they support.
- Donors should support multisectoral approaches to corruption to create synergies, rather than supporting business, government and civil society separately.
- Donors could support the development of anti-corruption tools such as indices and monitoring instruments.
- Donors should harmonise approaches and standards among themselves.

Martin noted two examples. Firstly, the Extractive Industries Transparency Initiative brings together companies, governments and civil society, seeking transparency not only from companies but also from governments. Secondly, Skanska developed its own standards, but then realized that these would mean missing out on some business opportunities. By collaborating with other firms who then also signed up to the standards, this created greater energy and progress. Martin finished by noting the need to invest in future leaders with the mindset to connect the future world with today's values and aspirations.

Workshop 3: CSR standards and norms in developing countries

Ritu Kumar of TERI-Europe reported on how donors could help in the following areas:

- Assisting in shaping standards and norms, e.g. by: adapting universal codes to local conditions; facilitating mutual recognition of company codes to minimize duplication of auditing; facilitating the participation of developing country producers and suppliers in code setting; making codes more credible, e.g. by supporting good practice in standard-setting and implementation; and making links between public policy and private standards.
- Providing technical assistance in meeting norms and standards, e.g. in relation to: local certification capacity; translating norms into national legislation and supporting

compliance; training of managers and workers in monitoring of codes; assisting small producers in particular; joint testing and certification facilities to avoid rejected exports; information dissemination on the implications of standards and norms.
- Linking standards with access to finance and credit, e.g. in relation to: supply chain relations and credit; stock exchange listing principles (cf. Brazil's Novo Mercado); and reporting requirements.
- Donors should consider their ways of working on this agenda – in particular, they should seek to transform the CSR agenda to one with SMEs as a key focus; they should seek to work with and through governments, e.g. through bilateral trade agreements; and they should work at a sector- or country-specific level where necessary.

Comments from the floor included a suggestion that donors can help by developing comprehensive frameworks and systemic approaches, to bring together existing work on standards and codes at company and country level and to support fuller implementation across whole sectors.

Workshop 4: Private companies operating in conflict-prone areas
Ib Petersen of the Danish Ministry of Foreign Affairs reported back from the fourth workshop, which consisted of five presentations with concrete examples. Cross-cutting issues that emerged included the following needs:
- for a context-specific approach rather than generalizing about conflicts;
- to distinguish between guidelines at national and international levels;
- to support local implementation of guidelines;
- to involve stakeholders upstream of new investments;
- to distinguish between instruments to deal with acute crises and long-term development programmes which include conflict prevention; and
- to address local SMEs as well as MNCs in relation to business and conflict.

The workshop identified the following four recommendations for development agencies:
- To strengthen existing guidelines and their implementation, rather than developing new ones.
- To support thorough risk analysis and stakeholder consultations, sufficiently upstream and in advance, with indicators of crisis to anticipate problems. Ensure that lending requirements including export credit deal with conflict-related issues and to clarify what the borrower should commit to.
- Develop shared thinking and partnerships, working with local communities and government to encourage transparency, and seeking to understand local perspectives e.g. by promoting local managers.
- Ensure consistency between policies and implementation e.g. on export promotion and development policy, and better communication between headquarters and country offices.

Comments from the floor included a note on how donors can help to support national ombudsman offices to manage FDI; the use of appointing lifelong product mediators and inserting mediation clauses in project contracts. It was also stressed that donors can help to undertake public expenditure reviews to ensure royalty payments are used for legitimate development purposes, as well as providing technical support on dealing with large revenues and support for civil society and the media to encourage transparency. The complexities of the conflict issue means that there is a need for a spectrum of policy responses.

Jane Nelson suggested the following categories of key messages coming out of the workshops:

1. *Donors' own practices* – adhering to standards for themselves; simplifying documents and procedures; lending and procurement requirements; integrating these issues into risk analysis
2. *Enable governments in developing countries to be better at requiring companies to be more responsible* – strengthen and implement existing laws and guidelines; national ombudsmans' offices; revenue mgmt mechanisms. Need good governance underpinning.
3. *Broaden and deepen sector capacity* – multistakeholder approaches and code setting in conflict, education, health etc.; involving local business and local business intermediaries
4. *Build capacity of local private and civil society intermediaries and drivers* - eg chambers of commerce, trade unions, universities, media. Help bus intermediaries engage in international norm setting.
5. *Support SMEs* – finance and technical assistance. MNCs have so many drivers already and need to be part of the equation, but donors should focus on SMEs and intermediary organisations
6. *Invest in individuals and leaders* – training for country officers, embassies on CSR. Mediators and brokers to build partnerships, civic entrepreneurs.
7. *Take sector- or country-specific approaches* – acknowledging that issues vary with context. Look at sectors that impact on development first, eg construction, extractives.

PLENARY FOUR: Development cooperation and good public and private governance

Maria Norrfalk, Sida
We need an alliance between business and development agencies that can address hunger and global poverty, joining forces to achieve results. We can also explore how this alliance can grow, to tackle other issues such as core labour standards. The roles and responsibilities of the each sector are different – while the public sector has poverty reduction as an overall goal, the private sector aims to expand and to make a profit. This can contribute to growth, employment and incomes, and can thus make an important contribution to poverty reduction. For the public sector, the expansion of the private sector can be helpful, but it should not be a goal in itself.

Within Sida we welcome closer cooperation and more active participation of businesses in the development of Sida's country strategies. We encourage a more structured, mutual exchange between sectors. But the prime responsibility for development rests with partner countries. The responsibility of development agencies is to create the conditions to promote sustainable development, including preparing the ground for sufficient private sector activities to create jobs and wealth, to increase stability. For example, Sida seeks to do this by strengthening the rule of law, building institutions (including chambers of commerce) and supporting the ILO.

Business has been involved from the start in the struggle for global justice, based on four elements - competitive markets with clear, equitable rules based on a strong rule of law ensure a level playing field for all; the entrepreneurial spirit as a source of change; a non-discriminatory approach to property rights; and decent work conditions, ensuring core labour standards and a sustainable environmental approach.

Given Sida's poverty focus, we work directly with the poor to improve their quality of life. Poverty is defined by a lack of resources, power and voice. Everything Sida does should be influenced by the needs of the poor, and a rights perspective. For example, we support ILO and UNICEF to eradicate the worst forms of child labour; we support International Alert to make business a force for good in conflict areas; and we support the anti-corruption work of Transparency International. But these activities have not been labeled CSR. Our government has given Sida the task of strengthening CSR through development. This is important given the increase in the number of MNCs and FDI, and the decrease in development assistance. Private investment and development assistance tend to channel resources to different areas, but there are many potential synergies.

The baseline for CSR is that companies have responsibility not just to shareholders, but also to the society in which they are established and in the countries where they operate, and to their employees – as stated in the OECD Guidelines. Central to CSR is respect for democratic institutions and processes. It is not a substitute for the proper role of government, nor an end in itself. But it is changing the context in which development agencies work. CSR should encourage a culture of legal compliance, transparency and fairness, with the licence to operate only granted to companies that act responsibly.

Globalisation requires a wider concept of fairness. The UN Global Compact can help to ensure that companies continue to operate based on internationally agreed norms. Some development agencies are embracing the nine principles of the Global Compact; Sida works to fulfill them. The Compact has the full support and respect of Sida, and we look forward to establishing how that support could be more efficiently shaped, despite the fact that the Compact was initially directed at private companies. Sida believes that the Compact will contribute to creating the conditions for a more stable and equitable society.

Richard Manning, from OECD's development assistance committee (DAC), looked at coordinating development cooperation efforts in this area.
It is important to put the current discussion in a broader context in which development agencies are working collectively. The DAC is a forum for working collectively, mostly bilaterals, and also observed by UNDP, ILO etc.

What can development agencies do, and what can't they do? They are not key actors in development – these are people in developing countries themselves. Development agencies are *facilitators* and *encouragers* of processes. Their ability to change the direction of events is limited. Development agencies are strongly influenced by MDGs. There are plans to look at progress among the agencies (eg the World Bank/IMF spring meetings). In some parts of world, progress has been quite good (eg East Asia has already reached the goal on poverty reduction), in other areas, including Sub Saharan Africa, progress has been much slower or even non-existent. Lessons coming from this analysis are as follows:

1 *Both the rate and the quality of growth are essential*. Difficulties remain where there are low rates of growth, or where the benefits of growth are not widely shared.

2 *Nationally-owned strategies for development are important*, eg PRSPs in many countries. It is the responsibility of governments and civil society to devise nationally-owned approaches to development. DAC is working to reduce high transaction costs of reporting and administration costs in small countries. They are also looking to better harmonise procedures and coordinate more effectively among donors, and the Paris meeting in a year will showcase this.

3 *Host country systems should be used as vehicle for development*, although this is not possible where there are systemic governance issues. DAC is seeking to distil good practice on this from different countries. The business dimension in this is important, eg where there is a high level of natural resources.

4 *It is important to understand the broader context of how donors and private sectors can cooperate*, given their shared goals to generate sustainable rates of high-quality pro-poor growth. OECD is an essential area where this cooperation can happen. Currently DAC's poverty network is seeking to understand quality of growth issues – what does it take to improve growth, how can donors interface with private sector in an effective way?

