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Third Quarter, 2003

Global Future

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Philanthropists, partners or predators?

To coincide with the 26 July anniversary of the launch of the United Nations Global Compact, this edition of Global Future examines the roles that corporations play in development. From funding growth through foreign-direct investment to supplying essential goods or services, from philanthropy to influencing public policy, those roles are many - and their impacts on poverty profound. Businesses do not work in a vacuum: their operations affect people and societies, not just revenues and share prices. Thus, corporate responsibility concerns us all. With privatisation and globalisation, borders between government and private sector are blurring. How can we ensure that this reduces - rather than worsens - poverty? Are businesses responsible for the socio-economic development of countries in which they operate? Can voluntary initiatives promote good corporate practice, or is a regulatory framework needed?

Our contributors share diverse opinions. Some highlight promising partnerships between business, NGOs, governments and others; efforts to influence corporations; and measures to attract investment to least-developed countries. We read of companies being reinvigorated - financially or more intangibly - through committing to development goals. We read of poor communities' needs converging with business' own imperatives. But what about when they don't? Other writers express deep concern about negative impacts of corporate activity on economies and people - suggesting that serious homework on corporate responsibility is needed in some quarters. Various contributors insist that civil society monitoring is needed. Some offer guiding principles for business.

May this collection inspire further vision - and action - so that corporate talent, wealth and influence might be used to truly bring justice for that vast portion of humanity whom poverty has marginalised.

- Heather Elliott

COVER DESIGN BY : FRIEND CREATIVE (Australia)

The Global Compact and the challenges of development

Georg Kell

IT HAS BEEN THREE YEARS since United Nations Secretary-General Kofi Annan officially launched the Global Compact, a broad-based initiative to promote good corporate citizenship in the areas of human rights, labour conditions and the environment. From the nearly 50 corporate leaders present at the launch on 26 July 2000, the Global Compact has grown into a sprawling network encompassing 800 companies worldwide, several international trade unions, and dozens of non-governmental organisations, academic institutions and other social actors. Private sector participants include large corporations as well as small and medium-sized concerns, representing virtually all industry sectors on every continent.

The Global Compact remains an experiment in the possibilities of cooperation

While the Global Compact has expanded rapidly, it is important to understand that in many respects the initiative remains an experiment – an experiment in the possibilities of cooperation. From its inception, the Global Compact has operated on the premise that lasting and effective responses to our world's most pressing social issues can only be found if societal actors work together. Given the scope and complexities of today's problems, it is clear that the Global Compact can only be one of the responses to the many challenges. With respect to the private sector, the Global Compact seeks to engage companies so that they can become part of the solution to the problems of globalisation, rather than being seen as part of the problem. Indeed, it is widely recognised that business has a critical role to play if development is to succeed in a sustainable way, particularly in the poorest countries of the world.

Complex, changing world

Just over a decade ago, at the Earth Summit in Rio de Janeiro, the role of business in sustainable development was poorly understood. It was not clear whether, and in what ways, the private sector could be part of the answers to broad global challenges, especially – in those days – environmental threats. Much has changed since then. Now there is growing recognition that business and society stand to benefit from collective action. For its part, business has come to realise that if it wishes to thrive in a complex and sometimes hostile global economy, it must respond to the major social and environment trends and challenges that are reshaping our world.

In recent times, the problems have become increasingly complex and daunting. While the UN through the Millennium Development Goals (MDGs) has set international benchmarks for development work, the MDGs also serve to show how enormous the task is. They show that even the most basic human needs have not been met for hundreds of millions of people who still live in crushing poverty. It is estimated that the world needs US$50 billion more every year to address these needs in any significant way. In a context of such intricacy, what difference can the Global Compact make to help the poorest countries? Can it promote positive and constructive change? What is the development dimension of the Global Compact?

To begin to answer these questions, it is important to understand the Global Compact's contemporary relevance. When the Global Compact was first introduced as a concept, the Secretary-General suggested that

PHOTO - JOHNSON TOBING / WORLD VISION

Hundreds of millions of people have been excluded from globalisation's benefits

globalisation was at best an unfinished experiment. Markets had grown and flourished, but their efficiency had not ensured equity: vast swaths of humanity had been effectively excluded from the benefits. As a result, businesses were beginning to realise that their prosperity was inextricably linked to the welfare of societies where they had operations, or in regions that represented markets of the future.

The Global Compact's original vision is more relevant than ever

Alarmingly, globalisation is today even more fragile than in 1999 when the Secretary-General warned business of gathering storms in the form of anti-globalisation protests. Imbalances between economic and social priorities, and the persistence of market exclusion and poverty, remain unresolved. And there are added uncertainties: geopolitical clashes; gloomy economic prospects in major markets; and new ruptures along cultural, religious and economic fault lines – all suggesting that the ideals, policies and institutions that have sustained economic expansion since World War II are under extreme pressure.

The Global Compact's original vision – *a more sustainable and inclusive global economy* – is arguably more relevant than ever.

Building bridges for development

The "development dimension" – that is, the imperative of business to help advance sustainable development to ultimately make a difference in the lives of the poor – represents perhaps the most important trend in the so-called corporate responsibility movement. Today, in most sectors, only a small number of companies are actively pursuing a development mandate that incorporates a principled approach. Part of the reason is that many companies are unsure how to pursue such a path; whom to partner with; and even where to focus their activities. Too often, foreign direct investment (FDI) is undertaken with little regard to the precepts of sustainable development and corporate citizenship.

The Global Compact is structured to facilitate cooperation among key stakeholders to promote partnerships and support UN goals, while respecting nine principles in the areas of human rights, labour conditions and the environment. By helping to build bridges among different actors and encourage openness and dialogue, the Global Compact seeks to nurture constructive and pragmatic solution-finding.

The Global Compact is unique in involving all relevant social actors

One of the unique features of the Global Compact is that it involves all the relevant social actors: governments, who defined the nine principles on which the Global Compact is based; companies, whose actions it seeks to influence; labour, in whose hands global production takes place; civil society organisations, representing the wider community; and the United Nations, the world's global political forum.

It is noteworthy that the Global Compact is the only true global corporate citizenship initiative with over 50% of participating companies being based in the developing world. In addition, approximately 25% of the 800 companies engaged are small and medium-sized enterprises (SMEs), most located in developing regions.

The Global Compact has inspired numerous initiatives that address problems in developing countries. For example, DaimlerChrysler in South Africa has entered into a strategic partnership with the German Development Agency, GTZ, to help battle the mortifying statistics of HIV/AIDS in South Africa. The company aims to reach its workers, their families and community through its outreach programme. Volkswagen in Brazil has started similar initiatives.

Top-down approaches forced on local communities tend to be abysmal failures

Utilising the Global Compact principles, Statoil, which operates in 21 countries, entered into and renewed a comprehensive labour agreement with an international trade union. The agreement, the first of its kind, is aligned with the Compact's principles and covers 16,000 employees in 23 countries. Nearly a dozen participating companies have undertaken initiatives to integrate the Global Compact's principles throughout their international supply chains, with one group of companies studying the issue of human rights in the supply chain – one the most topical issues within the corporate citizenship movement.

Since the dynamics of development take place at the local level, the Global Compact has placed great importance on launching country-level networks that can serve local circumstances and needs. Experience has shown that top-down approaches in which development agendas are drawn up in the headquarters of multilateral organisations and force-fed to local communities tend to be abysmal failures. To date, the Global Compact has been launched in more than 50 countries, many in the developing world, thereby creating national structures that bring together various social actors to address local needs using the Compact and its principles as a guiding framework.

The LDC initiative

The Global Compact's Least Developed Countries initiative is perhaps the most noteworthy in the context of development. One of the primary challenges facing the so-called LDCs is their inability to attract significant levels of FDI: during the 1990–2000 period, the LDCs received only 0.5% of global FDI flows.

Launched at the World Summit on Sustainable Development, the Global Compact's LDC initiative

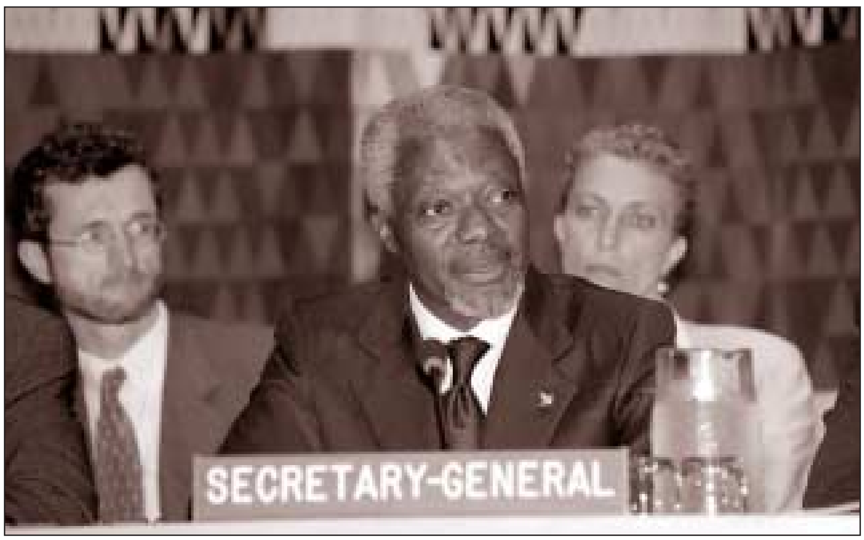

PHOTO - UN / DPI

UN Secretary-General Kofi Annan at the launch of the Global Compact in July 2000 seeks to bring companies together with other stakeholders to identify business opportunities in specific countries that will be sustainable and designed in ways to help grow local small and medium-sized enterprises. The involvement of SMEs – in this and other Global Compact activities – is crucial, as it is estimated that worldwide they constitute over 90% of business and account for between 50% and 60% of employment. In many developing countries, SMEs account for the majority of employment.

Five countries have been identified for participation in the pilot phase: Ethiopia, Madagascar, Angola, Bangladesh and Cambodia. The first launch took place in Ethiopia in October 2002. Three projects resulted from this meeting: solar energy to meet industrial and household energy needs; water generation to meet rural development needs; and an eco-tourism proposal. Exploratory meetings have also taken place in Bangladesh where two major urban problems, waste and water sanitation, were discussed.

