



NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Report No. 10 (2008–2009) to the Storting

Corporate social responsibility in a global economy

"It is a
utopian
notion that poverty
can be overcome without
the active engagement of business"

— Kofi Annan





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Table of contents

1	Introduction	6			
1.1	Why do we need a white paper on corporate social responsibility?	6	3.2.1	Corporate responsibility to respect human rights.	31
1.2	What is corporate social responsibility?	7	3.2.2	Corporate responsibility to provide decent work.	32
1.3	The concept of CSR as used in this white paper	8	3.2.3	Corporate environmental responsibility.	34
1.4	Corporate attitudes and practices. .	9	3.2.4	Corporate responsibility to combat corruption	34
1.5	Key issues in this white paper.	10	3.3	The scope of corporate responsibility	36
1.6	Aims, ambitions and expectations .	12	3.4	Social responsibility in the supply chain	39
1.6.1	State activities	12	3.4.1	How far does the responsibility extend?	39
1.6.2	The Government's expectations of the private sector	13	3.4.2	Ethical requirements in the supply chain	40
			3.4.3	Greening supply chains	42
2	The role and responsibilities of the authorities	14	3.5	Investment and investment management	42
2.1	The state's role as owner	15	3.5.1	Socially responsible investment ...	43
2.1.1	Framework for the management of state ownership.	16	3.6	Responsibilities and opportunities .	45
2.1.2	Principles for state ownership.	16			
2.1.3	Social responsibility in companies in which the state has an ownership interest.	17	4	Norwegian corporate engagement abroad – challenges and dilemmas	46
2.2	The state as an investor and investment manager.	19	4.1	To engage or not to engage?	46
2.2.1	The ethical guidelines for the Government Pension Fund	19	4.2	Conducting business in conflict-affected areas.	49
2.2.2	Promoting social responsibility. ...	20	4.2.1	Guidelines in zones of conflict ...	50
2.2.3	Exercise of ownership rights in the Management of the Government Pension Fund	21	4.3	Natural resource-based enterprises	51
2.2.4	The importance of transparency. ...	22	4.3.1	Local communities and the rights of indigenous peoples	51
2.2.5	Sovereign Wealth Funds	23	4.3.2	Transparency in the extractive industries – EITI.	52
2.3	The public sector as procurer	24	4.4	Business engagement in vulnerable natural environments ..	54
2.4	A comprehensive policy	26	4.5	The need for vigilance	56
3	The private sector's role and responsibilities	27	5	Corporate social responsibility in a development perspective	57
3.1	Expectations of the private sector. .	27	5.1	Investments in developing countries	57
3.1.1	Guidelines for social responsibility.	27	5.2	What can companies do?	59
3.1.2	Good corporate practices.	28	5.3	Partnerships for development.	60
3.1.3	Transparency and disclosure	29	5.4	Institution and capacity building. ...	61
3.1.4	Vigilance and knowledge sharing. .	30	5.5	Responsible business – the key to development	63
3.1.5	Innovation and social responsibility	30			
3.2	The responsibility of business in key areas	31			

6	International frameworks for corporate social responsibility ..	64	8	Evaluation of legal instruments .	86
6.1	The OECD Guidelines for Multinational Enterprises.....	64	8.1	Criminal sanctions	87
6.1.1	National Contact Points	66	8.1.1	General limitations of international law.....	87
6.1.2	The Norwegian National Contact Point.....	67	8.1.2	The development of international criminal law norms	87
6.1.3	Experiences and potential for improvement	68	8.1.3	Norwegian criminal legislation	87
6.2	The UN Global Compact	69	8.1.4	Evaluation	88
6.2.1	How does the UN Global Compact work?	69	8.2	Civil liability.....	88
6.2.2	What does joining the UN Global Compact entail?.....	70	8.3	Reporting on social responsibility..	89
6.3	The Global Reporting Initiative	71	8.3.1	Reporting obligation under Norwegian law.....	89
6.3.1	What does GRI reporting entail? ...	71	8.3.2	The duty to provide information about ethical guidelines	89
6.3.2	The value of reporting	72	8.4	Grievance and monitoring mechanisms.....	91
6.4	Standardisation and certification ...	73	8.5	Considerations	93
6.5	The need for international guidelines	74	9	Instruments for strengthening corporate social responsibility ..	94
7	International initiatives and processes for social responsibility	76	9.1	Public instruments targeting the private sector.....	94
7.1	Groundbreaking work in the UN on human rights and business	76	9.2	Social partner organisations	98
7.1.1	The Special Representative of the UN Secretary-General	77	9.3	Non-governmental organizations ..	101
7.2	Global labour standards	78	9.4	Research and education	102
7.3	Environmental and climate cooperation	81	9.4.1	The need for research	102
7.4	Efforts to combat corruption	83	9.4.2	Social responsibility and education.	103
7.4.1	Capital flight and secrecy jurisdictions	84	9.5	Dialogue and exchange of experience	103
7.5	Trade and international cooperation	84	10	Economic and administrative consequences	106
7.6	International frameworks and national guidelines	85	Annex		
			1	Relevant websites and tools	107

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(The Stoltenberg II Government)*

1 Introduction

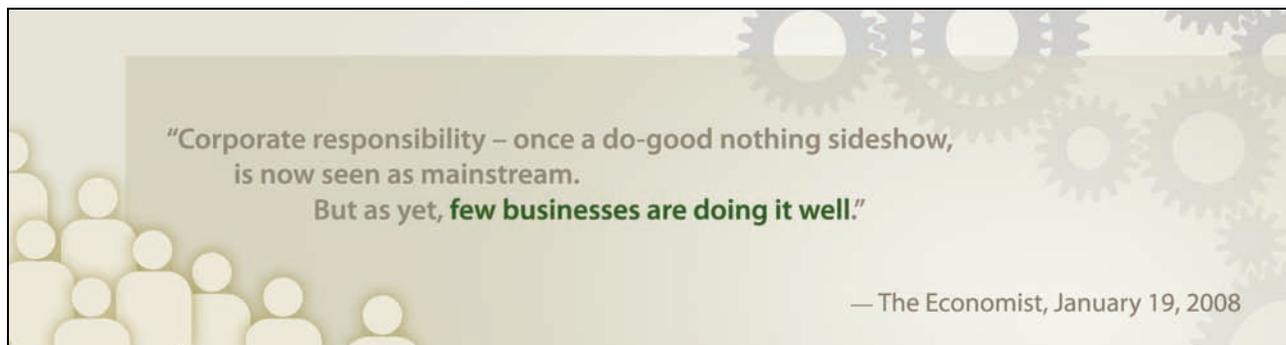


Figure 1.1

1.1 Why do we need a white paper on corporate social responsibility?

Profitable companies make important contributions to society. They create jobs and help finance the general welfare of the population. The main task of companies is to create value and generate financial results within the legislative framework of the society in which they operate. But companies are not just operating in a market. They are also operating within a culture, a local community and a political system. The debate surrounding corporate social responsibility (CSR) is concerned with the role companies play in this broader social context.

Companies have an impact on social development where they operate. They therefore have a responsibility that extends beyond value creation. CSR is a matter of clarifying exactly what this responsibility entails and how it can best be fulfilled. There are examples of companies that are profitable in financial terms, but whose activities may be harmful to both employees and the local community. The task of politics is to change situations of this kind, in close dialogue with business actors and the social partners. In a globalised world, many challenges can only be met through active cooperation with leading economic actors. An important aim of politics is to take advantage of these opportunities for cooperation.

The ethical aspects of CSR have become more apparent as a result of globalisation. To a greater

extent than previously, Norwegian companies are engaged in countries with poor human rights records or where human rights are challenged, where working conditions are unacceptable, or where child labour is used. They also operate in areas where there is little concern for the environmental impact of production processes. Legislation and its enforcement vary from country to country. The scale of corruption also varies. To an increasing extent, companies are being questioned about what acceptable business practice is and whether or not the company's responsibility extends beyond simply complying with the law in the country in which they are operating.

The ethical basis for CSR derives from the inviolability of human dignity. Just as politics is not an end in itself, but a means of promoting social change for the benefit of the people and the environment, a company's profits or activities are not goals that can be viewed in isolation from other considerations. Economic activities also require an ethical foundation that puts people, the environment and broader social considerations centre stage. In recent years, there have been a number of cases that have shown the importance of CSR, as well as the negative consequences for individuals, society and the environment when companies do not conduct their operations in a responsible manner.

For a number of years, leading Norwegian companies and the social partners have given high

priority to CSR efforts. The social partners have played an active role in promoting decent working conditions and the right to organise, also in developing countries, and NGOs have played a leading role in mobilising companies to prioritise social responsibility. Many companies have integrated CSR into their operations and their decision-making processes. This is very positive. Those who have been actively involved in the debate, and in developing rules and norms relating to CSR, should be commended for their efforts. But although a number of companies and organisations have made considerable progress in integrating social responsibility into their business practice, there is still a need for increased awareness, greater knowledge and broader involvement.

These issues form the backdrop for the Government's decision to submit a report to the Storting on corporate social responsibility, the first of its kind. The purpose of this white paper is to raise awareness about social responsibility in both the private and the public sectors. The Government has a positive impression of Norwegian companies' ability and willingness to contribute in this area, and the white paper is intended to strengthen this commitment. The Government's aim is to clarify the authorities' expectations of the private sector, and to discuss the respective roles and responsibilities of the authorities, the private sector and other actors. It is also designed to boost Norwegian companies' motivation and ability to exercise social responsibility, by strengthening guidance and advisory measures, and increasing openness, dialogue and exchange of experience between the authorities and the private sector. The Government will play an active role in international processes aimed at further developing the CSR framework.

This white paper stresses the importance of companies' conduct abroad. To an increasing extent, Norwegian companies are engaging in commercial activities in, and trade with, countries that are affected by political instability, widespread poverty or corruption. It is particularly with regard to involvement in these markets that companies may need greater awareness and expertise. However, social responsibility is relevant irrespective of the market the company is operating in, and also applies to activities in Norway.

Many Norwegian companies and branches are experiencing the effects of the global financial crisis. An active policy is needed to reverse the economic downturn. Unstable times give rise to questions as to whether companies have the time and resources to exercise social responsibility. In the Government's view, CSR efforts are important

regardless of the economic situation. Furthermore, companies can strengthen their long-term competitiveness and position by having a responsible relationship to employees, consumers, owners and other interested parties. In this way, CSR does not involve a conflict of interests, but is a community of interest that brings together companies, the authorities and other actors.

1.2 What is corporate social responsibility?

Over the years there have been different views of the role and responsibilities of business in society. Some have argued that «the business of business is business», and that the private sector benefits society best by concentrating on increasing its profitability within a clear legal framework. The rationale here is that companies operating in a well-functioning market contribute to achieving broader social goals such as employment, general development and welfare, thereby making their contribution to society.

In recent years, CSR has come to encompass more. This relates to the increasing influence of the private sector as a result of globalisation, and the opportunities and challenges associated with this. Corporate social responsibility, with its attendant norms and standards, is evolving constantly as new knowledge is acquired.

At the core of the concept lies the responsibility of companies towards people, society and the environment that are affected by their activities.

Companies that deal with their social responsibility in a forward-looking manner ensure that becomes an integral aspect of their corporate governance. CSR must be clearly established as a line management responsibility, and followed up on an ongoing basis by the company's senior management and board.

There are various strategic approaches to CSR. Some emphasise risk management, for instance through reputation management. Others advocate a more proactive approach to CSR, where finding solutions to social problems becomes part of the company's business strategy, thereby providing access to important markets. Quite apart from the company's contribution to society through job creation, taxation and generating economic spillover effects, the company can develop products, services, production methods and business practices that promote development. Examples of this include microcredit, mobile telecommunications, solar power and water supply.

The substance and understanding of the concept of CSR are dynamic. The focal issues vary according to the area of activity in question, and change over time. Philanthropy, or donating to good causes, has traditionally been perceived as an expression of a company's commitment to corporate social responsibility. Many companies continue to view CSR in terms of charity and support to the local community. However, there is a growing tendency to see the core area for practising social responsibility as the company's own operations and supply chain.

1.3 The concept of CSR as used in this white paper

The Government views the following areas as central when it comes to corporate social responsibility in international operations: respecting human rights; upholding core labour standards and ensuring decent working conditions; taking environmental concerns into account; combating corruption; and maximising transparency.

All companies operating abroad are expected to comply with the host country's laws and regulations, as well as with Norwegian legislation insofar as it applies to activities or operations carried out abroad. CSR extends beyond a company's statutory obligation to comply with national legislation. It may also be a matter of complying with legislation that is not properly enforced by the local authorities.

Many developing countries have inadequate legislation, weak governance, widespread poverty and corruption. In countries such as these, the way companies do business and demonstrate responsibility is of particular importance. This does not mean that companies should automatically assume responsibility for matters that are the province of the authorities in the countries concerned. It would be unreasonable to expect this of companies, and it would not necessarily promote long-term development.

The concept of responsibility used in this white paper is linked to companies' ethical standards, and is used in the sense of «moral responsibility» unless otherwise indicated. When a company fails to comply with these standards, the result may be that it is seen as failing to meet its own business objectives, or not living up to the expectations of consumers, investors or the local community. The concept of responsibility can also be invoked if companies, through their business conduct, contribute to human rights violations or other breaches

of international law, or to violations of other international standards on which there is general agreement. If a company breaches environmental standards, for instance, it may risk negative sanctions. For example, a decision may be made to exclude a company from the investment universe or to discontinue project funding. «Responsibility» may also be used in the sense of «legal liability», for example criminal responsibility or liability for damages under local legislation, Norwegian law or the legislation of a third country where legal proceedings could be initiated against the company.

The Government's position is that CSR involves companies *integrating social and environmental concerns into their day-to-day operations, as well as in their dealings with stakeholders. CSR means what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating.* Companies should promote positive social development through value creation and responsible business conduct, and by taking the local community and other stakeholders into consideration.

1.4 Corporate attitudes and practices

Norwegian companies that invest or operate abroad have varying degrees of knowledge and practices with regard to CSR. A survey that was carried out for the Ministry of Foreign Affairs in 2008 measured the attitudes and practices of internationally oriented Norwegian companies in relation to CSR.¹ Interviews were conducted with the general manager or staff member in charge of operations abroad in 300 companies with more than 50 employees.

The results of the survey give the impression that a number of company representatives have a somewhat vague understanding of CSR. Many associate the concept first and foremost with how a company treats its own employees in Norway and the extent to which it supports projects in the local community or contributes funds to organisations that are engaged in relief work or environmental protection. Large companies have greater awareness of CSR issues than small companies. However, hardly any differences in attitude seem to be attributable to which branch companies are operating in, or to whether or not they operate in developing countries.

¹ Conducted by Synovate Norge in January 2008. The questions posed in the survey and the results have been published on the Ministry of Foreign Affairs' website.



Figure 1.2 Examples of companies' relationship to and areas of interaction with various stakeholders.

The survey also reveals the following:

- 54 % of companies state that they have written guidelines for how CSR should be practised
- Responsibility for CSR lies either with the senior manager or with no one person in particular
- 44 % report on CSR, the majority in their annual reports or in a special report
- Issues relating to CSR are discussed frequently in 28 % of executive management teams and in 20 % of company boards

The survey also shows that attitudes to CSR are positive. Many see it as giving the company in question a competitive edge, and use it in their marketing efforts. A large proportion of those interviewed believe that the company's owners and financial contacts attach importance to CSR. Many of those interviewed agree that CSR is important in recruiting competent personnel, and the majority agree that it will become increasingly important for the company in the future.

From the survey results, it appears that it is less common to check suppliers' and subcontractors' CSR performance, but many of those interviewed say that they avoid doing business with companies that do not have their own ethical guidelines. Companies believe they encounter the greatest challenges in their international operations in relation to environmental considerations. A minority of the respondents believe that Norwegian companies abroad demonstrate greater social responsibility than foreign companies do.

According to the survey, there is little knowledge of international guidelines and frameworks concerning how companies should practise CSR. There are widely divergent views regarding whether binding national guidelines on CSR should be drawn up for Norwegian companies when operating abroad. Few believe that the Norwegian authorities are playing a particularly active role in advising Norwegian companies on CSR issues. However, there is only moderate interest in receiving information of this kind from the authorities.

The survey shows that there is only moderate knowledge of established international CSR guidelines, and indicates that there is a clear need for raising awareness and increasing knowledge with regard to social responsibility.

1.5 Key issues in this white paper

The Government has defined three key areas for action with regard to CSR. The first is exercising social responsibility in the Government's own activities. The second is conveying society's expectations to Norwegian companies. The third is developing and influencing the framework for CSR, both nationally and internationally.

The public administration and the Norwegian authorities have an independent responsibility for taking into account ethical considerations and behaving in a socially responsible manner. The Government's aim is for the public sector to be at the forefront in this area, both in terms of its conduct as owner and investor, and through the procurement of goods and services. The authorities' responsibilities in relation to these activities are discussed in Chapter 2.

This white paper is based on the premise that Norwegian companies should be among the best at practising CSR, thereby helping to strengthen the status of human rights, create decent working conditions, protect the environment and combat corruption. In the Government's view, active corporate involvement in these areas will positively impact both the companies and society at large. The authorities' expectations of companies are examined in Chapter 3, including the scope of companies' responsibility, for instance in relation to the supply chain.

Companies have a clear self-interest in conducting business in a socially responsible manner. To an increasing extent, clients and consumers are demanding responsible production of goods and services. Investors emphasise the maintenance of high standards in companies. The media shines a critical spotlight on how companies follow up their suppliers and foreign subsidiaries. Employees and job-seekers are attaching increasing importance to companies' attitudes to CSR. Many companies have thus come to regard socially responsible conduct as important for ensuring long-term competitiveness, business opportunities and reputational benefits.

Nevertheless, companies will encounter challenges and dilemmas in countries where there is inadequate legislation, or a lack of enforcement and sanctions. Business activities can be particu-

larly challenging in conflict-affected countries, or in countries with widespread corruption or vulnerable natural environments. This raises questions about what role companies should play in relation to the authorities, and whether companies should operate in such countries at all. These issues are discussed in Chapter 4. Partnerships between various actors are important in meeting challenges of this nature.

According to the Government, economic engagement in developing countries is positive, because it contributes to value creation and can promote social and political development. This is the subject of Chapter 5, which discusses various ways in which companies can promote development. The private sector can also contribute to strengthening the status of universal values and norms, as set out in UN and OECD principles, declarations and guidelines.

The Government sees the need for internationally recognised CSR guidelines that give guidance to Norwegian companies, provide opportunities for companies' stakeholders to appeal against violations of their rights, and create equal conditions of competition across national borders.

The *OECD Guidelines for Multinational Enterprises* cover the key areas for responsible business conduct. A substantial part of the discussion in Chapter 6 concerns these Guidelines. The OECD Guidelines deal with respecting fundamental human rights and combating child labour, forced labour and discrimination. They include employees' right to be represented by trade unions and to engage in constructive negotiations. Protection of the environment features prominently in the Guidelines, which also discuss combating bribery. The Guidelines draw attention to consumer interests and the responsibility to contribute to public finances through taxation. They are also relevant for small businesses and suppliers.

The OECD Guidelines address the fundamental social considerations that all Norwegian companies should, in the Government's view, take into account in their international operations. The Government considers the Guidelines to be important, and urges Norwegian companies to actively comply with them in their international activities. The Government also intends to enhance the effectiveness of the National Contact Point that informs the parties concerned about the Guidelines, and deals with complaints concerning breaches of them.

The Government's aim is that Norway should play a proactive role globally in order to strengthen the status of human rights, create decent working conditions and protect the environment. This enga-

gement will help to reinforce the existing CSR framework. The Norwegian authorities' efforts in the various international processes are described in greater detail in Chapter 7.

In debates on CSR, the question of the balance between voluntary action and sanctions is often raised. It is argued that national ethical guidelines of a binding nature could ensure that Norwegian companies fulfil their social responsibility to a greater extent. In connection with a recommendation by the Standing Committee on Justice regarding the Act amending the Company Act and other matters (Recommendation No. 12 (2006 – 2007) to the Odelsting), a majority of the Committee requested that the Government consider the question of national guidelines for CSR in Norwegian companies' operations abroad, and report back to the Storting in an appropriate manner. This is discussed in greater detail in Chapter 8.

There are clear limitations on the extent to which ethical values and conditions outside Norway's borders can be regulated by the Norwegian authorities. The Government will seek actively to strengthen and promote CSR frameworks and initi-

atives in international forums and organisations. The Government places particular emphasis on international efforts to develop effective mechanisms for enforcing and complying with frameworks of this kind. Norway's anti-corruption legislation is an example of the implementation and enforcement of international conventions nationally.

The Norwegian tradition of close contact and cooperation between the authorities, the private sector and employees has played a positive role in the development of our society. This model is an important resource that should be safeguarded and developed further. NGOs play a proactive role in national and international forums. This provides a good basis for further developing a shared and strengthened commitment to CSR, as discussed in Chapter 9.

This white paper deals primarily with companies' international operations. Companies also exercise social responsibility in the Norwegian context. Examples of this include initiatives to create a more inclusive working life, environmental projects, and efforts to promote gender equality and competence building through cooperation between companies and educational institutions, for instance in the form of trainee and apprentice schemes. However, these aspects fall outside the scope of this white paper.

Box 1.1 Other relevant documents

This white paper must be seen in the context of other white papers and action plans that have been presented, in particular the following:

- Report No. 13 (2006–2007) to the Storting: An Active and Long-Term State Ownership
- Report No. 26 (2006–2007) to the Storting: The Government's Environmental Policy and the State of the Environment in Norway
- Report No. 34 (2006–2007) to the Storting: Norwegian Climate Policy
- The Norwegian Action Plan 2007–2010: Environmental and Social Responsibility in Public Procurement (2007)
- Aid for Trade – Norway's Action Plan (2007)
- Report No. 7 (2008–2009) to the Storting: An Innovative and Sustainable Norway

It must also be seen in the context of white papers that are due to be submitted to the Storting in the course of the 2009 spring session, on the Government Pension Fund, on development policy and on the main features of foreign policy, respectively.

1.6 Aims, ambitions and expectations

The Government has high aims and ambitions for social responsibility efforts in the public sector, and equally clear expectations of the private sector. The Government emphasises the significance of CSR for value creation and for bringing about changes that benefit people, the environment and society at large.

1.6.1 State activities

Ownership, investment, procurement and administration

- State-owned enterprises must lead the way in exercising social responsibility. The Government will seek to promote this by actively exercising ownership rights.
- The *Ethical Guidelines* for the Norwegian Government Pension Fund – Global are currently being revised. The results of this process will be presented in the annual Report to the Storting on the Management of the Government Pension Fund in spring 2009.

- The Government will devise requirements for its own suppliers. The Norwegian Action Plan for Environmental and Social Responsibility in Public Procurement will be followed up, with particular emphasis on guidance, capacity-building and practical advice.
- CSR will be integrated as a cross-cutting theme in the administration of all Norwegian development assistance funds.

International frameworks and processes

- Norway will play a proactive role in strengthening international CSR guidelines, with a view to establishing more binding frameworks and mechanisms.
- Norway will advocate the revision of the *OECD Guidelines for Multinational Enterprises* in the areas of human rights and climate change/environment.
- The Government will allocate increased resources to initiatives and bodies that promote CSR, including the UN Global Compact, the Global Reporting Initiative (GRI), the International Labour Organisation (ILO), and the National Contact Point for the *OECD Guidelines for Multinational Enterprises*.
- Norway is actively supporting the ongoing efforts of the UN Special Representative of the Secretary-General on human rights and transnational corporations and other business enterprises. The aim is to develop a framework that sets out minimum requirements for the corporate responsibility to respect human rights.
- The Government is seeking to strengthen and coordinate Norway's efforts to promote labour rights in other countries, in accordance with the newly-established strategy to strengthen workers' rights globally.
- The Government will examine the role of secrecy jurisdictions, or tax havens, in facilitating illicit financial flows.
- Norway will advocate integrating CSR into international agreements and dialogues, where this is appropriate.

National measures

- The Government will strengthen the National Contact Point for the OECD Guidelines by holding consultations with NGOs, seeking advice

from external sources and developing clear and transparent procedures for specific instances.

- The Government will continue to consider measures designed to prevent Norwegian nationals and companies committing serious environmental crime outside Norway's borders.
- The Government emphasises transparency and disclosure, and will suggest that the scope of the Accounting Act should be extended to include information on ethical guidelines and social responsibility for the largest companies that have an accounting obligation.
- The Government will consider various models for gaining a better overview of how the private sector follows up its social responsibility, different ways of organising advisory services and appropriate ways of organising the National Contact Point for the OECD Guidelines. A proposal will be submitted for consultation by the summer of 2009.

Other measures

The Government will strengthen the CSR advisory and guidance services available to Norwegian companies by:

- strengthening the services that provide information, guidance and dilemma training;
- establishing a web-based overview of information and expertise regarding CSR;
- setting up a focal point in the Ministry of Foreign Affairs for dealing with companies' CSR queries;
- drawing up country profiles tailored to the private sector's needs in areas relating to CSR that are relevant to the situation in the countries concerned;
- cooperating with the social partners and civil society with regard to sharing information and experience;
- evaluating companies' CSR performance in connection with advisory services and financial support;
- initiating efforts to improve social responsibility in small and medium-sized enterprises. The responsibility for this will lie with the Ministry of Trade and Industry, in consultation with other relevant actors;
- providing arenas for discussing specific problems and challenges that companies encounter internationally.

1.6.2 The Government's expectations of the private sector

The Government expects Norwegian companies to be at the forefront in terms of exercising social responsibility, and thereby contribute to innovation and value creation. The Government expects Norwegian companies that engage in activities abroad to:

- respect fundamental human rights, including those of children, women and indigenous peoples, in all their operations, as set out in international conventions;
- base their operations on the ILO core conventions regarding the right to organise and the abolition of forced labour, child labour and discrimination;
- maintain HSE standards that safeguard employees' safety and health;
- seek to establish other arrangements that enable employees' views to be heard in countries where universal rights such as freedom of association and the right to collective bargaining are not upheld;
- take into account environmental considerations and promote sustainable development, for instance by developing and using environmentally friendly technology;
- actively combat corruption by means of whistleblowing or notification schemes, internal guidelines and information efforts;
- exhibit the maximum possible degree of transparency in connection with financial flows.

In their CSR efforts, Norwegian companies are expected to:

- integrate a clear awareness of CSR into their boards, management teams and corporate culture;
- build and further develop the necessary expertise within the company;
- acquaint themselves with the *OECD Guidelines for Multinational Enterprises* and follow them in their operations;
- consider joining the UN Global Compact;

- develop and implement guidelines for social responsibility;
- follow their own guidelines in the supply chain, by setting requirements, implementing control procedures and building capacity;
- take good corporate practices with them from Norway, including models for cooperating with employees and employee representatives;
- develop their own CSR standards, using best practice within their field or branch as their guiding principle and goal;
- establish mechanisms or schemes for whistleblowing or notification of unacceptable circumstances;
- show transparency with regard to the economic, social and environmental consequences of their operations;
- actively seek out information and guidance in connection with international operations, particularly in developing countries.

The Government calls on Norwegian companies to:

- increase their investments in developing countries, particularly in the least developed countries (LDCs). Companies are invited to enter into strategic partnerships with the Government in order to reduce the risks associated with such investments and improve their development impact;
- actively recruit staff locally in the host country, encourage the use of local suppliers and use local companies as contractors and suppliers in developing countries;
- actively advocate global corporate agreements based on the ILO core conventions, and seek to safeguard worker's rights;
- place demands on their suppliers and business partners with regard to social and environmental standards, and support capacity and competence-building in the supply chain;
- inform the Norwegian authorities about serious violations of human rights and other unacceptable circumstances they learn of through their operations.

2 The role and responsibilities of the authorities



Figure 2.1

The Norwegian authorities play an important role as owner, investor and procurer. The public administration and other public authorities have a substantial ownership interest in the Norwegian private sector through publicly-owned companies and through ownership interests in listed companies. Norwegian companies abroad are often equated with Norway, particularly those in which the state has an ownership interest. These companies must therefore be expected and required to observe particularly high standards for social responsibility.

Through the Government Pension Fund – Global, the Norwegian state manages substantial assets on behalf of present and future generations. It is essential that these funds are managed in an ethically responsible manner.

As a purchaser, the Government can influence the private sector by setting requirements for its suppliers.

The authorities stipulate the framework conditions for companies' activities by adopting and implementing national legislation, regulations and guidelines. Examples of this are regulations and requirements relating to the health, safety and environment (HSE) field and to the natural environment. The authorities can also use positive incentives to stimulate innovation in the private sector and thereby produce new or better solutions to social challenges.

The framework for corporate social responsibility (CSR) is determined through international cooperation at governmental level. This applies, for example, to agreements and conventions concern-

ing human rights, labour standards, the environment, sustainable resource management, taxation, corruption and trade. The Government's role is primarily to enter into international agreements, incorporate international provisions into Norwegian legislation, and to follow up and enforce the requirements. At the same time, however, international cooperation at governmental level has insufficient tools at its disposal to ensure that rights established by law or agreement are respected in all sovereign states at all times. CSR is therefore both important and necessary.

Through bilateral cooperation, the Norwegian authorities seek to promote CSR in partner countries. The Norwegian authorities can raise matters with the authorities of other countries at a political level and through dialogue and cooperation that it would not be natural or possible for an individual company to engage in. For example, Norway cooperates with countries such as Brazil and China on environmental issues, and it conducts human rights dialogues with China, Indonesia and Vietnam. International cooperation and international initiatives and measures are discussed in more detail in Chapters 6 and 7.

The authorities can contribute to information sharing and competence-building in the CSR context in cooperation with other actors. Public agencies and state investment funds must base their engagement on high environmental and social standards, cf. Chapter 9. This applies, for instance, to Innovation Norway, the Norwegian Agency for Development Cooperation (Norad), the Norwe-

gian Investment Fund for Developing Countries (Norfund), the Norwegian Guarantee Institute for Export Credits (GIEK), Eksportfinans ASA, the Research Council of Norway, the Industrial Development Corporation of Norway (SIVA) and Investinor.

The public administration is also responsible for maintaining high ethical and environmental standards in its own activities. This is reflected, for example, in the Platform for Leadership in the Civil Service and the ethical guidelines for civil servants.

2.1 The state's role as owner

The Norwegian state has a direct ownership interest in a large number of Norwegian enterprises. The state has a major ownership interest in Norway's largest listed companies, in addition to a number of wholly state-owned companies in Norway that have been established for sector-specific policy purposes, such as Vinmonopolet (the Norwegian wine and spirits monopoly), the airport

operator Avinor and the Norwegian Broadcasting Corporation. Others have purely commercial objectives.

The state has acquired ownership interests in such companies for a number of different reasons. Some companies are the result of a decision to hive off state production or service functions into separate companies. In certain cases, private parties have been brought in as co-owners through the sale of shares, the issuing of new shares and/or listing on the stock exchange. The purpose of transforming state enterprises into commercial companies and opening up for private ownership has, among other things, been to increase efficiency and acquire capital and expertise. Kongsberg Gruppen, Telenor, StatoilHydro and Cermaq are examples of previously wholly state-owned companies that have been partially privatised. In other cases, the state has acquired ownership interests in companies that were previously privately owned, for example in connection with a post-war settlement (Norsk Hydro) or as the result of a crisis (DnB NOR).