DAC's work programme is currently considering priorities for next OECD biennual, 2005/6 – there will be lots of agendas, which will stretch resources, and the decision to focus on CSR or not is one for the membership rather than chair.

From looking at what workshops have come up with, it is clear that not a question of CSR vs. legislation, but actually a question of how legislation is applied, how it can be part of enabling framework for foreign and domestic investment, while converting 'race to the bottom' to a 'race to the top'.

This is a multisectoral operation, representing a wide range of interest groups. But in these meetings, it can be easy to avoid finding practical ways to move forward. Partly it is necessary to use clear language - development policy language can be v opaque.

The current activities of bilaterals demonstrate the sheer range of operations, they are doing lots of activity to support CSR already, even though it is not necessarily called that. There is a need to move from that which is transactional to that which is transformational. Rather than ad hoc activity, there is a need to have a more harmonized approach between bilateral donors. It is important to get the right kind of mindset into a wider group of people so that each works together, while recognizing the differences between them.

Bruce Jenks, UNDP
The evolution of development cooperation was conditioned by the Cold War and decolonisation, both of which led to a focus on the state and governments – rewarding friends during the Cold War, and building states following decolonisation. This obsession with the state as the only actor has passed. But the end of the Cold War and the unleashing of globalisation established a new focus on goals and results – the culmination being the Millennium Declaration and the report of the Secretary General. The report focused the UN on the issue of goals, the role of the OECD-DAC, and the concept of partnerships and an externally-facing UN. This is a potentially transformative moment, reflected in the establishment of 'blue ribbon' panels such as that led by Cardoso.

I would like to focus on UN efforts within two complementary strains. Firstly, the normative sphere – the work of the UN Global Compact. We have worked closely with the Compact and think that it is very important. But it is crucial for the Compact to be not only global, but local. Secondly, the developmental sphere – the Secretary General's Commission on the private sector and development, whose membership is very interesting, including Bob Ruben, C K Prahalad and de Soto. The report is not original research, it is readable and short, and it has one very simple core message that noone at this conference will see as news – though the messenger, and the timing, are important. The message is that you can't believe in the MDGs and that you can achieve them, without engaging the private sector. This is not ideological, but an empirical observation. Just look at the facts:

- The great majority of the poor are already working in and dependent on the private sector. Where GDP is under $500 per capita, SMEs represent a high proportion of employment, and there is less access to public services – 63% of health services are in the private sector. In Mumbai, the poor pay 20% more for rice and 10% more for medicines. To reach the water target, we will have to connect 250,000 people every day until 2015 – this won't be achieved simply by ramping up public sector activities.
- The domestic investment sector is much larger than FDI and public investment and we need to consider this. The report looks at the informal sector and its constraints. The Sida policy document is well aligned with this – people are coming to the same conclusions.

The report gives recommendations on what governments, companies, civil society and international organizations each need to do. These are linked to a set of initiatives launched in conjunction with the report – there is now a broad discussion on what these should look like and who should own them, and an invitation to stakeholders to join loose alliances.

Within UNDP, we have tried to use our country office network to push forward the Global Compact at a country level and use the UN as a platform. Without achieving concrete results at the country level there is a danger of loss of momentum and interest. We have also worked on the growing sustainable business initiative, whose core concept is brokerage at the country level. We are working in alliance with others including the IFC, UN colleagues and bilaterals on a Canada-UNDP taskforce to explore the concept of brokerage services at the country level. For the UN to move forward to a transformative experience, we need a vision of our country level space for leveraging the kind of partnership that really make a difference. Our ability to leverage private sector roles is crucial. To conclude: We believe that it is important to work on the normative as well as the developmental side of partnership with the private sector. We have a country level focus. It is important to get tangible results, or interest will flag.

One point was made from the floor, with which Bruce Jenks agreed – many companies need to tackle CSR in their domestic market before tackling their overseas operations, so by broadening the discussion more companies can be reached.

Rachel Kyte shared the IFC perspective on CSR.
A description of the journey for IFC on its own behaviour and its investment practices. Language is very important - CSR means different things to people in IFC.

The context: IFC is moving away from end-of-pipe compliance to adding value ie compliance plus adding value. We are on the cusp of making this our core business, as a cohort of civil servants plus partnerships with clients in emerging markets. IFC is in a rapidly changing business. Three years ago IFC wouldn't have been on this platform. Now, IFC has internalised a set of values and seen an opportunity. There is a clear demand from clients in emerging markets, plus large companies eg Chinese and Brazilian companies who want us to bring to them value by help them to develop the best social and environmental standards, and to become corporate citizens.

IFC used to be project finance house, but it is also now a corporate partner. Maintaining relationships is very important. CSR as a concept helps us to talk about a different way of doing business. 50% of our portfolio is not in direct projects, we do a lot in the financial sector – the real niche is to leverage that work. The approach to CSR was through finding a business case, not through altruism. Also through listening to companies – there were push and pull factors from NGOs and clients. IFC is at the point of moving from CSR being a desired attribute to being a competitive asset. We believe we should be competing with other multilateral financial institutions in a race to the top – on environmental and social standards, on our ability to bring products and support to a client. It's a good source of competition, which itself should be a good ethos for the development community.

The challenge is to remain client-focused - whether this is a company, a business association or a country. CSR helps us to do this. There are parts of the NGO community that doubt that we are really in this business – but there is something happening through the financial markets, through changes in the private sector, through global advocacy, through a better enabling environment. There are a number of other challenges:

- When is the right time to collaborate? There are so many projects, initiatives etc. We need to provide access to funds and tech assistance that's useful.

- Another challenge is 'one size fits all'. In bureaucracies like IFC this is easier to administer. But it is dangerous when the client base is changing, and so we need an array of policies for each one of our instruments and businesses.
- Transparency: we are emerging from the practice of insufficient disclosure to a culture of maximum disclosure – we need a new compact with stakeholders with new approach to transparency.
- Being practical– there are often too many bells and whistles on projects.

Next steps and initiatives:
- Need help in how to monitor human rights practices in companies at a local level - how to develop procedures for human rights realisation. There is not a lot of research on bus case for human rights – we need to take the UN Norms and GC principles into practical use.
- We are moving from static compliance to continual improvement. This hasn't been the mindset in the past – there has been a 'gotcha' debate, which needs to be left behind. The Equator Principles offer greater reach – and there is new interest in this from other banks.
- New approach to delivery – IDA is working with the IFC to give flexibility of finance to the African private sector.
- Corporate governance work is important eg board responsibilities in small private companies. There is a big demand for help on this.
- Also looking at the corporate approach to addressing corruption.
- Finally, looking for a seamless presentation of goods and services to help bottom of the pyramid investment.

An alignment between internal values and our external lending portfolio will create better development outcomes and reach, efficiencies, ripple effect, recruitment and retention of staff.

The MDGs offer the framework, but the devil is in the detail, we are in the process of working through this. We need tools and products that help companies play the role they could in development and human rights, including tools that we can hand to clients. We need to show that CSR for domestic companies and SMEs is good for business. We need capacity to monitor and verify. We need to do what we do best and do it better – and what development agencies do best is build partnerships, esp with developing country governments on supporting a conducive investment climate. But we need to understand where our impact can be greatest.

When I came to Stockholm as youth activist I pleaded to donors for better development education at home – we need this still to create the support for the kind of partnerships we need. We are operating in many areas of dilemma eg dumping, trade barriers etc. The Chad Cameroon pipeline project can only work if we have these debates about public private partnership in the North as well as the South.

Karl Sauvant, UNCTAD
Foreign direct investment (FDI) is three times as high as ODA. It is cumulative, with the accumulated effect of FDI in developing countries as high as a trillion dollars. FDI means technology, skills, access to markets, standards, and money – all of which are important for development. The key issue in this context is how to harness the assets of MNCs and their

affiliates so that they contribute to development? How can MNC affiliates transfer tangible and intangible assets to host countries, and to companies in host countries? The most important avenue is to create linkages between foreign affiliates and domestic firms, which bring local firms into global supply chains and are in the interest of both foreign affiliates and host countries. For the former, they increase competitiveness, while for the latter, they upgrade domestic firms to higher levels of competitiveness and international standards of quality, health and safety, etc.

But the problem is that companies tend to have a global approach, so don't always look for local linkages. This could be tackled in a number of ways by development agencies:

- Appoint linkage promoters from business sectors or donor agencies, who have good relationships and know how foreign affiliates work, to see to what extent companies have exhausted their linkage potential. In Brazil, UNCTAD is working on the structural side of a zero hunger programme, to encourage affiliates to develop a linkages menu with a list of good practices to which others in Brazil can subscribe, in order to strengthen domestic suppliers.
- Help domestic firms, especially SMEs, to become linkage-ready – ensuring that they have the necessary technology and skill levels to become part of international supply chains. In Uganda, UNCTAD has undertaken workshops for SMEs run by women.
- Supporting a regulatory framework to protect intellectual property rights.
- Creating incentives, e.g. in Singapore, if a foreign affiliate places a member of staff into a domestic firm to raise technical and management capacity, the government pays half the salary.

The promotion of linkages between foreign affiliates and domestic firms is one way to address the economic development component of the CSR agenda.

