

Background Note for Panel 4

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"Increasing Value through Corporate Responsibility"

Africa Forum 2006, Wittenberg Center for Global Ethics

Lutherstadt Wittenberg, Germany, December 3 - 6, 2006

To successfully foster entrepreneurial spirit in Africa requires not only the involvement of the individuals concerned, i.e. the prospective entrepreneurs living in Africa, but also of many other actors such as national governments, international organizations, the private sector, non-governmental organizations (NGOs), and civil society. As an economic development organization, UNCTAD encourages entrepreneurial spirit in many activities. For instance, the new UNCTAD corporate contributions to development programme (CCD) inherently encompasses the creation of business linkages as an expression of corporate responsibility (CR). By means of the global cooperation of governments and corporations, UNCTAD aims at promoting both an enabling environment for investment as well as further business ventures with small and medium-sized enterprises. In the following, I wish to outline a few aspects from the viewpoint of both a young graduate and a current fellow with the United Nations Conference on Trade and Development (UNCTAD).

1. The complement of corporate investment, international framework and reputation

Living and learning in multicultural environments has taught and continues to teach me how valuable integrating and discussing different viewpoints in any endeavor is. Against the background of developing countries my thinking was much influenced by the following complementary elements that can lead to moral behavior as an integrated feature to business ventures and to profitability:

Every country requires a stable national and international legal framework of rules as a prerequisite for development to advance in a coordinated fashion, for investments to flow into the country and for economic activity to prosper. Such an enabling environment, however, is equally affected by corporate strategic decisions that can decisively contribute to the well-being of an economy through economic long-term planning and investment in human resources and other assets including business linkages in the respective country.

Besides these institutional framework considerations, economic factors are at the core of corporate value creation. Indeed corporate success can be measured in terms of the economic value of profits and reputation. Profitability and corporate value have until recently been the main interest of shareholders. Much more recently, reputation has become the fragile and highly valuable asset on part of transnational corporations (TNCs). Especially grassroots activists involving NGOs and civil society have frequently used various media channels to remind large TNCs of the negative effects their operations have on developing countries' environment and peoples. As a reaction to the threat or actual damage of corporate reputation, TNCs have thus often increased their publicity on charitable contributions to the environment, to social standards and, at times, to development.

In this paper, I wish to argue that in order to foster entrepreneurial spirit and economic development, corporate responsibility goes beyond corporate philanthropy, abiding by the rule of law and refraining from "bad" corporate conduct such as employing restrictive or discriminatory business practices. Instead companies have already demonstrated that they rely

on global cooperation: They invest in technology transfer and personnel training; they build up local and cross-border value chains; they foster employment and entrepreneurship; they engage in specialized product development; and they engage workers and entrepreneurs in these processes. In brief, while steered by their self-interest and strategic goals, without which no private effort is sustainable in the long run, corporations play a key role in the economic development process. This also holds true for (TNCs) that establish foreign affiliates through foreign direct investment (FDI) and, through their global value chains, maintain vast networks of linkages to businesses in developing countries.

UNCTAD's past research has shown that investment by TNCs can be an engine of economic growth in host developing countries. However, not all investment produces the same impact on development, nor are the benefits of FDI diffused in the host economy in all cases. Moreover, there may also be adverse consequences arising from FDI, further underlining the need for adequate policies and the role of CR.

2. Creating a sustainable win-win situation through corporate contributions to development

The economic benefits from corporate responsibility for corporations

In order to facilitate and enhance positive corporate contributions to development, TNCs can undertake beneficial activities and thus create a win-win situation for themselves and in the host developing countries they operate. Clearly, companies are increasingly recognizing the central role that sustainable development plays in long-term (economic) success both for the companies themselves as well as their immediate stakeholders and shareholders in particular.¹

This is being underlined by the fact that the economic value of the firm has become linked to sustainability as concerns the Principles for Responsible Investment (RPI) that were established by UN organizations and partners such as the FTSE. The RPI link sustainable corporate behavior to the actual value of the firm as well as to corporate reporting behavior and have the "ultimate goal [...] to identify long-term investment drivers" and to integrate environmental, social and corporate governance concerns in the evaluation procedures of individual stocks.² Besides this aspect, a recent study sponsored by Deutsche Bank showed that company risk represents the indirect link between corporate responsibility and financial performance. Thus, good CR performance leads to lower risk and reduces the cost of capital.³

As a consequence, corporate benefits through corporate responsibility serve as incentive to further advance the reciprocal benefits of growing markets and growing revenues. In many industries today, the most dynamic markets are in the developing world, and consequently a large proportion of international companies have been looking to these countries for future growth opportunities. As a result, corporations may be increasingly willing to make greater contributions towards the development effort of host countries by integrating more development concepts from a long-term strategic perspective into their business operations.

¹ The following argument is mainly based developed country TNCs that are publicly traded on international stock markets.

