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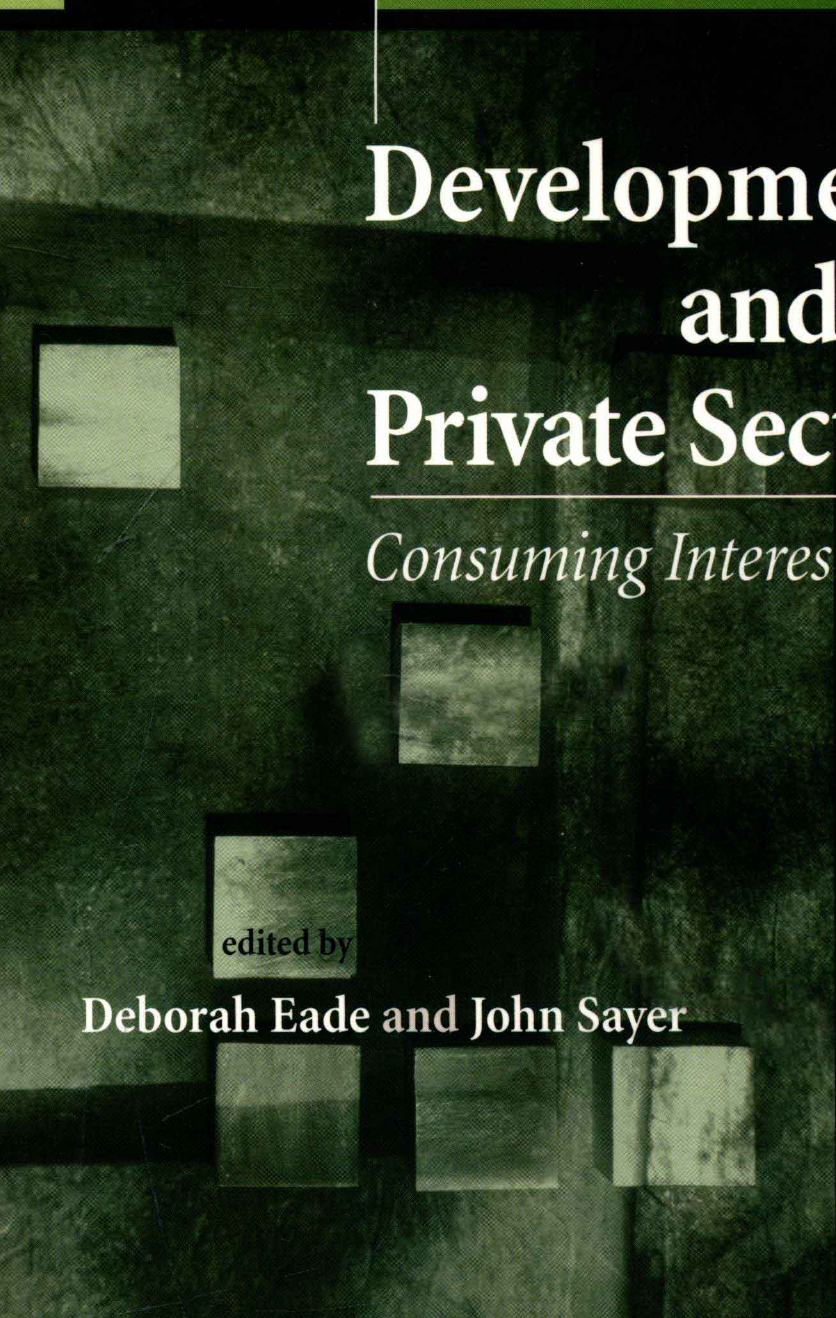
Development and the Private Sector