Questions and discussion

Questions and remarks related to the following issues:

- How to create clusters to promote business linkages around particular issues, e.g. black economic empowerment in South Africa.
- How the private sector can work in parallel with development agencies to create linkages by supporting local production.
- How SMEs can report on their social, economic and environmental impacts, possibly using the OECD Guidelines as a basis for the economic dimension, in the absence of common understanding of what this entails? Rachel Kyte referred to an attempt to promote the Global Reporting Initiative in South East Europe, from which it was clear that a key barrier is a lack of culture of disclosure and transparency, rather than a question of money or technical assistance.
- The need to note that there are MNCs based in developing countries. Rachel Kyte agreed that there is a lot of South-South investment, and warned that donors shouldn't get protectionist about this.
- The need for trade-related capacity building and trade and investment networks.
- The need to overcome the 'isolated function syndrome' with CSR functions going on separately from mainstream activities – this has been observed in companies and now it seems that donor agencies are going through the same challenge, with private sector-related activities not fully integrated into the rest of the agencies' work. Maria Norrfalk noted that Sida needs to start an internal debate to understand what CSR means for the agency, in conjunction with companies.

- The high potential for convergence around core local issues, hence the need for a country level focus and a link with the international level. Donors can facilitate alliances and partnership building to create the trust and relationships that are necessary for unleashing entrepreneurship.

PLENARY FIVE

Georg Kell, the executive head of the Global Compact, looked at the importance of aligning principles and projects
1 Reflections about development cooperation and CSR
This event has brought together communities that have not really talked to each other until now. Development cooperation has a lot to contribute to the common agenda.

1 CSR is a very pragmatic response to public governance failures. Companies are being asked to do more than in the past, they are operating in far more countries, they are exposed to far more risks. They are being asked to fill void left by governments. We live in an imperfect world, with less than perfect governance framework, and companies can help address this.
2 What exactly are we talking about? I talk from a UN perspective, which has decades of experience on human rights, environment, labour and anti-corruption. Hopefully, we are seeing some convergence around universal principles. This is where the legitimacy rests (thanks to government involvement), plus broad-based consensus. The next big challenge is to bring financial community into the debate, to ask if they have policies on human rights, environment, anti-corruption and so on. The Global Compact is currently working with financial analysts and stockmarkets.

CSR is about organizational change. Bringing universal principles into company is a long process. It needs to start from top. Sustained efforts and tools are then required. It should support an ISO process based on universal principles to make it a technical tool which can realize CSR on the ground.

Development cooperation has long been aimed at improving lives of poor. The necessity to look for new leverages, to bring business into the game, and has driven this in the UN. We are seeing a combination of a values-driven, normative agenda and an operational, development agenda.

2 A few recent developments at the Global Compact
We are currently consulting on the principle on corruption, to be added on 24th June. The leaders' summit is underscored by the fact that a lot of this debate is among operational people.

What is the correct balance between public performance and private initiatives. There are weak governance structures in many countries. It is often a lack of FDI which leads to further societal breakdown, not too much of it. How to make sure that governments are also part of the solution? The next stage of this debate needs to look at how to achieve good impact with good performance. This is possible, eg with integrity pacts, climate change etc. where companies have had a positive impact on public policy responses.

Discussion was based on the following issues

- Donors and the Global Compact: there is slow movement towards organizational citizenship/responsibility. The GC will remain focused on companies, but the City of Melbourne and others have also embraced GC. The UN itself is also subjecting itself to GC principles, and finding out how difficult it is. Development agencies are very well positioned to lead by example, eg through their procurement policies, human resource policies, pension policies, environmental footprint, transparency etc. For dev agencies, it is a strategic opportunity to work constructively with companies to combine the normative dimension with their operational mandate. The GC has challenged the biggest investment banks and world's leading stock exchanges to demonstrate their commitment to GC principles. We are looking for the link between financial markets and social legitimacy.
- Have GC companies offered to have independent verification of their adherence to the principles, and are there plans to publish a league table showing which companies are doing this? Qualitative assessment is increasingly possible.

Marinus Sikkel talked about the OECD guidelines and development cooperation. OECD member governments think that globalisation can be a force for good. But some people disagree with this view. There are some areas of agreement, including the fact that we need to debate globalisation.

The OECD guidelines were produced in 1976. Their first principle is to do good. Then, minimize the difficulties to which operations may give rise.

There are four cornerstones:

1 Support
The guidelines are the only multilaterally endorsed code of conduct for multinational enterprises. 38 govts, EC, business, labour and NGOs have all reviewed the guidelines.

2 Character
They are voluntary and non-binding (both binding and non-binding rules can be effective, what is crucial is how they are implemented). The recommendations are an attempt to convince people that they want to do something, rather than forcing them to do something They are also universal – wherever companies are operating, they should apply. They also apply to all sizes of companies

3 Scope
They cover sustainable development, labour, human rights, suppliers and subcontractors, and transparency. They have been developed in an investment context. They cover economic, social and environmental progress, local capacity building, human capital formation, combatting bribery, technology transfer, competition, tax and regulation

4 Implementation
They are promoted throughout the OECD via peer pressure. National Contact Points use them as a forum for discussion, and help to solve specific incidences. If someone asks how to implement the guidelines in specific situations, they will help to find a solution. They don't sit in judgement.

Do the guidelines work?
The guidelines have been translated into several languages, they are available on lots of sites, UN and governments have referred to guidelines. 64 incidences have been reported to national contact points.

They also work in developing countries too; the trade union advisory committee of the OECD organized union seminars in developing countries. They offer a recourse for local TUs to hold MNCs to account. 11 NCPs reported a link between financial instruments and guidelines, eg references to them is included in the application form for loans to federal government of Germany. 2/3rds of NCP incidences relate to activities in developing countries.

Development agencies can support stakeholders in their promotion of guidelines. It is possible for donors to use guidelines to open a discussion about CSR between private sector development teams and the other parts of the donor org.

Hans Hofmeijer, ILO
CSR is far from a new issue – Lincoln expressed concern about the power of companies in 1864. It is useful to take a historical perspective.

The ILO's MNE Declaration promotes dialogue between MNEs and local partners, aiming to optimize positive impact and help solve problems if they arise. It is development-oriented and truly tripartite, being endorsed by employers' and workers' organizations. It is a model code for labour standards, providing a checklist for MNEs. It was revised in 2000 to include fundamental principles and rights at work. It deals with employment, training, worker conditions and industrial relations.

Although many people and initiatives refer to core labour standards (CLS) it is clear that not everyone knows what they are referring to. Under 30% of buyers' codes incorporate all four fundamental principles. The Ethical Trading Initiative code includes more, but still only about 50%. It is only in framework agreements between international labour organizations and companies that all are included. There is a lot of talk about convergence around ILO core standards, but unfortunately this is not so. Companies can try to aspire to the principles, but it is up to governments to translate them into national legislation. There is too much emphasis on process and management systems, and not enough emphasis on performance and compliance with national legislation.

The key role of development agencies is to bring national legislation into line with core labour standards. They can provide technical capacity to adapt legislation after ratification, which isn't expensive. Secondly, agencies can support multistakeholder and tripartite action plans, such as the cocoa initiative and work on HIV-Aids in the workplace by ICFTU/IOE. Thirdly, they can build capacity in employers' organizations to support local businesses that are not in international supply chains. A lot could be achieved through training managers on what the principles are about, and building capacity of workers' organizations to engage as serious partners in dialogue. Finally, they can encourage partnerships between public labour inspections and private social auditing, monitoring and certification schemes.

One question from the floor asked what had been learned from the ILO work in Cambodia. Hans Hofmeijer said that this is still ongoing, that it was made possible by the fact that it was based on compliance with national legislation. So the ILO could perform a function that would normally be played by a public inspectorate. The ILO has learned that it can play this role, and it has gained credibility and is now getting requests to do similar elsewhere. Duplication elsewhere would depend on it being linked to national legislation rather than inspecting against private systems.

François Pacquement, Agence Française de Développement
AFD's ambition is to extend CSR principles to development cooperation, hence we joined the UN Global Compact in January. AFD is a public sector financial institution created in 1941, operating in about 60 countries. Since the early 1990s we have concerned ourselves with corporate responsibility, starting with debates within the OECD on corruption, and continuing in our work with IFC and within the WSSD framework. As a state agency we are open to several auditing bodies. We introduced a new strategic approach in 2001, more in line with the MDGs, and we decided to adopt the 9 GC principles as we thought they would provide interesting and relevant guidance in working towards the MDGs – and because it would be a challenge to make them operational and to take inspiration from them. We joined the Compact due to the strong dedication of our manager, our board and our colleagues, many of whom join AFD on ethical grounds.

We have established a working group to assess where we are in relation to the UNGC Principles. On human rights, we need to do more, given that we have no formal political conditionality. On labour, we are inspired by ILO Principles so are careful in relation to forced or child labour, but we haven't yet developed formal procedures and need to improve on this. Our 40 or so local offices provide thorough information and we have strong awareness in some sectors, e.g. mining, and a more pragmatic approach in others, e.g. rural development. On environment, we are currently developing a strategy, but we already have procedures for environmental impact assessment, we are looking at environmental certification of our activities, and we are keen to contribute to innovative environmental solutions such as carbon funds. Global Compact work on corruption is relevant to us, but we have other fora in which we can discuss this in more detail. We are developing new procedures on issues such as money laundering and terrorism financing. We hope to finalise a more general code of ethics by June, and appoint a compliance officer. So we still have a long way to go and can learn a lot from Global Compact partners. We expect the Compact to be a resource for learning more – the more that join, the better our collective impact.