<p>Ministry of Trade and Industry</p> <ul style="list-style-type: none"> - Aker Holding AS - Argentum - Fondsinvesteringer AS - BaneTele AS - Bjørnøen AS - Cermaq AS - DNB NOR ASA - Eksportfinans ASA - Electronic Chart Centre AS - Entra Eiendom AS - Flytoget AS - Norsk Hydro ASA - Innovasjon Norge (særlovselskap) - Kings Bay AS - Kongsberg Gruppen ASA - Mesta AS - Nammo AS - SAS AB - Secora AS - SIVA SF - Statskraft SF - Store Norske Spitsbergen Kulkompani AS - Telenor ASA - Venturefondet AS - Yara International ASA 	<p>Ministry of Petroleum and Energy</p> <ul style="list-style-type: none"> - Enova SF - Gassco AS - Gassnova SF - Petoro AS - Statnett SF - StatoilHydro ASA <p>Ministry of Transport and Communications</p> <ul style="list-style-type: none"> - Avinor AS - Baneservice AS - NSB AS - Posten Norge AS <p>Ministry of Health and Care Services</p> <ul style="list-style-type: none"> - Helse Midt-Norge RHF - Helse Nord RHF - Helse Sør-Øst RHF - Helse Vest RHF - Kompetansesenter for IT i helse- og sosialsektoren AS - AS Vinmonopolet <p>Ministry of Foreign Affairs</p> <ul style="list-style-type: none"> - Norfund (særlovselskap) 	<p>Ministry of Education and Research</p> <ul style="list-style-type: none"> - Norsk Samfunnsvitenskapelig datatjeneste AS - Simula Research Laboratory AS - Uninett AS - Universitetscenteret på Svalbard AS <p>Ministry of Justice and the Police</p> <ul style="list-style-type: none"> - Itas amb AS - Norsk Eiendomsinformasjon AS <p>Ministry of Local Government and Regional Development</p> <ul style="list-style-type: none"> - Kommunalbanken AS <p>Ministry of Culture and Church Affairs</p> <ul style="list-style-type: none"> - Norsk Rikskringkasting AS - Norsk Tipping AS <p>Ministry of Agriculture and Food</p> <ul style="list-style-type: none"> - Statsskog SF - Veterinærmedisinsk oppdragscenter AS
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Figure 2.2 Companies broken down by the ministry responsible for their administration

Source: The Government's Ownership Policy (2008)

2.1.1 Framework for the management of state ownership

When the state hives off enterprises as private limited companies, public limited companies or state-owned enterprises, they are no longer part of the public administration. This means that the state cannot manage these enterprises by administrative decision. There is a clear division of roles between shareholders and company management in limited companies and in the other organisational forms used for state-owned companies.

According to section 6–12 of the Public Limited Companies Act and corresponding provisions in other company legislation, the board of directors and the general manager are responsible for the management of a company. This means that any decisions concerning the commercial management of the company and responsibility for day-to-day operations are to be made by the company's management.

According to company legislation, the state as owner is responsible for follow-up and control of companies at a general level. The board of directors has a particular responsibility for ensuring that the company is organised in an appropriate manner and for ensuring that the company's assets are managed responsibly and in accordance with the company's and shareholders' interests. One of the reasons why certain activities are hived off into separate companies, and why the division of roles between shareholders, the board and the general manager laid down in company legislation is followed, is to ensure that the minister concerned cannot be held accountable for the company's business decisions.

In Recommendation S. No. 91 (1969–70), the Storting set out guidelines, which have since been followed, for appointing senior officials and civil servants to boards of state-owned companies. According to the guidelines, no senior official or civil servant who, within his or her area of responsibility, has regulatory or supervisory authority over a company, or who deals with matters of material importance to the company, may be appointed or nominated as a member of the board of that company. As worded, this provision covers more than just companies in which the state has ownership interests. The purpose is to prevent any conflict of interest or problems relating to regulatory authority and to ensure that confidence in decisions made by the public administration is not undermined. Another important purpose is to ensure that the minister in question cannot be held accountable for a company's decisions, which

could be the case if ministry employees are members of a company's governing body.

The requirement regarding equal treatment of shareholders limits the possibility of exchanging information between the company and the ministry in the case of listed companies. This does not, however, prevent the ministry from raising matters of general public interest in the ownership dialogue between the state and the company, on a par with other shareholders. Given its substantial ownership interests in Norwegian listed companies, it is important that the state conducts itself as and is perceived to be a predictable and professional owner.

The current framework for the Norwegian state's exercise of ownership rights is set out in Report No. 13 (2006–2007) to the Storting, *An Active and Long-Term State Ownership*. Following the Storting's consideration of this white paper, the Ministry of Trade and Industry summed up the main framework for the state's exercise of ownership rights in the document *The Government's Ownership Policy*. This document was last revised in September 2008.

2.1.2 Principles for state ownership

It has been important to draw a clear distinction between the state's exercise of authority, sector policy and the administration of ownership. Endeavours are made to assign ownership of companies that operate on a purely commercial basis to an entity in one of the ministries that does not have sector responsibility or competence. The Ownership Department at the Ministry of Trade and Industry was established in 2001 in order to attend to this task. Other ministries also administer ownership interests in commercial companies.

The state has adopted its own principles for good ownership, which were approved by the Storting in connection with its consideration of the white paper on state ownership. The principles apply to all state enterprises, both wholly and partially owned. They are also reproduced in the Government's ownership policy document for 2007 and 2008.

The state's principles for good ownership are:

1. Shareholders shall be treated equally.
2. There shall be transparency in relation to the state's ownership of the companies.
3. Decisions and resolutions by the owner shall be made/passed at the general meeting.
4. The state will, if applicable together with other owners, set performance objectives for the

companies; the board of directors is responsible for the objectives being attained.

5. The capital structure of the companies shall be adapted to the objective of the ownership and the company's situation.
6. The composition of boards of directors shall be characterised by competence, capacity and diversity based on the distinctive nature of each company.
7. Remuneration and incentive arrangements should be designed so that they promote value creation in the companies and are perceived as being reasonable.
8. On behalf of the owners, the board of directors shall have an independent control function vis-à-vis the company's management.
9. The board should have a plan for its work and should work actively on building its own competence. The board's work shall be evaluated.
10. The company shall be conscious of its social responsibilities.

2.1.3 Social responsibility in companies in which the state has an ownership interest

The Government expects enterprises in which the state has ownership interests to actively follow up social responsibility in their activities. In its report (NOU 2004:7), the Committee on State Ownership concluded that companies in which the state has ownership interests should take the lead in exercising social responsibility. The committee also pointed out that the state's legitimacy could be weakened, for example as legislator and in matters concerning foreign policy, if, in its role as owner, it failed to comply with high standards in this area. The Government endorsed this view in the white paper on state ownership and followed it up in The Government's Ownership Policy. The ownership policy document describes the importance of demonstrating corporate social responsibility as follows:

«The state's long-term objectives for the state's ownership mean that the companies' boards of directors must take due account of considerations such as a good environment, restructuring, diversity, ethics and research and development in order to promote development in the long term. Displaying active social responsibility means combining financial and ethical considerations in all areas of operation, ranging from a company's choice of partners to its investment in, for example, employees' working conditions, locally and globally. Soci-

ally responsible management of companies means that companies must endeavour to demonstrate a consistently good practice towards all its stakeholders. Work on social responsibility is not, and should not be seen as, a distinct element unrelated to business strategy and business development.»

In the white paper on state ownership, the Government clarified its expectations of companies in relation to social responsibility in nine areas referred to as sector-independent considerations.

These are considerations that the Government expects companies to take into account in their assessments and that are intended to promote companies' long-term rate of return and industrial development. Specifically, the following expectations of companies are set out in the white paper on state ownership:

- *Health, safety and the working environment (HSE)*: HSE work must also cover companies' international operations. Cooperation with employees and their organisations must be in place when a company operates in other countries.
- *The environment*: The companies' work on environmental issues must extend to the enterprise's entire value chain. Product development, production, distribution and the subsequent use of the company's products must be adapted to long-term responsible social development with the least possible environmental impact.
- *Ethics*: The companies are expected to have adopted corporate values and ethical guidelines. In formulating ethical guidelines for their operations, the companies should, among other things, consider the factors on which the Government Pension Fund – Global's ethical guidelines are based. Such ethical guidelines should be in line with the UN Global Compact and the OECD's Guidelines for Multinational Enterprises. The guidelines should also be in accordance with the OECD's Guidelines for Corporate Governance.
- *Combating corruption*: Greater transparency can prevent wrong and ethically dubious decisions. Companies should therefore be open about dilemmas relating to corruption, conflicts of interest and impartiality.
- *Civil protection*: As is the case for private enterprises, companies in which the state has an ownership interest are obliged to protect their own operations, employees and the surrounding environment against accidents.

- *Gender equality*: Open and genuine competition for positions in society promotes both justice and economic efficiency. The Government believes that failure to make better use of the competence and capacity women can bring to companies and society as a whole represents squandering and poor management of society's resources.
- *Restructuring*: As owner, the state expects companies to take a long-term view and act responsibly in connection with restructuring processes.
- *Research, development and competence-building*: Business and industry should be ambitious with respect to research and development. The Government expects companies in which it has a major ownership interest to have a strategy for increased research and development.
- *Integration and career opportunities for other groups*: The Government is concerned that Norwegian companies should be proactive in their attitude to the recruitment of personnel from minority backgrounds, qualified seniors and people with functional impairments. The companies should also emphasise knowledge of other countries' cultures in their recruitment policies.

The state's attitude to social responsibility in companies in which it has ownership interests is expressed in the form of general, sector-independent expectations rather than absolute requirements. It is the task of each company's board of directors and management to adopt guidelines for its operations. Different areas are important for different companies and must be addressed accordingly.

It is fundamental that the state's expectations in these areas are, in principle, general. As an owner, the state cannot take responsibility for individual companies' guidelines at a detailed level. That is the companies' responsibility. On this basis, the state will conduct dialogues with companies about how they deal with these considerations. It is not expedient for the state as owner to consider or approve guidelines and plans. That would entail the state taking on a responsibility that must rest with the board of directors and management. The owner's responsibility is primarily to follow up and ensure that the company takes these considerations seriously and, if necessary, help to change the composition of the board in companies that do not pay proper attention to corporate social responsibility. In the white paper on state ownership, the Government emphasised that it is the board of directors' responsibility to strike a balance bet-

Box 2.1 Follow-up of CSR in enterprises in which the state has an ownership interest

- Companies are requested to provide information about their work on cross-cutting considerations, including the following:
- Measures initiated by the companies with a view to promoting cross-cutting considerations
- Activities in this connection that the companies define as important to their operations, and how they are followed up
- The companies' ethical guidelines and how they are rooted and implemented in the organisation as a whole
- How cross-cutting considerations are dealt with in relation to suppliers, partners and customers
- The companies' procedures for handling any difficult ethical issues
- The companies' whistle-blowing procedures.

ween the different considerations that are in the collective interests of the shareholders.

The Government is currently mapping companies' performance in relation to its expectations regarding social responsibility. Companies have been requested to provide information about their work on cross-cutting considerations, cf. Box 2.1. Initially, this applies to companies where state ownership is administered by the Ministry of Trade and Industry, which held meetings with the companies concerned in spring 2008. Other ministries have also held meetings on social responsibility with companies in which they have ownership interests.

On the basis of the information gathered and the experience gained through dialogue with these companies, the Ministry of Trade and Industry will make recommendations for further follow-up. The need for other measures will be considered in order to ensure that these companies demonstrate satisfactory social responsibility. Experience so far is that most of the companies are doing a great deal of good work in these areas and that they have devoted more attention to these issues in recent years:

- The vast majority of companies in which the state has ownership interests have now adop-

ted ethical guidelines. The companies that have not done so will be followed up.

- Most of the large companies in which the state has an ownership interest have chosen on their own initiative to report in accordance with the Global Reporting Initiative (GRI – cf. Chapter 6.3). This applies to Statkraft SF, KongsbergGruppen, DnB Nor, Telenor, Norsk Hydro, Yara, SAS and StatoilHydro among others.
- Several companies are members of the UN Global Compact.
- Many of the companies in which the state has interests issue separate sustainability reports or report specifically on CSR in their annual reports.

In its ownership policy document for 2008, the Government stated that there should be as much transparency as possible with respect to companies' ethical guidelines and that it expects these guidelines to be published on the companies' websites. Companies are also expected to provide information about financial matters, social responsibility, environmental issues and the results achieved. Large companies with international operations are urged to consider using the Global Reporting Initiative (GRI) reporting standard.

It may also be expedient for the companies' boards of directors to consider having their reports quality assured by an independent body, for example the company's auditor. This could also help to make this kind of control more common in privately-owned companies.

The Government

- expects companies in which the state has an ownership interest to play a leading role in exercising social responsibility;
- will conduct separate meetings on social responsibility once a year with the companies in which the state has an ownership interest;
- will follow up issues of social responsibility at the regular meetings held with the companies;
- urges companies to make their ethical guidelines publicly known, for example by publishing them on their websites;
- urges large companies with international operations to use the Global Reporting Initiative reporting standard.

2.2 The state as an investor and investment manager

The Government Pension Fund belongs to the Norwegian people and future generations of Norwegian citizens. The prosperity enjoyed by the present population entails obligations. The assets in the Government Pension Fund – Global stem from oil and gas revenues. The oil and gas reserves will run out. Since these resources are limited, it would not be fair if this wealth were only to benefit the few generations that happen to be living at this time. These assets must be safeguarded for posterity. Ensuring good returns on the fund over time is an important way of securing the future of the welfare state.

As an investor, the state also shares the responsibility for how the companies in which the fund invests conduct themselves, what they produce and their impact on the local community. The Government places great emphasis on social responsibility in the management of the Government Pension Fund. This is an important criterion for the evaluation of the ethical guidelines for the Government Pension Fund – Global that is currently being conducted.

The Government Pension Fund – Global had assets of NOK 1 992 billion on 30 June 2008. On the same date, the Government Pension Fund – Norway had assets of NOK 113 billion. The Government Pension Fund thus had combined assets of NOK 2 105 billion.

Since the fund manages a large proportion of the assets belonging to Norwegian society, it is both important and necessary that the Norwegian people have confidence in its management. Trust and legitimacy are largely built on transparency about investments, results and the fund's strategy.

2.2.1 The ethical guidelines for the Government Pension Fund

In 2004, the Ministry of Finance issued ethical guidelines for the Government Pension Fund – Global. In the same year, Folketrygdfondet's board adopted ethical guidelines for the management of the Government Pension Fund – Norway. The guidelines for the two funds are largely based on a common ethical platform. At the same time, however, the instruments for integrating ethical considerations differ somewhat because of the difference in the size of the two funds, the differences in investment strategy and the different investment universes in which they operate.

There are two tools for achieving the goals set out in the ethical guidelines: the exercise of ownership rights and the exclusion of companies. Ownership rights are to be exercised in as many companies as possible with a view to securing good rates of return in the long-term by promoting sustainable development. Exclusion is a last resort to prevent the fund from being complicit in serious violations of ethical norms.

The Government has initiated an evaluation of the ethical guidelines for the Government Pension Fund – Global, which will be based on a broad consultation process. The result of the evaluation will be presented to the Storting in the annual report on the management of the Government Pension Fund in spring 2009.

The main objectives of the evaluation are to assess whether the guidelines have worked as intended, to ensure continued broad political support for the guidelines, and to solicit input that can help to strengthen the fund's profile as a socially responsible investor.

In spring 2008, the Ministry of Finance sent a consultation document on the evaluation of the ethical guidelines to a broad selection of entities in Norway and abroad. Around 50 recipients have made comments. One of the questions raised by the consultation document is whether the fund's current tools – the exercise of ownership rights and the exclusion of companies from the fund's investment universe – should be changed or adjusted. It also raises the question of whether changes should be made in way these tools, which are currently handled by Norges Bank, and the Council on Ethics for the Government Pension Fund – Global, are coordinated. As announced in the white paper on the management of the Government Pension Fund in 2007 (Report No. 16 (2007–2008) to the Storting), the Ministry is examining whether a small part of the fund should be earmarked for investments in specific areas such as environmental technology or developing countries.

As part of the evaluation process, the Ministry of Finance held a large international conference in Oslo in January 2008 entitled «Investing for the Future» in cooperation with Norges Bank and the Council on Ethics for the Government Pension Fund – Global. The conference brought together representatives from the academic community, financial institutions, NGOs, companies and investors to discuss the challenges that arise for investors who seek to take considerations of good corporate governance and environmental and social factors into account in their investments.

2.2.2 Promoting social responsibility

The ethical guidelines for the Government Pension Fund – Global set out obligations concerning responsibility towards future generations of Norwegian citizens and co-responsibility for the people and the environments affected by the companies in which the fund invests worldwide. There are many problems that cannot be solved through the management of the fund, but that are best dealt with through foreign policy, development policy and environmental policy channels.

Increasing attention is being directed to investor responsibility in general, and to the ethical guidelines for the Government Pension Fund – Global in particular. This means that the ethical guidelines could have an effect over and above the work done through the Government Pension Fund. This may not have been intended, but it is nonetheless very positive. Raising awareness is a first important step in the direction of making investors and companies broadly accountable.

As a financial investor, it is natural to seek the best possible access to information about matters that can have a bearing on the short-term or long-term development of a company's shares. Information about the environmental impact of a company's operations may be relevant in that context. In 2008, Norges Bank became a signatory investor in the Carbon Disclosure Project (CDP), an independent organisation that collects and publishes information about companies' greenhouse gas emissions, cf. Box 3.7. As a signatory, Norges Bank urges the companies it invests in to be transparent in their environmental reporting and to act as driving forces in the efforts to reduce emissions of greenhouse gases. Likewise, cooperation with other large pension funds worldwide can be an effective way of promoting social responsibility.

In November 2008, Norges Bank announced that it is taking part in a campaign launched by 135 funds calling on rich countries to cut their greenhouse gas emissions by 25 % to 40 % per cent compared with 1990 by 2020, in accordance with the recommendations of the UN Intergovernmental Panel on Climate Change.

Norges Bank also takes part in other forms of cooperation and contact with other investors. Norges Bank participated in the formulation of the UN Principles for Responsible Investment (UNPRI), to which it is a signatory, cf. Chapter 3.

2.2.3 Exercise of ownership rights in the management of the Government Pension Fund

Responsibility for exercising ownership rights relating to the Government Pension Fund's equity investments rests with Norges Bank and Folkestrygdfondet. The overriding goal for the exercise of ownership is to safeguard the pension fund's financial interests. The management of the fund is based on the assumption that good, long-term financial returns can only be achieved on the basis of sustainable development. This means that, in the long term, the Government Pension Fund will benefit from the companies respecting fundamental ethical principles and guidelines. This is in line with the basic idea enshrined in the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the OECD Guidelines for Corporate Governance, cf. Chapter 6. In both funds, ownership is largely exercised on the basis of these international principles. Norges Bank and Folkestrygdfondet will seek to ensure that the companies in which they have invested respect fundamental ethical norms.

Different investors work under different institutional frameworks, which, in turn, determines which methods and tools are best suited to dealing with ethical issues. In the management of the Government Pension Fund – Norway, the emphasis is largely on selecting sound companies and maintaining a close dialogue with these companies after investments have been made. This is possible because the fund has invested in a limited number of Norwegian companies, roughly 50, and because the fund's ownership interests in – and thereby its ability to influence – individual companies are relatively large.

Exercising ownership rights of the Government Pension Fund – Global

Norges Bank has sought to identify a few specific priority areas. In exercising the fund's ownership rights, Norges Bank assumes that it is better and more effective to concentrate on a few central issues than to do a little in all areas. It emphasises that these issues must be relevant to investors in general and the fund's portfolio in particular, that it must be possible to enter into dialogue with the companies invested in and/or regulatory authorities on these issues, and that there is a real chance of exercising influence. It must also be possible to

justify focusing on these issues in terms of financial considerations. These priority issues are:

- good corporate governance with emphasis on the right to nominate and elect board members, the right to exercise voting rights, the right to trade its shares and to participate in decisions on anti-takeover mechanisms, and the right to open and timely information
- children's rights and health, including combating child labour, with the particular emphasis on the value chain of multinational companies
- companies' lobbying activities in connection with long-term environmental problems, including climate change.

Good corporate governance is important in order to secure the fund's long-term rate of return, and it is essential for ensuring that the owners have close dialogue with and can exert a real influence on the companies invested in. It is also vital for work on social and environmental issues. It is natural, therefore, to view these factors in relation to each other. By the end of 2007, Norges Bank had established contact with around 18 companies on matters relating to good corporate governance.

Norges Bank has published the NBIM Investor Expectations on Children's Rights in order to make its expectations as investor clear to companies. The document is aimed in particular at companies that operate in areas or sectors where there is a high risk of violations of children's. By the end of 2007, Norges Bank had established contact with around 60 companies on matters relating to social conditions, with particular emphasis on child labour and children's rights.

For a long-term investor such as Norges Bank, it is important that companies do not engage in lobbying to obstruct legislation that could substantially reduce greenhouse gas emissions. The Bank therefore seeks to ensure that companies in its portfolio that could be relevant in this context, for example in the energy and energy-intensive sectors, adopt strategies that are compatible with sustainable development. In 2007, Norges Bank analysed more than 100 companies in the fund's portfolio in order to identify the companies that are lobbying most actively with regard to climate efforts. The bank has initiated contact with 20 companies and has held meetings with 15 of them.¹

¹ For a more detailed description of the priority areas, Report No 16 (2007-2008) to the Storting, Chapter 4, and Norges Bank's annual report for 2007.

Exercising ownership rights of the Government Pension Fund – Norway

The overriding goal of the Folketrygdfondet in the exercise of its ownership rights is to safeguard the interests of the Government Pension Fund – Norway. In order to ensure that the fund's portfolio contributes as far as possible to long-term value creation, Folketrygdfondet has defined ethical principles for its investment activities that are integrated into its guidelines for exercising ownership rights.

Good corporate governance aims to safeguard the interests of owners and other stakeholders in relation to the companies concerned, and to ensure that these companies' management and control mechanisms work as intended. Important principles for Folketrygdfondet's exercise of ownership rights are:

- ensuring that a clear value base and ethical guidelines are established;
- ensuring equal treatment for all shareholders;
- safeguarding shareholder rights, including the opportunity to exercise ownership rights;
- ensuring that directors are elected following proper processes, on the basis of clearly defined requirements, and have the support of shareholders;
- ensuring that compensation models are established that are goal-oriented and reasonable, and that do not undermine shareholder value.

In December 2007, the board of Folketrygdfondet adopted new ethical guidelines for the management of the Government Pension Fund – Norway. The guidelines are based on the ethical principles adopted in 2004. The evaluations carried out by Folketrygdfondet are based on publicly available information and information provided by the companies themselves.

As part of its exercise of ownership rights and dialogue with companies, Folketrygdfondet uses questionnaires to shed light on the individual companies' overarching principles and guidelines for their work on ethical issues, including accountability and communication. The attitudes of senior management regarding environmental issues, human rights, corruption and unethical behaviour are also mapped. Good corporate governance is seen as an interplay between attitudes, principles and guidelines within a framework of clear divisions of responsibility and management and control systems.

2.2.4 The importance of transparency

The Government Pension Fund is managed with a high degree of transparency. The Ministry of Finance presents an annual report to the Storting on the management of the fund.

Norges Bank also submits an annual report on its management of the Government Pension Fund – Global, including its exercise of ownership rights. It has more than 7,000 companies in its portfolio and information is provided about specific investments in individual companies. Norges Bank also publishes information on how it votes in different companies, down to individual share level.²

This must be regarded as a high degree of transparency compared with many other investors. Dialogues with individual companies or groups of companies are also reported as far as possible. While a process is ongoing, the greatest possible influence can often be achieved if those involved are confident that details from the dialogue will not be made public.

As of 2007, Folketrygdfondet publishes a separate annual ownership report in connection with the expanded reporting on the exercise of ownership rights in the Government Pension Fund – Norway.

The management of the Government Pension Fund – Global includes a mechanism for excluding individual companies. The threshold for applying this mechanism is high. According to the criteria for exclusion, grossly unethical activity must be involved. This applies to companies that produce inhumane weapons, companies that are complicit in serious or systematic human rights violations, serious violations of individual rights in wars and other conflict situations, serious environmental damage, gross corruption and other particularly serious violations of fundamental ethical norms. The Council on Ethics for the Government Pension Fund – Global makes recommendations concerning screening and exclusion. The Ministry of Finance decides whether to exclude a company from the fund's investment universe on the basis of these recommendations.

There is high level of transparency in the work of the Council on Ethics for the Government Pension Fund – Global and its recommendations to the Ministry of Finance, cf. the annual report currently under preparation. The Ministry of Finance announces decisions to exclude companies on the basis of the Council on Ethics' recommendations.

² In 2007, Norges Bank voted on almost 40 000 items at approximately 4 200 general meetings.

Box 2.2 An example of exclusion from the Government Pension Fund – Global

On 6 November 2007, the Ministry of Finance announced that the British company Vedanta Resources Plc. (Vedanta) had been excluded from the Government Pension Fund – Global on the recommendation of the Council on Ethics. In the Council on Ethics' view, the fund was running an unacceptable risk of being complicit in serious environmental damage and gross and systematic violations of human rights by continuing to invest in the company.

«The Council finds that the allegations made against the company about complicity in serious environmental damage and human rights violations, including abuse and forced movement of tribal peoples, are well founded. In the Council's view, the company appears not to be interested in or willing to do anything about the serious and prolonged harmful impacts of its operations on people and the environment. The breaches of norms uncovered in relation to the environment and human rights have taken place in all the subsidiaries investigated, repeatedly and over a period of several years (...). In the Council's opinion, this indicates a pattern of behaviour on the part of the company where such breaches of norms are accepted and are an established part of its business activity. This pattern of behaviour constitutes an unacceptable risk that the company's unethical practice will continue in future. Based on an overall assessment, the Council finds that the criteria for serious environmental damage and systematic human rights violations are met in this case.»

As of December 2008, 29 companies had been excluded from the investment universe of the Government Pension Fund – Global, most of them as a result of involvement in the production of nuclear weapons, cluster munitions or landmines. Two companies have been excluded because of the risk of complicity in serious or systematic human rights violations and seven because of the risk of complicity in serious environmental damage.

The Government notes that the activities of the Government Pension Fund – Global are regarded by several parties as international best practice as

regards ethical guidelines for investments and transparency, and that other actors are increasingly being measured in relation to this practice. The Government strongly emphasises continued transparency with regard to the fund's activities and is satisfied that this appears to be a trend among an growing number of funds and investment managers, both in Norway and abroad. Transparency will also help to provide civil society, research institutions and the media with the best possible basis for their work. In connection with the evaluation of the ethical guidelines for the Government Pension Fund – Global, they will therefore consider measures that can contribute to even greater transparency.

2.2.5 Sovereign Wealth Funds

The management of sovereign wealth funds (SWF) is subject to increasing international attention. Several of the funds have huge assets at their disposal. The Government Pension Fund – Global is one of the largest, together with funds from China, Kuwait, Russia, Singapore and the United Arab Emirates. Given the increasing importance of sovereign wealth funds in international capital markets, concern has been expressed that such funds may have political rather than financial goals. It has also been argued that the size and lack of transparency of these funds can lead to instability in the financial markets.

After several SWFs helped to stabilise the international financial markets in 2007–2008 by investing capital in hard-pressed financial institutions, their positive role has been highlighted. Norway's experience shows that such funds can support domestic fiscal policy if they enjoy broad political and popular support. Clear and robust rules for the management of the fund's assets are also important. A long-term investment horizon can help to stabilise international financial markets.

Several countries with non-renewable resources are showing an interest in the Norwegian experience of managing its petroleum wealth and how the Government Pension Fund – Global is structured and integrated with economic policy. In the international context, much reference is made to the Norwegian model for sovereign wealth funds. The EU has identified the activities of the Government Pension Fund – Global as a benchmark for how transparency can be exercised in sovereign wealth funds.

In light of the international focus on sovereign wealth funds, a working group including most of the SWF countries was appointed in May 2008 to

draw up guidelines for the management of such funds. The work was coordinated and facilitated by the IMF. The objective was to raise awareness about the funds, promote stable financial markets and reduce the pressure for protectionist measures. In October 2008, the working group submitted a unanimous proposal for Generally Accepted Principles and Practices (GAPP), also known as the Santiago Principles – voluntary principles regarding an institutional framework, fund management and investment activities. Representatives from the Ministry of Finance and Norges Bank participated on behalf of Norway.

In the Government's view, the GAPP are based on sensible principles, and give funds a political obligation to ensure transparency in key areas in order to build trust and meet expectations in important recipient countries. Norway has therefore endorsed the principles.

The Government

- has initiated a review of the ethical guidelines for the Government Pension Fund – Global, which, together with the fund's other activities, will be discussed on a broad basis in the annual report to the Storting on the management of the Government Pension Fund, which will be submitted in spring 2009;
- takes a positive view of active and open exercise of ownership rights in connection with the activities of the Government Pension Fund in order to safeguard the fund's long-term financial interests;
- takes a positive view of Norges Bank's emphasis on exercising its ownership rights, and considers children's rights and protection of the environment to be fundamental ethical norms that should be safeguarded through the exercise of ownership rights.

2.3 The public sector as procurer

The Government wants the consumption and production of goods and services to be as sustainable as possible. The public sector must take the lead by purchasing goods that have been manufactured in accordance with the highest ethical and environmental standards. The public sector must use resources efficiently and build confidence in its procurement processes.

Today, public sector procurement in Norway amounts to roughly NOK 250 billion a year. By setting demands and taking a constructive approach

to procurement, the public sector can, due to its size, significantly influence companies to adopt ethical and environmentally friendly practices. Moreover, companies that are used to meeting stringent requirements will be better equipped to meet competition from abroad and to offer good solutions in international markets.

Requirements set by the public sector also give a clear signal that the authorities expect the private sector to take an active approach to this area. Public sector demand for a more sustainable production of goods will also increase the opportunities for other consumers to choose such products. Increased emphasis on ethics, the environment and life cycle costs can also foster better and more sustainable public procurement.

On 1 January 2007, the Government introduced new and improved regulations for public procurement. Public procurers are now required to turn down suppliers who have been convicted of corruption, organised crime, fraud or money laundering, and they are also entitled to turn down suppliers who have been convicted of criminal offences involving business malpractice, such as failure to comply with environmental legislation and requirements for the equal treatment of workers.

Since the new Public Information Act entered into force on 1 January 2009, all registers of tenders have been publicly available. Suppliers, the

Box 2.3 Environmental requirements to suppliers

Bærum municipality has stipulated environmental requirements in connection with the procurement of hotel and conference services. The municipality has used the new environmental criteria for hotels that were drawn up in response to the Government's action plan for environmental and social responsibility in public procurements. It requires suppliers to have a system for measuring and monitoring energy consumption, waste management, including sorting at source, the use of chemicals and water consumption.

Tenderers compete on the criteria relating to energy consumption, waste production, chemical consumption, water consumption and the provision of organic food.

Experience showed that these criteria did not restrict competition and worked well in relation to the market. As a result, one of the hotels involved will now be eco-labelled.

media and the general public thereby have a better opportunity to check that extraneous factors are not taken into account and that corruption or conduct resembling corruption does not occur.

