

CHAPTER 34

RELATIONS WITH THE PRIVATE SECTOR

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RELATIONSHIPS between International Organizations (IOs) and the private sector are continuously shaped by political, social, and market-led changes, on the one hand, and the ability of IOs to adapt to these changes, on the other. Most IOs were established without a mandate to work with the private sector. In the past, the governance, procedures, and culture of most IOs reflected the dominance of state-to-state relations, with little or no appreciation for the role of the private sector. During the long decades of the Cold War rivalry, most IOs had to be neutral with regard to business and in many instances suspicion, if not distrust, became part of the institutional culture.

With the fall of the Berlin Wall and the acceleration of business-led global integration during the 1990s, it became increasingly clear that many IOs needed to find ways to engage with the private sector in order to stay relevant and achieve their stated missions. However, institutional procedures and deeply embedded mistrust toward the private sector combined with the absence of required skills and institutional support proved to delay the development of a balanced relationship with the private sector.

For the United Nations (UN) system, a historical turning point was the launch in June 2000 of the UN Global Compact, a call to companies around the world to align their strategies and operations with ten universal principles in the areas of human rights, labor, environment, and anticorruption, and to take action in support of broader UN goals. Since then, cooperation with the private sector has

become politically feasible and operationally desirable. Ad hoc experimentation has gradually been replaced with more strategic and scalable efforts to engage with the private sector to advance their respective missions. However, progress across IOs has been uneven. Many IOs continue to struggle to bring cooperation and forms of governance to scale that would support the growth of this agenda.

At the same time, markets have undergone fundamental transformations. Business has gone global while global governance has not kept pace. Technology has spread and foreign direct investment increasingly seeks to grow markets rather than just source cheap inputs. And transparency has been on the rise. Increasingly, corporate sustainability performance has become a key driver of brand-building, risk mitigation, and value creation. As a consequence, a growing number of companies realize that they cannot succeed if the societies they invest in fail and that long-term financial success is increasingly tied to the ability to overcome barriers—be it corruption, lack of skill development, limited access to healthcare, or the management of scarce natural resources.

The growing material relevance of nontraditional financial issues for long-term market success, especially in the environmental, social, and governance (ESG) domain, has made IOs more relevant partners for business both in order to fill governance voids as well as to partner at country level to find scalable solutions to market barriers.

Already, across many IOs major efforts are underway to learn how to build effective relationships with business. IOs have engaged with the private sector in a range of ways, from fundraising to jointly developing normative principles and frameworks. IOs are becoming more adept at managing the risks of partnering with the private sector, both by improving due diligence and integrity measures and by leveraging their reputations and normative strength to align the business community with universal values. IOs with relevant missions, operational capacity at the country level, and the proper strategy have moved from opportunistic ventures to structural engagement with the private sector.

Provided there is political will to ensure market openness, as well as cooperation to secure peace, the IO–private sector relationship will become ever more important. Whether and to what extent IOs will be able to leverage private sector engagement to advance their common objectives will depend on several factors. First, many IOs are still struggling with the institutional fatigue of the past. Institutional leadership and political will are required to unlock the full potential of an effective IO–private sector relationship. Second, an effective partnership depends on the ability to discover institutional advantage in relation to the private sector and on the corresponding strength of IOs’ normative legitimacy to broker “respect” for its underlying principles. This allows an IO to become integral to market transactions and to mobilize “support” in terms of operational alignment that advances the IO’s goals. Finally, IOs will need to develop procedures and mechanisms assuring the highest level of accountability with effective governance structures and operational

mechanisms. However, there is no one-size-fits-all approach. Depending on its mission, products, operational capacity, and the scalability of its approach to business engagement, each IO entity will have to devise its own distinctive methodology for partnering with the private sector.

Mobilizing private sector engagement in support of public policy objectives requires balancing the goals of both sectors with overlapping interests. At the heart of any overall IO strategy is the normative legitimacy of its associated values and principles. Asking the private sector to respect and support universal principles and build transparent accountability frameworks is one way to move ahead.

CONTEXTUAL FACTORS SHAPING UN–PRIVATE SECTOR RELATIONS

This chapter maps out the broad developments that have shaped UN–private sector relations. It also takes stock of the current state of affairs and reflects on possible futures. The basic contention is that the UN–private sector¹ interaction is continuously shaped by the interplay of political, market economy, and institutional changes.

Political changes define to a large extent the space within which the UN–private sector relationships can grow. Governments’ views about the role of the private sector in creating “conditions of stability and well-being” through the promotion of “higher standards of living, full employment and conditions of economic and social progress and development,” as articulated in Article 55 of the UN Charter, define their willingness to delegate authority and prescribe how the UN should deal with the private sector, either directly through mandates or implicitly by simply allowing the relationship to grow.

Besides the changing political context, dynamic economic processes are fundamentally influencing UN–private sector relationships. The real or perceived advantage that the private sector sees in building a relationship with the UN is largely the outcome of market changes themselves. Not too long ago, business could take shelter and find relative predictability in national consensus regarding broader business and social questions.

But three decades of technology-driven global economic integration have exposed business to new risks without having the recourse of shelter behind the

¹ Based upon the report of the UN Secretary-General on “Cooperation between the United Nations and all Relevant Partners, in Particular the Private Sector” (Doc/A.56.323 (August 28, 2001), 45), the term “private sector” here is defined as “all individuals, for-profit, commercial enterprises or business, business associations and coalitions and corporate philanthropic foundations.”

government where its headquarters are situated.² As business has gone global while governments remain local, a transformed world economy with global value chains exposes business to higher public scrutiny on issues that also are typical of the UN global agenda: environmental protection, human rights, social inclusion, and good governance. Markets have started to take such issues into account and increasingly integrate ESG qualifications into investment analysis and evaluation.³ The private sector accordingly develops a growing affinity with UN issues.

The third dimension shaping the relationship is undoubtedly the UN's own ability to adapt to political and market changes and to project core institutional strengths such as a claim to universal legitimacy, convening power, brand value, and technical knowledge.⁴

The political and economic contexts can be seen as defining the possible space within which the UN–private sector relationship can evolve. However, unless there is institutional leadership, a willingness to innovate and to exercise thought leadership and creativity, and an institutional ability to create effective and viable engagement opportunities for the private sector, the relationship will not evolve. The UN's intergovernmental nature and the quite inflexible procedures that govern all relevant functions, such as use of name and logo,⁵ recruitment, budget, and administrative oversight, represent huge cultural differences between the UN and the efficiency-oriented private sector.

THE FIRST SIX DECADES OF THE UN–PRIVATE SECTOR RELATIONSHIPS (1945–2000)

Given the sweeping political and economic changes that have occurred over the past decades, it should not come as a surprise that the nature of UN–private sector

² Between 1990 and 2012, the global stock of outward foreign direct investment soared from US\$2.1 trillion to US\$23.6 trillion. See UN Conference on Trade and Development (UNCTAD), *World Investment Report 2013—Global Value Chains: Investment and Trade for Development* (New York and Geneva: UN Conference on Trade and Development 2013), xvi.

³ Since 2005, there was a steady increase in the number of signatories to the UN-supported Principles for Responsible Investment (PRI), reaching 1,085 in July 2012. This includes 258 asset owners and 651 investment managers. Collectively they represent US\$32 trillion of assets under management, or about 25 percent of the world's total financial assets. See PRI Signatories, *Principles for Responsible Investment: Official Home*, <http://www.unpri.org/signatories/> PRI, Annual Report. 2012; The Boston Consulting Group, *Global Wealth 2011: Shaping a New Tomorrow: How to Capitalize on the Momentum Change* (New York: Boston Consulting Group, 2011).