In the development arena, the Global Compact cannot be a substitute for effective regulation and action by governments. Rather, it is an

The Global Compact hopes to establish the business case for doing the right thing

opportunity for participants to exercise voluntary leadership in the spirit of enlightened self-interest. The Global Compact is intended to be an initiative that is complementary to government efforts and regulation. It hopes to establish the business case for doing the right thing and, in the process, help make a difference in the lives of the poor. The experiment continues. ■

George Kell is Executive Head of the United Nations Global Compact.
See: www.unglobalcompact.org

Doing well while doing good

Björn Stigson

SUSTAINABLE DEVELOPMENT has become an important topic throughout the business world, increasingly so since the World Summit in Johannesburg. Companies are becoming more aware of their responsibilities to society and the environment. But many are still unclear about how best to tackle issues such as poverty alleviation, climate change, water shortages and environmental degradation, which seem unmanageably vast.

Some express their concerns through philanthropic gestures, such as funding a new school, or persuading employees to clean up a river bank. While such projects are commendable and valuable, they do not address the wider systemic problems.

Creating sustainable livelihoods

Genuine global sustainability will be impossible as long as there are billions of people who are economically powerless. Government social programmes are not sufficient to bring a country out of poverty; business investment is necessary to spur economic growth and increase quality of life, through the direct provision of basic products, services or employment.

It is in business' best interest to foster social and economic well-being

There is also a clear business case to be made for serving the needs of the poor. Future economic growth will come, in large part, from emerging markets. It is therefore in business' best interest to invest in these markets to foster the social and economic well-being which is in turn necessary for business to operate smoothly.

PHOTO - BRUCE BRANDER / WORLD VISION

Slum settlements on the outskirts of Mexico City are home to people who pour in from the countryside by the thousands every month, seeking better opportunities. Housing cannot keep up with rapid population growth.

The World Business Council for Sustainable Development (WBCSD) is running a Sustainable Livelihoods programme to press this case. One of its main thrusts is the creation of business models for poverty alleviation. These models are firmly rooted in the real world: we have tirelessly sought out projects that are bringing benefits to society while providing a healthy return.

Business models worth sharing are those that do well while doing good – provide an innovative product or service that raises living standards for customers and local communities, while growing a company's customer base or market share. Through such models, WBCSD seeks to make the business case for sustainable livelihoods; it is for each company to adapt the philosophy to its own operations, keeping in mind the question: "What do we do best?"

One example is in Mexico, where the housing shortage is over six million and rising. State housing programmes can only support 80% of the demand; the shortfall is met by people building their own homes, often with little knowledge of building techniques or access to good materials. In 1996, Apasco, a cement-producing subsidiary of WBCSD member Holcim, started selling single bags of cement and other materials in small quantities to individuals in communities throughout Mexico, and offering skills training to ensure that homes are safe and equipped with running water. Some 500 "Mi Casa" graduates now work for the scheme, dispensing materials and advice. To date this scheme has enabled around 40,000 people to build or improve their homes, and has opened up a broad grassroots market for Apasco.

Government and market actions

Businesses can do much to encourage sustainable practices, but they need an enabling framework from society to progress this more rapidly. It is the role of governments, in consultation with business, to create the conditions that allow business to contribute fully to sustainable development. This requires the rule of law, effective property rights, no corruption, and predictable government intervention.

Businesses need an enabling framework from society

Secondly, financial markets are critical because they hold the scorecard, allocate and price capital, and provide risk coverage. If financial markets do not reward sustainable behaviour, progress will be slow. Investors are, however, starting to recognise that companies focusing on sustainable development represent a lower financial risk and produce a better financial performance.

The key challenge for business in contributing to a sustainable future will be meeting the expectations that it should play a larger role in society. Business cannot and should not replace governments, but how do we provide goods and services in non-functioning societies? As the WBCSD has often argued, business cannot succeed in societies that fail. ■

Björn Stigson is the President of the World Business Council for Sustainable Development (WBCSD), a coalition of 165 international companies united by a shared commitment to sustainable development. Its members are drawn from 35 countries and more than 20 major industrial sectors and are represented in the council by their CEOs or equivalent. It also benefits from a Global Network of 40 national and regional business councils and partner organisations involving some 1,000 business leaders globally. See: www.wbcsd.org


PHOTO - DAVID MUNOZ AMBRIZ / WORLD VISION

Painting a new brick and cement home in Mazahuas de Choteje, Mexico

Global citizens or global tourists?

Kel Currah

IF THERE WERE A TEST for global citizenship, few transnational corporations would pass. Businesses have excelled at understanding markets, consumer preferences and predicting future trends. They have created global brands and incorporated their products into the national consciousness of many societies. Yet businesses are still failing to understand their role as global citizens – their impact on the societies, environments and politics of the countries in which they operate. Corporations can be like global tourists, simply passing through countries, seeking and soaking up profits like the sun, without genuinely being part of the societies involved.

Many transnational corporations maintain that they are good global citizens, that their presence is inherently beneficial to host countries. They argue that any foreign direct investment is good, regardless of the quality or length of investment or the sectors invested in. But development is not solely a matter of economics, just as the GDP of a country is not necessarily indicative of a healthy, free populace. Recent reports[1] on mineral-rich countries bear this out: countries such as Nigeria may be blessed with oil revenues, but cursed with civil infractions.

Corporations, like tourists, rarely take the whole of their global responsibility

The corporation, like the tourist, rarely takes the whole of its responsibility in the world. A tourist may be outraged by flagrant abuses of human rights viewed from a passing bus, but fail to take up the cause of the abused. Corporations often maintain indifference to abuses happening outside their offices, or even in their suppliers' factories and plantations. Many claim that they cannot interfere in the politics of their host country, while at the same time lobbying the host government for favourable (to business) policy change.

Businesses have also shown a tendency to pick and choose only certain aspects of the global multilateral system. Crises in the UN and the international political system appear to be of little importance to them, but threats to the World Trade Organisation and its Doha Round have led to corporations taking out advertisements in international papers calling on governments to support the international trading system.[2] This inconsistency is not the response of a global citizen.

Seven-fold corporate challenge

Like all of World Vision's work, our concern for corporate social responsibility is rooted in Christian principles of justice – equal opportunity of all people without exploitation of the weak and the vulnerable; and stewardship – of the natural and material resources entrusted to humanity.

Whether or not they share this perspective, corporations desiring to be true global citizens concerned about the development of all members of that community, need to address seven key areas:

- Contribute financially to societies they operate in, just as they profit from them – investing in education and health, primarily by ensuring that all appropriate taxes are paid, and through programmes to aid the poor and vulnerable.

- Prioritise human rights as highly as international trade agreements and intellectual property rights – regarding infringement of the rights of their employees or nearby communities as seriously as they do infringement of their copyright.

PHOTO - TSEDENISH / WORLD VISION

Corporate advertising stands out amid poor housing in Mongolia

- Show willingness to help protect the international system – for example, by working with NGOs to highlight to governments and international organisations those policies and practices that damage vulnerable people or hamper development.

- Recognise that the advancement of all societies is beneficial to the global order, including to corporations themselves. "Shopping" for ever-lower wages, laxer operating regulations and bigger tax breaks, creates negative competition between countries and a downward spiral in standards, rather than promoting the best for all.

Corporations should be consistent in applying global citizenship

- Be consistent in global citizenship. Membership of national or international business associations whose policy aims are indifferent to (or incompatible with) development aims could lead an aspiring corporate citizen to compromise its principles – particularly if it relies on such associations to express its interests in the political sphere. Corporate citizenship demands commitment and action from each "citizen".

● Be willing to show leadership, and to voice opposition to wrongdoings by other corporations; businesses need to practice peer pressure, ensuring that their industries uphold high and consistent standards.

● Accept that all global communities need regulation and laws to ensure that advantage is not taken by the few over the many. Corporations should advocate and work towards a regulatory system for the international business community.

Corporations can make excellent global citizens, just as some tourists are genuine "travellers". World Vision works with numerous companies and business associations to achieve a range of development aims, from basic needs provision to community projects to leadership training, and to jointly press governments and international organisations to address weaknesses in "pro-poor" policies.

Ultimately, corporations need to understand that they are not tourists, free to fly home to safety and luxury, but that they are actually citizens of the global community and committed to its long-term development. ■

Kel Currah is a Senior Policy Adviser on global economic issues for World Vision International.

[1]*Fuelling Poverty: Oil, war and corruption*, Christian Aid, UK, May 2003
[2]*The Financial Times*, 2 June 2003

Global corporations and the Third World poor

Vandana Shiva

A MAJOR FACE of globalisation is the entry of global corporations into vital basic needs sectors that most directly affect the poor: food and water. Both the World Bank and IMF Structural Adjustment Programmes and the World Trade Organisation (WTO) agreements promote the entry of multinational agribusiness and seed corporations in agriculture and the entry of global corporations in water.

For those without purchasing power, entitlement through the market means no entitlement

The impact of globalisation and "privatisation" of food and water systems on the poor is enormous and manifold. Water and food are essential public goods; globalisation turns them into marketable commodities. This commodification of the commons, and privatisation of public systems, erodes the rights of poorer, marginalised communities.

For those without purchasing power, entitlement through the market means no entitlement at all. In the case of food and water, erosion of entitlements translates into denial of the fundamental right to life. It occurs through processes that make the basic needs of life more costly under privatisation. It also occurs through reduction of incomes of poor rural producers as removal of import restrictions (Quantitative Restrictions in WTO jargon) and creation of monopolies pushes prices down below the cost of production.

Losing water supplies

I was present in one village in India when villagers were protesting that a soft drink corporation's entry into the bottled water sector had left the village women without drinking water. Their belief was that the company sucked out millions of litres of groundwater to sell in bottles to

PHOTO - SATYARTHI SAHU / WORLD VISION

Rice farmers in Andhra Pradesh, India

richer urban consumers, leaving local wells and tanks – the source of water for local tribal people – totally dry.

Meanwhile, the privatisation of 635 million litres of Ganges water to a foreign water company raises the question of whether millions of rural dwellers will be left without water for drinking or irrigation.

Corporatised agriculture

Similarly, under the corporatisation of agriculture, policies that used to provide food at affordable prices to the poor through public distribution have been dismantled, leading to hunger and starvation – even while 650 million tonnes of grains rot in storehouses.

Indian peasants were encouraged to grow vegetables for exports instead of staple food grains. This shift to "cash crops" has meant indebtedness, not prosperity. As agriculture is transformed into a market, prices of farm produce go down and costs of inputs go up, squeezing profits from poor farmers at both ends. Potato growers in the state of Uttar Pradesh are committing suicide because production costs have risen to Rs.255 per quintal while incomes from sales are Rs.40/quintal. Low potato prices have meant a bonanza for the agro-processing industry, with one company increasing its profit margin by Rs.20 billion from potato chips. Clearly, the "cash" from "cash crops" goes to corporations, not the agricultural producers.