In June 2007, the Government presented an action plan for environmental and social responsibility in public procurement. In this connection, a specific environmental policy was drawn up for public procurement. All government agencies must comply with the specific requirements in the action plan. The head of each agency has been made responsible for ensuring environmentally sound procurement, and tools have been made available for training and competence-building in this area.

Environmentally sound public procurement is highly prioritised in the international arena, and new policies are being developed in a number of countries. The European Commission has recently drawn up an action plan for more sustainable production and consumption, including a proposal for using public procurement actively to achieve environmental benefits. The Commission has proposed that 50 % of public procurement should be green by 2010. Initially, this target applies to ten product areas for which common environmental criteria have been drawn up. A task force has been established under the UN Marrakech Process to develop toolkits to promote sustainable public procurement.

In Norway, Innkjøpspanelet, a national panel on environmentally responsible procurement, has developed common environmental criteria for a number of product groups. These are intended for use by the central and local authorities, but they could also be used by the private sector in developing greener supply chains.

A centre will be established in every county/region to provide public agencies with the assistance they need to implement the Government's action plan for environmental and social responsibility. These centres will act as driving forces and centres of expertise for networks of purchasers. The new Agency for Public Management and e-Government is responsible for the development of tools and competence-building initiatives, and is thus playing a key role in this work. These efforts will be coordinated with equivalent efforts aimed at the private sector.

In its role as client, the public sector has a particular responsibility for combating social dumping. The action plan for environmental and social responsibility in the public sector emphasises that it is important that the public sector stipulates labour and working environment standards in its

contracts. On 1 March 2008, the regulations on pay and working conditions in public contracts entered into force. The regulations, which incorporate ILO Convention No 94 on labour clauses in public contracts, is intended to ensure that pay and working conditions for employees in construction companies that carry out work for public clients are not poorer than those set out in national collective agreements or otherwise normal for the place and trade in question. The regulations apply to central government, municipal and county authorities and bodies governed by public law, and are applicable to contracts over a certain threshold value. They also apply to work performed abroad.

The Government also believes that the public sector should require suppliers to comply with fundamental ethical requirements, for example with regard to the working environment, child labour, forced labour and corruption. Requirements should be stipulated and followed up for the whole production chain. In accordance with the action plan, the Government has established that it is legitimate to stipulate ethical requirements in connection with public procurements. As a next step, it will consider whether to require purchasers in the government administration to set social and ethical requirements for their suppliers.

The Ethical Trading Initiative (see Box 3.11) has been commissioned by the Ministry of Children and Equality to produce a guide for how such requirements should be formulated and followed up in practice. This guide was completed in January 2009. A support and advisory function will be

Box 2.4 Ethical requirements in contractual terms and conditions

The City of Bergen has included «compliance with ILO core conventions throughout the production chain» as a contractual condition in selected tender processes. During the contract period, suppliers undertake to carry out self-reporting in relation to the eight conventions concerning child labour, forced labour, freedom of association and discrimination. On entering into an agreement, suppliers must give an account of their status in relation to each of the conventions, and seek to improve steadily in relation to this starting point. The goal is to make the production chain more transparent – a precondition for ethical procurement – through openness and dialogue between client and supplier.

established to help the public sector to utilise these tools in connection with public procurements.

The Government has also decided to prepare a white paper on public procurement, which will include strategies and measures aimed at improving public procurement practice.

The Government

- will provide guidelines, competence-building and practical advice in line with the action plan for environmental and social responsibility in public procurement;
- will require all central government agencies to follow up the action plan;
- will establish a support and advisory service on public procurement;
- will establish an environmental policy for central government procurement, including concrete requirements for central government agencies in relation to prioritised product groups;
- will cooperate closely with the EU and others on ambitious programmes for developing standards and criteria for greener procurement and supply chains.

2.4 A comprehensive policy

The authorities' responsibilities are wide-ranging. Norway has achieved international recognition for the Government Pension Fund's ethical guideli-

nes. However, progress has not been as significant in other areas. The Government will seek to develop a comprehensive policy that ensures that social and environmental concerns are taken into account in all public sector activities.

Questions have been raised about whether the ethical guidelines for the Government Pension Fund should also apply to enterprises in which the state has ownership interests. It is not, however, clear whether it would be right or expedient for the state to do so.

The ethical guidelines for the Government Pension Fund – Global are tailored to the fund's role as a financial investor and minority shareholder in thousands of companies worldwide. The state, in its role as a major, strategic owner of a number of Norwegian companies, faces a different situation. The differences in these situations affect both the way ethical considerations can be taken into account and the instruments available. For example, in the case of the Government Pension Fund – Global, it is far easier to sell, or simply not acquire, ownership interests in unsuitable companies than is the case in direct, strategic ownership of Norwegian companies. Direct state ownership is exercised in accordance with established principles for corporate governance, cf. the discussion in Chapter 2.1.

The public sector and the private sector are facing many similar challenges regarding social responsibility. This calls for consistency between the conduct of the public sector and the expectations that apply to the private sector.

3 The private sector's role and responsibilities

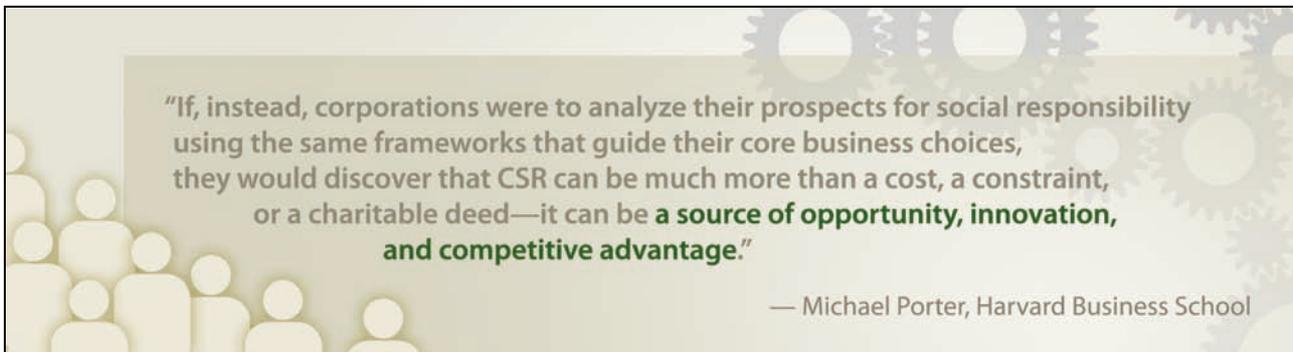


Figure 3.1

The private sector's primary aim is value creation. By creating value, it contributes to economic growth and social development. In a long-term perspective, it is in the interests of both companies and society to have a private sector that operates responsibly and develops products and services that help address social and environmental challenges.

Globalisation, with its attendant advances in communication technology and increased transparency, has led to greater awareness concerning the challenges companies face with regard to social development. A growing number of consumers, clients and investors are demanding that products and services are produced in a manner that is socially and environmentally sound. For companies, it is a matter of developing their «social antennae» and having the ability to internalise aspects of social development in their own operations. However, the situations that companies encounter internationally not only pose challenges; they also present opportunities. Through novel ways of thinking and innovation, companies can discover new market opportunities.

Companies that exercise social responsibility can reduce their own risks, which can positively impact their competitiveness and financial development. Norwegian companies operating abroad are often equated with the Norwegian state, and their conduct is therefore also important for Norway's reputation.

3.1 Expectations of the private sector

The Government expects all companies to exercise social responsibility, irrespective of whether they are privately or publicly owned. The Government's position is that Norwegian businesses should be at the forefront when it comes to practising social responsibility based on sound values, awareness and reflection. Norwegian companies should pursue best practices within their field or branch as their guiding principle and aim when developing their CSR efforts.

3.1.1 Guidelines for social responsibility

The Government expects all Norwegian companies to develop and comply with guidelines for social responsibility. Companies' employees – and, as far as possible, their partners in the supply chain – should be familiar with these guidelines.

There are a number of international guidelines for CSR, which are discussed in detail in Chapter 6. The Government would like to draw particular attention to the *OECD Guidelines for Multinational Enterprises*. These guidelines provide a detailed framework of principles and standards for responsible business conduct consistent with applicable laws. As an adhering country, Norway is obligated to encourage its private sector to observe the Guidelines. The Government expects Norwegian companies to acquaint themselves with the Guidelines, and to follow them in their operations.

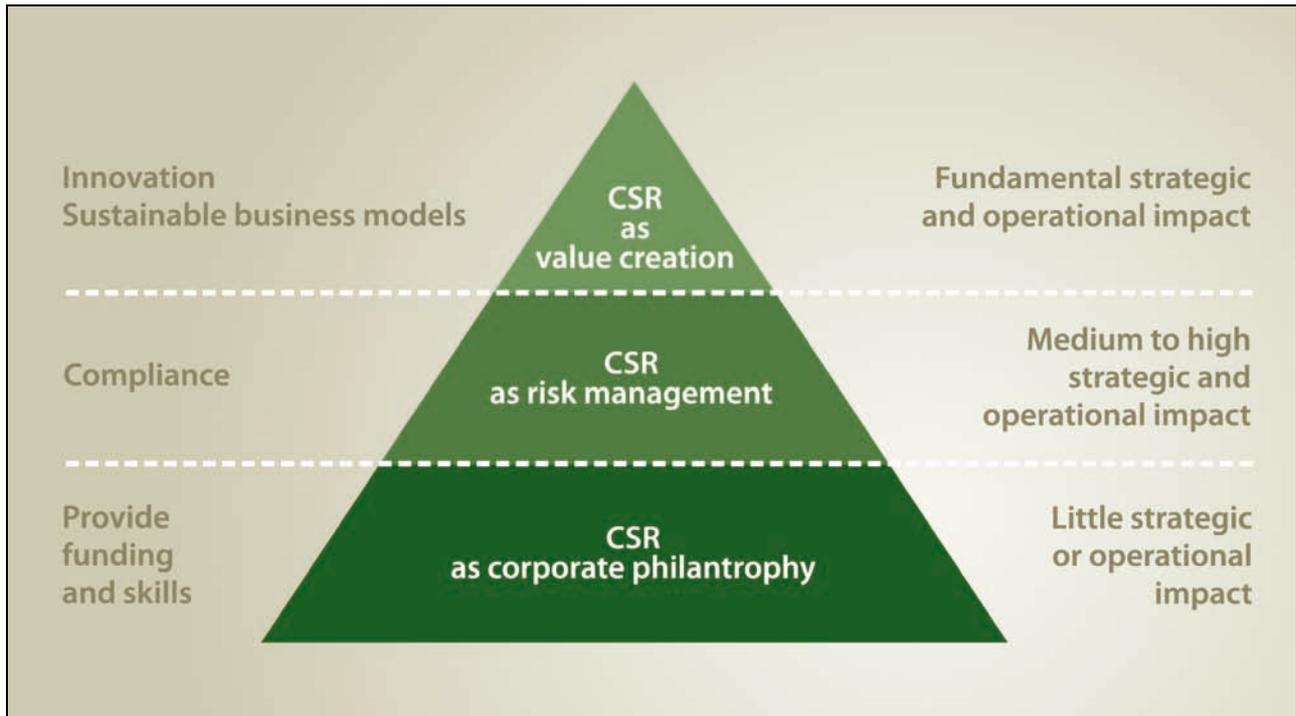


Figure 3.2 Three different understandings of CSR.

Source: The UN Global Compact.

The UN has also developed principles for responsible business practices through the Global Compact initiative. The UN Global Compact seeks to advance 10 principles in the areas of human rights, labour, environment and anti-corruption. It is based on international conventions and guidelines. Companies that have joined the Global Compact are expected to implement the principles in their business operations, share their experience, and report on the progress they have made in implementing the 10 principles. In the Government's view, participation in networks such as the UN Global Compact can enable companies to increase their knowledge and enhance their motivation to exercise social responsibility.

3.1.2 Good corporate practices

The Government expects Norwegian companies to promote good corporate practices from Norway in their operations abroad. CSR efforts must be integrated into their operations, and followed up on an ongoing basis by management. Systematic CSR efforts should have the firm backing of company boards. They should be developed and practised in close cooperation with employees and employee representatives, and in dialogue with suppliers, clients and other stakeholders. They must form an

integral part of companies' day-to-day corporate governance.

The Government considers it important for companies to involve the trade union movement in their CSR efforts. Since employee representation on company boards is generally only found in the Nordic countries, it is crucial that employee representatives in other countries are also drawn into these efforts. Global framework agreements entered into between Norwegian multinational enterprises and international labour organisations are a good example of how Norwegian companies can work at the corporate level, cf. Box 3.6.

At the same time it is important to be aware that, in many contexts, Norwegian experience and practices cannot simply be transferred to other countries uncritically. It is important that Norwegian companies are open to, and respect, cultural and value differences, and that they seek to find ways of adapting elements of Norwegian corporate practices to other countries.

Systematic CSR efforts are a key element of the risk management and business strategies of forward-looking companies. In this context, it is also important to have systems and routines for whistleblowing or notification of unacceptable conditions. The Norwegian Working Environment Act has been amended to include new provisions concerning employees' freedom of expression, and came

into force on 1 January 2007. Employers are to develop routines for notification or whistle-blowing inside the company, or implement measures that facilitate notification concerning unacceptable circumstances in the company.

Norwegian companies should also establish routines for notification and whistle-blowing for their activities abroad so that employees can report unacceptable circumstances or seek advice and guidance. This could for example be done by appointing an ombudsman within the company, using an external arrangement or tasking an existing body to fulfil this function.

3.1.3 Transparency and disclosure

In the Government's view, it is important that companies demonstrate transparency and disclose information about social and environmental factors in connection with their operations, cf. Chapter 8, section 3. This helps to forge trust and good rela-

tions with the societies in which companies are operating. It can be important for stakeholders to know what guidelines the companies use as the basis for their activities and how these are followed in practice. This applies to shareholders, authorities, employees, clients, suppliers, partners and society at large.

As part of their transparency efforts, it is important that companies report on their social and environmental performance, either in separate reports or in their ordinary annual reports. Systematic reporting can be an important tool in developing companies' CSR practices. It can also help to improve companies' risk management capability.

Reporting based on a common standard facilitates the comparison of results. The Global Reporting Initiative (GRI) has developed a framework for reporting on economic, environmental and social performance, which provides an internationally recognised standard for reporting. The GRI Reporting Framework is particularly suitable for large-

Box 3.1 Main elements of the OECD Guidelines for Multinational Enterprises

1. *Concepts and Principles:* The Guidelines set out voluntary principles and standards of good practice for all enterprises, and they have global relevance.

2. *General Policies:* Enterprises should take fully into account established policies in the countries in which they operate, and they should respect human rights, promote local capacity building and encourage suppliers and sub-contractors to apply principles of corporate conduct compatible with the Guidelines.

3. *Disclosure:* The Guidelines recommend regular disclosure of information regarding enterprises' activities, structure, financial situation and performance.

4. *Employment and Industrial Relations:* Enterprises should respect their employees' labour rights, engage in constructive negotiations with employees' representatives, combat discrimination, and contribute to the elimination of child labour and forced or compulsory labour.

5. *Environment:* Enterprises should take due account of the need to protect the environment and public health and safety. They should establish a system of environmental management, and maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage.

6. *Combating Bribery:* Enterprises should not, directly or indirectly, offer, promise, give or demand a bribe or other undue advantage to obtain or retain business or other improper advantage. They should promote employee awareness of company policies against bribery.

7. *Consumer Interests:* Enterprises should act in accordance with fair business, marketing and advertising practices and should take all reasonable steps to ensure the safety and quality of the goods or services they provide. They should provide consumers with product information and establish procedures that contribute to the resolution of consumer disputes.

8. *Science and Technology:* Enterprises should contribute to the transfer of technology and know-how to host countries and to the development of local and national innovative capacity. When appropriate, they should perform science and technology development work in host countries.

9. *Competition:* Enterprises should refrain from entering into or carrying out anti-competitive agreements among competitors, and should conduct all their activities in a manner consistent with all applicable competition laws.

10. *Taxation:* Enterprises should contribute to the public finances of host countries by making timely payment of their tax liabilities.

scale enterprises, but small and medium-sized enterprises can use relevant parts of the framework flexibly, cf. Chapter 6, section 3. Companies can enhance the credibility of their reports through external auditing carried out by impartial groups or individuals.

3.1.4 Vigilance and knowledge sharing

In the Government's view, companies should be vigilant and actively seek out information about social conditions and trends in the areas where they are operating. They should adopt a holistic approach that takes into account the challenges and dilemmas they face in their international operations. Fostering openness and engaging in dialogue with the communities in which they operate are prerequisites for finding good solutions. The Government expects companies to be particularly vigilant when operating in vulnerable or conflict-affected areas. This is discussed in greater detail in Chapter 4.

Companies should actively gather information, draw on the experience of other companies that engage in systematic CSR efforts, participate in networks or seek other ways of benefiting from the transfer of knowledge and expertise. They should also be willing to share their knowledge with other companies, particularly small enterprises that have limited experience of international operations. It can also prove fruitful for companies to cooperate with NGOs that have knowledge and experience of the situation in the host country. Companies that are at an early stage in integrating CSR into their operations should contact organisations and institutions that can provide information, guidance and expertise, cf. Chapter 9.

3.1.5 Innovation and social responsibility

The ability to convert good ideas into new solutions has never been more important for achieving positive social development and business success. Innovation is the key to competitiveness, value creation and sustainable growth for companies and countries alike. Innovation in the private sector is also essential in addressing the challenges of our time. By developing new products and services, technology, production processes, forms of organisation, business models and partnership models, the private sector can help to meet the challenges facing society.

Today Norwegian companies' competitive advantage lies primarily in production that is based on the natural environment and natural resources



Figure 3.3 The first female solar panel engineer in India's largest state, Rajasthan.

Photo: Robert Wallis/Panos Pictures/Felix Features.

or that is knowledge-intensive, or a combination of the two. Norway has considerable potential for further developing knowledge-based industries, for example in areas such as energy, the environment, and maritime and marine activities. Because Norway is a high-cost country and natural resources are limited, it will be difficult in the long term for the Norwegian private sector to maintain a

Box 3.2 Renewable Energy Corporation (REC)

There is a great deal of innovation taking place in Norwegian energy companies in connection with the development of new technology. In the international solar cell industry, two new processes for the production of high-purity silicon have been developed. Both of these are Norwegian, or Norwegian-owned.

The Renewable Energy Corporation (REC) is currently one of the world's leading solar energy companies, specialising in silicon materials, photovoltaic wafers, solar cells and solar modules. Solar power plants using the REC's newest modules are expected to pay back the energy used in their manufacture in the course of about a year. Access to clean and climate-friendly energy at affordable prices for people all over the world would be an important contribution to sustainable development.

By developing technology and reducing costs, solar energy could quickly become a competitive alternative to less sustainable forms of energy.

competitive advantage that is not based on knowledge and innovation.

Innovation and the ability to adapt are key to tackling social challenges relating to the environment, the growing number of people requiring care, and increased globalisation. The Government will therefore seek to facilitate greater innovation in both the private and the public sectors. In this connection, it submitted a white paper on innovation to the Storting in 2008. The white paper sets out the Government's policy for securing long-term and sustainable value creation.

The Government expects Norwegian companies to:

- integrate a clear awareness of CSR in their boards, management teams and corporate culture;
- build and further develop the necessary expertise within the company;
- acquaint themselves with the OECD Guidelines for Multinational Enterprises and follow them in their operations;
- consider joining the UN Global Compact;
- draw up and implement guidelines for social responsibility;
- follow their own guidelines with regard to the supply chain, by setting requirements, having control procedures and promoting capacity-building;
- take good corporate practices with them from Norway, including models for cooperating with employees and employee representatives;
- develop their own CSR standards, using best practice within their field or branch as their guiding principle and goal;
- establish mechanisms or schemes for whistleblowing or notification of unacceptable circumstances;
- show transparency with regard to the economic, social and environmental consequences of their operations;
- actively seek out information and guidance in connection with international operations, particularly in developing countries.

3.2 The responsibility of business in key areas

3.2.1 Corporate responsibility to respect human rights

The involvement of various actors is necessary in order to ensure greater respect for human rights at

the national and international level. Companies' attitudes and conduct are crucial in this context. Leading companies have gradually gained a greater awareness of human rights, as well as of the significance that better observance of these rights in the host country can have for companies and their stakeholders.

Human rights constitute a set of obligations that are not directed towards the private sector. They are formulated as the obligations of a state towards its citizens, and they must be safeguarded by the public authorities. At the same time, it can be argued that human rights are an expression of general moral obligations that apply to all members of society. This conception is reflected in the Universal Declaration of Human Rights adopted by the UN in 1948.

The Universal Declaration of Human Rights covers civil and political rights, as well as economic, social and cultural rights. The different kinds of rights have been defined more precisely and codified in a number of international human rights conventions.

According to the Universal Declaration of Human Rights, everyone has an individual responsibility in relation to human rights. Human rights are therefore relevant for companies and business managers too, albeit in a different way than they are for states. Companies can fulfil this obligation

Box 3.3 Key human rights conventions

- The International Covenant on Economic, Social and Cultural Rights
- The UN Convention Against Torture
- The International Convention on the Elimination of All Forms of Racial Discrimination
- The UN Convention on the Elimination of All Forms of Discrimination against Women
- The UN Convention on the Rights of the Child
- The UN Convention on the Rights of Persons with Disabilities
- The European Convention on Human Rights
- The European Social Charter
- The European Convention for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment
- The ILO core conventions

Box 3.4 The NHO checklist on human rights from the perspective of business and industry

The Confederation of Norwegian Business and Industry (NHO) has, in collaboration with Amnesty International, drawn up a checklist that can be used in connection with Norwegian companies' assessments in connection with operations abroad. The checklist is based on the UN Universal Declaration of Human rights, and gives companies concrete guidance on dealing with challenges related to human rights. The checklist includes the following questions:

- Does the company have guidelines that prohibit discrimination based on race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status?
- Does the company have guidelines that ensure safe and healthy working conditions for employees, and are the rules observed?
- Does the company have procedures that prevent slavery, forced child labour or hard labour performed by prisoners?
- Does the company have guidelines that ensure employees' right to enter into collective agreements, including their right to strike?

by acting in a responsible manner, irrespective of where they are operating.

In many countries, the authorities are directly responsible for gross human rights violations. This may be a case of the police systematically using torture, or of dissidents being imprisoned without trial. In other countries, the authorities fail to enforce provisions intended to protect employees or consumers, for example the prohibition of child labour or provisions concerning a minimum wage.

Companies have a duty to comply with national statutory provisions concerning human rights in the countries in which they operate. A violation of these provisions may entail legal liability in the country concerned. The question is whether or not companies have a responsibility beyond this, in particular in relation to the communities over which they have influence or control. This is a relevant issue in international forums.

In light of this, the UN Secretary-General appointed a Special Representative on business and human rights in 2005, with the mandate to examine the issue of human rights and transnational corporations and other business enterprises. The Special Representative has carried out broad consultations and important surveys and studies concerning these questions. A final report was submitted to the UN Human Rights Council in April 2008. In the report, a conceptual and policy framework is presented, which comprises three core principles:

- The State duty to protect against human rights abuses by third parties, including business;
- The corporate responsibility to respect human rights; and
- The need for more effective access to remedies.

The Special Representative's mandate was renewed in June 2008 in order to operationalise this framework and provide concrete recommendations. The Special Representative's efforts in the time ahead are expected to form the basis for the international debate in the coming years, cf. Chapter 7, section 1. Norway is actively involved in these efforts.

3.2.2 Corporate responsibility to provide decent work

Although the main responsibility for regulating the working environment lies with the authorities of the countries concerned, the private sector has an independent responsibility for working conditions in its own activities. Companies' obligations to respect and promote human rights include creating decent working conditions where fundamental labour standards are complied with and employees receive a living wage.

Companies are expected to be familiar with national legislation and international conventions relating to working conditions. The ILO core conventions are of central importance in this context. Companies should consider whether or not it is sufficient to comply with the legislation of the countries in which they are operating. At a minimum, they should ensure that workers' rights and working conditions are in line with the standards set out in the ILO core conventions.

The eight ILO core conventions are considered to be fundamental to rights at work. They cover what are known as the fundamental principles and rights at work: freedom of association and the right to collective bargaining (including the right to strike); the elimination of all forms of forced or



Figure 3.4 Children working at a brick manufacturing plant in Peru on the World Day Against Child Labour, 12 June 2008.

Photo: EPA/PACO CHUQUIURE/Scanpix.

compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

The right to equal pay for equal work and for work of equal value is set out in ILO Convention No. 100 and in the Norwegian Gender Equality

Box 3.5 The ILO core conventions

- Convention concerning Freedom of Association and Protection of the Right to Organise, 1948 (No. 87);
- Convention concerning the Application of the Principles of the Right to Organise and to Bargain Collectively, 1949 (No. 98);
- Convention concerning Forced or Compulsory Labour, 1930 (No. 29);
- Convention concerning the Abolition of Forced Labour, 1957 (No. 105);
- Convention concerning Minimum Age for Admission to Employment, 1973 (No. 138);
- Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, 1999 (No. 182);
- Convention concerning Discrimination in Respect of Employment and Occupation, 1958 (No. 111);
- Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value, 1951 (No. 100).

Act. In addition to pay, anti-discrimination standards also cover employment, promotion and opportunities for development at work.

The purpose of the *ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* (1977) is to encourage companies, national authorities and the social partners to promote decent working conditions and social dialogue at the workplace. It lays down principles in the areas of employment, training, conditions of work and life, and industrial relations. The Declaration was amended in 2000 and again in 2006 in accordance with other ILO instruments. The ILO Governing Body has set up a helpdesk to provide managers and employees with information about the Declaration.

Many Norwegian companies have developed guidelines designed to ensure that workers' rights are respected by both their subsidiaries and subcontractors. It is also important that the companies

Box 3.6 Global framework agreements

A number of companies have entered into global framework agreements with labour organisations that are to apply to their operations worldwide. In general, these agreements are between international workers' organisations and multinational enterprises. Altogether there are currently some 50 agreements of this kind, covering more than 4.2 million workers.

The agreements are generally based on the ILO core conventions and refer to them directly. Respect for labour rights is an important element in the agreements. In addition, the agreements often ensure a minimum level of protection for workers with regard to health, safety, working environment, pay and working hours. Mechanisms have also been included for monitoring and following up the agreements. A few of the agreements also oblige companies to enter into similar agreements with their subcontractors.

The paper manufacturer Norske Skog has signed an agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), which sets out minimum standards for working conditions, health and safety, and human rights. Other Norwegian companies that have entered into agreements of this kind include Aker ASA, StatoilHydro and Veidekke.

have effective follow-up and control mechanisms that ensure compliance with the guidelines. Many companies still need to establish good guidelines and practices in this area, not least when it comes to encouraging their subcontractors to respect employees' rights. This can be achieved by including clauses in their contracts with their subcontractors, for instance.

3.2.3 Corporate environmental responsibility

The Government views the participation of the private sector as crucial in addressing the challenges relating to climate change, the loss of biodiversity, and releases of hazardous substances. Companies that manage to stay at the forefront of innovation and environmentally sound resource use can gain comparative advantages, both in financial terms and in relation to markets. The focus of corporate environmental responsibility has shifted from avoiding damage to the environment to integrating environmental concerns and resource use into systems for managing companies' products, finances and reputation.

Under international agreements that have been implemented in national legislation, the private sector must comply with a number of requirements designed to limit the adverse environmental impacts of its operations. Multilateral environmental agreements are incorporated into national legis-

lation on an ongoing basis, and thus form part of the existing legislation that companies must comply with in countries that are parties to these agreements.

In addition to the ongoing development of national and international environmental standards for the private sector, companies should take a proactive approach in order to reduce the adverse environmental impacts of their operations beyond what is stipulated in such standards. By being at the forefront of developments in this area, companies can achieve lower costs, an improved strategic starting point for their long-term operations, and new market opportunities. The private sector should therefore have considerable self-interest in integrating an environmental perspective more fully into its activities.

The private sector can help to mitigate environmental problems by making its own operations more environmentally friendly and by making efficient use of resources. Companies can play a part by developing innovative processes or technology designed to minimise the use of scarce resources and reduce harmful emissions. Companies can also develop new, greener products and services to replace existing ones. They can make an important contribution by collaborating with their supply chains and requiring their partners to meet high environmental standards. The most advanced companies now carry out life cycle analyses for their products, and are introducing routines that include requirements for their subcontractors.

Climate change is creating new challenges, and national authorities and the private sector have a shared responsibility for addressing them. The authorities are responsible for establishing a framework that will promote innovation and cost-effective solutions. The private sector has a role to play in finding solutions by developing new technology and by using the best available techniques. It is important to raise companies' awareness of their direct and indirect impacts on the climate, and what steps they can take to minimise these impacts.

Box 3.7 Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is an independent, non-profit organisation that collects and publishes information on corporate greenhouse gas emissions, as well as other information on how companies are managing and reducing their greenhouse gas emissions. Altogether, 1 300 of the world's largest companies responded to the CDP questionnaire in 2007.

The CDP Corporate Supply Chain Programme was initiated in 2007. The aim of the programme is to establish a standardised approach to the reporting of greenhouse gas emissions resulting from a company's supply chain emissions. Participating Norwegian enterprises include Aker Yards, DnB Nor, Hafslund, Marine Harvest Group, Norsk Hydro, Orkla, the REC Group, Schibsted, StatoilHydro, Storebrand and Norges Bank.

3.2.4 Corporate responsibility to combat corruption

Corruption is a serious obstacle to social and economic development in many parts of the world. Total international development assistance is insignificant compared with the sums that disappear from poor countries, for example due to corruption and tax evasion. Public corruption and the unlawful enrichment of decision-makers undermine

democratic processes and decisions based on the best interests of the community. Valuable resources are lost, and public governance is weakened.

There are various forms of corruption, ranging from corruption linked to large-scale projects with substantial flows of capital, to grease or lubrication payments and facilitation payments. There is a close connection between corruption, other forms of international crime, and illicit financial flows.

Like many other countries, Norway is party to various international agreements that contain obligations to combat corruption. These obligations define the conditions for business activity both within and outside Norway's borders.

Norwegian legislation relating to corruption has been made more stringent in recent years. This is particularly evident in the amendments to the Penal Code. All forms of corruption are prohibited under Norwegian law. This prohibition also applies fully to Norwegian nationals and persons domiciled in Norway who are involved in activities abroad. Facilitation payments, i.e. payments for services to which one is already entitled without paying an extra fee, are also considered to be corruption. The key concept in the legislation is that of «improper advantage».

Norwegian courts base their rulings on Norwegian law, even when business has been conducted abroad. However, the culture and traditions of the country in question are taken into account when assessing to what extent improper conduct has occurred. Companies may incur criminal liability under foreign legislation, as well as under Norwegian legislation. Companies therefore have to observe both local and Norwegian laws.

The Penal Code includes three sections that are particularly important in the fight against corruption. These are: section 276a, on corruption;

section 276b, on gross corruption; and section 276c, on trading in influence (see Box 3.8). Those convicted of corruption face up to three years' imprisonment, while the penalty for gross corruption is imprisonment for up to 10 years. Aiding and abetting carries the same penalty.

According to the amendments of 1 March 2008 to the Act relating to compensation, corruption also incurs liability for damages. If an employer is to avoid liability for damages caused by an employee's corrupt behaviour, the employer must have taken all reasonable precautions in order to prevent corruption of this kind from occurring.

