



THE UN GLOBAL COMPACT AND THE OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES: COMPLEMENTARITIES AND DISTINCTIVE CONTRIBUTIONS

26 April 2005

This document, by the UN Global Compact Office and the OECD Secretariat, has been developed as an input to the OECD Investment Committee's work on the implementation of the OECD Guidelines for Multinational Enterprises.

Introduction

1. The UN Global Compact and the OECD Guidelines for Multinational Enterprises (“the OECD Guidelines”) are the world’s foremost comprehensive, voluntary corporate responsibility initiatives. In articulating principles of responsible business conduct, they draw on international standards enjoying widespread consensus.

2. This document seeks to clarify the complementarities and distinctive contributions of these two initiatives by setting forth the initiatives’ major premises and objectives, scope and coverage, and implementation and follow up mechanisms. In so doing, it aims to lay the foundation for closer cooperation.

The United Nations Global Compact

3. The Global Compact is an open and voluntary corporate citizenship initiative engaging a wide spectrum of multi-stakeholder participants across the globe. With more than 2000 companies and other societal actors participating from more than 80 countries, the Global Compact is the world’s largest corporate citizenship initiative. Local networks, launched in more than 40 countries, are helping to carry forward the Global Compact at the local level. The United Nations Secretary-General first proposed the Global Compact in an address to the World Economic Forum on 31 January 1999. The Compact’s operational phase was subsequently launched at UN Headquarters on 26 July 2000.

4. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core principles in the areas of human rights, labour standards, the environment and anti-corruption. The ten Global Compact principles enjoy universal consensus being derived from: The Universal Declaration of Human Rights; the International Labour Organisation’s Declaration on Fundamental Principles and Rights at Work; the Rio Declaration on Environment and Development; and the United Nations Convention against Corruption.

5. As a voluntary initiative, the Global Compact seeks to promote responsible corporate practices through a variety of engagement mechanisms, including learning, dialogue and projects. The initiative’s core comparative advantages are the universality of its principles, the international legitimacy that only the United Nations embodies, and the Compact’s potential to be a truly global platform with great appeal to companies all over the world. The Global Compact is grounded in universally accepted declarations and conventions, which has enabled strong support in developing countries, one of the Organization’s unique characteristics. To date, over half of all Global Compact participants are from non-OECD countries, bolstering the initiative’s credibility and promise of positive social impact where the need is greatest.

6. To achieve its mission of a more sustainable and inclusive global economy, the Global Compact pursues two complementary objectives: Making the Global Compact and its principles an integral part of business strategy and operations everywhere, and facilitating cooperation among key stakeholders promoting partnerships in support of UN goals.

7. Although the Global Compact enjoys a large measure of government support, it operates mainly as a network that brings together companies with UN agencies, labour and civil society organisations to advance universal social and environmental principles. It is supported by the Global Compact Secretariat, which is composed of the Global Compact Office and six UN agencies: the Office of the High Commissioner for Human Rights, International Labour Organization, the UN Environment Programme, the UN Industrial Development Organization, and the UN Office on Drugs and Crime. Business participants include large as well as small and medium-sized enterprises (SMEs) from virtually all industry sectors and geographic regions.

The OECD Guidelines for Multinational Enterprises

8. The OECD Guidelines are recommendations by governments to multinational enterprises (MNEs) operating in and from the territories of the 39 countries that adhere to the Guidelines¹. The Guidelines are a multilaterally endorsed and comprehensive code of conduct that enjoys the backing of governments whose territories are home to almost 90 per cent of foreign direct investment flows and to 97 out of the top-100 multinational enterprises.

9. The Guidelines establish non-binding principles and standards covering such areas as human rights, disclosure of information, anti-corruption, taxation, labour relations, environment, competition and consumer protection (see Table 1 for a mapping of the two initiatives' coverage). These principles and standards draw on the same set of core values in the areas of human rights, labour standards, the environment and anti-corruption as the UN Global Compact. The Guidelines are the means through which the OECD Investment Committee seeks to integrate these core values into its work on international investment so as to help it advance its mission of enhancing the contribution of investment to growth and sustainable development.

10. The Guidelines aim to promote the positive contributions multinational enterprises can make to economic, environmental and social progress and to ensure that MNEs act in harmony with the policies of the countries in which they operate and with societal expectations. By adding the weight of adhering governments' views to the general public debate on many issues in international business ethics, the Guidelines process has already succeeded in raising the legitimacy and profile of corporate attempts to address these issues.

11. The fact that the Guidelines implementation processes are government-backed lends significant credibility to them. Their unique implementation procedures (described more fully below) provide a unique channel for exploring concrete issues of business ethics.

12. The Guidelines are part of a broader, balanced instrument of rights and commitments – the OECD Declaration on International Investment and Multinational Enterprises. The Declaration promotes a comprehensive, interlinked and balanced approach for governments' treatment of foreign direct investment and for enterprises' activities in adhering countries.

