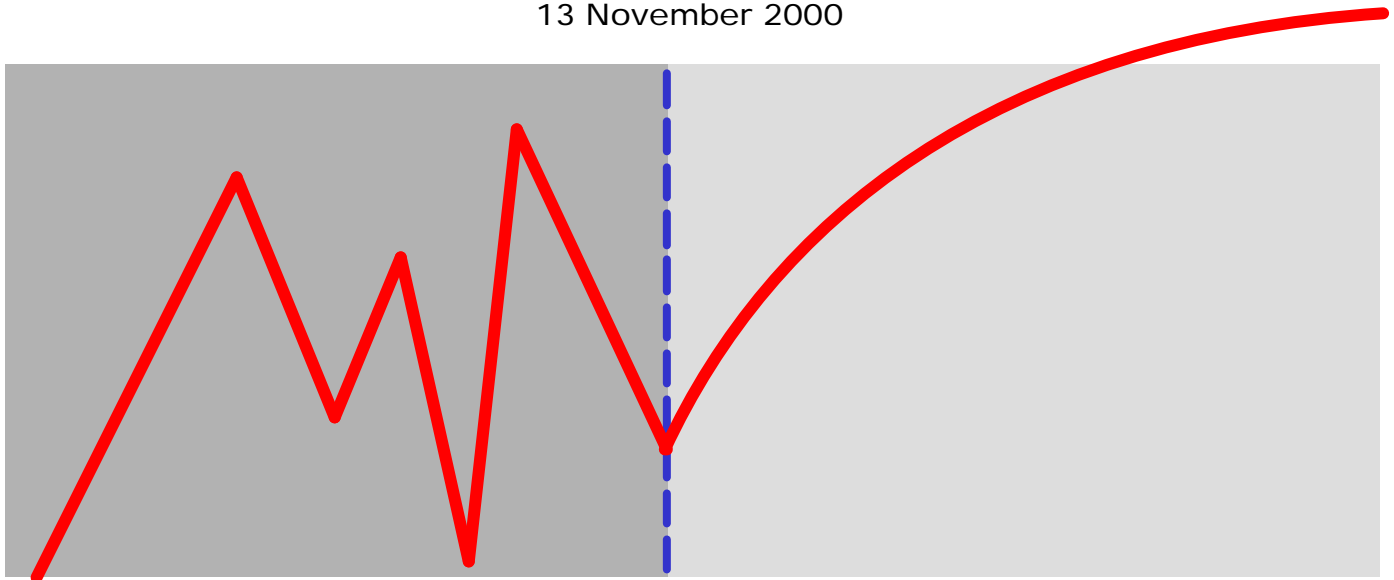




UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

# UNIDO ROUND TABLE - MARGINALIZATION VERSUS PROSPERITY

13 November 2000



## Panel 4:

**Private Sector Development and International Industrial Partnerships**

**Private Sector Development Branch,  
Investment Promotion and Institutional  
Capacity Building Division**

September 2000



## ***I. The growing role of the private sector***

The past decade has witnessed a dramatic increase in the role of the private sector as the primary driving force in economic and industrial development. This powerful trend has been caused by a multitude of different factors among them: a widespread disenchantment with the poor outcome of public sector-led development strategies, the redefinition of the role of the state from planning economic results to enabling and facilitating economic dynamism, and the rapidly advancing processes of globalization and market liberalization.