Questions related to the following issues:

- Whether AFD could support EITI and encourage civil society's role in French-influenced countries? It is useful to hear about this initiative; AFD is working more generally on commodity management and is seeking a partnership with the French Ministry of Foreign Affairs on the extractive sector, and to develop mechanisms to make aid to commodity dependent countries more contracyclical.
- Whether AFD has experienced difficulties in applying UNGC principles in core activities such as procurement and employment, e.g. in relation to WTO rules and EU Directives? AFD relies on procurement at a local level and wants this process to be owned by local partners. There are some diligence issues here but generally we try to ensure that a common sense approach is applied. I don't think labour standards are a major issue within the organization at this time. We have policies on cultural recruitment and equal opportunities.

- How the UNGC works with UNDP and UNCTAD, and how these international initiatives link together? Georg Kell replied that UNGC is a multi-institutional initiative, one effort among others that is trying to make the UN more open to other actors. The key point is searching for high impact approaches, rather than the old mandated approach – this is part of making the UN relevant and connected to the real world. Paul Hohnen of the Global Reporting Initiative added that ISO, GRI, UNGC and OECD have all been recognized as having an impact in the market, and that it is essential that all work together. Ambassador Remo Gautschi of the Swiss Agency for Development Cooperation noted that the key is that all these initiatives are going in the same direction, and that there remains work to be done by donors in this regard. As Richard Manning pointed out earlier, donor agencies have the classical role of promotion (including at home), advocacy, policy dialogue, capacity building, linkages and outreach. These are all necessary to promote political will and the will of companies.

FINAL PLENARY

Karugor Gatanah, centre for corporate governance, Kenya.
In 1991, Kenneth Kaunga said at a meeting in Kampala, that the greatest challenge for continent of Africa was to exploit its resources for the good of the people of Africa. The problem in Africa is how to create wealth, and how to do so in such a way as to help the poor. Everyone seems dedicated to creating wealth and doing so in a way that improves the quality of life of the people of different nations of the world. So we are saying nothing new, we are saying that we should change the way we do things, that we should seek to add value. Development agencies will continue to assist the poor, but the challenge is to do so in a way that makes a difference to quality of life of poor people. In Kenya, over 56% of population lives in abject poverty. My organization is working to change the quality of corporate governance. NEPAD highlights the need to review governance at three levels: democratic, economic and corporate. The leaders of Africa have collectively agreed to peer assessment. There a recognition that problems of Africa stem from a failure of effective governance.

Camilla Toulmin, IIED.
I have been struck by the pragmatic and results-oriented approach and language of the CSR debate. But there seems to be little positioning of this debate in a broader political context and the change in development approaches over the last 20-30 years. Debt and the rollback of the developmental state have been accompanied by a shift in language and ideology that often denigrates the role of the state, with private sector actors are seen to have greater integrity and global citizenship. I don't buy this vision completely – there is lots of good and bad behaviour on both sides, and within civil society. It is important to ensure the transparency, strength and integrity of the public sector to keep the best people.

It is important to invest in human capacity building, to provide an enabling policy framework. The public sector reform process is not a new agenda, and is often frustrating, slow and far from results-based – perhaps it could learn from the CSR debate. There is a need to align codes and monitoring with public sector goals better – and to develop partnerships around these systems, e.g. in labour monitoring and compliance.

Donors can help to balance the various interests in the development of norms and standards. We need to put SMEs and informal market actors at the heart of the CSR agenda, and find representative bodies of those groups with which to work. For example, farm households are a significant element of the private sector in Africa, themselves often truly multinational and multisectoral. We need to broaden the discussion to find ways in which this dynamic element of the private sector can be brought into the debate.

Donor activity is needed at a number of levels. Donors are secondary to key actors. Although better donor coordination could help, a more complex partnership is needed. A lot needs to happen at country level, especially to bring in non-OECD companies. But it is also essential to bring people together at capital level, to learn and share experience.

There is a need for better coherence between policy areas. I was struck by the Swedish effort in this regard. But we still seem to be happy giving aid while taking away with the other hand through debt, subsidies, etc. We have to place CSR in the broader policy context, including practicing what we preach.

Richard Sandbrook.
Talking on behalf of the growing sustainable business initiative, which arose from Johannesburg in response to the question of whether the world's biggest companies could do something to help the world's poorest people. Five pilot countries: Tanzania, Madagascar, Bangladesh, Ethiopia and Cambodia.
1 *Some companies interested in this area, but not that many*. These include Total, Shell, Thames Water, ABB, Holcim and EDF.
2 *The Global Compact offers a clear entry point* and an important floor for standard setting. In each of the countries there have been lots of roundtable meetings to discuss how big companies can work with others to do something productive and pro-poor. It is the first time these discussions have taken place in these areas. The roundtable discussions themselves have done something about governance in these areas. There have been demonstration projects that are pro-poor. Why should a large company be bothered about 2 dollar a day markets? Because lots of richer markets are becoming saturated. On the back of this, it is possible to do some good.
3 *Business linkages are extremely important*. There is so much more that can be done by companies in this area. It is a liberating force for SMEs.

Lessons:
1 The culture of the 'development set' and the 'corporate set' are very different. It takes time for these cultures to interact. It takes time to build trust.
2 Expectation management is essential.
3 Institutional social responsibility - people should be honest about their own capacities. There is currently so much dishonesty about people's capacity to act. We need a cadre of strong brokers and trainers to make all this possible.

Finally, leadership in all three sectors is vital, otherwise there is no way to move forward on any of this.

Holly Wise, USAID
We are struggling with two stark realities. Firstly, the problems seem too big. It is clear that donors and host governments need the assistance that the private sector can bring –

not just cash, but voice, products, energy, markets and so on. Secondly, our architecture is out of sync with the current reality. The Bretton Woods institutions were established when there was little FDI. We need to reevaluate our roles and how we can add value in a world which is no longer solely state-based. There are three options for engagement:

1. Building host government, local private sector and civil society capacity
2. Providing incentives
3. Unleashing the full power of the private sector to help make this a better world.

Then some questions remain:

- Is CSR the ceiling or the floor?
- What is the donor's job and how does its assets compare with those of others?
- What's the way forward?

I would suggest that the way forward is about change. We need to change our organizations, introducing new skills and business practices, celebrating leaders, creating safe space for risk taking and learning from partnerships. For USAID this hasn't been easy or linear. We see our key asset as being operational, so are working on public-private alliances, leveraging over $2bn private resources from $500m public funds. This process has helped us to grow and we hope that it's made a difference globally.

Richard Manning, OECD-DAC.
There is a shared interest in sustainable and broad-based growth in all countries, and where CSR and development coop can play a role in this. We need effective states and efficient markets. We should take a long term view about what companies are about, eg a 30 year view. On the civil society side, there is an ability to mobilize constituencies around issues, and there is an extent to which CSR provides a way of thinking about all this.

Can donors help this process? They should be modest about its aspirations – they are facilitators rather than leaders. There is a discussion about donor HQs, sharing good practice etc. There are some important points of entry in DAC, eg PovNet, work on good governance and conflict. DAC has peer review written into its constitution – illustrated some years back when the microcredit people set up a system, which was voluntary rather than compulsory, where lots of people grilled each other. It was a sharing process over a couple of years, whereby they examined each other, and all this was brought together and lessons shared. This process could have relevance in this field at the right time.

What can donors do in country? They can learn from their own practice in other areas - in many developing countries, looking at what donors are doing in transport, health, education, there are lots of lessons in terms of country-owned processes. It is a case of bringing the right actors together, then local frameworks can be built which change the way people think.

Concluding remarks included the following:

- Underlying governance challenges cannot be overlooked in the debate about global development. Everyone is aware of where things have gone wrong. But we haven't got the right underlying political context. Can we identify a small number of failures and see what can be learnt about what was wrong with the governance structure? The extent to which people are willing to share mistakes would be a good indicator of amount of trust that has been built.
- Private sector resources go beyond money. There is an element of push and pull - how can we also encourage opening up of markets, distributors and retailers in the

north, moving from talking about clusters to talking about virtual clusters. Plus a plea, a call for action, to go from beyond discussion on process and anecdotes, and take risks in working together in new and different ways, rather than a conference that stops here. The private sector is not just a chequebook.
- There are opportunities not to make more rules, but to unbridle huge potential and huge flows. How can you create the incentives and get the prices right so you can get financial actors working in new ways? There's a risk that we think that more needs to be studied and that we mark things as all 'good' or 'bad'. Companies have to feel that they are getting as much as they are giving. New markets are crucial. What's in it for us and for other actors? Mutual benefit has to be at the centre of any kind of collective action.