13. The OECD instruments on international investment and multinational enterprises are one of the main means by which the OECD helps adhering countries to work towards a liberal regime for foreign direct investment, while at the same time ensuring that multinational enterprises operate in harmony with the countries where they are located.

Complementarities between the initiatives and their distinct contributions

14. *Premises.* The two initiatives are based on complementary premises. The Guidelines are founded on the assumption that internationally agreed principles can help prevent misunderstandings and build an atmosphere of confidence and predictability among business, labour, governments and society as a whole. The Global Compact is based on the premise that business has an interest in sustainable and inclusive global markets underpinned by universal principles, and that the UN's unique convening power can be used to build consensus and promote substantive positive action and practical solution finding to the challenges of globalization.

¹ These are the 30 OECD countries and 9 non-member countries (Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia) that have adhered to them.

15. *Scope.* The initiatives complement each other well in terms of the topics they address and their geographical coverage. Both initiatives are based on broad international consensus: both the OECD Guidelines and the UN Global Compact are deeply rooted in international conventions and declarations enjoying universal consensus.

16. The Global Compact principles are general and broad. Their breadth and simplicity are part of their appeal, rendering them accessible for all types of businesses, regardless of size, industry, location or level of experience with corporate citizenship. In many cases, the OECD Guidelines provide more detail. They also cover topics – e.g. taxation and competition -- which are not addressed in the Global Compact's ten principles.

17. The Global Compact's global reach and its focus on company initiatives and networking with UN Agencies complement the strongly inter-governmental character of the Guidelines. There are companies to whom the recommendations in the OECD Guidelines are not applicable – namely, companies that do not operate either in or from the territories of any of the 39 adhering countries (which are, for the most part, developed countries). By contrast, the Global Compact has a particularly strong uptake in developing countries, where most of its local networks are located. It is open to participation by all companies, wherever they are based or operate as long as they express their support for the ten principles and are willing to work toward their implementation

18. The Global Compact is based on a set of 10 universal principles in the areas of human rights, labour, environment and anti-corruption. Being derived from four key international declarations and conventions, the principles enjoy universal consensus. The OECD Guidelines are recommendations – drawing on largely the same normative sources as the UN Global Compact -- by 39 adhering governments to multinational enterprises operating in or from their countries. They contain voluntary principles and standards in the areas of employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The following table maps the Global Compact principles with relevant chapters of the OECD Guidelines.

19. Since the OECD Guidelines' text is relatively long and detailed, it covers some areas that are not covered explicitly by the UN Global Compact. These include chapters on disclosure (which contains recommendations on both financial and non-financial disclosure), consumer interests, science and technology, competition and taxation.

Table. A Comparison of the Coverage of the UN Global Compact Principles and Selected OECD Guidelines

GLOBAL COMPACT PRINCIPLES	OECD GUIDELINES' CHAPTERS
Human Rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;	Chapter II – General Policies Chapter VII – Consumer Interests
Principle 2: Make sure that they are not complicit in human rights abuses.	Chapter II – General Policies
Labour	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Chapter IV – Employment and Industrial Relations
Principle 4: The elimination of all forms of forced and compulsory labour;	Chapter IV – Employment and Industrial Relations
Principle 5: The effective abolition of child labour;	Chapter IV – Employment and Industrial Relations
Principle 6: The elimination of discrimination in respect of employment and occupation.	Chapter IV – Employment and Industrial Relations
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	Chapter V – Environment
Principle 8: Undertake initiatives to promote greater environmental responsibility;	Chapter V – Environment
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.	Chapter V – Environment
Anti-corruption	
Principle 10: Business should work against all forms of corruption, including extortion and bribery.	Chapter VI – Combating Bribery
Other issues	
	Chapter III. Disclosure Chapter VII. Consumer Interests Chapter VIII. Science and Technology Chapter IX. Competition Chapter X. Taxation

20. *Manner and degree of engagement with business.* The initiatives also complement each other in their different manner and degree of engagement with business. Companies initiate their participation in the Global Compact through a leadership commitment by their CEO and (where appropriate) Board that is communicated to the United Nations. Business and other societal actors also engage directly in the various engagement mechanisms that the Global Compact offers at the global, regional and local level, such as practical solution finding, identification of good practices and projects on the ground. Although the OECD welcomes expressions of support for the Guidelines, its implementation process does not depend on them – the normative framework upon which the Guidelines is based is deemed to be so fundamental that its relevance to companies is taken for granted. Responsibility for promoting the recommendations in the Guidelines lies primarily with the adhering governments as does the administration of the Guidelines' unique follow up mechanism.