⁴ For an institutional analysis and the growth of the UN Global Compact, see Georg Kell, "Twelve Years Later: Reflections on the Growth of the UN Global Compact," *Business & Society* 52/1 (2012): 31–52.

⁵ "Official Seal and Emblem of the United Nations," Report of the Secretary-General, A/107 (October 15, 1946), 4.

relations has fluctuated widely from mutual suspicion and, at times, outright hostility to a “Global Compact” of shared values.⁶

Yet several specialized UN entities have long-standing working relations with the private sector on technical standard-setting and social norms, especially related to the workplace (the International Labour Organization (ILO)) and on trade (the UN Commission on International Trade Law (UNCITRAL)). These entities are part of the decentralized UN system.⁷ Some of them were created decades before the UN was established in 1945. With the notable exception of the ILO, whose unique tripartite structure accommodates governments, employers, and labor,⁸ the work of these UN bodies is by definition technical, receiving scant public attention. But as a study commissioned by the UN has shown, the resulting body of technical standards and norms forms an important part of the “soft infrastructure” of the world economy, with enormous benefit for consumers and producers alike.⁹

At the creation of the UN itself, business was a strong supporter of the organization. Numerous business representatives participated in the 1945 San Francisco conference, including the International Chamber of Commerce, whose own creation in 1919 was premised on the belief that commerce and peace were complementary. For example, Philip D. Reed, then Chairman of General Electric, sent a telegram to the Chairman of the US Senate Foreign Relations Committee expressing the “earnest and enthusiastic support of the US Chamber of the Charter” and urging unanimous ratification.¹⁰

This founding spirit of the UN—principled pragmatism and the belief that peace and prosperity can only be built on the foundations of interdependence and commerce—was soon challenged, especially with regard to the role of the private sector. The decentralized design of the UN system protected specialized UN entities, especially the small technical ones, from the Cold War rivalry and competing ideologies regarding the role of the private sector. But ideological elements soon

⁶ Kofi Annan, “Business and the U.N.: A Global Compact of Shared Values and Principles,” World Economic Forum, Davos, Switzerland, reprinted in *Vital Speeches of the Day* 65/9 (1999): 260–1. For further information on the Global Compact, see <http://unglobalcompact.org/>.

⁷ In addition to the ILO and UNCITRAL, the International Maritime Organization, International Telecommunications Union, International Civil Aviation Organization, Universal Postal Union, and the World Intellectual Property Organization are specialized agencies which have been the setting for the production of global norms, standards, and regulatory frameworks in a wide array of economic activities.

⁸ For an analysis on the key role that well-structured institutions play in the quest for global justice through labor standards, see Edward C. Lorenz, *Defining Global Justice: The History of U.S. International Labor Standards Policy* (South Bend, IN: University of Notre Dame Press, 2001).

⁹ Mark W. Zacher, *Uniting Nations: Global Regimes and the UN System* (Vancouver, BC: Institute of International Relations, University of British Columbia, 1998) and his subsequent *The United Nations and Global Commerce* (New York: UN, 1999). See also Richard M. Price and Mark Zacher, *The United Nations and Global Security* (New York: Palgrave, 2004).

¹⁰ S. Tessner, *The United Nations and Business: A Partnership Recovered* (New York: St Martin's Press, 2000), xix.

defined the UN proper, and it subsequently cost the UN in its private sector North–South relations.

For decades to come, the “embedded liberalism” of the UN Charter had no chance to come to a fore.¹¹ The ideological rivalry of the Cold War meant that the UN had to be neutral as to the role of the private sector.¹² And the long struggle of colonies to gain independence put an emphasis on state-driven development and transfer payments in the form of Official Development Assistance,¹³ rather than on private sector-driven growth. The overlapping East–West rivalry and the concerns entailed in the independence struggle of the South reached their joint apex in the call for a statist-oriented New International Economic Order.¹⁴

Against this background, the UN published a seminal study on “Multinational Corporations in World Development,” which highlights some of the tensions and problems on multinational companies operating in developing economies.¹⁵ Immediately following was the appointment by the Economic and Social Council (ECOSOC) of a Group of Eminent Persons to advise the Council on the role and influence of transnational corporations in development. The Group called for the “continuing involvement in the issue of multinational corporations of the Economic and Social Council assisted by a commission specifically designed for that purpose.” It also recommended the establishment of an information and research center “to provide services for the commission.”¹⁶

The UN Commission on Transnational Corporations (UNCTC) commenced work in 1974 and dealt with a wide-ranging set of developmental finance issues. But its main concern throughout its existence was negotiating a code of conduct on transnational corporations consistent with UN General Assembly (UNGA) call for the establishment of a New International Economic Order. Negotiations eventually

¹¹ John G. Ruggie, “International Regimes, Transactions and Change: Embedded Liberalism in the Post War Economic Order,” *International Organization* 26 (1982): 379–415.

¹² When the author of this article joined UNCTAD in 1987 with a financial analyst background and having worked on all continents, it was more than bizarre to discover that terms like “business” and “profit,” or simply “efficiency” and “social impact,” were off-limits—not to mention “intellectual property rights.”

¹³ The idea to raise official development assistance to 0.7 per cent of donors’ national income was taken up by the Pearson Commission and endorsed by the UN General Assembly (UNGA) in a 1970 resolution, launching an international development strategy for the decade. See Lester B. Pearson, *Partners in Development: Report of the Commission on International Development* (New York, Washington and London: Praeger, 1969); UNGA Res. 2626 (XXV) (1970), International Development Strategy for the Second United Nations Development Decade, October 24, 1970, para. 43.

¹⁴ Declaration and Programme of Action on the Establishment of a New International Economic Order, A/Res/3201 and 3202 (S-VI) and Res. 3281 (XXIX) (December 12, 1974), Charter of Economic Rights and Duties of States.

¹⁵ UN Department of Economic and Social Affairs, *Multinational Corporations in World Development* (New York: UN, 1973).

¹⁶ UN Department of Economic and Social Affairs, *The Impact of Multinational Corporations on Development and on International Relations* (New York: UN, 1974), 5.

stalled over the legal nature of the code, with Northern countries insisting that it should be purely voluntary while the Southern countries argued that it should be binding. Talks came to an end altogether in 1992, when the UNCTC was closed down by Secretary-General Boutros-Ghali.¹⁷

With the fall of the Berlin Wall in 1989 and the concurrent acceleration of global market integration fueled by liberalization and technology, a growing number of developing countries embraced export-led growth and trade and investment liberalization.¹⁸ Throughout the 1990s, a statist view on development increasingly gave way to greater autonomy for the private sector.