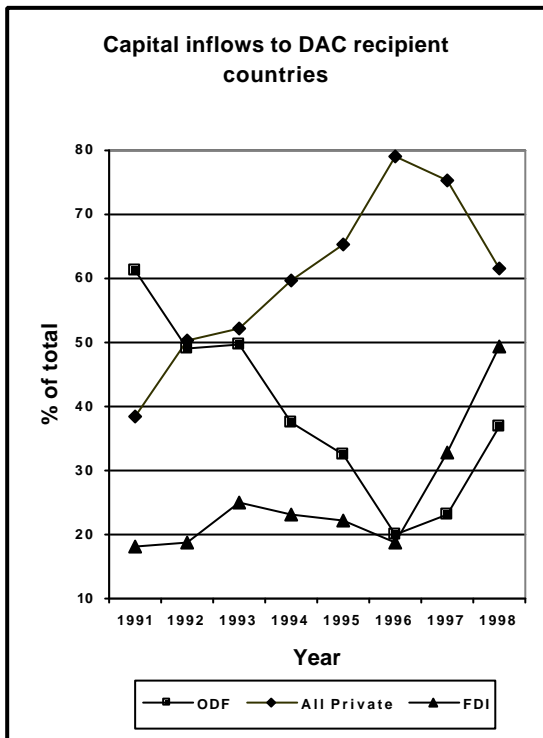
This growing role of the private sector as an agent of development is underlined by the sharp increase in international flows of private capital in recent years. While the bulk of these flows have remained confined to the developed regions of the world, there has nevertheless been a dramatic increase in the flow of private capital to the developing countries and transition economies since the early 1990s. This trend is highlighted in recent OECD data which show an absolute increase in the volume of private capital flows to DAC-recipient countries from US\$ 53 billion in 1991 to almost US\$ 292 billion in 1996. Even after the downturn in such capital flows prompted by the financial crises in Asia and elsewhere in the developing world, their overall volume amounted to more than US\$ 147 billion in 1998.

The growth in the absolute volume of private capital flows during this period has been accompanied by an equally remarkable shift in the relative shares of official development finance (ODF) and private flows from donor to recipient countries. With ODF flows having remained largely static, fluctuating in a comparatively narrow annual range of US\$ 73 billion to US\$ 88 billion, the result has been an almost complete reversal of these shares between 1991 and 1998. Whereas ODF flows accounted for some two-thirds of total capital flows to OECD DAC recipient countries in 1991, this share had fallen to only about one-third by 1998. The interim values for 1996, before the downturn in private flows prompted by the financial crises, are even more pronounced – in that year ODF flows had fallen to less than 20% of the total. These trends are illustrated in Figure 1.

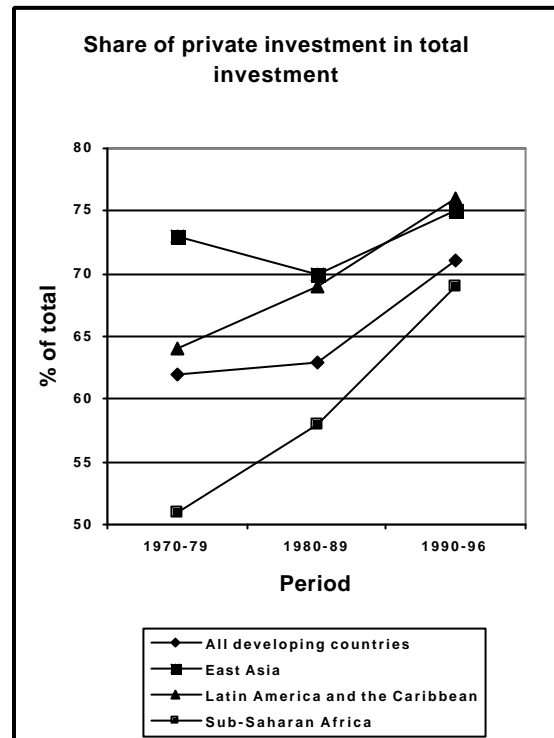
Within the category of private flows, foreign direct investment (FDI) is assuming a particularly significant and dynamic role, and by 1998 accounted for almost half of all financial flows from developed to developing countries. By comparison, the corresponding figure for 1991 amounted to less than 20%, as is also illustrated in Figure 1.

An alternative indicator of the growing importance of the private sector in generating economic growth in developing countries is given in Figure 2. This table shows that the share of private fixed investment (both domestic and foreign) in total fixed investment increased substantially in almost all developing regions of the world between the 1970s and the 1990s. The only significant exception is provided by East Asia, where private investment already played a much larger role in the 1970s than in all other regions.