21. *Implementation.* The Global Compact offers five different types of engagement opportunities for its participants: networks, dialogues, learning, initiatives and partnership projects. Companies and other Global Compact stakeholders are encouraged to take an active role in country networks. Global Compact networks support implementation of the Global Compact in a local context through dialogue, learning and projects, and provide support for quality assurance.

22. In policy dialogues, the Global Compact supports action-oriented local, regional or international meetings that focus on specific issues related to globalisation and corporate citizenship.

24. To promote learning, the Global Compact fosters the development of tools and publications to assist participants with the process of implementing the principles and sponsors opportunities for participating companies to share best practices and lessons learned. As a voluntary initiative, the Global Compact seeks to establish the business case for responsible corporate citizenship. In furtherance of this aim, it has, for example, facilitated a number of initiatives with the financial community to promote responsible corporate practices.

23. Global Compact participants are also encouraged to undertake partnership projects with UN agencies and civil society organizations in support of global development goals, such as the Millennium Development Goals.

24. The distinctive, government-backed implementation mechanisms of the OECD Guidelines include the operations of National Contact Points (NCP). These are government offices located in each of the 39 adhering governments. They are responsible for encouraging observance of the Guidelines and for ensuring that the Guidelines are well known and understood by the national business community and other interested parties. NCPs promote the Guidelines; handle enquiries about them; assist in solving problems that may arise; gather information on national experiences with the Guidelines; and report annually to the OECD Investment Committee.

25. *Accountability and follow up mechanisms.* Both initiatives are voluntary from the perspective of the corporations that choose to engage with them in that neither relies on formal legal sanctions to achieve their objectives. Rather, they each have their own unique means of promoting observance.

26. The Global Compact is not a regulatory instrument – it does not 'police', enforce or judge the behaviour of companies – it relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share best practices in pursuing the principles upon which the Global Compact is based. To promote basic engagement quality, the Global Compact asks participating companies to publish in their annual report (or similar corporate report) a description of the ways in which they are supporting the Global Compact and its ten principles. This 'Communication on Progress' is an important tool to demonstrate the continuous performance improvement to which the

Global Compact aspires. Companies that do not communicate their progress for two years in a row are declared inactive until they communicate their progress. To further promote continuous quality improvement and better accountability, the Global Compact has introduced other integrity measures that utilize dialogue to help participants raise the quality of their implementation efforts. Under these integrity measures, it is anticipated that local networks will play an increasingly important role in practical solution finding.

27. The OECD Guidelines provide a unique follow up mechanism for raising “specific instances”. This facility allows interested parties to call a company’s alleged non-observance of the Guidelines’ recommendations to the attention of an NCP. Since the creation of the specific instance facility in 2000, it has been used 80 times as a forum for discussing concrete problems of business ethics – those encountered by managers “on the ground”. For example, the facility has been used to discuss a Korean company’s labour management practices in a Guatemalan export processing zone, a Canadian company’s resettlement of populations in the vicinity of its mine in the Zambian copper belt, and a sporting goods manufacturer’s management of the risk of employing child labour in the sporting goods supply industry in India. NCPs are still refining their use of the specific instances procedure to ensure that all parties – businesses, civil society and trade unions, other governments – find it a useful tool. Promising developments include the use of embassy networks and official development assistance programmes as sources of information about investment projects in non-OECD countries and the issuance of public statements explaining the nature and conclusions of the discussions held under the specific instance.

28. The National Contact Points meet every year in order to engage in a “peer review” of their activities, including their handling of specific instances. In this way, Guidelines implementation involves continual improvement, both by NCPS and by other users. An annual report on implementation of the Guidelines is published which includes information on specific instances and how other parts of government (e.g. export credit agencies) use the Guidelines in the context of their work.

29. Responsibility for oversight of the functioning of the Guidelines falls to the OECD Investment Committee, which is expected to take steps to enhance their effectiveness. It can also issue clarifications on the application of the Guidelines in specific circumstances.

Conclusions

30. The Global Compact and the OECD Guidelines are two of the world’s foremost corporate responsibility initiatives. They complement and reinforce each other in many ways.

31. That the initiatives have mutually reinforcing missions is clear: The government-backed OECD Guidelines uses an inter-government process to promote the positive contribution that multinational enterprises can make to economic, environmental and social progress. The Global Compact seeks to advance responsible corporate citizenship by inspiring voluntary action in support of universally agreed principles. Opportunities for mutual advocacy and promotion will be explored.

32. Given their common interest in promoting responsible corporate citizenship, there is scope for exploring opportunities for mutually beneficial cooperation. Some concrete examples already exist. For example, the Secretariats have invited each other to participate in and contribute their expertise to relevant events, including on the topics of business in zones of conflict, transparency and anti-corruption. In March 2005, they co-sponsored – along with NEPAD and Transparency International -- a major anti-corruption conference in Addis Ababa. Other joint efforts on substantive work could be undertaken on a case-by-case basis.