The intergovernmental processes of the UN, however, were slow in adapting to new realities. Early efforts by the United States to build political support for the role of business were met with skepticism.¹⁹ Most developing countries preferred the UN to remain within the old North–South paradigm, in the hope of increasing development assistance or, more generally, of expressing numerous and varied grievances. Remnants of this manner of thinking continue up to the present.²⁰

The UN, however, ultimately did find a way to connect with the zeitgeist, in the rapid rise of other global nonstate actors, especially NGOs.²¹ This comes through clearly in the format of major global meetings on sustainable development, gender, population, and urbanization.²² Through its global conferences, the UN found

¹⁷ For a review of the former UN Center on Transnational Corporations, which was abolished in 1992, see Tagi Sagafi-nejad, John H. Dunning, and Howard V. Perlmutter, *The UN and Transnational Corporations: From Code of Conduct to Global Compact* (Bloomington, IN: Indiana University Press, 2008). Professor Sagafi-nejad's review has a critical omission of the fact that the Code of Conduct on transnational corporations was ultimately accepted by all parties involved, including the US business community as represented by the US Council for International Business (USCIB). However, the US business community recommended against delegating authority to the UN to implement the Code of Conduct. On this important point, see testimony by Abraham Katz, former president of the USCIB, before the US Senate's Sub-Committee on International Economic Policy, Trade, Oceans, and Environment, which held hearings to review the United Nation's Code of Conduct on Transnational Corporations on October 10, 1990.

¹⁸ UNCTAD, *Foreign Direct Investment and Financing for Development: Trends and Selected Issues*, UNCTAD Doc. TD/B/COM.2/80 (2008).

¹⁹ See the 45th Session of the UNGA Res. 45/188 on Entrepreneurship (a/Res/45/188), the 46th Session of the UNGA Res. 46/166 on Entrepreneurship (a/Res/46/166), the 48th Session of the UNGA Res. 48/180 on Entrepreneurship and Privatization for Economic Growth and Sustainable Development (a/Res/48/180), and the 50th Session of the UNGA Res. 50/106 on Business and Development (a/Res/50/106).

²⁰ The deliberate choice of China and the G77 to use the UN to keep alive and advance issues of the past, often in contradiction to actual national policies, poses a major constraint for modernization of the Organization.

²¹ T. G. Weiss, *International NGOs, Global Governance, and Social Policy in the UN System*, GASPP Occasional Papers No. 3/1999 (Helsinki: Stakes, 1999).

²² Throughout the 1990s, the UN convened major global conferences, which included "parallel" gatherings of thousands of civil society actors, and others for the private sector, in Beijing (4th World Conference on Women, 1995), Cairo (International Conference on Population and Development, 1994), Copenhagen (World Summit for Social Development, 1995), and Istanbul (The 2nd UN Conference on Human Settlements, 1996).

a way to work with thousands of social groups and civil society organizations. By far the most important was the 1992 Earth Summit in Rio de Janeiro, where a small group of pioneer executives instituted the first business participation in an official UN event.²³ As a consequence of these conferences, the UN established various offices to support civil society engagement.²⁴ The effort later would stall, however, for political reasons.²⁵ In an effort to give more coherence and stronger institutional support to civil society organizations, former UN Secretary-General Kofi Annan appointed Fernando Henrique Cardoso, former president of Brazil to work out proposals. “We the Peoples: Civil Society, the UN and Global Governance, Report of the Panel of Eminent Persons on United Nations–Civil Society Relations”—(the Cardoso Report)—brought together recommendations to better support NGO engagement. However, this report was not supported by governments, and subsequent political turmoil associated with the Oil-for-Food story marginalized these issues altogether. Since then, the civil society composed of “We the Peoples” has been sidelined. The Cardoso Report was rejected by member states for a variety of reasons. First, at that point, Oil-for-Food debates were unfolding, and significantly undermining the former Secretary-General’s capacity to initiate and carry through institutional change. Second, a growing number of governments stalled as they were concerned about the rapid growth of civil society influence on global debates.²⁶

Despite such global outreach efforts, the UN failed to engage the private sector on a substantive, ongoing basis. Decades of statist planning and thinking and outdated hierarchical bureaucracies stifled innovation, and the human resources base of the organization was dominated by past ideological debates. Prevailing procedures, often dating back to 1946, cramped the possibilities for experimentation. The UN, in other words, was ill prepared to work with the private sector and the private sector had long ago formed a negative view of the Organization.

²³ The World Business Council for Sustainable Development was formed in January 1995 with the merger of the Business Council for Sustainable Development (BCSD) and the World Industry Council for the Environment. The BCSD was a direct outgrowth of the 1992 Earth Summit process. For a general review of the Earth Summit, see UN Conference on Environment & Development—Agenda 21.

²⁴ The Department of Public Information and the Department of Economic and Social Affairs dealt with NGOs, as part of the “major groups” concept that emerged from the Earth Summit.

²⁵ “We the Peoples: Civil Society, the UN and Global Governance, Report of the Panel of Eminent Persons on United Nations–Civil Society Relations,” UN Doc. A/59/354 (June 21, 2004) (New York: UN), 7.

²⁶ The number of ECOSOC-accredited NGOs has grown dramatically—from 176 NGOs with consultative status to over 2,000 NGOs in 2000. This rapid growth brought its own problems as some NGOs had strong backing from some governments or political groups. For example, the US-based National Rifle Association was quite effective in undermining efforts to regulate illicit arms trade through the Arms Trade Treaty. In 2001, as a compromise, a nonbinding agreement called Program of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects was adopted, and faith-based civil society organizations and Nobel Peace Laureates played a key role in pushing this agenda.

A NEW BEGINNING ON THE UN–PRIVATE SECTOR RELATIONSHIPS (2000–PRESENT)

But a fundamental change in relationship between the UN and the private sector started to take shape with the 1997 appointment of Kofi Annan as the UN Secretary-General. With a charismatic and courageous personality and deep understanding of the strengths and weaknesses of the Organization, Annan led an unprecedented phase of innovation. This included a complete reversal of the direction taken in the relationship with business. The “Global Compact” speech, on January 27, 1999 delivered in front of an audience of CEOs marked the beginning of the new era.²⁷ The launch of the Global Compact of “shared values” coincided with several other major innovations taking place directly prior to the terror attacks of 9/11.²⁸ After that point, the political climate around multilateralism started to deteriorate and unrealistic preferences undermined global collaboration.²⁹

The extraordinary phase of creativity early in Kofi Annan’s tenure was the result of a unique constellation of institutional leadership, political trends that favored multilateral solutions and economic change. At the institutional level, it was recognized that an increasingly pluralized international society and networked forms of state and nonstate governance³⁰ were opening up new opportunities. Through “entrepreneurial” and “intellectual” leadership through norm- and agenda-setting and through identification of novel ways of advancing collective interests,³¹ there could be a response to transnational challenges—the so-called “problems without passport”—and to the backlash against global openness and nondiscrimination.

At the political level, there was a unique constellation of world leaders supporting UN aspirations, and a general mood of positive thinking regarding multilateralism and market integration prevailed.³² This unique political constellation enabled “norm

²⁷ Georg Kell, “Note on Linking Universal UN Values with the Global Reach of Business” (1998), http://www.unglobalcompact.org/AboutTheGC/stages_of_development.html.

²⁸ The Millennium Declaration and the creation of the Millennium Development Goals, the creation of the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and a series of institutional reforms which reshaped the organization. A US\$1 billion donation by the founder of CNN, Ted Turner, on behalf of UN causes in 1997, added much excitement about new forms of financial contributions to the Organization.

²⁹ For an uplifting and more credible counter perspective, see David Cannadine, *The Undivided Past: Humanity beyond Our Differences* (New York: Alfred A. Knopf, 2013).

³⁰ See Anne Marie Slaughter, “Sovereignty and Power in a Networked World Order,” *Stanford Journal of International Law* 40 (2004): 283; Jan Martin Witte, Wolfgang Reinicke, and Thorsten Benner, *Networked Governance: Developing a Research Agenda* (New Orleans: Annual Convention of the International Studies Association Meetings, 2002).

