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UNIDO PARTNERSHIP WITH PRIVATE BUSINESS



Rationale, Benefits, Risks and Approaches

Proceedings of an Expert Group Meeting
held at the Vienna International Centre on 30 and 31 October 2000



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
economy environment employment

UNIDO PARTNERSHIP WITH PRIVATE BUSINESS

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna, April 2001

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Foreword

by Carlos Magariños

Director-General of UNIDO



During the past few years, the business community has increasingly come to be recognized as a leading agent of economic and social development in general, and industrial development in particular. This has given rise to a growing appreciation by both multi-lateral and bilateral development organizations of the need to enter into partnerships with private enterprise as a means of mutually reinforcing their respective activities. It is in this spirit that the Secretary-General of the United Nations, Mr. Kofi Annan, has launched the Global Compact, and that numerous sister organizations within the UN system and national development cooperation agencies in the donor countries have established various forms of public-private partnership programmes.

I am pleased to say that UNIDO has been at the forefront of these efforts to create development-oriented partnerships with the business community. Soon after assuming office in December 1997, I declared that working with the private sector would be one of my highest aspirations and priorities. Within a year we had initiated a pilot project to develop the automotive component industry in the Western Region of India through a multi-sectoral partnership bringing together FIAT, INSEAD, the Prince of Wales Business Leaders Forum, the Automotive Component Manufacturers Association of India (ACMA), the Automotive Research Association of India (ARAI), the Government of India and UNIDO. In the meantime, this very successful pilot project has been extended to cover the Southern Region as well, and new corporate partners, including Ford and Ashok Leyland, have been brought into the fold. In addition, a number of other partnership projects have been initiated, including a project on electronic supply chain management in the Mercosur region (to be undertaken jointly with Ericsson) and a project on the

development of the two and three wheeler industry in Nigeria (to be undertaken in cooperation with the Indian firm Bajaj).

Having gained valuable insights into the strengths and weaknesses of such a partnership approach to development cooperation through these operational activities, UNIDO has begun to take steps to formalize a conceptual framework to guide the programme in the future. To supplement the lessons learned from its own experiences, UNIDO hosted an Expert Group Meeting on 30-31 October 2000 to draw on the experience and expertise of a wide range of researchers and practitioners in the field of industrial development, from both the public and private sectors. Over the two days of the Meeting, the participants offered very informative presentations on the scope for collaboration between the United Nations and the business community, the role of public-private partnerships in economic and industrial development, the activities of TNCs in SME development through their supplier and vendor development programmes, and the potential contribution of official development agencies to the integration of developing-country SMEs into global value chains.

These presentations, and the lively and instructive discussions to which they gave rise, are summarized in this document. As such, it offers a valuable contribution to the still embryonic but increasingly topical debate on the rationale, benefits, risks and approaches of partnerships with the business community in development-related activities.

A handwritten signature in black ink, reading "Carlos Magariños". The signature is written in a cursive, flowing style.

Carlos Magariños

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WERE ORIGINALLY BLANK**

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1 Introduction

1.1 The background to the Expert Group Meeting

1.1.1 The UN and partnerships with private business

The leading role of the private sector in economic development in general, and industrial development in particular, has become more pronounced during the past decade due to the poor results of public sector-led development strategies and the redefinition of the role of the state from an agent of economic planning to a provider of an enabling environment.

Through the rapidly advancing processes of globalization and market liberalization, international flows of private capital have increased sharply in recent years. While the bulk of these flows has remained confined to the developed regions of the world, there has nevertheless been a dramatic increase in the flow of private capital to the developing and transition economies since the early 1990s. Foreign direct investment (FDI), which accounted for 20 per cent of all financial flows from developed to developing countries in 1991, accounted for almost half of these flows in 1998.

In this changing global environment, linking its own limited resources to those of private business has become a strategic necessity for the UN development system. Clearly, the reasons for such a linkage extend beyond the issue of funds: partnerships with the private business sector can help to leverage UN development efforts by enhancing access to markets, technologies, and specialized expertise. In this broader perspective, fostering UN/business cooperation becomes an issue of effectiveness and

impact; it turns into a question of sustainability of development cooperation efforts within the market logic.

The business community has also begun to recognize the potential benefits of such partnerships. This partly reflects a growing need of large transnational corporations (TNCs) to respond to social pressures and demands for greater accountability to diversified groups of stakeholders. Increasingly, major TNCs are now complementing conventional indicators of financial profitability with indicators accounting for environmental sustainability and social responsibility, giving rise to the concept of the 'triple bottom line'.

Corporate social responsibility can be tentatively defined as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society as large'¹. Its key dimensions are thus related to human rights, decent work conditions, environmental protection, community involvement, and supplier relations. It assumes established procedures allowing continuous monitoring and reporting to all stakeholders. Partnerships between business and those affected by its operations are an integral element in this new inclusive approach to corporate strategy making.

¹ World Business Council for Sustainable Development (WBCSD), Stakeholder Dialogue on CSR, The Netherlands, 6-8 September 1998.

This gradual convergence of interests between public-sector development agencies and the corporate world is giving rise to a growing emphasis on public-private partnerships (PPPs) as a vehicle for promoting economic and social development, from the local to the international level. In the creation of the framework conditions for economically, socially and environmentally sustainable global development, UN agencies can play a particularly important role.

1.1.2 The Global Compact

The Secretary General of the United Nations has frequently expressed his strong commitment to the development of partnerships with the private sector. The Global Compact, launched in 1999, is a UN-sponsored platform for promoting good corporate practices in the areas of human rights, labour and the environment. It provides a basis for dialogue between the UN, business, labour and civil society on improving corporate practices in the social arena and can become an effective instrument for fighting the negative consequences of globalization. The basic philosophy of the Global Compact is reflected in the UN's Millennium Declaration, adopted by the UN General Assembly in September 2000, which emphasizes the need to ensure that globalization benefits all the world's people.

The Global Compact is not a code of conduct; monitoring and verification of corporate practices do not fall within the mandate or the institutional capability of the United Nations. It does not ask companies to take over the responsibilities of governments. But neither can it be used to shield business from criticism. On the contrary: it highlights the global citizenship qualities of corporations and opens up opportunities for a focused, constructive dialogue.

The Global Compact is rooted in the Universal Declaration of Human Rights; the ILO's Fundamental Principles and Rights at Work; and the Earth Summit – Agenda

21 principles on the environment. Its Nine Principles are:

- **Human rights**
 - 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
 - 2 Make sure they are not complicit in human rights abuses.
- **Labour**
 - 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 - 4 The elimination of all forced and compulsory labour;
 - 5 The effective abolition of child labour; and
 - 6 Eliminate discrimination in respect of employment and occupation.
- **Environment**
 - 7 Businesses should support a precautionary approach to environmental challenges;
 - 8 Undertake initiatives to promote greater environmental responsibility; and
 - 9 Encourage the development and diffusion of environmentally friendly technologies.

Participation in the Global Compact implies that a firm should:

- Issue a clear statement of support and engage in public support for the Compact;
- Post a concrete example of progress made and lessons learned on the Global Compact website² once a year;
- Undertake activities that further the realization of the principles in partnership with UN organizations.

Globalization is a fact of life. But I believe we have underestimated its fragility. The problem is this: The spread of the market outpaces the ability of societies and their political systems to adjust to them, let alone guide the course they take. History teaches that such an imbalance between the economic, social and political worlds can never be sustained for very long.

Kofi Annan

² The UN's website which brings together activities, issues and information related to the Global Compact is www.unglobalcompact.org.

1.1.3 Partnerships in manufacturing and the role of UNIDO

Globalization brings new challenges as well as opportunities to manufacturing enterprises in the developing and transition economies. Macro-economic stabilization and an effective institutional architecture are not sufficient conditions for ensuring the prosperity of their industrial enterprises. The key constraints to the growth of small and medium enterprises (SMEs) in particular are imposed by their limited ability to access and absorb the know-how that will allow them to meet the demand of today's markets.

Partnerships with international corporations are one way to overcome these constraints. TNCs can provide the financial, technological and management resources to help developing country enterprises raise their competitiveness and gain access to new markets. For UNIDO, with its mandate to support industrial development in developing countries and economies in transition, it is therefore logical to bring transnational corporations into the ambit of its activities and promote such partnerships.

UNIDO's relations with business have hitherto mainly been linked to the recipient countries of aid; there were few partnerships with globally operating corporations from OECD countries or global business organizations. This pattern is changing. A novel partnership was concluded in 1998 with FIAT S.p.A. to promote the automotive components industry in India (see Section 2.2.1). In November 2000, a partnership was concluded with Ericsson Consulting to explore issues in the field of information technology applications for industry in the developing countries. Other initiatives, partly at the conceptual stage, include:

- A partnership programme for environmentally sound two- and three-wheeler vehicles in Nigeria;
- Linking technical cooperation and private equity funding in Africa;

- Electronic supply chain management for manufacturing SMEs in the Mercosur area;
- A programme to encourage exporters in South Asia to adopt the 'triple bottom line' approach.

This is not the place to discuss the details of these initiatives; the brief descriptions make it clear that they cover developmental, social and environmental issues. UNIDO, in other words, is not just a passive supporter of the Global Compact. Because of its worldwide practical experience with industrial development and its approach to development that aims at integrating competitiveness, employment and environmental issues in a sustainable manner, the organization is actively helping to realize the Compact's principles as well as the goals set by the Millennium Declaration.

UNIDO is aware that partnerships with private enterprise entail risks. There are two main types of risk:

- Different basic philosophies. UN agencies may have become more market oriented, but the common good and not the market remains the final determinant of their development objectives. The triple bottom line notwithstanding, the first objectives of private enterprises are profit maximization and shareholder value.
- UN agencies must maintain a high degree of neutrality and remain honest brokers. It is feared by some that the partnerships will result in undue private-sector influence and will weaken drivers of corporate responsibility such as government regulation, collective bargaining and certain forms of civil activism. In addition, it has been pointed out that there is no independent monitoring of the implementation and results of partnerships.

1.2 The objectives and structure of the Expert Group Meeting

To ensure that the development impact of partnerships with the private sector is maximized and to avoid the risks, UNIDO is formulating guidelines for global partnerships (see Section 2.4.1). The preparation of such guidelines and of a conceptual/analytical framework for partnerships can benefit from the experience and expertise of others in the field of industrial development. With this purpose in mind, UNIDO's Private Sector Development Branch (PSD) organized an Expert Group Meeting at the Vienna International Centre on 30-31 October 2000. The Meeting helped to intensify contacts with major practitioners and researchers in the public and private sector, and has established UNIDO as a major participant in the research and debate on operational and conceptual issues related to public-private partnerships for development.

The topics selected for discussion at the Meeting were:

- The rationale for public-private partnerships in promoting industrial development;
- The benefits and risks of such partnerships for each partner;
- The approaches to be adopted by UNIDO in establishing and sustaining partnerships with private business.

The different issues were addressed in four sessions, each session consisting of a series of presentations followed by discussions.

Session 1 of the Expert Group Meeting set the scene by highlighting some major consequences of the acceleration of the process of globalization during the 1990s, especially for the developing and transition economies. The session also assessed the impact on industrial development of particular supplier and vendor development programmes of TNCs, with presentations by several leading international corporations on their respective supplier/vendor development programmes

and their evolution in response to the globalization process. They also shed light on the (potential) role of public-private sector partnerships in this particular context.

Session 2 discussed the issue of the contributions that public-private partnerships can make in more detail. Specifically, the session looked at the benefits of such partnerships for (i) enhancing the developmental impact of classical supplier/vendor relationships established by international corporations with developing-country SMEs; and (ii) extending the sectoral and geographical scope of these relationships by helping to create conducive business environments. They addressed these benefits in both conceptual and empirical terms and provided case studies of specific partnerships linking national, multilateral and bilateral development agencies with the private sector.

Session 3 focused on the possible challenges associated with the establishment and maintenance of public-private partnerships, both on a general policy level and with regard to the need to reconcile the different, and potentially divergent, expectations and requirements of the individual partners and other stakeholders. The presentations included a review of policy-level issues and the risks of such partnerships, and also covered the issue of appropriate selection criteria for business partners. In addition, representatives of several business organizations were given an opportunity to present their interests and expectations.