**Figure 1**



**Figure 2**



## ***II. UN-business partnerships***

In this changing global environment, the prospect of establishing partnerships with the private sector has become an attractive strategic option for the UN development system. The reasons for seeking such a linkage extend beyond the mere objective of attracting additional funding to the UN. More importantly, such partnerships can help to leverage UN support programmes by enhancing their access to markets, technologies, and specialized expertise. Cooperation between the UN and the business sector can thus be seen as a means of enhancing the effectiveness and impact of the UN system’s development cooperation efforts, and helping to ensure their sustainability within the logic of a market-based economic framework.

Conversely, the business community has begun to recognize the potential benefits of entering into partnerships with international development institutions, both bilateral and multilateral. Inter alia, this reflects a growing need on the part of large transnational corporations (TNCs) to respond to social pressures and demands for greater accountability to diversified groups of stakeholders. Increasingly, major TNCs – in measuring and publicizing the impact of their world-wide activities - are now complementing conventional indicators of financial profitability with indicators accounting for environmental sustainability and social responsibility (as reflected in the concept of the so-called “triple bottom line”).

This perceived convergence of interests between public-sector development agencies and the corporate world is giving rise to a growing emphasis on public-private partnerships (PPPs) as a vehicle for promoting economic and social development. This interest is being expressed both at the bilateral level by many national development cooperation institutions, and at the multilateral level by agencies and organizations both inside and outside the UN system. At the same time, private sector enterprises are also showing a rapidly growing interest in such partnerships, both at an individual level and through their representative organizations.

The Secretary-General of the United Nations has taken a strong lead in promoting the development of such partnerships between the UN system and the private sector as an integral part of his reform programme for the UN. At the World Economic Forum in Davos in January 1999 he called upon world business leaders to “unite the powers of markets with the authority of universal ideals” and to “reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations”. To achieve these objectives, he invited business to “embrace and enact” a Global Compact based on nine principles covering human rights, labour and the environment, both in their individual corporate practices and by supporting appropriate public policies.<sup>1</sup>

The Secretary-General’s call for a Global Compact with the private enterprise has received a positive response from significant parts of the international business community. In September 1999 the International Chamber of Commerce (ICC) organized a meeting, the Geneva Business Dialogue, to bring together business leaders and the heads of the United Nations agencies and other intergovernmental organizations to debate the impact of globalization on the world economy. Another organization representing the corporate sector that has taken a strong lead in promoting the realization of firm partnerships between the multilateral development agencies and the business community is the Prince of Wales Business Leaders Forum (PWBLF), which is actively participating in a number of joint projects with UN agencies, including UNIDO, and other multilateral organizations. Most recently (in July 2000), the Secretary-General convened a meeting in which some 30 globally operating corporations subscribed to the principles contained in the Global Compact.

This new approach calls for a significant deepening of the traditional links between the UN system and the private sector, which in the past have essentially been confined to commercial transactions whereby the latter was regarded as no more than a supplier of the goods and services required by the former. Various proposals have been put forward within the UN system to achieve this deepening of its relationships with the private sector with the aim of “finding new synergies and learning how to make the most of each other’s comparative advantages”, as the Secretary-General has noted.

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<sup>1</sup> These principles comprise: Support and respect for the protection of international human rights within its sphere of influence of business; ensure that corporations are not complicit in human rights abuses; freedom of association and the effective recognition of the right to collective bargaining; elimination of all forms of forced and compulsory labour; effective abolition of child labour; elimination of discrimination in respect of employment and occupation; support for a precautionary approach to environmental challenges; initiatives to promote greater environmental responsibility; and encouragement for the development and diffusion of environmentally friendly technologies.

These proposals range from the establishment of fora for the exchange of ideas to the creation of a formal UN-Enterprise Liaison Service modeled on the existing Non-Government Liaison Service (NGLS), and include increased efforts to attract corporate donations to the UN as well as to promote increased participation by the private sector in the design and financing of UN programmes and projects.