³¹ For a detailed analysis of this “constructivist” interpretation, see Richard Jolly, Louis Emmerij, and Thomas Weiss, *UN Ideas That Changed the World* (Bloomington, IN: Indiana University Press, 2009).

³² Tony Blair, Luiz Inácio, Lula da Silva, Bill Clinton, as well as Jacques Chirac, were frequently supporting UN causes.

entrepreneurs”³³ to create new forms of engagement with nonstate actors, especially the private sector, that went beyond the Organization’s traditional domains.³⁴ Prior to the tragedy of 9/11, governments were not only willing to lend political support to the intellectual leadership of the UN, but also were interested in bringing ideas there.³⁵

Market-related developments also favored a UN opening to commercial forces. China’s decision to join the World Trade Organization (WTO), transportation and communication innovations, and sustained market opening around the globe spread know-how and investments at unprecedented levels. But even as business went global, trade unions and environmental, human rights, and protest groups railed against global corporations and against organizations concerned with rule-making for markets.³⁶ Against this background the Global Compact idea was constructed as an optimistic concept to leverage the best the UN had to offer—universal principles derived from international frameworks—as part of the solution to contemporary policy and market dilemmas.³⁷

While the first efforts to reach out to the business community were made as early as 1997,³⁸ it was the speedy establishment of the Global Compact and subsequent engagements that brought about a historic shift in the relationship.³⁹ This

³³ For case studies on “norm entrepreneurs,” and the emergence of norms, see Simon Rushton, “The UN Secretary-General and Norm Entrepreneurship: Boutros-Ghali and Democracy Promotion,” *Global Governance* 14 (2008): 95–110; Navroz K. Dubash, “Global Norms Through Global Deliberations? Reflections on the World Commission on Dams,” *Global Governance* 15 (2009): 218–38; Giobanni Mantilla, “Emerging International Human Rights Norms for Transnational Corporations,” *Global Governance* 15 (2009): 279–98; and Justin Gest et al., “Tracking the Process of International Norm Emergence: A Comparative Analysis of Six Agendas and Emerging Migrants Rights,” *Global Governance* 19 (2013): 153–85.

³⁴ Following the formal launch of the UN Global Compact on June 26, 2000, in the ECOSOC Chamber, several governments stepped forward to a Trust Fund without solicitation.

³⁵ In 2000, the author of this article was asked to review and to advise on a twenty-page technical note from the UK’s Prime Minister’s office and the office of Kofi Annan, to advance the idea contained therein. It was the outline of a global fund to fight HIV/AIDS, of what would soon become the UN’s largest health-related fund, known today as the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

³⁶ The World Bank and the WTO were primary targets, with protests (especially around the 2001 WTO ministerial meeting in Seattle) attracting a high level of public attention.

³⁷ A series of meetings with CEOs under the auspices of the International Chamber of Commerce helped to prepare the ground for overcoming past hostilities. See Kell, “Twelve Years Later.”

³⁸ The speech was developed between June and December 1998. Please see the internal note developed by the author, making the case for embedding universal UN values into the business community—Georg Kell, “Note on Linking Universal UN Values with the Global Reach of Business.” In addition, the two key architects of the idea published a joint article shortly after the speech was delivered. See Georg Kell and John Ruggie, “Global Markets and Social Legitimacy: The Case of the ‘Global Compact,’” in *The Market or the Public Domain? Global Governance and Asymmetry of Power*, ed. D. Drache (London: Routledge, 2001), 321–34.

³⁹ The Global Compact was launched on June 26, 2000, based on the engagement notions of “learning,” “dialogue,” and “partnership.” Forty-seven CEOs from all continents meeting in the ECOSOC Chamber made a public commitment to the principles of the UN Global Compact. The International Chamber of Commerce would advocate the Global Compact to its members and over sixty national employers federations welcomed and endorsed the body.

relationship now has come full circle. What started off in 1945 as a promising albeit brief partnership, but was buried for decades under the ideological clouds of the Cold War, was resurrected through alignment with political and economic change and enabled by constructive institutional leadership.⁴⁰

The 1999 Global Compact speech laid the foundation for a thriving initiative while simultaneously enabling other UN entities to explore cooperation with the private sector. It gave strong impulse to the articulation of the role of business in the work of the Organization.

The Millennium Declaration of 2000⁴¹ and the Monterrey Consensus of 2002 articulated at the level of heads of state that the private sector has an important role to play. The spread of voluntary schemes for corporate social responsibility was encouraged in particular by the sweeping Declaration endorsed by 150 heads of state and government in New York. The Millennium Declaration, from which the Millennium Development Goals are derived, contained proposals on cooperation with business and called for “greater opportunities for the private sector, nongovernmental organizations and civil society in general to contribute to the realization of the Organization’s goals and programmes.”

The Consensus reached at the International Conference on Financing for Development in 2002 in Monterrey, Mexico, placed economic issues—domestic resource mobilization, trade, external debt, cross-border investment, and global financial architecture—squarely on the UN agenda. It brought together finance ministers with heads of state and foreign ministers and was the first ever high-level UN gathering to involve an exchange of views between governments, civil society, and the business community.

Sandwiched between these two seminal summits, the UNGA introduced in 2001 a new plenary item, “Towards Global Partnerships,” which formulated a constructive basis for the UN–private sector relationship. Succeeding resolutions elaborated on the relationship and provided critical political support.⁴² At last the political consensus at the UN had caught up with the fact that almost all countries had long ago embraced market-based approaches to growth and development. Former calls for stiff regulatory regimes, such as those articulated in the Code of Conduct on Transnational Corporation of the New International Economic Order, had given way to voluntary codes.⁴³

Civil society organizations have also played an important role in influencing the behavior of business in general, both in their “watch dog” function and as legitimate partners in implementation of sustainability exercises. While

⁴⁰ Kofi Annan surrounded himself with highly competent and dedicated advisors, who had a deep understanding of the Organization’s topography.

⁴¹ A/RES/55/2 (September 18, 2000), para. 30. See also the Millennium Report of the Secretary-General, *We the People: The Role of the United Nations in the 21st Century*, A/54/2000 (March 27, 2000).

⁴² For political background, see Kell, “Twelve Years Later.”

⁴³ Sagafi-nejad, Dunning, and Perlmutter, *The UN and Transnational Corporations*.

wide diversity—from small, local single-issue groups to multi-issue, international NGOs—makes generalization difficult, it can be said with confidence that they have exerted a distinct influence on the UN–private sector relationship. Campaigns against sweat shops by human rights organizations or environmental groups’ exposure of pollution caused by multinational corporations have played a key role in shifting corporate respect for communities and the environment. Voluntary private sector engagement is dependent not only on government mandates, explicit or implicit; it must also be earned in the public domain, where NGOs wield considerable influence.

Following their ascendance as participants in major UN conferences of the 1990s, NGOs voiced considerable suspicion, if not opposition, when the UN started to reach out to business. Various groups were formed explicitly to counter private sector engagement after the Global Compact was formed, even though from inception the Compact included cross-sectoral leaders, labor organizations, and civil society representatives on its Board. Subsequent governance reforms within the Global Compact further articulated the respective roles of the private sector and civil society. Over time, more and more NGOs have aligned themselves with the UN Global Compact and its emphasis on engagement with the private sector. They are valuable partners whose critical voice continues to be of great importance across all Global Compact activities.

