

# **INCLUSIVE GROWTH NEEDS AN INCLUSIVE ARCHITECTURE: the case for a formal nexus between public and private sectors**

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## **NEW NAME OF THE GAME**

Global population growth during the next 40 years by some 40-50% to 9bln people in combination with increasing and more widely distributed welfare worldwide will put increasing pressure on the “Global Commons”, i.e. on our ecosystems (pollution, biodiversity, climate change), natural resource base (water, energy, food); and also on the physical infrastructure and on our global, increasingly interdependent and competing communities (whose issues to be addressed will grow and accelerate: norms & standards, respect & tolerance, institutions, skills, space, security).

Will broad-based economic growth continue, or are we entering an era of more economic adversity? Who are to be the engines for the world economy in the years to come? Will economic wealth creation result in sustainable wellbeing as well as fair & equitable wealth distribution? Can we realize such economic wealth creation to benefit all people while at the same time preserving our only one planet? Are the various players in the public and private sectors in their present roles “fit for purpose”? And how about our rules of the game and our institutions, from local to international? And how do we define such “purpose” for the 21<sup>st</sup> century?

This article intends to offer some perspectives from a business sector point of view. It recommends a more formal nexus between public and private sectors to be developed, both locally and internationally.

## **INCLUSIVE GROWTH**

For increasing welfare and wellbeing fueled by economic growth the central theme is that it should be sustainable and inclusive, i.e. incorporate the “People, Planet, Profit-“ dimensions:

- (1) the People factor: fundamental human rights and social justice are at the core; economic growth should benefit all citizens of the world; to close the extreme poverty-gap recognition must be given to a fundamental human right of “equal access to opportunity”;
- (2) the Planet (ecosystems/environmental) factor: it recognizes the need for a precautionary approach and “internalizes” the cost to nature into our economic interventions; “from black to green”;
- (3) the Profit factor: free market, capitalistic approaches are the core drivers for efficient and effective investments & operations, laying the solid foundation for further growth and future initiatives;

Increasing recognition is given in the business community that the “3P triple bottom line-“ approach is quite important for its own license to operate: business may thrive if governments fail, but it cannot survive in “failed societies”: no people, no planet, no profit. Economic growth is not sustainable if it causes irreparable damage to our habitat and our natural resource base; damage inflicted by business may result in future liabilities and/or loss of operating license. Although such damage will ultimately affect everyone, it is the rural poor who are short term particularly vulnerable.

The consequences of “inclusive growth”, supported by globalization, are of a seismic nature: profound changes in global economic activity, division of labour and new (south-south) trade flows are already occurring . Connectivity, linkages are key, causing increasing political, economic, business interdependency globally: the world is “flattening”. International cooperation by governments and value-chain approaches by business are becoming ever more important in an increasingly multi-polar, multi-stakeholder, multi-purpose, hence much more complex world.

The issue has become how to create a new common purpose, as well as how to bring some order in a world with increasing major, collective challenges. How can we, as global citizens, in different parts of the world in different stages of development, with the different roles each of us plays, converge & contract so that there is a shared purpose, some consistency and coherence in what we do. But, how strong are the foundations for such shared objective in an adverse economic scenario?

Next to the ongoing WTO-negotiations and the 2008 Review of the Monterrey Consensus on Finance for Development, it is the Climate agenda which is a particularly important test case of this challenge: the scientific diagnostics are clear, but can we reach in Copenhagen 2009 a fair, effective and efficient climate framework? Notwithstanding some initial optimism on the Bali Action Plan, the jury is still very much out!

## **BUSINESS AS UNUSUAL**

How is the business community responding to the new reality? In 1992 at the Rio Conference on Sustainable Development (SD) the business community was absent and very much seen as the major problem on environmental matters; early recognition by the business sector itself that it has an interest in becoming part of the solution was noticeable in 2002 in Johannesburg. At the post-2012 Kyoto Protocol negotiations in Bali in December 2007, it was generally accepted that no solution of the climate challenge can be achieved without policy-input and the execution and financing capability of the business sector: estimates by UNFCCC suggest that as much as 80% of required funding may come from business. Such funding may be mobilized if “Copenhagen 2009” will offer a “long, loud, legal” climate accord, or if not so “legal”, at least a strong CO2 price-signal.

