THE DEVELOPMENT DIMENSIONS OF THE UN GLOBAL COMPACT

Final Report

July 2003

Prepared by
the RING Alliance
for the Secretariat of the
United Nations Global Compact
www.ring-alliance.org

Acknowledgements

This report has been prepared by the Regional and International Networking group (RING) with the financial support of the United Nations. The RING is a global alliance of predominantly Southern policy research institutes that supports sustainable development through collaborative research and policy advice. Our work seeks to link grassroots communities with national and global policy makers, governments with a broader array of stakeholders, and researchers in different regions with each other.

This report is the result of a collaborative effort among RING partners. The project was led by a core group of four: Hernán Blanco (Recursos e Investigación para el Desarrollo Sustentable, RIDES, Chile), Evans Kituyi (Africa Centre for Technology Studies, Kenya), Atiq Rahman (Bangladesh Centre for Advanced Studies) and Halina Ward (International Institute for Environment and Development, UK). Additional case studies and analysis were provided by Tariq Banuri and Erika Spanger-Siegfried (Stockholm Environment Institute-Boston, US); Aditi Haldar, Dhiraj Manhas, and Vivek Sharma (Development Alternatives, India), Sughra Arasta Kabir (Bangladesh Centre for Advanced Studies), Kent Nnadozie and David Okali (Nigeria Environmental Study Action Team, NEST, Nigeria), Shaheen Rafi Khan and Fahd Ali (Sustainable Development Policy Institute, Pakistan), and Tom Rotherham (International Institute for Sustainable Development, Canada). Halina Ward was the project coordinator, Richard Sandbrook and Saleemul Huq provided advice to the core team, and Adil Najam was the final editor.

For further information on the RING, its members and its projects, see www.ring-alliance.org.

Executive Summary

Soon after the launch of the UN Global Compact in 1999, the Regional and International Networking Group (RING) issued a statement welcoming the initiative but stressing that to be effective it had to remain rooted within the United Nations' larger development context and grounded in local realities and livelihood concerns. We argued that the processes for implementing the Compact's goals must ensure that the assets of the mainstream corporate economy are turned to the advantage of those excluded from the benefits of globalisation. In this report we seek to advance that dialogue and, more specifically, to elaborate the RING's original argument. Our aims are a) to present an overall framework for understanding the relationship between 'business and development' in the light of the Compact's goals, b) to highlight exemplars that characterise such a framework, and c) to identify options for activities that the Compact might undertake for the future to initiate and reinforce pro-development action.

For members of the RING, the ultimate goal of any development initiative, including the Global Compact, must be to advance *sustainable development*, not just economic growth. In practical terms, this means integrating environmental, social and economic considerations at every level, and giving a central role to considerations of *governance*.

Although each of the nine existing Global Compact principles has a distinct contribution to make to pursuit of sustainable development, the principles do not explicitly refer to key development concerns such as equity or poverty reduction, or to the imperative of building human capacities in support of sustainable development. To tackle these 'development gaps', we suggest that three organising themes should be incorporated into each of the Compact's nine principles: ***reducing poverty***, ***building social capital***, and ***enabling responsible entrepreneurship***. Each theme helps unlock important development aspects of the UN Global Compact and, taken together, the three can help place the Compact more firmly within the arena of sustainable development.

- **Reducing Poverty:** Business investment and economic growth alone cannot eradicate global poverty; but they must become a key part of the solution. At a minimum, if the globally agreed poverty reduction target reflected in the Millennium Development Goals is to be met, the expansion of the job base and the quality of jobs will need to become key themes in strategies for maximizing poverty reduction. A central challenge for progress in the business and development agenda is to expand the boundaries within which the "business case" for poverty reduction can be effectively made. Innovative businesses have indeed been able to cater to the needs of the poor. However, this requires radical innovations in technology and business models that can be used to integrate the corporate and human economies. Such innovations, which enable corporations to interact with the poorest, can not only provide profits to investors, but can also provide significant sustainable development opportunities for the poor. A business agenda for poverty reduction also needs to reflect better understanding of the development significance of small and medium sized enterprises, the informal sector, cooperatives, and other forms of business at the level of the human economy.

- **Building Social Capital:** It is difficult to think of a business activity that does not directly benefit from the public goods generated by social capital. Social capital and social networks for example enable education, population management, or community cohesion. A commitment to building social capital must be central to any serious business commitment to development. One way in which businesses can help create social capital is through *partnerships*. Cross-sectoral partnerships have the potential a) to leverage the contribution of business to capacity building processes for other social actors; b) to do so with the expectation that mutual economic advantage, and c) to facilitate rural livelihoods and help to build or restore local social capital. Another way for businesses to enhance their contribution to social capital is through investment in *civic entrepreneurs*. Civic entrepreneurs are leaders or innovators who are driven explicitly by the public interest to seek to create new ways of building social capital and of harnessing existing ideas, methods, inventions, technologies, resources or management systems in the service of locally relevant, locally-driven collective goals. Civic entrepreneurship typically embodies very high levels of social capital. Because they operate in the social milieu and are able to draw on high levels of social capital, civic entrepreneurs are often able to overcome the challenges of working in difficult operating environments. When civic entrepreneurship is market-based (in which case it is sometime referred to as 'social entrepreneurship'), it has the potential to develop exciting new business models of pro-poor sustainable economic development.

- **Enabling Responsible Entrepreneurship:** The 'enabling environment' for responsible private investment and enterprise is a sum of the drivers, tools, human capacities and institutions directed towards that goal. Applied to development, there are at least two key gaps that need to be filled within the agenda on responsible entrepreneurship: we need an improved understanding of a) the role of the public sector in enabling responsible entrepreneurship and b) the development implications of the emerging body of tools of responsible entrepreneurship; particularly standards. On the first, public sector agencies have an essential role in underpinning responsible business behaviour: by setting and enforcing the baseline for acceptable business behaviour so that the market can reward businesses that go further; by partnering with others; by incentivising best practice; and by providing political support for good ideas and best practices. On the second, the financial implications of meeting the new and fast-accumulating range of market-driven social and environmental standards present a real risk that vulnerable producers and workers could be shut out of existing supply chains by new requirements that they are unable to meet. SMEs, in particular, have problems accessing information on standards and technologies.

Our report identifies six specific recommendations on action that could be taken within the Global Compact to better reflect these three key themes and fill the Compact's outstanding 'development gaps'.

#1. Integrating development considerations across Global Compact Activities. The Global Compact should integrate the UN's existing development initiatives into its work plan, particularly the Millennium Development Goals (MDGs). An informal 'development benchmark' could be developed and applied across Compact activities.

#2. Deepening engagement with key development actors. Direct engagement in international Global Compact initiatives by social actors and development stakeholders based in non-OECD countries remains poor. Governments have often been indirect participants – as donors, or as deliverers of political support, rather than as key actors at the centre of the Compact. And there has been a tendency to focus on larger multinational companies with far less engagement with uni-national small and medium enterprises, and almost none with cooperatives or with informal sector enterprises and entrepreneurs. The Global Compact needs urgently to deepen its engagement with the under-represented actors who play a pivotal role in promoting positive linkages between business and development: SMEs, cooperatives and the informal sector; leaders and innovators working for the public interest (whom we have referred to as *civic entrepreneurs*); and public sector agencies.

#3. Building understanding of the business relevance of civic entrepreneurship. The importance of building social capital underscores the developmental value of support for *civic entrepreneurship*. The Compact should build a better business understanding of civic entrepreneurship through its Learning Forum, particularly by focusing on the 'development case' and the 'business case' for seeking out and investing in civic entrepreneurs.

#4. Cultural dimensions of global corporate citizenship. The Global Compact should launch a specific policy dialogue on the cultural dimensions of corporate citizenship, with the twin goals of helping businesses identify approaches to managing their impact on cultural values; and to examine the extent of local or regional values might themselves provide inspiration for responsible entrepreneurship.