Carin Jamtin closing remarks: my first job as a minister was to attend a seminar about pro-poor growth. Perhaps a sign of what's happening at this point in history, is that we are realising that we have to work together to achieve the MDGs. Some points I see as important:
- Capacity: today we had a lunch seminar for Swedes. H&M said they would like to put more focus on training managers in outsourced factories in other countries.
- Governance, democracy and human rights. Relevant whatever organisation you work in. all about achieving the MDGs.

Workshop 1: building local responsible business practices

Points made in this workshop included the following:

- Donors can help to create supporting networks and to facilitate dialogue that joins up different actors and leverage the strengths of each sector. Donors should concentrate on activities that are in line with, or create, a business case for the private sector.
- Donors can help the private sector to apply its resources usefully, by raising awareness and establishing ways of working together. This means talking to the private sector in business language, not just development jargon.
- Donors have an important role in enabling the public sector to play its role, through support for policy and lawmaking.
- Rather than simply providing subsidies to the private sector, donors should form intermediary organizations that facilitate responsible purchasing and investment.
- Donors need to simplify their language, and to fund intermediary organizations and the staff within them.
- The huge visibility of some MNCs (eg Ikea) increases pressure on SMEs in their supply chain
- Aid is not essential for much of this agenda, which suggests that donors promote and enable CSR in four key ways: training; research; policy development; networking and linking different sectors.
- Bilateral donors are failing to engage effectively with companies from their own countries
- Donors face difficulties if they appear to be subsidizing individual companies, which is where intermediary organizations play such an important role
- What can donors do in countries where there is a large informal sector (eg, Vietnam)?
- The particular source of FDI affects expectations on environmental and social issues
- In Vietnam:
    - The private sector is strong, and growing rapidly
    - Private capital dwarfs public capital
    - Cleaner production can act as a model for other CSR activities
    - It is necessary to build the business case for CSR, and business schools and MBA courses can be essential partners in this
- Does CSR make a company more competitive?
- Does the King II report have traction beyond South Africa, eg in India or Japan?
- Donors can support governments in getting the basics right, eg land rights/tenure, and governance. They can also help governments to strike the right balance between local interests, domestic investment and FDI
- There is a currently disconnect between donors, who 'operate at 50,000 feet' and the private sector, which operates on the ground
- Challenges with donor activity include the fact that they can be easily-led; that they often go to places where they know activity already works; that they don't always operate in the poorest areas; that they are more interested in process than impact; and that they sometimes need intermediaries in order to be able to talk effectively with the private sector
- Donors are moving to sector/programme aid – how to square this with CSR?
- Recommendations: build on what exists; build standards from bottom up (ie not imposed from outside); knowledge transfer is an important component; and audit requirements can be further developed

Workshop 2: corruption and transparency – donors assisting governments and the private sector

Moderated by Jens Berthelsen, who opened with the following pointers:

- Discussion of corruption is not a new idea for donors and they have been involved previously in supporting initiatives such as investigative journalism training. What is new is harnessing businesses as a partner in fighting corruption.
- He explained how it was only five years ago that you could deduct corrupt payments from your tax return.
- The support given by James Wolfensohn and the World Bank since 1996 has been a big factor in changing the way that corruption is perceived.
- He finished by asking us to think about how corruption manifests itself in different geographical locations – eg The key areas of corruption in Asia are different from those in Africa

First Panellist – Karugor Gatamah – Centre for Corporate Governance, Kenya

- He asked what role can business play in fighting corruption. He felt that they could lead by example.
- He made a fairly controversial point about donors being corrupt when they give support, but stipulate that that support must be used via a company from the country where the support originated. (An example of this that had struck him recently, was being given money to run an international conference in Nairobi, but being told that all participants must fly to Nairobi on the national carrier of the donor country. This was all but impossible given the airlines that fly to Kenya.) He implied therefore that this conditional imposition by the donor agency was breeding corruption rather than producing a good example.
- He asked whether in only accepting auditing from the "big four" accounting firms, did that in itself undermine transparent business practices?
- He then turned his attention to procurement fraud. A major car company is currently being prosecuted in South Africa but not in Germany although the same crime was perpetuated in both countries. There are huge discrepancies in the way that international legislation is enacted.
- Finally he felt a bit cynical about Western countries preaching anti-corruption to Africa when he couldn't quite make out whether they were doing so from a high moral stand point or from the fact that they were suffering from other competitors so it was a pragmatic argument for them to use.

Second Panellist – Carin Norberg – TI

- Her background was originally in development cooperation before TI. TI is the only international NGO fighting corruption, with 90 Chapters and 26 Contact Groups.
- She felt that the recent UN Convention, however flawed, has still been a major achievement.
- When big companies operate in countries where there is a weak political will to fight corruption, they are obliged to approach two or even three doors in embassies that are sometimes very disconnected.
- Pre James Wolfensohn joining the World Bank, their attitude was to bury their heads rather than touch it. This caused Peter Eigen to leave the World Bank and to set up TI. TI try to put the finger on the weak points in country and formulate tools to highlight the problems and help in its eradication.

- One such tool is the Bribery Perception Index. This is not wholeheartedly endorsed by developing countries as it does not necessarily reflect how much work has been done year on year in eradicating the problem. So however hard Nigeria works at it, it was in such an awful position previously, it still lingers at or near the bottom of the index in spite of strong political will from government and participation in such initiatives as EITI.
- TI has now set up a Bribe Payers Index, to counter the Bribery Perception Index, looking at the propensity of countries and sectors to pay bribes.
- The most corrupt areas feature public works, construction and armaments.
- A recent questionnaire conducted by TI showed that only 6% of business managers knew of the OECD convention on combating bribery of Foreign Public Officials in International Business Transactions. This challenge made TI formulate the Business Principles for Combating Bribery to help implement a bribe free company culture.
- She felt that donors should familiarise themselves with what the private sector is doing and a key message was that you should do your homework on your own governments activities. How does legislation at home link in to other countries.

Third Panellist – Malaika Culverwell – DFID

- Malaika described the process of the Extractive Industries Transparency Initiative. This is a multi-stakeholder initiative between host governments and businesses. It is also a tool for civil society to hold governments accountable for monies received in return for access to resources.
- DFID's role is to encourage countries and companies to sign up to the guidelines, which are a "how to kit". DFID facilitates in the mapping of revenues, implementing the guidelines and in piloting the implementing in certain interested countries. So far, the first pilot has been established in Nigeria, with implementation in Ghana and Azerbaijan coming soon.
- DFID also acts as a clearing house in partnership with UNDP. It has recently established a £1 million trust fund with the World Bank and with some financial support from the Norwegian Government. They are also looking at other G8 donors for funding. The fund is to be used to build capacity for developing countries to better distribute funds.
- The dynamics behinds the EITI are to create neutral fora, build trust, understand expectations, not to always seek consensus and to try for a better understanding. The challenges include the difficulties of meeting the expectations that NGOS hold dear. Sometimes the expectations are too high that in declaring monies received will automatically help in eradicating poverty.
- Finally, the list of pilot countries is expanding to include, Georgia, Timor, Kazakhstan, Trinidad and Tobago, Equatorial Guinea and Kyrgyzstan.

Fourth Panelist – Henry Parham – Publish What You Pay Coalition

- PYWP is a coalition of NGOs including Global Witness, Oxfam, Save the Children, CAFOD, was launched by George Soros in June 2002. It now incorporates 210 NGOs worldwide.
- Given the paradox that resource rich countries such as Angola are actually in a worse state as a result of their natural resources, its remit is to push for the mandatory declarations of payments as the only way forward. It also advocates stock market disclosure rules.

- PYWP have been very involved with EITI since its launch and although it does not like the voluntary nature of EITI, it finds the guidelines useful and PYWP would rather be active contributors in analysis, than knocking the process for its lack of a mandatory process. It would like however that the mandatory aspect be put on the table for discussion.
- The EITI momentum was rather lost last year, as the team was very under-resourced but this has improved recently. Also there is hope for G8 commitments and the World Bank has helped to convene pilot country meetings, but again it only looks for voluntary disclosure.
- Although Nigeria has pushed forward and launched its pilot, PWYP have concerns about it. There are not adequate consultations with civil society and there is no idea how the stakeholder working group will operate.
- PWYP sees its role with donors as constructive criticism. It maintains that mandatory is the way forward but will not beat the donors head with this. It feels however, that if you cannot measure, you will not manage in these countries.

Fifth Panelist – Axel Wenblad – Skanska

- Skanska is an international construction company. As late as 1999 the company shied away from discussion of corruption. This has changed over the last couple of years. After working hard on improving its environmental performance, it felt it should tackle new social challenges facing its industry.
- In construction, there were no previous benchmarks for corruption from which to work so they invited Shell in to tell them how they had gone about the process of drawing up their codes of conduct. From this they drew up a 2 page ethics code. This is clear, concise and not wordy.
- They then wondered what were the consequences of implementing such a code. How would they implement it in South America for example? It is all well and good to have a website, but would everyone read this. Also, corruption is slightly different in each country.
- They started with training managers. They were then obliged to sign an ethics agreement. If they were in any doubt in what this meant, they are to bring this to the attention of their supervisors. Senior management have made a very clear statement about their feelings on business ethics and the CEO has called it "uncompromising implementation of the code of conduct".
- At the most recent WEF in Davos, Skanska was a key player in the creation of a business principles for countering bribery and corruption in construction initiative, modelled on TI's business principles, committing themselves to a zero tolerance policy on bribery, along with 18 other international engineering and construction firms.
- Why did they feel that they ought to do these measures? They know that in doing this, and going as far as pulling out of some countries, means that they lose out in the short term to less scrupulous competitors, but they are looking to the long term health of their company.