Failure of costly seeds has left Indian farmers with mountains of unpayable debt

The creation of seed monopolies has been one of the most significant impacts of globalisation. Entry of corporations in the vital seed sector has been justified on grounds that new investment and new technology will bring benefits to Third World farmers. But corporate seeds have become "seeds of suicide" for some 20,000 Indian farmers – failure of costly seeds has left them with mountains of unpayable debt, driving them to end their own lives.

For example, in contrast to claims that a genetically engineered cotton yielded 15 quintals to the acre, thus additional income of Rs.10,000 per acre, actual yields were 2 quintals and losses Rs.65,000 per acre. The Government of India ultimately blocked the sale of this cotton in North India. Similarly, a company that claimed its maize seeds would give "miracle" yields of 50–90 quintals per acre was blacklisted by a regional government when yields failed, leaving already-destitute peasants in deeper penury.

The TRIPS agreement undermines sovereignty and the cumulative innovation of Third World farmers

Fighting biopiracy

Let us bear in mind that biotech corporations were behind the drafting of the TRIPS (Trade Related Intellectual Property) Agreement of the WTO. An industry spokesman said, "We achieved something unprecedented in GATT: we identified a problem and defined its solution." The TRIPS agreement undermines Third World sovereignty to shape intellectual property laws so as to ensure access for the poor to seed, food and medicine. It also defines the collective cumulative innovation of Third World farmers as the "inventions" and "intellectual property" of global corporations.

This has given rise to the epidemic of biopiracy. We have had to fight a foreign Department of Agriculture as well as a company for patenting the use of a traditional Indian plant, *neem*, as a natural pesticide and fungicide, even after the European Patent Office had previously revoked a patent for this product. We have also had to challenge a foreign-based company for patenting *basmati*, an aromatic rice for which my valley – Doon valley in the Himalayan foothills – is world-famous. Another agribusiness giant has patented the method for making *atta* – flour used for making traditional Indian *chappatis* and *rotis*.

Patents create new poverty when the poor have to pay royalties for what was theirs

A patent is an exclusive monopoly right to "make, sell, produce and distribute". Patents in food, seed and medicine transform poor people's common heritage of biodiversity and knowledge into the private property of global corporations. This creates new poverty since the poor have to buy, and pay royalties, for what was theirs. Corporate profits are squeezed out of the resources of the poor. This is costing the poor their very lives.

Because globalisation is threatening the very survival of the poor, the rules must change. Three changes most urgently needed are:

- to stop the privatisation of vital resources like water;
- to stop the sale of unreliable untested seed without liability to companies in case of failure; and
- to allow countries to shape policies that defend the livelihoods of the poor.

This is the agenda for WTO and World Bank reform. This is the agenda for social and economic justice. ■

Dr Vandana Shiva is an author, academic and Founder and Director of the Research Foundation for Science, Technology and Ecology. In 1991, she also founded Navdanya, a national movement to protect the diversity and integrity of living resources, especially native seeds. See: www.vshiva.net/

Development for whom?

Mark Moody-Stuart

IN THE RUN-UP to the World Summit on Sustainable Development in Johannesburg last year, I became very aware of two differing explanations as to why there was little or no economic activity in some of the poorest regions of the world.

Some – often those most concerned with equity – say that since economic activity is increasing wealth in some parts of the world but not reaching other areas, there must be something inherently wrong with the economic system. They point to the fact that the benefits of economic activity are often restricted to a relatively small part of society. The system, in their view, therefore needs radical reform.

Others, mainly business people, tend to ascribe the lack of economic activity to a lack of appropriate conditions – poor governance, lack of security and infrastructure, corruption. In the words of Georg Kell of the United Nations Global Compact office: the problem is "not business, but no business".

All agree that the serious inequity – whether within or between countries – is inherently unsustainable, and that we cannot have a stable, fair global society while so many people have no income and no access to basic needs.

The Compact's structure helps ensure social and environmental aspects are fully considered

The Global Compact

A project being developed under the auspices of the UN Global Compact could address some of these concerns. A number of global companies – not all signatories to the Compact – were approached about their potential interest in establishing or growing their business in some of the 50 poorest countries of the world. The idea is that companies in different industries – energy, water, manufacturing, communications, health care, beverages, household goods, banking and so on – might consider growing commercial activity along the lines of Prahalad and Hart's "fortune at the bottom of the pyramid" approach.[1]

PHOTO - ILO PHOTO LIBRARY

Labour inspection at a factory, Indonesia

If this were an initiative of companies themselves, we could expect criticism that they were merely out to exploit low labour costs and low environmental standards. However, the structure of the Compact provides for upfront involvement of labour and civil society organisations, and a check that the proposed business is in line with the Compact's principles of addressing not just economic aspects, but environmental and social aspects as well. For example, it should address local training and capacity building, the impact on small and medium-sized business, the development of local supply chains, the opening of developed country markets, and so on.

The involvement of labour and civil society groups early on in a venture can help to ensure that all these aspects are fully considered. In each country there should be a lead company and a lead NGO, with local coordination in the hands of the UN Development Programme. Such international development assistance as is available can be integrated with these efforts. Transparency in the process is essential, in line with the nine Global Compact principles. Clear setting of targets upfront is key, with open reporting of progress, using for example the Global Reporting Initiative as a framework.

This initiative is still at its early stages. It is a huge challenge and it may not work for a variety of reasons. But it does, I think, illustrate growing agreement on some key issues.

We cannot have sustainable development without involving business

We cannot have sustainable development without the involvement of business, both large and small. Poverty cannot be reduced without economic activity – development assistance is essential, but it is not a long-term solution. Equally, economic activity alone is not enough. No one party, certainly not business, can "deliver" sustainable development.

Building good governance

Sound national and local governance – including governance of business – is essential to ensuring that economic activity benefits society at large and not just a few individuals, and that the process of wealth generation does not damage the environment. Where sound governance does not exist we have a joint responsibility to work to establish it. The New Partnership for Africa's Development (NEPAD) is an acknowledgment of the critical role of government itself in developing this essential sound governance, but equally that assistance will be needed from aid agencies, businesses and civil society organisations.

Take the issue of corporate responsibility for human rights. A corporation has a prime responsibility for the human rights of the people working for it and with it. It equally has a strong responsibility for the fundamental human rights of its neighbours, but this is not something a company can deliver on its own. And when it comes to human rights in wider society, a corporation has a responsibility to express support for fundamental rights in discussions with governments or even publicly, but the wider issues are very much the responsibility of civil society, including international bodies. A company should play its part, but needs to work constructively with others, including the government concerned, to build the governance structures that will reduce or prevent human rights abuses.

Although international conventions may be of use in setting aspirational goals, and are absolutely necessary for cross-border issues, such as climate or trade, the issue of fundamental human rights exemplifies why building of local and national governance structures is so important. We have had the Universal Declaration of Human Rights for more than 50 years; almost every country subscribes to it. But we all know that abuses and offences against that declaration occur in countries of all sorts right across the world. Respect for universal human rights will only be achieved when sound governance systems have been developed in each and every country.

To this end, all members of society need to be involved in building attitudes of fairness. That is often a frustrating task, with countless small battles to be fought locally and with progress made in ways that often do not have the public appeal of a grand convention – but the societal structures that make up sound local and national governance are what the world needs most urgently, to achieve sustainable development. And this is an area in which businesses, small and large, national and international, can play their part with others. ■

Sir Mark Moody-Stuart is chairman of Anglo American plc and former chairman of the Royal Dutch/Shell Group. www.angloamerican.co.uk

[1]C K Prahalad & R Hart, "The fortune at the bottom of the pyramid", *Strategy and Business*, First Quarter, 2002, argue that catering for large low-income markets is a win–win approach potentially improving quality of life for the "aspiring poor" while being profitable to companies.

Fighting poverty, building reputation

Bill Walker

ALMOST HALF the world's population – 2.8 billion people – live on less than US$2 a day, the "breadline" defined by the World Bank. And poverty is not only lack of income: it's also about lack of access to essential resources and services, such as clean water, education or health care; and denial of rights, whether to land or justice.

Corporations have an important role to play, alongside governments and NGOs, in addressing such poverty issues. And many companies are seeing that corporate social responsibility also has benefits for business, including for the "bottom line".

Companies know the importance of their reputation in determining business outcomes – from attracting employees to successfully marketing products. Surveys indicate that 92% of Australians believe corporations need to do more than simply make a profit; 90% choose to patronise companies demonstrating high corporate ethics; and 73% would rather purchase a product that benefits a cause.[1]

Good corporate reputation takes time, creativity and effort to build. It can be damaged in a much shorter time, and can be difficult to rebuild.

Australian Good Reputation Index

In 2002, World Vision Australia took part in producing the Good Reputation Index, in which 22 community stakeholder and expert organisations ranked Australia's "top 100"[2] companies according to their performance financially, socially and environmentally; in employee management, ethics and governance; and in management and market focus. At least 30 of the companies are regarded as multinationals, while others have operations in developing countries.

PHOTO - MIKEL FLAMM / WORLD VISION

Young scrap collector Danny, working on garbage dumps in the Philippines, makes up to US$5 a day to support his mother and siblings

In the "social impact" category, we ranked companies for their impact on global (including Indigenous Australian) poverty.[3] Based on information received, including from the companies themselves, we evaluated their performance in four key areas:

1. addressing global poverty using expertise, funds, services or products, and engaging staff, customers and communities as partners in this;

2. establishing policies and practices to integrate with and benefit local (especially poor) communities in areas of operation worldwide;

3. consistency between internal standards and those required of supply chains; and

PHOTO -TSEDENISH / WORLD VISION

Newly-painted soft drink advertising adorns a kiosk in a poor ger housing area in Ulaan-Baatar, Mongolia's capital

4. commitment to external and internal company codes of ethics.

"Walking the talk"

Good corporate policies and standards are an important first step. Action to implement them, to ensure social impact, is even more important. In assigning scores we looked for evidence of both.

Companies that did not demonstrate awareness or progress in the four areas, or where there was evidence that their operations impoverished people and communities, ranked lower.[4] These included those in the tobacco, weapons and gambling industries, those promoting infant formula inappropriately in poor countries, and companies known to be abusing human rights – particularly in poorer communities. Profits of such companies sometimes come at a high social cost, and this – the *real* cost – is largely hidden, particularly from consumers.

We found that Australian companies address global poverty by:

- identifying and using relevant corporate expertise to reduce global poverty;
- encouraging staff learning about poverty (e.g. volunteer work, exposure visits);
- facilitating local communities' involvement in practical help for needy people;
- facilitating staff support for social causes (e.g. by matching staff donations);
- establishing foundations for poor communities (often a strategic corporate approach);
- benchmarking their giving (e.g. publicly committing a portion of profits to social causes), which can deepen corporate commitment to poverty reduction;
- formally recognising that their work has impacts on poor communities (e.g. with policies to promote human rights, or inviting independent auditing);
- sponsoring projects to address adverse impacts identified from their work;
- demonstrating awareness or action on "supply chain" issues – contractor/ supplier policies, practices and standards (or lack of), which impact poverty;
- commitment to international codes of corporate responsibility – the most useful of these[5] encourage public transparency and accountability, and offer guidelines for benefiting or empowering vulnerable communities.