Session 4 addressed the issue of guidelines to be adopted by UN organizations to ensure that partnership programmes with private business are appropriately formulated and can be successfully implemented. The Session included presentations by representatives of organizations that have already established firm guidelines for this purpose and an introduction of the draft Guidelines for Business Partnerships being prepared by UNIDO.

2 Proceedings

2.1 October 30 Session 1: The context

2.1.1 Presentations

Mr. Wilfried Lütkenhorst

Director
Private Sector Development Branch
UNIDO

The relationship between the UN and business is no longer antagonistic; both parties have found a common ground for action, as demonstrated by the support of the international business community, national business associations and individual TNCs for the Global Compact. With regard to UNIDO, the relationship with enterprise has moved far beyond the procurement of expertise and equipment for projects to joint design and implementation of projects, such as the partnership with the automotive component industry in India (see the presentation by Mr. Kai Bethke in Section 2.2.1).

The basic characteristics of a successful partnership are:

- Agreement on joint objectives;
- A collaborative relationship to achieve the objectives, with a clear definition of roles;
- Shared responsibility and accountability for the outcomes.

In addition:

- The partnership must be an instrument, not an end in itself;
- The benefits should exceed the costs; and
- The benefits must be shared fairly.

For UNIDO, the incentives for partnerships with business are in:

- Linking up UNIDO programmes with commercial activities in developing and transition economies, enhancing their developmental impact;
- Generating additional resources for projects;
- Access to technical and managerial expertise.

One problematic issue is that commercial activities tend to concentrate on the more dynamic and advanced developing countries; a major challenge for UNIDO will be to ensure that industry in the least developed countries also benefits from international partnerships.

For private enterprise, the incentives would be:

- The positive image of working with the UN system and adopting its globally accepted norms and standards;
- Access to the UN's global information networks;
- Better access to policy makers and key institutions.

Mr. Andreas Blüthner

Trade Law Adviser
BASF AG

The successful implementation of the principles of the Global Compact will lead to win-win situations. But this requires a cooperative attitude among partners rather

We do believe that linking TNCs and SMEs is a very powerful mechanism to ensure that the globalization process and foreign investment are firmly rooted in the domestic economies.

Wilfried Lütkenhorst

We have to search for synergies, win-win situations and solutions instead of ideology, redeployment and confrontation, guided by the spirit of the Global Compact.

Andreas Blüthner

than a confrontation of different development philosophies. The areas where TNCs could make a contribution are:

- Foreign direct investment resulting in technology transfer and employment generation, increased competitiveness of firms and of the country as a whole, and contributing to a country's national product;
- Promotion of best practices in the fields of efficient production, environmental protection and employment. (BASF, as a key enterprise in the chemical industry, participates in the industry's Responsible Care Initiative.)

In the specific area of supply chains, the basis for a sustainable partnership is a solution-oriented dialogue between the partners. TNCs can contribute to the introduction of Global Compact principles by helping to address:

- Unsafe working conditions in SMEs;
- Violations of human rights (which can have a negative impact on business, for example if discrimination results in the sub-optimal use of labour skills, or if the use of child labour leads to consumer boycotts).

UNIDO ought to play a stronger role in the Global Compact because of the organization's well-established relations with the private sector and its worldwide experience with projects in different cultural settings, involving different economic and social actors. UNIDO's deeper involvement could help improve cooperation among the UN's specialized agencies, stimulate the adoption of higher labour standards, etc., by SMEs, and strengthen the UN's impartial status as an honest broker.

Mr. Josef Schleicher
Director
International Affairs and Public Policy
DaimlerChrysler AG

For DaimlerChrysler AG, social and economic aspects of business operations are

intertwined. Peace, democracy, culture and sports contribute as much to the well-being of people as economic growth, and are therefore essential for creating a high-quality labour force and strong markets for consumer goods. Being a car producer, environmental issues are also a serious concern for the firm. The firm fully supports the Global Compact and has a strict code of conduct.

Practical activities resulting from the firm's philosophy include, among others:

- The Global Road Safety Partnership, concerned with road safety for children and with programmes in a number of developing and transition countries;
- Participating in the Clean Air Initiative, with the Global Environmental Facility, to improve the air quality in the megacities of Brazil, Mexico, Egypt, India and China;
- Fuel Cell Technology development, which is to result in zero emission engines;
- Development of manufacturing processes which minimize resource use and are environmentally friendly.

The firm also assists small suppliers in increasing efficiency and competitiveness through the Special Supplier Relations Department.

UNIDO could make a major contribution in the field of industrial human resource development: successful integration in a supply chain requires that SMEs have a well-trained labour force and competent managers.

Mr. Pascal Roger
Senior Vice President for International Affairs
Groupe Suez Lyonnaise des Eaux (SLdE)

SLdE's core business is related to energy and water supply, communications and waste services, and half of its business is international. There are three reasons why it has joined and supports the Global Compact:

- The services provided by the firm meet basic human needs;

Building globally competitive products and offering future-oriented services requires the use of the unique talent of every employee in our workforce.

Josef Schleicher

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- Through its international presence, the firm is confronted with many globalization issues;
- Public-private partnerships are an integral part of its business.

The type of services provided commit the firm to human, social, environmental and ethical responsibilities: it has taken charge of water and waste in a number of major cities in developing countries; it has institutionalized a worker/employer dialogue; it adheres to the principles of good governance and transparency; and while environmental responsibilities are evident given the nature of its work, SLdE also undertakes research on climate change and renewable energy.

The partnerships in which SLdE is involved are based on a Delegated Management System under which the public sector retains ultimate control over public services. A successful public-private partnership requires transparency, financial sustainability, a balanced allocation of responsibilities and flexibility, and needs to be well prepared (a hasty decision to join forces with the private sector to improve an ailing service is likely to lead to trouble). Such public-private sector partnerships can make a great contribution to meeting basic needs by:

- Helping to overcome limited public-sector investment capacity;
- Reducing costs through greater efficiency;
- Facilitating the mobilization of external expertise;
- Increasing motivation, stimulating training and job mobility for staff in utilities;
- Establishing a client-centred approach in these services.

Globalization leads to defensive and even hostile reactions among many people, and there is a real risk of increasing the gap between rich and poor. On the other hand, the process is irreversible and does have a positive effect on worldwide economic growth. In order to ensure that positive attitudes towards globalization prevail, TNCs

must assume corporate social responsibilities. In the case of SLdE, this means using its expertise in public health related (sanitation and water supply) issues to contribute to the objectives of the Global Compact.

Mr. Sujit Chowdhury

Secretary-General
World Summit of Young Entrepreneurs

The World Summit of Young Entrepreneurs was created in 1993. The Seventh World Summit of Young Entrepreneurs, held in September 2000, was supported by UN agencies, UNIDO among them, and a number of TNCs. Over 360 young entrepreneurs from 97 countries took part in the event, which included training sessions and opportunities for direct business contacts. The event was covered extensively by printed and electronic media. The Seventh Summit resulted in 123 joint ventures.

The diagram on page 8 shows which expectations the young entrepreneurs had of these joint ventures. The creation of new jobs clearly ranked first, before increased sales and technological upgrading. Although job creation is not possible without increased sales and although this is the view of a small sample of entrepreneurs, it should be kept in mind, when discussing the benefits of TNC-SME partnerships, that the latter have their own priorities, which are not necessarily those of the larger partner or the agency supporting the partnership.

The Summits are not restricted to those who can physically attend them. An Internet portal and an online Virtual Trade Show allow full participation from anywhere in the world; the latest tool is an interactive learning programme on joint venture opportunities. These help to reduce thresholds and ensure wide representation: 30-40 per cent of participants in the summits are women. Apart from promoting business-business cooperation, the Summit has also established a dialogue on the concerns of young entrepreneurs with governments and multi-lateral and financial organizations.

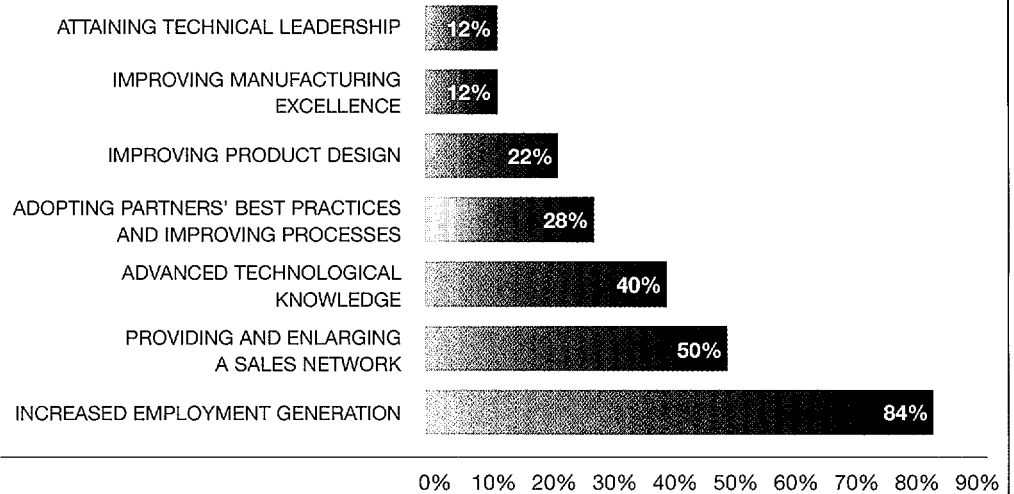
The real challenge today is to have a clear sharing and understanding of the responsibilities of the private and public sector so that everyone can mobilize the best of their competences.

Pascal Roger

The Global Compact must not rest as a Global Compact, but must also be a National Compact.

Sujit Chowdhury

Anticipated benefits foreseen by entrepreneurs after engaging in joint ventures



There are a number of benefits of UN-private sector cooperation from the perspective of the challenges faced by young entrepreneurs. These may be summarized as follows:

- Removal of macro-economic and regulatory obstacles;
- Better institutional support capacities (among others for management training and entrepreneurship development);
- Better integration of the informal sector into the mainstream of the economy (e.g. by facilitating access to financial resources);
- Creation of platforms for information sharing and networking.

Mr. Hubert Schmitz

Professor
Institute of Development Studies

Globalization has opportunities and dangers. The danger is becoming locked in a 'race to the bottom' by trying to compete on the basis of low wages, labour and environmental standards; the opportunities lie in upgrading of products, processes, etc., and in repositioning a firm in the global economy. To be a winner in the globalization process, the size

of a firm does not matter; what matters is being part of the right network (which needs not always be global). The key question then is: what does a firm have to offer to its partners? The next question then is: do TNC-SME partnerships help to upgrade SMEs?

Upgrading can take four forms:

- Process upgrading;
- Product upgrading;
- Functional upgrading (improved design, etc.);
- Inter-sectoral upgrading (using existing competence to move into new activities).

In addition, a TNC-SME relationship can have beneficial effects with regard to social (labour) and environmental standards.

In global value chains, it is possible to distinguish between two main types: producer-driven chains and buyer driven chains; the technologically more sophisticated industries are predominantly found in the former category (see Table 1 opposite).

In both cases, there are opportunities for SME development through process and product upgrading. Functional upgrading is

It is not the large TNCs that are the winners and the local SMEs that are the losers of globalization; in fact, the losers are likely to be the isolated enterprises and the winners those that are well connected and belong to networks.

Hubert Schmitz

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unlikely, as the lead firm will control design and marketing (the profits, nowadays, are not so much in the material product as in the intangible qualities added to it). Indirectly, the general stimulating effect of a partnership may enable an SME to graduate to successful designs for domestic or regional markets (South-South cooperation may also make it easier for SMEs to develop in this respect). Inter-sectoral upgrading can take place as skills and know-how in subcontracting SMEs grow; but it will not normally be an explicit objective of the lead company.

The overall message is that the development effects of a partnership will rarely be such that an SME in a developing country can venture independently into global markets for high-value products; however, the long-term learning effects must not be underestimated, and these may help the SME sector in developing countries reach a critical level from which they can graduate to sophisticated products for world markets. For this to happen, it is essential that SMEs do not become locked into a relationship with a single TNC; rather, they should explore the development potential of different partnerships in different sectors.

UNIDO can play an important role in helping SMEs to benefit from global value chains by:

- Preparing self-help materials (guide books, videos);
- Providing policy advice on involvement in global value chains and the strengthening of domestic value chains;
- Advice on avoiding lock-in;
- Involving global firms in technical assistance projects;
- Exploring the possibilities of e-business partnerships through infomediaries;
- Clearly defining its role in international partnerships vis-à-vis other UN organizations.