#5. Development of understanding on supply chain best practice. Market-based standards, certificates, labels and codes of conduct are the dominant currency of 'voluntary' corporate citizenship. Supply chain requirements, or contracts, are its banking system. The Compact should address the 'governance gap', within the corporate citizenship agenda by building understanding of best practice in supply chain management for responsible entrepreneurship.

#6. Beyond 'business at the centre': A series of Actor-specific discussions. Over time, the Compact should become a fully-fledged global public policy network, addressing the contribution of enterprise to sustainable and equitable human and economic development, and integrated into existing norm-setting processes. We suggest that the Global Compact move beyond its current focus on 'business at the centre' to convene a series of dialogues on the role of key development actors - such as non-governmental organizations or public sector agencies - in providing the enabling environment for responsible entrepreneurship in developing countries.

Finally, over and above these specific action points for the Global Compact itself, there is a need to document better the full range of UN-business partnerships across the entire UN family. And we see a continuing need for the UN and its new business partners to work to build a better understanding of each other's core competences, strengths and operating principles. Only then can the full creative force of the Global Compact, and its contribution to sustainable development, be maximised.

Introduction

In January 1999 at the World Economic Forum in Davos, UN Secretary General Kofi Annan asked assembled business leaders to 'embrace, support and enact a set of global values' which will 'give a human face to the global market.' The Global Compact was subsequently established as a collaborative, network-based approach to foster learning, dialogue and action around nine core principles relating to the essential themes of labour, human rights and environment. Business action and business leadership lie at the heart of the Compact.[1]

The Compact began its work amidst a spate of criticism and apprehensions about the processes of economic globalisation, including concerns over the rising power of transnational corporations, the erosion of political commitment to social equity and environmental conservation, and rising global inequity. The emergence of a 'global corporate citizenship' agenda and its associated international processes, including those of the Global Compact, can be understood in part as a responses to emerging understanding on the potential negative impacts of economic globalisation. To use Kofi Annan's words, such initiatives have been created in part as paths to creating a 'more sustainable and inclusive global economy'.

Given this background, it is perhaps surprising that the development dimensions of the Global Compact have not received more attention. Nonetheless, an understanding of the development context for implementation of the Compact's goals is implicit in a number of initiatives.[2]

After the UN Secretary General launched the Global Compact in 1999, the Regional and International Networking Group (RING) issued a statement applauding the initiative while also highlighting the need to keep it rooted within the United Nations' larger development context. We stressed that implementation of the Global Compact's universal values must be rooted in local realities and contexts. The processes for implementing the Compact's goals must ensure that the assets of the mainstream corporate economy are turned to the advantage of those people excluded from the benefits of globalisation. We emphasized that a key aspect of the Global Compact must be to ensure that a partnership is forged, not only with the corporate economy, but also with the livelihood economy that sustains the bulk of the world's people.

Like much of civil society, the RING upholds the value of efforts that demand meaningful accountability mechanisms for business. But we also see value in voluntary action and learning based on multi-stakeholder processes of the kind exemplified by the Global Compact. Each has a distinct and complementary role to play. These are our basic starting points for this report to address the development dimensions of the Global Compact.

This report approaches this task in three ways:

- First, by proposing an overall framework for understanding the relationship between 'business and development' in the light of the Compact's goals.

---

[1] For more information on the UN Global Compact see www.unglobalcompact.org/Portal/; the full text of the Secretary General's speech is available at www.un.org/partners/business/davos.htm#speech.

[2] For example ongoing work to address the challenge of growing pro-sustainable development business activities in the world's poorest countries.

- Second, by highlighting exemplars of existing initiatives and partnerships that characterise such a framework.
- Third, by identifying options for activities that the Compact might undertake for the future to initiate and reinforce pro-development action.

This report is not presented as a consensus document. Rather, we seek to present a variety of options and initiatives for further consideration, drawing on the range of insights and experiences of the RING members. Above all, the purpose of this initiative is to begin, and to contribute to, a global conversation amongst diverse actors on ways in which key development dimensions can be incorporated into the United Nations Global Compact.

The Global Compact and Development: Some starting points

At international level, two documents stand out as reflections of the international community's contemporary understanding of development: the Millennium Development Goals (MDGs), and the results of the 2002 World Summit on Sustainable Development (WSSD), which build in turn on principles and policies initially outlined in the outcomes of the 1992 United Nations Conference on Environment and Development (UNCED).

Despite the formal consensus reflected in these (and other such) documents, the notion of development remains contested, and its definition remains dependent on assumptions made about initial conditions and the end goals. It is unavoidable, then, that we should offer a few words about the *kind* of development that we believe should guide the Global Compact. For members of the RING, our shared end goal is *sustainable development* – in longhand sometimes referred to as "sustainable and equitable economic and human development".[3] It is both a process and a goal, resting on three 'pillars' – environmental, economic, and social. Sustainable development involves the task of *integration* between environmental, social and economic considerations at every level. Achieving that necessary integration is a key *governance* challenge.[4]

Sustainable development means meeting the basic needs of all people and ensuring that all people have the opportunity to fulfill their aspirations for a better life. The notion of *equity* in access to and allocation of resources is a cornerstone of strategies for sustainable development. This means securing both equity between the current generation and future generations (intergenerational equity), and between people living today (intragenerational equity). Equity cannot be achieved without concerted action to tackle poverty – perhaps the greatest challenge facing the planet today.[5]

---

[3] Sustainable development is most commonly defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (*Our Common Future*, Report of the World Commission on Environment and Development, Oxford University Press, 1987).

[4] See Banuri, T., G. Hyden, C. Juma, and M. Rivera. 1994. *Sustainable Human Development: From Concept to Operation: A Guide for the Practitioner*, UNDP, New York; Khor, M. 2001. *Globalization and the Crisis of Sustainable Development*. Penang: Third World Network; Lélé, S.M. 1991. "Sustainable Development: A Critical Review." *World Development* 19(6): 607-21.

[5] See Banuri, T. and Najam, A. *Civic Entrepreneurship: A Civil Society Perspective on Sustainable Development* (Synthesis: Volume 1). Islamabad: Ghandara Academy Press. This book and its accompanying six volumes of

Each of the nine existing Global Compact principles has a distinct contribution to make to pursuit of sustainable development. But implementation of core environment, labour and human rights principles will not alone maximize the potential 'voluntary' contributions of business to sustainable development. The notion of integration that is central to sustainable development is reflected most strikingly in the *first* goal of the Global Compact - to integrate the principles of the Compact into business strategy and operations. However, the nine principles do not explicitly refer to *equity,* to *poverty reduction*, or to the imperative of building human capacities in support of sustainable development. It is these 'development gaps' that we focus on in this report. The Compact's *second* goal – to promote partnerships in support of UN goals – offers a broader platform for activities to integrate a comprehensive development dimension into the Compact's work. In this regard, we welcome Global Compact director Georg Kell's suggestion that the Compact be used to better understand the 'development dimension' of corporate activities as they relate to the core competencies of businesses and the Compact itself.[6]

In particular, one core competence stands out: the Compact's place within the United Nations gives it special authority as an invitation to multi-stakeholder dialogue – particularly in countries or in circumstances where distrust among different actors limits the opportunities for collaborative action towards common goals. The nine Compact principles potentially offer a non-confrontational calling card for multi-stakeholder dialogue on some of the most difficult issues in the relationship between business and society. In turn, the near-universal membership of the United Nations provides the Compact with an imperative to reach out to marginalised but critically important stakeholders at the interface of business and development.

These are very significant strengths. However, their overall contribution to promoting global corporate citizenship is likely to be enhanced if a number of weaknesses in the Compact are addressed.