Participation in the Index has enabled World Vision Australia to more clearly consider and articulate the social impact that corporations can have in a global context, and to encourage companies to incorporate these indicators in their own reporting. It has opened up productive dialogue with one of our corporate partners.

Millennium Development Goals

World leaders have agreed to eight Millennium Development Goals (MDGs) to halve global poverty by 2015. Some of the MDGs, such as that relating to environmental sustainability, have direct implications for business. Others relate to a broad enabling framework – to which the corporate sector is key.

Directly or indirectly, 21st century business has a vital role to play, alongside government and civil society, in meeting these ambitious goals. Whether or not the benefits in reputation enhancement form part of their incentive, companies will need visionary support from corporate leadership if they are to seize this opportunity. ■

Bill Walker is a Policy Officer with World Vision Australia.

[1]Figures from Millennium Poll (1999); Sweeney Research (1999) and Sweeney Research (1997) respectively
[2]*Business Review Weekly* magazine publishes an annual "top 100" and other lists, ranking companies according to criteria established by the magazine.
[3]The results were published in major Australian newspapers and at www.reputationmeasurement.com.au/reputation.html. In 2003, the Good Reputation Index has been revised and renamed Reputex.
[4]Companies that did not respond were given a median ranking unless we were aware of substantial evidence of problems.
[5]A good example is the Global Reporting Initiative: see www.globalreporting.org/.

Promoting development through corporate social responsibility – does it work?

Peter Utting

OVER MANY DECADES a heated debate has existed regarding the role and impact of transnational corporations (TNCs) and foreign direct investment (FDI) in developing countries. Put simply, some emphasise the actual or potential contribution of TNCs to economic and social development via investment, employment, taxation, and the transfer of technology, knowledge and skills. Others stress the fact that TNCs have been highly implicated in promoting a style of "development" and North–South relations that have put many developing countries, people and the environment at a serious disadvantage.

The 1980s saw a major shift in this balance of opinion, as international development agencies and many developing-country governments abandoned the rhetoric of a "New International Economic Order" and actively courted FDI. To do so, they largely accepted the policy proposals and conditionalities of international finance institutions such as the World Bank and the IMF, which encouraged developing countries to pursue export-led growth, liberalise their trade and investment regimes, and privatise state enterprises and public services.

These trends and policies continue today but have been complemented by another approach, often labelled "corporate social responsibility" (CSR) or "corporate citizenship". Over the past decade many high-profile corporations and business or industry associations have responded to civil society and consumer pressures, market opportunities, and new thinking on "good governance" and management by projecting an environmentally- and socially-responsible image.

Recent CSR initiatives

There has been an upsurge in "voluntary initiatives" associated with codes of conduct, improvements in environmental management systems, improved health and safety standards, company reporting on social and environmental policy and performance, participation in certification and labelling schemes, an increase in corporate social investment in, for example, community development projects, and philanthropy. Large companies are also participating in so-called "multi-stakeholder initiatives" and "public–private partnerships" with NGOs and governmental or multilateral organisations. The United Nations has played an important role in promoting partnerships with TNCs through arrangements such as the Global Compact, various global health partnerships, and numerous initiatives brokered or announced at the World Summit on Sustainable Development, held in Johannesburg in 2002.

The development debate associated with FDI has now extended to CSR. The proponents of CSR generally hail voluntary initiatives as a pragmatic and innovative way of enhancing the contribution of TNCs to development. Many also regard such initiatives as an alternative to government regulation, which is often seen not only as unfriendly towards business but also as difficult to implement, particularly in developing countries. Much of the criticism of CSR has centred on two main concerns: first, that many CSR initiatives amount to "greenwash", or attempts to camouflage what is essentially business-as-usual; and second, that CSR is a genuine attempt on the part of big business to improve social, environmental and human rights conditions but the CSR agenda needs to be broadened and implementation strengthened. Both these critical positions recognise the crucial role of civil society and consumer activism in forcing or encouraging business along the CSR path.

PHOTO - RAPHAEL PALMA / WORLD VISION

Corporate towers form a backdrop to slum housing in Dhaka, Bangladesh

What has really been the impact of CSR and partnerships on developing countries? Unfortunately much of the "evidence" for and against CSR is based on supposition, anecdotes and a limited number of "best" or "bad" practice examples. There has been little systematic research on the developmental implications of CSR.

Much "evidence" about CSR is based on supposition, anecdotes and examples, not systematic research

A mixed scorecard

Preliminary findings from research currently being conducted by the United Nations Research Institute for Social Development (UNRISD) suggests that an increasing number of large national and transnational corporations are indeed engaging with the CSR "movement", not simply in a reactive sense – although many do respond to pressures of various sorts – but more proactively, given a range of benefits that derive from CSR. Many instances of "greenwash" have been identified, but CSR amounts to more than window-dressing or slick public relations. While serious concerns have emerged about the limited scope and effective implementation of CSR initiatives, it is also apparent that many CSR companies, business associations and business-interest NGOs are involved in an active learning process and are evolving gradually towards more rigorous standards and practices, and in the process, the CSR agenda is being broadened.

This mixed report card is very apparent in relation to certain public–private partnerships involving the United Nations and TNCs. The Global Compact, for example, has proved useful in raising the profile of labour, human rights and environmental issues in a global policy context where, for many years, attention focused narrowly on issues of economic liberalisation, stabilisation and structural adjustment. It has served to reinvigorate certain aspects of international "soft law", such as the ILO Core Conventions and the Universal Declaration of Human Rights, as well as the Precautionary Principle agreed at the 1992 "Earth Summit" in Rio de Janeiro. It has also stimulated discussion and dialogue on specific problems such as the responsibilities of business in conflict zones and in relation to HIV/AIDS.

As currently constituted, however, many UN–business partnership initiatives are characterised by weak screening mechanisms to select appropriate partners, and weak compliance mechanisms to ensure that companies significantly improve their social and environmental performance. There are also concerns that partnerships provide the corporate sector with undue influence in the governance structures of multilateral institutions and the public policy process.

Development impacts of CSR

But apart from assessing the scale, scope and implementation of specific CSR policies and institutional arrangements, it is important to consider the wider developmental implications of CSR. There is a fairly generalised perception shared by many individuals and organisations promoting CSR, that both CSR and partnerships, in any shape or form, must be good for social development and environmental protection, and therefore, for development more generally. This assumption needs to be looked at carefully given the following characteristics and impacts of CSR:

- The CSR agenda tends to be somewhat "Northern-driven" and focuses on a fairly narrow set of issues, sectors and companies. Various social and environmental issues or business activities of concern to workers and communities in developing countries may not get much attention.

- Important gender issues often get sidelined. These relate not only to specific concerns and needs of women workers but also the participation of women in trade unions and other negotiating and political processes associated with CSR.

- Small and medium-sized firms in developing countries that form part of TNC supply chains are often expected to pay the costs of CSR. TNCs or Northern consumers may do little if anything to share these costs. Moreover, TNCs and large Northern retailers continue to impose onerous conditions on suppliers in terms of price and delivery schedules. CSR may reinforce trends involving the concentration of corporate power by squeezing small firms from supply chains and concentrating production in larger firms with greater capacity to implement CSR initiatives.

- CSR may have protectionist implications by restricting access of Southern firms to Northern markets.

- CSR and partnerships may enhance competitive advantages of TNCs at the expense of firms in developing countries.

- The CSR agenda often ignores the bigger picture or the structural causes of underdevelopment, such as certain macro-economic policies, inequitable power structures, and injustices in North–South relations, as well as patterns of investment and economic growth that have negative social and environmental impacts.

Small and medium-sized firms in developing countries are often expected to pay the costs of CSR. TNCs or Northern consumers may do little to share these costs

- Many developing-country governments, constrained by international pressures associated with debt servicing and "down-sizing", are unable to develop the type of regulatory and incentive structures that would encourage CSR.

- Voluntary CSR initiatives are often dissociated from national planning processes related to development strategy or poverty reduction and their design and implementation lack inputs from key development actors or "stakeholders".

If CSR is to make a more significant contribution to development, its proponents face two major challenges. First, there needs to be a better integration between voluntary approaches and law or government regulation, rather than the present situation where voluntary initiatives are often seen as an alternative to legal instruments. Second, the CSR agenda needs to become more "South-centred". For this to happen, the relevant actors will have to start by addressing some difficult questions.

What are the actual or potential developmental problems and contradictions associated with the CSR agenda, as currently constituted? Are the investment and competitive strategies of TNCs, as well as their lobbying and fiscal practices, compatible with basic development objectives? Does the CSR agenda really respond to the development needs, concerns and priorities of workers, communities and firms in developing countries? Are these and other Southern actors effectively shaping the CSR agenda? And is CSR working for or against democratic policy-making, regulatory and planning processes in developing countries?

Unless these questions of regulation and broader participation are addressed, then CSR, as currently constituted, may do more for the conscience of corporate managers, Northern consumers and some activists than for workers and communities in developing countries. ■

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See: www.unrisd.org, select Corporate responsibility

How industry keeps AIDS drugs unaffordable

Amboka Wameyo

PHOTO - JON WARREN / WORLD VISION

Anti-retroviral drugs are beyond the reach of most of the world's HIV-affected people.

THE BBC REPORTED in May 2003 that in Zambia one in five people are HIV-positive, life expectancy is now 33 years and the HIV/AIDS pandemic has devastated the economy, including education where many teachers have died.[1] This scenario is not unique to Zambia. In 2002, five million people globally became newly infected and 3.1 million people died from AIDS. If the tide does not turn, 25 million children will have lost one or both parents to AIDS by 2010.

Standing out among all the efforts to curb the spread of HIV/AIDS is the issue of availability – or rather unavailability – of cheap and effective drugs. This issue also raises profound questions about where "corporate social responsibility" begins and ends.

It is now known that the impact of the HIV virus can be controlled with anti-retroviral (ARV) medications. While they do not cure AIDS, they slow down the replication of the virus, reducing the incidence of AIDS-related diseases and prolonging the affected person's life. If that person is a breadwinner or caregiver, this means the onset of AIDS-related poverty and orphaning is delayed. Economically, ARVs slow the disruption and demise of the labour force. Availability of treatment also encourages people to undergo HIV testing – which helps AIDS prevention efforts.