After a decade of experimentation, a parallel Private Sector Track was organized at the Fourth UN Conference on the Least Developed Countries (LDC-IV), taking place in Istanbul, Turkey, in 2011, to explore ways to overcome barriers to investment in LDCs and to form risk-mitigating collaborations.⁴⁴

The largest ever private sector gathering held in parallel with a UN conference, the Corporate Sustainability Forum in Rio De Janeiro in June 2012, attracted over 3,000 corporate and civil society participants. Emerging from workshops and meetings were numerous new initiatives and a new global narrative on the corporate sustainability agenda.⁴⁵ The Corporate Sustainability Forum influenced the official Rio+20 outcome document,⁴⁶ inspired over 200 commitments from business, and helped to launch new initiatives and scale up existing ones. It showed for the first time that business was willing to move ahead on sustainability irrespective of progress logged at intergovernmental negotiations.

Against this background, the following section highlights how UN–private sector relationships have been shaped by the interplay of political, market economy, and institutional change since the launch of the UN Global Compact.

⁴⁴ More than 400 executives participated in over thirty sessions, together with numerous delegates of the intergovernmental conference. See http://www.un.org/wcm/webdav/site/lde/shared/A_66_134.pdf.

⁴⁵ See http://unglobalcompact.org/docs/news_events/2012_CSF/Rio_CSF_Overview_Outcomes.pdf.

⁴⁶ See para. 46 of the outcome document—A/RES/66/288—GA Resolution: The Future We Want (2012), http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/66/288&Lang=E.

INSTITUTIONAL DEVELOPMENTS

At the institutional level, efforts were made as early as 2000 to modernize the Organization to make it fit for engaging the private sector.⁴⁷ Mostly young professionals across many UN entities spearheaded a quiet revolution from within. A first-ever “Private Sector Focal Point,” organized in 1999, brought together fifteen UN staff and about the same number of business and civil society representatives. Annual meetings would attract an ever greater and more senior participation. The most recent, held in 2013 again at ILO Headquarters in Geneva, attracted over 300 participants for three full days to review lessons and to formulate proposals to heads of UN entities on how to improve the environment for cooperation.⁴⁸

Additional learning tools have emerged, such as quarterly newsletters and a shared UN system-wide website⁴⁹ to foster coherence. Moreover, the Global Compact from its inception commissioned numerous guidance and resource materials to advance political understanding of the UN–private sector relationship,⁵⁰ its conceptual development, and its operational application.⁵¹

The Organization had to learn the hard way, in the context of the Iraq invasion and the subsequent Oil-for-Food crisis, that its biggest asset in building relationships with the private sector is its brand value. Most reform efforts such as devising robust engagement for civil society as well as other institutional reforms not linked to procurement came to a sudden halt, as did movement on relationships with the private sector.⁵²

The Global Compact, however, responded with an outburst of innovation, engaging institutional investors and launching the “Principles for Responsible Investment” (PRI)⁵³ at the New York Stock Exchange in 2005. PRI, whose aim is to integrate ESG

⁴⁷ In 2000, just before the launch of the Global Compact as an initiative, the first UN Business Guidelines were issued to give guidance to UN staff. See <http://www.un.org/partners/business/other-pages/guide.htm>. These Guidelines were updated in 2009. See http://www.un.org/wcm/webdav/site/ldc/shared/A_66_134.pdf.

⁴⁸ See http://unglobalcompact.org/Issues/Business_Partnerships/meetings_workshops.html for reports on the UN System Private Sector Focal Points Meetings.

⁴⁹ See <http://business.un.org/>.

⁵⁰ Starting 2001, reports of the Secretary-General to the UNGA formed the basis for consensus building. See http://unglobalcompact.org/Issues/Business_Partnerships/reports_resolutions.html.

⁵¹ For an overview of relevant resources, see UN Global Compact and GPPI, *UN Business Partnerships: A Handbook* (2013); Jane Nelson, *Building Partnerships: Cooperation Between the United Nations System and the Private Sector* (New York: UN Department of Public Information, 2002).

⁵² At the peak of the Oil-for-Food crisis in 2006, even the strongest corporate supporters of the UN, companies from the Nordic countries, slowed down their engagement and in private discussions raised concerns on brand issues.

⁵³ See <http://www.unpri.org/>.

issues⁵⁴ into investment analysis and decision-making, has since been spun off and has evolved into the world's largest investor-led initiative, representing over US\$30 billion in assets under management. The now London-based PRI maintains close and important working relationships with the Global Compact across a wide range of issues.

With the appointment of Ban Ki-moon as Secretary-General, private sector engagement took a decisive step forward. He showed gracious leadership by embracing the Global Compact and accepting an invitation to chair its board. Under his leadership, new engagements were developed, including the CEO Water Mandate, Principles for Responsible Management Education (PRME), Sustainable Stock Exchanges Initiative (a joint initiative of the PRI, United Nations Environment Programme-Finance Initiative (UNEP-FI), UN Conference on Trade and Development (UNCTAD) and United Nations Global Compact (UNGC)), Caring for Climate (a joint initiative of the United Nations Framework for Climate Change Convention (UNFCCC), United Nations Environment Programme (UNEP), and UN Global Compact), and Women's Empowerment Principles (a joint initiative of the UN Women and UN Global Compact). Further initiatives since then involving philanthropists and civil society in Every Woman Every Child (EWEC), Sustainable Energy for All (SE4All), and Education First⁵⁵ have produced remarkable uptake.

In addition, Secretary-General Ban made specific efforts to engage with business participants through Global Compact country networks during his various country visits.⁵⁶ Starting in 2008, he institutionalized the Annual Private Sector Forum, a Global Compact-organized event for CEOs and government officials in conjunction with the opening of each annual UNGA. This mechanism ensures that private sector solutions garnered from an informal setting will inform subsequent Assembly debate.⁵⁷ Secretary-General Ban's institutional leadership has played a critical role in bringing the private sector into intergovernmental processes via, for example, the Private Sector Track of the Fourth Conference on the Least Developed Countries and the Corporate Sustainability Forum adjunct to the Rio+20 UN Conference on Sustainable Development.

⁵⁴ The term "ESG," now globally used in the global finance and investment community, was coined at one of the most successful projects undertaken by the Global Compact, called "Who Cares Wins": http://www.unglobalcompact.org/docs/issues_doc/Financial_markets/who_cares_who_wins.pdf. The project established that investors have a fiduciary responsibility regarding nontraditional financial issues that possess material relevance.

⁵⁵ See <http://www.everywomaneverychild.org/>, www.sustainableenergyforall.org/, and <http://www.globaleducationfirst.org/>.

⁵⁶ He met a delegation of business leaders around the world during his official missions. Such encounters occurred in Brazil, Bulgaria, China, Denmark, Myanmar, Nigeria, Japan, the Republic of Korea, and Spain among others.

⁵⁷ Topics covered so far include the Millennium Development Goals, food security, energy, and climate change. For reports on these meetings, see http://www.unglobalcompact.org/Issues/Business_Partnerships/meetings_workshops.html.