- First, levels of direct engagement in international level Global Compact initiatives by a more diverse set of social actors and development stakeholders based in non-OECD countries remain poor, even though more than half of the Compact's participating companies come from developing countries.
- Second, governments have often been indirect participants – as donors, or as deliverers of political support, rather than being placed as key actors at the centre of the Compact.
- Third, there has been a tendency to focus on larger multinational companies with far less engagement with the uni-national SMEs that are a key engine of growth in middle and low income countries – and almost none with cooperatives or with informal sector enterprises and entrepreneurs.
- Fourth, the Compact has failed to win the lasting engagement of some major civil society based organisations, among them some of the most significant drivers of equitable development on the ground – community based organisations.

---

country and regional reports were produced by RING partners as a contribution to the 2002 World Summit on Sustainable Development.

[6] Georg Kell, *Making Global Responsibility Work for Business and Development*, Keynote address to conference on 'The United Nations Global Compact and Swiss Business', Geneva, 29 October 2002

- Fifth, the Global Compact has been criticized for allowing businesses to gain reputational benefits from association with the United Nations without making real changes to practices on the ground. We understand that a package of measures is currently being put in place in response to this criticism.
- Sixth, the Compact still needs to make an effective case and demonstrate the efficacy of its principal conceptual claim: that meaningful and positive change at the human development level can be generated through non-coercive voluntary dialogue and learning (as opposed to these coming only from tough mandatory rules to tackle the worst impacts of 'bad practice' by businesses). The responsibility for systematically making this case lies squarely with the Global Compact itself.

Though we do not address the fifth and sixth weaknesses in this paper, implementation of the suggestions outlined in the final section of this paper will help to address the first four – enabling the Compact to capitalize more effectively on its existing core competences and strengths.

Three organising themes

We have identified three organising themes that could provide the basis of a comprehensive development axis for the Global Compact if added to the existing nine Compact principles and the goal of promoting partnerships in support of UN goals. They are:

- *reducing* poverty
- *building* social capital, and
- *enabling* responsible entrepreneurship.

These organising themes should not be viewed in isolation from one another or from the remainder of the Global Compact. The three are closely related: for example, building social capital is an important strategy in efforts both to reduce poverty and enable responsible entrepreneurship; the enabling environment for responsible entrepreneurship may in turn serve to build social capital or to reduce poverty. Each of the three themes has the potential to frame significant business contributions to development; but without *integration* across these three themes, as well as those already reflected in the nine principles, the result may nonetheless undermine sustainable development.

Reducing Poverty

About 1.3 billion people, almost a fifth of the world's population, live on less than one dollar a day. Defining the notion of 'poverty' more broadly to include quality of life and vulnerability concerns, the number of poor people increases to around two billion, or one in three.[7]

The 2002 World Summit for Sustainable Development prioritized the task of reducing poverty by half by the year 2015, affirming this as the pre-eminent Millennium Development Goal. Many poor people have little or no direct contact with the formal marketplace, let alone the global economy. The world's 'least developed countries' which suffer from very high levels of poverty tend to see low levels of investment and relatively low presence of the formal business sector. In

[7] For more on this and related issues of human development and the MDGs see http://humandevelopment.bu.edu.

many larger developing countries, foreign direct investment exists alongside major poverty problems.

Business investment and economic growth alone cannot solve global poverty. But they must become a key part of the solution. If the globally agreed poverty reduction target is to be met, the expansion of the job base and the quality of jobs will need to become key themes in strategies for maximizing poverty reduction. Poverty reduction is a shared responsibility. Business has an important independent role to play where there is a business case or when there are direct business opportunities in activities that provide net reductions in poverty. But it is also the task of government to set the overall policy framework so that business is afforded the best possible opportunities to maximize its contribution to poverty reduction.

Building Social Capital

Development is sometimes broadly conceptualized in terms of critical *capital inputs*. This framework is most widely used in work on sustainable livelihoods, but its emphasis on capital inputs lends it well to adaptation and application by businesses too. Indeed, the more recent literature on poverty reduction groups many activities directed to that goal under the theme of 'sustainable livelihoods'.[8]

In the sustainable livelihoods framework, the assets of a household or village or a country are seen in terms of four types of capital input.[9] These are physical or man-made capital (infrastructure, machinery etc), natural capital (natural resources and the ecosystems that support them), human capital (knowledge and skills) and social capital (social networks, institutions, decision-making structures, shared cultural values, degree of social mobilisation).

Without the infusion of social capital, the other capital assets tend to remain static and of limited value. Social capital, which is often generated by civic entrepreneurs – leaders or innovators who are driven explicitly by the public interest to seek to create new ways of building social capital and of harnessing existing ideas, methods, inventions, technologies, resources or management systems in the service of locally relevant, locally-driven collective goals – is what makes development intelligible and human. It is a critical ingredient in making development sustainable. It is difficult to think of a business activity that does not directly benefit from the public goods that are generated by social capital. Social capital and social networks for example enable education or population management. They underpin social cohesion at community level. These facts alone generate the basis of a powerful *ethical* case for business engagement to build and sustain social capital.[10]

---

[8] Ongoing work on 'sustainable livelihoods' within the WBCSD does not refer to the 'four capitals', but views the notion as a business-friendly way of communicating the business contribution to "poverty alleviation". A different, but related, model for understanding sustainable livelihoods is discussed in Banuri, T. and Najam, A. *Civic Entrepreneurship: A Civil Society Perspective on Sustainable Development* (Synthesis: Volume 1). Islamabad: Ghandara Academy Press.

[9] Five if technology is considered separately.

[10] This insight is even integral to models that do not explicitly use the four Capital's model, for example, Banuri, T. and Najam, A. *Civic Entrepreneurship: A Civil Society Perspective on Sustainable Development* (Synthesis: Volume 1). Islamabad: Ghandara Academy Press.

Enabling Responsible Private Investment and Entrepreneurship[11]

Georg Kell has suggested that "development is largely about enabling private investment and entrepreneurship to secure sufficient and equitable growth for people to have hope for a better future".[12] The task should not simply be to address the enabling environment for private investment and entrepreneurship – but to address the enabling environment for *responsible* private investment and entrepreneurship within the 'win-win-win' space of profit, social justice, and environmental protection. Moreover, if such conditions exist they are likely to nurture the growth of private as well as civic entrepreneurship.

The 'enabling environment' for responsible private investment and enterprise[13] has three key dimensions. First, the *drivers* of responsible entrepreneurship. These take effect in different ways for different businesses and in different parts of the world, but they include factors such as government regulation, pressure from civil society or from consumers, supply chain requirements and reputational considerations. Second, the *tools* of responsible entrepreneurship. These include codes of conduct, guidelines for business reporting on environmental or social issues, indicator sets, labels, certification schemes and management systems. Third, the *human capacities and institutions* that underpin responsible entrepreneurship. These include human capacities to implement responsible entrepreneurship within businesses, as well as the capacities of the stakeholder groups and institutions that generate the drivers and tools of responsible entrepreneurship.

Not only do investments need to be made to secure the optimal enabling environment for responsible entrepreneurship, but also to ensure that its implementation does not generate unintended consequences, such as discriminatory market exclusion, that undermine development.

In the next section of this paper, we outline some of the consequences that adoption of these goals might have for progress in the business and development agenda at large.

What does this mean for Business and Development?

The contemporary global corporate citizenship agenda has until recently tended to focus on the environmental and social aspects of private enterprise. Yet the business world has been criticized as much for its development record as it has for its record on environmental, labour and human rights issues. At the same time, private enterprise has a critical role to play in delivering development; through innovation that can help to solve the world's problems; by providing waged labour on fair terms; by paying taxes that allow governments to deliver public goods. These are just some of the positive developmental contributions that mainstream business already makes. The challenge is to reward and encourage good behaviour, whilst censoring

[11] We prefer this term to the more common 'corporate citizenship' or 'corporate responsibility' because it contains no limitations on the vehicle through which enterprise is channeled. Private investment and private enterprise are sometimes distinguished. We view 'responsible entrepreneurship' as encompassing both.