Distressing images of AIDS suffering common in Africa are not seen in the North, where ARVs are affordable

Yet ARVs are unaffordable to the majority of people with AIDS. In Kenya, for example, where 700 people die of AIDS daily and over two million people are HIV-positive, only 7000 Kenyans receive ARV treatment.[2] Indeed, the distressing images of people suffering uncontrollably as a result of

HIV/AIDS that are now commonplace on the African continent are not seen in the North where ARVs are affordable.[3]

Business viability, public health

Pharmaceutical companies argue that they must maintain patents for drugs they produce and must sell these drugs at high prices, in order to recoup research and production costs and remain commercially viable.

Under current World Trade Organisation (WTO) rules, corporations can apply for a patent for 20 years, during which they can set the price of the commodity and prevent others from producing generic versions of it. However, WTO rules do allow governments acting on public health concerns to use *compulsory licensing* – to license production or import of a generic commodity without the patent holder's permission.

But developing countries where the AIDS pandemic is rampant are under strong pressure not to produce or import generic ARV drugs. For example, in 2000 one pharmaceutical company threatened legal action against a developing-country company that was selling a generic ARV in Africa at less than a tenth of the US price.[4]

Industry continues to argue that any new regulations should not affect profits

WTO ministerial negotiations in Doha in 2000 agreed that the high cost of ARVs must be addressed. The *Doha Declaration on TRIPS* (2001) declared that patent rules should not prevent countries from taking measures to protect public health or promote access to medicines.[5] In 2002 the G8 endorsed this Declaration, calling on G8 countries to work with the pharmaceutical industry to find a solution to the drugs question.

Industry continues to apply pressure on negotiating governments, arguing that any new regulations should not injure its commercial interests. At a 2003 meeting on the issue, an industry representative voiced concern that negotiations might lead to Third World governments or companies making profits on low-cost ARVs. The United States has opposed any agreement on a price-reduction strategy that would affect the profits of pharmaceutical companies.

An HIV-infected woman receives hospital care in Uganda

Progress on differential pricing

One solution proposed by governments in consultation with pharmaceutical companies is *differential pricing*. This allows companies to keep their patents but to negotiate selling drugs more cheaply to countries in need – for example, GlaxoSmithKline more than halved the sale price of its drug Combivir in Kenya to 70 shillings (US$1) per daily dose.

In May 2003, the European Council adopted a regulation that enables the export of pharmaceuticals and essential medicines to developing countries at reduced prices while ensuring that the low-cost goods are not diverted back to Europe.

Differential pricing is a positive step, but it is voluntary. Deals are negotiated case-by-case between companies and countries. It is not a long-term, global solution to the problem of access to low-cost drugs.

While the pharmaceutical industry needs to be sustainable, the profit motive should not override moral responsibility to protect the rights of those living with AIDS. The WTO ministerial in Cancún in September 2003 provides an opportunity to re-examine the enormity of AIDS and to decide on a system of compulsory licensing that supports economically weaker nations struggling with the pandemic. ■

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[1]Article by Chare Shahane, *BBC Online*, 10 May 2003
[2]Stephen Lewis, UN Special Envoy on HIV/AIDS, at press briefing following visit to Kenya, May 2003
[3]Poul Nielson (European Commissioner for Humanitarian Aid and Development), "A call for commitment", *Global Future*, First Quarter 2001, page 4
[4]See Médecins sans Frontières, *HIV/AIDS medicines pricing report*, July 2000, http://www.accessmed-msf.org/
[5]Declaration on the TRIPS agreement and public health, paragraph 6, http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm
[6]Gichinga Ndirangu, "Cheap Aids drugs: How Govt can assist", *Daily Nation*, Nairobi, 13 May 2003, page 9

Corporations in development or corporate development?

Barry Coates

THE QUESTION of whether corporations should be involved in the development process is straightforward: they are and they should be. More pertinent questions are what roles they should play, what types of corporations should be encouraged and what rules should be applied to their activities. These questions relate not only to companies, but also to defining the roles of governments and NGOs.

The lure of partnerships between corporations and NGOs is seductive – typically there is money involved, often donor funds, and in some circles the partnerships are regarded as modern and pragmatic. But the issues they raise are complex. As shown at the World Summit on Sustainable Development, partnerships provided a convenient fig leaf for the failure of governments to take action, nationally and internationally. Questions about roles, types of partner and the rules need to be answered. In an era in which economic policies are increasingly attuned to the needs of international corporations, the answers will help determine development and economic outcomes for many of the world's people.

Promises, promises

The new orthodoxy in development, promoted heavily by the donor community, is that corporations have the potential to play a leading role in development. Its proponents compare the size of foreign direct investment flows (currently around US$200 billion to the developing world) to far smaller amounts of foreign aid ($57 billion). These comparisons are, of course, meaningless: the more relevant analysis would be to compare the real benefits that accrue to host countries. While many benefits are claimed for foreign direct investment (FDI), such as employment, management skills, technology transfer and foreign exchange, the evidence casts doubt on the degree to which most foreign investment lives up to the promises.

The evidence casts doubt on how much host countries benefit from foreign investment

For example, over a third of FDI in the developing world comes in the form of mergers and acquisitions – the result of which is often consolidation into the parent company, with a loss of local employment. Even when jobs are created, as in the free trade zones, there are few opportunities for skills upgrading or establishment of a local supply base. The benefits last only until another country offers larger incentives or lower wages.

In other industries, foreign investment comes seeking cheap raw materials. Over half of FDI in sub-Saharan Africa is in extractive sectors such as mining, logging and fishing – with evidence of foreign companies influencing government policies, engaging in corruption, fuelling conflict and extracting the natural wealth of developing countries with few benefits accruing to local communities or national economies. Examples from the tourism industry show how little of the spending of tourists stays in host countries – most is sent out in the form of imported materials, employment of expatriates, royalties, management fees and remittance of profits.

The water industry vividly shows the dilemmas faced by many governments. Privatisation or long-term concessions have either been made mandatory through IMF and World Bank loan conditions, or close to mandatory by donors only offering aid or loans for private sector involvement. This has meant huge expansion for the multinationals, especially the handful that supply 70% of the global private water market. But there are serious problems. In a growing number of cases, water multinationals have delivered poor service, raised prices and have been unable to provide affordable water to the poor. Companies such as Thames Water are now calling for more regulation and a more limited role in providing water to urban consumers who can afford to pay.[1] Suez has recently announced that it is pulling out of Buenos Aires and Manila, both cited as shining examples of water privatisation.

PHOTO - MARIA CECIL LAGUARDIA / WORLD VISION

Children collecting water from a community pump in Quezon, Philippines

PHOTO - CALEB MPAMEI / WORLD VISION

Women picking tea in Darjeeling, India

It is hypocritical to ask countries to open up their water sectors but refuse to open our own

More investment in providing safe water and sanitation is obviously an urgent need, and many public authorities are failing to deliver water equitably and efficiently. But there are alternatives to privatisation or long-term concessions for multinationals, ranging from community management to the involvement of local companies in supply contracts. It is a measure of the hypocrisy in policy towards the developing world that the European Union has asked 72 other countries to open up their water supply to foreign companies under the General Agreement on Trade in Services (GATS), but has refused to do so itself – some 95% of water delivery in the EU is delivered by the public sector.[2]

Rigging the rules

Investment flows are determined by market fundamentals, rather than by government policies towards investors – an important distinction to make. There has been a massive flow of FDI into China, one of the world's most heavily regulated economies, but minimal investment in many of the world's poorest countries that have undertaken extensive liberalisation. Yet the IMF and World Bank still impose conditions that require developing countries to open up their economies to FDI, even in the face of massive resistance in many countries.[3] And the EU still promises that there will be more investment if developing countries agree to new commitments under GATS and a new investment agreement in the WTO, despite evidence that shows no link between such agreements and the amount of inward investment.[4]

These WTO agreements aim to remove "barriers to trade". But these barriers are the policies that protect local economies, achieve social and environmental aims and support local businesses. Developing countries are being pushed into agreements that prevent them from using policies that rich countries and the Asian "tiger economies" used during their development. To use the title of a recent book, rich countries are "kicking away the ladder" on economies trying to develop.[5]

Size matters

A central aim of development policy has been to promote a base of domestic companies, some of which would eventually become competitive internationally, generating jobs and expertise through exports. But WTO agreements would prohibit governments from intervening to support local business on the grounds that it would be unfair to foreign corporations.

The global economy treats big multinationals better than local firms

Multinationals already benefit from huge advantages over local business. Not only do they have market advantages, such as volume purchasing, that force prices down for suppliers and producers, and global networks that can reduce research and marketing costs, but they also benefit from unfair rules. Those headquartered in rich countries have access to aid contracts, export credits and low-cost loans, and are typically offered incentives and free infrastructure in developing countries.

The absence of an international legal framework on global business means that they can evade tax, by using transfer pricing and tax havens, and compete unfairly. If there is any policy that disadvantages them compared to local companies, their government can have it overturned in the WTO, using the principle that foreign companies must be treated "at least as well" as domestic firms. The problem in the global economy is not that the big multinationals are treated worse than local companies. They are generally treated far better.

A new framework

First, there needs to be a re-balancing of the rules. In many cases, the corporations that have most to offer in terms of development benefits are small, local companies. Rather than aid funds benefiting large multinationals from donor countries, aid should be used to help build local economies. Rather than export credits and cheap loans for multinationals, low-cost finance is needed for small business. Rather than prohibiting support for local economies under WTO agreements, it should be encouraged. And rather than restricting the powers of governments to regulate international corporations, there needs to be global regulation that forces those companies to pay tax, compete fairly and operate according to agreed international standards. This may seem like a daunting agenda, opposed by powerful forces, but active campaigns on each of these issues are tangibly shifting the agenda.

Second, the role of government needs to be rehabilitated. Economic policies in the developing world should be run by governments, accountable to their people, not run from Washington DC by the IMF and World Bank through onerous and intrusive conditions. Emphasis must be on building the capacity and accountability of governments, not undermining them. NGOs and companies have vital roles to play, but they have no legitimacy to replace the functions of government. Above all, civil society must take the lead in ensuring that governments are accountable.

Finally, the role of corporations in development needs to be tailored to development needs. Foreign investment can bring in new technologies and access to markets, for example, but it must operate within a framework of rules that prevents exploitation and builds links with the local economy.