ECONOMIC DEVELOPMENTS

Besides institutional changes, a number of market-led and broader business-society issues are deeply influencing the UN-private sector relationship, as global market integration progresses. They also take in upheavals such as the financial crisis of 2008 and outbreaks of social unrest in diverse parts of the world.⁵⁸

First, as companies have gone global, they no longer can count on the relative predictability of national consensus on business-society questions in the country where they are headquartered. As companies have grown eastward and southward following migrating economic growth, they are building global value chains and investing in new markets. This brings with it a rapid diffusion of know-how and has helped hundreds of millions to escape abject poverty while ensuring economic growth.⁵⁹

But it also exposes corporations to risks that must be managed without the advantage of government support. Traditional boundaries between public and private goals have become fuzzy. Since power and responsibility go hand in hand, business is expected to do more in areas that used to be the exclusive domain of the public sector, ranging from health and education, to community investment and environmental stewardship.

Global companies today operate subsidiaries in locations exposed to extreme poverty, unacceptable working conditions, environmental degradation, systemic corruption, and daily violence. Under such conditions, corporations have a choice to make. They can either uphold high standards, based on universal principles agreed upon by governments and advanced by the UN Global Compact, or they can muddle through. Large domestic companies in emerging and developing markets face similar choices. For these companies, corporate sustainability and responsibility have immediate material relevance. Complying with principles of corporate sustainability and responsibility can mean the difference between costly damage to growth prospects, on the one hand, or the opportunity to build long-term trust in the communities where they operate, on the other.

Second, the rapid diffusion of communication technologies and the empowerment of people through access to information have powerful implications for corporate responsibility. Hiding missteps or negative fall-out from investments and operations, no matter how far down the supply chain, is no longer an option. Transparency, including significant improvements in disclosure on social,

⁵⁸ For a good review of broader business-society trends, see Joanne T. Lawrence and Paul W. Beamish (eds.), *Globally Responsible Leadership: Managing According to the UN Global Compact* (London: Sage, 2013); and Andreas Rasche and Georg Kell (eds.), *The United Nations Global Compact: Achievement, Trends and Challenges* (Cambridge/New York: Cambridge University Press, 2010).

⁵⁹ *Millennium Development Goals Report 2014* (New York: UN, 2014)

environmental, and governance issues, has become a necessary tool for management and societal engagement.

Furthermore, information accessibility and the spread of social networks on the Internet are challenging traditional forms of authority. Earning “a license to operate” increasingly requires public legitimacy. And this can only be earned through proactive engagement on the topics that move societies. The ascendancy of the stakeholder concept over the past decade is a testimonial to this crucial development.

Moreover, as technology and market interdependencies connect people and nations ever closer, debate about values and morals has moved to the forefront of corporate strategy. For corporations searching for globally applicable benchmarks, the decades of work by the UN obviously play an important role. This is where the UN Global Compact and the “power of the principles” lend a unique value: its guiding Ten Principles are derived from frameworks on human rights, labor, environment, and anticorruption to which all governments have agreed.

Having a reference point is a helpful first step. But the real challenge comes when principles are tested in difficult environments. By joining together with like-minded corporations either at global level or through the over eighty Global Compact country networks, businesses are learning how to advance and partner on challenging business issues such as corruption, climate adaptation, child labor, gender equality, and water scarcity, with an array of innovative collaboration models emerging. And as planetary boundaries place an ever greater premium on natural goods such as air, water, and biodiversity, fundamental questions of valuation and accounting are bound to gain relevance, blurring accepted definitions and challenging old concepts. The search for new boundaries that define the responsibilities of the private sector is taking place locally and varies greatly from country to country.

Finally, long-term trends of inequality and youth unemployment, laid bare and exacerbated by the 2008 financial crisis, pressure business to search for new forms of responsible capitalism,⁶⁰ including a willingness to engage stakeholders over and above shareholders;⁶¹ development of brand affinity with public organizations; and commitment to responsible practices,⁶² especially through partnerships with

⁶⁰ Already low, trust in business and public institutions plumbed new depths following the financial crisis. The 2013 Edelman Trust Barometer demonstrates this amply. See <http://www.edelman.com/insights/intellectual-property/trust-2013/>.

⁶¹ The “stakeholder” model traditionally has been seen as an ideological counter to the position of Milton Friedman. Most multinational corporations now accept it. For an early conceptual description of the model, see Jim Bendell (ed.), *Terms for Endearment: Business, NGOs and Sustainable Development* (Sheffield: Greenleaf, 2000). See also Milton Friedman, “The Social Responsibility of Business is to Increase its Profits,” *New York Times Magazine*, September 13, 1970, 122–6.

⁶² For a recent comprehensive review, see Oliver F. Williams, *Corporate Social Responsibility: The Role of Business in Sustainable Development* (Global Institutions, Routledge, 2013).

UN organizations. The above trends not only increase the propensity of the private sector to seek engagement with the UN and with its various bodies.⁶³ At a more fundamental level, they change the valuation of what used to be external to business: environment, social stability, human rights, and good governance (anti-corruption). These factors are now integral to the corporate risk-and-opportunity equation and give rise to what today can be called a new global movement of corporate sustainability.⁶⁴

Based on universal values, where long-term success trumps short-term shareholder return, this movement is defined as the ability to deliver long-term value in financial, environmental, social, and ethical terms.⁶⁵ Global trends, and the intensifying impact of nontraditional financial issues on investment decisions, significantly strengthen market-led incentives for sustainable development⁶⁶ and open up new opportunities to align on a massive scale with global challenges on the UN agenda.

POLITICAL DEVELOPMENTS

The introduction in 2001 of a new plenary item “Towards Global Partnerships” has created a space to articulate UN member states’ vision of the UN–private sector relationships. Initially contentious debates soon evolved into effective deliberations, gradually leading to recognition of the role of the private sector. Succeeding resolutions highlighting the importance of responsible corporate citizenship, public–private partnerships, and the supportive role of the UN Global Compact drew on support from governments in the North and South, East and West alike, that see the UN Global Compact as an approach that does not compete with but is complementary to regulatory intervention. They comprehend that engagement through the UN Global Compact is an additional means of mobilizing private sector activities in support of public policy goals.

⁶³ The increase of partnerships between the UN and business is documented in the Global Compact Annual Implementation survey.

⁶⁴ This “updated narrative” of the role of business in society first articulated around the Corporate Sustainability Forum, held in June 2012 in Rio de Janeiro. See http://unglobalcompact.org/docs/news_events/2012_CSF/Rio_CSF_Overview_Outcomes.pdf.

⁶⁵ For detailed definitions, see the UN Global Compact Blueprint for Corporate Sustainability Leadership, http://www.unglobalcompact.org/docs/news_events/8.1/Blueprint.pdf.

⁶⁶ Robert G. Eccles, Ioannis Ioannou, and George Serafeim, *The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance*, Harvard Business School Working Paper 12-035 (2012).

Governments also support the UN–private sector agenda and responsible business practices through other platforms such as the Group of Eight, African Union, and diverse multilateral declarations. This support is due to a variety of reasons. In many developing countries, the UN Global Compact is viewed as a way to support modernization and economic integration. In Organisation for Economic Co-operation and Development (OECD) nations, the UN Global Compact is often regarded favorably as a policy option to address the backlash against global integration and trade liberalization. Political support of governments plays a critical role in that it lends political legitimacy to UN–private sector engagement.

But the launch of the Global Compact and other voluntary private sector initiatives hardly silenced calls for legally binding treaty approaches to regulate business behavior through multilateral organizations.

Already in 1976, the OECD Guidelines for Multinational Enterprises defined ethical principles and standards for transnational corporations. And in 1977, the ILO followed with a Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy. These government-based instruments include provisions for dialogue at the national level.