A growing number of other countries are tightening their legislation on corruption, partly as a result of the UN Convention against Corruption, the Council of Europe Criminal Law Convention on Corruption, and the OECD Anti-Bribery Convention. This means that the international community is moving towards a global standard. For Norwegian companies operating in an international market, this means that they will encounter legislation that is equivalent to Norwegian legislation in an increasing number of other countries. This will help to give the private sector more equal conditions of competition.

However, the Norwegian authorities are aware that not all countries enforce an anti-corruption standard that is in line with international conventions, and it may take some time before they do. For the foreseeable future, the private sector should therefore be prepared for challenging situations in countries where corruption is widespread.

The authorities and the private sector have a shared responsibility to combat corruption. They also have a shared responsibility to promote the greatest possible degree of transparency with regard to capital flows, particularly in connection with operations in developing countries.

Most major Norwegian companies with operations abroad have developed their own internal guidelines and routines for combating corruption. The challenge is to implement and follow up these guidelines in practice.

The Government

- expects companies to respect fundamental human rights, including those of children, women and indigenous peoples, in all their operations, as set out in international conventions;
- expects companies to base their operations on the ILO core conventions regarding the right



Figure 3.5

Illustration photo: Jocelyn Carlin/Panos/Felix Features.

Box 3.8 Anti-corruption provisions of the Penal Code

Section 276a. Corruption

Any person who

- a) for himself or other persons requests or receives an improper advantage or accepts an offer thereof in connection with a position, office or assignment, or
- b) gives or offers any person an improper advantage in connection with a position, office or assignment shall be liable to a penalty for corruption.

Position, office or assignment in the first paragraph also means a position, office or assignment in a foreign country.

The penalty for corruption shall be fines or imprisonment for a term not exceeding three years. Any person who aids and abets such an offence shall be liable to the same penalty.

Section 276b. Gross corruption

Gross corruption shall be punishable by imprisonment for a term not exceeding 10 years.

Any person who aids and abets such an offence shall be liable to the same penalty. In deciding whether the corruption is gross, importance shall be attached to, inter alia, whether the act has been committed by or in relation to a public

official or any other person in breach of the special confidence placed in him by virtue of his position, office or assignment, whether it has resulted in a considerable economic advantage, whether there was any risk of considerable damage of an economic or other nature, or whether false accounting information has been recorded, or false accounting documents or false annual accounts have been prepared.

Section 276c. Trading in influence

Any person who

- a) for himself or other persons requests or receives an improper advantage or accepts an offer thereof in return for influencing the conduct of any position, office or assignment, or
- b) gives or offers any person an improper advantage in return for influencing the conduct of a position, office or assignment shall be liable to a penalty for trading in influence.

Position, office or assignment in the first paragraph also mean a position, office or assignment in a foreign country.

Trading in influence shall be punishable by fines or imprisonment for a term not exceeding three years. Any person who aids and abets such an offence shall be liable to the same penalty.

to organise and the abolition of forced labour, child labour and discrimination;

- expects companies to maintain HSE standards that safeguard employees' safety and health;
- calls on the social partners to actively advocate global corporate agreements in order to safeguard employees' rights;
- expects companies operating in countries where universal rights such as the right to organise and the right to collective bargaining are not upheld to seek to establish other arrangements that enable employees' views to be heard;
- expects companies to take into account environmental considerations and promote sustainable development, for instance by developing and using environmentally sound technology;
- expects companies to actively combat corruption by means of whistle-blowing or notifica-

tion schemes, internal guidelines and information efforts;

- expects companies to show the maximum possible degree of transparency in connection with financial flows.

3.3 The scope of corporate responsibility

Companies should be aware of issues within their «sphere of influence» that affect their operations or are a result of them. In Norway there is a widespread view that companies have a responsibility towards their employees, and that they are part of, and have a responsibility towards, the society in which they operate. Companies' activities have financial, environmental and social consequences that it is only reasonable that they take responsi-

Box 3.9 Combating corruption

The Ministry of Foreign Affairs provides a business anti-corruption portal, with tools for companies' anti-corruption efforts. The brochure *Say no to corruption – it pays!* has been circulated to Norwegian companies by way of the embassies and other government bodies. The brochure contains information on the Penal Code and the following checklist for combating corruption:

- Undertake thorough studies of the risk of corruption in the relevant markets.
- Ensure that all employees are familiar with the Norwegian and relevant foreign legal provisions on corruption.
- Introduce ethical guidelines, regular internal audits and routines for detecting irregularities.
- Consider establishing a contact point, preferably outside the company, that employees can turn to if they have any suspicions of corruption.
- Ensure that employees, intermediaries and agents are involved on a regular basis in measures to reduce the risk of corruption.
- Be particularly aware of roles in which employees could come under strong pressure to offer or accept bribes. Job rotation and other measures to reduce the risk of corruption should be considered.
- Check the references of employees, agents and partners who represent the company and insofar as possible keep a close eye on their activities.
- Require that employees, intermediaries and agents agree to comply with the company's rules for combating corruption.
- Maintain a high ethical standard and avoid circumstances that could call impartiality into question.
- When faced with a difficult situation, focus on mutual interest in working together in an open, lawful manner. Suspicions of corruption can have extremely serious consequences.
- Seek the advice of experts if necessary.

lity for. However, the extent of this responsibility is not always clear.

According to the UN Secretary-General's Special Representative on business and human rights, the starting point for corporate responsibility must be to consider whether the company has shown «due diligence». There are a number of different steps a company can take in order to operationalise the concept of due diligence. The concept can help companies gain an awareness of, prevent and address the negative consequences of their operations. In his April 2008 report, the Special Representative states that a human rights due diligence process should include four areas:

- *Policies*: companies should adopt a human rights policy;
- *Impact assessments*: companies should carry out impact assessments regarding the implications of their activities;
- *Integration*: human rights policies should be integrated throughout a company;
- *Tracking performance*: companies should have a system for monitoring and auditing in order to track their human rights performance on an ongoing basis.

Processes of this kind also have relevance for the other aspects of the CSR concept. Assessments of due diligence can often be linked to the notions «sphere of influence» and «complicity». It is therefore pertinent to take a closer look at these concepts.

Companies' sphere of influence

As far as the scope of companies' responsibility is concerned, it is natural to start with matters companies are able to influence. Responsibility can be most clearly attributed to companies for matters over which they have a decisive influence or control. They can also incur responsibility when they outsource functions and assignments to others, since this can be viewed as part of the company's own operations.

Companies are responsible for ensuring that employees are provided with conditions that are at least in line with international minimum standards. Companies are expected to assess the risks relating to forced labour, child labour and workplace discrimination, and to take the necessary precautions to minimise such risks. Freedom of association, freedom of expression and freedom of reli-

gion and belief are also rights that companies should respect.

Companies also have a direct influence over their own contractual relations, and over the environmental consequences of their activities. Norwegian companies can contribute to raising standards by facilitating good corporate culture, by having good routines for health, safety and environment (HSE), and by transferring knowledge and technology to their own operations abroad and to their subcontractors.

Usually a company engaged in international operations will also have significant influence over – if not actual control of – matters relating to the company's surroundings, for instance the local community and contractual parties. By setting contractual terms and making sure that all the actors in the value chain provide decent working conditions for their employees and meet key environmental standards, companies take responsibility for their surroundings. Companies may also have a responsibility towards other groups. An example of this is if a company buys security services from local security forces in its area of operation.

The further removed something is from a company's core activities, the harder it is to argue that the company can exert a decisive influence over it. Companies and their representatives may wish, or consider it in their interests, to take a clear stance against serious human rights abuses. However, some host countries may react negatively to a company getting involved in human rights issues within their jurisdiction, particularly if these issues are political in nature. In any case, a company should keep abreast of key developments in the country in which it is operating, including developments in the human rights situation.

Some companies wish to contribute to humanitarian efforts outside their own sphere of influence. This involvement may be linked to economic, social and cultural rights, for instance through aid projects in the areas of health, infrastructure, education or sport. There are also examples of companies supporting the promotion of civil and political rights.

Complicity

Companies must make sure that they are not complicit in unethical practices. The Ethical Guidelines for the Norwegian Government Pension Fund – Global also state that the Fund should not make investments which constitute an unacceptable risk that the Fund may contribute to serious or systematic violations of human rights. What is meant by

this is explained in Official Norwegian Report NOU 2003:22, *Management for the future: Proposed ethical guidelines for the Government Petroleum Fund*, inter alia drawing on the scope of complicity as set out in Norwegian law:

«In order for an investor to be complicit in an action, he/she must be able to foresee it. Some form of systematic or causal relationship must exist between the company's activities and the actions to which the investor does not wish to contribute. Investment in a company cannot be considered to entail complicity in actions that were impossible to anticipate or be aware of or circumstances over which the company in question could not have any significant degree of control.»

There is no clear internationally agreed definition of complicity, but the concept is being emphasised to an increasing extent by investors and NGOs. The UN Secretary-General's Special Representative on business and human rights has examined the issue of complicity more closely in relation to human rights. In his view, the concept refers to «indirect involvement by companies in human rights abuses – where the actual harm is committed by another party, including governments and non-State actors». Moreover, it has both legal and non-legal meanings.

The legal meaning of complicity is particularly relevant in connection with international crimes. Here, providing encouragement or practical assistance that has a substantial effect on the commission of the crime may constitute complicity. In September 2008, the International Commission of Jurists Expert Legal Panel on Corporate Complicity in International Crimes published an extensive report on this topic.

The above-mentioned Official Norwegian Report on proposed ethical guidelines for the Government Petroleum Fund gives examples of various scenarios relevant to the concept of complicity:

«Particular problems arise in connection with companies that have activities in states where severe human rights violations occur. Such violations can also occur in connection with the companies' activities, for example by using security forces that commit abuses to protect the company's property and installations, deportation of people and environmental degradation to facilitate the company's projects or arrests and persecution of workers who are seeking to promote trade union rights. Complicity on the part of the company can be invoked only if direct action is taken to protect the company's property

or investment, and the company has not taken reasonable measures to prevent the abuse.»

If companies cooperate closely with the authorities of countries with weak governance, they must demonstrate special vigilance and deal constructively with difficult dilemmas. This is particularly the case if companies can be suspected of benefiting from the authorities' conduct, or if the cooperation can help to legitimise the authorities.

Certain countries, including the US, have defined complicity in their domestic legislation, and have given the courts broad jurisdiction to assess alleged human rights violations in connection with companies' operations abroad.

Through due diligence, for instance by carrying out risk assessments, companies can ensure that they are not complicit in human rights violations or other negative impacts of their own operations. Risk assessment should be used both for a company's own activities and for those of its business partners. There are a number of tools – both general and sector-specific – that companies can use in this process. One such tool is the Human Rights Compliance Assessment (HRCA), developed by the Danish Institute for Human Rights.

3.4 Social responsibility in the supply chain

Social responsibility in the supply chain is a rapidly developing field, which is attracting growing attention and becoming increasingly important. Outsourcing and major changes in the international division of labour mean that more and more factor inputs in the public and private sectors, as well as finished goods on the market, come from countries where the authorities do not provide adequate control of working conditions and protection of workers' rights. There is growing concern that goods and services imported to Norway should be produced under satisfactory working conditions, and that factors such as children's and women's rights and environmental considerations should also be taken into account.

Today, all companies with activities in or that use suppliers in countries where the legislation does not meet internationally accepted standards, or is not properly enforced, have to take the whole supply chain into consideration. Companies may need to cooperate through trade associations or with their competitors in order to prevent violations of human rights or labour rights in the supply



Figure 3.6 Textile production in China. The use of face masks is a simple but essential protective measure for textile workers.

Photo: Ethical Trading Initiative Norway (ETI-Norway).

chain and ensure that operations are environmentally sound.

3.4.1 How far does the responsibility extend?

Socially responsible companies accept responsibility for ensuring, to the extent possible, that all stages of the supply chain meet their standards. At present, it is not realistic to expect imported goods or semi-finished products from all countries to have been produced without any risk of direct or indirect involvement in violations of internationally recognised norms and rules. In practice, there are often both practical and financial limitations concerning how far down the value chain it is possible for an individual company or procurement organisation to carry out quality controls of its suppliers. It is seldom possible for a company to control all processes, from the extraction of raw materials right up to waste management. Furthermore, it can be difficult to know where to draw the line.

It seems most reasonable to set as a minimum standard that a company's responsibility covers the sphere it can influence directly as a purchaser and seller, through contracts or in other ways. If suppliers have to meet requirements relating to working conditions and environmental issues, and ensure that subcontractors meet similar requirements, they can be held accountable.

The challenges that arise vary between companies and products. Rather than seeking to delimit its responsibilities, it is more important for a company to look into the risks of violations of human and workers' rights or adverse impacts on the envi-

ronment at different stages of production processes, including the production of factor inputs. Thus, the introduction of ethical guidelines in the supply chain can be regarded as a risk management tool.

So far, both practical experience and research point in the same direction, indicating that introducing requirements for social responsibility in the supply chain can create opportunities, both for business development and for improving financial performance. Key factors in this context are long-term systematic improvement and competence-building in the supply chain. Companies can gain a competitive advantage by adjusting quickly to forthcoming regulations and long-term market developments, and not least by meeting market expectations.

So far, the public debate on supply chains has focused primarily on the importance of setting minimum requirements for suppliers. However, many consumers expect more than this, and consider ethical standards to be important when making purchases. In order for consumers to be able to make informed choices, it is important to ensure the greatest possible degree of transparency with regard to production abroad. In the Government's view, it is important that consumers and consumer

organisations are given access to information, so that they can adapt their consumption to their personal convictions.

3.4.2 Ethical requirements in the supply chain

Taking responsibility for the supply chain means that companies do not just set requirements for their suppliers, but also work with them to help them meet their obligations. This requires concrete, sustained efforts to improve the situation, and companies must be prepared to follow up their suppliers over the long term. No company can work equally closely with all its suppliers at all times. But everyone can make a start.

A company can observe and monitor how its suppliers comply with their obligations by cooperating closely with them, and by visiting their premises. This will also increase suppliers' awareness of their obligations and further the transfer of knowledge and experience. Norwegian companies can for example contribute expertise on HSE, environmental management and dialogue between the social partners, as well as demonstrating how improved working conditions can enhance productivity and quality.

A natural first step is to develop a code of conduct that as a minimum is in line with international conventions and standards. There are also sector-specific standards that correspond to codes of conduct, for the textile industry, for instance. Codes of conduct can be used to convey what is expected of suppliers as regards both ethical and environmental standards.

Recent research¹ and established good practice indicate that if ethical guidelines are to function as intended and meet the expectations of employees and other stakeholders, the following are important elements:

- that codes of conduct are drawn up in line with international workers' and human rights and environmental standards, so that the requirements suppliers must meet are as standardised as possible, even when they are made by different actors;²
- that the requirements suppliers must meet are primarily in line with applicable national legislation, but alternatively in line with internatio-

Box 3.10 Cooperation between Stormberg and its suppliers

Stormberg is a sports and textiles wholesaler. The company is seeking to take workers' rights and environmental considerations into account in its operations in Norway and abroad.

Outdoor clothing is designed and developed in Norway, but manufactured at a number of factories in China. According to the company's ethical guidelines, all suppliers must provide well-regulated pay and working conditions and respect the right to organise and the right to enter into collective bargaining agreements. A Chinese version of the guidelines is displayed in the factories.

Stormberg carries out spot checks of the factories, sometimes unannounced. Stormberg has drawn up a profile for each factory as a basis for inspection and control, which identifies factors to which special attention should be paid. In addition, inspectors are provided with a list of points to check, and also conduct interviews with workers at the factories.

¹ The ETI code of labour practice: Do workers really benefit? Institute of Development Studies 2006.

² The Universal Declaration of Human Rights, the Convention on the Rights of the Child, the core ILO conventions and other ILO conventions and documents dealing with matters such as HSE, working hours and the right to a living wage.

- nally recognised standards if there is no relevant national legislation or it is inadequate;
- that requirements and the monitoring of compliance with these are combined with competence-building and exchange of experience;
- that wherever possible, control, monitoring and competence-building are carried out by actors with a firm basis in the local community and good cultural understanding;
- that codes of conduct are implemented on the basis of an integrated approach to CSR and with the support of the management and the board.

Box 3.11 Ethical Trading Initiative Norway (ETI-Norway)

ETI-Norway was founded in 2000 by Norwegian Church Aid, the Norwegian Confederation of Trade Unions (LO), the Federation of Norwegian Commercial and Service Enterprises (HSH) and Coop Norway, to promote ethical trade practices in the supply chain. As of November 2008, ETI-Norway had around 95 members. It has two main objectives:

1. Strengthening support for ethical trade issues; and
2. Supporting members in developing ethical trade practices.

ETI-Norway spreads information on the importance of improved labour and environmental standards globally. It also makes use of knowledge-sharing and tools to strengthen its members' ethical trade practices.

Members commit to working towards improvements in labour and environmental standards throughout their supply chains. Their performance is measured through annual reports. Members' efforts should be based on:

- Information concerning labour and environmental standards in producer countries;
- Specific tools and methods;
- Risk assessment and risk management;
- Training initiatives and guidance;
- Cooperation between companies, authorities, special interest organisations, trade unions, research institutions and NGOs, both locally and internationally; and
- Competence-building in international networks.

The Ethical Trading Initiative Norway (ETI-Norway) is a resource centre that seeks to strengthen support for ethical trade practices throughout the supply chain. ETI-Norway provides its public- and private-sector members with information, methods and tools they can use when setting requirements for decent working conditions and the inclusion of environmental considerations throughout the supply chain.

To ensure that suppliers comply with labour standards, companies can encourage them to obtain certification. SA 8000 is the most widely recognised generic certification standard. It is primarily intended for producers, and SA 8000 certification shows that a facility respects workers' rights. Using recognised standards saves time and resources, for both customers and producers. There are also environmental management systems that use third-party certification, such as ISO 14001, the voluntary EU Eco-Management and Audit Scheme (EMAS), and the Norwegian Eco-Lighthouse Programme, see Chapter 6.4.

Product labelling is another way of showing that products are produced in accordance with social or environmental standards. Examples of such labels are the Nordic Swan, the EU Flower, the forthcoming EU Organic Logo, the FAIR-TRADE Mark, environmental declarations (in line with ISO 14025), the Forest Stewardship Council (FSC) label, and the Marine Stewardship Council (MSC) eco-label.

Product labelling is a tool for consumers to obtain information about the ethical and environmental standards of products. Companies can also choose to provide this information in other ways. Regardless of how the information is provided, it is important to ensure that consumers are not misled by incorrect, imprecise or poorly documented claims. In February 2005, the Nordic Consumer Ombudsmen adopted a joint guideline on the use of ethical and environmental claims in marketing. The Norwegian Consumer Ombudsman adopted guidelines in this area in June 2003. These are based on the Marketing Act, and they require that all advertising must convey a clear and balanced message, that it must give a correct overall impression, that it must be based on fact, and that it must be possible to substantiate all claims. It will probably be possible to continue to use these guidelines after the new Marketing Act comes into force in spring 2009.

3.4.3 Greening supply chains

In recent years, environmental supply chain management has become an increasingly important part of companies' environmental strategies, partly as a result of the growing attention end users and institutional investors are paying to environmental issues. While in the past companies' environmental strategies were primarily based on the need to minimise risk, there has more recently been growing awareness that an active approach to environmental responsibility can be commercially profitable. Environmentally-friendly production methods often prove to be cheaper, and corporate governance is often better in companies that have introduced environmental management systems than in those that have not.

Product design, production and material use, and transport and logistics are key areas where companies can influence their environmental profile by making conscious choices. For most companies, working towards a greener supply chain is a matter of improving existing structures.

Through life cycle assessment, companies can obtain information and documentation on the overall environmental impact of products, during all phases of the life cycle, from production to use, re-use and waste management. By keeping a greenhouse gas inventory, or calculating its carbon footprint, a company raises awareness of and documents its impact on the climate.

A company needs to make conscious choices at various stages of its operations and procurement processes in order to take environmental concerns properly into account. Examples of such stages include:

- Choosing the business concept;
- Choosing an environmental profile;
- Determining procurement specifications;
- Drawing up invitations to tender;
- Entering into contracts;
- Following up deliveries;
- Choosing between partnership and ad hoc procurement.

Systematic review and analysis of supply chains, any internal, external and country-specific challenges, and which areas should be given priority, are needed as a basis for developing an environmental strategy and a green procurement strategy. One strategic choice a company must make is whether to make this an internal process or to seek partnerships with other companies. The overall strategy must define areas of responsibility and the division of roles and tasks within the company, and

specify how environmental concerns are to be included in the company's procurement criteria and supply chain management. The company must also decide how to organise communication with its suppliers, and whether support functions and training programmes are needed for employees of the company itself and its suppliers. Incentive schemes and monitoring and evaluation systems should also be developed.

The Government

- considers that to the extent possible, socially responsible companies should ensure that all stages of the supply chain meet the company's standards;
- calls on Norwegian companies to set social and environmental requirements for their suppliers and business partners;
- calls on Norwegian companies to develop systems for ensuring that suppliers comply with internationally recognised codes of conduct;
- calls on companies to play a part in capacity building and competence building in the supply chain.

3.5 Investment and investment management

Certain areas of the financial sector's activities, including advisory services, marketing, and the sale of advanced structured products have recently come under increasing critical scrutiny, particularly in the light of the global financial crisis. The criticism has concerned the fact that risks have been downplayed and the real rates of return exaggerated. The Financial Supervisory Authority of Norway has on a number of occasions pointed out that companies have failed to observe good business practice in their financial advisory services and their marketing of such products and services.

Financial institutions and investment firms give advice and provide services that can have major consequences for consumers. In their contact with consumers, these institutions and firms are always the professional party. This is why a licence is required for the sale of insurance products, loans, and advice on financial instruments. Licensees have a particular duty of care towards consumers when selling financial instruments and loan and insurance products.

However, in recent years, leading financial institutions have started to focus on their social responsibility. This applies particularly to investors

and fund managers, who are giving increasing weight to ethical standards in their investment and sales decisions. Some banks and insurance companies have also become more concerned with ensuring that their loan and insurance customers meet satisfactory social responsibility standards.

3.5.1 Socially responsible investment

One reason why actors in the capital market are focusing more on CSR is that professional investors have become more aware of the importance of environmental and social factors for the value of their own investments. In addition, investors are also being held accountable for matters other than financial returns. Investors are increasingly expected to include ethical considerations when investing, both their own and their customers' funds. A number of Norwegian financial institutions have therefore introduced CSR criteria as a basis for their investments.

Investors and fund managers have used the term socially responsible investment (SRI) to describe investments where financial returns are an important aim, but where ethical and environmental requirements are also taken into account. Responsible investment (RI) is a term that is increasingly used to describe the inclusion of environmental considerations, social conditions and good corporate governance in fund management. These are factors that can have a long-term financial effect.

SRI is not new for investors. When the Methodist Church in the US started investing in the stock market in the early 1900s, it avoided shares associated with alcohol or gambling. In Norway, interest in socially responsible investment arose at the end of the 1980s. Gradually, socially responsible investment developed from a small niche to an area of interest to ordinary investors. Other parts of the financial sector have started taking initiatives to meet challenges and utilise opportunities relating to CSR in connection with their loan and investment activities.

Considerable technical expertise has been built up in this area, and several companies have developed their own analysis tools. Certain companies qualify for inclusion on international sustainability indexes, such as the Dow Jones Sustainability World Index and the FTSE4Good Index. These measure the performance of major companies that are seeking to meet CSR criteria.

Financial institutions can take different approaches when setting requirements for non-financial fac-

tors in connection with investments. Three methods are widely used, either individually or in combination:

Negative screening enables financial institutions to avoid investing in the worst companies using criteria that define where they do not wish to invest. These criteria are generally connected to what is produced, for example landmines, cluster munitions, nuclear weapons or tobacco. Criteria can also be drawn up for the way companies manage their operations, for example whether they are responsible for serious violations of human rights, or involved in corruption or major environmental damage. This method is often used by funds that set minimum ethical standards, such as the Government Pension Fund – Global. Some investment managers publish the names of the companies they pull out of, and believe that this increases pressure on companies to improve their performance in this area.

Another approach to socially responsible investment is *positive screening*, which entails comparing companies to identify which are the best. Companies within the same sector are rated according to their CSR performance. Factors such as environmental management systems, measures to fight corruption, principles of corporate governance, conditions for the employees, and guidelines to safeguard human and workers' rights are used as criteria. The rating enables an investor to

Box 3.12 The UN Principles for Responsible Investment

- We will incorporate environmental, social and corporate governance (ESG) issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

select the best companies in each sector. These companies qualify for inclusion in «best in class» funds – funds that set extremely high CSR requirements for their operations. The same analyses and criteria can also be used to exclude the poorest companies in each sector.

The third commonly used method is *active ownership*. Investors can seek to exert a positive influence on companies that they are critical towards by engaging them in dialogue or taking active part in the company's general meetings. There are several examples of international pressure being used in this way to influence companies to make changes to their operations. Some people maintain that it is more effective to increase investments in companies that are seen in a critical light, in order to exert a positive influence on them through active ownership.

In addition, a number of investment managers provide specialised funds that focus on particular sectors, such as renewable energy and environmental technology. Investing in these funds entails a higher risk than investing in broad index funds. However, they provide investors who wish to invest in these sectors an opportunity to spread their investments in a cost-effective manner.

The extent to which companies and organisations outside the financial sector use CSR as a criterion for investment management is unclear. However, it is expected that these actors too will direct increasing attention to social responsibility.

A number of financial institutions have adopted the *UN Principles for Responsible Investment (UNPRI)*. Following an initiative by the UN Secretary General, six principles for responsible investment were drawn up in a process involving representatives of the world's largest institutional investors in cooperation with representatives of the financial sector, the authorities, civil society and research institutions during the period 2005–2006. The principles reflect the core values of large investors, whose investment horizon is generally long, and whose portfolios are often highly diversified. In Norway, the principles have been adopted by DnB NOR, KLP, Nordea, Norges Bank on behalf of the Government Pension Fund – Global, and Storebrand.

CSR is also becoming increasingly important in the banking sector. Several institutions have developed their own CSR analysis tools for their lending activities. These are used in connection with risk management. The *Equator Principles* constitute the international standard for responsible lending, see Box 3.13. Many companies also use

their own guidelines for lending and for portfolio investments.

The 12 largest institutional investors in Norway have launched a collaborative project called Sustainable Value Creation (Bærekraftig verdiskaping). They have carried out a survey of the companies listed on the Oslo Børs (Oslo stock exchange) Benchmark Index, the results of which were published in December 2008. The aim of this initiative is to encourage Norwegian listed companies to focus on sustainable development and long-term value creation. Altogether, the investors supporting the project represent assets amounting to NOK 2 700 billion, NOK 1 000 billion of which is invested directly in the Norwegian market.

The Government

- calls on institutions in the private financial sector to give more weight to social responsibility as an important element in their overall activities;
- will encourage all parts of the financial sector to increase transparency with regard to investments.

Box 3.13 Equator Principles

The Equator Principles are a set of voluntary guidelines relating to project financing, which are largely based on policies and guidelines from the private sector investment arm of the World Bank, the International Finance Corporation (IFC). Ten leading banks, with Citigroup at the helm, adopted the Principles in 2003.

Institutions that use the Equator Principles have committed themselves to only financing projects that are to be implemented in a socially and environmentally responsible way. By establishing these principles, the banks have agreed not to compete on the basis of environmental and social factors.

Under the principles, the banks have committed themselves to requiring environmental impact assessments, public consultation, and general project management that is in accordance with various minimum standards regarding environment, human rights and working conditions. As of December 2008, around 60 financial institutions were employing the principles in their financing activities. In Norway, the principles have been adopted by DnB Nor and Nordea.

3.6 Responsibilities and opportunities

There are considerable opportunities for internationally oriented companies to increase their competitive edge through socially responsible practices. Upholding good values and integrating CSR into business management enables companies to identify and utilise new market opportunities.

Systematic CSR work has primarily been undertaken in large companies with extensive international involvement. Most of Norway's private sector is made up of small and medium-sized

enterprises. Smaller companies tend not to have the resources or expertise to work as systematically and thoroughly with CSR as larger companies. Advisory services targeting smaller companies are discussed in Chapter 9.

The Government believes that all companies have responsibilities that extend beyond value creation in purely economic terms. Through socially responsible practices, it is possible for all companies to promote social and environmental values while at the same time strengthening their long-term competitiveness.

4 Norwegian corporate engagement abroad – challenges and dilemmas

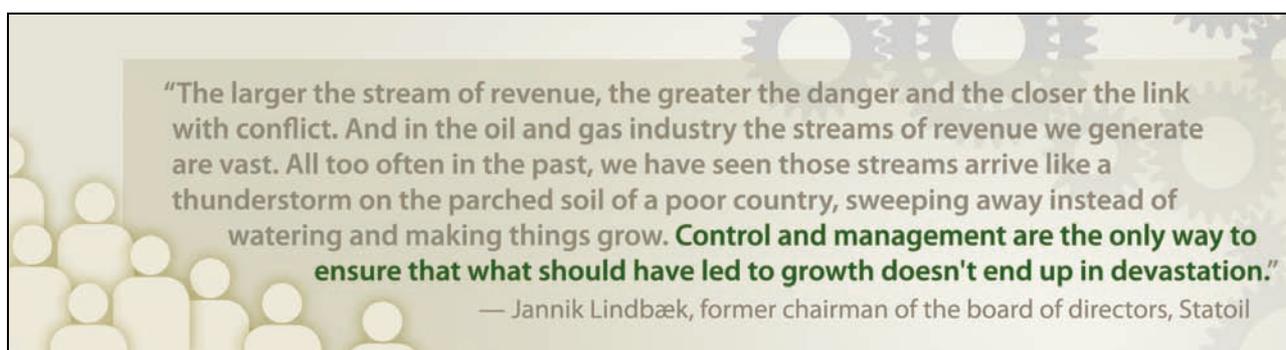


Figure 4.1

Increasing internationalisation means that Norwegian companies are operating to a greater extent than before in countries where there is little respect for human rights. Working conditions are often unacceptable and child labour is used in production processes. There is discrimination in the workplace on the basis of gender, religious belief or ethnic background. Too little account is taken of environmental impacts; corruption may be widespread. Often these conditions are related to deficiencies in legislation, weak enforcement or a lack of sanctions.

In many cases the individual company thus faces a number of fundamental questions. Should we, or should we not, become engaged in the country? What can reasonably be required or expected of our company, and how can we meet these expectations? Which requirements are reasonable, and which are better addressed by the authorities in the host country or in Norway? How can we reconcile the different expectations? How should we operate in cases where our competitors are not applying the same strict codes of conduct?

There are no simple answers to these questions. Standards do not remain static – the values of companies and societies change over time. Requirements may vary from country to country, sector to sector and company to company. In today's society, Norwegian companies are assessed not only on their financial results but also on the impacts, positive or negative, of their activities on the local

community and the environment. This calls for dialogue between the relevant stakeholders, both in Norway and in the host country.

The Government believes that Norwegian companies should also engage in countries where political values and standards differ from ours, and where they will face ethical dilemmas. In such cases it is important that the individual company is aware of the challenges and dilemmas it will encounter.

Many companies have an active approach to these issues. They conduct systematic assessments of challenges they may encounter in actual and potential projects. Country assessments, impact assessments, consultations with stakeholders and dilemma training can help to prepare companies to deal with challenging situations.