Ms. S. Y. Foong

Purchasing Director
Intel Technology Sdn. Bhd.

Intel Malaysia is a producer of microprocessors, motherboards and other key components of computers. It works with a large supplier network; 65 per cent of the firms are now Malaysian. Intel's procurement needs range from IT supplies to packaging materials. Over the years, the complexity of

Table 1: Differential characteristics of producer-driven and buyer-driven value chains

| Characteristics | Producer-driven chains | Buyer-driven chains |
|-------------------------|---|--|
| Driver of global chains | Industrial capital | Commercial capital |
| Core competencies | R&D; production | Design; marketing |
| Sectors | Consumer goods, intermediate goods, capital goods | Consumer non-durables |
| Typical industries | Automobiles, computers, aircraft | Apparel, footwear, toys |
| Ownership | Transnational firms | Local firms, predominantly in developing countries |
| Main network links | Investment based | Trade based |

We believe in being a good corporate citizen wherever we operate, and to develop the technological capacities of our suppliers in collaboration with government and other supporting bodies. Our ultimate goal is to develop our SME suppliers to a point where they are no longer SMEs.

S. Y. Foong

the operations entrusted to subcontractors has continuously increased.

In selecting a potential supplier, Intel looks for:

- Competitiveness of products (quality, price, delivery, safety);
- Capability (technical, material, process);
- Stability (long-term enterprise vision, financial);
- Resourcefulness (management, human resources, staff training).

To ensure top quality in all procurement areas, Intel is running a Supplier Development Program for existing and new suppliers. This programme, carried out in cooperation with other Malaysian training initiatives, is based on the SMART approach of incremental improvement. SMART stands for:

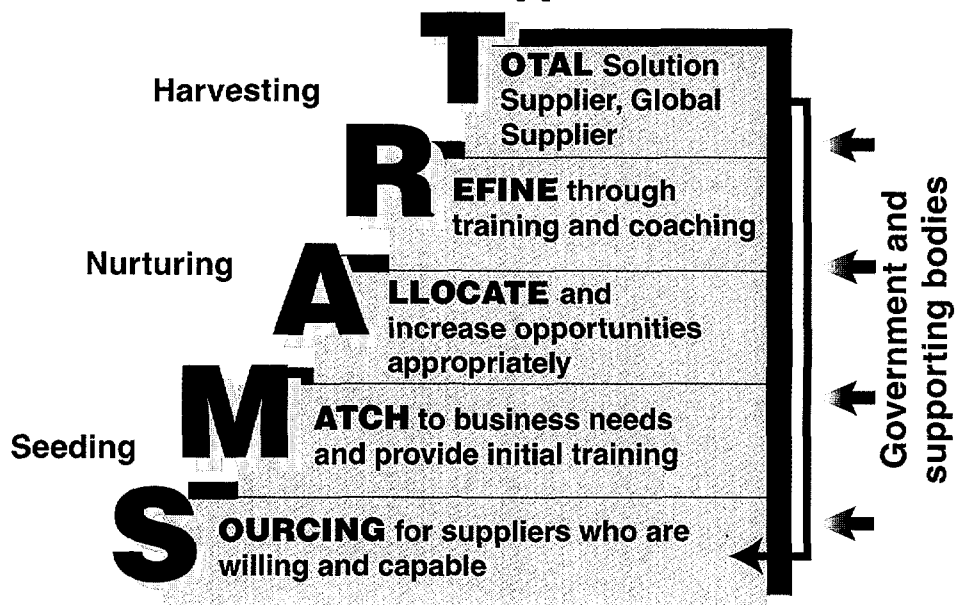
- Sourcing for suppliers who meet its criteria;
- Matching support to the requirements of the project in which the subcontractor is involved and provision of initial training to new suppliers;

- Allocating new opportunities to subcontractors whose capabilities have improved;
- Refining (continuous improvement) through training and coaching;
- Total solutions that subcontractors will eventually be able to supply, even at a global level.

The company also encourages the localization of production, the participation of domestic suppliers in its international projects, and even their search for other partners, domestically and internationally.

Intel works with the Malaysian Government and various support institutions, which play an essential role in ensuring the success of Intel's efforts to strengthen the supplier base through effective policies and a good business environment, a well-developed educational and training system, good infrastructure, financial and fiscal support measures and promotional activities such as trade missions. A Community Advisory Panel composed of key stakeholders has been established to ensure continuous feedback.

Intel's Supplier Development Model 'SMART' Approach



2.1.2 Discussion

Much of the discussion centred on the *Global Compact*. Is it really something that opens up new perspectives on development, or just a framework for 'repackaging' existing UN priorities? It was felt by some that the direction and objectives of this initiative should be defined more closely in consultation with the corporate sector, to ensure that it receives wide support from private business. On the other hand, the fact that nearly 50 companies attended the meeting at which the operational phase of the Compact was launched indicates that business is increasingly accepting corporate social responsibility for global development. This is also underlined by the endorsement given to the platform's objectives by 19 Asian employers' organizations at the 5th Asia-Pacific High Level Employers' Conference in October 2000. The larger the number of firms participating in the Global Compact, the more other enterprises will be stimulated to follow their good example.

What are the *TNCs' reasons for participating* in initiatives like the Global Compact? Social stability is a long-term business interest. The Compact supports the efforts of TNCs to integrate social and environmental criteria in their partnerships with local subcontractors; it will also help to promote consensus-building as well as international networking on these issues. The use of the Global Compact website to display best practices and successes will not only make good examples available worldwide on a continuous basis, but also raise the public profile of corporations. Promoting the Compact's Principles through concrete action on a project-by-project basis would demonstrate that it is not a straitjacket for corporate conduct. In the long term, the Principles should become part of normal business ethics through a gradual process.

With regard to the *role of individual UN organizations* in promoting the Compact, it was suggested that all UN organizations should take the lead in promoting the Compact wherever it would be the logical

choice in a concrete situation. This would imply more active involvement of the specialized agencies. Because of its technical expertise and practical orientation, UNIDO could in many cases be involved in Compact implementation projects. As the UN's industrial development organization, UNIDO would also be well placed to assess the effectiveness of TNC partnerships with developing countries and their firms from a Compact perspective.

Another major theme of the discussion was the *development impact of TNCs on their suppliers*. Is functional upgrading really impossible? Two cases illustrating the opposite were mentioned: a Philips subcontractor in Malaysia has established itself as a major Philips contractor in Hungary, and Motorola has shifted design capacities to SMEs in Malaysia. The fact that Malaysia was mentioned is no accident. TNCs will usually look for suppliers among the more advanced SMEs in the more advanced developing countries; know-how transfers must be profitable to the investing firm. Barriers to functional upgrading are likely to be lower in such countries, where TNC-SME interaction may result in the growth of a critical mass of know-how and a business culture allowing a next generation of firms to enter world markets. Functional upgrading must therefore be seen in a time perspective as well.

The effects of upgrading are also likely to differ among industries within the two basic categories mentioned in the presentation of Hubert Schmitz. In addition, corporate philosophy, a country's business environment and Government support are crucially important for creating a climate in which TNCs will promote innovation in SMEs. Finally, external support to SME groups can play a role, as several UNIDO projects in Latin American and other countries have shown.

Apart from business development aspects, the *social aspects of TNC-SME relations* were discussed. TNCs can help subcontractors to revise their codes of conduct, but should take great care not to impose such

codes. This is often resented by local SMEs and their workforce alike – partly as a result of the unequal relationship, partly because of the fact that not all TNCs invest sufficient resources in the SMEs to make it possible for them to comply. Codes of conduct in agricultural value chains have been known to result in farmers leaving such chains

because their circumstances did not allow them to comply with, for example, child labour codes. TNCs should therefore try to improve human rights by demonstration rather than by imposing norms. In this connection, it is also important to find ways of working with NGOs, which are often critical of TNCs.

2.2 October 30

Session 2: Enhancing the developmental impact of TNC-SME partnerships through the participation of public-sector development agencies

2.2.1 Presentations

Mr. Kai Bethke

Technical Adviser
Private Sector Development Branch
UNIDO

‘The main idea of the UNIDO Partnership Programme has been to develop an alternative model for delivering technical cooperation because the classical relationship between donors, national governments and multilateral implementing agencies does not meet the needs of SMEs entering into global value chains.’

Kai Bethke

The Partnership Programme Approach has been developed by UNIDO to serve as a model for economically viable and sustainable technical assistance that would focus on quality, efficiency and international competitiveness. Within the sector targeted, the approach seeks to achieve:

- Technological and managerial learning effects;
- Increased domestic resource use in production;
- Increased productive employment and incomes.

A Partnership Programme project will address problems of SMEs in specific industries in an integrated way. A multi-disciplinary project team in which all key players are represented ensures that the strengths of each partner are used to develop effective and sustainable solutions. Specifically, the contributions made by the different partners are:

- Engineers from TNCs: design, implementation and guidance of training in SMEs and of local engineers;
- Host Government: political endorsement, financial support, national ‘ownership’;
- Research institutes/universities: expose SMEs to best practices, technical training, enterprise diagnoses;
- Business associations: information on target sector, help create sustainable national support services;
- NGOs: ensuring that issues like sustainability are properly addressed in international investments;
- UNIDO: identification and negotiation of agreements between partners, central information node, expertise on SME development.

The diagram opposite summarizes the approach adopted by the UNIDO Partnership Programme to achieve the desired developmental results by combining the different strengths of the various partners.

The first project being realized under the Programme is the Partnership Programme for the Automotive Component Industry in India, initiated with FIAT S.p.A. in 1998. Other participants in the programme include the Government of India, the Automotive

Research Association of India, the Automotive Components Manufacturers Association of India, the Prince of Wales Business Leaders Forum, the European management school INSEAD, as well as other business partners including Ford, Ashok Leyland, and Sundaram-Clayton Ltd.

The overall aim is to instill a culture of continuous improvement in SMEs covered by the programme, through intensive shop floor training, seminars and workshops, and study tours. In the first phase, the focus is on making SMEs more efficient by eliminating waste through the introduction of productivity indicators and raising awareness/know-how of waste and quality management, etc. In the second phase, social and environmental concepts are introduced in the firms. So far, the participating firms have recorded the following average improvements directly related to production:

- Reductions of one third in material use and lead times for tooling up;

- More effective use of shop floor space (gains of 45 per cent);
- Machine down time reduced by 60 per cent;
- Reduction of rejection rates by 92 per cent;
- Reduction in throughput time of 25 per cent;
- Turnover increases of 40 per cent;
- Reduction of absenteeism: 39 per cent.

In addition, improvements have taken place in areas such as financial management, and a general change of mind set in the firms has been noted.