### ***III. The role of UNIDO***

With its mandate and focus on industry, UNIDO is the quintessential UN agency working for the benefit of and directly with the private sector. The Organization offers a wide range of services, variously delivered at the policy, institutional and enterprise level, which are aimed specifically at supporting the development of the private sector in its client countries. These services include policy advice, institutional capacity building in such fields as cleaner production and QSM, and entrepreneurship development through such measures as enterprise networking, the provision of business development services, and investment and technology promotion. In providing these services, UNIDO aims in particular to provide local small and medium enterprises (SMEs) in developing countries with access to information, knowledge, skills and technology in order to improve their competitiveness and capacity to respond to the challenges imposed upon them by the process of globalization.

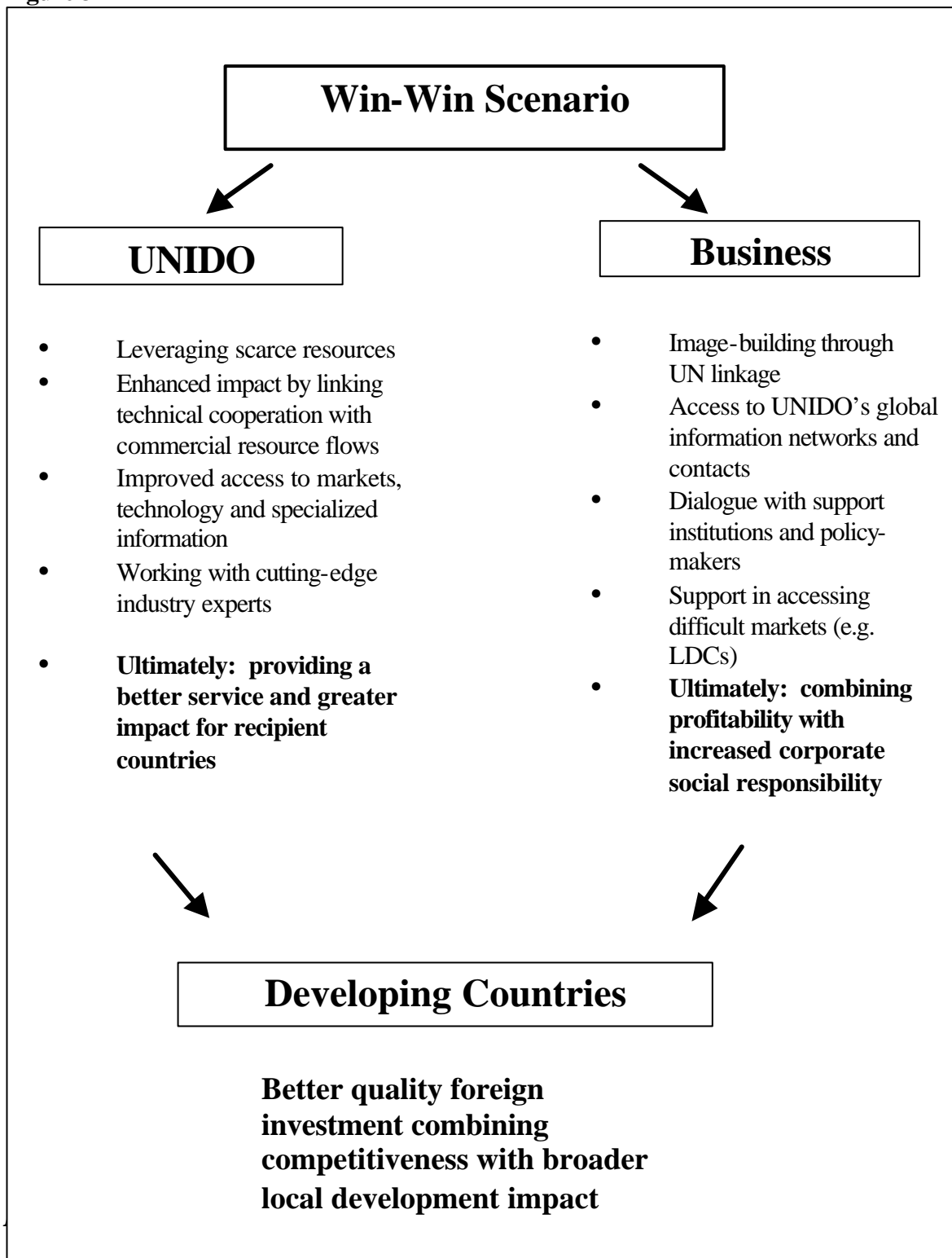
In the course of its technical cooperation activities UNIDO has traditionally worked very closely with such business groups as industrial associations and chambers of commerce and industry. However, UNIDO's close relationships with the business sector have hitherto been predominantly linked to the recipient countries, with limited efforts being made so far to systematically enter into partnerships either with globally operating corporations from OECD countries or with global business representative organizations. The most significant partnership of this kind to date has been the one aimed at promoting the automotive components industry in India, which was launched in 1998 in collaboration with FIAT S.p.A. Significant achievements in enhancing the productivity of the participating component manufacturers have been recorded in the recently concluded first demonstration phase of this partnership programme – as presented at the eighth session of UNIDO's General Conference in December 1999.