Consuming Interests



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Preface

DEBORAH EADE

The relationship between the private sector and development has not been far from the public eye since some of the earliest global campaigns denounced the aggressive or irresponsible marketing strategies of some of the pharmaceutical and agrochemical corporate giants throughout the world's poorest countries. These campaigns and their calls for consumer boycotts coalesced from the 1960s onward into transnational coalitions such as Consumers International (CI), the International Baby Food Action Network (IBFAN), Health Action International (HAI), and Pesticides Action Network (PAN), all of which are still very much alive and kicking today.[1] A number of codes of practice were also developed at that time, by the World Health Organization (WHO) in particular, in relation to the production and pricing of generic drugs and essential medicines, and to the marketing of harmful and addictive products such as tobacco and alcohol. Much of the focus of such initiatives in the 1970s and 1980s was on protecting the interests of consumers, especially those in the global South least able to protect themselves through, for instance, access to impartial—or, indeed, any—information about the drugs and pesticides for sale in their local markets. This was naturally followed by various fair-trade initiatives geared toward consumers in the North, ranging from products for which a new niche could be created on the supermarket shelves (such as coffee, tea, or chocolate) to promoting traditional craft items that could be sold through solidarity networks, charity shops, and stores specializing in handmade artifacts.

More recently, attention has turned to the social and environmental impact of transnational companies on the people in the countries in which their subsidiaries are based, or from which they purchase raw materials or source their products. The corporate social responsibility (CSR) movement has helped bring issues of labor rights and environmental damage to consumers in rich countries, and create pressure on companies to smarten up their act. How successful these efforts have been in achieving real change either in consumer habits or in corporate practice is doubtful, but they have certainly raised the stakes for those companies whose products are at the more visible end of the market. At the same time, however, neoliberal policies have increasingly been associated with the privatization of public utilities and so-called public-private partnerships whereby for-profit private companies take on the delivery of an array of social services, from prison security to pensions and health insurance, from postal and telecommunications systems to residential homes for the elderly. The results of such hybrid partnerships have been mixed, and seem to depend on the capacity of citizens (now recast as "clients" or "customers") to insist on comprehensive coverage of adequate quality. The obvious danger is that those who can afford to do so will opt out of a semi-privatized public system and choose their own supplier, and that the private contractors will gradually abandon (or, in some cases, never offer) any semblance of universal provision. In some cases, corporations and their shareholders have made phenomenal profits; in others, the quasi-privatized companies continue to depend on government handouts, though without the corresponding accountability expected of a publicly owned enterprise. It is paradoxical, therefore, that the Global Compact between the UN and the corporate sector should both underline the critical role of private enterprise in promoting (mal)development, and also give the appearance of conferring a clean—but seldom proven—bill of health on those companies choosing to participate in it.[2]

The private sector has, then, long been recognized as a key determinant of development, whether by facilitating or by undermining it. This book is a compilation drawn from an issue of the journal *Development in Practice*[3] guest-edited by John Sayer. In Chapter 1, Sayer illustrates something of the range and complexity of concerns encompassed by the subject, from bread-and-butter campaign issues such as ethical codes, labor rights, and fair trade to popular responses to the privatization of essential services and the role of small and medium-sized enterprises (SMEs) in generating employment and contributing to economic growth. With contributions from scholars and practitioners from around the world, we trust that these selections and the annotated resources list will together offer something of interest both to readers for whom this is familiar terrain and to those who are newer to the subject.

NOTES

[1] Although innumerable new organizations have emerged in the wake of developments in information technology, these four have gained in strength over their 20–30 years' existence. For instance, CI was founded in 1960 as the International Organisation of Consumers' Unions (IOCU), and today has 250 member organizations in 115 countries, working together to defend the rights and concerns of consumers worldwide. IBFAN was founded in 1979 and now comprises 200 affiliated groups around the world dedicated to promoting healthy infant nutritional practices, particularly breastfeeding. PAN International was founded in 1982, and today encompasses more than 600 member organizations around the globe; its current focus is on the promotion of food security and information about the dangers of adopting genetically modified organisms (GMOs). Established at the May 1981 World Health Assembly, HAI also has a global network working for universal access to appropriate health care and the rational use of drugs; a major focus has been on essential medicines and generic drugs, areas in which it collaborates closely with WHO.

[2] The Alliance for a Corporate-Free UN is a global network of human rights, environmental, and development groups concerned about undue corporate influence on the UN. It supports UN initiatives to hold corporations accountable on issues of human rights, labor rights, and the environment. For more information, see www.earthrights.org. See also Bruno and Karliner (2002) for a critique of how corporate PR is enhanced by involvement with the UN without any obligation for the corporation to make fundamental changes in its behavior.

[3] *Development in Practice* Vol. 15, nos. 3 and 4 (June 2005), published by Routledge, Taylor & Francis Group Ltd. on behalf of Oxfam GB. Summaries of all articles published in the journal are available free of charge in English, French, Portuguese, and Spanish at the journal's website, www.developmentinpractice.org.