Nevertheless, calls for international regulation surfaced again within the UN. This time they came from an obscure working group of a subcommittee of the former Geneva-based Commission on Human Rights. The working group produced a code of conduct on Human Rights in 2003, with “draft norms” that included UN monitoring and verification of compliance by enterprises, despite the UN’s patent lack of capacity or mandate to do so.

The Commission on Human Rights rejected the draft norms, while granting that they contained “useful elements and ideas.” A year later, the Commission requested the appointment of a special representative to develop a conceptual and policy framework clarifying the human rights responsibilities of transnational corporations under international law.

Immediately after the failure of the draft norms to command sufficient support in the Human Rights Council (the successor body to the Commission), Special Representative of the UN Secretary-General John Ruggie set in motion a three-year process of research and consultations with governments, business, and civil society. It resulted in the submission of a proposal, “Protect, Respect and Remedy: A Framework for Business and Human Rights,” which the Council endorsed in 2008.⁶⁷

Mindful of the long-standing and deeply divisive debates that had split the UN, Ruggie from the outset made it clear that he would take a different approach. Instead of seeking to create new legal norms imposing direct obligations on transnational corporations, his aim would be to build a consensual “conceptual framework”

⁶⁷ Special Representative of the Secretary-General, *Protect, Respect and Remedy: A Framework for Business and Human Rights*, UN Doc. A/HRC/8/5 (2008) (‘the Framework’).

identifying normative guidelines for the application of current human rights standards in regard to the human rights responsibilities of states, corporations, and other social actors.

His “framework” is thus based on the notion of “differentiated but complementary responsibilities” and rests upon three pillars: the state’s responsibility to protect against human rights abuses by third parties, including business, through appropriate policies, regulation, and adjudication; the corporate responsibility to respect human rights—that is, the obligation to act with due diligence to avoid infringing on the rights of others and to address adverse impacts that occur; and greater access by victims to effective judicial and nonjudicial remedies.

In March 2011, Ruggie issued his “Guiding Principles on Business and Human Rights: Implementing the UN ‘Protect, Respect and Remedy’ Framework,” outlining means for implementation by states and businesses. An online consultation on the draft running from November 2010 through January 2011 preceded final adoption by the Council in June 2011.⁶⁸

Since its adoption by the Human Rights Council, the Guiding Principles have been endorsed by numerous organizations. As an implementation mechanism of its own, the OECD revised its guidelines to fully incorporate the Guiding Principles of the Framework.⁶⁹ The UN Global Compact itself, through its human rights and workplace principles, has advanced the Guiding Principles, especially via the “Corporate Responsibilities to Respect.”

The drafting and adoption by consensus by the Human Rights Commission are an extraordinary accomplishment of norm entrepreneurship. But they also have provided critical support to protect other voluntary initiatives and more generally, they have helped to underscore the importance of the UN’s normative word, which arguably is the most important comparative institutional advantage the UN has while working with the private sector.

OUTLOOK FOR THE FUTURE

Political and market-led changes have greatly influenced the UN–private sector relationships from the founding of the UN in 1945. The conviction that peace and

⁶⁸ Special Representative of the Secretary-General, *Guiding Principles on Business and Human Rights: Implementing the UN “Protect, Respect and Remedy” Framework*, UN Doc. A/HCR/17/31 (March 21, 2011) (‘the Guiding Principles’). The document can also be retrieved from http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

⁶⁹ John Ruggie, *Just Business: Multinational Corporations and Human Rights* (New York: W. W. Norton & Company, Inc., 2013).

prosperity, on the one hand, and trade and investment, on the other, are mutually supportive, and can only be built on the foundations of rule-based interdependence, were soon overshadowed by Cold War ideological battles and statist views on growth and development. But more than five decades later, the partnership of San Francisco was recovered. Following the launch of the UN Global Compact in 2000, cooperation with the private sector became politically acceptable and institutionally supported.

Although the UN was initially ill-prepared to work with the private sector, lacking skills and required operational infrastructure, a decade of experimentation and learning by doing, often starting at the periphery of the UN entities, has brought about numerous changes at the intergovernmental, institutional, and operational levels.⁷⁰ This “silent reform” within the UN⁷¹ has also started to change the culture and methods of work in some UN entities, and has helped to introduce brand management, modern management formats, more effective use of technology, and, in some instances, opensourced, networked collaborations.

Given the diversity of mandates, missions, institutional leadership, and operational competencies, especially at the country level, engagement with the private sector has evolved unevenly across UN organizations. A few general rules nevertheless stand out:

- Private sector engagement is a complement and not a substitute for government and civil society engagement. UN entities need government support and mandates to engage with the private sector. Lasting impact and substantive change can only be achieved if governments play their role in enabling and empowering private sector solutions to go to scale.⁷²
- Early expectations that private sector engagement would be a panacea, especially regarding fundraising, have given way to more realistic expectations. Along with this realism has come understanding of differentiation between for-profit enterprises, on one hand, and foundations and wealthy individuals, on the other.
- An opportunistic “partnership for the sake of partnership” has given way to more strategic and transformational approaches. These methodologies distinguish between the motives of the private sector regarding (a) core business operations

⁷⁰ These changes are documented in biannual reports to the UNGA: A/RES/66/223, A/RES/64/223, A/RES/62/211, A/RES/60/215, A/RES/58/129, A/RES/56/76, http://www.unglobalcompact.org/AboutTheGC/Government_Support/general_assembly_resolutions.html.

⁷¹ Georg Kell, Ann-Marie Slaughter, and Thomas Hale, “Silent Reform through the Global Compact,” *UN Chronicle* 44/1 (2007).

⁷² Government governance failure itself is a major cause of human suffering as is evidenced by systemic violence and corruption across many countries. See the Rio+20 CSF Overview Outcomes for an overview of policy measures that can scale up corporate best practices: http://unglobalcompact.org/docs/news_events/2012_CSF/Rio_CSF_Overview_Outcomes.pdf.

and value chain, (b) social investment, and (c) advocacy.⁷³ Specific modalities within the Organization have been developed accordingly.⁷⁴

Guidance, knowledge, and learning facilities have been developed for this relationship and are readily accessible. However, a number of institutional barriers constrain further evolution of the relationship with the private sector. Many UN entities lack the human resources capacities to effectively make use of the relationship, or are constrained by outdated procedures and policies. The lack of reform⁷⁵ is especially grave at country levels, where the absence of coherence undermines the ability to engage with the private sector.

Clearly, the future of the UN–private sector relationship will be influenced by how UN entities deal with these challenges.

Cultural and organizational differences between the UN and the private sector have long formed a hurdle that had to be overcome to build effective collaboration. Private sector engagement began on an experimental basis, often on the periphery of the UN system. Very few UN entities so far have demonstrated institutional leadership and put in place strategies, procedures, and the right human capital. Many have not yet undertaken the required institutional changes, and private sector engagement remains a precarious venture.

UN efforts to engage the private sector are often centered around Headquarter affairs—celebratory dinners, banquets, etc. But nearly 90 per cent of all private sector partnerships are conceived locally, in lands faraway from New York. To achieve greater impact and scale, the UN and its entities will need to build more coherent country networks.⁷⁶ Local engagements are also a key to securing political support from emerging market and developing countries, as Headquarters activities tend to be dominated by multinationals from OECD countries.