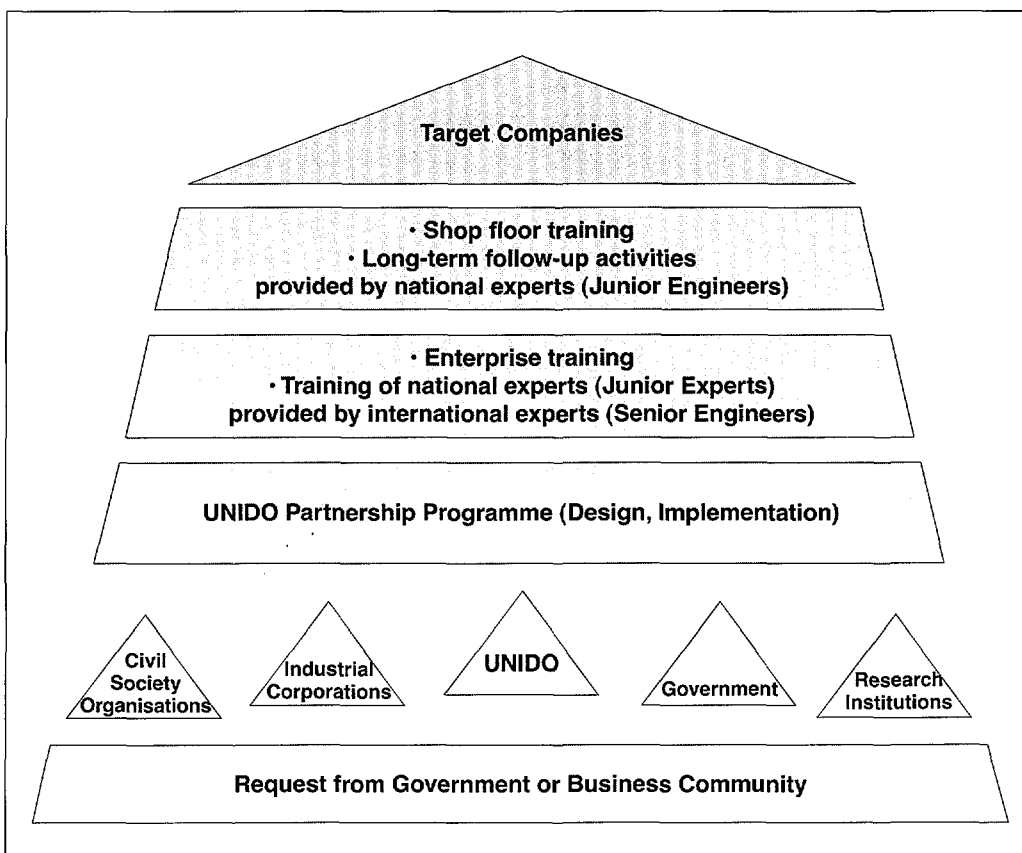
Mr. Jean-Pierre Brouquil

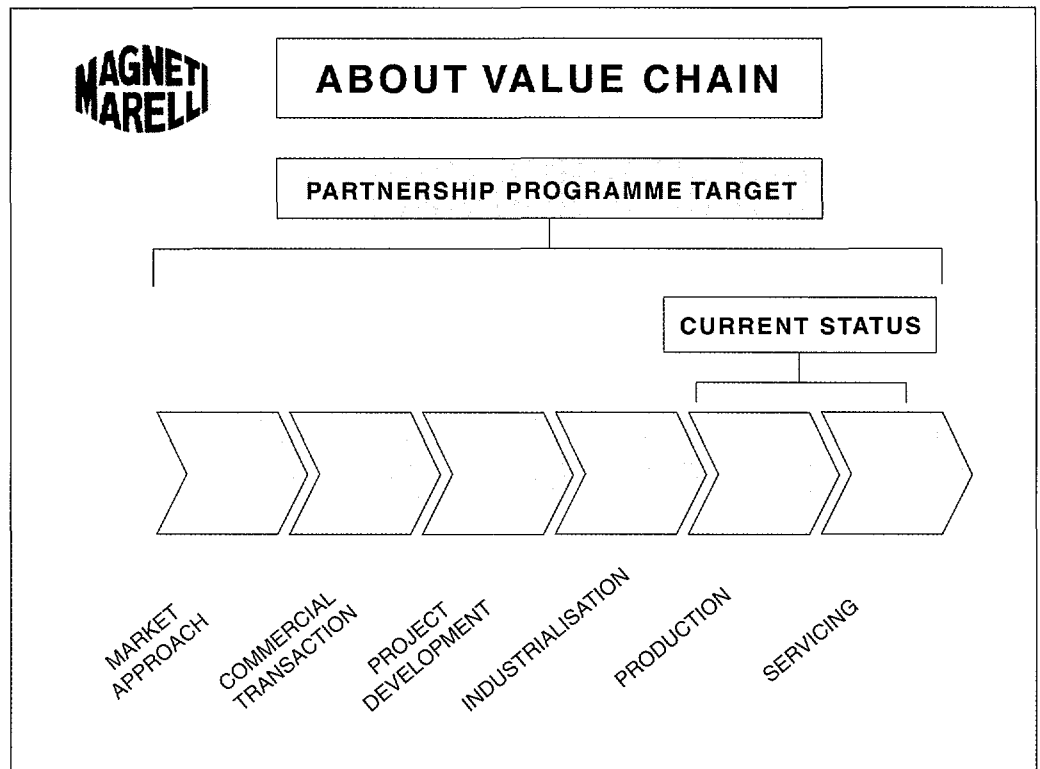
Director
International Business Development
Magneti Marelli

Magneti Marelli, a FIAT subsidiary, is a leading automotive component producer with 52 plants worldwide. In the experience

Lengthening the value chain is a must in our job – we must externalize our technologies and service, but this is only possible if the industrial environment is structured enough to be able to absorb this externalization.

Jean-Pierre Brouquil





of this firm, global sourcing is not fully possible because of administrative, customs and tax barriers; local sourcing is therefore a prerequisite for operations. Partnerships between TNCs and public-sector agencies are a new approach to developing supply chains with local firms. Public sector agencies can help to facilitate the spread of the development effects of TNC-SME linkages and the dissemination of effective models of TNC-SME cooperation.

Partnership programmes should cover the whole value chain. At present, they focus on production and servicing, but the programmes can also have an important developmental effect by building up an enterprise's vision of the future, helping to identify its core business and increasing its managerial expertise. While SME development through partnerships needs a structured approach, it will always be an empirical, heuristic process. Through support services covering all key enterprise aspects, an SME can become a valuable specialist in a value chain; care should however be taken not to become overdependent on operating within one value chain.

In the FIAT Group, the dissemination of know-how to local SMEs involves:

- Implementing a Vendor Development Programme Package (VDPP) that reflects the multicultural character of the TNC (this is essential to make it workable);
- Supporting the implementation of the VDPP by training and employing local experts, ensuring an understanding of the business culture of the country;
- Showcasing participating companies and disseminating the experience (this is for example being done in the India programme).

The rapid growth of e-commerce is of major importance to the development of supply chains. Information technology facilitates the integration of SMEs in global supply chains, widening their exposure to markets and technologies and optimizing the flows of goods and information within the chains. E-commerce helps to lengthen the value chains, which implies that the role of SMEs can be strengthened, and it can help to disseminate good subcontracting practices, which will contribute to sustained economic development.

Ms. Lorraine Ruffing

Chief

Technology and Enterprise Branch

UNCTAD

The UN Conference on Trade and Development (UNCTAD) presentation focused on the types of linkages that have a potential for increasing SME competitiveness and the role of the various stakeholders. In entering into partnerships, a government should be aware of the types of linkage that are likely to have the greatest impact on SME development. The main types are:

- Backward linkages. These can result in productivity gains, factor cost reductions, flexibility in responding to changing demand volumes and flexibility in responding to different product requirements; the first and the last of these have the greatest development impact;
- Linkages with technology partners. With a few exceptions, these are still limited to developed countries;
- Forward linkages with customers. These rarely lead to technological innovation;
- Spillover effects. These include know-how and skill transfers resulting from job changes; transfers of new management techniques, etc.

The TNCs having the greatest development impact will have comprehensive outsourcing strategies. These are interested in a country's strategic potential rather than cheap natural resources, and will attach great importance to long-term intensive cooperation with local firms, gradually upgrading their capacities, as well as in helping to create an environment for business in which innovation is stimulated.

In a partnership with a government, such TNCs will therefore be particularly interested in its efforts in the areas of HRD, infrastructure and business climate; in selecting an SME, the attitudes of its management (forward looking, flexible, efficient) and the reliability of the firm are the most important factors.

To support international partnerships, UNCTAD is running the Empretec programme in Latin America. Focusing on high-potential SMEs, the programme provides training, business services, credit and national/international networking facilities. In UNCTAD's view, apart from helping to prepare SMEs for international partnerships, another important role for UN organizations is the dissemination of best practices in this field.

Mr. Boonler Somchit

Executive Director

Penang Skills Development Centre

The Penang Skills Development Centre (PSDC) is a non-profit society which all incorporated companies in Malaysia can join. Founded in 1989, it now has 85 members and ran 522 courses in 2000. Its mission is to promote shared learning (lower costs, more interaction) for the manufacturing and services sectors. Services are demand driven, being determined by the needs of TNCs operating in Malaysia and local firms. The Malaysian Government and Penang local government (providing political will, facilities, and financial and fiscal support), the industrial sector (offering leadership of the initiative, know-how and technical resources, member fees and other support) and academia (providing consultancy, training and research) have joined forces in PSDC. Its Chief Executive Officers are selected from major firms, most of which are in the electronics and engineering branches. A large number of TNCs with a presence in Malaysia have joined the initiative. In addition, some countries give bilateral support.

The training programmes cover a wide range of technical and management issues. Apart from increasing skill levels, PSDC also looks at possibilities for career advancement in major TNCs. In addition, PSDC has working groups for total production management, senior-level HRD issues and best practices in global supplier development programmes. By the end of

Developing countries must ... adopt a targeted programme to attract foreign direct investment, and target those TNCs which are more likely to have a developmental philosophy ... to develop local links.

Lorraine Ruffing

We must convince the TNCs to share their learning with SMEs, but we must also be proactive enough to strategically meet and support the TNCs' business requirements.

Boonler Somchit

EXPERT GROUP MEETING ON
**UNIDO PARTNERSHIP
WITH PRIVATE BUSINESS**

September 2000, over 60,000 people had taken part in over 3,000 courses.

Over the years, industrial HRD requirements have increased. Malaysian industries will continue to move up the value chain; correspondingly, PSDC is adapting its training courses and will soon be offering, among others, an MA in engineering, courses on software simulation, and e-learning for management skills. Not all of these courses are provided at PSDC; there are partnerships with, for example, Warwick University in the UK for MA courses.

In March 2000, PSDC launched the Global Supplier Programme for Malaysian companies, together with a number of global companies and the Government. The figure below shows how PSDC views the relationship between and the roles of the main participants in the programme.

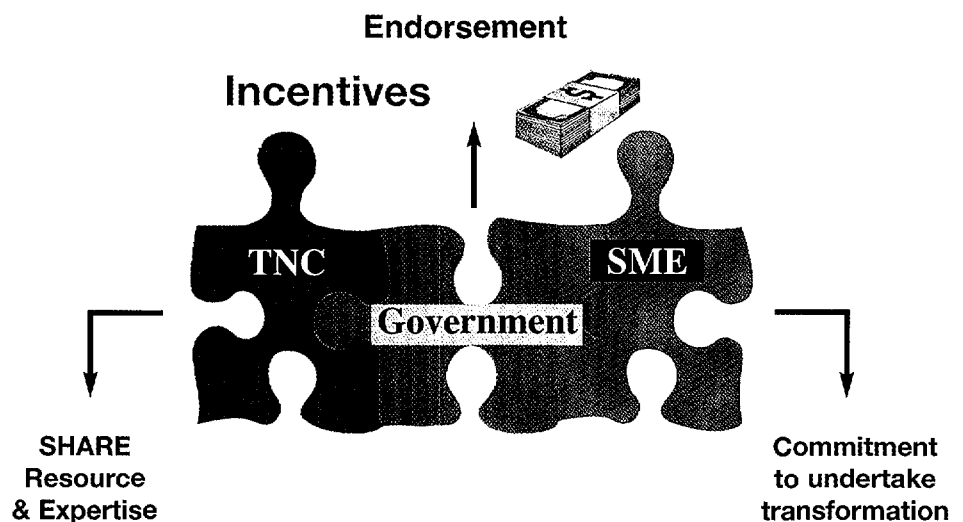
The philosophy behind this programme is: the more capable a country's SMEs are, the more likely it is that TNCs will initiate partnerships. In the programme, SMEs are adopted by TNCs, who transfer technologies

and skills and monitor SME progress. So far, 8 TNCs and 9 SMEs in the electronics industry have declared their intention to adopt it. PSDC's plans for the future are: to launch the programme in other parts of Malaysia as well; to study foreign examples to provide benchmarks for local industries; and to create training programmes for domestic design and development capabilities.

What are the lessons from the PSDC experience?

- An initiative like PSDC needs the cooperation and commitment of the business sector; it must be fully endorsed by local and federal government; and SMEs must be willing to change;
- Developing the initiative requires a training programme that meets business needs; a willingness on the part of TNCs to act as mentors for SMEs; and an in-built mechanism for assessing progress;
- As maturity is reached, it is essential to remain focused and enthusiastic, to keep up with technological development, and to ensure that the training offered continues to be of real value for business.

Our Approach



Mr. Gavin McGillivray

Senior Financial Advisor

Enterprise Development Department

Department for International Development

UK

The Business Linkages Challenge Fund is to be launched early in 2001. It is a scheme for allocating grants through competing international tenders, with a focus on Central and Southern Africa, South Asia and the Caribbean. It is strongly focused on poverty alleviation through competitive private sector activities. Its objectives are:

- To encourage and support linkages between enterprises in developing countries and domestic or international partners;
- To enhance information flows, sourcing, cooperation, market access and flexibility in supply and demand response in domestic and foreign markets.