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Abbreviations and Acronyms

AAMA	American Apparel Manufacturers Association
ADB	Asian Development Bank
AGOA	African Growth and Opportunity Act
ASMINDO	The Association of the Furniture Industry
ATPA	Andean Trade Preferences Act
BOP	Balance of Payments
BVQI	Independent Certification Body of Bureau Veritas
CAFTA	Central American Free-Trade Agreement
CAWN	Central American Women's Network
CDD	Community Driven Development
CEP	Community Empowerment and Local Governance Project
CI	Consumers International
CSO	civil society organization
CSR	corporate social responsibility
EIRIS	Ethical Investment Research Service
ENTEL	National Telecommunications Enterprise
ETI	Ethical Trading Initiative
FDI	Foreign Direct Investment
FLA	Fair Labor Association
FSC	Forest Stewardship Council
FTA	Free-Trade Agreement
GMO	genetically modified organism
GMIES	*Grupo de Monitoreo Independiente de El Salvador* (Salvadoran Independent Monitoring Group)
HAI	Health Action International

IBFAN	International Baby Food Action Network
IDB	Inter-American Development Bank
IFI	International Financial Institution
ILO	International Labour Organization
IOCU	International Organisation of Consumers' Unions
ISEAL	Social and Environmental Accreditation and Labelling Alliance
ISO	International Organization for Standardization
ITDC	Intermediate Technology Development Group
JICA	Japan International Cooperation Agency
LDC	Least Developed Countries
LLC	Limited Liability Company
MFA	Multi-Fibre Arrangement
MSI	multi-stakeholder initiative
MSN	Maquila Solidarity Network
NGO	nongovernmental organization
PAN	Pesticides Action Network
PLC	Publicly Listed Company
PPSE	Privatized Public Service Enterprises
SAI	Social Accountability International
SAN	Sustainable Agriculture Network
SGS	Société Générale de Surveillance, an auditing company
SME	Small- and Medium-Sized Enterprise
SOE	State-Owned Enterprises
SRI	socially responsible investment
TFET	Trust Fund for East Timor
TNC	transnational corporation
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
US	United States
WHO	World Health Organization
WRAP	Worldwide Responsible Apparel Production
WRC	Workers' Rights Consortium
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

Contents

ONE

Do More Good, Do Less Harm:

Development and the Private Sector

JOHN SAYER

No reasoned discussion of equitable growth, the attainment of rights, the effect of globalization on poor people, or the achievement of the Millennium Development Goals (MDGs) can properly take place without considering the role of the private sector. Yet it is surprising how much of the debate on poverty focuses on the roles and responsibilities of governments, NGOs, and international aid bodies. In such discussions, the world of business lurks in the shadows, acknowledged uneasily like a tattooed man at a tea party.

This selection of articles from a special issue of the journal *Development in Practice* (volume 15, numbers 3 and 4) examines some of the debates concerning the role of private business in the development process. These range from accusations that the corporate sector is part of the problem, to arguments that it can, or must, be part of the solution.

Companies are with us for the long haul. The debate over whether or not the private sector should be replaced by some other system of production and distribution has become marginal. Far from being consumed by their own internal contradictions, corporations are expanding and now exert influence on a global scale. The combined sales of the world's top 200 corporations are bigger than the combined economies of all but the 10 largest nations (Anderson and Cavanagh 2000). This vast economic might gives corporations immense political and social influence. While national governments and international institutions have failed to develop governance mechanisms appropriate to a globalized economic system, companies have thrived in this planetary playground.

Today's debates are concerned with the place of companies and markets in society, and with how to control excesses and failures, rather than with the fundamental desirability or possible replacement of private capital. For developing countries, the policy challenge is to create an environment that encourages business growth, trade, and foreign direct investmen (FDI), while ensuring that social policies share the benefits of growth more equitably, in what Andrew Sumner (2005: 269) calls a "precarious trade-off between attracting FDI and maintaining policy instruments to extract the benefits."