² FT.com (2006): There is more to profit than the bottom line, <http://www.ft.com/cms/s/82f4f676-5471-11db-901f-0000779e2340.html>, 30.11.2006, for further information please see <http://www.unrpi.org/>.

³ See Deutsche Bank (2006): p. 5 and p. 44.

Facilitating corporate contributions through economic development organizations

In order to gain access to highly valued natural resources in Africa, companies therefore have to go beyond investment. TNCs create value by initiating many activities on the ground; at times on their own, but much more often in cooperation with other stakeholders such as NGOs, governmental, health and United Nations organizations. This shows that TNCs slowly move away from charity. Still, their cooperative initiatives have largely focused on social and environmental issues represented by the original 9 principles of the United Nations Global Compact. While all of these issues are important and relate to some aspect of development, none of them directly addresses the issue of economic development.

In order to bridge this gap the traditional concept of CR was enlarged in a complementary fashion in the UNCTAD XI Conference in São Paulo. Here, Governments agreed to add the concept of "corporate contributions to the economic and social development of host developing countries" to the CR agenda [emphasis added]. This adds the economic development dimension to the corporate responsibility debate and thus allows a balanced approach of the triple-bottom line to CR.⁴ At the core of this new agenda lies the question of "how to maximize the benefits of corporate activity and how to minimize its negative effects in the process of economic development and poverty alleviation".

In order to learn about existing good practices and further promote their implementation, UNCTAD is in the process of building a database of corporate examples associated with activities along the lines of the 10 research areas and complement them with a survey to be distributed among TNCs shortly. Based on these inputs, UNCTAD will analyze the implications of corporate behaviors for the economic development of poor countries, and will provide policy options to governments on how to best set incentives and encourage corporate contributions to economic development.

These research findings will then feed into UNCTAD's international consensus building and technical cooperation projects. In international consensus building, UNCTAD will build on the achieved understanding among Governments with regard to the core issues, and further deliberate on them. On technical assistance, UNCTAD will assist governments in setting up policies and enabling frameworks to enhance corporate contributions to national development objectives and to poverty alleviation endeavors.

UNCTAD CCD: The ten issue areas

1. Investing in developing countries
2. Provision of goods and services to poor customers
3. Employment creation
4. Human resource development
5. Business linkages
6. Technology Transfer
7. Ethical business behavior
8. Contribution to public revenue
9. Minimizing negative effects of corporate restructuring
10. Institutional framework constraints

⁴ The triple-bottom-line encompasses the environmental, social and economic dimension of corporate responsibility. For further details, please consult The Economist (2005).

Global cooperation to fostering entrepreneurial spirit through corporate responsibility

UNCTAD takes the stance that many practical action-oriented corporate approaches to poverty reduction and economic development already exist in African and other developing countries. These may take the form of private-public sector partnerships, enhancing small- and medium enterprise capabilities, and offering micro-financing schemes as means to promote economic contributions to development. This is also reflected in the above research issues and in the creation of business linkages in particular.

For instance, UNCTAD has initiated manifold capacity-building projects as part of the technical assistance mandate. These initiatives aim at creating an enabling environment for business linkage promotion as well as supporting entrepreneurs in developing countries. UNCTAD maintains cooperations with national governments, the private sector and NGOs to effectively reach field-level partners. Among TNCs Toyota, Unilever, FIAT, AngloAmerican, DaimlerChrysler, Volkswagen, INTEL, IBM implement their proper successful programs. National governments are further supported by donors and international organizations including DFID (the Business Challenge Fund), the International Finance Corporation (IFC), ITC (International Trade Center), the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), Gesellschaft für Technische Zusammenarbeit (GTZ) and the World Bank.

Reflecting on these partnerships, stakeholders have recently come together to share experiences and to exchange information on “lighthouse projects” during the Expert Group Meeting on Best Practices and Policy Options in the Promotion of SME-TNC Business Linkages in early November. For instance, in its capacity as Business Development Service Center, Enterprise Uganda presented its approach to facilitating business linkages.⁵ Based on the insights made during each project's implementation, UNCTAD Member States receive feedback and gain new insight concerning possibly approaches to replicate successful global cooperation in other developing countries - taking into account that there are no one-size-fits-all procedures applicable to all developing countries.⁶

3. Summing up

Development and investment both represent challenges in general, but to the developing world and Africa in particular. The same applies for the relatively new approach of "corporate development responsibility" and each of the ten research issues for UNCTAD. Although UNCTAD is no rulemaking body, it is well able to add new elements to the discourse in the global CSR community. In doing so UNCTAD promotes both dialogue and ways to social cooperation making reference to a balanced approach to the triple-bottom line on corporate responsibility. From the point of view of a young graduate, I believe that this makes adequate reference to UNCTAD's mandate, that UNCTAD can effectively live up to its facilitator role for the economic dimension of CR, and that UNCTAD will continue to be a focal point to multiple stakeholders including the private sector and business. Nonetheless, only with a global cooperation between various stakeholders, a win-win situation enabling prosperity in an emerging world economy can be further advanced. Even more, I believe that this cooperation can certainly help create value and achieve the paradigm shift away from a charity focus towards deepened global cooperation.