The Fund is group oriented: a project must be submitted by at least two entities. Public sector or civil society organizations can share in Fund support, but every project must be led by a business entity. It encourages cost and risk-sharing projects, capacity building, access to information (for example on potential joint venture partners) and initiatives to promote regulatory reform. In this way the Fund will enable enterprises to capitalize on opportunities in domestic and global markets. Greater competitiveness and sustainability of developing country enterprises should result in increased growth, incomes and employment opportunities for the poor.

One possible area where economic, social and environmental objectives could be attained would be organic farming: groups of small developing country farmers could find niches in the very rapidly growing international market for organic food through links with large importers or super-market chains who can help them with issues such as quality control, storage and marketing.

Assessment of bids and eligibility of projects are made by independent panels with representatives from industry and academia. Assessments are based on:

- Quantitative and qualitative impacts on the incomes and livelihoods of poor people;
- Sustainability and replicability;
- The involvement of local entities in all project stages;
- The mobilization of additional private sector resources (applicants must contribute at least half of the project costs);
- Absence of adverse effects on local competitors, society or the environment;
- Compatibility with in-country policies of the Department for International Development.

The strengths of the approach used by the Fund lie in leveraging scarce resources through co-financing and in the fact that it is demand driven: the best proposals that answer the criteria are funded, the Fund has no specific development programme of its own. It stimulates innovation and new partnerships, decisions are fast and transparent and it is expected that the projects will have strong demonstration effects, resulting in more poverty alleviation activities.

Mr. Albrecht Graf von Hardenberg

Executive Director

Centre for Cooperation with the

Private Sector,

and

Mr. Thomas Finkel

Project Manager Asia

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

The GTZ is the German Government's agency for implementing technical assistance projects, covering all sectors of technical assistance. The creation of strategic partnerships for sustainable development represents a paradigm shift in technical assistance. Development cooperation is no longer the preserve of a specialized ministry, but affects all government departments (as shown in the increasing links with

The Business Linkages Challenge Fund is a demand-driven method [which] is ... quite unusual for aid organizations. We have become so accustomed over the years to think that we have the best ideas. Here, we're actually saying to the private sector: 'Come forward with your best ideas'.

Gavin Mc Gillivray

The problems of world poverty have reached a dimension where no single actor can guarantee solutions alone – there is an objective need for cooperation and partnerships between the public and private sectors, including civil society organizations.

Albrecht Graf von Hardenberg

peace keeping) and has also become important for the private sector, which understands that sustainable global development serves its own long-term interests. In public-private partnerships (PPPs), GTZ aims at integrating economic, social and environmental concerns.

PPPs became an integral part of GTZ's work in 1999, and are now an element in about 100 projects. PPPs are organized on two levels:

- In a pilot programme, where experience and best practices are gathered, the private sector is made aware of the new instrument and included in projects dealing with specific practical development problems;
- The next, more difficult step is involving the private sector in improving the framework conditions for sustainable development in the GTZ's partner countries. This means, for example, involving business associations in the establishment of social standards.

In this context, it is essential to select private sector partners who will support the GTZ's long-term objectives for all-round sustainable development. Therefore, project proposals submitted under the PPP programme have to meet four criteria:

- Subsidiarity: the programme only funds projects the companies would not otherwise get involved in;
- Private sector contribution: this should usually be 50 per cent of project costs in terms of funding and staff;
- Compatibility with the development policy objectives of the German Government;
- Complementarity of public and private sector contributions to ensure efficiency and speed.

The programme is attracting an increasing number of entrepreneurs and business associations interested in integrating development policy issues in their strategies. They can be divided in four groups:

- Firms seeking to enter or expand developing country markets;
- Firms wanting improvements in inputs imported from developing countries;
- German firms with subsidiaries in developing countries;
- German firms wanting to upgrade the social and environmental standards of their suppliers.

The range of firms extends well beyond TNCs: medium-sized German manufacturers and domestic mail order houses are also found among the new partners of GTZ.

A German mail order house has made it company policy to check that suppliers observe environmental and social standards. Together with GTZ, it is providing training on these issues in 60 Chinese supplier companies, which are to be audited at a later date.

2.2.2 Discussion

Although they can evidently make a strong contribution to successful international partnerships, the *replicability of SME training centres* such as PSDC was questioned. Several negative examples were mentioned. A training centre can only be successful if a number of factors is met simultaneously: a certain level of development that ensures that a sufficient number of SMEs are potential TNC partners; a very supportive government (political will, financial contributions, fiscal incentives) that helps to create a conducive environment (effective industrial strategy, HRD, physical infrastructure) but does not intervene in the actual operations of the centre; a curriculum that reflects the demand for skills and know-how in dynamic industries; and a real partnership between public and private sectors. Finally, the approach used must reflect the specific situation and needs of the country and the SME sector in question – in that sense there can be no single 'model'.

There is a clear *role for international organizations* like UNIDO in promoting this type of support infrastructure for SME upgrading. Most developing countries have not reached a stage where domestic capacities are adequate for successfully initiating this type of activity. International organizations can advise governments and the business community on the right strategy for *partnership building and the support mechanisms* needed. They can mobilize expertise and resources. Because of their worldwide contacts, such organizations are also able to identify good partners; and their status and neutrality will help to build bridges between local and international partners. Once partners have confidence in each other, it also becomes easier to introduce social and environmental issues.

While centres such as PSDC are obviously very useful, *private sector efforts for SME development* are now part of business culture as well. The impression that old-fashioned subcontracting (mainly focusing on cheap supplies) still predominates may lead to an overemphasis on independent facilities for SME upgrading. But in many industries that now rely heavily on outsourcing, long-term self-interest demands that there is a strong developmental element in TNC-SME relationships, and that social and environmental issues are addressed as well.

Obviously, public sector involvement in initiatives to upgrade SME capabilities should not compete with private sector efforts, but

limit itself to areas where *complementary efforts* are needed. Distortion of competition (between SMEs participating in a partnership programme and those that do not) can be prevented: the programme can focus on projects that improve the overall business environment, open new markets or expand existing ones, or benefit an industry branch as a whole.

Various aspects of the *relationship between aid organizations and private firms in partnerships* were also briefly discussed:

- From the point of view of business, UN organizations are still quite bureaucratic; they should become more flexible and businesslike.
- A complex problem that may emerge is that of the intellectual property rights of, for example, innovations resulting from an R&D-based partnership.
- The issue of guidelines should be approached with great caution, and they should not be imposed on private enterprises.
- The creation of actual TNC-SME partnerships must be left to the firms themselves; the suppliers of external assistance should restrict themselves to creating a basis for successful partnership building.

Finally, it was noted that partnerships should be exactly that: a relation between equals, not a one-way street from donor to recipient or from TNC to SME.

2.3 October 31

Session 1: Meeting the divergent needs of the various stakeholders

2.3.1 Presentations

Mr. Peter Utting

Research Coordinator
UN Research Institute for Social
Development (UNRISD)

In a UN context, partnerships with business should not only be equitable and transparent, but also have a social and ethical dimension. Apart from economic development, corporate responsibility and accountability should therefore be objectives as well. Partnerships are increasing as a result of five trends or forces that may not serve private and public interests equally well:

- The dominance of *neo-liberal ideology* advocates a reduced role for the state and deregulation. Voluntary initiatives have become the preferred way for encouraging business to act responsibly. Partnerships may be used to further weaken the regulatory role of governments and inter-governmental bodies.
- Partnerships are also a result of the trend to '*complex multilateralism*', in which the private sector and civil society assume important roles in governance. While broader participation in decision-making has its good sides, it also opens the way to power struggles among different parties.
- *Corporate governance* is responding to global competition by, among others, initiating dialogues with stakeholders outside business, such as UN agencies. This may improve corporate image and relations world wide, but may in the final analysis have more to do with boosting competitiveness than promoting humanitarian and developmental goals.
- *Philanthropy and sponsorship* fund many worthy causes, but are also a key element in corporate strategies to fend off criticism

and enhance the public image of large corporations irrespective of whether their actual behaviour merits a good reputation.

- The corporate sector has become a potentially important source of funding as a consequence of the *UN's financial crisis*. There is a danger that its agencies may compromise their principles and standards in the search for funding.

Partnerships may therefore not be win-win relationships. Four types of problems (often interrelated) have arisen in UN-business partnership practice:

- Partnerships may have *unpredictable outcomes* because of an uneven balance among partners with different agendas. Will efforts to persuade 1000 private firms to join the Global Compact during the next two years be matched by similar efforts to enlist other stakeholders, such as NGOs?
- In executing their mandates, UN organizations must not be influenced by external interests. TNCs can exercise great financial and political power, and there are examples of attempts at '*institutional capture*' – that is, undue influence over the decision-making processes of public-interest organizations.
- The need for external resources may cause UN organizations to overlook corporate activities that can be legitimately questioned. *Self-censorship* has occurred in some agencies, undermining their effectiveness and reputation as independent advocates of human rights and equal development opportunities.
- While some UN organizations have fairly strict criteria for selecting business partners, others exhibit a certain *naïvety*, assuming that almost any TNC can be a valuable partner; guidelines are sometimes vague.

While many partnerships have lofty goals, it is not at all certain whether such goals will be realized. Much will depend on the balance of forces within the partnership and the type of power struggle which takes place as the different actors interact to advance their specific agendas.

Peter Utting

To a large extent, these problems are caused by the lack of monitoring and evaluation capacity in the UN system. This could be remedied by a central UN entity. Alternatively, individual agencies could create their own analytical capacities in information systems, and could undertake consultations with trade unions, NGOs and other organizations doing research on the corporate sectors. In this way, problems may be avoided and the UN may establish working relations with the corporations that genuinely promote broad-based development.

Mr. Hans Hofmeijer

Task Manager
 Management Support Unit in the
 Office of the Executive Director,
 Employment
 International Labour Organization (ILO)

The ILO's Declaration on Fundamental Principles and Rights at Work addresses the commitments of member states to freedom of association and collective bargaining, abolition of child and forced labour and the elimination of discrimination in employment. In many cases, private entities contribute to the realization of the Principles.

The ILO's Private Voluntary Initiatives Programme helps to translate the ILO's principles into company practices promoting decent work and life. There is common ground with corporate social responsibility initiatives, particularly across global supply and service chains. Programme activities are developed and implemented in cooperation with all key stakeholders. Assistance does not address labour issues within specific firms, but is given on a sectoral or wider basis.

With the international federation of sporting goods producers and local producers in Pakistan, the ILO has concluded an agreement to reduce child labour in the industry. This has resulted in a clear reduction of child labour and the introduction of more sophisticated operations in a number of local firms. The ILO emphasizes that it is essential to work with the local stakeholders to address social issues effectively.

The key questions confronted by the Programme are:

- What do principles that inspire international labour standards mean in business terms?
- Why should business care about those values?
- What steps can business take in the workplace and the community of operation?
- What instruments guide the worldwide realization of the principles?

Services available under the Programme include:

- Access to up-to-date information by country, labour issue and other fields on labour laws and practices, their relation to international standards, and sector-based activities of TNCs and domestic enterprises;
- Training modules, materials and field programmes for promoting decent work in the workplace and the community of operation;
- Field projects bringing together national and international stakeholders to create a corporate culture of decent work.
- Programme activities are inspired by a tripartite dialogue with public and private sector leaders in more than 170 countries as well as global industry leaders, NGOs

We [The ILO] are a partnership – we were created in 1919 as a partnership between governments and employers' and workers' organizations.

Hans Hofmeijer

With the international federation of sporting goods producers and local producers in Pakistan, the ILO has concluded an agreement to reduce child labour in the industry. This has resulted in a clear reduction of child labour and the introduction of more sophisticated operations in a number of local firms. The ILO emphasizes that it is essential to work with the local stakeholders to address social issues effectively.

*Why partnerships?
Because the current challenges are far too complex for one individual sector to deal with and resources are limited. By pooling resources one can achieve more and gain long-term sustainability.*

Julian Parr

and other UN agencies. The Programme serves as the ILO Secretariat for the UN Global Compact, and the ILO showcases examples of good company practice on the Compact website. The ILO however stresses that support to local, national and sub-regional business development must continue to complement that given to global supply chain building.