4.1 To engage or not to engage?

The question of whether a company should operate or become involved in a project in an area of conflict seldom has a straightforward answer. Nor is it apparent that a company that is already engaged in such an area should withdraw. It is not necessarily right for a company to refrain from operating in or to withdraw from a country because it is undemocratic or corrupt. Neither is it clear that the company should remain in such a country, or in an area of conflict, because it may positively influ-

Box 4.1 Human rights considerations

StatoilHydro performs risk assessments for all countries where it conducts or intends to conduct business and for all projects being developed or in operation. These include human rights assessments consisting of three analytical steps:

- reviewing the context and potential human rights risks at the country level;
- assessing the potential human rights risks of StatoilHydro investments and operations;
- identifying and proposing mitigation activities.

ence the situation and the local conditions. There will always be a need to evaluate the situation at hand, the conditions in the country, the type of activity in which the company is engaged and expectations for future developments.

Since there is no straightforward answer to the question of the role a company should play, the question of whether or not it is problematic that Norwegian companies set up operations in countries with weak governance, widespread corruption and inadequate environmental legislation and enforcement will remain.

It is unlikely that a unilateral decision by Norway that companies should not conduct business with a particular country for political reasons would have a significant impact on the conditions in the country concerned. Refraining from engagement will normally neither benefit the people nor positively affect economic and political development. Isolation often does more harm than good, causing suffering among the civilian population. Withdrawal of multinational enterprises also reduces access to information and knowledge of local social and humanitarian conditions and weakens the possibility of exerting concerted international political pressure.

One of the consequences of a unilateral decision that Norwegian companies should not engage in certain countries on grounds of principle could be that the Norwegian petroleum industry would have to limit its international activities considerably. This would reduce the opportunities for disseminating technology and for industrial activities, and consequently reduce opportunities to contribute to economic development. In cases where Norwegian companies do not engage in economic

activities in a country, their place is usually taken by companies from other countries. These may be companies that may take their social responsibility far less seriously than the Government expects Norwegian companies to do.

The Government does not intend to politicise the engagement of Norwegian companies abroad by recommending their presence in particular countries or regions as opposed to others, by regulating their presence or by exercising ownership rights. This would be tantamount to making a political choice to sell a particular product in one country and not another, differentiating prices according to country or linking product sales to other Norwegian interests.

It is not the task of the public authorities to regulate an individual company's commercial decisions. It is up to the company itself to decide where and in what way it will conduct its business. However, CSR must be an important factor in a company's decision to set up operations, and should remain a central consideration once operations have been established.

Box 4.2 Changes in the private sector

Over the last few decades the ability of the Norwegian private sector to tackle complex challenges in the global arena has been tested on a number of occasions. For example, a joint venture (Utkal Alumina) between Norsk Hydro and several local and multinational companies on mining bauxite and establishing an aluminium refinery in Orissa, India, received a great deal of public attention in Norway and internationally. In spite of the strategic importance of the project, Norsk Hydro decided in 2001 to withdraw from Utkal Alumina.

After Norsk Hydro entered the project in the early 1990s, international civil society's expectations of business conduct changed considerably, with greater attention being paid and increased demands being made on private companies with respect to human rights and the environment. Hydro was not the only company to encounter an altered view of corporate roles and responsibilities. Partly as a result of a question about Hydro's human rights policy posed by Norwegian Church Aid at an annual general meeting, Hydro developed a specific CSR policy that was adopted as a steering document.

This raises the question of whether or not a company should point out human rights violations or serious environmental harm caused by another country's government. In many cases the company's sphere of influence does not extend this far. The company itself will have to decide how best to deal with issues of this nature.

Companies that invest with a long-term horizon are concerned about the political stability of the host country. Stability and predictability may be prevalent in two very divergent political systems: on the one hand, well-functioning democracies, and on the other, undemocratic regimes that practise strong government control and show little respect for human rights and labour standards. Should companies adopt an active or passive attitude to rights violations by governments or other actors?

The Norwegian Government does not expect companies to act as the most prominent advocates of human rights or environmental matters vis-à-vis the local authorities. This is primarily a role for the Norwegian authorities or civil society organisations. The existence of unacceptable local conditions is a matter that should be raised by the Government in a bilateral or multilateral context. However, this does not mean that a company should not become actively involved in such situations if given the opportunity. Norwegian companies may for instance report unacceptable conditions encountered in the course of their operations to the Norwegian authorities. This may give the Norwegian Government a better basis for raising such matters with the host country government.

An example of this process of deliberation was in relation to a decision made by Statoil in 2004. In a letter to Statoil, the Norwegian branch of Amnesty International expressed its grave concern over the human rights situation in Iran and asked the company to raise the matter with the Iranian authorities. Statoil responded that it considered itself responsible for respecting human rights within its own sphere of influence, but that it had no legitimate position from which to raise human rights issues with another country's government. The company pointed out that this was the task of national governments or international organisations.

Although the Norwegian Government generally views economic activity as desirable because of the possibility of making a positive contribution, particular situations will arise from time to time where Norwegian companies should refrain from conducting business in a particular country or area, for example due to conflict in the area or

Box 4.3 Norfund's investment in a furniture manufacturing business in Vietnam

The Norwegian authorities advise Norwegian companies to refrain from trading with or investing in Burma. However, the issue becomes more complex when it comes to Norwegian companies' suppliers and sub-contractors.

The Norwegian Investment Fund for Developing Countries (Norfund) has invested in the South East Asia Fund, which in turn has invested in a Vietnamese furniture manufacturing company. The furniture company imports about 10 % of its raw materials (tropical timber) from Burma. It seems likely both that this export is profitable for the Burmese regime and that it may contribute to deforestation in important areas, which in turn may have negative impacts on biodiversity.

Norfund requires its fund managers to follow clear social and environmental guidelines. The manager concerned therefore concluded an agreement with the furniture company whereby the company undertook to phase out all raw materials of doubtful origin, including Burmese teak, over a five-year period, and to use only environmentally certified timber in its place. The Vietnamese company received considerable assistance from the World Wide Fund for Nature (WWF) in these efforts. Norfund receives annual reports from its fund managers regarding compliance with the social and environmental contractual requirements.

because the humanitarian or human rights situation is especially serious.

In these matters the Government follows the line taken by the UN and engages in broad international cooperation. Norway has long held the view that the decision to impose sanctions should have broad support, and preferably be adopted by the UN Security Council. Examples of this are the sanctions that were imposed on the trade in rough diamonds from Sierra Leone and Liberia, and the current sanctions on the Côte d'Ivoire rough diamond trade. The Government does not consider it desirable to develop an exclusively Norwegian system that involves Norwegian companies refraining from trade with or investment in problematic areas

or countries. At present there are only two exceptions to this rule: Norwegian companies are advised not to engage in commercial activities in Western Sahara due to its status as a disputed territory, or in Burma due to the political situation.

The Government

- expects a company to consider carefully all factors relevant to social responsibility before deciding to conduct business in or with other countries;
- considers itself responsible for providing information to Norwegian companies on relevant humanitarian, environmental and human rights issues that apply to business activities, but considers that the companies themselves are responsible for determining whether or not to become involved in the countries or projects concerned;
- encourages Norwegian companies to inform the Norwegian authorities of serious human rights violations and other unacceptable conditions they become aware of in connection with their activities;
- will, in addition to implementing resolutions on sanctions adopted by the UN Security Council, consider imposing sanctions that have broad international support, and expects Norwegian companies to follow the Government's line in such cases.

4.2 Conducting business in conflict-affected areas

The presence of companies in zones of conflict, where there are hostilities, or where there is a threat of war or civil war raises particular questions and requires vigilance on the part of the companies regarding responsibilities and non-financial risks.

Conflicts undermine the effectiveness of government control, and commercial actors may take advantage of this. Guerrillas, arms smugglers, drug cartels, human traffickers, terrorist networks and others involved in organised crime may use conflict and war to enrich themselves. The substantial profits derived from the exploitation of natural resources such as petroleum, diamonds, minerals and tropical timber can be used to promote development and a more equitable distribution of wealth, but they can also be used to finance crime and protracted conflicts.

Box 4.4 The Kimberley Process

The purpose of the Kimberley Process is to prevent illicit trade in a valuable, easily extractable and readily marketable commodity that is used to finance civil wars and that is itself a source of conflict. More than 70 states are participating in the development of an international certification scheme. Under the scheme, every shipment of rough diamonds to or from the territory of a participating state must be accompanied by a government-validated Kimberley Process Certificate, and participating states must prohibit trade in rough diamonds with countries that are not participating in the Kimberley Process. A peer-review mechanism has been established that also includes civil society organisations and the private sector. Under the mechanism, review visits and missions are undertaken, and Norway was visited by a review mission in 2007. Norway has almost no trade in rough diamonds, but supports the process politically, and implemented the scheme in Norwegian law in the Kimberley Regulations of February 2004.

Since the establishment of the Kimberley Process in 2000, trade in conflict diamonds has been reduced from 4 % to less than 0.75 % of the international diamond trade.

Illicit trade in natural resources from conflict zones is a major global problem. Under international law, natural resource management in conflict-affected areas must be practised in accordance with the interests of the local community. Beyond these requirements it is difficult for the international community to reach consensus regarding what action to take when national governments are directly involved in conflicts, and it has also proved difficult to reach agreement on a definition of «conflict goods». However, one or more of the following features are generally emphasised:

- The income from trade in these goods is used to finance conflict or is linked to armed conflict;
- Military/rebel groups are involved in the extraction process;
- Some or all of the transactions relating to the goods concerned are illegal.

The UN is addressing these problems to an increasing extent in relation to peace operations and sanctions regimes. A resolution (55/56), adopted by the UN General Assembly in 2000, led to international cooperation on reducing the flow of conflict diamonds through a certification scheme known as the Kimberley Process (see Box 4.4).

Apart from the aforementioned sanctions, there are few rules in this field that are binding under international law. This has resulted in a governance gap or deficit that is spawning new partnerships between actors that normally play very different roles. Industry, government and civil society have come together to solve specific problems and challenges by means of schemes based on voluntary participation and cooperation. These partnerships are in part based on the recognition that there are limits to what can be achieved by regulation and legislation.

4.2.1 Guidelines in zones of conflict

Although many companies wish to conduct business in a responsible manner, there are no binding international rules that define what is expected of them. How can companies engage responsibly in zones of conflict?

A company's area of operations may significantly influence the degree to which it should exercise vigilance. Is the production or trade with a particular actor/organisation in the area in any way linked with or supporting an emerging or existing conflict? Vigilance is especially important if the client is involved in the military or with the defence industry, or if there is any uncertainty about who the client actually is or how the product will be used. The main consideration here is to avoid in any way increasing military capability in the country. This applies not only to defence materiel and military products but also to a large range of civilian goods. In such cases the company could be suspected of complicity and at worst held legally responsible. Norwegian companies are required to follow specific regulations regarding the export of defence materiel and other products that can be used for civilian and military purposes. A separate licence is required for every shipment and may only be obtained after careful assessment by the authorities.¹

Companies operating in conflict zones have been criticised a number of times because of abuses perpetrated by private security personnel. A set

of principles known as the *Voluntary Principles on Security and Human Rights* was drawn up as a result of a continuing dialogue between governments, companies in the extractive and energy sectors and civil society. The initiative was taken by the UK and the US in 2000, and Norway became a participant in 2002. Norsk Hydro and StatoilHydro are also participants.

The Voluntary Principles serve as a guide for companies in the extractive and energy sectors who face a dilemma between the legitimate need for security services and respect for the human rights of the local population. According to the principles, companies are to conduct a thorough assessment of the risks in their operating environment, both normal security risks and risks posed by conflict in the area. They should consider the potential for violence in the region, the human rights practices of public security forces, the causes of local conflicts and the responses of the authorities to allegations of human rights abuses.

According to the Voluntary Principles, in relations with public and private security providers, companies should:

- hold consultations and communicate their human rights policies, use their influence to

Box 4.5 Corporate Actors in Zones of Conflict: Responsible Engagement

In cooperation with the International Peace Research Institute, Oslo (PRIO), the Confederation of Norwegian Enterprises (NHO) has published a brochure entitled *Corporate Actors in Zones of Conflict: Responsible Engagement*.

In the brochure, «responsible engagement» is defined as engagement that includes an assessment of indirect responsibility and complicity on the part of the company. The brochure states:

It should be stressed that CSR does not involve politicizing companies. However, it is desirable that companies take responsibility for the effects of their activities, that is, for effects that would not have come about had it not been for the presence of the company. For this purpose, we need a conceptual framework that is sufficiently general to avoid arbitrariness in our judgements, and yet that is sufficiently flexible to take into account the particularities that make each context unique, varying from area to area and, not least, over time.

¹ A white paper on current legislation and practice with regard to defence materiel is submitted annually to the Storting.

Box 4.6 Exercising vigilance in conflict zones

In May 2008 the Fafo Institute for Applied International Studies and International Alert launched an initiative to guide companies working in conflict zones by providing information on the legal risks and possibility of facing litigation. The Red Flags inform companies of activities that should raise a 'red flag', warning them of possible legal risks and the need for urgent action. Nine Red Flag activities have been identified.

A company may face liability if it is linked with:

1. Expelling people from their communities.
2. Forcing people to work.
3. Handling questionable assets.
4. Making illicit payments.
5. Engaging abusive security forces.
6. Trading goods in violation of international sanctions.
7. Providing the means to kill.
8. Allowing use of company assets for abuses.
9. Financing international crimes.

promote principles regarding how and when force may be used, and respect the right of individuals to exercise freedom of association;

- demand that private security providers do not use individuals who have been implicated in human rights abuses;
- support efforts to provide human rights training and promote UN principles on the use of force and law enforcement;
- report allegations of human rights abuses to the appropriate authorities and monitor the status of investigations;
- actively monitor the use of equipment provided by the company.

The Voluntary Principles also serve as a guide to companies outside the petroleum and extractive industries and are applicable outside conflict zones. Participants are expected to submit annual reports on their efforts to implement the Principles. There is also a mechanism whereby a participant can raise concerns regarding an alleged lack of effort on the part of another participant to implement the Principles.

The *OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones* shows how the *OECD Guidelines for Multinational Enterprises* can be applied in such areas by addressing risks and ethical dilemmas that companies may encounter. Another such tool is the *OECD Guidelines on Helping Prevent Violent Conflict*, which indicate how companies can play an important role in conflict zones, and show how it could be in the interest of companies to support measures that prevent, mitigate or avoid aggravating conflicts.

The Government

- calls on Norwegian companies to exercise great vigilance in areas of conflict, and expects companies to thoroughly assess the situation and avoid contributing to an escalation of the conflict;
- recommends that Norwegian companies should consider adopting the Voluntary Principles on Security and Human Rights where appropriate;
- will make guidelines on economic engagement in weak governance zones and conflict-affected areas available to Norwegian companies.

4.3 Natural resource-based enterprises

A number of issues, considerations and activities related to responsible conduct apply to all companies that operate internationally, regardless of sector. However, natural resource-based companies more frequently have to deal more directly with issues relating to local releases of pollutants or human rights than for instance companies in the financial sector or trade in goods.

Natural resource-based industries are to be found in sectors such as oil and gas, hydropower and other renewable energy sectors, fishing and aquaculture, agriculture, forestry and mining. The effective utilisation of natural resources is essential in all these sectors to secure a profit, and for many of them sound management of biological resources is an essential basis for long-term operations.

4.3.1 Local communities and the rights of indigenous peoples

Natural resource-based enterprises also have to deal with particular challenges with regard to local communities. Their activities may affect large areas of land and may involve moving people or

other interventions in the way of life or rights of the local population.

Given indigenous peoples' dependence on the natural environment and resources, environmental considerations and respect for the rights of the indigenous population must weigh heavily in areas where indigenous peoples live. There have been a number of instances where Norwegian business interests have come into conflict with the use of the environment by indigenous groups. It is therefore vital to consult and involve indigenous and local communities when planning activities that may affect their interests.

Large population groups depend on forests and forest products for their livelihoods. Timber is also a financially profitable commodity in international trade, and there are usually no technical barriers to trade in this sector. Norwegian companies that manage or exploit forests in other countries have a special responsibility to see that their activities are in accordance with international law, that they are based on ethical standards, and that considerations regarding long-term resource management are taken into account.

Clarifying the rights of the local population and establishing a system for leasing or other forms of access to forests or other land-based natural resources provides local communities with the opportunity to assert their property rights and

rights to land-use and management. This will also help to ensure that indigenous communities and women have the opportunity to participate and assert their rights.

4.3.2 Transparency in the extractive industries – EITI

Many developing countries are rich in mineral and petroleum resources. Utilising these resources in a way that benefits the population is a challenging task for a country. The quality of institutions and legislation in these countries varies. This calls for particularly strict requirements for companies participating in the extraction of natural resources.

Oil and gas extraction yields high revenues. Since financial flows from the extractive industries to government authorities are often not disclosed to the public, countries rich in natural resources are particularly vulnerable to corruption. This means that the revenues from these resources are not used to promote sustainable economic and social development. In many cases this leads to destabilisation and provides a basis for social unrest and conflict, a phenomenon that is known as the natural resource curse. Revenues that are not subject to democratic control may be used to finance armed conflict, which in turn is an obstacle to development. This shows how important it is for countries with natural resources to develop sound and effective frameworks to ensure that the resources benefit the country and its inhabitants. It also shows how important it is that companies are aware of these potential problems and exercise vigilance.

Over the last few years a number of organisations have urged petroleum companies to widen their sphere of responsibility to include national challenges related to the development of the petroleum sector. Studies have shown that countries rich in petroleum resources tend to lag behind other developing countries on social and humanitarian issues. This is mainly due to corruption and weak institutional development, lack of transparency in government budget processes and national accounts, the use of petroleum revenues for military rather than social purposes and repeated violations of human rights. Some civil society organisations have gone so far as to accuse the petroleum companies themselves of contributing to this unacceptable situation because it is being maintained by the revenues from taxation of companies' activities.

It is not always easy for a company to deal with such challenges on its own. Confidentiality concer-



Figure 4.2 Oil pipelines running through a Nigerian village.

Photo: George Osodi/Panos Pictures/Felix Features.

ning the flow of money is often part of the contractual agreement with the authorities in the host country, and companies that have led the way in publicly disclosing payment figures have been met with threats of sanctions. In such cases cooperation and coordinated action between companies, the authorities and civil society can often help to resolve the situation.

The *Extractive Industries Transparency Initiative (EITI)* is an international initiative that seeks to improve transparency and accountability concerning the flows of money in the extractive industries. The goals are that transparency concerning revenues from natural resources should become a global norm and that a greater proportion of the income from these resources should be used to promote social and economic development.

Governments, companies, civil society groups, investors and organisations participate in the EITI. It has resulted in a set of standards for companies to report what they pay and for governments to disclose what they receive from the extractive industry. This promotes public accountability concerning government revenues and expenditure and informed public debate on the equitable and sustainable utilisation of the country's natural resources. In September 2008 the UN General Assembly adopted a resolution on strengthening transparency in industries, providing strong support for the EITI. The resolution notes the efforts of countries that are participating in initiatives to improve transparency and accountability in industries, and encourages them to share their experience with interested Member States. Norway was a driving force in developing the resolution.

National ownership is vital for implementing the initiative. As of October 2008, 23 developing countries are in the process of fulfilling EITI transparency criteria, and a further 20 countries are considering implementing the initiative. This brings the number up to over half of the world's natural resource-rich countries, defined as countries in which the extraction of natural resources accounts for more than 25 % of GDP. StatoilHydro have supported implementation of the initiative since 2003. StatoilHydro's payments to the governments of most of the countries in which the company is engaged in extractive activities are published in its annual report. The EITI has the political support of the G8 countries and is financed by contributions from a number of countries including the UK, the US, Germany, Canada, Italy and Norway.

The Government actively supports the EITI, and has hosted the secretariat since the autumn of

2007. Norway is the only Western country that has declared that it will fulfil the EITI criteria. This will help to eliminate any suspicion that the Western countries have a hidden agenda in their insistence on transparency in the financial flows from the strategically important extractive industries. Norway also plays a central role in the Multi-Donor Trust Fund for the Extractive Industries Transparency Initiative managed by the World Bank, which supports countries' efforts to implement the EITI.

Norway already practises transparency concerning the payments from petroleum companies to the government authorities. EITI compliance means that companies must report payments to an independent EITI administrator, and that the government authorities must report receipt of payments to the same body. A multi-stakeholder committee must also be appointed to monitor the implementation of the EITI criteria. The first meeting of the committee was held in October 2008, where a proposal for how to implement the criteria and draft regulations governing implementation in Norway were presented. A public consultation will be held on the regulations once the committee has evaluated these proposals.

The Government's aim is for the entire validation process to be completed in the course of 2009. The Storting will be kept informed of the progress of the work. Norway's efforts to implement the EITI criteria have been favourably received by the international community.

Other forms of cooperation or partnership between petroleum companies and multilateral organisations such as the World Bank and the regional development banks have also been established. The aim is to address what are known as collective action problems that may arise in oil provinces where a company may decide to give less priority to social issues out of fear of losing out in the competition for government licences.

The government considers that partnership between the authorities, the private sector and civil society is a sound way of addressing challenges relating to natural resource-based industries. Such partnerships may also prove useful in strengthening transparency and accountability in other sectors.

The Government

- expects Norwegian companies involved in the extraction of natural resources to continue their work on best practices for taking social and environmental considerations into account as their guide and goal;

- expects Norwegian companies involved in the extraction of natural resources to respect the rights of indigenous communities;
- will implement the EITI criteria, seek to ensure that more countries join the initiative and help these countries to implement it successfully;
- will promote the development of transparency initiatives in other sectors;
- considers that partnerships between the authorities, the private sector and civil society are useful in addressing challenges related to natural resource-based industries; and
- calls on Norwegian companies to participate in relevant partnership initiatives that aim to address sector-specific challenges.

4.4 Business engagement in vulnerable natural environments

Value creation in many sectors, for example fishing, aquaculture and tourism, depends on the use of natural resources. Natural resource-based commercial activities are also important for economic development in developing countries and for creating jobs at the local level. However, if commercial activities are to be viable over time these industries are dependent on sound natural resource management. Sustainable use of natural resources is therefore also a precondition for future growth and prosperity, especially in developing countries.

The conservation and protection of the natural environment should ideally be ensured by international agreements and laid down in national legislation. However, although international agreements and legislation exist and are being enforced, in several environmental areas they often impose only minimum requirements. Although there is no international agreement on ambitious environmental goals or global requirements for rain forest management or releases of hazardous substances, Norwegian companies should take account of necessary environmental considerations in their activities and should require their subcontractors to do the same. In the absence of binding international commitments, the willingness of the private sector to voluntarily assume responsibility is essential for addressing these problems.

There are more than 114 000 protected areas in the world, and they cover approximately 13 % of the earth's land surface. These areas have been given protected status in order to protect and maintain biological diversity and the natural environment. Knowledge of the individual area is required to

safeguard the values represented by such areas. In cooperation with the International Union for Conservation of Nature (IUCN) and the private sector, including StatoilHydro, UNEP's World Conservation Monitoring Centre has developed a web-based information system for the world's protected areas. This means that lack of knowledge no longer prevents companies from taking account of protected areas when planning to establish activities in new areas. Companies should seek to avoid having direct or indirect negative impacts in protected areas and should therefore always take these issues into account when engaging in new areas.

Particular caution is required when planning commercial activities in vulnerable habitats such as wetlands, mires, rivers and lakes and marine areas, since ecosystem integrity may otherwise be disturbed. Moreover, the areas may contain very important or rare species. Commercial activities in such areas may directly or indirectly put further pressure on the environment due to more intensive use of land and living resources, the development of physical infrastructure or increased industrial activity and transport.

Biodiversity

In Global Biodiversity Outlook 2, the UN concluded that the pressures on biodiversity are increasing so rapidly that they threaten the very basis for sustainable development. The IUCN Red List provides an overview of threatened species. Companies that operate in vulnerable natural environments should take account of possible negative impacts on biodiversity on the basis of the Red List.

Activities in the petroleum and mining sectors often involve major disturbance of the natural environment and particular caution must be exercised in the planning stages.

The development of hydropower may also have major impacts. Changes in water flow affect living organisms and species diversity in rivers and lakes, and the diversion of water to hydropower production may also compete with other uses of the water, for example for irrigation and drinking. This may also have an impact on tourism and other industries.

The tourist industry is one of the world's largest industries. Tourism in vulnerable natural environments may cause wear and tear on the land and disturb animal life. On the other hand, close cooperation between tourism and conservation interests may provide a secure income base that benefits both parties.

The United Nations Environmental Programme (UNEP) cooperates with the tourist industry, NGOs and interested countries on promoting sustainable tourism, based on improving coastal zone planning, reducing impact on the climate and channelling funds to the protection of areas of natural environment. By supporting these efforts, Norwegian tourism operators can help to ensure that the development and operation of tourism activities contribute positively to development in the host country.

In many cases it is impossible to prevent commercial activity from harming the natural environment. Mechanisms, known as biodiversity offsets, have been developed to compensate for such negative impacts and reduce the total harm. This means that by ensuring sound, long-term management in other relevant areas, loss of biodiversity can be mitigated in a wider perspective. A growing number of companies are realising that biodiversity offsets can help to reduce their ecological footprint and that employing such mechanisms improves cooperation with the authorities and other stakeholders. The Business and Biodiversity Offsets Programme is a broad-based partnership for exploring biodiversity offsets and testing them in the form of practical pilot projects.

Ideally, national authorities should require environmental impact assessments in the case of major projects that will affect the natural environ-

ment, especially vulnerable habitats. However, in a number of countries, especially countries with weak governance, the authorities do not require this, which means that in practice it is often up to the company itself to perform such assessments. There are a number of tools that companies can use in such cases. The most widely used of these are environmental impact assessments and strategic environmental assessments. There are also tools for specific sectors on particular environmental issues. An example of this is the Natural Value Initiative, an international partnership between financial institutions, NGOs and business schools promoted by the UNEP Finance Initiative. The aim is to assist the financial sector by developing a set of tools for assessing biodiversity and ecosystem services investment risks and opportunities.

Use of genetic resources by the private sector

In 2002 the Conference of the Parties to the UN Convention of Biological Diversity (CBD) adopted the *Bonn Guidelines on Access to Genetic Resources and Fair and Equitable Sharing of the Benefits Arising out of Their Utilization*. Use of the guidelines is voluntary, but they may be used as a basis for national legislation and agreements between countries and companies.

The aim of the guidelines is to assist users and suppliers in matters relating to access to genetic resources and benefit-sharing. They contain a recommended procedure by which applicants for access to genetic resources can obtain prior informed consent from the host country. It is a requirement that indigenous and local communities are involved in the decision-making process when indigenous knowledge of natural resources is needed. Source countries will be able to make use of the CBD and the Bonn Guidelines to impose more stringent requirements on foreign companies that wish to engage in bioprospecting, i.e. searching for valuable biochemical and genetic resources from living organisms.

The guidelines serve as a framework for the practical implementation of the provisions of the CBD concerning benefit-sharing with regard to the results of research and development and the utilisation of genetic resources. This is to be based on terms and conditions negotiated in each case. More equitable sharing of benefits from the products derived from processing genetic resources will serve as an incentive to developing countries to conserve biodiversity.

An international regime on access and benefit-sharing under the CBD is being negotiated, which



Figure 4.3 Tropical rainforests are being cleared to make way for plantations in Indonesia.

Photo: Paul Lowe/Panos Pictures/Felix Features.

will build further on the Bonn guidelines. The negotiations are scheduled to be completed in 2010.

The Government

- expects companies to conduct the necessary risk and impact assessments when establishing activities in vulnerable habitats and ecosystems;
- expects Norwegian companies to take threatened species and protected areas fully into account in their operations, for example using the IUCN Red List of Threatened Species and overviews of protected areas.

4.5 The need for vigilance

Companies engaged in commercial activities in countries with weak governance, poor legislation, widespread corruption or absence of the rule of law face special challenges and dilemmas. As there are no absolute answers to how they should address these issues, companies must gain thorough knowledge of national and local conditions. Important sources of such information are other compa-

nies, employers' and employees' organisations, embassies and NGOs.

A systematic approach is important when difficult choices have to be made. Risk and impact assessments can reduce uncertainty and provide the company with a better basis for decision-making. Dilemma training will also raise awareness among company employees and prepare them for dealing with specific situations. However, a company will never be able to obtain a complete overview of all the possible consequences of its activities. It is therefore essential that the company and its employees have a sound value base for their assessments and actions.

Although the individual company itself has to make the final decision about its activities, problems can also be addressed in cooperation with other actors. Social problems such as corruption are often so widespread that they require joint efforts by a number of different actors. Voluntary principles and partnership initiatives such as the ETI are examples of how companies, civil society and the authorities can cooperate on addressing the challenges specific to various sectors.

Although the challenges are complex, trade with and investment in developing countries are vital for economic and social development in these countries and in local communities.

5 Corporate social responsibility in a development perspective

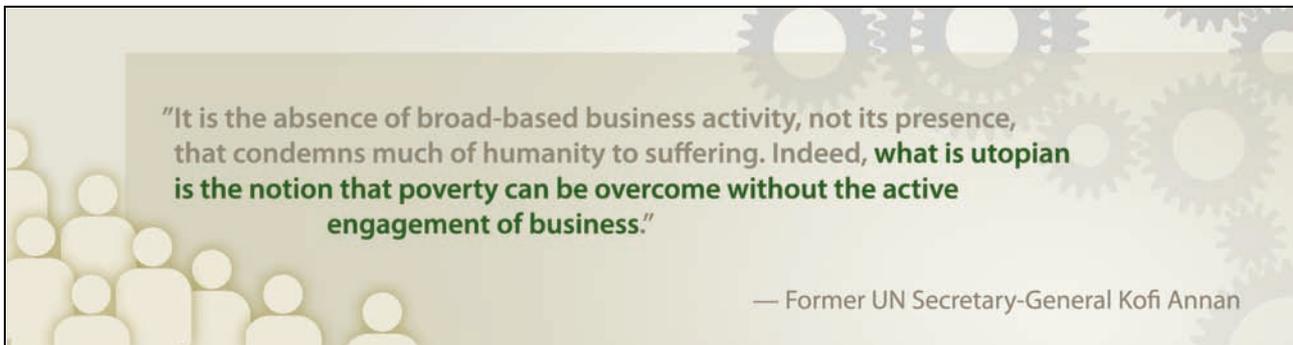


Figure 5.1

Aid alone does not create lasting development. Economic growth is a prerequisite for this. An active and dynamic private sector is the foundation for the value creation we need to combat poverty and achieve the UN Millennium Development Goals (MDGs). Private-sector development creates jobs and helps to fund infrastructure and social services. Aid is and will remain important, particularly in the poorest countries. But without economic activity and value creation in the individual countries, it will be impossible to realise the MDGs.

In the Government's view, economic involvement in developing countries is positive, not only as an instrument for value creation and economic growth but also because it can promote political and social development. Moreover, Norwegian companies can help to reinforce universal norms and values as expressed in the efforts of the United Nations and the OECD. This presupposes that the companies operate in accordance with these norms and their own ethical values regardless of where in the world they are located.