[12] Georg Kell, *Making Global Responsibility Work for Business and Development*, Keynote address to conference on 'The United Nations Global Compact and Swiss Business', Geneva, 29 October 2002

[13] Jane Nelson's complementary classification distinguishes between "rules of the game, relationship intermediaries, resource mobilisers, and recognition and incentive systems". Jane Nelson, *Creating the Enabling Environment*, Executive Summary, International Business Leaders' Forum, London.

harmful business activities and seeking to expand the space for private enterprise that brings optimal contributions to development.

Reducing poverty

A central challenge for progress in the business and development agenda is to expand the boundaries within which the "business case" for poverty reduction can effectively be made. This can be achieved in part by fostering innovation and bringing to a broader audience successful demonstration examples that lie at the edges of mainstream understanding on the 'business case'.

It would be wrong to assume that a "business case" can currently be found for the full range of worthwhile possible poverty reduction initiatives by business. However, happily there are also some clear 'win-win' areas. Prahalad and Hart's pioneering work,[14] points to the significant commercial opportunities in doing business with the world's four billion poorest people – whether as consumers, as employees or as entrepreneurs.

The success stories that Prahalad and Hart list show that innovative corporations have indeed been able to cater to the needs of the poor. However, this requires what they call 'process' innovation (as opposed to the more conventional 'product innovation'): that is, 'radical innovations in technology and business models' that can be used to integrate the corporate and human economies. Such process innovations, which enable corporations to interact with this poorest segment of the global community, can not only provide profits to investors, but can also provide significant sustainable development opportunities for the poor.

Viewing poor people simply in terms of market potential need not always complement sustainable development. For example in Bangladesh, as in other parts of the world, many among the country's less well off consumers aspire to have fairer skin.[15] There are many companies willing to meet and actively shape this demand, and to tailor their marketing strategies to less well off consumers – for example by producing single-application packets that can be purchased individually. Few would argue that this economic activity blazes a trail towards sustainable development, however well tailored it may be to catering for consumers towards the 'bottom of the pyramid'. The focus should always be on meeting the needs of the world's poorest people in ways that actively support sustainable development.

Prahalad and Hart's analysis draws on the insight that the economic sphere globally is divided between a corporate economy, which produces the bulk of high value products and garners the bulk of investment and value-added, and the rest (what might be called the 'human economy') which employs four-fifths of the world's workers and provides livelihoods as well and consumer products for four-fifths of the world's population. The corporate sector is global in character and reach, highly organized, economically efficient, entrepreneurial and dynamic, but dependent on a high and growing consumption of materials and energy inputs, and employing only a small minority of the global workforce. The human (or livelihood) economy, on the other hand, comprises farming, family led production of goods and services, informal enterprises, or small

[14] C. K. Prahalad and Stuart L. Hart, *The Fortune at the Bottom of the Pyramid. .Strategy+Business* 26(First Quarter): 2-14, 2000.

[15] Sughra Arasta Kabir and A. Atiq Rahman, *Fair is Lovely!*, RING case study.

and medium sized firms; it is based on local resources, organized informally and using low levels of energy and material inputs.

Box 1: The special development roles of SMEs, cooperatives and the informal sector

The economic activities of *small and medium-sized enterprises (SMEs)* are essential in fashioning a path out of poverty for citizens of developing countries. For example in Chile 82% of all industrial facilities are micro enterprises; 17% are small and medium scale enterprises and just 1% are considered 'large' companies, according to their annual sales. The *cooperative movement* represents a hugely significant enterprise grouping, involving hundreds of millions of people in production – from major banks or internet service providers through to enterprises working at village level on production of a single product. Cooperatives serve valuable social functions in accumulation of savings and social cohesion. *Informal enterprises* are also significant development agents – particularly given their capacity to transfer knowledge and foster social equity. But informal enterprises are particularly vulnerable to market fluctuations and natural hazards. Entrepreneurs at this level may have only limited opportunities to benefit from the potential market openings brought by environmental or social standards in international trade. Since they frequently lack capital they can be open to exploitation through informal financing structures.

Alongside the innovative business models of a new generation of action by large companies to target the consumers at the 'bottom of the pyramid', a business agenda for poverty reduction needs to reflect better understanding of the development significance of small and medium sized enterprises, the informal sector, cooperatives, and other forms of business organisation operating at the level of the human economy. This calls for particular attention to the 'enabling environment' for responsible entrepreneurship.

Building Social Capital

A commitment to building social capital must be central to any serious business commitment to development. At the operational level, business activities can either destroy or create social capital. The aim should be to minimise the negative impacts of business on social capital whilst investing in creation of new social capital.

The goal of minimising the negative impacts of business on social capital is particularly relevant in instances where a corporation closes down operations within a community that has grown dependent on its presence. In these circumstances, previously active local markets and viable livelihood options may have deteriorated beyond ready repair. Previously important social networks and decision-making structures may have been sidelined and disbanded. Quite naturally, a range of once central practices and connections may have been abandoned or lost from disuse. Investment in social capital can increase community resilience and head off the economic and even social disruption of a major investor's departure.

One way in which businesses can create social capital is through *partnerships*. A burgeoning body of cross-sectoral partnerships have the potential to a) leverage the contribution of business to capacity building processes for other social actors; b) do so with the expectation that mutual economic advantage will keep the business and the community engaged, and c) in doing so, facilitate rural livelihoods and help to build – or restore – local social capital (see Box 2).

Box 2: The Thai Business Initiative in Rural Development (T-Bird): Innovative company-community partnership in action

Despite strong economic growth throughout the late eighties and early nineties, rural poverty in Thailand has persisted, much of it concentrated in the arid, marginal lands of the northeast. The effect of the economic boom was not increased jobs or earnings, but the intense pressure of urban out-migration, especially of young people seeking jobs in the factories and sweatshops of Bangkok. The Thai Business Initiative in Rural Development (TBIRD) is an innovation in corporate-community partnerships that has been widely recognized as an exception to this pattern. Administered by the Population and Community Development Association (PDA), TBIRD has, since 1988, recruited private sector investment in rural economic activities. Successful TBIRD case studies include the Singer sewing machine and Bata Shoe Company projects. This financial sponsorship focuses, not on infrastructure development or even on traditional education, but on enhancing income-generating capabilities, so that rural people can earn a living wage while remaining in their villages. TBIRD brings private investment – primarily in human capacity – to rural communities and enables business to utilize this capacity for its own small-scale activities. PDA's role is to serve as an intermediary, or 'matchmaker' between rural communities and potential business partners.

Tariq Banuri and Erika Spanger-Siegfried, *RING Case Study*

Another way for businesses to build social capital whilst potentially reaping direct business rewards is through investment in civic entrepreneurs. Civic entrepreneurship typically embodies very high levels of social capital. Because it operates in the social milieu and is able to draw on high levels of social capital, civic entrepreneurship is often able to overcome the challenges of working in difficult operating environments. When it is market-based (in which case it is sometime referred to as 'social entrepreneurship'), civic entrepreneurship has the potential to develop exciting new business models of pro-poor sustainable economic development.

One celebrated example is the Orangi Pilot Project (OPP) Economic Enterprises Program (EEP) in Karachi, Pakistan.[16] The EEP grew from a desire to provide an economical and sustainable sewage system for Orangi, Pakistan's largest squatter settlement. Based on a social mobilisation approach, it consists of two parallel activities; a programme for women garment workers to inculcate managerial skills and to organize them so that they could deal directly with wholesalers and exporters, and second, a credit program for small family enterprises designed to improve production, employment opportunities, management skills and business integrity.