Mr. Julian Parr
Director
Asia and the Middle East
Prince of Wales Business Leaders Forum

The Forum, set up in 1990, is supported by many leading international companies and operates in over 30 countries. Recognizing that business is about shareholder value added *and* societal value added, its mission is to promote responsible business practices that benefit business and society internationally through projects which may aim at improving the enabling environment, promoting capacity building and mutual learning among local partners, or delivering practical solutions. Projects have, among others,

helped to improve labour standards in the Vietnamese shoe industry and management practices in the textile industry in Bangladesh.

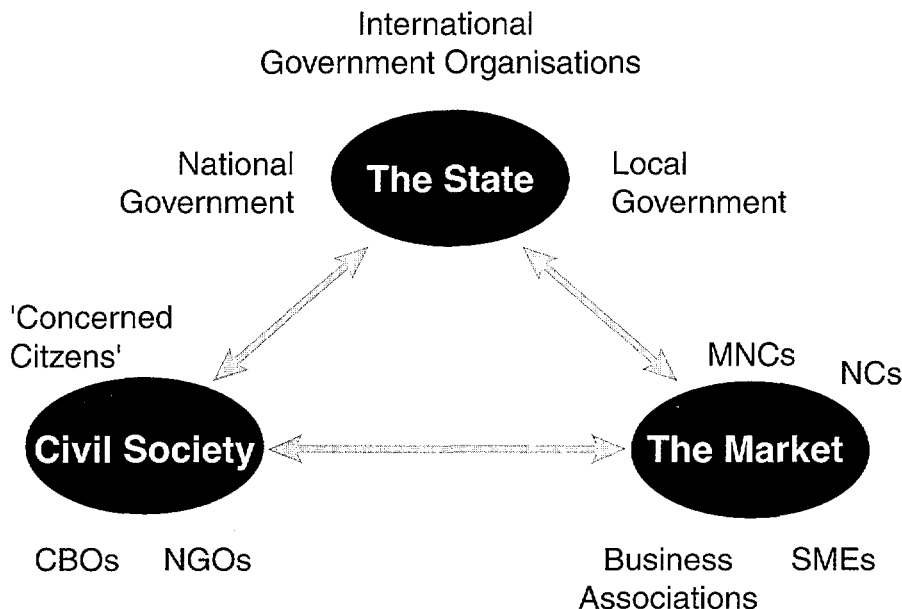
The Forum's partners are, as the diagram below shows:

- The public sector and intergovernmental organizations (including UNIDO, in the context of the automotive component project in India referred to in Section 2.2.1);
- The market sector;
- Civil society.

Its work is structured around:

- Processes: advocacy, brokerage, capacity building and dissemination of best practice;
- Settings; country, business sector, government and civil society level;
- Themes: education, enterprise, environment, health and human rights;
- Cross-cutting aspects: sustainable economic development, social cohesion, human resource development and governance standards.

Who are the partners?



An effective partnership is based on selecting the right partnership issues and partners, equitable sharing of risks and benefits, and good communication. It needs a strategy framework setting out project elements (proposal, roles and responsibilities, time schedule, resources needed, accountability) and review, audit and revision requirements (measurement and monitoring, audit and revision procedures, exit strategy). Essential non-material inputs include: imagination, individual initiative, good will and perseverance. These are particularly important for overcoming actual and perceived obstacles to cooperation between business, the public sector and civil society.

A common agenda for business and the UN must recognize their different basic perspectives on the global economy: for the UN, security and sustainability come first; for business, return on investment and competitiveness. The Global Compact provides a platform where both parties can engage in a dialogue on activities that promote universal values as well as thriving markets.

Mr. Maximilian Burger-Scheidlin

Executive Director
International Chamber of Commerce
(ICC) in Austria

The ICC's members include, apart from national Chambers of Commerce, international corporations, banks and legal firms. Its philosophy is free global trade and self-regulation by a responsible business sector. The ICC's activities are based on these two basic points: it lobbies internationally for free trade; promotes cross-border cooperation among firms; has drafted rules and model contracts for international trade (rules on e-commerce and certificates of origin are under negotiation); provides arbitration and mediation services; and has drafted codes of business ethics. For the ICC, global subcontracting, training for global markets, joint lobbying for free trade and crime avoidance/business ethics are the main areas of cooperation with UNIDO.

In the eyes of the ICC, a thriving global economy needs more than the removal of trade barriers. It will require:

- Recognizing stakeholder value alongside shareholder value;
- Taking account of environmental sustainability: industries that pollute are not cost effective - and therefore not competitive - in the long run;
- Accepting corporate social responsibility: this will increase worker motivation; reduce costs by preventing commercial crime (in the USA, money laundering, fraud and forgeries are estimated to reduce GDP by 10 per cent); and increase investment by removing the deterrent of corruption.

Another key factor is a strong SME sector. TNCs need capable SME partners. The ICC helps local SMEs with various kinds of advice, for example on international competitiveness and successful export strategies, cross-cultural negotiation skills and the crucial changes in mindsets. To be a successful partner, high productivity is more important than low labour costs.

Mr. Brent Wilson

Senior Advisor
International Organisation of Employers
(IOE)

The IOE is an umbrella organization of 123 national employers' federations. It has links with the ILO. For its members, partnerships have always been essential: they are the basis of business alliances and agreements with labour organizations. Increasingly, however, business is building partnerships with groups that are not its traditional partners: UN organizations and NGOs. This is a result of the availability of new information technologies, the globalization of enterprise operations, and global training systems. A regular dialogue with people from different cultures and in different types of organizations has become an integral part of doing business.

Why should a local electrician be internationally competitive? Because ... if a small firm is not internationally competitive, the TNC [locating in that country] will not be globally competitive and therefore will probably move before too long.

Maximilian Burger-Scheidlin

Today's world is becoming too small for either employers or the UN to avoid each other and ways must be found whereby a professional durable relationship can be established.

Brent Wilson

Reputation management has become a key word for many companies, and that is also why corporate responsibility has become so important. These are no longer questions that can be ignored or described as 'soft values'; these are core questions for very many companies.

Jon Veia

The UN has traditionally dealt with national governments and is still in the process of defining its position vis-à-vis other stakeholders in world development. There are negative perceptions of business in the UN, and vice versa. The Global Compact is seen by global business, and the IOE in particular, as a welcome sign of fundamental changes, even if it will take some time before they are felt throughout the UN system.

An effective, productive new relationship will require:

- Identification of the right business partners (individual firms or associations; no overemphasis on high-profile companies; balance between developed, developing and transition country firms);
- Formulation of transparent selection criteria by the UN and stability of partnerships;
- Clear understanding of each other's objectives; clear definition of roles and accountability; realistic goals.
- Dealing with potential conflicts of interest right at the start;
- Adaptation of partnerships to the specific requirements of individual cases;
- Clear, simple guidelines which evolve from project practice;
- Making the partnerships positive, shared learning experiences;
- Professional partnership management.

The general expectation of business will be that UN organizations will make clear, fast decisions and deliver promptly, and will not initiate partnerships for financial support alone. They should also realize that business is business, and that it cannot take on responsibilities of governments in areas such as social or environmental standards. On the other hand, business cannot expect the UN to act as a shield for corporations that act irresponsibly or do not maintain acceptable standards. It should be willing to share knowledge and experience and understand that development projects take time.

Partnerships with UN organizations do offer business a possibility to explore new oppor-

tunities; with clearly defined roles and serious commitment, both parties will benefit greatly, along with the countries and industries targeted by the partnerships.

Mr. Jon Veia

Director
International Affairs
Confederation of Norwegian Business and Industry (NHO)

Norwegian enterprise, always outward looking because of the limited domestic market, has become strongly internationalized during the past decade: the major Norwegian firms sell three-fourths of their output in foreign markets and most of their employees work in foreign subsidiaries. In terms of political stability, HRD and information technology (IT) infrastructure, Norway ranks among the best countries in the world, and therefore is a competitive location for firms operating in the global IT-based economy. Additional important competitive factors identified by NHO are the attention given to environmental and social issues and the performance of the public sector.

Globalization has its negative sides, and therefore NHO emphasizes corporate responsibility:

- NHO participates in a forum on corporate social responsibility with the Norwegian Government, the trade unions and NGOs, with the aim of finding a common denominator;
- It has published documents on business ethics, human rights, the prevention of corruption and environmental protection; and
- It is encouraging its counterparts in several developing countries to take up these issues by organizing round tables and preparing translations of the documents.
- It takes part in UN, EU, Nordic and OECD activities on these issues.

In the opinion of NHO, this is quite simply good business: investors now require that

countries have clear positions on corporate responsibility; corruption is a great risk to the reputation of firms; employees expect their firms to be socially responsible; citizens/consumers are more conscious of social and environmental problems; the media have a great influence in these areas and now reach every corner of the globe.

NHO strongly encourages partnerships with private enterprise in developing countries. Apart from the more conventional business purposes (joint ventures, enterprise development, innovation), such partnerships also cover health, social issues and know-how transfer. In addition, NHO provides advice on good governance, for example in the area of environmental policies. Private-sector partnerships could also involve NGOs, although negative perceptions will have to be overcome first; NHO plans a conference on this subject in 2001.

The outcome of all this in Norway has been a more positive attitude towards business and NHO's vision is that strong attention to corporate responsibility could actually be part of a 'Norwegian brand', leading to a preference for Norwegian firms among customers – because they are responsible and trustworthy.

2.3.2 Discussion

Meeting the divergent interests of the various stakeholders requires that parties make efforts to understand each other and adapt to ensure efficient cooperation. There must be a clear consensus on what a partnership is meant to be before one can formulate guidelines for it. It was not clear that the term meant the same to all participants in the meeting. Right now, there are widely different approaches to partnerships, and the Global Compact, which is intended provide a *global common ground* for them, is still insufficiently well known.

The emergence of that common ground could be promoted by publicizing new partnerships and examples of good practice

widely - without turning such publicity into a marketing exercise. Again, the Global Compact website would be a good instrument for this purpose. It was also suggested that UNIDO could organize a regular yearly meeting to exchange experiences on the subject.

Transparency is a precondition for a successful partnership. Should it apply to the internal organization of the partners as well? It is difficult to draw a line here: a UN agency cannot work with, for example, arms producers, and therefore TNCs will have to be open about their agendas, internal structure, and areas where corporate responsibility might need improvement. On the other hand, working productively with business means that intergovernmental organizations (and the public sector in general) must become more open and less bureaucratic. For effective partnerships, the business sector also needs more clarity about the internal division of labour within the UN system.

The issue of partnership *monitoring* was extensively discussed. How can the Compact's progress and the participating TNCs be assessed? UN agencies could develop internal capacity for this purpose, or a separate UN body could be set up. The business sector is reluctant to accept external monitoring, for two reasons:

- There is already a strong tradition of self-monitoring and independent assessments in private enterprise through, for example, trade associations;
- It is not clear who will monitor the UN agencies, as they are accountable only to governments.

A good *selection of partners* will help: working with TNCs that lead the way in terms of corporate responsibility is likely to minimize the need for monitoring. Many of them already take the long-term view that shareholder value plus stakeholder value is good for business, even if they have not always made this very clear to the rest of the world. Working with such TNCs will also have a good demonstration effect.

Increasing the *acceptance of global standards in developing countries* will often be a major challenge, as there is often little awareness of corporate responsibility. A difficult question in this context is the responsibility of TNCs for the standards applied by their subcontractors. It may help to reward companies subjecting themselves to voluntary scrutiny, by posting the outcome on the Global Compact website, or possibly by awarding a global 'quality seal'. This could also have a high demonstration value.

Finally, an *integration of social and environmental objectives* with economic development objectives is necessary to ensure the sustainability of the development process, and is therefore a long-term interest of all stakeholders. Therefore, while all parties have their own objectives and priorities, none of them should deliberately exclude any of the three elements of sustainable development. Much, however, remains to be done in the UN system and in private enterprise to achieve this integration.

2.4 October 31

Session 2: UNIDO guidelines for private-sector partnerships

2.4.1 Presentations

Mr. Sarwar Hobohm

Industrial Development Officer
Private Sector Development Branch
UNIDO

For UNIDO, partnerships can serve a wide range of purposes: staff exchanges; research and training; advocacy and awareness campaigns; tapping financial contributions and technical expertise; and the execution of joint projects. The UN system's experience in contacting and working with the private sector is limited. UNIDO is in the vanguard in this respect.