5.1 Investments in developing countries

Direct investment is one of the most important means of promoting development in poor countries. A large-scale survey by the OECD shows that direct investment plays a role in technology transfer, knowledge and competence building, trade integration and the development of a more compe-

titive private sector. The OECD also points out that all these effects boost economic growth, which is the most important tool for combating poverty. UNCTAD has carried out a study of the participation of transnational corporations in the development of the extractive industry (oil, gas and minerals). The study examines the conditions that must be met if direct investment is to contribute to development. It shows that low-income countries at a low level of development in terms of competence and production capability can benefit most from the capital, knowledge, technology and skills that transnational corporations can provide.¹

In recent decades, we have seen a strong increase in private capital flows to developing countries. These capital flows are unevenly distributed, however. They have contributed to economic growth in many countries, while others have become marginalised. Today, Africa receives just 3 % of global foreign direct investment – and most of this is channelled to the petroleum sector. The least developed countries receive 2 % (2005).

Norwegian investments account for a very small fraction of total foreign investments in developing countries. Most of the Norwegian investments are in oil, gas, shipping and the environment – areas in which Norway has substantial expertise and a sound corporate base. It is important to build on areas in which Norwegian companies have expertise, as well as involving other companies. Almost 60 % of Norwegian foreign direct investment is in Europe. Approximately 25 % is in

¹ UNCTAD World Investment Report 2007.

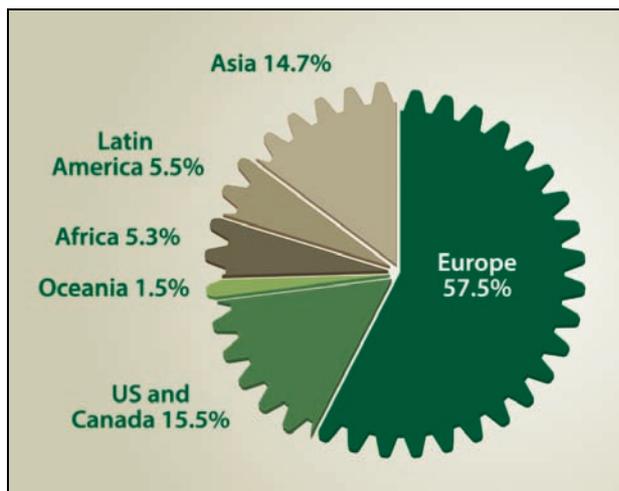


Figure 5.2 Norwegian foreign direct investment (2006).

Source: Statistics Norway.

Asia, Africa and Latin America. The involvement of Norwegian companies is limited in the poorest countries and is concentrated in a handful of countries.

The Norwegian authorities encourage greater Norwegian investment in poor countries, including the least developed countries (LDCs), in order to contribute to economic growth. There is a particular need for substantial individual investments to boost businesses at the local level, providing earned income, foreign exchange income and tax revenues.

In view of the limited scope of Norwegian companies' investments and involvement in developing countries, it may seem paradoxical to have high expectations in terms of social responsibility. The low level of investments by the Norwegian private sector in the poorest countries may be due in part to the high risks associated with such investments. Companies may also feel that these high expectations as regards CSR increase the risk of their failing to live up to their own values and ethical guidelines, and of reputation loss. Companies may avoid entering these markets because they feel that they may be unable to live up to their own expectations and those of other Norwegian stakeholders.

The Norwegian Investment Fund for Developing Countries (Norfund) is an important tool for establishing viable and profitable activities in poor countries. Norfund collaborates with private sector actors to provide risk investment capital and knowledge. In this respect Norfund represents government interests in several areas of business-orien-

ted cooperation between public and private interests relating to investments in developing countries. The Norwegian Agency for Development Cooperation (Norad) and the Norwegian Guarantee Institute for Export Credits (GIEK) also administer support schemes designed to stimulate investment in developing countries and promote cooperation between the private sector and the authorities, cf. Chapter 9.

Box 5.1 Power plant development

Along with other Norwegian investors, Statkraft Norfund Power Invest (SN Power) holds a majority of the shares in the Khimti hydroelectric power plant in Nepal. Working with Norwegian aid authorities, the Norwegian actors have targeted development of the area around the power plant. In all, 4 300 households now have access to electricity from a small power plant run by a local cooperative. The water supply and other infrastructure have been improved and measures have been implemented to encourage the establishment of small businesses. The company's school and health clinic are used by the local population as well as by company employees. Norwegian investors' participation in the project has made it possible to reach an area of the country where the conflict with the Maoists is an obstacle to official involvement.

SN Power's involvement in the Allain Duhangan hydroelectric power project in India is an example of the conflicts of interest that can arise between business development and standards for health, safety and the environment (HSE). The project is being implemented by a joint venture company in which SN Power has a holding. It is clear that, as a minority shareholder, SN Power has had insufficient influence to persuade the local project management to implement contractual HSE standards and prevent further fatalities at the plants. The 12 fatalities there highlight the issue of necessary preconditions for the Norwegian private sector to be able to contribute in developing countries. One of the lessons learned is that there must be agreement on improving standards before start-up – and that this must be understood by all parties.

5.2 What can companies do?

Developing countries are interested in development assistance in the form of cooperation with businesses in other countries, as well as access to technology, capital and markets. In order to be financially sustainable, a company must generate a profit that will give returns on invested capital and lead to reinvestment and greater economic activity. Even where direct investments have major and positive effects, they may pose challenges. There are many examples of multinational companies ignoring the development perspective when investing in developing countries.

Through their presence and contribution to local value creation, Norwegian companies can contribute to economic development that will reduce poverty and aid dependency. They can pass on Norwegian experience related to working environment standards, employee participation and similar matters. They can create good workplaces characterised by gender equality and the integration of different ethnic groups. There will undeniably be major challenges involved in introducing standards and procedures for health, safety and the environment and other measures. However, with enduring efforts and follow-up by the investing company, there are good chances of success.

The private sector can often help to find creative and innovative solutions. By developing new ways of running businesses, the private sector can promote development. This may, for example, be through improved access to goods and services for the local community and population groups, which

Box 5.2 Norfund and measures to combat HIV/AIDS

Experience shows that it pays for companies to devote resources to offering training, voluntary testing and treatment support for HIV/AIDS victims. Without such efforts, companies will lose valuable employees.

With the support of Norfund, the fund management company Aureos plans to introduce a programme aimed, among other things, at educating and treating employees in 15 of the companies in its portfolio with respect to HIV/AIDS. The programme will involve approximately 8 000 employees in East Africa and will later be extended to include malaria and tuberculosis.

Box 5.3 Nidar Bergene and the World Cocoa Foundation

Illiteracy and poor infrastructure are features of West Africa's two million cocoa farms, making it impossible to solve poverty or child-labour problems overnight. It is possible, however, to improve the living conditions of the cocoa farmers.

Along with the ILO and several NGOs, Nidar is involved in the efforts of the industry organisation, the World Cocoa Foundation (WCF), to improve social conditions on the cocoa farms of West Africa. The work includes plant research, training, cultivation control and influencing the authorities.

At the «Farmers' Field Schools», 24 000 cocoa farmers have received training in how to increase their yields and achieve better prices. They have also been made aware of their responsibility for ensuring that their children receive schooling and grow up in a secure environment. A total of 200 000 people have participated in other training projects. The farmers who have received training have increased their income by between 15 and 55 %.

in turn can promote the development of local business and help to protect the environment.

By making as much use as possible of local labour and local suppliers, international businesses can help to raise competence and create economic opportunities, thereby directly reducing poverty. Close collaboration with relevant institutions in the local community can also help to strengthen the institutions and create better framework conditions for local companies. Businesses should listen to and incorporate the views of local stakeholders at an early stage, particularly those of vulnerable groups.

Local content requirements can, however, present challenges. Companies may experience greater expectations and pressure to meet local needs which, in other contexts, would have been a public responsibility. They may, for example, be expected to develop the necessary infrastructure for the company's activities, which will also benefit the local community. It may be a question of building roads, supplying water or providing health services. It may even involve developing infrastructure that is necessary from the national point of view



Figure 5.3 Local communities formulate their own resolutions to prevent child labour in Côte d'Ivoire.

Photo: Winrock International.

and for the company's activity, but which is contrary to the interests of the local community.

Companies have various types of expertise and technology that can be useful in specific development measures. An example of this is the health industry, which plays an important role in the development of new drugs and equipment for the prevention and treatment of diseases such as malaria, HIV/AIDS and tuberculosis. A well-functioning transport sector is essential for the effective distribution of goods both to the population and to businesses. Expertise in the area of pumping technology can be applied to the water supply. Companies can make valuable contributions based on their expertise, often in cooperation with development actors and local authorities.²

According to Norwegian policy, when exploiting natural resources «owned» by the local community, such as hydroelectric power, developers should contribute in a manner that ensures an additional development impact for the local community. The Khimti power plant in Nepal is an example of a development project that has had positive consequences for the local community, cf. Box 5.1.

Companies can contribute to development through various measures closely related to their core business. Measures related to the company's strategy are more likely to endure in the long term.

² Kolstad, Wiig, Larsen (2008), *Hvordan gjøre gode ting bedre? Norske bedrifters CSR-aktiviteter i utviklingsland* (How to do good things better. Norwegian companies' CSR efforts in developing countries, only available in Norwegian). CMI Report 2008:4.

But there are many examples where support for measures in the local community that are not connected to the company's core business may prove important to the development of the local community while also giving the company local legitimacy.

Developing countries are important actors in resolving climate-related problems, and the private sector has an important role to play in this respect. Developing countries both need and have a legitimate right to better access to energy. Norwegian companies can contribute to more environmentally friendly energy solutions through innovation and technology transfer.

Clean energy is an area where there is a good potential for greater involvement by Norwegian companies. SN Power Invest and Statkraft already have substantial investments in developing countries, and Trønder Energi is in the process of building its first power plant in Uganda. Several regional energy companies are considering the possibility of setting up in developing countries, and work is ongoing to strengthen SN Power's involvement in Africa. The participation of more Norwegian actors would enable Norway to contribute capital to invest in cleaner energy.

The Government's action plan for clean energy in development efforts (2007)³ points to opportunities with respect to energy efficiency, solar energy, hydroelectric power, wind power, geothermal energy and other renewable energy forms. Cooperation with Norwegian companies can contribute to the transfer of technology, experience and expertise relating to planning, construction and operations.

5.3 Partnerships for development

Partnerships between authorities, civil society and the private sector can boost the positive development impact of international business activities in developing countries. Several multilateral institutions are working to support the development of international business activity with a view to promoting development and combating poverty. One example of this is UNDP, which works with private companies to identify market opportunities and business models for the private sector in developing countries.

Firm support from the local authorities is a prerequisite for good and enduring partnerships. It is also important that the private sector parties invol-

³ *Initiativ for ren energi i utviklingsarbeidet* (2007). Only available in Norwegian.



Figure 5.4 Microfinance has proved to be a successful strategy for women's participation in the economy.

Photo: Aubrey Wade/Panos Pictures /Felix Features.

ved see the partnership as relevant and strategically important in relation to their own activities and goals. Partnerships that combine the financial and technical expertise of the companies with NGOs' insight into development issues will generate better development effects from private sector engagement. Local companies will also be natural partners.

Closer cooperation between the public aid apparatus and private companies can make aid more effective. Using aid funds to facilitate private investments can reduce the risks involved and result in private actors releasing more money for commercial investments in developing countries. Cooperation of this kind facilitates a strengthened and more concrete dialogue about CSR. This could, for example, apply in the case of hydroelectric development projects. In this type of project, environmental awareness, social responsibility in relation to the local community and affected groups, the working environment and special development programmes for the districts involved will be essential to the success of the project.

The Norwegian private sector has valuable expertise in a large number of fields that are central to the creation of new activity and profitable business development – including in developing countries. Examples of partnerships with Norwegian companies include efforts to improve value chains in African agriculture and in microfinance.

Several parties, both private and public, have worked together to set up a Norwegian microfinance initiative. The purpose of the Norwegian Microfinance Initiative (NMI), which was launched in June 2008, is to improve access to microcredit by combining private sector capital

Box 5.4 Agricultural development in Tanzania

Tanzanian agriculture largely consists of many small farms with limited mechanisation and somewhat primitive production methods, and it involves a risk of soil impoverishment. Yara International ASA, Norfund, Norad, the Rockefeller Foundation, Rabobank, the Agricultural Council of Tanzania and the Tanzanian authorities have formed a broad partnership to improve the lives of small farmers in Tanzania. The partnership helps to build expertise in local institutions, and provides training and a credit line that ensures that farmers have access to small loans to buy the required input goods.

and expertise with public aid capital and professional development expertise. The private investors who have been at the forefront of this initiative are Ferd, DnB NOR, Storebrand and KLP. Norfund contributes 50 % of the investment capital, and Norad provides technical assistance.

Partnership is a central topic in the business forum set up by the Norwegian Minister of the Environment and International Development in the spring of 2008 with representatives from the private sector, business and industry organisations and the Norwegian Confederation of Trade Unions (LO) with the aim of giving greater impetus to business development efforts in developing countries.

5.4 Institution and capacity building

In many developing countries the institutional basis for creating good and predictable framework conditions for the private sector is poor. Weak governance and inadequate legal protection often contribute to extensive corruption. This puts a damper on domestic investment and makes it harder for countries to attract foreign investment. Weak institutional frameworks can also be exploited to protect monopolistic positions, which may result in the markets supporting existing elites and sustaining social inequality and exclusion.

Business development is linked to factors such as distribution, rights, social and environmental conditions, the share of profits that remains in the developing countries and the use of public funds. A responsible macroeconomic policy, including



Figure 5.5 Educating workers in Vietnam through the Rogaland Training and Education Centre.

Photo: Ole Imsland.

balanced and predictable taxation, is therefore an important foundation for the development of the private sector. A good macroeconomic policy is important for value creation in general and for the private sector's freedom of manoeuvre in particular. Norway participates actively in the dialogue between cooperating countries and donors on macroeconomic policy and reforms.

The Government's strategy for supporting business development in developing countries focuses strongly on the poorest countries in Africa and is clearly recipient-oriented. At the same time, support for business development must be provided so as to ensure that adequate account is taken of human rights, environmental issues, indigenous populations, women's rights and gender equality. Projects receiving aid must ensure that labour rights and other human rights are safeguarded, among other things by ensuring that international conventions are complied with and followed up nationally. They must also contribute to raising awareness about the importance of combating child labour and ensuring that partners and suppliers do not use child labour, cf. Chapter 9.

Through bilateral cooperation, the Norwegian authorities are involved in an advisory capacity in developing national frameworks and capacity building to facilitate business development. In development cooperation, Norway prioritises aid to public institution-building, among other things as a means of combating corruption. This could provide greater opportunities for national and international companies to compete on equal terms in countries with inadequate legislation and unpredictable practices.

Box 5.5 Oil for Development

The Oil for Development initiative was launched in 2005 to assist developing countries in the management of their petroleum resources. The aim is to build the competence and capacity of public authorities and lay the foundations for developing a holistic framework to avoid the «natural resource curse». The initiative promotes sustainable economic development and the welfare of the population as a whole. Developing good governance is a recurrent theme throughout the initiative, and it is reflected in the work on resource management, financial management and environmental management. This entails assisting in drawing up legislation for the sector, transferring technical knowledge and raising awareness of environmental consequences and revenue management. Oil for Development currently has projects in 25 countries.

The Government

- calls on the private sector to increase its investments in developing countries and invites companies to enter into strategic partnerships in order to reduce the risk associated with such investments and improve their development impact;
- will include cooperation on social responsibility as an important component in partnerships between public and private actors in developing countries;
- expects Norwegian companies operating in developing countries to demonstrate social responsibility and bring good business practices from their operations in Norway;
- emphasises how important it is that the private sector's involvement contributes to building up local partners and local ownership, transferring knowledge and ensuring a long-term perspective;
- calls on Norwegian companies to actively recruit locally in host countries, encourage the use of local suppliers and cooperate with local companies as contractors and suppliers where they are to be found, in order to develop sustainable and competitive local companies;
- will use the new business forum to discuss possibilities for partnerships and other measures to promote private sector development in developing countries.

5.5 Responsible business – the key to development

Through knowledge, experience, presence and influence, the private sector can help to address many of the challenges facing developing countries. Through investments, transparency and good business practices, Norwegian and other multinational companies can contribute to strengthening the countries' own economies and private sectors. In this respect, development can be said to be good for business, and business good for development.

However, there is no automatic convergence of the interests of foreign companies and the real needs of the local population. That is why there is

a need for dialogue and exchange of experience and knowledge between the foreign companies and authorities or organisations that have development experience, and between the private sector and local authorities and societal groups.

Norway is seeking to persuade developing countries to accede to international conventions and implement and enforce them nationally. This will help to raise standards for economic activity in these countries. However, there are still a number of considerations that cannot be dealt with without further developing the international framework for the private sector. Norway is therefore actively participating in efforts to strengthen international guidelines for CSR.

Box 5.6 The UN Millennium Development Goals and examples of private sector contributions

A report from the UN Development Programme (UNDP), *Creating Value for All: Strategies for Doing Business with the Poor* (July 2008), provides examples of what companies can do to help to achieve the Millennium Development Goals and promote global development.

1. *Eradicate extreme poverty and hunger*
Promote value creation and contribute significantly to public revenues. Create jobs and access to necessary goods and services.
2. *Achieve universal primary education*
Play an important role in efforts to combat child labour in the workplace. Promote schooling for the children of employees and invest in education.
3. *Promote gender equality and empower women*
Increase women's financial autonomy as entrepreneurs, employees and producers. Contribute to and invest in leadership development for women.
4. *Reduce child mortality*
Provide inexpensive medical products and health services. Promote children's rights and issues concerning children.

5. *Improve maternal health*
Provide inexpensive medical products and health services. Improve women's working conditions and occupational health.
6. *Combat HIV/AIDS, malaria and other diseases*
Provide inexpensive medical products, health services and innovative solutions. Implement HIV/AIDS programmes in the workplace, focusing on information, prevention and treatment.
7. *Ensure environmental sustainability*
Can have a major positive impact on the environment and increasingly invest in new products and business processes to counteract adverse environmental impacts.
8. *Global partnership for development*
Be an important partner in supporting investment and a transparent trading and financial system. Be an essential partner in work to promote employment among young people and to make new technology available.

6 International frameworks for corporate social responsibility

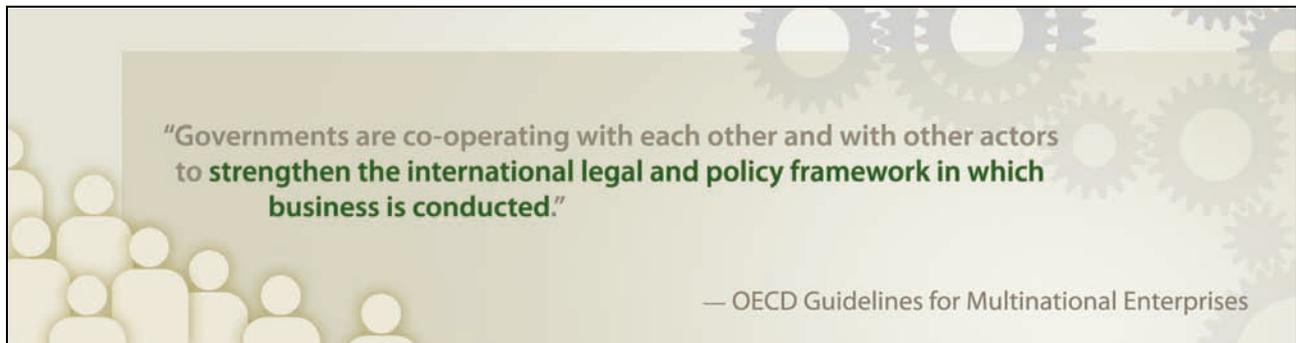


Figure 6.1

With globalisation, business is becomingly increasingly internationally oriented, making it more necessary than ever for enterprises to operate in a responsible manner. This forms the backdrop for international efforts in the OECD, the UN and other organisations to establish a normative and more binding framework for companies. This framework consists partly of international conventions that governments are obliged to comply with, and partly of voluntary instruments for responsible business conduct.

The Government is engaged in efforts to strengthen international guidelines and to develop regional and global standards that will as far as possible ensure that businesses have equal framework conditions. The Government's aim is that Norway should be a leading nation in such efforts, both by taking action on its own initiative and by supporting the actions of others. The Government is also supporting efforts to monitor compliance with guidelines and standards.

The *OECD Guidelines for Multinational Enterprises* contain detailed recommendations for enterprises operating in or from OECD countries, and a special mechanism for promoting and following up the Guidelines in the form of National Contact Points (NCPs). The UN Global Compact is a global initiative that sets out principles for businesses and has broad participation from developing countries. The Global Reporting Initiative (GRI) promotes transparency and provides guidance for reporting on the economic, social and environmental impacts of companies and organisations.

Such widely recognised international standards and instruments are useful for guiding and clarifying the private sector's engagement in the field. Businesses that follow the same international guidelines are able to exchange ideas and experience, making it easier to measure and compare results and meet the expectations of governments, employees and society. When enterprises base their business activities on the same international guidelines, the competitive environment becomes more equal, resulting in a more level playing field.

6.1 The OECD Guidelines for Multinational Enterprises

The OECD established a set of guidelines for multinational enterprises as early as 1976, and was thus a pioneer in the field of CSR. The *OECD Guidelines* are the only multilaterally recognised framework that governments are committed to promoting. They consist of a set of recommendations by governments to multinational enterprises, and include a comprehensive framework of voluntary principles and standards for responsible business conduct consistent with applicable laws.

The Guidelines are part of the *OECD Declaration on International Investment and Multinational Enterprises* of 1976, the purpose of which is to improve the investment climate and encourage the positive contribution multinational enterprises can make to economic and social progress. The Guidelines are based on the principle that multinational

enterprises are in a better position to promote sustainable development when trade and investment are conducted in a context of open, competitive and appropriately regulated markets. The Guidelines were most recently updated in 2000.

The Guidelines contain recommendations that reflect the ILO core conventions on forced labour and child labour. Multinational enterprises are encouraged to raise the level of their environmental performance through improved internal environmental management and better contingency planning for environmental impacts. The Guidelines contain provisions on human rights, combating corruption and consumer protection. Business partners, including suppliers and subcontractors, are encouraged to base their conduct on the Guidelines. Small and medium-sized enterprises are also encouraged to observe the Guidelines.

The OECD Guidelines are voluntary, and the authorities cannot impose sanctions for violations. On the other hand, the member countries are obliged to establish National Contact Points (NCPs) as central bodies for effective implementation of the Guidelines.

One of the strengths of the Guidelines is that they are supported by business and labour organisations, both of which work actively to disseminate information about them. The private sector's and the trade unions' OECD committees, the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC), participate in following up the Guidelines, as does the OECD Investment Committee. OECD Watch, an international network consisting of more than 65 voluntary organisations, including the Norwegian Forum for Environment and Development (ForUM), monitors the work and the development of the Guidelines.

In addition to the OECD's 30 member countries, 11 observer countries have endorsed the Guidelines.¹ In all, this covers the countries in which most of the multinational enterprises have their headquarters and a large proportion of their operations. Roughly 85 % of foreign investment flows are to countries that endorse the Guidelines.

¹ The 11 observer states are: Argentina, Brazil, Chile, Egypt, Estonia, Israel, Latvia, Lithuania, Peru, Romania and Slovenia.

Box 6.1 General policies (Chapter II of the OECD Guidelines for Multinational Enterprises)

Enterprises should take fully into account established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development.
2. Respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments.
3. Encourage local capacity building through close cooperation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues.
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices.
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes.
9. Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies.
10. Encourage, where practicable, business partners, including suppliers and subcontractors, to apply principles of corporate conduct compatible with the Guidelines.
11. Abstain from any improper involvement in local political activities.

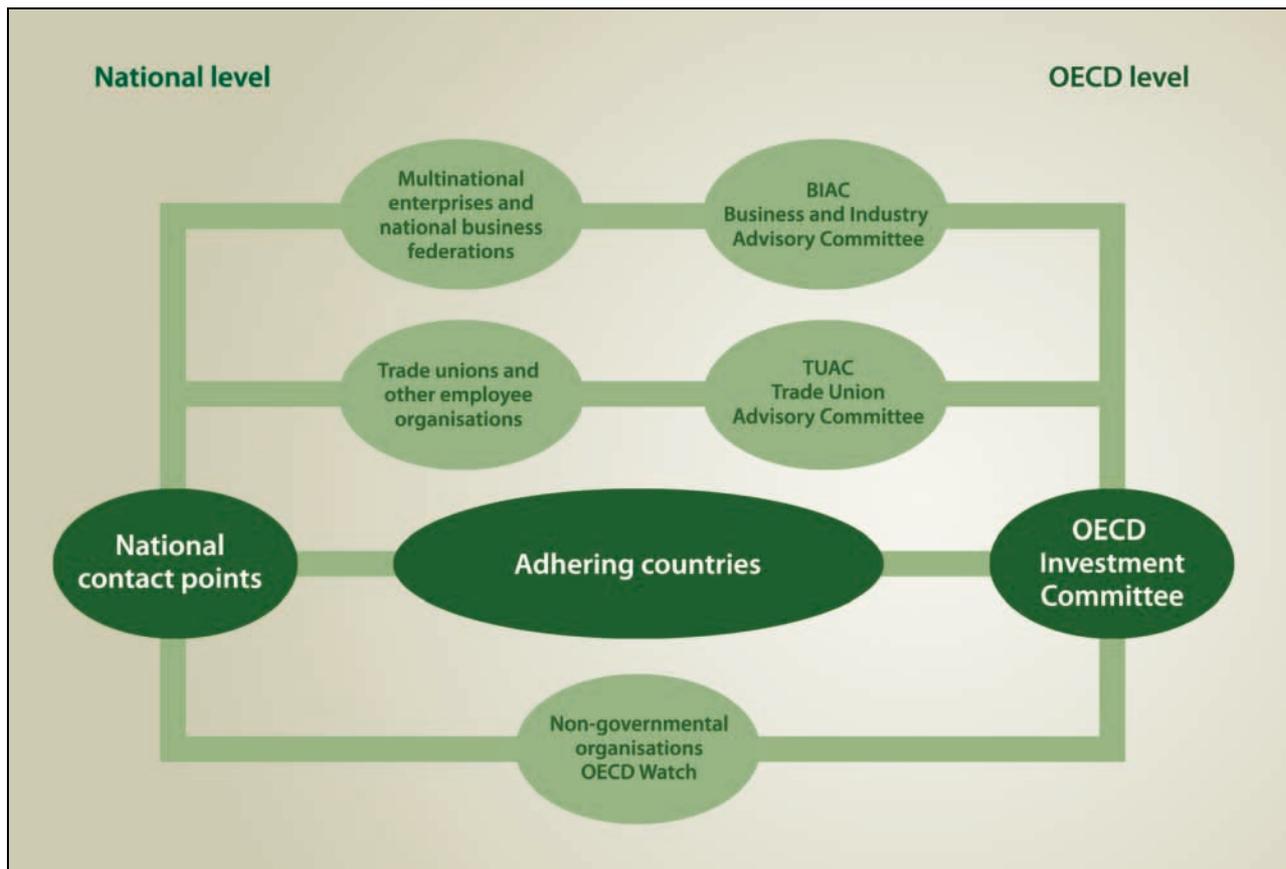


Figure 6.2 Institutions involved in following up the OECD Guidelines

6.1.1 National Contact Points

The National Contact Points (NCPs) have a central role in following up the Guidelines. They serve as a forum for dealing with complaints for violation of the Guidelines brought against companies that operate in or from countries that have endorsed the Guidelines. Although the NCPs are not legal bodies, they may assess whether or not companies have violated the Guidelines. The aim is to resolve issues or conflicts concerning the Guidelines through discussion with the parties involved. The NCPs can thus help to make companies more aware of their responsibility and increase the legitimacy of the Guidelines.

NCPs handle inquiries, disseminate information about the Guidelines and issue annual reports on their activities to the OECD Investment Committee. Annual meetings are also held at which the NCPs can share their experience of promoting the Guidelines.

The core criteria that are to guide the NCPs work are visibility, accessibility, transparency and accountability. The authorities are to play an active role in disseminating information about the NCPs and promoting the Guidelines. Transparency helps

to make the NCP more accountable and increases the general public's trust. The outcome of the NCPs evaluations should therefore be transparent unless considerations of effective implementation of the Guidelines indicate the need for confidentiality.

Several factors are decisive when an NCP handles complaints (known as «specific instances») regarding companies' compliance with the Guidelines. Among other things, it must consider how the complaint relates to national legislation, how corresponding complaints have been dealt with previously and whether the processing of the complaint contributes to implementation of the Guidelines. If a complaint requires further consideration, the NCP will endeavour to resolve it through discussions with the parties. This can include consultation with other NCPs or the OECD Investment Committee. Normally, a complaint concludes with a statement from the NCP. In such cases, the parties have an opportunity to pursue the matter further through the BIAC and the TUAC.

The OECD publishes complaints submitted to NCPs and issues statements in such cases. Since the Guidelines were revised in 2000, the NCPs have received 181 complaints, 131 of which have been considered.²

6.1.2 The Norwegian National Contact Point

Norway's NCP is a cooperative body composed of representatives of the Ministry of Foreign Affairs, the Ministry of Trade and Industry, the Norwegian

Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO). So far, three complaints have been considered by the NCP. The cases involved Gard's contracts with Indonesian and Filipino seafarers (2002), Aker Kværner's activity at Guantanamo Bay (2005) and

² OECD Annual Meeting of National Contact Points (2007).

Box 6.2 Complaints considered by the Norwegian NCP

The Gard complaint

The international Transport Workers' Federation (ITF) claimed that the Norwegian insurance company Gard was in breach of the OECD Guidelines. The reason was that seafarers from the Philippines and Indonesia had to sign a standard contract relieving the insurance company of all liability in the event of an injury or accident over and above what was stipulated in the contract.

The NCP took steps to obtain information in the specific instance, among other things through the Norwegian embassy. It turned out that national workers' and employers' organisations in the Philippines had signed an agreement on the matter. In a corresponding case, the Philippine Supreme Court had ruled that such agreements are not unlawful.

The NCP concluded that Gard had not violated the OECD Guidelines since the company was within the bounds of normal practice in the country where the employment relationship took place.

The Aker Kværner complaint

The Forum for Environment and Development (ForUM) claimed that, through its wholly owned US subsidiary Kværner Process Services Inc. (KPSI), Aker Kværner was in breach of the provision of the OECD Guidelines regarding respect for human rights (Chapter II, item 2) in that it provided assistance to the prison at Guantanamo Bay. The prison was established to house prisoners suspected of terrorism, and it was criticised because the prisoners were denied due process protection.

The specific instance concerned the question of whether Aker Kværner had aided and abetted, or profited from, violations of human rights. Ethical evaluations of such issues are based on the human rights provision of the OECD Guidelines.

Aker Kværner/KPSI was primarily involved in the running of the base, but it also contributed to maintenance and operational and supply functions that are common to the prison and the base. The NCP was of the view that the company's activities must, at least in part, be deemed to affect the inmates of the prison. The running of the prison is dependent on the maintenance of infrastructure of the type involved in this complaint.

The NCP emphasised that Norwegian companies should continuously evaluate their operations in relation to human rights. The situation at Guantanamo called for particular vigilance. The NCP also urged the company to adopt ethical guidelines and to apply them in all countries in which Aker Kværner operates.