Corporations' role in development must fit with development needs

The inescapable conclusion is that development needs public support; promises that corporations will fill the gap cannot excuse inaction. Donors must play their part through cancelling illegitimate and unpayable debts, meeting their aid commitments and making trade rules fairer. Foreign corporations have a far more limited role to play. The emphasis must shift to enabling governments and local business, supported by civil society, to play the central role. ■

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[5]H-J Chang, *Kicking Away the Ladder: Development strategy in historical perspective*, Anthem Press, London, 2002

Corporate citizenship comes of age – the new imperative

Klaus Schwab and Pamela Hartigan

IT HAS BEEN FOUR YEARS since UN Secretary-General Kofi Annan called upon business leaders worldwide to join in a Global Compact and "contribute to more sustainable and inclusive global markets by embedding them in shared values". Since the day he extended this invitation at the 1999 Annual Meeting of the World Economic Forum, 717 companies have become signatories to this initiative for global corporate citizenship.[1]

The approach of the Global Compact has been "voluntary" – not certifying or accrediting its members, nor conducting due diligence investigation to ensure that they uphold their commitment to the Compact's nine principles in the areas of human rights, labour and the environment. Rather, companies have been expected to publish annually the ways in which they are fulfilling those principles, in line with the Sustainability Reporting Guidelines[2] spearheaded by the Global Reporting Initiative (GRI). The Global Compact has been an agreement based on trust – a trust that we share certain values and visions for the kind of world we want to live in and to pass on to our grandchildren. But do we?

Uncertainty or opportunity?

A lot has happened in four years. The crest of the collective wave of hype and hubris that characterised the "New Economy" has crashed on the shores of unmet market expectations. And just as we were reeling from the shock of the dot.com bust and its evaporating shareholder value, Enron filed for bankruptcy in December 2001. Other major corporate collapses followed.

What are the implications of this scenario for corporate citizenship and initiatives such as the Global Compact? Are such expressions of socially responsible conduct merely "window-dressing" on the part of global companies who go on conducting "business as usual" behind closed doors? What does the future hold? These are difficult questions.

We can no longer predict the future by looking into the past. The most important challenge ahead of us is to "unlearn" what has bound us, what has ordered our world, and embrace risk as "a core element of a dynamic economy and innovative society".[3] The public, corporate and philanthropic silos we constructed have given structure and predictability to our world, a way to classify different types of human activity. But digitalisation, globalisation and deregulation are dramatically blurring those distinctions. Values, institutions and technologies are disappearing and are being replaced with all-embracing uncertainty.

This very uncertainty provides an unprecedented opportunity to create organisations that are values-based, inspiring to work for, and financially profitable. The new climate of corporate distrust makes doing so an imperative for corporate survival and success.

We believe that the time to reshape institutions has never been as propitious as it is currently. Two further, interrelated reasons for this conviction are the growing power of people and their freedom to choose; and the emergence of such values-based businesses in an ever-growing number of arenas.

Shifting paradigms

It is readily evident that the uninformed, subservient, passive, loyal customer and employee are becoming history. They are being replaced by women and men, even children, *We can no longer predict the future by looking into the past*

powered by information technology that gives them instant access to information – not only on the best deals for every product and service on the global market, but also to demand transparency and accountability from their "leaders". The power has shifted from those who sell to those who buy, from those with public or corporate power to those who can mobilise others and blow the collective whistle when power is abused. Information technology fosters the ultimate mass participation.

Another factor in the power shift is the explosion of choices. The world in which we now live – at least in the North – abounds in goods, services and information. Whether one is looking for sports gear, home appliances, a charitable cause, a handyman, a consultant or a project tackling HIV/AIDS in Africa, there is an abundance of choice. Economics has traditionally been the science of scarce resources; in an age of surplus supply, something has to attract customers besides the product or service. Successful companies are those that appeal not only to the rational side of people, but to their emotions. If nothing else, adherence to Global Compact principles would support a company's e-(motional) value proposition.

The successful company of the future will be the one that has seized the opportunity opened up by today's apparent chaos and confusion, created a market niche among previously untapped customers, and generated a unique value proposition that appeals to the hearts of all its stakeholders – from its shareholders and consumers to its employees and the communities in which it works – who are free to choose from a vast number of suppliers delivering similar goods and services.

The power has been transferred to those who can mobilise the collective whistle

For global companies, this includes taking a fresh look at the emerging markets. It has long been true in many sectors that nowhere are the opportunities greater to generate new growth and profitability and to serve poorly served or unmet needs. But untold millions of potential consumers and suppliers are bypassed by global companies in favour of larger country market possibilities. Many myths surround emerging markets, including the presumed inability of the poor to pay, and concerns about pricing. But it is precisely these markets where growth rates are the highest and potential profitability greatest for companies equipped to adopt new modalities. The counter-argument has always been that the risks are far greater. But is there such a thing any longer as a consistently safe market?

Millions of potential consumers and suppliers are bypassed by global companies

What appears far riskier is to cling to the past and to inflexible, unimaginative bureaucratic structures and practices. The future belongs to entrepreneurial individuals and organisations that relish challenging current "wisdom" and reinventing the future.

Entrepreneurs of the future

There are individuals in our world who are responding to market failures to transform business and social paradigms. These men and women and their organisations have "unlearned" the tendency to dichotomise "for profit" and "philanthropic" activities, and have shown that it is possible to prioritise both financial and social returns in emerging markets. A few examples highlight this entrepreneurial phenomenon:

- The best known is Muhammad Yunus, the "father" of microcredit. Going against prevailing logic in the formal banking sector, Yunus created the Grameen Bank to extend tiny loans to the poor, seen as an "uncreditworthy" group. Beginning in his home country, Bangladesh, Yunus proved that the major constraint lay in the banking system itself. The poor were perfectly creditworthy; the problem was that banks don't turn enough of a profit by lending to poor people. So Yunus created a bank for the poor. Today, microfinance is a billion-dollar industry and has served millions worldwide with repayment rates that would delight any formal bank. Not only does Grameen make financial sense – it has "soul appeal".

- Rory Stear's successful company Freeplay sells wind-up battery-free technology (such as radios, torches, water purifiers and cell-phone chargers) to outdoor enthusiasts and environmentalists. High-volume sales to affluent populations have allowed Freeplay to offer products at reduced cost for humanitarian efforts: over 150,000 battery-free radios have been distributed in sub-Saharan Africa. Sustained access to information for over 2.5 million people has increased the potential impact of public health, education and income-generation efforts targeting isolated and impoverished communities, helping to eradicate poverty and improve quality of life. Freeplay's success highlights that the so-called "digital divide" is not a consequence of technology *per se*, but of our failure to create a world where more people have opportunity to develop their talents.

- The Novica enterprise has used information technology to eliminate unnecessary middlemen in the artisan–buyer chain. Novica functions as both a purchasing agent for customers and a sales department for developing -country artists and artisan groups, representing over 10,000 artisans in nine emerging markets. It has two major rules: artists must earn more than the going local rate, and consumers must pay below-market prices – this means a 10–50% price boost for artisans and up to 400% savings for consumers. Novica has

The corporate citizenship spirit doesn't hold only in a bull market opened up global markets to those long restricted by local distribution.

Few multinational companies today are willing to invest in emerging markets, particularly those characterised by political and social unrest. But the spirit underlying the Global Compact and corporate citizenship doesn't hold only during a bull market. Today, companies are called upon to assume greater global responsibility at a time when the old certainties have evaporated. Broader interpretations of global social responsibility hold great promise for those willing to reinvent themselves into the energetic enterprises they need to become. This is less a choice than a necessity, and one that can reinvigorate corporate life. ■

Professor Klaus Schwab is Founder and President of the World Economic Forum and of the Schwab Foundation for Social Entrepreneurship. Dr Pamela Hartigan is Managing Director of the Schwab Foundation for Social Entrepreneurship.
See: www.weforum.org

[1]Figure as of March 2003
[2]These Guidelines were the product of discussion, research and pilot testing over five years undertaken by the GRI and hundreds of organisations from around the world representing a wide variety of stakeholders. The most recent version of the Guidelines was released at the World Summit on Sustainable Development in Johannesburg in August 2002.
[3]Anthony Giddens, *Runaway World: How globalisation is reshaping our lives* (revised edition), Profile Books, London, 2002, page 35

Corporate responsibility and sustainable development

Patricia Wolf

WE LIVE IN a context of fierce and growing global competition, over-accumulation of production and capital, and relentless search of capital for new profitable outlets. All this has resulted in the dismantling of national boundaries and national sovereignty, as well as in the globalisation of business and business opportunities.

Global competition has manifested itself in many companies transferring their operations from North to South as a strategy to increase profits. Often, the result is impoverishment of people and destruction of the environment, particularly when waste from the North is dumped in the South.

More than 30 years ago, various faith communities through the Interfaith Center on Corporate Responsibility (ICCR) began to engage corporations about the impact of corporate practice and policies on the lives of human beings. The focus then was the role that corporations and investment played in perpetuation of apartheid in South Africa. Today, shareholder advocacy has grown into a global movement in which the faith community, in partnership with individual and other institutional investors, uses its shareholder power to achieve much more than acceptable financial return on our investments.

In our understanding, the community is the starting point for all economic life

Perhaps the unique perspective that the faith community brings to this discussion is belief in the dignity of the human person. We are concerned about the way corporations impact the economic, political, social, and cultural development of people. In our understanding of global corporate responsibility, the community – rather than the company – is the starting point for all economic life. For a community to be sustainable, all its members need to be recognised: consumers, employers, shareholders, the community at large, and corporations. Therefore, ICCR focuses on the impacts of a company's operations on the long-term sustainability of communities, from the economic, environmental, and social perspectives.

ICCR Global Principles

ICCR has articulated principles, criteria and benchmarks for good corporate performance.[1] These are offered as an ethical standard of measurement on which shareholders and others can base decisions about global corporate social responsibility, and companies' efforts toward sustainable development. Rooted in the dignity of the person, the central concerns or demands of the Global Principles are:

- a sustainable system of production and distribution;
- preservation of the environment for present communities and future generations;
- a more equitable system of distribution of the economic benefits of production and services;
- participation of stakeholders, and those most hurt by the activities of corporations, in the decision-making processes of companies;
- that corporations consider all shareholders in their operations, not only consumers; and
- the opportunities of life and freedom for all humanity.

HIV/AIDS and workers' rights

Twenty-five million people in sub-Saharan Africa have died of AIDS since the early 1980s. Drugs are not accessible or affordable to 40 million people who are currently infected with HIV. Believing that comprehensive workplace health coverage is an effective means of prevention, ICCR asks companies to subscribe to the principle that every worker has the right to access health care, including medicines. Corporations with significant presence in sub-Saharan Africa are asked about the epidemic's impact on their operations and how they are addressing it. We expect companies to provide their staff with access to affordable anti-retroviral drugs, ongoing education on AIDS prevention, and training to overcome stigma linked with the disease.

PHOTO - SIMON PETER ESAKU / WORLD VISION

A widow with AIDS receives medical care and counselling

Through a process of dialogue, several companies made commitments to lobby for legislation (passed in late May 2003) creating a US$15 billion programme to help prevent and treat AIDS in Africa and the Caribbean.