But much more has taken place since the late 90’s: the number of business platforms addressing and even taking collective action on sustainable development (SD) is rapidly increasing. The World Business Council for Sustainable Development (WBCSD) has been increasingly prominent in its positioning in government fora, as has the UN Global Compact. Both have extensive country networks. The number of Sustainability reports has also significantly increased, often using the templates of the Global Reporting Initiative (GRI). Business-NGO collaboration is increasing: a landmark study was

conducted in 2004/5 by OXFAM-NOVIB and Unilever in evaluating the full value-chain “impact” Unilever Indonesia had made during many years (including prior and during the Asian crisis in 1997) on the Indonesian economy and society (the verdict was mildly positive).

Many leading corporations are redefining their “sphere of influence” and are developing responsible and sustainable value chains. Certification of products and processes is gaining prominence. Sector agreements (such as in mining, cement) become increasingly important and ensure a level playing field.

In the financial sector, the voluntary Equator Principles for project finance from 2003, one of the earlier voluntary, global sector codes of conduct, is now subscribed by 60 banks worldwide. Also leading long term financial investment funds have agreed the Principles for Responsible Investment (PRI), which they apply in their own analysis and the companies they invest in. Microfinance has gained strategic interest from leading local and international banks in many developing countries in (south, east, central) Asia, Latin America, Africa,

In other words, the CSR paradigm, which was traditionally based on a sense of community responsibility and on (more defensive) risk management, is now evolving into a more pro-active, value-creating business proposition, based on explicit Principles and Values. Sustainable Development is increasingly recognized as part of sound strategic thinking and acting; and selectively also by Small & Medium Enterprises (SME's) as part of a value-chain or in their own right. SD, CSR are moving mainstream, with, also, NGO-, media- and peer-pressure as drivers.

Making a profit is not done by a company in isolation, it must be seen as earning it off all stakeholders (clients, staff, partners, government, civil society) who allow it to make such profit because they feel related to what a company offers and stands for. The notion that competition should be driven by quality of service, price, possibly structure, but not on fundamental Values and Principles is becoming expected by society and accepted by leading businesses.

### **THE PLAYERS: THEIR CORE ROLES**

The **role of business** is doing the right business right in order to create sustainable value (profit, market value) for its shareholders and other relevant stakeholders. A new dimension has become: doing well (for the top and bottom line) by also doing good (for communities and nature). Its core competencies are notably: (1) resource mobilization (talent, funding), (2) innovation (ideas, risk-absorption), (3) execution capability in a cost-efficient and target-effective way and (4) operating without boundaries. It is primarily driven by self-interest, which often causes lack of trust from civil society about its motives, standards. Moreover, in the ICT-age there is “no space or time to hide” for incidents (real or not), driving perceptions (rightly or wrongly) which are affecting reputation and brand-value.

A new generation of venture capital funds is emerging: social venture capital, i.e. patient, strategic investors in social ventures (such as small scale projects, micro-finance institutions) with a modest financial return plus a Social Return on Investment (SRoI). Also, foundations are playing a new and important role in this context, with much attention to performance and impact.

The **role of government** is to serve the public duty by: (1) to establish & enforce the rules of law (which are part limiting, part facilitating and enabling), (2) to ensure a fair and just society, (3) to directly intervene where public interests so require (services of national interests like power, water, infrastructure, health, education, police/defence) and (4) to serve as catalyst for important developments, like early R & D funding and guarantee schemes for non-commercial risks, etc. Where the private sector functions well, government should withdraw respectively abstain: complementarity. On the other hand it must step up in case of dys-functional markets (like we see today in financial markets).

The nature and **roles of civil society organizations** (CSO's) are diverse: community-service organisations, (single or multiple) issue advocacy groups, foundations, academia and knowledge-/research-centers. These organizations have a critical role in society to challenge, complement, even compensate for functions which the government nor the business sector can or want to address. Funding of these organizations varies widely: from complete support by government to self-funding. The role of foundations is becoming increasingly important. Knowledge-centers have particularly potential strong multi-stakeholder "convening power".