Successful partnerships require:

- Clearly defined and realistic objectives, and an understanding and acceptance of the commitments and expectations of all partners;
- The right partners. The complexity of global business networks may make it hard to ascertain whether a potential partner's activities conflict with UN principles. Therefore, clear criteria and good screening mechanisms for business partners are needed.

- Appropriate management mechanisms and institutional capacities. UNIDO is establishing these;
- Reducing bureaucracy in the UN system. UNIDO is addressing this issue in the context of its administrative reform programme.

UNIDO started developing guidelines for partnerships with the private sector (that is: for-profit enterprises) in mid-2000. The starting point are the UN Secretary General's Guidelines of July 2000 which lay down the principles governing UN-private business cooperation: advancement of UN goals; clear delineation of responsibilities and roles; maintaining integrity and independence; no unfair advantage to any party; transparency.

These principles must be operationalized so that specific issues of a practical nature can be addressed: such as the way in which business contributions are acknowledged (to ensure integrity and impartiality); the use of UN agency emblems; and the nature of institutional and staff links with the private sector. To do this effectively, partnership guidelines should cover:

People might think that we have put the cart before the horse in starting the Partnership Programme before we set up the Guidelines. However, we feel that in our approach we are benefiting from learning by doing, through the actual operation of the pilot projects.

Sarwar Hobohm

- Ethical, legal and financial issues;
- Procedures;
- Monitoring, assessment and evaluation mechanisms;
- Information-sharing among partners.

Guidelines can be developed in two ways: they can be drafted before a partnership programme is initiated, or they can be the result of a process of learning by doing; in both cases, the experiences of others are valuable. Whatever the approach used, guidelines must be relevant and flexible, and regular revisions must ensure that changes in the external environment are reflected. They should also be consistent among UN agencies, and the agencies should share information on best practices.

Mr. Peter Mason

Senior Advisor
Office of the Executive Director
UN Children's Fund (UNICEF)

UNICEF is completely dependent on voluntary contributions, one third of which come from the business sector. UNICEF works with both local and global companies. Another way in which business has a great impact of the organization is in its approach to management: a large UN organization cannot be effective and work efficiently if it is not run in a business-like way. Staff in top UNICEF positions often have business experience, and employees of large firms often do volunteer work for UNICEF.

The business sector increasingly takes account of the interest of other stakeholders in development. Corporate responsibility is good for long-term business. Still, UN organizations and enterprises work on different principles: the first are driven by the principles of the UN Charter, the Convention on Human Rights, etc., the second by the profit motive. The challenge is to recognize the intersections, and guidelines are needed to exploit the opportunities found at these intersections in a way that contributes to the objectives of the UN.

A mutually beneficial partnership depends on the nature of the project, the character of the enterprise and the terms of the relationship. Business benefits particularly in terms of long-term returns to investment: the UN contributes to peace, social stability and good governance; specialized agencies like UNIDO help to create private sector capacities (training, management skills, cleaner production techniques, etc.). The benefits of UN agencies are in the areas of investment in critical development areas; expertise for project implementation and development policy formulation; and resource mobilization.

There are four criteria for UNICEF partnerships:

- The alliance should support UN/UNICEF objectives;
- UNICEF's neutrality and honest broker role should be guaranteed;
- A critical attitude towards the partner should be possible;
- The partner will not receive preferential treatment.

Three basic questions are asked in screening partners:

- Does the enterprise subscribe to the UN's ethical standards?
- Is the alliance appropriate to the objectives of the project?
- Are there sufficient benefits for UNICEF?

UNICEF will not initiate partnerships with firms that cannot guarantee that they and their affiliates do not engage in activities violating the UN Charter and other international agreements on human rights. This excludes, for example, enterprises manufacturing arms or tobacco products, using child labour or violating the charter on marketing infant formula foods.

Up to a certain level, field offices can approve partnerships; beyond that, they need the approval of a high-level committee at UNICEF headquarters. Partnership selection is supported by information from

The heart of the matter is the exercise of due diligence. The UN must look carefully at companies. This does not mean putting them under a microscope, fixing them with a degree of scrutiny that few of us could pass. Rather, it means identifying organizations whose behaviour on balance shows evidence of a willingness to exercise corporate responsibility.

Carol Bellamy, Executive Director of UNICEF, as quoted by Peter Mason

WHO legal officers don't see any particular universal model for partnership arrangements. In fact, every one of the arrangements – WHO is involved in about sixty – has a different mix of attributes and structure.

Roy Widdus

services specializing in analyzing firms from the point of view of ethical investment. The UNICEF Intranet gives full information on experiences with partnerships.

Mr. Roy Widdus

Manager
Initiative on Public-Private Partnerships for Health
Global Forum for Health Research (GFHR-IPPPH)

The GFHR is an international foundation. The World Health Organization (WHO), World Bank, UNICEF, the international association for the pharmaceutical industry, developing countries, bilateral organizations and NGOs are all represented on its Board of Governors. IPPPH is primarily concerned with collaborations that go beyond the traditional 'buyer-seller' or 'grant maker – grant recipient' relationship; they are closer to the joint venture category.

Public-private partnerships are important for the health sector in the developing countries because market failure is common and because public sector capacities are limited. They can meet health needs where independent public and private sector action will not solve the problems. Apart from coordination of traditional roles, partnerships can help to implement policies formulated by the public sector.

The WHO considers partnerships with private business (and other stakeholders in the health sector) essential for achieving its objectives. Its experience shows that there is no universal model for them: structure, degree and nature vary over time and by issue. Of course, the organization's independence from particular private interests and credibility as the major international health policy maker must be safeguarded. Working with business therefore requires guidelines covering:

- Accountability to member states, providers of funds, beneficiaries, etc.;
- Representation of stakeholders;

- Valuation of contributions;
- Goals and motivations;
- Measuring results (progress, success, impact – especially on the health of the poorest).

Practical experience with public-private partnerships has taught the following lessons:

- They should build on, not replace existing institutions or structures;
- Goals should be aligned;
- Form follows function;
- Trust among partners is a key issue;
- Contributions and activities must be clearly defined;
- Benefits may differ for each partner, but must be balanced.

Ms. Berangere Magariños

Project Officer and Partnership Expert
Partners in Action Programme
UN Staff College

The UN Staff College emphasizes the importance of cross-sectoral partnerships as a new mechanism for global governance, a broad strategy for change led by the Secretary General, and a catalyst for UN reform. Such partnerships include all key stakeholders: governments, NGOs and the business community. They enable the UN to become a bridge between the state-centric world of governments and intergovernmental organizations and the multi-centric system of civil society and the corporate sector. To raise awareness of the benefits of partnerships, the UN Staff College is planning to organize workshops in Romania, Malaysia and Malawi.

Cross-sectoral partnerships can contribute to UN reforms in terms of:

- Encouraging changes in the UN system's internal culture (greater openness, less bureaucracy);
- Increasing motivation of staff through involvement in partnerships with a diversity of actors;

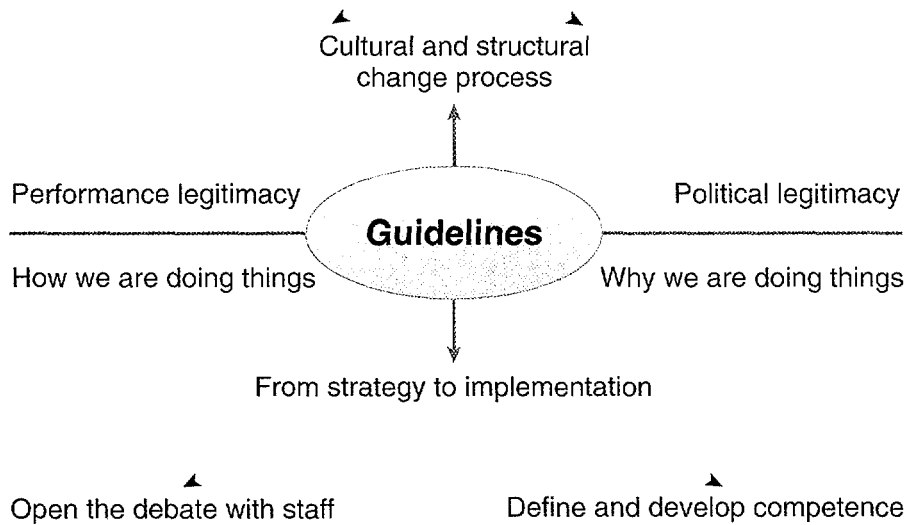
If we in the UN want to be a good partner for business, we need to change ourselves – to change how we work, how we operate, how we think and how we open ourselves to the outside world.

Berangere Magariños



Guidelines as indicators of change

Partnerships as catalyst for reform



- Increasing openness to the world through interaction with different stakeholders;
- Contributing to renewed operational and normative legitimacy;
- Renewing the UN's leadership through an influx of people with new visions of the UN's role.

In the process, guidelines have an important function, as the diagram above shows:

- They help to institutionalize the process of change;
- They ensure a balance between political legitimacy and performance legitimacy (the 'why' and 'how' of UN operations); and
- They facilitate the implementation of UN reform strategies by providing a framework for the debate with staff and the development of partnership brokering competence.

For an effective process of UN reform, it is necessary to encourage debate and exchanges in all agencies and mechanisms to share experiences and information throughout the UN system.

2.4.2 Discussion

There are two *basic approaches to guidelines*: formulating a comprehensive set that provides clear rules for all relevant partnership issues versus an incremental process based on practical work in projects that allows for flexibility but no doubt risks a certain 'fuzziness'.

Many private-sector participants were wary of comprehensive guidelines. They felt that it would be better to let them develop gradually in the course of projects, using private-sector capacity for self-monitoring as an instrument, so that a system of good business practice for partnerships can develop and the improvement of social and environmental standards becomes an accepted part of business culture. Such an approach implies that flexibility is essential and that therefore those involved in executing a partnership programme must be able to take autonomous decisions. An additional advantage of the process-oriented approach is that it helps to build trust, which is always time-consuming.

Again, complex partnership guidelines may not be needed if there are clearly defined objectives and good criteria for selecting partners, including their corporate responsibility record. In this respect, most UN agencies still have much to learn - also in terms of sending clear and consistent signals to prospective business partners. They should therefore not rush into partnerships. For the screening of partners a joint UN database could be drawn up, and agencies could draw up profiles of candidates for specific projects, as UNICEF does. Consultations with NGOs or other organizations that know the industry in question are another possibility.

Even with the best guidelines for selection there will always be a risk of selecting inappropriate partners. Therefore clear guidelines are also needed for *terminating a partnership*. Problems can however often be solved by open discussion, and complex guidelines may stand in the way of doing so, as shown by the example of a UNDP partnership in Angola which could have been saved by consultation among the partners but for an inflexible system of guidelines and monitoring drawn up before the project.

Suggestions for UNIDO's future role in TNC-SME partnerships included:

- Acting as an honest broker;
- Policy and implementation advice;
- Helping governments to target the right foreign investors;
- Preparing SMEs for a role in value chains;
- Multicultural training;
- Replication/dissemination of good practice;
- Concrete, sector-specific partnership initiatives at the country level.

To some degree, these would constitute an extension of its existing activities.

Given the fact that UNIDO is running a successful partnership programme in India and is making preparations for several others, the question was also asked whether UNIDO should not become a partner in the Global Compact. Finally, participants again emphasized the usefulness of a UNIDO forum where partnership experiences can be exchanged.

3 UNIDO and the future of partnerships: a summary of key issues

The Expert Group Meeting may be considered as part of work in progress. Partnerships with the private sector are a new development for UNIDO, and the UN system as a whole is still finding its way to a balanced approach. Inevitably, in the discussion on the rationale, risks and benefits of such partner-

ships and on UNIDO's approach and role, there were loose ends and unanswered questions. This chapter will therefore not only summarize the main findings of the Meeting, but also outline some issues that need more attention. Both will help to set an agenda for future action and discussion.

3.1 The main findings of the Meeting

3.1.1 The Global Compact

From the point of view of the Global Compact, the increasing recognition of the interdependence of all actors in global development is encouraging. Globalization has triggered defensive and even hostile reactions among many people. There are legitimate concerns about its effects on the gap between the rich and the poor and its impact on the natural environment. General acceptance of globalization trends and a more equitable distribution of their benefits will, among others, require that TNCs accept their responsibilities as stakeholders in sustainable development and acknowledge the role of others.