Final points by Jens Berthelsen following panellists five minute talks:

- Usefulness of double envelops, such as by the World Bank. This provides a monitoring role by neutral third party.

- Assurance that parties involved in contracts, understand from the outset that corruption will not be acceptable, such as the IFC where this understanding is part of the very first handshake.
- There is massive under capacity in countries such as Nigeria to know how to use funds correctly. This could be a big role for development cooperation agencies to help in building this in-country capacity.
- Also, all development agencies procurement policies must walk the walk rather than just talk the talk.

Points from the floor

- Some disagreement from OECD country representative that there is a conditionality about the procurement of goods and services in relation to funding. It goes too far to say that this is corruption.
- Response to a call for EITI to be mandatory, agrees that this is the ideal situation, but it would never have got up and running at all if it had not started out as voluntary. NGOs are a bit unrealistic, although have helped in delivering important progress.
- Switzerland has issued a guideline on what a donor can and cannot do. Only a few years ago, you could get tax relief on facilitation payments, but this is now punishable. It has however always been part of an Embassies job to attract work for its nationals.
- Companies should set up a point of contact when a code is found to be broken. Unless there is a sense that other companies are committed to a set of certain values, it will not work.
- There should be support of building coalitions in countries. Things that are jointly owned generally work better. Call for collective efforts.
- Bilaterals should enter dialogue with private sector institutions, such as WEF and the various Chambers and support private sector initiatives. Funding should be made available for workshops.
- Support should be given for effective monitoring of OECD conventions. There is a huge problem in that guilty parties are not being brought to court in spite of legislation. This is the case, as it is so costly and complicated to actually bring a corrupt party to court. The legislation is therefore practically impossible to be implemented.
- Donors could blacklist but there is the difficulty in deciding when a company has acted improperly. In writing blacklisting sounds like a good option, but it is difficult to uphold in practice.
- Through the OECD process there is too much emphasis on monitoring that is ineffective. There is a lack of political will and a lack of resources to properly investigate. However there is now an understanding from both institutional investors and shareholders that corruption causes ill and adds pressures to conform.
- What specific actions should be taken? How about working on other sectors in the way that the extractives have done under EITI? The language surrounding the topic should be cleared up and could there be a name and shame collective on the demand side, such as PYWP

Comments after lunch from Martin Kalunga Banda - rapporteur:

Martin felt that the following points were the most important from the morning's session and wished to draw four key recommendations for Jane's panel from the followning:

1.) Donors need to build capacity in the business community
2.) To develop capacity to assess the business impact on corruption – finance research in assessing corruption.

3.) Donors should support training programmes and projects for businesses
4.) They should familiarise themselves with what is going on within the private sector
5.) The setting up of a trust fund that provides technical assistance to less developed countries to distribute revenues arising primarily from the extractive industry was seen as a useful model.
6.) Need to support capacity building of civil society to measure the impact of corruption.
7.) There should be business ethics debate on procurement.
8.) There should be coordination between DCAs to avoid corruption.

Final comments were added by Carin Norberg from TI, who felt that there should be a multi-stakeholder approach to build trust and break down suspicion and the problem of ownership of local procurement procedures could be addressed by the implementation of integrity pacts. It has to be remembered however that no one size fits all.

It was decided to use the EITI programme as the best example to illustrate how to positively tackle corruption.

Workshop 3: CSR standards and norms in developing countries

Nigel Twose of the World Bank Group's CSR Practice opened the session, encouraging participants to think beyond development cooperation agencies' 'cheque-book' role. He described the Bank's work on codes and standards in different sectors, and noted the distinction between 'pre-competitive' and 'competitive' standards. ILO core conventions are pre-competitive – in principle, these should not be a territory on which companies compete. In reality, we know that one of the challenges is that they are not implemented. So they come into the CSR field because individual firms choose to apply them, when the risk of the labour inspector coming is minor. If you are choosing to sell to your domestic market, you may choose to apply no standards at all; some international companies that you might sell to are concerned about price and quality, but no further; and other international companies are deeply concerned about labour and environmental standards, because their consumers, investors or other stakeholders say it's important to them. The question is, what can development cooperation agencies do to ensure that these standards become pre-competitive terrain? And then, what can we do to ensure that the 'competitive' terrain really works – so that it's in a business' interest to push up standards?

Luis Fernando of Imaflora described experience in implementing certification in Brazil. Certification deals with public and private issues, many of which are global. One principle for development agencies should be to work with universal standards, locally adapted. So we need certifiers who can translate a principle to a local situation, e.g. what constitutes good housing. Another principle and role for development agencies is to ensure that certification is not discriminatory, particularly in relation to small companies. A third principle is the need for external independent monitoring. The drivers also need to be addressed – public policies can support incentives, e.g. in Brazil, there are tax credits for companies that want to be certified. But there still needs to be law enforcement, as certified timber competes in the same market as illegal timber.

Stefano Ponte noted that where there is no price premium for certification, the cost is deducted all the way back to the producer. What can we suggest in terms of measures for donor activities to tackle this? Luis Fernando agreed that for large companies, the unit cost of certification is practically zero, whereas the really great challenge is for small companies. Imaflora created a social certification fund, charging large companies a surcharge that is used to make certification for small enterprises viable. Donors are now also contributing to this fund. Tom Rotherham suggested that price is only one aspect, and we should not overlook others such as credit, long-term supply contracts, etc. But at some point these issues relate to public policy, e.g. when export credits are linked to standards. Nigel Twose noted that alignment of codes with internationally agreed standards is a key issue. Where there is a body of international standards, e.g. labour, there is a steady convergence, but in other areas, e.g. environment, there is no comparable body of standards. Neil Kearney suggested that with labour standards, the issue is much more fundamental than incentives. Much of the problem is that buyers set unrealistic production schedules and pay low prices.

It was suggested that donors should join up their various activities – for example, linking up forestry projects with support for civil society organizations that can promote sustainable forestry and certification. Other comments noted the need for 'systems' thinking that takes into account political processes.

Pat Mallett of the ISEAL Alliance, an umbrella organization which includes FSC, MSC, Fairtrade and organic labeling organizations as members, aims to improve the credibility of standard-setting by improving the process behind it. ISEAL has developed a code of good practice for setting standards, setting out basic principles of stakeholder involvement; international relevance and local applicability; and reducing the costs of certification e.g. through group certification, harmonization of standards and joint auditing. Development agencies can help to find ways to decrease barriers to certification, and help SMEs to be able to apply for and meet certification standards. They can help to build local certification capacity. Although certification emerged through market niches, this has had an impact on the mainstream, as witnessed in the coffee market, in which mainstream retailers are building basic principles into their businesses.

Marco Loprieno noted the need to link these discussions with governance and the regulatory environment. There is a need for donors to get together and facilitate a process with different stakeholders and governments to create the basic infrastructure and legislative framework, e.g. to tackle child trafficking and slavery in West Africa. CSR as it stands is touching the tip of the iceberg. Nigel Twose stressed that for market-based standards to work, there needs to be transparency and credibility. Paul Hohnen suggested that because it will take time to develop and implement legislation, we have to accept that we make use of CSR. There is a key role of simply raising awareness about international commitments. We can establish what kind of initiatives we should support by their key characteristics, e.g. global, voluntary, multi-stakeholder, triple bottom line, learning forums. Development agencies can then help with capacity building, profiling, testing and research on what's working and what's best practice. Tom Rotherham noted the need to learn from related policy communities, especially the trade policy community and the Technical Barriers to Trade Agreement. Credibility of standards shouldn't only be defined by stakeholder participation – it also has to be defined in terms of the effectiveness of the standard. Simon Walker asked what role development agencies can play in defining where respective accountability and responsibility should lie, particularly between states and companies. Hans Hofmeijer stressed that donors should only support initiatives that try to implement fundamental principles and rights.

Sandra Polaski described work that involved the ILO monitoring workplace labour standards as part of the US-Cambodia bilateral textile agreement, which allowed for increased quotas if standards could be met in Cambodia. The ILO provided information on workplace standards that has a credibility that no private effort could approach. The quota was increased year after year, bringing positive development impacts. But also, the private sector started to use the information to make its own sourcing decisions. There is now an effort to set up a similar initiative in Central America. This new ILO capacity should be seen as a new tool that is very credible and breaks new ground.

Neil Kearney described the importance of universal labour standards. Responsibility for implementation is shared, with the primary responsibility lying with those who employ. No matter how good they are, private initiatives are no substitute for labour legislation, effectively enforced by governments and for workers themselves bargaining collectively. Development agencies should:

- Help governments to enact and enforce strong labour legislation, with the ILO's support.

- Support effective labour ministries and ministers, with effective inspectorates, advisory and training services.
- Support good codes of conduct, distinguishing between these and those that are simply fig leaves for exploitation. Support convergence to result in a global model that promotes CSR throughout the supply chain.
- Assist with social dialogue techniques that allow workers and managers themselves to monitor labour standards in the workplace.