This introductory chapter opens with an exploration of the nature of the private sector and its role in relation to economic growth and the distribution of benefits. It goes on to examine the detrimental effects that corporate activity can have on development, followed by a brief look at new forms of opposition to such activities. The business case for corporate social responsibility (CSR) is then outlined, leading into an account of various ways in which some private companies have sought either to mitigate the harmful effects or to enhance the impact of their activities on development. The penultimate section looks at the role of the private sector in achieving the MDGs, and the chapter concludes with some reflections on the need to redirect the dynamism and resources of the private sector to the benefit of humanity.

THE NATURE OF THE PRIVATE SECTOR

In discussing the private sector and development, it is tempting to concentrate entirely on the role of transnational corporations (TNCs) in developing countries. It is here that the most passionate exchanges take place about good and evil, and the humble versus the hegemonic, and where observations about the impact of such corporations have a stark clarity for both admirers and detractors.

In truth, however, most private-sector activity in any economy is small and domestic. The private sector includes the successful local conglomerates, small and medium-sized enterprises (SMEs), and women's cooperatives of the kind praised by those who may condemn larger companies, as well as the amorphous—and vital—informal economy. Even small local companies operate in the marketplace. They too are driven to maximize profit, and are capable of cutting exactly the same corners on responsibility toward the environment or to their employees when they believe they can get away with it. In many respects, the distinction between the TNC and the microenterprise is only one of scale of influence and impact.

Even such apparently clear divisions as local versus foreign business become indistinct when one examines joint ventures, equity investment, licenses, franchises, and subcontracted production. In some cases, the private sector is largely controlled by itinerant members of the nation's diaspora. Trade, finance, and indirect investment do not require a company to put up a nameplate in a given country, but they certainly affect that country's economic development.

Economists differ over whether small or large companies make the greater contribution to national economic growth. Issues of unfair political influence and unwieldy economic impact are less likely to arise in relation to SMEs, though these account for some 90 percent of companies in most market economies, typically employing half the working population (International Finance Corporation 2004). SMEs tend to be favored by those concerned with development because they are usually labor-intensive and so create more employment—often at the lower end of the market, most suited to the poorest people, and in areas where no other job opportunities exist. Significant development assistance goes into fostering conditions to promote the growth of SMEs, and Julian Oram and Deborah Doane make the case in Chapter 7 for supporting these as a path to sustainable development. Moreover, as local companies, SMEs cannot so easily be accused of introducing alien values; indeed, Tim Coward and James Fathers (2005) have highlighted the role that industrial design can play in encouraging indigenous crafts.

SMEs are often more vulnerable than their larger corporate brethren to changes in policy or economic conditions. In Chapter 8, Linda Loebis and Hubert Schmitz offer the example of the furniture exporters of central Java and examine a range of problems facing these producers, along with some possible positive interventions. Turning to Timor-Leste, Ben Moxham warns in Chapter 9 that interventions intended to support the growth of SMEs are likely to fail if they are imposed in a top-down and hurried manner. In developing countries SMEs also face the problem of unequal access to credit, which in turn has given rise to the growing significance of microcredit within overall development spending. Begoña Gutiérrez Nieto (2005) reveals some of the issues surrounding an intervention designed to stimulate the smaller end of the private sector.

The private sector faces very different challenges in open economies than it does, for example, in those that are emerging from decades of central planning and are now pursuing economic liberalization policies. Private companies that are growing from the ground up confront problems that are distinct from those faced by companies attempting to transform state monopolies into private enterprises, in which some of the immediate growth gains may be characterized as catching up on unrealized economic potential that had been artificially restrained by previous systems of economic control. Similarly, some reform economies are simultaneously liberalizing political and social systems, building the political accountability and civil society so important for controlling the corruption, exploitation, and marginalization that economic liberalization can bring. Others retain centralized political power, which in turn raises questions about the assumed linkages between economic and political liberalization. Clearly, a range of policies is needed in order to draw developmental benefits from this complex diversity—and the policies chosen will in turn depend on the specific historical legacy and on the nature of the enterprise (Kuada and Sørensen 2005) or international partnership (Jeppesen 2005).

GROWTH AND DISTRIBUTION

Development, in the sense of alleviating widespread poverty and enabling the great majority of people to gain their rights, involves both the creation of wealth and its distribution.