Each of these categories make their own contribution in addressing the issues, challenges and opportunities which our global society-at-large offers. In simplified terms: policy input & aid by governments, practical output & entrepreneurship by business, and advocacy, learning, capacity building, grants & soft capital, impact assessment by civil society organizations. Collaboration by way of complementary strategies between them is under-exploited, even more in the context of the emerging realities of the 21<sup>st</sup> century. For such collaboration, even partnerships, clarity of shared purpose, SMART objectives (Specific, Measurable, Agreed, Realistic, Time-bound), complementarity of roles and, foremost, respect and mutual trust are of the essence.

Although business associations are increasingly involved in providing views for government policy development, this is mostly informal and fairly "ad hoc-ish", hence not reflecting the important role business can and should play in defining the challenge, drafting the long term policies and offer the solutions in practice. Government, business and civil society to jointly address the challenges we face, benefiting from their complementary diversity and capitalizing on their individual strengths. To achieve this a more formal engagement among them is necessary; the time for this has come!

## **CONVERGE & CONTRACT**

Some examples of joint initiatives by which the roles of each of the three categories may be linked (and leveraged) are the following (in random order):

**Multi-stakeholder SD Advisory Council:** a standing Advisory Council (similar to some existing Economic Councils) to a government or an international body, which is focusing on policy issues of sustainable development (incl. climate) and (national or international) development cooperation; members should include business representatives, NGO's, academia; in developing countries such Council might be drafting an inclusive National Development Strategy;

**Multi-stakeholder SD Grievance Procedure:** built upon the recently created multi-stakeholder Dutch National Contact Point for the OECD Guidelines for internationally operating companies; before, the Dutch government did the mediation itself. More major non-OECD countries should join and accept the OECD guidelines (China, India, South Africa, Russia);

**Auctioning of Trust/ODA funds:** from ODA (direct aid-funding by government) to a new, more entrepreneurial approach: JDI, Joint Development Initiative; government should identify the relevant development projects/interventions for which it assumes the non-commercial part; qualifying companies (and financial institutions) may (competitively) bid for such funds. These are made available on a strictly “additional” basis: the business intervention would not have been done if this government support (incl. funding) would not have been available; of course, the governance of this new instrument is crucial;

**Mandatory SD Reporting:** this applies to both public and private sectors; the mandatory nature may be a contentious issue, but a highly desirable way “to make markets work” for SD, Climate, MDG’s, etc. Such disclosure implies focus and opportunity of any stakeholder to engage; an multistakeholder oversight body may monitor quality;

**Independent (multi-stakeholder) Impact/Inspection Panel:** similar to such panel at the World Bank; would provide the opportunity for ex post learnings of development projects for which government support was given.

**Infrastructural investments:** to de-bottleneck economies of developing countries, major infrastructural projects in sectors such as transportation, energy, water & sanitation, communications, etc, need to be developed. Financial structures applied in the 90’s (such as BOT: Build-Operate-Transfer) will revive, however, considering the lessons of the past, these need to be largely funded through local capital markets;

Each of these public-private collaboration initiatives may be done on a local and on an international level, including international organizations such as UN, World Bank, IMF, etc.

## **THE NEXUS IMPERATIVE**

The seriousness of our global agenda requires major efforts from all, which includes both (equitable) burden-sharing as well as creating opportunities. For this new approaches and institutions more “fit for purpose”, which all have in common that pro-active engagement with non-traditional parties is of the essence. Multi-stakeholder institutions have become crucial for policy development and execution: such stakeholders having an official seat at the table and being co-responsible, rather than being on the menu, like today. The ultimate, political responsibility remains however with the governments, but the business sector and civil society organizations should play an active role. It is about time that the gaps between the public and private sectors will be bridged and that collective action-oriented initiatives/investments by multi-stakeholder, needs’-based institutions will be realized. This should be a key characteristic of a modernised (national and international) development architecture, which is “fit for purpose” of successfully dealing with our multiple, global 21<sup>st</sup> century challenges.

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