Tom Rotherham noted that convergence is a key issue and desirable in the pre-competitive sphere, but can be a problem in the competitive sphere. Nigel Twose agreed – and noted that there are issues not only with respect to convergence of substance, but also of implementation.

Elisa Mackold described work in Brazil that created a stock exchange listing tier for companies with higher levels of corporate governance. This created a direct incentive for companies, as there was a lower cost of capital for these companies. This is a good example of how the cost of capital can be linked to standards. Ulla Holm agreed that access to capital is essential, and suggested that donors need to work in parallel with private companies to develop new markets in this way.

Aron Cramer noted some gaps in the preceding discussion: Firstly, we need to recognize that there are many standards beyond those discussed so far. Secondly, we need to keep in mind that codes have largely been developed in the North, and not necessarily for developmental reasons. We have identified some barriers to the adoption of codes of conduct. Codes are currently far from a coherent system. Harmonisation is not the issue – it is the application of codes in the field that is the issue. Donors could:

- Promote a framework in which codes can be implemented, e.g. Wine Industry Ethical Trade Association in South Africa.
- Strengthen the capacity of local governments, making best use of available resources.
- Help host governments to act more effectively and with greater integrity, through instruments such as licences, tax incentives, etc.
- Help to ensure that workers can choose freely whether to be represented, and ensuring wider human rights.
- Shifting from North to South dialogues to a more balanced discussion.

Peder Michael Pruzan-Jorgensen added that we often hear about the need to clarify and enforce laws, but we have been hearing that for 40 years and donors have been supporting this for ages. What we have to do is to see the CSR agenda as a source of resources. The aim should be to use the CSR agenda to put in place local structures that are sustainable. We need impact on a much larger scale than many of the examples we've come across. Tom Rotherham noted the danger of working with national frameworks alone, when markets are in the North and there is a risk that nationally derived standards won't match Northern expectations.

Richard Sandbrook noted that there are economies of scale for all standards and codes. It's easier for large companies to implement them. For a real poverty dividend we have to find ways to overcome this. Neil Kearney reminded participants that labour standards are not created by codes – they already exist – and they do form a part of the development agenda. And the cost of certification is often minimal compared with the cost of putting right the issues that come up, at least in relation to labour issues. Sandra Polaski noted that the real problem is political will.

Tom Fox briefly listed the elements of the discussion so far that directly relate to the possible roles of development cooperation agencies:

- Creating policy frameworks and systems/processes that deal with standards where they relate to public policy and global issues.
- Creating drivers to allow the market to complement direct government action, aligning business incentives with public policy goals.
- Ensuring that certification leads to benefits for producers in developing countries, particularly in relation to prices and premia where these may otherwise not be passed along the supply chain.
- Assisting standard-setters to decrease barriers for small producers – finding ways to overcome the inherent economies of scale of certification and codes of conduct.
- Capacity building for small companies and certifiers at the national level.
- Ensuring local relevance of standards, e.g. through supporting participation in standard-setting processes.
- Linking support for civil society organizations and dialogue with other sectorally focused projects (e.g. building support for certification organizations into forestry projects).
- Working with governments and on governance issues to improve compliance.
- Raising awareness of core international norms and commitments, and supporting the development of operational tools to translate these norms/principles into business activity. Awareness programmes at national and operational levels.
- Supporting the emergence of bilateral trade agreements that include incentives for compliance – helping to create transparent, credible market information that can be used by buyers and that creates incentives for suppliers.
- Supporting enactment of legislation, with input from relevant bodies e.g. ILO, through support for national labour ministries and for new models of international labour/industrial relations.
- Promoting good multi-stakeholder codes, and the convergence/rationalization of supplier audits.
- Finding ways to link standards with financial markets and access to capital.
- Developing new tools for working with the private sector.
- Addressing gaps in the application of standards, e.g. in certain sectors and exceptions such as export processing zones.
- Supporting worker and community engagement and empowerment, to provide pressure for compliance from the bottom up.

Ritu Kumar then outlined what she proposed to report back to the plenary session (see notes in Plenary Three section). Commenting on her provisional outline, Nigel Twose noted the critical importance of transparency, and hence reporting in developing countries. Paul Hohnen described new innovations in software that will allow us to compare, compile and share information, and suggested that donors could usefully support the emergence of these new innovations. Stefano Ponte reminded participants of the overriding question of the benefits to developing countries. Donor agencies need to look at overall impacts and questions of equity. Nigel Twose noted that 90% of Nike's producing factories are in poor areas – so this is a wonderful wealth distribution mechanism if you can get it right. Richard Sandbrook stressed the stark link between standards and access to finance. Hans Hofmeijer noted that there is no room for local adaptation in some standards, and Sandra Polaski said that support for codes should only exist where this supports local enforcement. Tom Rotherham stressed the importance of the need for 'proof' that standards have been met. Stefano Ponte recommended that donors seek to work with a whole sector/industry where possible rather than with single companies.

Workshop 4: private companies operating in conflict-prone areas

Three questions for the session:

1. How donors and companies work together in conflict-prone areas (Lots of this in *Business and Peace*)
2. What should governments and companies together do in combat zones, and what is their respective roles?
3. How can donors ensure that private sector is a force for good? (locally, what can companies and donors do, what good practice is there; nationally, what can be done, depending on sources and types of conflict, if there is still a functioning state there may be less room for donors to manouevre, eg Ache, DRC, including nation-building, including accountability of governments; globally, there are lots of policy processes, including OECD, Global Compact, EIR – how to involve donors here?)

Edgar Bullecer: the private sector as a force for good in a conflict-prone area: foreign investment in Mindanao
The Paglas area of Muslim Mindanao is an area of social unrest, fuelled by different religious and cultural groups. 80% of the local population is aligned to rebel groups. Paglas was recently chosen as the site of a $32m foreign investment in a 1500-hectare banana plantation. The investment is small in relative terms, but significant because it took place in a conflict-prone area. Foreign investors included companies from Italy, Saudi Arabia and the US. One of the US companies, Chiquita, insisted on investing in Mindanao, following a scooping exercise in Indonesia which revealed that the local labour force wasn't sufficiently skilled to work in the highly technical banana industry. In Mindanao, the labour force is highly skilled, and land is abundant and suitable for irrigation. The investment has managed to bridge the local Muslim and Christian groups, with both groups working together on the plantation.

What made the project possible?

- Firstly, donors made a significant up-front investment in understanding the local culture, even to the point of tweaking corporate policies to accommodate local needs. For example, if an unqualified worker demonstrated sufficient leadership to be promoted to a supervisory role, then it took place, if necessary by providing someone else to write their reports.
- Secondly, the COO of Paglas (Edgar), who comes from a traditionally Catholic family, made an effort to learn about the Muslim faith. When community saw that he was sincere in these efforts, it made them less suspicious of outsiders. Starts to foster harmonious relationships.
- Thirdly, there was an effective division of labour between the local actors. The local government offered flexibility for the investment, for example by waiving taxes on donations for the project. The local private sector provided a champion, took care of security, helped the foreign investor find qualified workers, and explained the project to the local community.
- Fourth, a local champion was identified, a young mayor. He had no anti-Christian bias, and made the investors feel welcome in the town, for example by allowing them to determine their own rent and trusting their judgement, and by explaining to the local government that increasing the minimum wage would jeopardize the relationship with the foreign investors, causing the local government to retract this decision.

- Fifth, donor money came via PBSP, a local intermediary organization. It would be far more difficult for the money to direct to the company, or via the government, because of conditions and legal requirements.

Keti Dgebuadze - Further perspectives on private sector activity in a conflict-prone area: the BTC pipeline
The IICSR, a Georgian NGO, is involved in monitoring the BTC pipeline. Projects that have conflict-stabilising element should have priority in project funding. Feel that BTC should have had further conditionalities, eg route through national park region (Borjomi). Supporters of project, mainly, but want further mitigation measures. BP have asked GTZ to evaluate social and environmental considerations in this region. Donors should create conflict resolution centers including cross-sector representatives. From a governance perspective, welcome EITI. Azeri government behind this and others should also be behind it. Civil society and NGO sector on conflict resolution, should have challenging role, and donors should manage this interjection so that positive potential of companies is fully realized and negative is minimized.

What are the impacts on other conflict-prone parts of Georgia? BP regional review doesn't look at impact on conflict areas in other parts of the country. New Georgian president in Russia suggested new routes to connect Russian pipelines to BTC, which will go through conflict area.

Andrew Pendleton – the downsides of private sector involvement in conflict-prone areas: the experience of an advocacy NGO
Despite the fact that most grass-roots organizations want foreign investment, and they don't want companies to leave once they are there, business activity can sometimes increase poverty and exacerbate conflict situations. Christian Aid's *Fuelling Poverty* report looked at how oil extraction has not brought about benefits for poor and how, in some cases, it has made the situation worse. Sudan, Angola and Kazakhstan examples are all explored in the *Fuelling Poverty* report. The *Scorched earth* report looked at the oil industry in Sudan. The only conclusion about the presence of oil industry was that it was making conflict worse, because the government was using it as an excuse and scapegoat. In South Sudan, it was necessary to ask business to stop what it is doing because it is making the conflict worse – with enormous financial and legal implications. But complete disinvestment is even worse. A couple of companies have now left Sudan, and the remaining companies are far harder to hold to account. A combination of regulation, good practice and market mechanisms is applicable in these situations.