The goal is to transform the way corporations relate to people, communities and the environment

A second example is concerned with worker rights. Development is integrally linked to the empowerment of workers. An increasing number of companies contract work out to supplier factories, where working conditions often fall far below basic standards of fair and humane treatment, earning the name "sweatshops". ICCR asks companies to subscribe to the principles of freedom of association, freedom for collective bargaining, and a ban on child labour and forced labour. Companies are pressed to influence vendors to respect the dignity of workers and protect worker rights.

The long-range goal is to transform the way corporations relate to people, communities and the environment. How seriously companies take the Global Principles depends, at least in part, on how they view their responsibility for the human and moral consequences of their economic decisions. For the sake of all people and the planet, it is imperative that they do accept this responsibility. ■

Sr. Patricia Wolf is Executive Director of the Interfaith Centre on Corporate Responsibility. For more information, go to www.iccr.org.

[1] *Principles for Global Corporate Responsibility: Benchmarks for measuring business performance,* Interfaith Centre on Corporate Responsibility, 2003

PHOTO - WORLD VISION ECUADOR

Workers tending roses in a greenhouse, Ecuador

ECUADOR'S FLOWERS are favourites in the world market for their beauty, perfection, size and durability. The cut-flower industry has revolutionised Ecuador's agricultural sector with its high standards of quality and production and its export success. It has also become a major source of employment for tens of thousands of Ecuadorians.

But in needy communities that are hubs of this agro-industry, has this resulted in sustainable, beneficial development for people?

Development of the industry

In the 1980s, with structural adjustment and Ecuador's need to reduce reliance on petroleum, new export agro-industries emerged – notably flower cultivation in the high-altitude Andes and prawn production on the coast. Thanks to Ecuador's large tracts of fertile, irrigated soil close to an international airport, and cheap labour, the new sector grew quickly – now comprising 3.5% of exports, right behind petroleum, bananas and cacao. During the 1990s, flower exports grew 940%, surpassing US$141.7 million FOB. Land under flower cultivation grew to an annual average of 20% (2,677 hectares). Major markets for Ecuador's flowers include the USA

Ecuador's cut-flower industry and local development

Fernando Jara

(some 70%), Canada, Argentina, Russia and Japan.

Work in the flower industry attracts young people from around the country, but most labourers are local indigenous people and *campesinos* (peasants), who live on land ceded by the agrarian reform (though most lack title) and farm livestock and crops to eat or to sell. The natural environment that provides them with firewood, water and food has deteriorated: forests have been removed, water is scarce, the soil exhausted. These people also lack access to the media, education, health care, credit and social security.

In the past many have had to travel far from their communities, to Quito or the coast, to find paid work. Now many have joined the cut-flower industry, with its growing demand for labour, closer to their homes. The *florícolas* need 11–13 workers per hectare, more than cattle farming (0.3–3) and other non-traditional crops like asparagus (2–6 workers). In 1999 the industry employed more than 26,000 in direct labour, and 35,000 indirectly in provision of raw materials and other inputs – not counting related services like transport and banking.

Wages offered by the *florícolas* are similar to those of bricklayers, informal workers and traders, better than in other agro-industries, and lower than wages paid to construction labourers and heavy machinery operators. But *florícola* workers like the job security, fixed regular income, and proximity to their homes (particularly for women with children), and there is little other work locally. Few positions require formal training or experience; some do not even ask for documents such as resume or police record. More than 83% of employees are at the lowest wage levels (US$100–120), and almost 12% (mostly men) are at $130–200. However, the basic family food basket costs around $360. Over 90% of *florícola* workers work six days a week; some work Sundays too. Without performance incentives, overtime is the only way to "gain something extra". Many also work in farming or other jobs to support their families.

Most local employees work in labour-intensive soil preparation, cultivation and harvesting. Men do the fumigation and greenhouse construction, while more women do plant care tasks. Poorer women with farming experience and low education levels are concentrated in cultivation and harvest tasks. For post-harvest, employers require a basic education, and prefer childless women who can work under pressure at peak times like Valentine's Day, Mother's Day and Christmas.

Flower entrepreneurs say they have brought development to indigenous people and campesinos: an opportunity to enter the world of work, enjoy regular incomes and improve their precarious living conditions. Clearly, employment and better income levels have helped people of the region.

Yet the cut-flower industry has brought many challenges to people's traditional values, health and environment.

Social changes

Large influxes of people from the coast, and also Colombians, to flower-growing areas has led to shortages of housing and services such as water, phone, waste collection, health, social security and education. More road traffic has brought noise, pollution and accidents in the town centre and residential streets. Slums and overcrowding have increased.

Newcomers have also brought different lifestyles that clash with local ways, creating misunderstandings, stress and intolerance. Security concerns have risen with more movement of young people at night; entertainment centres with video games, discos, bars and nightclubs; and promiscuity and crime.

The traditional subsistence economy involves all family members in the agricultural cycle. New social relationships revolve around the workplace, its rhythms dictated by the market. Long hours away from home contribute to family breakdown and unwanted pregnancies. Some workers' children are left alone at home; school teachers report children "arrive dirty, not having eaten, without their homework, and fall asleep in class". Fewer people participate in the traditional work groups, festivals and celebrations that perpetuate Andean social, political and religious culture. There are higher levels of stress and violence.

Health concerns

Achieving fast, high-quality flower production makes significant demands on human and natural resources. Risk factors facing *florícola* workers include:

- contact with toxic chemicals or contaminated items;
- intense, repetitive work pace, sometimes without breaks at peak times; long hours, especially for those obliged to work other jobs;
- exposure to noise and vibrations from pumps and generators;

Some say they will work until they get sick or die

- exposure to UV radiation, humidity and high temperatures in green-houses; severe cold and damp in cool rooms; and inclement weather when working in the open; and
- uncomfortable work postures, such as crouching, bending or standing.

Florícola workers are exposed to frequent use of pesticides, bactericides, fungicides, herbicides, nematicides, and rodent and slug/snail killers. Ecuador's flower export boom has led to increased importation and use of chemicals, many of them prohibited or restricted in other countries, including the highly toxic carbofuran, metomil, dodemorph and methyl bromide. Such chemicals accumulating in the environment, in clothing, or absorbed, inhaled or ingested through the skin, respiratory or digestive tracts can – depending on quantities – cause acute or chronic poisoning.

Some workers say they will keep working "until I get sick" or "until I die". The district health centre in one *florícola* area has reported significant levels of headaches, nausea, sore throats, blurred vision, watery eyes, stomach cramps, osteomuscular problems and fatigue. In one year, for 85 female and 117 male *florícola* workers, there were 403 gastrointestinal, 373 viral, 273 osteomuscular, 90 skin, and numerous eye, respiratory and other complaints.

Workers' vulnerability to contamination hinges on the information and training they receive, use of protective equipment, and the length of exposure to chemicals, dust and mist – most critically, to observance of required waiting periods before entering fumigated areas.

Municipal by-laws, international schemes such as the Flower Label Program (FLP) and Green Seal, and the International Code of Conduct for the Production of Cut Flowers, require that all workers be informed of the risks and receive basic protective gear to reduce them. Surveys of *florícola* workers have indicated that 68% received boots, 51% gloves, 28% masks, 34% aprons, 17% overalls, 17% caps, 6% protective suits, and less than 10% a t-shirt, shirt or sweater; 28% received no protective clothing or equipment but work in their own clothes.

National workplace insurance covers few workers adequately, and few plantation managers permit the presence of trade unions. Some firms provide medical attention for employees.

Environmental concerns

Contaminated work clothes are often washed with the rest of the family's clothing and linen. Empty chemical containers that need special decontamination are used in homes. People use wood and plastic waste from *florícolas* to build or repair homes, shelter their animals or burn as fuel – without realising its contamination levels after 4–5 years of fumigation. Plant wastes are fed to animals or added to compost, thus ending up in food supplies.

Toxic liquid waste also finds its way to people's food crops via discharge to the local water system. Solid waste goes to municipal rubbish dumps, often to be burned in an uncontrolled manner, violating by-laws and safe disposal guidelines.

It is a concern that after a decade of floriculture, adequate alternatives for the disposal of agro-industrial wastes are lacking. Perhaps most insidiously, people copy the use of agro-chemicals without knowing the properties and correct quantities and forms of application; misuse poisons soil, water and people, and ultimately increases pest resistance.

Have the famous qualities of Ecuador's flowers damaged not only these people's health and environment, but also their cultural principle of respect for *Pachamama* (Mother Earth)?

Constructive solutions

World Vision's Area Development Programme assists needy children and families in some *florícola* areas. We do not believe that we should oppose the presence of these businesses; they have improved many people's economic situations. But nor should people have to pay for economic success with their health and future. Flower cultivation should help workers' and residents' well-being as well as regional development.

In seeking to involve all actors in integrated responses to the problems, the ADP has:

- dialogued with local authorities and the *florícola* managers' association in search of alternative solutions;
- co-organised with a municipality a workshop to analyse *florícolas'* impact in ADP areas, present the issues (including the perspectives of management), and share information on hospital cases linked to chemical use;
- raised parents' awareness of the impacts of pesticide use/misuse, and risk prevention (including after-work showering and laundry, and non-use of *florícola* wastes);
- coordinated with a health centre to take workers' blood samples in five *florícolas* – with no opposition from management;
- supported an inter-sectoral committee promoting norms of conduct and joined a district network for environmental alternatives; and
- prioritised rights training and awareness-raising for women, to build self-esteem and support them in their contributions to family and community.

Ideally, workers would have proper risk reduction training; better health and social security coverage, and support services like childcare; and there would be an industry/civil society/worker monitoring system, an independent body to receive complaints, and a strong network to deter reprisals against individual complainants.

A just, sustainable future must be the joint creation of the various actors and sectors present in each micro-region where the cut-flower industry operates. ■

Luis Fernando Jara Ortíz is Coordinator of an Area Development Programme for World Vision Ecuador, and a student in the "Pathways to Leadership" MBA programme.

Commerce – incentive for peace or fuel for war?

Kathy Vandergrift

DIAMONDS…OIL…COCA leaves… All of these and more are now labelled "conflict resources" because their control and exploitation can create, contribute to or exacerbate armed conflict. International trade in natural resources has become a focus of serious attention for those seeking to resolve or prevent conflicts.

Wars have always cost money, and control over natural resources has been a motive for war throughout history. What is currently drawing particular attention is the expanding internationalisation of both legal and illegal trade in conflict resources, and the fact that conflict resources have become a disincentive for resolving conflict.