Civic entrepreneurs excel at generating blueprints for socially sensitive innovation drawing on high levels of social capital. Without investment, civic entrepreneurship and the pro-poor development innovation that it represents can falter or fail. With that investment – whether of financial capital, business skills or both - the business/development win-wins and the possibility to scale up initial ideas and take them to market can be significantly enhanced.

Box 3: GrameenPhone

The largest mobile phone network in Bangladesh today is GrameenPhone, a joint venture between four companies from Bangladesh, the US, Japan and Norway. The Bangladesh partner and 35% shareholder is Grameen Telecom, a not for profit company established by civic entrepreneur Professor Muhammad Yunus to 'extend the benefits of the information revolution amongst the rural people of Bangladesh.'

[16] Fahd Ali, SDPI, RING case study.

Even when civic entrepreneurs do not choose to operate explicitly within the market, business support for civic entrepreneurship can help to sustain innovation, whilst generating significant paybacks in terms of local good will, stability in the operating environment, and partnership-based learning rooted in local realities.

Social capital has a *cultural* dimension that has not received the attention that it deserves within the business and development agenda. Weakening of the cohesive forces that support culture has a negative impact on human development. It can fuel conflict that politicizes the operating environment for business at local level. There is a business case for action to tackle each of these aspects: first, to address the potential impact of business activities on respect for cultural values, and second, though business support for initiatives that foster local cultural expression, with consequent potential for benefits in terms both of social cohesion and employee welfare.

There are some difficult 'boundary' issues here. In some cases, local cultural values may be 'anti-development' or at odds with internationally agreed human rights principles. One example would be a local community in which cultural values prevent children from going to school. There is as yet no consensus in these difficult boundary cases on the extent to which businesses should play a direct advocacy role, reflecting a need for continued dialogue among all stakeholders.

Box 4: Addressing the cultural impact of business and fostering cultural expression

Mining companies operating in the far North of Chile have to deal with the historical mining 'enclave' context. It has been widely recognized that mining cities and towns in the North have traditionally reflected a camp culture, characterized by poor cultural expression and diversity, and ultimately a poor quality of life; all this despite the high income per capita that mining regions have reached. Citizens in mining towns have typically shown little sense of belonging, there are few local associations such as interest groups or neighbours' associations, and people generally consider themselves temporary inhabitants. It is no wonder then that cultural life is scarce. However over time, mining companies operating in Northern Chile, particularly those beginning operations since 1985, have realized that contributing to cultural expression and diversity is among the most effective means that they can apply to foster sustainable development locally. It is no coincidence that the company *Minera Escondida*'s independent foundation, *Fundación Minera Escondida*, includes four themes with a strong link to cultural development among its five priority work areas.[17]

Hernán Blanco, RIDES, RING Case Study

As a minimum baseline, the maxim 'do no harm' to cultural values or cultural expression offers a useful starting point for businesses, alongside the aspirational goal of seeking to ensure that business activities bring 'net benefits' to local cultural values and their expression. This point is made more explicit by the example in Box 4.

[17] The four are improving the quality of education and its equitable distribution; promoting social mobility and the development of association and organisations; promoting cultural diversity, and opening participation opportunities to youth

Box 5: Business Philanthropy as a cultural value

There is a long history of social involvement by the Indian business community. Indeed, this engagement is itself an important element in the subcontinent's system of cultural values. For example, pre-independence India saw the largest Indian business houses, like the Birlas, Bajaj and Kirloskars support and fund the Indian freedom movement. The Marwari business clan, which dominated Indian business life, built temples and renovate bathing ghats. Historically, all business philanthropy was executed at community level and was faith based. One unfortunate legacy of this long history of corporate philanthropy is that CSR is often equated with philanthropy alone. The high profile Indian agenda on corporate governance - *how* businesses make their money – is largely disconnected from the philanthropic agenda - *what* good businesses do with the money that they make. One notable exception is provided by the Indian giant Tata Steel, which integrates respect for the traditional cultural values of philanthropy into entrepreneurial flair in its approach to social welfare alongside exemplary corporate governance.

Aditi Haldar, Development Alternatives, RING Case Study

In some cases, cultural values may directly address responsible entrepreneurship. For example in Asia, business philanthropy is itself a cultural value (see Box 5). And there are also potentially business opportunities in considering the relevance and inspirational value of local or regional cultural values for models of responsible entrepreneurship (see Box 6).

Box 6: Cultural values as inspiration for responsible entrepreneurship

In Africa, the strong nexus between maintenance of cultural values and the region's holistic development is increasingly highly valued. Contemporary ethnocentrism is being displaced by scholarly writing that recognises the importance of nurturing aspects of the African heritage for fusion with other contributions of non-African heritages. The notion of *collectiveness* in dealing with common goods and concerns. For example, in most African societies, people easily share food and water. It is easy to mobiles an entire community or group of people of similar or diverse ethical groups, culture and religious background to deal with an emergency, such as a funeral, or a grain harvest. Research by the Global Leadership and Organisational Behaviour Effectiveness (GLOBE) Research Project revealed that Zambians place a high value on the importance of being fair, altruistic, generous, caring and kind – characteristics of a society with a 'humane orientation'.[18] The fair trade movement offers a good example of a strategic business orientation that links the values of fairness and kindness with commercial acumen.

Evans Kituyi, ACTS, RING Case Study

The Enabling Environment for Responsible Entrepreneurship

We have suggested that the 'enabling environment' for responsible entrepreneurship is a sum of the *drivers*, *tools, human capacities* and *institutions* directed towards that goal. If this theme is applied in a development context, there are at least two key gaps that need to be filled within the overall agenda on responsible entrepreneurship or corporate citizenship. First, understanding on the role of the public sector in enabling responsible entrepreneurship. Second, understanding on the development implications of the emerging body of tools – standards - for responsible entrepreneurship.

[18] See Frese, 2000 and House, 2000 cited by David Murphy in *African Enterprises and the Global Compact: Adding Value through Human Relationships*, Extract for Global Compact Policy Dialogue 2002

The Public Sector role in enabling responsible entrepreneurship

Conventional development policy is well used to considering the enabling environment for investment in developing countries. Nonetheless, the role of good public governance as a counterpart for responsible business behaviour is increasingly well understood – particularly by business investing in environments where public sector capacity is weak, or corruption rife, or by civil society-based organisations working to highlight the negative impacts of public sector strategies that value economic returns over human rights or environmental integrity.[19] Yet within the corporate citizenship agenda, the dogma that corporate citizenship is defined by its 'voluntary' nature means that discussion has primarily focused on what can be achieved business-led activity, whether alone or in partnership with others. Discussion on the 'enabling environment' for responsible entrepreneurship has tended not to focus on the roles that the public sector can play.

From a development perspective, this is a significant shortcoming. Public sector agencies have an essential role to play in underpinning responsible business behaviour. Public sector action provides a linchpin of the enabling environment – by setting and even-handedly enforcing the baseline for acceptable business behaviour so that the market can reward those businesses that go further; by partnering with others; by exhorting and incentivising best practice; and by providing political support for good ideas and best practice initiatives.

Standards for promoting responsible entrepreneurship

As the global corporate citizenship agenda gathers pace, an increasing body of standards is emerging to guide business action in the marketplace. These standards can take a wide range of forms; for example criteria for the award of product-based labels or certificates; non legally-binding best practice guidelines for company reporting; environmental management systems, or labour rights standards. In each case the assumption is that the market will in some way reward those businesses that meet the standards. The reality is that there are winners and losers, and that often the choice is between meeting the standard and maintaining market share, or failing to meet the standard and losing out. For producers in developing countries, one of the most common mechanisms for integrating such requirements throughout the value chain is the supply contract. The financial implications of meeting the new range of market-driven social and environmental standards present a real risk that vulnerable producers and workers could be shut out of existing supply chains by new requirements that they are unable to meet.