All those concerned with such issues therefore look beyond the achievement of macroeconomic growth. Development in a fuller sense concerns the lives of all people, particularly the poorest, whose immediate survival is linked more to issues of access to productive resources and opportunities than to gross national product. Development involves the achievement of the rights of the whole population to livelihoods and services, and the creation of sustainable conditions that enable and furnish these.

There is compelling evidence that economic growth is a precondition for the sustainable alleviation of poverty. In market economies, the private sector is the main engine of that growth. Corporations play a key role in the creation of jobs, the contribution of tax revenue, the earning of foreign exchange, the generation of finance, the achievement of access to new markets, the transfer or development of technology and administrative skills, and the provision of more, better, or cheaper goods and services.

Farmers, the informal economy, the self-employed, and remittances from migrant workers do certainly contribute to the creation of wealth in developing countries. But almost all significant cases of countries developing to the point where poverty is dramatically reduced have occurred in situations where larger companies have become a major part of the economy, and more generally, where such companies are involved in international trade and where the private sector has attracted substantial foreign investment.

Clearly, growth does not in itself lead automatically to the reduction of poverty. There are plenty of countries in which a wealthy elite enjoys the benefits of growth while millions live in terrible poverty. There are countries in which companies, particularly extractive industries, make fortunes over the heads of poor communities that see none of the benefits, or worse, are made poorer by the loss of land and the degradation of their surroundings (see Garvey and Newell's discussion of this in Chapter 4).

There is little evidence, though, that development can be achieved on the basis of a decentralized, non-industrial base, unlinked from international trade and investment (Kitching 1982). The most telling examples of countries that have raised impressive numbers of their people out of poverty since the 1950s, most notably in East Asia, have also experienced high growth rates attributable at least in part to the judicious encouragement of international trade and foreign investment. Some would argue that other factors, such as high levels of equitable social investment, provided the impetus for success. China and Vietnam did make such social investment, but while this was accompanied by policies of central planning, economic self-reliance, and market regulation, poverty levels remained unacceptably high. It was when these governments implemented market reforms in their domestic economies and opened the door to international trade and investment that poverty dropped dramatically (see Schaumburg-Müller 2005 for the case of Vietnam).

The contention that East Asian growth took place under conditions of protection and trade opportunities that can no longer be replicated deserves examination. Access to markets in developed countries is becoming easier as two-way trade is liberalized. The case for granting favorable trade terms for the least developed countries is acknowledged by all but the most fundamental free traders. It is now recognized, however, that the types of import and export controls under which the economies of Hong Kong, Malaysia, and Vietnam saw high levels of growth were quite distinct from each other (Watkins 1998; Stiglitz 1996).

The wealth that corporations produce has the potential to propel national growth, but growth itself is not without its critics. Although not presenting a clearly articulated or broadly agreed alternative to business or the market, today's anticapitalist movement incorporates concepts from feminism and environmentalism in addition to socialism, to argue that putting the pursuit of economic growth above other goals is unnecessary and even harmful to the achievement of a just and sustainable society.

Certainly, growth may bring shifts in employment patterns and disrupt the fragile productive opportunities that poor people have managed to establish. People in traditional sectors, overtaken by change, unable to adjust, and facing the increased prices that often accompany growth, can be made still poorer in high-growth economies. The environment, and those who depend on vulnerable ecosystems for their livelihoods, can also fall victim to economic growth. Economic theorists may dismiss the difficulties encountered in rapidly changing economies as purely transitional problems or short-term adjustments. Poor people who face these short-term economic transitions might suggest a variation on Keynes' famous phrase: "in the short term, we are all dead"!

The terms governing the acceptance of foreign investment and trade will underpin the level of benefit they bring. And we look to governments to take measures, for example, through taxation, employment rules, investment rules, and social services, to ensure that growth is related to better distribution of wealth and opportunity, to benefit the whole population.

All this sounds fine: companies produce economic growth, while governments implement social legislation to ensure that the resulting wealth also benefits those most in need. But this scenario overlooks two issues. First, companies also do business in failed states, states at war, and states with weak, corrupt, or incompetent governments. Here, they may actively exploit the situation, bribing government officials, or fueling wars by paying military leaders for rights to minerals or other goods. Second, even where government is adequate, corporations are bound to use all means to shift external conditions in their favor.

Most criticisms of the private sector are concentrated on the unequal distribution of the benefits of growth. The issue for governments, then, is to balance macroeconomic growth with measures to