A local armed conflict is likely to become tied to an international trade within six months

Research in the economies of war suggests that a local armed conflict is likely to become tied into an international network of trade in weapons and natural resources within six months. The result is that wars continue longer, and are fought with more expensive and destructive weapons. Traditional diplomacy is based on the premise that peace is better for all parties. But when powerful economic forces have an interest in a conflict continuing, in order to preserve their access to cheap resources – when war is more profitable than peace – the accepted tools of peacemaking diplomacy become ineffective.

International trade in conflict resources makes people in distant locations complicit in human rights abuses. The campaign against conflict diamonds, for example, linked buying a diamond – a symbol of love – to the killing and maiming of children.

The problem is now on the agenda at the highest levels of international affairs. Stopping trade from fuelling armed conflict was named as a goal at the 2002 G8 meeting. Security Council Resolutions 1379 and 1460 call for states to control legal and illegal trades in natural resources and weapons that result in children being used in armed conflict.

Finding practical solutions

The prospect of a massive consumer boycott resulted in an international diamond certification system. Yet implementation remains a challenge~ and diamonds are just one conflict resource. A comprehensive solution is needed that includes other resources (which may be less vulnerable to boycotts), and curbs belligerents' access to finances while promoting economic development for general populations. Current approaches fall into four categories:

- **Transparency initiatives** see public disclosure as a tool to influence resource flows. The Publish What You Pay campaign would make disclosure a requirement for being listed on major world stock exchanges. The Extractive Industries Transparency Initiative would rely on voluntary disclosure agreements. Transparency is essential, but inadequate as a solution, say most analysts.

- Proposed **codes of conduct** for corporations working in conflict zones include steps to prevent complicity in human rights abuses and negative social impact on conflict-affected people. Models are being developed, though attempts to set standards[1] would have more impact with enforcement or incentives – such as mandatory risk assessments, or tax benefits – and if there were consensus on what "complicity" and "corporate responsibility for human rights" entail. Human rights principles could also be built into trade agreements and contracts between governments and investors.

- **Targeted sanctions** have been used by the Security Council in recent years to cut off access to weapons and finances for war – for example, to stop Liberian forces invading neighbouring countries. Companies involved in the Congo conflict have been censured. Sanctions, however, can inflict unintended harm to people already suffering from war, and tools to enforce targeted sanctions and prosecute "sanctions-busters" are limited.

- **Legal processes**: Some analysts believe existing international conventions on financing of terrorism and transnational organised crime can be used or amended to address conflict resources. Others argue for a new agreement specifically on commerce in conflict. The *Alien Tort Act* in the United States is being used to sue companies for human rights abuses committed in other countries, and similar laws are being advocated in other countries to prevent corporations from engaging in trade that violates human rights or fuels war.

There are positive and negative aspects to each of these solutions; progress is most likely to occur with continuing efforts on all fronts. Civil society groups and governments both nationally and internationally will need to be persistent to ensure that commerce becomes an incentive for peace, not the fuel of war. ■

Kathy Vandergrift is a Senior Policy Analyst for World Vision Canada.

[1]Such as the US–UK Voluntary Principles on Security and Human Rights

PHOTO - KATE SCANNELL / WORLD VISION

Boy soldier, aged 9, holding an AK-47 in the diamond-rich Kono district, Sierra Leone

The dignity and wealth of nations

David Batstone

GLOBALISATION is held up as a dream for lifting the world's poor. So far that dream has not materialised. But it's not too late for globalisation to work. To a great extent its destiny lies in the hands of global corporations: will they practice equitable rules to benefit ordinary citizens wherever they operate in the globe?

I recall my first business start-up. The venture capitalist looked at me straight in the eyes and uttered the words every hungry entrepreneur wants to hear: "I can offer your company a real competitive edge". My partners and I were searching for seed capital to launch our technology company. But we also needed talent – a network of experienced workers that would help us to execute our business plan successfully. So we were keen to learn how this particular investor was going to give us the vaunted "competitive edge".

"I run a sweatshop with more than 300 software engineers in Shanghai," he explained, absent any remorse at his choice of words, let alone his business practice. "We pay them a fraction of what we'd pay to build a technology system here in the United States," he added.

At least the investor was honest, but his choice of words caused me to run the other way. If he had told me that he had a "low-cost labour force" in China, I would have been more open to exploring his offer. Anti-globalisation activists might think that I'm playing a game of semantics, but the distinction matters. "Sweatshop" implies a specific form of diminished opportunity, one that does not guarantee a living wage or other basic rights that respect the dignity of workers. "Low-cost labour force", on the other hand, can entail a perfectly good wage by local standards but offer international competitiveness in labour costs.

I believe our social goals to create wealth should coincide with our ideals of human development. The process is a virtuous circle. Work is sanctified by its contribution to the well-being of others – especially the less fortunate – and the fulfilment of workers increases the wealth of all.

A vanguard of corporations

"A law of indiscriminate profit is being globalised, and by its application all too many corporations contribute to the abuse of human rights in poor countries." This declaration sounds like it came straight off the podium of the anti-globalisation protests that filled the streets of Genoa during the World Trade Organisation (WTO) meeting in 2001. It was an Italian who shared this opinion with me, but he is Riccardo Bagni, chief executive of Coop Italia, one of the biggest commercial enterprises in all of Europe.

Our social goals of wealth creation should match our human development ideals

In 1999, Coop Italia established a system to oversee all of its international purchasing. It works closely with second-party agencies to monitor and verify compliance. For suppliers found operating in violation of its code of conduct, Coop Italia provides intensive training on how they can adopt plans to move progressively toward compliance.

One such incident arose with an African supplier of Coop-brand pineapples. Even though the supplier's corporate parent had signed off on Coop Italia's code of conduct, independent auditors inspecting its plantation in Kenya found major problems. The violations related especially to safety conditions and the workers' right to form a union. At first the supplier denied the audit report, then resisted making changes. Local human rights organisations and the Kenyan government backed the workers and turned up the heat on the fruit producer. Coop Italia helped facilitate negotiations among all the parties, and the supplier made corrective actions.

PHOTO - ILO PHOTO LIBRARY

Factory worker, Brazil

Though many transnational corporations disdain trade unions and human rights groups in the settings where they operate, Coop Italia sees them as allies. Being local, they can alert the company to any serious problems at a manufacturing facility or agricultural plantation. "They are essential partners not only to inform us regarding possible abuses," asserts Riccardo, "but they also connect us to the people who can help to make things right."

The globalisation of labour is a matter of fierce debate these days. As happens in many debates, the extremes grab the spotlight – unrestricted free contract vs. sweatshop exploitation. Fortunately, a vanguard of corporations is showing how positive, long-term partnerships can be built with workers in poor nations to mutual advantage. ■

David Batstone is author of the new book Saving the Corporate Soul and is executive editor of Sojourners magazine (see www.sojo.net/batstone/). In recent years he has been invited to advise major corporations and national governments on a moral response to business operations and economic development.

What's love got to do with it?

Jon Chamberlain

IF YOU ARE LIKE ME, by the time you reach the back cover of a series of articles about corporations in development, you may be experiencing a mild dose of the common head spin. The issues surrounding the role and practices of corporations in development can be quite complex and include: the scale of global poverty and the nature of human development; consumerism and the "free trade" agenda; corporate social responsibility in relation to agricultural trade; affordable access to HIV/AIDS drugs; peace-building mechanisms; and environmental sustainability.

In facing these important issues, as a participant in the corporate process (as a shareholder, consumer, former manager, and civil society participant) in the 21st century, there is one question that for me continues to emerge: What does Jesus' simple message of "love God, love one another" have to do with me and with the corporate process in which I now participate?

Perhaps nothing? Some initial reflections on this are offered in the box below:

What does "love God, love one another" have to do with corporate processes in the 21st century? Perhaps nothing.

Tell those rich in this world's wealth to quit being so full of themselves and so obsessed with money, which is here today and gone tomorrow. Tell them to go after God, who piles on all the riches we could ever manage – to do good, to be rich in helping others, to be extravagantly generous. If they do that, they'll build up a treasury that will last, gaining life that is truly life. (I Timothy 6)

Perhaps more than any of us can imagine.

I came so they can have real and eternal life, more and better life than they ever dreamed of. (John 10)	*Just do it (Nike)* *Life's good (LG)* *'Yes' (Optus)* *Eternity (Calvin Klein)* *Always (Coca-Cola)*
No one can serve two masters… You cannot serve both God and Money. (Matthew 6)	*Almost half the world's population – 2.8 billion people – live on less than the "breadline" of US$2 a day. At the same time, consumerism is a major global cultural force, with 20% of the world's people responsible for nearly 90% of total private consumption expenditure.*
I've told you these things for a purpose: that my joy might be your joy, and your joy wholly mature. This is my commandment, that you love one another. (John 15)	*Recent research findings seem to indicate that the strong growth in rich country real incomes since the 1950s has led to little or no increase in average levels of happiness.*[2]
Love never gives up. *Love cares more for others than for self.* *Love doesn't want what it doesn't have.* *Love doesn't…force itself on others,* *isn't always "me first"…* *doesn't keep score of the sins of others…* *takes pleasure in the flowering of truth…* *trusts God always.* *(I Corinthians 13)*[1]	*Create shareholder wealth* *Short term* *Equity returns* *Global market* *Competition* *Comparative advantage*

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[1]Scripture quotations (John, Corinthians, Timothy) taken from THE MESSAGE. Copyright © by Eugene H. Peterson, 1993, 1994, 1995. Used by permission of NavPress Publishing Group. Scripture quotation (Matthew) taken from *The Holy Bible, New International Version*. Copyright © 1973, 1978, 1984 International Bible Society. Used by permission of Zondervan Publishing House. [2]Ross Gittins, "Happily, we're well off. Sadly, we're just not happy enough", *The Age*, Melbourne, Australia, 4 September 2002 – www.theage.com.au/articles/2002/09/03/1031037088214.html

WORLD VISION is a Christian relief and development partnership that serves more than 85 million people in nearly 100 countries. World Vision seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation.
Children are often most vulnerable to the effects of poverty. World Vision works with each partner community to ensure that children are able to enjoy improved nutrition, health and education. Where children live in especially difficult circumstances, surviving on the streets, suffering in exploitative labour, or exposed to the abuse and trauma of conflict, World Vision works to restore hope and to bring justice. World Vision recognises that poverty is not inevitable. Our Mission Statement calls us to challenge those unjust structures that constrain the poor in a world of false priorities, gross inequalities and distorted values. World Vision desires that all people be able to reach their God-given potential, and thus works for a world that no longer tolerates poverty.

BACK COVER : Young girl collecting scraps in garbage dump, El Salvador **PHOTO BY** :STEVE REYNOLDS / WORLD VISION

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