Based on these experiences it is clear that forging successful partnerships with the global business community can yield significant results and have a positive developmental impact. If carefully designed and managed, cooperative endeavors between UNIDO and the business community can hold a great promise for realizing win-win-scenarios with tangible benefits for both sides – and above all, for SMEs in developing countries – as indicated in Figure 3.

Recognizing the important benefits to be gained from furthering its cooperation with the international business community, UNIDO has taken steps to ensure the sustained momentum of this process by launching a number of new and innovative initiatives. Specifically, UNIDO is following a three-pronged strategy involving: (a) consolidating ongoing and planned operational activities through continuing, deepening and broadening the existing Partnership Programme in India, and replicating the approach with other corporations in other countries/sectors; (b)

engaging more intensely than before in conceptual activities by building up institutional partnerships/networks through which to enhance UNIDO's role as a major player in the ongoing debate on public-private partnerships in the international development community; and (c) launching innovative schemes of cooperating with the private sector, inter alia through the forging of strategic alliances between UNIDO and private equity funds.

**Figure 3**



## IV. Issues

In enhancing cooperation with the private sector, the UN in general and UNIDO in particular are facing a number of important issues related to both the philosophy and principles governing such partnerships and the modalities of their operation. They will have to be addressed honestly and transparently to avoid possible pitfalls and setbacks and to ensure success.

These issues include:

- In what functional areas would cooperation between UNIDO and the private sector appear to have the greatest potential to generate benefits for developing countries? How can UNIDO/business cooperation contribute to reducing the marginalization of some developing countries and regions? In what ways can it help in particular small and medium enterprises to become more competitive and share the gains generated by a globalized economy?
- Given their differing origins and status, UNIDO and its potential partners from the business community will inevitably have different interests and objectives. UNIDO is a multilateral organization accountable to its member states with a specific mandate to promote industrial development. In this connection, how do Member States view UNIDO's efforts to enter into a partnership with private business? Is it seen as an innovative mechanism to design and deliver technical cooperation services at the country level? Is it perceived as an appropriate response to the growing importance of private sector actors as drivers of industrial development?
- For UNIDO, the ultimate purpose of a partnership with the private sector must be to better serve the developmental goals of the Organization. In what ways can these goals of UNIDO and the economic objectives of business be mutually supportive? Can development cooperation as a global public good be made more effective by teaming up with players who are linked to the logic of the market?
- By the same token, it is important to ensure that cooperation with the private sector does not undermine the image, credibility and integrity of UNIDO as a development agency. How can the organization ensure that appropriate business partners are selected for cooperative endeavors? What criteria need to be established for selecting partners?
- Given the need to maintain UNIDO's integrity and independence, its partnerships must not imply the endorsement of a particular business entity or its products or services, and co-operative arrangements with the business community must be transparent. How can UNIDO ensure that its essential role as an honest broker and neutral provider of technical services is not jeopardized by the commercial interests of other Partners?