SMEs in particular have problems accessing information on standards and technologies. Their frequent lack of institutional representation can make it difficult for them to get loans for capital investments, such as water treatment plants, that may be demanded by standards regimes. In general, SMEs present a strong case for support.

Partnership potentially offers a powerful way forward. Indeed the "business linkages" agenda, when large companies partner with smaller companies based in developing countries – for example, as described in Box 7 – has now become a familiar part of the corporate citizenship agenda.

---

[19] Kent Nnadozie, NEST, *The Nigerian Oil Sector: a critical perspective*, RING case study

Box 7: Partnering for ISO 14001 certification in Chile

Minera Escondida Limitada (www.mel.cl) was the first mining company in Chile to secure ISO 14001 certification in 1999 for its port facilities in Coloso, south of Antofagasta. By the end of 1999 Escondida had made a decision to support ISO 14001 implementation in a selected group of 5 established suppliers. The driving factors were:

- to give contractors tools so that they could independently comply with current legislation and minimize environmental risks
- to challenge the notion that ISO 14001 is only for large companies by demonstrating that SMEs can also jointly work in a successful certification process
- to demonstrate the economic benefits associated with control of environmental issues through ISO 14001 certification

The resulting project was carried out with support from the Chilean agency for the promotion of production, CORFO (www.corfo.cl). In the initial stage, 80% funded by CORFO, Escondida transferred its certification experience and helped with planning the suppliers' environmental management system. The second phase, 70% CORFO funded, focused on definition and implementation of an environmental policy, again with Escondida in a supporting role. The final step was the certification process itself, which was carried out by Norwegian company Det Norske Veritas, through is office in Chile. Just five months after the initial five suppliers achieved ISO 14001 certification, 37 further SME supplier companies to Escondida had expressed an interest in embarking on a similar process.

Hernán Blanco, RIDES, RING Case Study

Partnership to facilitate compliance with existing standards is one thing. But there is also a deeper structural issue at stake. Calls for harmonisation or convergence of standards for responsible enterprise, or for the development of new global standards that can foster certainty in the marketplace, can crystallise the tendency for such standards to be oriented to the non-local or arm's length impact of business activities. The drive to global standards may be of value to the distant investor in terms of his or her needs, but may not have the same value for a local resident of the area where production capacity is situated. Corporate responsibility standards can provide a competitive advantage to firms that do not necessarily have a positive impact at local level. Global standards need also to accommodate local standards that are coupled with accountability to local communities. Greater efforts need to be directed towards fostering local standards for responsible entrepreneurship, and to raising awareness of those that already exist.

What does this mean for the Global Compact?

The Global Compact's convening role is implemented within a broader framework of UN-business partnership. We have two general comments on that framework. First, to our knowledge, there is currently no mechanism for documenting such partnerships across the entire UN family. Such a mechanism could be a valuable resource both for UN agency staff and for external stakeholders. Second, multi-stakeholder partnerships are more likely to succeed when each partner has an understanding of the other's core competences, strengths, and operating principles. There remains a need to invest in building such understanding in relation to UN-business partnerships. On the one hand there is a need to build understanding within the United Nations agencies of business culture, decision-making timeframes and drivers; on the other to build business understanding on the workings of the UN.

For the Global Compact itself, we have suggested that three related objectives offer an overall framework for maximising synergies between business and development, namely: *reducing* poverty; *building* social capital; and *enabling* responsible entrepreneurship. In this section, we set out some preliminary thoughts on how the Compact could seek to apply these objectives in its own evolving work programme. We have aimed for practicality: each of our six suggestions is capable of implementation in the short to medium term by a Global Compact that is constituted with its current strengths. Table 1 provides a summary of these recommendations and how each relates to the three themes highlighted in the overall framework.

Table 1: Summary of Recommendations for Better Incorporating Development Dimensions into the United Nations Global Compact

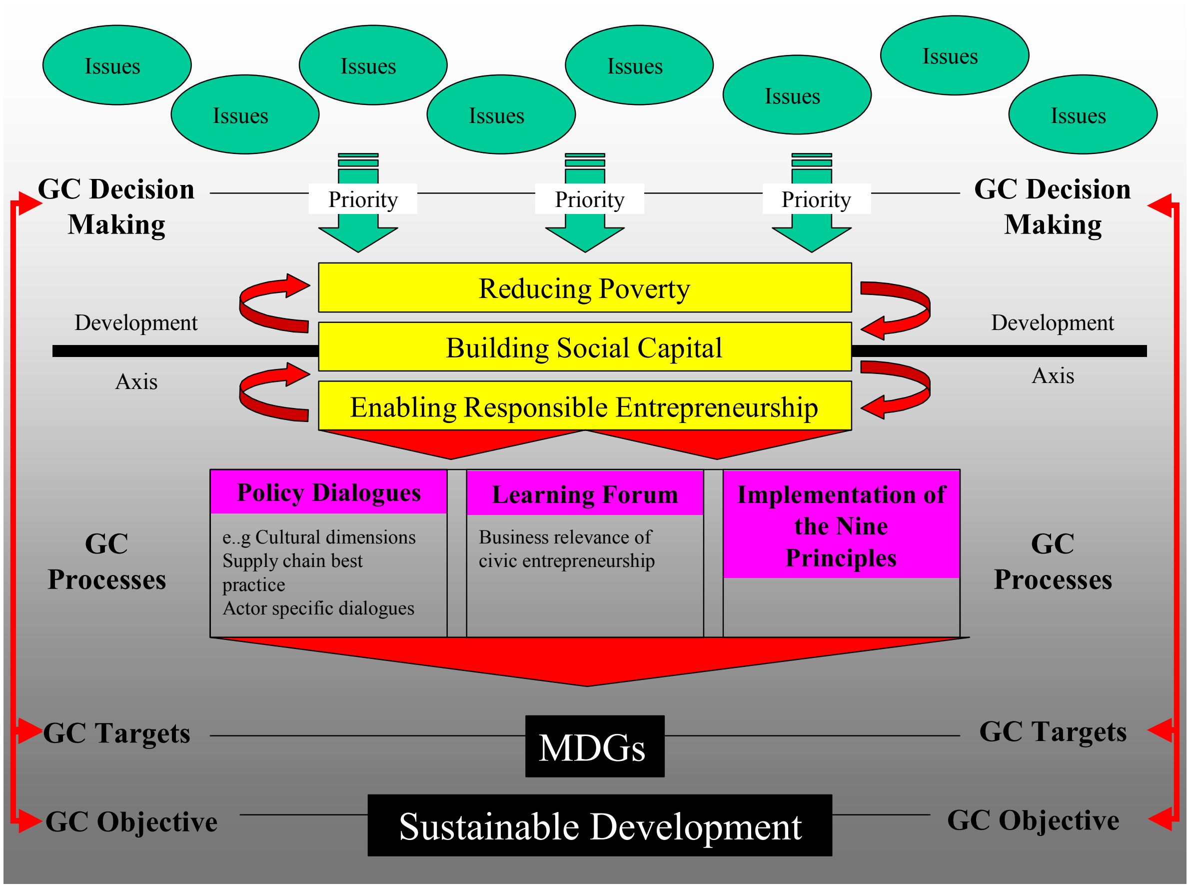
Recommendation	Development Theme and Relevance to Recommendations		
	Reducing Poverty	Building Social Capital	Enabling Responsible Entrepreneurship
1. Develop a Mechanism for integrating development across all Global Compact activities	**High**	**High**	**High**
2. Deepen engagement with key development actors, including SMEs, the informal sector, cooperatives and community-based organisations	**High**	**High**	**High**
3. Build understanding on the business case and the development case for action to foster civic entrepreneurship	**Medium**	**High**	**Medium**
4. Initiate a policy dialogue on cultural dimensions of global corporate citizenship	**Some**	**High**	**Medium**
5. Build understanding on supply chain best practice	**Medium**	**Medium**	**High**
6. Move beyond business at the centre to initiate dialogues on the roles of different actors in enabling responsible entrepreneurship	**Medium**	**Medium**	**High**

#1. Integrating development considerations across Global Compact activities

Promotion of the nine Global Compact principles is not sufficient to give the Compact a comprehensive development orientation. Without a formal understanding that development – sustainable and equitable human and economic development – is an overarching goal for the Compact's work, efforts to integrate development into the Compact will be vulnerable to suggestions that the Compact is exceeding its mandate. And even when such initiatives do attract support from key Compact stakeholders, the lack of clear mandate for development work may be reflected in reluctance on the part of donors to contribute to projects that support the development dimension.