The positive response of a growing number of enterprises to the Compact is a good sign, but some uncertainty with regard to the UN's motives for launching the Compact does remain in the world of business. Partnerships should be more than a means to get funding for UN-led projects, although in practice that may be what is most urgently needed. The UN should therefore make very clear what the benefits for business of joining the Compact are.

3.1.2 Partnerships between TNCs and SMEs

The international firms present all stressed that establishing business partnerships in developing countries or transition economies now means looking at a wide range of factors. Low production costs are not the main issue; the point is whether a local supplier is capable of providing a product and a service that is competitive in all respects (timely delivery, etc.). Low labour and environmental protection costs are no shortcuts to long-term competitiveness. In addition, there is increasing pressure on firms from consumers, NGOs and the media – mainly in the developed countries, but increasingly elsewhere as well – to maintain acceptable social and environmental standards. For many TNCs, integrating social and environmental concerns in their strategies quite simply makes good business sense.

A long-term view of industrial development must therefore be an inclusive view: the regulatory framework for the economy, training and education, physical infrastructure, social stability and environmental concerns are all of key importance. In the long-term view, any sharp distinction

between public and private benefits may become blurred. The business sector therefore needs to recognize the developmental roles played by governments, NGOs, trade unions, civil society in general and international and bilateral aid organizations.

Different types of industry have different interests in exploiting the possibilities of value chains and SME upgrading. The more sophisticated the industry (engineering, electronics, etc.), the more likely its need for sophisticated partners. The TNCs with the greatest development impact tend to be those with a comprehensive outsourcing strategy. They will be interested in a country's strategic potential, not just in cheap resources, and their partnerships can have strong development effects in terms of technology transfer *and* social and environmental standards. In the less sophisticated, consumer non-durables industries, TNCs are more likely to want a simple, standardized product from their subcontractors, and the development effects will be more limited.

Global business partnerships in the more sophisticated industries will tend to be limited to the more advanced SMEs in the more advanced developing and transition countries. To deploy their own potential fully, subcontractors in such countries should avoid becoming locked into a relationship with a TNC. The increasing importance of global markets and partnerships should not blind other countries and SMEs to the development potential of domestic or regional markets and of cooperating with local firms or medium-size firms from developed countries.

While business partnerships are a major factor in raising the competitiveness and social/environmental standards of SMEs, their scope is necessarily limited by the criterion of profitability. Most SMEs in developing and transition economies are not yet (potentially) attractive business partners. UN organizations can advise governments and the business community on the right strategy for partnership building and the support mechanisms needed. They can

mobilize expertise and resources. Because of their worldwide contacts, such organizations are also able to identify good partners; and their status and neutrality will help to build bridges between local and international partners. In short, an organization like UNIDO can make a crucial contribution to preparing countries and enterprises for partnerships with foreign investors.

3.1.3 Guidelines for UN-TNC partnerships

Like any other partnership, partnerships between UN organizations and TNCs require guidelines. How detailed should such guidelines be? The idea that comprehensive guidelines are needed is partly a reflection of a certain uneasiness felt in most parts of the UN system about close involvement with the private sector. The primary objectives of international business and UN organizations are and will remain different. Bureaucratic and legalistic traditions in the UN system may also feed the perceived need for detailed guidelines. Private business, however, is by nature reluctant to subject itself to detailed external rules, and in this case that reluctance is fed by the common perception of the UN as an inflexible, inscrutable bureaucracy.

It is obvious that too great an emphasis on comprehensive guidelines by UN agencies will be an obstacle to the growth of TNC partnerships. The discussions suggested two ways in which this problem can be solved and which are not mutually exclusive:

- Formulation of simple basic rules, followed by a process in which guidelines (or codes of conduct) evolve through a pragmatic dialogue based on the realities of business and development in different country contexts.
- A thorough screening of potential business partners (for which detailed internal guidelines may be formulated), focusing on TNCs that can be considered role models of corporate responsibility; clear ideas about what the cooperation should

achieve. Guidelines for an actual partnership can then be fairly simple.

A continuous dialogue with the business sector will help to build trust between the UN system and private enterprise, which again will reduce the need for formalized rules. It may also contribute to the creation of a more open and businesslike culture in the UN system, which in turn may encourage firms to be more open about their own agendas, and contribute to making corporate

responsibility a part of everyday business ethics through a gradual process and the demonstration effect of good practice.

Finally, better communication among and within UN agencies is needed, among others to ensure that guidelines are consistent and consistently applied – and that the economic, social and environmental aspects of development are effectively integrated in their work.

3.2 Areas to be explored further

3.2.1 Other partners in development

Traditionally, the UN is a forum for governments and has depended on their support. The Global Compact and the Expert Group Meeting convened by UNIDO show that the UN is seeking wider support for the execution of its global development mandate. The UN's efforts to secure widespread business support for the Global Compact should be matched by similar efforts to involve *the remaining stakeholders in development*, in accordance with the opening words of the Charter of the UN: 'We the peoples of the United Nations'. NGOs and civil society play a key role in ensuring that the social and environmental aspects of development are recognized (NGO pressure, for example, is responsible for the introduction of such standards in a number of global supplier chains), and the state of civil society is a determinant of a country's business climate. Sustainable development is unthinkable without them.

The Expert Group Meeting targeted TNCs. The *buyer-driven chains* among these, although invited, were absent. Their interest in supplier development may be comparatively limited; but they do represent a very important type of business link for SMEs

and can initiate process and product upgrading. These links therefore need more attention, also for the transfer of good social and environmental practice. The positive outcome of meetings such as the present one and – more importantly – a sustained process of UN-TNC interaction (and wide publicity for examples of successful cooperation) should stimulate the interest of other TNCs.

In addition, *partnerships between local firms or between SMEs in developing or transition economies and medium-size firms from developed countries* can also have important effects. The latter are more dependent on the local business environment than TNCs and therefore tend to prefer the more advanced countries; but for the same reason they are likely to have more intensive links with the local economy. Domestic markets are essential for enterprise development – there is little evidence that firms succeed in global markets before having gathered experience and strength locally. Market know-how is readily accessible, and in spite of foreign competition, global design standards will often not be needed.

The above means that one should take the broadest possible view of the private sector in promoting business networking, integrating social and environmental issues. The

fact that many national employers' associations in Asia now support the Global Compact (see Section 2.1.2) is encouraging. A start should be made with exploring the views of the SME sector. This can take various forms: national UN offices could organize workshops with national associations; in addition, e-conferences are a low-cost format for global exchanges.

3.2.2 Changes in the UN system

The discussions repeatedly returned to the UN system's readiness for international partnerships. But continued reforms of the UN system are not the only condition for productive relations with private business. *Less bureaucracy and greater openness* are also essential (i) for a fruitful dialogue with NGOs and civil society; (ii) and to enable the UN to respond effectively to trends in information technology and decentralized development, which challenge the validity of traditional hierarchies. Working effective-

ly with the new partners will require a better understanding of them, which can for example be achieved through staff exchanges and by selecting more candidates for senior positions from among capable people with a professional career in business or NGOs. Working with all stakeholders also implies a better *integration within the UN system of the economic, social and environmental objectives of development*.

As a consequence of its traditional way of working, the UN has not been very adept at *publicity* in the past. UN agencies will be more often in the limelight when working with a wide range of stakeholders in development, many of whom have a sophisticated understanding of the use of the media. The UN's role in creating the conditions for and promoting a holistic approach to long-term development may not be a glamorous one, but it can be more assertive about the successes achieved, not in the least to increase support for its work.

3.3 Action points for UNIDO

3.3.1 Following up suggestions made at the Meeting

Directly connected to the purpose of the Expert Group Meeting was the suggestion that UNIDO could organize a platform for discussion of experience and issues related to partnerships between business and the UN. As the UN's specialized agency for industrial development, UNIDO would be the natural choice for such a platform. With a minimum of organization and cost, UNIDO's website could be adapted to support that platform function in a very short time. E-mail conferences would be another low-cost way of organizing a debate on partnership issues. The use of electronic media would also facilitate the involvement of a wider selection of stakeholders.

In addition, a number of areas of concrete UNIDO action in connection with public-private partnerships were suggested:

- Acting as an honest broker;
- Policy implementation and advice;
- Helping governments to target the right foreign investors;
- Preparing SMEs for a role in value chains;
- Multicultural training;
- Replication/dissemination of good practice;
- Partnership initiatives at the country level.

These activities are partly covered by UNIDO's existing programmes, or could be an extension of them. UNIDO already

works closely with business groups such as chambers of commerce and industry associations, and promotes partnerships of various kinds in its support programmes.

UNIDO regards the business community, the research community, bilateral donors and other agencies of the UN system as strategic institutional partners. Working with UNEP, ILO and OHCHR in the context of the Global Compact, UNIDO can help to ensure the integration of economic development and social and environmental issues within the UN system. However, if social and environmental issues are to be fully integrated, then closer contacts also need to be established with NGOs and civil society organizations.

Annex I: Programme of the Expert Group Meeting

Monday, 30 October 2000

9.00 a.m. – 1.00 p.m.

Session 1: The Context

Presentations by:

Mr. Wilfried Lütkenhorst

Director
Private Sector Development Branch
United Nations Industrial Development Organization

Mr. Andreas Blüthner

Trade Law Advisor
BASF AG

Mr. Josef Schleicher

Director
International Affairs and Public Policy
DaimlerChrysler AG

Mr. Pascal Roger

Senior Vice President for
International Affairs
Group Suez Lyonnaise des Eaux

Mr. Sujit Chowdhury

Secretary-General
World Summit of Young Entrepreneurs

Professor Hubert Schmitz

Institute of Development Studies

Ms. S. Y. Foong

Purchasing Director
Intel Technology Sdn. Bhd.

Discussion

Session 2: Enhancing the developmental impact of TNC-SME
partnerships through the participation of public-sector
development agencies

Presentations by:

Mr. Kai Bethke

Technical Advisor
Private Sector Development Branch
United Nations Industrial Development Organization

Mr. Jean-Pierre Brouquil

Director
International Business Development
Magnetis Marelli

Ms. Lorraine Ruffing

Chief
Technology and Enterprise Branch
United Nations Conference on Trade and Development

Mr. Boonler Somchit

Executive Director
Penang Skills Development Centre

Mr. Gavin McGillivray

Senior Financial Advisor
Enterprise Development Department
Department for International Development
UK

Mr. Albrecht Graf von Hardenberg

Executive Director
Center for Co-operation with the Private Sector
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
and

Mr. Thomas Finkel

Project Manager Asia
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

Discussion

Session 3: Meeting the divergent needs of the various stakeholders

Presentations by:

Mr. Peter Utting

Research Coordinator
United Nations Research Institute for Social Development

Mr. Hans Hofmeijer

Task Manager
Management Support Unit in the Office of the Executive Director, Employment
International Labour Organization

Mr. Julian Parr

Director
Asia and the Middle East
Prince of Wales Business Leaders Forum

Mr. Maximilian Burger-Scheidlin

Executive Director
International Chamber of Commerce - Austria

Mr. Brent Wilton

Senior Advisor
International Organisation of Employers

Mr. John Vea

Director
International Affairs
Confederation of Norwegian Business and Industry

Discussion

Session 4: UNIDO Guidelines for Private-Sector Partnerships

Presentations by:

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Discussion

Annex II: List of Participants

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| Mr. Andreas Blüthner | Trade Law Advisor, BASF AG |
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| Mr. Thomas Finkel | Project Manager Asia, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) |
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| Mr. Julian Parr | Director, Asia and the Middle East, Prince of Wales Business Leaders Forum |
| Mr. Pascal Roger | Senior Vice President for International Affairs, Group Suez Lyonnaise des Eaux |
| Ms. Lorraine Ruffing | Chief, Technology and Enterprise Branch, United Nations Conference on Trade and Development |
| Mr. Josef Schleicher | Director, International Affairs and Public Policy, DaimlerChrysler AG |
| Mr. Hubert Schmitz | Professor, Institute of Development Studies |
| Mr. Boonler Somchit | Executive Director, Penang Skills Development Centre |
| Mr. Peter Utting | Research Coordinator, United Nations Research Institute for Social Development |
| Mr. John Vea | Director, International Affairs, Confederation of Norwegian Business and Industry |
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