⁵ See Annex 1 and 2 for more information.

⁶ For instance, refer to the UNCTAD Investment Guides for further information on investment procedures for selected developing countries.

ANNEX 1

A general selection of examples, links and further information on creating value CR

UNCTAD

1. Sao Paolo Consensus: http://www.unctad.org/en/docs/td410_en.pdf
2. Expert Meeting on Positive Corporate Contributions to the Economic and Social Development of host Developing Countries:
<http://www.unctad.org/Templates/Meeting.asp?intItemID=3415&lang=1>
3. World Investment Reports:
<http://www.unctad.org/Templates/Page.asp?intItemID=1465&lang=1>
4. Business Linkage Programme:
<http://www.unctad.org/Templates/Page.asp?intItemID=2750&lang=1>
5. Expert Group Meeting on Best Practices and Policy Options in the Promotion of SME-TNC Business Linkages:
<http://www.unctad.org/Templates/Meeting.asp?intItemID=3871&lang=1>
6. UNCTAD Investment Policy Reviews covering country-specific investment information and guidelines <http://www.unctad.org/ipr>

Further information on national/global efforts to fostering entrepreneurial spirit in Africa:

1. Mozambique government policy approach: developing an enabling environment to attract FDI to generate economic growth and jobs and to enhance quality of life and reduce poverty, see <http://www.mozlink.com/> (in Portuguese only) and <http://www.cpi.co.mz/>
2. South Africa/Tanzania: Psi (Private Sector Initiative & Business Linkages) in Southern Africa call for government action towards SME/linkages creation through creating an enabling environment as well as the workable rules of the game. Lighthouse project SBP with BP Tanzania; see <http://www.psitanzania.com/psimodule.php>.
3. Business Linkages Challenge Fund (BLCF) financed by the British Government's Department for International Development (DFID)
<http://www.dfid.gov.uk/funding/businesslinkages.asp>

Literature, Studies and Articles

De Soto, Hernando (2000): The mystery of capital: Why capitalism triumphs in the west and fails everywhere else, Bantam Press: London, etc.

Deutsche Bank (2006): The influence of Corporate Responsibility on the Cost of Capital, http://www.deutsche-bank.de/csr/index_8820.html?dbquery=1%3ABassen+H%F6lz, 1.12.2006.

The Economist (2005): The good company - A survey of corporate social responsibility, 22.01.2005.

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ANNEX 2

UNCTAD's Business Linkages Programme in Uganda

The Business Linkage Promotion Programme in Uganda is being implemented by a Business Development Services Centre as lead facilitator, namely Enterprise Uganda (hosting the EMPRETEC centre), in collaboration with Uganda Investment Authority (UIA) and supported by UNDP, UNCTAD, and the Government of Sweden. The main objective of the project is to promote the creation of durable and mutually beneficial partnerships between TNC affiliates and large local companies on the one hand, and SMEs on the other, so as to enhance the productive capacity, efficiency, competitiveness and sustainability of their relationships. The key role of each partner is as follows:

Enterprise Uganda/EMPRETEC identifies SMEs, brokers and facilitates implementation of business linkage deals and defines SMEs' capacity gaps. It also ensures the transfer of technology and know-how including coaching and mentoring of SMEs by TNCs and facilitates access to markets and finance. Ultimately, Enterprise Uganda acts as the "third party" chaperoning the linkage between the TNC and the local SMEs, making sure that the upgrading process of the latter is not too strenuous on any party. In addition the EMPRETEC programme follows-up on the day-to-day operations of SMEs and facilitates continuous learning and innovation, as well as access to business development services. It holds specialized seminars and training courses, and focuses on those skills important for partnering with large enterprises.

UNCTAD, in addition to its role of coordinator of the EMPRETEC programme and network, provides advisory services on the business linkages methodology and technical expertise, promotes awareness of global best practices and helps to disseminate achievements and lessons learned to other programmes.

The Uganda Investment Authority contributes to the improvement of the business policy environment and facilitates the initial brokering of the linkages with the TNCs. Experience of the programme has so far demonstrated that in spite of the productive capacities constraints of SMEs, TNCs were ready to upgrade the business relationships with SMEs into long-term relationships, provided SMEs committed themselves to remedy shortcomings in their business systems and upgrade their skills. Since its inception in 2005, the project achieved the following results:

- Uganda Breweries will assist in upgrading of the members of the barley growers' association in eastern Uganda, to benefit over 2,000 farmers.
- In western Uganda, Kinyara Sugar Works Ltd under Booker Tate signed an agreement to strengthen its link with Kinyara Sugarcane Growers Ltd, thereby benefiting about 2,500 local farmers.
- Two telephone companies have signed up to upgrade their distributor network.
- The country's biggest real estate developer has signed an agreement to support 15 local suppliers.

Source: Enterprise Uganda, 2006 as cited from TD/B/COM.3/EM.28/2.