- The biggest challenges is implementing existing regulation (may need more regulation, but rare), rather than new laws. Difficult to know what companies can do. If pushed too hard, they will withdraw and leave behind bad governance and other investors without same concerns on reputation. The question should be - how can donors help governments implement existing law?
- Companies in Sudan have a paper commitment to CSR, eg Talisman's human rights policy. But companies would not accept that mere act of pumping oil is exacerbating situation.
- Would the government allow a company to stop pumping oil? They didn't speak directly to companies, but a church partner there did speak to them. As for the

practicality of option – it is probably a breach of contract, but it is theoretically possible for government to be flexible on this.

Claude Vollet - working with the private sector in conflict-prone areas: the experience of a humanitarian NGO
ICRC is currently working with companies in conflict situations – the agenda is a big one, their role is a modest one. Whenever ICRC is working with the private sector in conflict situations, it is mostly focused on damage control. The mandate of ICRC is to protect and assist people who fall victim to conflict situations, and they realized that it is impossible to do this without speaking to private companies. They are powerful and influential, sometimes even a direct actor in conflict situation. It is essential to address the root causes of conflict, even a humanitarian organization can make situation worse. People working with ICRC are not used to talking to business, so there was a need for a cultural revolution in ICRC to get them to do this. ICRC's principles – engagement, constructive dialogue and discretion. Not a campaigning organisation– and sometimes it is frustrating to be the nice guys. However, because they are in the field and work on all sides, including security issues, it is far better to be discreet.

ICRC participates with companies and multilaterals eg commenting on UN Norms. Responsibility lies with government for humanitarian law. The government can't just ignore businesses that do bad things. So they talk to governments as well as companies. The water industry was recently privatized in Ivory Coast, and the country suddenly went into a conflict situation. The country was partitioned in two, and the north of country continued to receive water but couldn't pay its bills because the company was based in the south of the country. Nothing wrong has happened so far. ICRC negotiated with private companies, rebels, donor governments etc. to make sure that water provision continued, even though the company did not receive money for its services. The boss of the water company couldn't allow money to stop coming in. Finally a donor stepped in to finance the company to continue provision. This was an effective division of responsibilities. But the question of privatizing formerly public services will continue to be a big worry – not just water, it could be electricity, medical services, energy.

Whatever solution is found, it is essential to involve all parties, not just companies. Also it is essential to rebuild civic institutions, eg police, courts etc. Donors can play a role in bringing different actors together in nation building, eg church, journalists etc.

Nick Killick: policy responses to private sector investments in conflict-prone areas: the experience of a conflict resolution NGO
There have been two parallel processes in last c. five years. The first is the growing recognition that companies have a role to play in conflict zones; the second is growing realization of the economic dimensions of conflict. These trends have become bundled together under the umbrella term of business and conflict – it would be helpful to unbundle these trends in order to address the issues more effectively. From a policy perspective, there is a big distinction between TNCs and local business. Also there are different policy approaches which look at overall context in which these companies are operating. Finally, within governments and multilaterals, where do these issues sit? It is rarely the case that there is just one government department looking at these issues.

- There is a spectrum of policy responses, ranging from regulation to much softer interventions. Even on the international business side, there is a range from a few rogue companies, to a few opportunistic companies where it's hard to exercise control, to blue chip companies where there are clear mechanisms for influencing them. There is a key role for the development of law to regulate rogue companies.
- National contact points for OECD guidelines should be strengthened (role for donors).
- Governments could provide more guidance for companies in these difficult areas.
- There is currently not enough communication between companies and embassies.
- Lending requirements are also a useful area, either IFC or export credit agencies, both of which have currently very low conflict analysis guidelines.
- The international community needs to address the SME role in poverty alleviation, and support local businesses to address these issues.
- When donors conduct economic development analysis, they don't look at dimension of conflict, they do it purely in terms of economics.
- Donors should look at how business community can support conflict resolution.
- It is possible to organise a response according to the nature of conflict (whether it is taking place in a failed state or, where there is some infrastructure still in place) and according to the stage of conflict (pre- or post-conflict, etc.)
- All stakeholders, particularly donors, must identify what they want to achieve when they talk about working together with companies in conflict situations
- Who are stakeholders? Shouldn't have simplistic discussion about private companies vs. donors. Lots of other stakeholders to take into consideration
- It is important to plan long-term development programmes, eg with five year reviews, to take into account conflict issues as well as economic review

Egbert Imomoh: practical, operational suggestions for donors

1. It is necessary to have a good understanding of the terrain – each conflict situation is vastly different – to do this, someone within the crisis should tell you what is going on, eg local NGOs with this capacity
2. Companies need indicators of crisis – they often operate in areas where things creep up on you. These indicators would show what needs taking care of
3. The underlying cause of conflict is poverty. There are lots of young men and women with a bleak future. When there is also a breakdown of law and order and of social cohesion, the combination of these three trends causes poverty
4. A database of good practices from around the world would be very useful.
5. In the final analysis, companies must ask themselves if they have the licence to operate in communities – otherwise it is impossible to operate.

Other points included:

- BP has used some new devices in BTC, which they have also applied to Tangguh, including a special external advisory panel, very detailed stakeholder engagement. Can donors set standards for stakeholder engagement, and suggest who should be consulted in each area, advise on setting up advisory panels, etc?
- BP has formed an alliance with lots of different organizations on the BTC pipeline, to strengthen civil society, focus on employment issues etc. These partnerships are operational rather than discussion forums. Also there is a need for definitional precision, eg with term donors (IFIs, multilaterals, export credit agencies – and implications for risk screening, insurance and reinsurance). Finally there is also an

issue about NGO responsibility, who they are and what are their roles. (The role of advocacy NGOs is clear – working with partner organizations in developing countries who don't have voice they should have, so NGOs help them to have a voice. Where the role has become muddy, is when they are asked to provide solutions (which they can only do in some cases)).

- Conflict-prone areas are in fact areas of weak governance. There is no explicit reference to conflict in OECD guidelines, but it is possible to use provisions of guidelines, eg human rights, labour rights, taxation (eg protection money) in these situations. It is also possible to reinforce NCPs, but there is not necessarily a role for the donor community there. NCPs can tell local labour unions how to use OECD guidelines.
- Voluntary principles raise questions about boundaries of responsibility, eg in Colombia, the US government policy is in conflict with voluntary principles. Govts gave space for principles to be drawn up, rather than helping to draft them.
- Can't just talk about donor agencies within government, need to talk about whole government. DfID supports BTC pipeline, although government role should be neutral/mediatory.
- Stakeholder advisory panels can anticipate lengthy and complex attempts to redress through OECD guidelines. Could one find countries where there is an overlay between donor interests and those where there is significant private sector interest?
- USAID chaired a private sector/donor group in Uganda, mostly just talking to themselves. A suggestion is to try and broaden and deepen sector-specific collaborative bodies that exist at a country-level, eg education group and health group.
- The 15 mining companies that are members of ICMM have been actively supporting EITI and currently working with GRI to develop indicators for the principles, including disclosure of all royalties and tax payments in the countries where they are operating. They are looking to donors to encourage countries to do their bit, to help build capacity to undertake public expenditure reviews or revenue tracking, and to ensure the money goes to legitimate development purposes.
- The construction industry is making very effective use of mediation clauses and contracts – are there ways to assist the development of these in other countries?
- To encourage companies to participate with respect to voluntary initiatives, and to encourage novel approaches, such as stakeholder consultation mechanisms, we have to develop strategies to assist them if it goes wrong, or if they are severely criticized. If these strategies aren't developed, companies will be deterred from trying new approaches.

Four recommendations for donor action, including case studies that can be replicated, which focus largely on blue-chip companies:

1. *Strengthening of and awareness-raising of existing guidelines*, eg OECD guidelines, PWYP, EITI, voluntary principles (acknowledging different nature of guidelines, different instruments because they address different aspects, and the capacity building which comes with all of this). In Philippines, ODA amounting to 2bn dollars was withdrawn because of the inability of Philippine government to match funds. If governments cannot provide funds, can donor agencies be more creative in defining what is meant by matched funds, eg flexibility in applying law, or support for the project?

2. *Risk analysis and stakeholder consultation issues*, including lending requirements, eg IFC's guidelines and company policies are both inadequate in conflict zones. Loan makers should be much more aware of conflict issues. Often these measures come too late in the process, stakeholder consultation, eg, should come far sooner
3. *Partnerships*, eg with World Bank and bilaterals on transparency issues with host governments, eg Tangguh project, where has it worked and what has been positive aspect of donor role eg, capacity building, financing, convening etc. Other examples include Angola, Nigeria, Uganda, Sierra Leone (conflict diamonds)
4. *Consistency within governments*, eg when security forces create more problems than they solve, or when governments export arms and then blame companies for manufacturing products which are used for human rights abuses. (Internal communication perhaps the best that can be hoped for on this last point).