The Nordea complaint

The main issue in the Nordea complaint was whether banks and finance institutions can be held accountable for the activities of companies to which they lend money. The specific instance concerned whether Nordea has an independent responsibility as part-financer and provider of financial services to the Finnish company Botnia in connection with the establishment of a paper pulp factory in Uruguay.

In their processing of the complaint, the Norwegian and Swedish NCPs held several meetings with the parties and obtained factual information from embassies, various ministries and the World Bank. The Swedish and Norwegian NCPs concluded that there were no grounds for the allegations made against Nordea concerning breach of the OECD Guidelines. The NCP used the specific instance to urge Nordea and other companies in the financial sector to be as open as possible with information.

Nordea's financing of a paper pulp factory in Uruguay (2007).

The procedures of the Norwegian NCP worked well in all three of the complaints considered by it. The NCPs composition reflects the Norwegian tripartite tradition. However, neither the OECD Guidelines nor the NCP are well enough known. The survey conducted for the Ministry of Foreign Affairs in 2008, cf. Chapter 1, showed that only a small minority of Norwegian medium-sized and large enterprises are aware of the Guidelines.

Norwegian companies have expressed a need for clarification of what is required to comply with the Guidelines and recommend that the Guidelines should be made more user-friendly. Some have noted that the NCPs methods and procedures are unclear.

The Norwegian authorities will work to make the contents of the Guidelines and the NCPs methods and procedures better known. Instructions will be drawn up as well as web-based information about the Guidelines.

6.1.3 Experiences and potential for improvement

There is great variation within the OECD with respect to the composition and organisation of NCPs. In some member countries, the NCP inclu-

des representatives of both the authorities and NGOs, while in others only the authorities are represented. The Netherlands recently established a new, independent national contact point composed solely of representatives from the private sector, academia and civil society. Norway, Sweden and Denmark have based their NCPs on a tripartite structure patterned on the tripartite cooperation that has a long-standing status in the Nordic countries. In Sweden, civil society is also represented in the NCP.

Several member countries have pointed out the need for a better overview of the complaints submitted to the NCPs. For example, there is no satisfactory system at present that registers whether a subsidiary operating in a different country than the parent company has been brought before the NCP in that country. A parent company in Norway may be completely unaware that its subsidiary is involved in a complaint being dealt with by another country's NCP, unless the local NCP has informed the NCP in Norway about the case. Norway will actively support OECD initiatives to ensure an improved information flow between NCPs in such cases.

One challenge facing the OECD is promoting the principles in countries that have not endorsed the Guidelines. Several member countries consider this important and have taken the initiative to translate the Guidelines into other languages.

If the Guidelines are to remain relevant and keep pace with global developments, they must be regularly updated. It is more than eight years since the Guidelines were last revised, and important developments have taken place in the field since then. In other words, the time seems ripe for updating the OECD Guidelines. Today, the Guidelines have a broad scope, but in certain areas they are imprecise. As regards human rights, for instance, it may be necessary to specify considerations regarding local communities and indigenous peoples' rights more clearly. In the light of recent developments, it may also be necessary to update the Guidelines as regards the environment and climate. This can be done in the form of new supplements to the text. Norway has worked actively for the Guidelines to be updated in these areas. With the support of other member countries, the matter has been included in the OECD Investment Committee's work programme for 2009–2010.

The Government

- will strengthen the NCP's procedures and make its functioning more transparent;

Box 6.3 OECD Watch Model National Contact Point

In 2008, OECD Watch published a handbook, *Model National Contact Point*, which, among other things, includes the following recommendations for the NCPs:

- The necessary training and adequate resources must be provided if the NCPs are to function as intended.
- The NCPs should adopt a strategy for promoting the guidelines, hold seminars and annual consultations with various stakeholders and make active use of embassies and trade missions to promote the guidelines.
- Complaints should be dealt with within a reasonable time frame and preferably within 12 months.
- Procedures should be transparent and the NCP should keep the parties informed and treat them equitably throughout the process.

- considers that the tripartite nature of the NCP is of great importance to its work and authority;
- will provide more resources for the Norwegian NCP and encourage the use of independent advisers and experts;
- will work to increase knowledge and guidance about the Guidelines, among other things through the NCP and relevant public instruments;
- participates actively in the work of the OECD on revising the Guidelines in areas such as human rights and the environment/climate;
- will work to increase the number of countries that endorse the OECD Guidelines.

6.2 The UN Global Compact

The Global Compact is the UN's initiative for cooperation with the private sector on sustainable development. The initiative was taken by then UN Secretary-General Kofi Annan in 1999 in an endeavour to involve the private sector more directly in development efforts. When it was launched at the meeting of the World Economic Forum, Kofi Annan gave the following reasons for the initiative:

«I propose that you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market.»

The idea behind the Global Compact is for companies to endorse 10 fundamental principles. They entail companies supporting and respecting international human rights and central labour rights, promoting environmental responsibility and combating corruption. The principles are based on the UN Universal Declaration of Human Rights, the ILO's core conventions, the Rio Principles on Environment and Development and the UN Convention against Corruption

Businesses make the 10 principles an integral part of their business strategies and day-to-day operations.

With its basis in the UN and its broad scope, the Global Compact is the most universal framework for social responsibility. The principles constitute an international «soft law» standard for businesses' work in the field of CSR. The initiative should have the potential to gain widespread sup-

Box 6.4 The UN Global Compact – 10 principles

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights, and
2. Make sure that they are not complicit in human rights abuses.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of all child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses are asked to support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

port in Norway and the rest of the world, not least in developing countries.

Today, the Global Compact is the world's largest voluntary initiative for CSR. Roughly 4 000 businesses from more than 120 countries have endorsed it. Employers' and workers' associations and NGOs come in addition. The total number of members at the end of 2008 was approximately 5 200. Twenty-six Norwegian companies and organisations have joined the Global Compact.

6.2.1 How does the UN Global Compact work?

Working on concrete issues through networks is an important part of the Global Compact's activities. Local and regional networks have been established to promote dialogue and the exchange of experience between member companies from all over the world. Since 2000, companies in Norway, Sweden, Denmark, Finland and Iceland have formed a Nordic network, which meets twice a year to discuss practical experience and dilemmas relating to the principles. The Confederation of Norwegian Enterprise (NHO) was the contact point for the Nordic network from 2005 until 2007, when the Confederation of Danish Industry (DI) took over this function.

The Global Compact's headquarters are in New York. The office cooperates with other UN bodies, including the International Labour Organisation (ILO), the Office of the High Commissioner for Human Rights, the UN Development Programme (UNDP) and the UN Environment Programme (UNEP). The Global Compact's board is made up of representatives from the private sector, labour, civil society and the UN. The UN Secretary-General chairs the board.

The Global Compact has developed a number of tools to demonstrate how businesses can apply the principles. *Caring for the Climate* is a platform for companies that wish to show leadership in the climate field. The *CEO Water Mandate* is an initiative aimed at increasing corporate involvement in relation to the global water crisis.

The Global Compact is partly financed through contributions from the private sector to the Global Compact Foundation. However, the chief source of funding consists of contributions from member countries to a separate Global Compact Trust

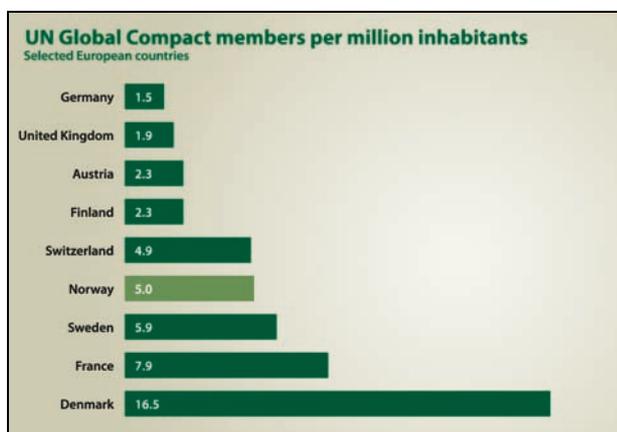


Figure 6.3 Companies in the UN Global Compact.

Fund. The current contributors are Sweden, Norway, Denmark, Finland, Germany, France, Switzerland, Italy, Spain, the United Kingdom, Colombia, China and the Republic of Korea. The network is working to increase support from countries in the South and emerging economies such as Brazil, Russia and India.

6.2.2 What does joining the UN Global Compact entail?

A company joins the network by its chief executive writing a letter to the UN Secretary-General stating that the company will make the 10 principles an integral part of its day-to-day operations. Member companies must send an annual *Communication on Progress (COP)* to the Global Compact. The COP can either be part of the company's annual report or a separate sustainability report. Companies are also expected to promote the Global Compact externally.

Global Compact has been criticised for its lack of follow-up mechanisms and reporting. It has been pointed out that the principles are merely political commitments that cannot be legally enforced. NGOs claim that many companies become members in order to avoid introducing more binding accountability mechanisms and rules.

Less than 50 % of the members prepared a COP in 2007. If the rest of the world is to have confidence in the Global Compact and its member com-

Box 6.5 What is expected of participants in the UN Global Compact?

- A commitment on the part of the company's management and board of directors
- A letter from the chief executive to the UN Secretary-General
- Willingness to continuously improve corporate practice
- The setting of strategic and operational goals, measuring results and communicating internally and externally
- Transparency in relation to dialogue and learning with respect to challenges
- Participation in meetings and seminars, locally and globally, and dialogue with stakeholders
- Annual reporting: Communication on Progress (COP)

Source: The UN Global Compact

Box 6.6 Declaration by the leaders of the G8 countries at the Heiligendam summit in 2007

«We stress in particular the UN Global Compact as an important CSR initiative; we invite corporations from the G8 countries, emerging nations and developing countries to participate actively in the Global Compact and to support the worldwide dissemination of this initiative.

In order to strengthen the voluntary approach of CSR, we encourage the improvement of the transparency of private companies' performance with respect to CSR, and clarification of the numerous standards and principles issued in this area by many different public and private actors. We invite the companies listed on our Stock Markets to assess, in their annual reports, the way they comply with CSR standards and principles. We ask the OECD, in cooperation with the Global Compact and ILO, to compile the most relevant CSR standards in order to give more visibility and more clarity to the various standards and principles.»

panies, it is crucial that they document that they operate responsibly. The Global Compact Office now reacts systematically to the failure to report. Companies that have failed to report for three years are de-listed from the Global Compact. In January 2008, 394 companies were removed from the membership register for this reason. The chief executives of 78 companies received a written warning for failure to report. Companies that submit outstanding reports are given positive feedback.

Global Compact was never intended to be a binding instrument where breaches of the principles can result in legal sanctions. The purpose of the Global Compact has been to create a UN-based international corporate network to promote work on CSR in practice. It is necessary to work in parallel to develop other, more binding frameworks.

It is still a challenge to get companies to realise the practical usefulness of the Global Compact and to get more companies to join. Through increased support for and concrete work on the 10 principles, the private sector can make the Global Compact an important factor in global development.

The Government

- attaches importance to the efforts to strengthen the Global Compact as an important global framework for CSR, and it will continue to contribute financially to the initiative;
- will cooperate with the private sector to increase knowledge about the Global Compact and encourage more companies to join the initiative;
- will, through donor meetings, discuss how the donor countries can help to strengthen and further develop the Global Compact.

6.3 The Global Reporting Initiative

The Global Reporting Initiative (GRI) is a voluntary international network based on cooperation between companies, employees' organisations, investors, auditors, NGOs, academics and other stakeholders. The network has affiliated UN status as an institution that cooperates with the UN Environment Programme, UNEP.

The objective of the GRI is to make reporting on the triple bottom line, i.e. economic, environmental and social outcomes, as widespread as normal financial reporting is today. The GRI has developed principles and indicators for such reporting, and it is the most widespread international framework of its kind. The framework is suitable for companies and organisations in different sectors. More than 1 000 enterprises in 60 countries currently use the GRI.

The GRI network works on development and improvement of the Guidelines and aims to increase their use. The G3 Guidelines are the cornerstone of the framework. Launched in 2006, they were the result of three years of consultations with 3 000 representatives from various stakeholder groups.

The GRI is supported financially by the Dutch, British, German, Swedish and Australian authorities, the EU, major industrial companies and other private and public donors. Norway became a donor in 2008.

6.3.1 What does GRI reporting entail?

The GRI framework describes why, how and about what an organisation should report. Eleven principles provide guidance on the report's contents and quality, and they include sustainability, comparability, clarity and reliability. In addition to the principles, the report is to state how far the com-

pany has complied with the Guidelines at which level (A, B or C) of performance. External verification of the report is encouraged, but is not a requirement.

The GRI also recommends that the reporting should include the company's vision and strategy for contributing to sustainable development, and describe the company's profile, activities and stakeholders. It should also describe the company's governance structure and management system.

The GRI consists of more than 80 indicators for economic, social and environmental performance. Within each area, the GRI defines core indicators on which all companies should report, as well as additional indicators that may be used to enrich a report.

- The *economic* indicators concern the company's financial value creation and other economic effects on society. They cover reporting on wages, pensions and other benefits for the company's management and employees, payments received from customers and payments made to subcontractors.
- The *environmental* indicators deal with the company's impacts on the environment, ecosystems, soil, air and water. The indicators include environmental impacts of the company's products and services, resource consumption, the consumption of environmentally hazardous substances and raw materials, emissions of greenhouse gases and other pollutants, waste, costs of environmental investments, and fines and penalties for violation of environmental legislation.
- The *social* indicators are grouped into three categories: factors relating to employees; to human rights; and to more general social issues concerning consumers, local communities and other stakeholders. Such information can be difficult to quantify. In some cases qualitative descriptions may be permitted.

GRI reports should be prepared annually and published on the internet. GRI reporting is voluntary and free of charge. Companies can choose whether they wish to use the guidelines in their entirety or in part, or use them as a reference.

The GRI guidelines are continually being developed and improved. Sector supplements have been produced that are intended to supplement the core guidelines. The framework also targets small and medium-sized enterprises, and a guide has been produced to simplify reporting by such companies. The GRI has also developed a protocol for

defining reporting responsibility down through the value chain, and it is working on tools to be used by suppliers. It has also launched a network for transparency in the supply chain.

6.3.2 The value of reporting

Transparent reporting heightens the focus on economic, social and environmental factors. It motivates companies to intensify their efforts in relation to CSR and can help to improve compliance with UN and OECD principles and standards. The Global Compact recommends that the GRI be used in the preparation of the annual Communication on Progress to the Global Compact. The *OECD Guidelines for Multinational Enterprises* encourage companies to apply high quality standards to non-financial reporting, including information about environmental and social factors.

The use of a single template for reporting is advantageous for companies, authorities and organisations since it systemises documentation and makes it more readily comparable. The GRI template is currently the most important tool for international comparison of companies' results.

Large companies in Norway use the GRI as a reporting template and consider it a necessary tool in their operations. The reporting helps to systemise companies' work on CSR, and the process helps to increase awareness within companies of the challenges and the potential for improvement. What a company measures can be controlled, and what can be controlled can be changed. Reporting is thus a useful tool in companies' ongoing efforts to improve their operations.

Some companies claim that the number of indicators and the scope of the reporting make them less user-friendly. Others claim that GRI reporting is expensive and best suited to large companies with extensive resources at their disposal. Experience shows that it is important that companies use those parts of GRI that are relevant to them and apply the framework flexibly.

The Government

- views the GRI as a useful basis for reporting on economic, social and environmental factors, particularly for large companies;
- will help to improve information and guidance about the GRI;
- will join the donors supporting the GRI, with particular emphasis on increasing the relevance of the GRI in developing countries;

- will support the GRI's work on developing reporting tools that are adapted to small and medium-sized enterprises.

6.4 Standardisation and certification

Most of the reporting schemes have in common that they are voluntary and that they are seldom verified. It is possible, however, for a company to have its report externally audited. Independent certification will enable companies to demonstrate their social responsibility to consumers and other stakeholders. This applies in particular to companies in developing countries that need to show consumers that they uphold high standards. Certification can also be useful in identifying strengths, weakness and potential for improvement.

SA 8000 is currently the only certifiable standard that includes international human rights and labour rights. The standard builds on the same basis as the established ISO 9001 and ISO 14001 standards for quality and environmental management and control. The AA 1000 standards are templates for dialogue with stakeholders and a stan-

dard with methods for verifying reports on CSR (AA 1000as). Det Norske Veritas offers certification of companies in accordance with SA 8000 and verification based on the GRI and AA 1000as.

The International Organization for Standardization (ISO) decided in 2004, in consultation with various stakeholders, to develop an international guiding standard for organisations' social responsibility (Guidance on Social Responsibility), called ISO 26000.

The standard, which is scheduled for completion in the autumn of 2010, will apply to all types of organisations, in both developing and industrialised countries. It will contain guidelines and recommendations for how organisations should exercise their social responsibility, and will cover topics such as corporate governance, human rights, labour standards, the environment, consumer issues and participation by local communities.

The standard will be consistent with other existing ISO standards, and its normative content is drawn from relevant international declarations, agreements and conventions developed by the UN and UN agencies, including the ILO. The use of ISO 26000 will be voluntary.

Box 6.7 Certification schemes and standards

SA 8000 is a certification standard for the exercise of social responsibility in nine areas: child labour, forced labour, workplace health and safety, freedom of association, discrimination, disciplinary practice, working hours, remuneration and management systems. It is based on several existing human rights standards, including the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child and the ILO Conventions.

ISO 14001 is an international standard for environmental management systems in organisations of all kinds. The first step towards certification is an assessment to identify any significant environmental impact by the company, and relevant improvement measures. An environmental policy and an action plan containing environmental targets and deadlines are then drawn up on the basis of the assessment. In order to achieve the environmental targets, a management system must be introduced, including procedures, reporting routines and a division of responsibility. The organisation must work continuously to reduce its environmental impact.

The Eco-Management and Audit Scheme (EMAS) is a voluntary environmental registration scheme for organisations in the EU and the EEA. As a management tool, EMAS is most relevant to organisations that have a European market. EMAS is based on ISO 14001, but has expanded requirements in the following areas: statutory environmental requirements, environmental performance, communication with the general public and employee participation.

Miljøfyrtårn (Eco-Lighthouse) is an official Norwegian certification system that aims to improve environmental performance in the private and public sectors, particularly in small and medium-sized enterprises and organisations. Companies and organisations that submit to an environmental analysis and meet defined sector requirements can obtain eco-lighthouse certification. The analysis covers HSE, purchasing, waste, energy and transport, as well as environmental and climate reporting. So far, more than 1 300 private enterprises and public sector entities have been certified.

The process of developing ISO 26000 is already contributing to existing efforts within the area of social responsibility by:

- developing international consensus on concepts and central issues relating to social responsibility, and issues that various different organisations must take a position on;
- providing guidelines for how general principles for social responsibility can be translated into concrete action;
- identifying examples of best practice, from both the private and the public sector.

The process of developing the standard is probably the most extensive ever carried out under the auspices of the ISO. The standard is being developed by a broad-based working group comprising representatives from the authorities, the private sector, workers' organisations, NGOs, consumers, academia, service providers and others. A majority of the 84 countries currently participating in this work are developing countries. This is unique in the ISO context. In addition, roughly 40 organisations such as the OECD, UNCTAD, WHO, ILO, the UN Global Compact, the GRI and Consumers International are involved in the work. Standards Norway is coordinating Norwegian efforts and has appointed a mirror committee that discusses and provides input to the Norwegian delegation.

The development of an ISO standard, which is now in its final phase, is being followed with interest. In the Government's view, the process will be worthwhile if it results in a standard that gains global acceptance. However, there is still uncertainty about the status of such a standard. With so many countries involved and the requirement of consensus, the final result may well be the lowest common denominator. The importance of ISO 26000 will probably vary from country to country. It will depend to a great extent on the final wording of the standard and the experience of and interest shown by opinion leaders.

The Government

- is participating actively in the development of ISO 26000;
- is of the view that the process of developing an international guiding standard for social responsibility will represent an important step in the direction of a common international framework.

6.5 The need for international guidelines

In principle, corporate compliance with the guidelines and standards described in this chapter is voluntary. The Government expects Norwegian companies to base their international operations on such guidelines and standards.

In the Government's view, it is important that the international efforts to make the framework for social responsibility more binding and ensure that it includes monitoring mechanisms are continued. The Government intends to play a proactive role in efforts to strengthen such mechanisms in the UN and OECD. In relation to the *OECD Guidelines for Multinational Enterprises*, this is being done through efforts to reinforce the role of the NCPs. Several of the initiatives described in this chapter are therefore somewhere between purely voluntary and binding. Joining them is a voluntary matter but, once a company has joined, compliance with the requirements is subject to control.

Such initiatives are therefore often characterised as «soft law» instruments and, in principle, they can be further developed with respect to grievance mechanisms, documentation and transparency requirements and sanctions. The broad proliferation and consequent harmonisation of requirements for such instruments can pave the way for legal instruments whose introduction would otherwise have been demanding and controversial.

In the Government's view, «soft-law» instruments are of great importance in driving developments forward. Such instruments can clarify requirements and expectations and facilitate a coordinated effort on the part of the private sector, the authorities and NGOs. Such initiatives can, not least, stimulate voluntary participation in schemes for effective verification of compliance with the requirements. It is important that companies obtain information about these instruments and guidelines and apply those that are most suited to their operations.

The Government will participate actively in efforts to consolidate, further develop and increase adherence to international frameworks that, in various ways, promote social responsibility and transparency in the private sector. The Government will support efforts to further develop and realise synergies between the different standards and principles of the UN, the OECD and ILO.

The Government views the development of international frameworks for the private sector's operations as the best solution for governing the

global economy and addressing fundamental challenges facing society. International norms and standards also help to ensure equal conditions of

competition. International processes that can influence the framework for the private sector's operations are discussed in the following chapter.

7 International initiatives and processes for social responsibility



Figure 7.1

Corporate social responsibility concerns what companies do beyond complying with applicable legislation in the countries where they operate. Moreover, in most areas where companies are expected to exercise social responsibility, efforts are being made to develop conventions and other more binding mechanisms. This applies in particular to human rights, working conditions, the environment and combating corruption. More binding frameworks in these areas impact the framework conditions for corporations and their social responsibility.

The Government seeks to be a driving force for the adoption of more binding frameworks for companies through the creation of instruments that oblige states to regulate their private sectors in relation to human rights, working conditions, the environment and combating corruption.

This work is being carried out in several arenas. The Special Representative of the UN Secretary-General on human rights and business plays a central role in efforts to devise a framework that has direct relevance for businesses. The ILO is working to implement its action plan *The Decent Work Agenda*. A number of processes are ongoing in relation to the environment, including the development of an international climate regime to follow up the Kyoto Protocol. The implementation of the UN Convention against Corruption is another important example.

7.1 Groundbreaking work in the UN on human rights and business

There have been extensive discussions in recent years about whether companies can be held legally liable for human rights violations. Since 2003, the UN has been endeavouring to map the private sector's responsibility for human rights, including in relation to legal liability. Norway participates actively in this work.

In 2003, a working group under the UN Sub-Commission on the Promotion and Protection of Human Rights drafted the «Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights», which assumed that companies had legal obligations in relation to human rights. When the draft norms were submitted to the member states of the UN Human Rights Commission in 2004, they were rejected. Several of the member states opposed holding non-state entities directly accountable for human rights violations as they felt this would dilute state responsibility. The Human Rights Commission made it clear that the draft entailed no legal obligations. Several of the member states did, however, point out that the draft norms contained useful elements and ideas. It was against this backdrop, and following a resolution adopted by the UN Human Rights Commission, that the UN Secretary-General in 2005 appointed a Special Representative for human rights and business.

7.1.1 The Special Representative of the UN Secretary-General

The work being done by the UN Secretary-General's Special Representative to clarify the private sector's responsibility for human rights is groundbreaking. It is the first time a framework has been developed with the broad support and cooperation of the authorities, civil society and the private sector that holds non-state entities responsible for human rights violations. For Norway, it is important that norms are developed under the auspices of the UN, as this lends legitimacy to the process and shows that the UN can be innovative.

The Special Representative's mandate in 2005 was five-fold. He was to identify and clarify standards of corporate responsibility and accountability with regard to human rights and to elaborate on the role of states. He was then to look more closely at concepts such as «complicity» and «spheres of influence». He was also to develop materials and methodologies for undertaking human rights impact assessments of business activities and provide examples of best practice.

The Special Representative held a number of consultations and conducted studies that resulted in several reports. Since the earlier draft norms had failed to obtain the broad support of the parties involved, the Special Representative concentrated on finding pragmatic solutions. A final report was submitted to the UN Human Rights Council in May 2008. The report outlines a three-pillar framework based on the key concepts «protect, respect and remedy»:

- The state duty to protect against human rights abuses by third parties, including business.
- The corporate responsibility to respect human rights.
- The need for more effective access to remedies.

Norway has supported this work, both politically and financially. Norway was responsible for processing the report and for extending the Special Representative's mandate when the report was considered by the UN Human Rights Council in June 2008. In order to secure broad transregional support, Norway drafted a Human Rights Council resolution in collaboration with a core group consisting of Argentina, India, Nigeria and Russia. Norway also established close collaboration with the EU and Canada at an early stage in the process. After a lengthy negotiating process, the Human Rights Council adopted the resolution, which supports the conceptual framework and requests the

Special Representative to operationalise it in the next three years by providing:

- Concrete and practical recommendations on ways to strengthen the fulfilment of the duty of the state to protect against human rights violations by business enterprises.
- Concrete guidance to business and other stakeholders on the content of the corporate responsibility to respect human rights («guiding principles»).
- Recommendations for enhancing access to effective remedies for those whose human rights are impacted by corporate activities.

Several civil society organisations have been driving forces for the UN's work and have participated actively in the process to extend the Special Representative's mandate. Many organisations find that the UN is moving too slowly. They have, among other things, expressed a wish for the mandate to include the right to make on-site visits to countries and to receive complaints. Nonetheless, the resolution enjoyed broad support, including from civil society organisations.

Continued involvement and participation on the part of civil society organisations is important. They are the principal spokespersons for victims of human rights violations. They can contribute both knowledge of local conditions and documentation of concrete violations to the UN process. The participation of civil society organisations confers relevance and legitimacy on the process.

With a renewed mandate and the backing of a unanimous Human Rights Council, the Special Representative now has good prospects of achieving greater normative clarity in the area. Consul-



Figure 7.2 UN Declaration of Human Rights on a wall in Durban, South Africa.

Photo: Jan Speed. (c) Norad: Aid News.

tations with governments, the private sector, international organisations, civil society and other actors will continue to be a central element. Together, we can work for better protection against corporate human rights violations.

The Government will

- continue to be a driving force in the ongoing work of the UN on business and human rights
- follow up the recommendations of the UN Special Representative;
- continue to support the Special Representative's work both politically and financially;
- take concrete initiatives for consultations on corporate human rights responsibility and further develop cooperation with individual countries;
- raise the issue of corporate human rights responsibility in Norway's human rights dialogues with China, Vietnam and Indonesia;
- continue to cooperate with NGOs;
- include information on corporate social responsibility in Norway's report to the

Human Rights Council as part of the Universal Periodic Review in 2009.

7.2 Global labour standards

Decent working conditions and respect for workers' rights are prerequisites for a just society. The International Labour Organisation (ILO) is the main body responsible for drawing up core labour standards. The framework for safeguarding workers' rights is expressed in ILO conventions, in particular its core conventions, cf. Box 3.5.

Norway has participated actively in the ILO since it was founded in 1919 and has traditionally been one of its largest voluntary contributors. Norway's contribution to the ILO has largely been earmarked for combating child labour. Norway has also given priority to strengthening the social partners and cooperation between them, gender equality and women's rights in the workplace, and combating other forms of discrimination.

As regards the social dimension of globalisation, the ILO points out that the poor have reaped few benefits from the major economic results of



Figure 7.3 Textile workers in Bangladesh protest against the killing of several demonstrators by the police during a demonstration to demand payment of statutory holiday pay.

Photo: Fernando Moleres/Panos Pictures/Felix Features.

globalisation. This is because far too few countries have a socially just distribution policy, and in many places globalisation has not helped to create new jobs. The ILO has responded to this challenge with an action plan, *The Decent Work Agenda*.

The ILO Decent Work Agenda is based on the conviction that the fight against poverty must be part of a comprehensive change whereby people get decent and productive jobs, where fundamental labour standards are respected and where jobs deliver a fair income. Equality is a recurrent theme in the agenda, which rests on four main pillars:

- Full employment
- Social dialogue at work and strengthening the social partners and their role in designing economic policy

- Social insurance rights and standards at work
- Protection of workers' rights as expressed in the ILO conventions, with an emphasis on the core conventions

An element in the agenda is what is known as «Decent Work Country Programmes», which the ILO is following up by advocating that they be mainstreamed in developing countries' development strategies.

Norway participated in drawing up the ILO declaration of June 2008, *Social Justice for a Fair Globalization*. The declaration emphasises strengthening the connection between trade-related factors and workers' rights, and places social justice on a par with economic efficiency. The declaration

Box 7.1 The Government's strategy for promoting workers' rights globally

1. *Norway will intensify its efforts to promote workers' rights on a global level.* This will be done both through policy initiatives vis-à-vis the ILO and through foreign policy, development policy, trade policy, ownership policy and labour policy. Policy coordination in this area will also be improved.
2. *Norway's policy vis-à-vis the ILO will be further developed.* This could be done by increasing Norway's financial contribution to the ILO, by enhancing knowledge of the ILO and its work in Norway, and by facilitating closer contact and cooperation with the ILO.
3. *Promotion of workers' rights in other countries will be given higher priority in foreign policy and development policy.* Respect for workers' rights, particularly the eight ILO core conventions, will be made a criterion when assessing how to prioritise the use of Norwegian development funds. Everyone who works on development projects should have working conditions that as a minimum comply with the eight ILO core conventions.
4. *Norway will also play a proactive role in efforts to promote the importance of decent work in the area of trade policy, for example in bilateral, multilateral and regional trade agreements.*
5. *Safeguarding workers' rights in other countries will be an important aspect of the Government's business policy and its efforts to encourage Norwegian companies to exercise social responsibility.* The state, in its role as owner, expects companies to demonstrate social responsibility. Companies' operations must be carried out in accordance with fundamental human rights, and the same requirement must apply to business partners and suppliers. The Government expects Norwegian companies to base their operations on the eight ILO core conventions and to have good HSE standards that ensure the health and safety of employees. Norwegian companies must also have systems to ensure this is followed up in practice.
6. *A special effort will be made to strengthen the verification and enforcement of legislation concerning labour standards.* This could for instance be done through development policy, the work in the ILO and by the Norwegian Labour Inspection Authority cooperating with corresponding authorities in other countries.
7. *Norwegian experience will be used to improve working environment monitoring in other countries.* The expertise of the National Institute of Occupational Health (STAMI), with the recently established National Surveillance System for the Working Environment and Occupational Health (NOA), will be utilised in this work.

underlines that the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and that labour standards should not be used for protectionist trade purposes.

The declaration places full employment at the centre of economic policy, recommends an active social policy and calls for dialogue between the social partners. It stresses the importance of respecting and protecting the fundamental rights of workers. Freedom of association and the right to collective bargaining are especially important. By providing decent working conditions, the member states can promote development and social justice.

Labour standards have been a controversial issue in the WTO, and they were not included in the negotiating mandate for the current DOHA round. In February 2007, the ILO and WTO Secretariats submitted a joint report on trade and employment, which proposed possible ways of further developing cooperation between the organisations.