One way forward would be to seek to build an explicit 'development pillar' into the Compact's work by agreeing on a new set of 'development principles' to be implemented alongside the existing nine. Such principles could, for example, build on the triptych that we have put forward in this paper, or on the international development targets reflected in the MDGs and the outcomes of the Johannesburg Summit for Sustainable Development. However, there is a risk that this approach could divert scarce resources to a protracted negotiating process. It could also fail adequately to serve the goal of *integrating* sustainable development across the full range of Compact activities.

Figure 1: Integrating Development in the Global Compact



On balance we suggest that integration is currently the more appropriate strategy. It is already recognised that one of the Compact's roles is to 'catalyze activities and partnership projects in support of UN goals'. One relatively straightforward step towards integration would be for the Global Compact to associate itself explicitly with the Millennium Development Goals; perhaps the single most significant set of targets within the contemporary global governance framework; universally agreed and uniquely authoritative. When the Secretary General announced the launch of the Global Compact, the Millennium Development Goals had not yet been adopted. The Compact should demonstrate its agility by absorbing the relevance of the consensus reflected in the Millennium Development Goals.

At the same time, we suggest that the Compact Secretariat seek to develop an informal 'development benchmark' that can be applied across all Compact activities to ensure that participants consider the development dimensions of their work and to embed the existing nine principles in a development context. Such a 'development benchmark' could, for example, help to frame the development dimension of ongoing work to address the challenge of growing pro-sustainable development business activities in poor countries.

The three organising themes that we have suggested represent one possible framework that could both complement the Millennium Development Goals and support implementation rooted in local realities and local strategies, including those reflected in local sustainable development plans or poverty reduction strategy papers.

A 'development benchmark' could be supported by action to translate the Millennium Development Goals into very concrete targets for business, so that those businesses who choose to view the Millennium Development Goals as a framework for their contributions to development can work to develop effective indicator sets for management and reporting purposes - rather as some oil and gas companies link their efforts to tackle CO2 emissions to the targets set by the Framework Convention on Climate Change and the Kyoto Protocol. For example, it has been suggested that the MDG on water and sanitation assumes 270,000 new connections a day. Clearly, the private sector will have a key role to play.[20]

#2. Deepening engagement with key development actors

The Global Compact needs to find ways to deepen its engagement with key development stakeholders. We have highlighted three groups of actors in particular whose role in promoting positive linkages between business and development has tended to be underplayed in the dominant corporate citizenship agenda: SMEs, cooperatives and the informal sector; leaders and innovators working for the public interest (whom we have referred to as civic entrepreneurs); and public sector agencies. Simply stated, the task of 'putting a human face on the global economy' cannot credibly be pursued without the full engagement of actors in the global and *local* economies – including the *human* economy.

The Compact has established good links with stakeholders in the community of multinational corporations and to a lesser extent international civil society. The challenge now is to go further; particularly by building links with civil society based organisations working to deliver civic entrepreneurship, particularly those with demonstrable links and relationships at the community levels; by engaging with public sector bodies (both those in middle and low income countries and in the OECD community of donors); and by forging stronger links with the SMEs, cooperatives, and informal sector enterprises who make such a major – and undervalued – contribution to overall economic activity around the world.

This is not to suggest that continued engagement with multinational corporations and international NGOs is unimportant. Nonetheless, the current global corporate citizenship agenda is dominated by Northern stakeholders – by large companies; by international NGOs based in OECD countries; and by 'green' and 'ethical' consumers based largely in the world's richest

[20] See generally, Jane Nelson and Dave Prescott *Business and the Millennium Development Goals: A Framework for Action*, IBLF, June 2003

countries. The urgent task now is to broaden the agenda; to make it more inclusive and more reflective of the range of innovative activities taking place in developing countries.

At international level, the Compact Secretariat must take steps to facilitate and ensure the broad participation of developing country stakeholders in the Compact's policy dialogues and in its Learning Forum. At the national level, local Compact coordinators should be explicitly encouraged to incorporate community voices and concerns into their work and to facilitate exchange of learning and identification of locally appropriate innovation to reduce poverty; build social and human capital; and enable responsible entrepreneurship. At the same time as fostering wider take-up of innovative and locally appropriate approaches in developing countries, this process of learning - if effectively transmitted to the international level - could also bring the practical insights that are necessary to build understanding in some of the more difficult structural issues of the global corporate citizenship agenda; for example on the relative roles of global, regional and local standards for responsible entrepreneurship in the marketplace; or on accommodation of different value systems in the conduct of business.

There are still relatively few genuinely international multi-stakeholder processes within the global corporate citizenship agenda. Improved engagement of stakeholders from developing countries in the Compact's international work could significantly boost the attraction of engagement with the Compact both at company headquarter level and within an international civil society increasingly suffering from engagement overload. We believe that such broad-based participation could help to make the Compact *more*, not less, relevant to the international business community that is currently a major constituent in the Compact's work.

We recognise that there is a risk of overstretching the Compact, given its limited financial and human resources. We appreciate that achieving the depth and levels of engagement that are needed will likely call for additional financial resources. It will certainly call for the Compact to build new links with existing networks based in developing countries. But it is important to recognise that the challenge of ensuring broader engagement poses an issue of basic credibility for the Compact. A network that is better placed to link the local to the global can only have greater authority as a source of innovative thinking and inspiration on cutting edge practice. For this reason it is also essential that the Global Compact's partner agencies within the UN who operate both globally and at local level fully adopt and apply this same strategy.

#3. Building understanding of the business relevance of civic entrepreneurship

Our emphasis on the goal of building social capital has served to underscore the developmental value of support for *civic entrepreneurship*. Once the developmental significance of civic entrepreneurs, and civic entrepreneurship, is recognised, potential roles for the Global Compact follow naturally. Indeed, we view action within the Global Compact as an expression of the Compact's role in providing a catalyst for efforts to scale up and multiply promising approaches to fulfilling the development potential of business activities in developing countries.

As a first step, the Compact could support a process to build business understanding of the relevance of civic entrepreneurship through its Learning Forum, particularly by focusing on the ‘development case’ and the ‘business case’ for seeking out and investing in civic entrepreneurs. As part of this process, the relative balance between ‘civic entrepreneurs’ and ‘traditional’ market-based enterprises needs to be studied and assessed.

Over time, this initial process of action learning could lead to more ambitious initiatives operating as spin-offs from the Compact. One could eventually envisage ‘incubation’ or ‘brokerage’ functions, putting civic entrepreneurs in touch with holders of the business skills and sources of capital investment necessary to sustain and grow market-based civic entrepreneurship. For the short term, the task is to seek through action learning to make the business case – to business – for civic entrepreneurship and its development benefits.