Despite some progress, policy gaps and institutional barriers hold back development of the relationship and pose risks to its future and to the reputation of the Organization. Important aspects of the relationship lack internal guidance and a strategic approach, in particular as regards raising funds from the private sector. Other

⁷³ “One UN” was an important reform issue in 2005–7. For more information, see the Secretary-General’s High-Level Panel Report on UN System-wide Coherence in the areas of Development, Humanitarian Assistance, and the Environment: *Delivering as One* (2006), <http://www.un.org/events/panel/resources/pdfs/HLP-SWC-FinalReport.pdf>.

⁷⁴ For an overview, see UN Global Compact and GPPI, *UN Business Partnerships: A Handbook* (2013).

⁷⁵ At UN Headquarters, outdated and defensive procedures and guidance regarding the use and name of logo and pro-bono policies as well as the absence of any guidance on fundraising with the private sector are examples of this lack of institutional reform.

⁷⁶ The UN Global Compact, partly out of frustration with the lack of progress to embed the UN values through UN operations at the country level created its own local infrastructure with now over 100 Local Networks, increasingly driving activities bottom-up. See UN Global Compact, *Local Networks Report 2012*.

policy measures, such as the UN's stipulations on *pro bono* assistance, are outdated. Accountability and transparency measures, as well as proper impact assessments, are underdeveloped and not evenly applied. Filling these voids and building strategic capacities to assess risks and opportunities on an ongoing basis are required for the relationship to grow with integrity, and to avoid or to better manage associated risk.

An even more serious constraint is the lack of institutional capacity to scale up the relationship. The UN Global Compact could not have grown to its current size without its unique public-private, network-based governance structure and the efficiency of its foundation.⁷⁷ Conversely, transactional one-to-one partnerships are constrained in their impact due to the institutional capacity limitations. Large-scale and transformative cooperation requires long-term investment in governance and in partnership role definitions. A few UN entities—notably, UNICEF—have recognized this and have adapted their procedures for scalable engagement.

A successful strategy requires not only a deep understanding of market-led changes and motives for private sector engagement, but also a realization of the institutional advantage the UN brings to the table. Its convening power, universal membership, and technical knowledge in certain areas are important aspects. But arguably even more important is the UN's ability to leverage moral authority and to convey legitimacy. This quality constitutes its *unique* comparative advantage. It can be leveraged to ensure that the private sector adheres to basic UN principles and values, while encouraging actions and partnerships that advance UN goals.

This moral legitimization takes place through the key values of “respect” and “support.” “Respect” signifies doing no harm and abiding by international minimum standards. This quality confers upon the UN a standard-setting role that no other world actor can play, underpinning efforts to strengthen the rule of law and to realize humanity's shared aspiration to live in peace and dignity. It is a critical value that the private sector should tap in building trust and stakeholder engagement and in demonstrating the commitment to “do no harm” is now expected of all businesses by stakeholders.

“Support” defines the opportunities for action, collaboration, and engagement beyond the avoidance of harm. There are many opportunities to advance the concept of “support.” Quite often the same methods that identify risk and adverse impacts produce knowledge and practical solutions that can be called upon while actively doing good. There is thus a mirror relation between “respect” and “support.”

UN-business collaboration promotes both “respect” and “support” to ensure that partnerships are instilled with strong UN values.⁷⁸ The concept of corporate

⁷⁷ For more information on the Foundation for the Global Compact, see http://unglobalcompact.org/AboutTheGC/The_GC_Foundation.html.

⁷⁸ Successful examples of scalable engagement that strike a balance between “respect” and “support” include Children's Rights and Business Principles (<http://childrenandbusiness.org/>), Women's Empowerment Principles (<http://weprinciples.org/>), the CEO Water Mandate (<http://ceowatermandate.org/>), and Caring for Climate (<http://caringforclimate.org/>).

sustainability advocated by the UN Global Compact marries the notions of respect and support to that of responsibility and partnership. Nevertheless, there is no one-size-fits-all approach for UN entities. Each one will have to devise its own distinctive methodology for partnering with the private sector, depending on its mission, products, operational capacity, and the scalability of its approach to business engagement.

Broad political and market trends continue to support the UN–private sector relationship. Almost all countries have embraced market models with private sector development at the center. So long as the world remains committed to openness and rule-based market integration,⁷⁹ governments will by and large support UN–private sector development, provided of course that it is impartial in regard to national interests and genuinely global, with the exclusive objective of serving the public good. Governments, however, are unlikely to overtly support major institutional reform to advance the relationship, as this would be perceived as potentially weakening their own exclusive status as member states. It is therefore likely that hybrid models will be the main vehicle to extend this agenda further.

Market-led changes are arguably the most powerful driver of the relationship. Private investment has become the dominant engine of development,⁸⁰ as investment undergoes a paradigm shift away from the classic lowest-cost sourcing model toward a long-term market-building model.⁸¹ One fundamental consequence of this trend is the increasing overlap of public and private goals. Classic UN issues and global agenda items, such as peace, human rights, environmental protection, anticorruption, water, education, and social inclusion, are no longer external to business. Business is influenced by these issues, and influences them, through its core operations and its external relations. Since power and responsibility cannot be separated, the case for becoming part of the solution rather than a cause of the problem is growing stronger.

While the great majority of private sector actors are still reluctant to commit to a role of contributing to public good issues, a growing number of them are willingly adapting their strategies and operations and exploring partnerships with the UN. They are looking for ethical, operational partnerships grounded in universally

⁷⁹ Volunteer private sector engagement could not function on a global scale if protectionism and inward orientation were to gain the upper hand.

⁸⁰ Net official development assistance (ODA) to developing country recipients rose from only \$53.9 billion in 2000 to \$128.5 billion in 2010 and \$133.5 billion in 2011 before falling to \$125.6 billion in 2012. But foreign direct investment (FDI) with a destination in developing countries had already reached \$240 billion in 2000 (out of a worldwide total of \$1.3 trillion). It rose to \$500 billion in 2007 (when FDI hit an all-time worldwide peak of \$1.8 trillion), and then to \$700 billion in 2012 (out of \$1.35 trillion worldwide). See UNCTAD, *World Investment Report 2013—Global Value Chains: Investment and Trade for Development*, UN Conference on Trade and Development, New York and Geneva (2013).

⁸¹ Global integration as corporate strategy also involves the relocation of core functions, including R&D, product development, and human resources management.

applicable principles to reduce risks and to build a better enabling environment.⁸² As long as a state of openness supports the flow of know-how and information, the business case for engaging will become stronger.

Against the background of a favorable yet uncertain political background, rapid technological change, and market development in the East and South, the UN possesses a historic opportunity to leverage its unique institutional advantage. The UN–private sector relationship has the potential to spread UN values and principles around the world, and thereby contribute to greater stability and cooperation and better environmental stewardship, respect for human rights, social inclusion, and governance. It holds the promise of accelerating the wide application of solutions to global challenges by blending public authority with private sector know-how, technologies, and resources.

To unlock the full potential of the relationship, however, the UN needs to reform itself, to build new forms of public–private governance, and to bring to scale what is currently mostly along the lines of ad hoc cooperation. It will need to engage in a more strategic manner with civil society, whose voices are critical to keep the UN itself honest and to build the public legitimacy without which the private sector relationship cannot flourish. The Organization will also need to cultivate government support of this undertaking by demonstrating the highest ethical standards and impartiality.

⁸² The UN Global Compact now has over 8,000 corporate participants, with half of them from non-OECD countries, where growth is the strongest.