#4. Cultural Dimensions of Global Corporate Citizenship

To our knowledge, few institutions or initiatives have sought specifically to address the cultural dimension of corporate citizenship, despite its developmental significance and its business relevance. We suggest that the Compact launch a specific policy dialogue to explore the cultural dimensions of corporate citizenship; through case studies, exchange of learning, and dialogue on outstanding challenges. The twin goals of such a dialogue would be to help businesses to identify approaches to managing the impact of their activities on cultural values; and to examine the extent to which local or regional values might themselves provide inspiration for responsible entrepreneurship.

A dialogue on cultural dimensions of corporate citizenship could also serve to underscore the diversity of cultural contexts for corporate citizenship around the world, helping to build understanding on practical ways to integrate advocacy for global values with respect for local values. At the same time we envisage that it could inspire new business models; attract direct public sector engagement around an agenda with high developmental significance; and broaden the Compact’s network of civil society based actors in developing countries in an area where many non-local businesses struggle to find appropriate sources of guidance and advice.

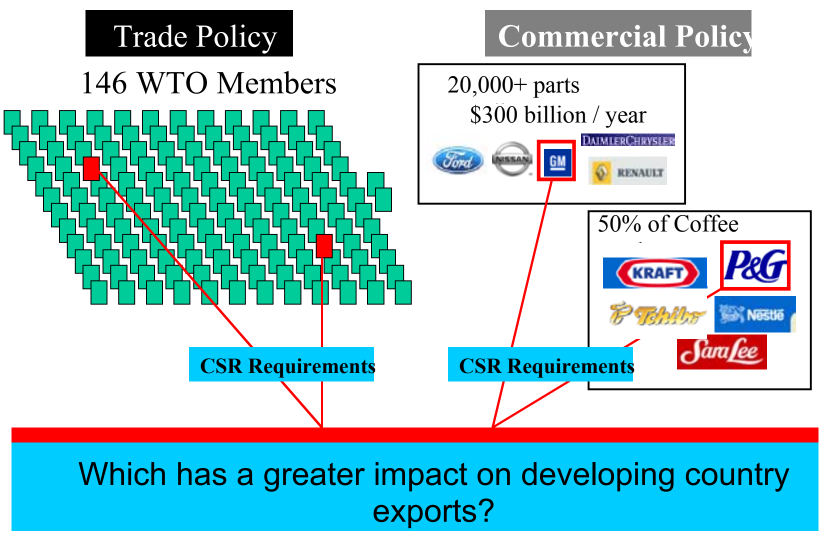
The most appropriate way to structure such a dialogue is ‘bottom-up,’ through an initial series of regional forums taking place over the course of a year and convening subsequently in an international forum bringing together a selection of the regional participants together with a wider international group. One indirect benefit of such a process could be higher levels of engagement in Compact processes. For example, a strategy of drawing on a region’s cultural values could be a catalyst for engagement with the informal sector, and with micro enterprises. Organisations that help to shape cultural values and public opinion at the grassroots level are likely in many cases to provide the key entry points in efforts to promote the Global Compact to these entrepreneurs.

#5. Development of understanding on supply chain best practice

Market-based standards, certificates, labels and codes of conduct are the dominant currency of ‘voluntary’ corporate citizenship. Supply chain requirements, or contracts, are its banking system. The trade-related impacts of government regulatory measures, including environmental and social measures, are disciplined multilaterally through the World Trade Organisation to ensure that they do not pose unnecessarily trade-restrictive conditions on the exchange of goods. But there is no parallel discipline on environmental or social conditions reflected in supply chain requirements or in product labeling or certification schemes – though their impacts on market access may take effect in similar ways.[21]

As with public sector regulation that has market access impacts, it is important to pay attention not only to process issues - how social and environmental supply chain conditions are *developed* and whose interests they reflect; but also to consider how they are *implemented* and their appropriateness in the contexts where they are applied. A variety of techniques are potentially relevant, from impact assessment for standards imposed in the supply chain, through consideration of technical equivalence and mutual recognition, technical assistance, and business models that can help to facilitate supplier compliance in those cases where capacity to anticipate and respond to new conditions is limited.

Figure 2 – Trade Policy and Commercial Policy Contrasted



Environmental and social issues need to be integrated in business to business trading relations in *appropriate* ways if they are to support, not undermine, sustainable development in middle and low income countries. The goal of sustainable development in a country or region cannot be accommodated entirely within a set of global or arms-length standards. Current global standards make businesses accountable primarily to stockholders or advocates in the North. The principle of corporate citizenship requires a similar or even a higher degree of responsibility towards local communities in host countries.

As a multi-stakeholder initiative within the UN family, the Global Compact could play a valuable catalytic role at this interface of international trade and sustainable development. By

[21] A. Najam and N. Robins, 2001. "Seizing the Future: The South, Sustainable Development and International Trade." *International Affairs,* 77(1): 93-111.

supporting work to build understanding of best practice in supply chain management for responsible entrepreneurship, the Compact would not only be addressing a significant ‘governance gap’, within the corporate citizenship agenda, but could also help to head off the real risk that the tools of the corporate citizenship agenda come to be viewed as protectionist in intent or effect.

This year, 2003, the Compact has initiated a policy dialogue on supply chain issues. We hope that this will provide an immediate opportunity to take forward work that can help businesses at all stages in the value chain to work through the maze, by building guidelines or recommendations on ‘dos’ ‘don’ts’ and ‘best practice’ in the integration of environmental and social issues in the supply chain.

#6. Beyond ‘Business at the Centre’: A series of Actor-specific discussions

The Global Compact’s processes have thus far placed business at the centre. Increasingly, the ideal of partnership that drives much of the global corporate citizenship agenda is associated with a recognition that no single set of actors, whether business, government or civil society, can realise their full contribution to sustainable equitable human and economic development in isolation from the others. That is in part the rationale for multi-stakeholder partnership towards global corporate citizenship. But it points also to a need to revisit the role of different actors in underpinning and enabling corporate citizenship. The corporate citizenship agenda remains institutionally immature. In particular, there are limited forums in which the critical interplay between *public governance* and *responsible entrepreneurship* can be assessed and discussed; whether with reference to specific countries, sectors or projects, or at a more general level.

We see a risk that the Compact’s insistence that it is not a norm-setting body could hamper the development of a fully-fledged *solutions* capacity within the Compact. Our aspiration for the Global Compact as a process is ambitious. Over time, we would like to see it become a fully-fledged global public policy network, addressing the contribution of enterprise to sustainable and equitable human and economic development, and integrated into norm-setting processes such as those of the International Labour Organisation or the multilateral environmental agreements.

Global Compact director Georg Kell has suggested that the Compact could work to improve the enabling macro framework for developing countries, with the international business community becoming advocates for developing countries and poor people. We welcome this bold suggestion – though it is not without risks. But we believe that the time has also come for the Global Compact to address the ‘enabling macro environment’ from a different starting point; namely the enabling environment for responsible entrepreneurship in developing countries. This will call for the Compact to develop the capacity to reflect on the roles of different actors. That means putting different actors in the spotlight: NGOs (including those who have robust links at the community levels), public sector actors, donor agencies and their respective contributions to delivering the ‘enabling environment’ for responsible entrepreneurship. Ongoing work to build sustainable business in least developed countries offers a precursor to such an approach.

We suggest that the Global Compact convene a series of dialogues on the role of key development actors in providing an enabling environment for responsible entrepreneurship in developing countries. In the first place this might take the form of a dialogue focusing on the role of public sector agencies in enabling responsible entrepreneurship; followed by a distinct dialogue on the role of non-governmental organisations. This approach could help to provide the Compact with the tools needed to address the broader policy issues that frame the contributions of enterprise to sustainable development.

A last word

Crafting a set of development objectives and activities for the Global Compact will require participation and deliberation by a wide range of stakeholders. We hope that the ideas that are set out in this paper, which represent the input of a global network of civil society based organisations, will provide a starting point for further discussion. We look forward to future collaboration to put sustainable and equitable human and economic development at the heart of the Global Compact.