In September 2008, the Ministry of Foreign Affairs, in collaboration with the Norwegian Federation of Trade Unions and the Confederation of Norwegian Enterprise, organised an international conference in Oslo entitled *Decent Work – a Key to Social Justice for a Fair Globalisation*. The Directors General of the ILO and the WTO both took part, along with leaders of the international labour movement and the global business community. An important aim of the conference was to identify ways of safeguarding workers' interests in the globalised economy. Strengthening the ILO and achieving better coordination of work of the ILO and the WTO are important in this context.

The need for greater coherence between the interests and attitudes of states in various international forums was discussed at the conference. Membership of both the ILO and the WTO entails a responsibility on the part of the authorities to be consistent. Proposals were put forward at the conference to set up international forums to discuss ways of achieving greater coherence between the authorities' handling of workers' rights and other important issues in international organisations.

The Government's seven-point strategy for promoting workers' rights globally (see Box 7.1) was presented at the conference. The ongoing Norwegian debate has revealed a need for stronger and more closely coordinated efforts in various policy areas and within the various ministries. The strategy will complement efforts to combat social dumping in Norway. In its continued efforts, the

Government will engage in close dialogue with the social partners. The content of the strategy will therefore be concretised and further elaborated in the Norwegian ILO committee.

At its autumn session in 2008, the UN General Assembly adopted a resolution supporting the *Social Justice for a Fair Globalization* declaration. The resolution, for which Norway took the initiative, urges all relevant actors to contribute to implementation of the declaration. This was part of the follow-up of the Government's strategy for promoting workers' rights globally and a direct result of the Decent Work Conference in Oslo.

The Government will work for universal ratification of the ILO core conventions. Norway will also advocate that the national enforcement mechanisms in member states be strengthened. Many countries have ratified the ILO core conventions and adopted acceptable labour legislation, but lack the resources to implement and enforce them. Issues related to workers' rights will also be raised in Norway's human rights dialogue with China.

As a first step in the implementation of the strategy, Norway signed an agreement in September 2008 with the ILO in which it pledged NOK 100 million over a two-year period (2008–2009) to promote decent working conditions. Half of the Norwegian contribution will be devoted to promoting gender equality and women's rights in the workplace, including measures to combat forced labour and human trafficking.

The Government

- sees the need for a more coherent policy for promoting workers' rights globally;
- is of the view that further strengthening and protection of global labour standards and workers' rights should primarily be carried out under the auspices of the ILO;
- will base these efforts on its strategy for strengthening and coordinating efforts for worker's rights in other countries;
- assumes a special responsibility for following up and supporting the ILO Declaration on Social Justice;
- will work for the establishment of international forums where improved coherence of the work in various international organisations such as the ILO, the WTO and the OECD can be discussed;
- will promote the importance of workers' rights in trade agreements.

7.3 Environmental and climate cooperation

One of the greatest challenges on the environmental front is halting the loss of biodiversity. Loss of biodiversity has been identified as an obstacle to achieving the UN Millennium Goals. Norway's goal is to halt such loss by 2010. The Convention on Biological Diversity (CBD) is the central international framework for work towards this goal. The Convention has three objectives: the conservation of biological diversity, the sustainable use of its components, and the fair and equitable sharing of the benefits arising out of the utilisation of genetic resources. The deterioration of ecosystems and loss of ecosystem services also pose a risk to businesses.

In its efforts to strengthen the CBD, Norway will give priority to the following in the period leading up to the next Conference of the Parties (COP), to be held in 2010:

- developing a binding regime in the form of a protocol under the CBD for fair access to and equitable distribution of genetic resources;
- implementing decisions under the convention, with particular focus on the protection of both land and marine areas;
- enhancing the knowledge base in order to safeguard natural diversity;
- reporting in relation to the 2010 objective and developing new objectives and strategies for the CBD.

The situation as regards hazardous chemicals gives cause for international concern. Industrial effluents and emissions have been greatly reduced in Norway and other Western nations, and levels of known environmental toxins are falling. However, there are a large number of substances that are potentially harmful to health and the environment, and these substances are transported over long distances by atmospheric and ocean currents and in products. The challenges posed by new environmental toxins are increasing, while poor control of waste treatment and effluents and emissions is a serious problem in many countries undergoing rapid industrial development.

During the past 25 years, a number of global environmental conventions have been negotiated under the auspices of various UN bodies, dealing *inter alia* with biodiversity and natural resources, the climate, ozone, environmental toxins, chemicals, desertification and cultural heritage. A number of regional conventions have also been concluded, including some European conventions.

Box 7.2 The most important environmental conventions

Global conventions and protocols

- The UN Framework Convention on Climate Change (UN-FCCC)
- The Kyoto Protocol under the Climate Change Convention
- The Montreal Protocol on Substances that Deplete the Ozone Layer
- The Convention on Biological Diversity (CBD)
- The Cartagena Protocol on Biosafety under the CBD
- The UN Convention to Combat Desertification
- The Ramsar Convention on Wetlands
- The Convention on Migratory Species (CMS) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- The UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage
- The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- The Stockholm Convention on Persistent Organic Pollutants

Regional conventions and protocols

- The Convention on Long-range Transboundary Air Pollution (LRTAP)
- The Gothenburg Protocol under the LRTAP
- The OSPAR Convention for the Protection of the Marine Environment of the North-East Atlantic
- The Århus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters
- The Bern Convention

Climate change is the greatest transboundary challenge in the environmental field. Climate policy affects all countries and all sectors of society. The central framework for international climate cooperation is the UN Framework Convention on Climate Change. It is the basis for the Kyoto Proto-

col, and should be the basis for subsequent climate agreements. The Climate Change Convention was adopted in May 1992. It entered into force on 21 March 1994 and has been ratified by 192 countries.

The Kyoto Protocol to the Climate Change Convention involves a commitment by industrial countries to reduce their collective greenhouse gas (GHG) emissions during the period 2008–2012 by about 5 % in relation to the 1990 level. The Protocol contains stringent and far-reaching provisions concerning controls and sanctions. However, the countries that have made a quantitative commitment under the Kyoto Protocol only account for approximately 30 % of global GHG emissions. Some of the countries that have not ratified the Protocol (China, India and Brazil) have rapidly increasing emissions, while the USA is still responsible for the largest share of global greenhouse gas emissions.

Under the Kyoto Protocol, rules and institutions to facilitate the implementation of emission-reducing measures in developing countries have been adopted through the Clean Development Mechanism (CDM).

Due to their distinctive nature, emissions from international shipping and aviation have not been included in the quantitative commitments of the

Kyoto Protocol. It is therefore very important that the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO) follow up climate change issues related to international shipping and aviation, and that the ambitions here are in line with those set out in the Climate Change Convention.

In the run-up to the Copenhagen climate summit in 2009, efforts are being made to put in place an international climate change agreement. If it is to respond to today's climate challenges, the new international agreement must be more ambitious than the Kyoto Protocol, and it must result in larger, more extensive emissions reductions and be binding on more countries. The developing countries in particular have argued that climate agreements should be based on the polluter pays principle. A system for emissions trading between countries can help to ensure that emissions reductions are made at the lowest possible cost, while sharing the burden fairly between countries. Norway has proposed auctioning some of the emissions allowances to raise money for climate measures in developing countries. The industrialised countries must also take particular responsibility for developing climate-friendly technology.



Figure 7.4 Deforestation in the Amazon, where the rainforest has had to give way to cultivated land.

Photo: Eduardo Martino/Panos Pictures /Felix Features.

The Government

- intends that Norway should be a leading nation in environmental policy and play an active and constructive role in solving global and regional environmental problems;
- is working actively to promote ambitious and globally binding international environment agreements;
- is working to promote new and more ambitious commitments under the Convention on Biological Diversity;
- is working to promote a more comprehensive and ambitious international climate change agreement to follow the Kyoto Protocol;
- intends that Norway should be a driving force for more stringent international regulation of hazardous substances;
- is working to promote a more stringent environmental regime as part of its efforts to strengthen the UN;
- will seek to ensure that international framework conditions in areas other than the environment promote environmentally friendly development at the global, regional and international level.

7.4 Efforts to combat corruption

The Government's aim is to promote universal adherence to the UN Convention against Corruption (UNCAC) and effective implementation of its provisions. The purpose of the anti-corruption efforts in the UN is to intensify efforts to establish a universal norm of zero tolerance of corruption and to strengthen international cooperation to prevent, investigate and prosecute corruption. There are many obstacles to this – not only differing jurisdictions and lack of knowledge and enforcement capacity, but also lack of transparency and willingness to cooperate.

The UN Convention against Corruption entered into force in 2005 and was ratified by Norway in 2006. The Convention enjoys wide support; as of September 2008 there were 122 parties and 140 signatories. It targets both the private and the public sectors. It contains provisions on preventive measures, criminalisation obligations, international cooperation on criminal matters, recovery of the proceeds of corruption, and technical assistance and follow-up.

Norway actively supports the efforts to design a mechanism to ensure the implementation of the UN Convention against Corruption. At the second

session of the Conference of States Parties held in Indonesia in January 2008, a resolution was passed to work towards the adoption of terms of reference for an implementation mechanism at the third session in 2009. Norway is also a member of a working group that will propose measures that will make it practically possible to return the proceeds of corruption from one country to another. Norway also supports a joint UN and World Bank initiative to assist countries to recover identified stolen assets abroad – the Stolen Asset Recovery Initiative (StAR).

Norway is also participating in the development of international law against corruption in the OECD and the Council of Europe. The OECD Convention of 1997 on Combating Bribery of Foreign Public Officials in International Business Transactions has been important in the international fight against corruption. The Convention is binding on all the OECD countries, plus Argentina, Brazil, Bulgaria, Chile, Slovenia, Estonia and South Africa. A central objective in future work on the Convention will be to extend membership to include «new» major economic powers such as China, India and Russia.

Norway is a member of the working group under the OECD Convention on Combating Bribery of Foreign Officials. The group is currently revising anti-corruption instruments and designing a new phase in which member states' national follow-up of the Convention will be further evaluated. Norway has ratified the Council of Europe Criminal Law and Civil Law Conventions on Corruption and is an active member of GRECO, the body that monitors the parties' compliance with the Conventions. The GRECO member states evaluate each other. The second evaluation round is now in progress. The implementation and practice of criminal sanctions that are relevant to the Council of Europe Criminal Law Convention on Corruption, and transparency around the funding of political parties, are topics of the evaluation.

Through the EEA financial mechanisms, Norway supports projects and other activities aimed at promoting good governance and combating corruption. Good governance is an essential consideration that must be ensured in all projects that receive support. For example, the Office of the Auditor General of Norway has been allocated funds to organise networks with its contact points in beneficiary states. This work will be followed up by policy dialogues with beneficiary states linked to the EEA mechanisms.

Norway is one of the most active supporters of the development banks' efforts to combat corrup-

tion and promote good governance. The multilateral banks have produced blacklists of companies charged with corruption, which will be excluded from future projects. The World Bank has set up a special programme for companies that wish to cooperate, known as the «Voluntary Disclosure Program». Companies that put all their cards on the table will avoid being blacklisted and can cooperate with the World Bank on combating corruption. Norway also supports measures to combat money laundering and the financing of terrorism through the International Monetary Fund (IMF).

7.4.1 Capital flight and secrecy jurisdictions

Norway has helped to put illegal capital flows and their consequences for developing countries on the agenda. Norway chairs an informal international working group under an initiative designed to identify innovative mechanisms to finance development assistance. The group is seeking to obtain knowledge about the mechanisms that contribute to illegal capital flight from developing countries, and will propose possible policy measures to reverse this development. The role played by secrecy jurisdictions (tax havens) is one of the issues it will consider.

In addition, the Government appointed an expert committee in March 2008 to examine the role of secrecy jurisdictions in relation to capital flight from developing countries and to evaluate Norway's position as regards the investment of assets via secrecy jurisdictions. The committee is scheduled to submit its recommendation to the Minister of the Environment and International Development by 1 June 2009.

The Government

- is working to persuade more countries to adhere to and implement the UN Convention against Corruption and for the establishment of a mechanism to ensure implementation;
- will examine the role of secrecy jurisdictions as facilitators of illicit financial flows;
- is assisting developing countries, both bilaterally and through multilateral organisations, in establishing good governance and systems for combating corruption.

7.5 Trade and international cooperation

The international trade regime primarily consists of the WTO agreements, but also includes a large number of bilateral trade and cooperation agreements. The agreements constitute an important part of the international framework conditions for companies.

The authorities are working to strengthen the agreements concerning protection of human rights, workers' rights, environmental protection and combating corruption in various international forums. It is important in this context to ensure that trade policy rules do not pose an obstacle to international solutions in these areas and that they contribute as far as possible to finding good solutions.

With this in view, the Government will raise issues relating to corporate social responsibility in negotiations and dialogues on trade-related issues with other countries.

The main aim of the World Trade Organisation (WTO) is to further develop a rule-based, open trading system that will create better conditions for economic growth and prosperity, not least in the developing countries. The Government considers it important to contribute to further developing the WTO rules into the best possible tool for a fair global trade regime, and ensuring the implementation of the rules. In the Government's view, the conclusion of the negotiations in the Doha Development Round would be a positive step in addressing the difficult global economic situation we face today.

With a few indirect exceptions, the WTO rules contain no provisions on core labour standards. Nor are core labour standards or decent work part of the mandate for the current Doha Round negotiations. It will not be possible to raise the issue in the WTO until the ongoing negotiations have been concluded. Many developing countries fear that such provisions could be used for protectionist purposes and that they would discriminate against countries whose comparative advantage lies in low wage levels. The ILO declaration of June 2008 could be a step towards allaying this fear, cf. Chapter 7.2. The Government will seek to emphasise the importance of workers' rights in the WTO agreements once the Doha Round has been concluded.

There is growing international debate about the extent to which environmental and climatic considerations should also be reflected in trade policy rules. Sustainable development is mentioned in the preamble to the 1994 Marrakesh Agree-

ement that established the WTO in 1994 and in the general exception provisions of the WTO agreements. There is, however, still some international disagreement on the relationship between the WTO rules and multilateral environment agreements (MEAs). Norway is working actively to ensure that trade policies and environmental policies are mutually supportive in practice.

Norway's bilateral trade agreements are primarily negotiated through EFTA. There is agreement among the EFTA states that environmental and sustainable development considerations should be included in the preambles to trade agreements. The environmental question is also touched on in the substantive provisions, such as those relating to SPS (sanitary and phytosanitary measures) and TBT (technical barriers to trade). The incorporation of environmental provisions into trade agreements is a rapidly growing area. Canada, the USA and the EU member states are among the countries that have incorporated the most comprehensive environmental provisions into recent trade agreements.

A working group has been set up under the auspices of EFTA to examine whether more binding environmental provisions can be included in future EFTA trade agreements and, if so, how this can be done. Such provisions could, for example, contain references to international cooperation, the implementation of national environmental legislation and closer bilateral cooperation on the environment. This work will continue in accordance with the Government's fundamental approach, which is to promote an international trade regime in which decisive importance is attached to the environment, labour and social rights, food security and development in poor countries.

The Government considers it important that Norway stresses the significance both of corporate social responsibility and of the state's responsibility for good public administration when concluding bilateral trade agreements. This has now been included in the preambles to several EFTA trade agreements and the provisions have legal significance as a basis for interpreting the agreements. Corporate social responsibility will also be an

important element in connection with bilateral investment treaties (BITs).

The Government

- will advocate integrating CSR into international agreements and dialogues where this is appropriate;
- will cooperate bilaterally on training in and the transfer of expertise on CSR.

7.6 International frameworks and national guidelines

Some people in Norway have advocated introducing national guidelines for Norwegian companies' operations abroad. In this and the previous chapter, a number of international guidelines, frameworks and processes have been discussed that help to concretise the Government's expectations of the private sector and to establish clearer frameworks. In the Government's view, the OECD Guidelines for Multinational Enterprises constitute highly significant rules for the transboundary activities of Norwegian companies. The Government expects Norwegian companies to familiarise themselves with these guidelines and apply them in their operations. This framework meets the need for national guidelines for Norwegian companies' international activities.

The OECD Guidelines are voluntary as regards companies' activities abroad, but they deal with many issues that have already been incorporated into legislation and agreements in Norway. In the debate about national guidelines for Norwegian companies, the question has also been raised of whether the guidelines should be legally binding on the companies as regards their activities abroad, i.e. whether violations of the guidelines can be pursued in the Norwegian courts. The question remains whether there are grounds for establishing further legal remedies or sanctions to follow this up within the framework of Norwegian legislation. This is discussed in greater detail in the next chapter.

8 Evaluation of legal instruments



Figure 8.1

It has been argued that the social responsibility of Norwegian companies operating abroad should be legislated. The underlying rationale is that more and more Norwegian companies are operating in countries and regions where there are serious human rights violations and whose judiciaries, national legislation and democratic institutions are weak and ineffective.

The Norwegian Forum for Environment and Development (ForUM) and Amnesty International Norway, for example, have advocated drawing up binding national guidelines that set minimum social responsibility standards for financial institutions and business enterprises, regardless of where they operate. ForUM also advocates extending corporate management responsibility in practice by making managers personally liable for the consequences of their company's operations in the case of serious transgressions. They also maintain that companies and financial institutions should have actual legal liability based on Norwegian criminal law, including for acts committed outside Norwegian territory.

The social partners have a different approach. The Confederation of Norwegian Enterprise (NHO), emphasises the importance of international agreements and guidelines for the private sector that are adapted to national legislation. It considers that special Norwegian rules for companies' international operations would have a limited effect on international developments. In NHO's opinion, developments can best be influenced on the international level.

The Norwegian Confederation of Trade Unions (LO) argues that national legislation, the social dialogue and the agreements concluded between the social partners are the most important tools that Norwegian businesses can take with them when relocating production or setting up new companies abroad. LO does not, therefore, currently see the need for binding national guidelines for corporate social responsibility.

LO points out that the combination of the legislation, arrangements and certification systems that are already in place is adequate provided that they are complied with. It is of the view that voluntary arrangements, action plans developed by individual companies and good checklists can be useful supplements for Norwegian companies setting up business abroad.

When the Norwegian Limited Liability Companies Act was revised in 2006, a majority in the Standing Committee on Justice urged the Government, in a comment, to evaluate the need for national guidelines for corporate social responsibility abroad and present the results to the Storting (the Norwegian parliament) in the appropriate manner. It is reasonable to interpret this as a signal that the Committee on Justice does not consider company law to be the appropriate place to promote the considerations concerning specific challenges abroad that are dealt with in this report.

In this chapter, we will discuss other national legal instruments in relation to companies' operations abroad.

8.1 Criminal sanctions

As shown in Chapter 1, corporate social responsibility is neither a legal nor a judicial concept, referring instead to something over and above what companies are legally liable for pursuant to the applicable legislation in the countries in which they operate or are established.

In normal legal language, if standards and norms are *legally binding*, any violation is unlawful and may be subject to sanctions.

8.1.1 General limitations of international law

Norwegian criminal law is applicable to acts committed on Norwegian territory (the territorial principle). In certain cases, Norwegian law may be applicable outside Norway, if the act has been committed abroad by a Norwegian national or person domiciled in Norway or on behalf of a business enterprise registered in Norway (the nationality principle). According to Chapter 16 of the Norwegian General Civil Penal Code of 2005, serious international crimes committed by non-Norwegian nationals abroad, or crimes targeting the Norwegian state (the protective principle), may also be prosecuted in Norway.

A universality principle without limitations, i.e. a principle whereby all Norwegian criminal legislation would be applicable to acts by all non-Norwegian nationals abroad, would probably be incompatible with international law. In a less general form, however, the individual state may be entitled under international law to determine the extent to which its own criminal legislation is to apply to acts committed by non-nationals abroad. The development of international conventions and treaties that oblige adhering states to criminalise specific acts supports the application of a universality principle with limitations.

8.1.2 The development of international criminal law norms

Criminal law provisions are becoming increasingly harmonised through the adoption of international standards for prohibited acts. Core international labour standards such as those relating to forced labour, child labour, etc., are affected by this, as are economic crimes such as money laundering and corruption. This is relevant to a broader assessment of instruments regulating corporate social responsibility at the international level.

One example is ILO Convention 182 concerning the abolition of the worst forms of child labour. Article 7 of the Convention prescribes penal or other appropriate sanctions to prevent prohibited child labour. Chapter III of the UN Convention against Corruption of 31 October 2003 contains detailed criminalisation obligations. Conventions that harmonise criminal law provisions open for the prosecution of acts committed abroad – either explicitly (as in Article 42 of the UN Convention against Corruption) or implicitly, through international law in general.

A steadily increasing number of international standards contain an element of criminal law harmonisation. This increases companies' responsibility for respecting these standards, while also paving the way for close cooperation between the authorities of different states on the proscription and combating of prohibited acts.

8.1.3 Norwegian criminal legislation

Norwegian criminal legislation determines whether violations abroad of international norms of this kind may be prosecuted by Norwegian authorities. At present, the vast majority of serious offences committed abroad by persons domiciled in Norway may be prosecuted in Norway. As a general rule, the offence must also be a crime in the country in which it was committed (the double criminality requirement). Most serious offences may, however, be prosecuted in Norway regardless of whether the offence was prohibited in the country in which it was committed. This applies, for example, to offences against personal liberty, life and health (slavery, forced labour, etc.) and economic crime such as corruption.

Once the new General Civil Penal Code of 2005 enters into force, the criminal prosecution in Norway of acts committed abroad will be permitted notwithstanding the requirement of double criminality provided that the acts are specified in the Penal Code (section 5, subsections 2 to 4, lists specific offences that may be subject to a penalty under Norwegian law even if the double criminality requirement has not been met). This will also apply to cases where international law entails an obligation or a right to prosecute such acts (section 6).

As regards other cases in which companies are perceived as not having exercised social responsibility abroad, there are only grounds for criminal prosecution in Norway if the conditions of the Penal Code have been met.

8.1.4 Evaluation

A broad consensus on international legislation to prevent child labour, secure adequate protection of workers, prevent pollution and other environmentally harmful activity and prevent the exploitation of minorities and indigenous population groups are common goals. Today there is a comprehensive set of international standards that regulate these issues, cf. Chapter 7. The standards are largely based on generally accepted values that Norwegian companies should take into account in their activities.

There is substantial disagreement between countries as to the content of the various standards, depending on their level of economic development and cultural and social structure. In some areas, however, the standards have been generally accepted. Anti-corruption legislation in Norway is an example of provisions that have been developed and then implemented as a consequence of international conventions, cf. Chapter 3.2.4.

The revision of the Norwegian Penal Code and the evaluation of its scope has involved a careful weighing up of the various considerations, including the sovereignty of other states, due process protection and the interests of judicial economy, cf. Proposition No. 90 (2003–2004) to the Odelsting, section 13.5.2. Except in cases where there is broad international consensus on the legal protection of a social good, Norwegian prosecution of acts committed by Norwegian companies in another country may be perceived as unwarranted interference in another state's internal affairs. Ultimately, this could mean that other states may have grounds under international law for taking legal action against Norway.

Even though we might be in favour of higher international standards than those on which there is broad consensus today, we should nevertheless, out of consideration for other states' sovereignty, be cautious about prosecuting acts committed abroad in Norway. Consideration for due process protection and predictability calls for a certain degree of restraint, particularly in cases where a penal provision is not based on internationally accepted norms. Consideration for efficient international cooperation on the prosecution of crimes linked to several countries indicates that the harmonisation of provisions relating to the scope of national criminal legislation would also be in our interest.

Criminal prosecution of acts committed abroad should only take place in cases where there are

international criminalisation obligations, when the act in question is a serious offence under Norwegian law or where it is also a criminal offence under the legislation of the host country (double criminality).

The Government

- considers that the recent increase in the number of global instruments entailing criminalisation obligations paves the way for more effective protection of the most fundamental standards for companies' international operations;
- does not consider it expedient to propose unilateral Norwegian penal provisions concerning companies' social responsibility with regard to their operations abroad.

8.2 Civil liability

Under Norwegian law, the basic principle is that a parent company may not be held liable for loss or damage caused by the acts of its subsidiaries. The exception is if the parent company itself has done something that would make it liable for the loss or damage.

In Proposition No. 55 (2005–2006) to the Odelsting, the Ministry of Justice and the Police discussed whether a rule should be introduced to allow limited piercing of the corporate veil in connection with claims for damages against a limited company for environmental damage, but it decided it would not be expedient to propose such rules.

A study conducted for the Ministry points out that shareholders' limited liability for the commitments of their company is a fundamental principle of general importance to society. It makes it possible to set up businesses involving risk without exposing the participants to personal liability in the event of loss and liability on the part of the company. It is often a precondition for investing capital in a new business and is also important in relation to potential liability for environmental damage. If shareholders were to be held directly liable, claims for compensation for environmental damage would have a greater chance than other claims of piercing the corporate veil. This would be perceived as unreasonable by the company's other creditors.

The study concluded that the special needs and considerations that apply in this area should, instead, be dealt with by special statutory provisions. The same considerations would also apply to the matter of damages in other situations involving social responsibility.

As a general rule, we cannot exclude the possibility of civil liability under Norwegian law for loss or damage in another country. However, a liability case of this nature would be challenging; the offence would have been committed abroad and most of the witnesses and other forms of evidence would be outside Norway. The fact that evidence would have to be obtained by means of judicial requests to the authorities of the country in question, as well as the fact that the parties might have a right to be present, could prove challenging.

The Government

- will continue to evaluate measures that can help to prevent Norwegian nationals and companies from committing serious environmental crimes outside Norway.

8.3 Reporting on social responsibility

It can be challenging to identify other legal instruments that can promote greater corporate awareness. Instruments other than purely legal ones are therefore likely to be the most important in this context. It is assumed that the best «sanction» in relation to more progressive and targeted standards is public opinion and consumer pressure, combined with measures to raise the awareness of employees and management in the individual companies.

Legal instruments could nonetheless have a function in throwing a public spotlight on corporate operations. An example of this is the obligation to report social and environmental impacts that has been or is being introduced in a number of countries, such as France, the UK, Denmark and Sweden.

8.3.1 Reporting obligation under Norwegian law

Pursuant to Norwegian law, all companies that are required to submit accounts must report on some aspects of their social responsibility, currently limited to the working environment, gender equality and environmental impact. Section 3–3 of the Norwegian Accounting Act requires all such companies to give an account of specific non-financial factors (sustainability reporting) in the Board of Directors' annual report.

According to the Accounting Act, information must be provided on the working environment, including an overview of measures implemented in

this regard. Specific mention must be made of any damage, injuries and accidents. The report must also contain an account of the current status of gender equality in the company, with an overview of implemented or planned measures to promote equality and prevent discrimination that contravenes the Gender Equality Act. The report must also disclose any matters relating to the company's operations, including input factors and products that could have an appreciable impact on the natural environment. In addition, information must be provided about any environmental impact that results or might result from a company's activities, and any implemented or planned measures to prevent or reduce negative environmental impact.

8.3.2 The duty to provide information about ethical guidelines

The Government advocates that the current provisions of the Accounting Act requiring companies to report on social responsibility factors be extended to include a duty to provide information on the company's ethical guidelines. It intends to submit for consultation a bill proposing the introduction of an additional provision requiring the largest companies with an accounting obligation to state which ethical guidelines or standards for social responsibility they follow and what the company has done during the accounting year to follow up its social responsibility. Companies that do not have any guidelines will be obliged to disclose this.

The purpose of incorporating such a provision is to highlight the importance the authorities attach to social responsibility and enhance corporate awareness and follow-up in this area. It should serve as an incentive for companies to make CSR an integral part of their day-to-day operations and corporate governance and risk management regime. It could also help to ensure that shareholders, consumers and society at large are better informed about how companies approach social responsibility issues.

Among other things, an obligation to disclose which ethical guidelines or standards for social responsibility are used by the company and how this responsibility is followed up will lead to greater management awareness of the value of emphasising economic, social and environmental factors in corporate governance. It could also trigger a review of a company's guidelines and routines, and initiate a continuous assessment of possible new measures to improve practice.

The purpose of the Accounting Act is to help to ensure that as much information as possible is pro-

vided to various stakeholders about a company's financial position, risk exposure, financial performance and other aspects of the business. There is a tendency today to also request non-financial information. Investors and creditors are among the users of such information.

We also note that companies that operate in a socially and environmentally responsible manner can improve their market position and competitiveness both at home and abroad. Better reporting on CSR will help to present a more holistic picture of a company's operations. Good reporting will also improve transparency and enhance the company's reputation.

The general trend in the EU seems to be to request companies to disclose which guidelines they use, or to state that they have no guidelines if that is the case, rather than to make detailed legislative provisions.

In Denmark, a statutory reporting obligation has recently been introduced for the 1 100 largest companies and institutional investors. They are now obliged to give an account of their social responsibility policy and how it is implemented in practice. The companies must state which standards, guidelines or principles they follow, and which follow-up systems or procedures they use. They must also give an account of what they have achieved through their social responsibility efforts and their expectations of this work in the years ahead. Companies that do not have a policy in this area must say so. This information must be included in the company's annual report, which may, where appropriate, refer to information in a separate report or to the company's website.

The purpose of this legislative provision is to «encourage companies and investors to look actively and constructively at how their core competencies match the global challenges they face». The obligation to inform is intended to motivate companies to take a stand on «the international agenda». However, the way in which it meets the challenges and opportunities of globalisation is up to the company itself.

France has a law (2001) requiring companies to declare how their foreign subsidiaries comply with the ILO core conventions. Listed companies must report on how they address environmental, social and working environment considerations in domestic and foreign operations. Sweden requires state-owned companies to use the reporting template of the Global Reporting Initiative (GRI).

In the UK, the 2006 Companies Act requires the annual reports of quoted companies to include information on environmental matters (including

the company's environmental impact), employees and social and community issues to the extent necessary for an understanding of the development, performance and position of the company's business. Companies are to include information on any policies relating to these matters and their effectiveness. The «comply or explain» principle is applied.

The Norwegian proposal to extend the duty to provide information is similar to the legislation recently enacted in Denmark. The Government assumes that an information requirement relating to ethical guidelines will generate more relevant information than a requirement relating to factors that are necessary in order to understand a company's development, performance and position.

In practice, a requirement in line with the British model might exclude much of the most relevant social responsibility information because it would not be deemed necessary for an understanding of the development, performance and position of the company's business. A requirement linked to ethical guidelines could help to create more awareness in companies of social responsibility in general, while a requirement linked to the significance for the development, performance and position of a company's business will primarily encourage companies to consider whether environmental or social issues have financial implications for the business. Information that is necessary to understand the development, performance and position of a company's business will have to be provided in any case pursuant to the general provisions of the Accounting Act.

Follow-up and evaluation

Practice in Norwegian companies reveals that there are few companies that currently comply with the Act's provisions on environmental reporting. One of the reasons is that the provisions of the Accounting Act are not adequately followed up with sufficient guidance. In the Government's view, the proposal to extend the duty to provide information concerning social responsibility should be followed up by the provision of better guidance and advisory services for the private sector. The Ministry of Trade and Industry, the Ministry of the Environment and the Ministry of Foreign Affairs will contribute to improving such guidance and advice.

There are plans to conduct an evaluation of the actual status of corporate reporting of social responsibility and of whether the tools are ade-

quate. The evaluation will be initiated within five years.

Social responsibility in the Norwegian Code of Practice for Corporate Governance

The Norwegian Corporate Governance Board (NUES) has drawn up a «Norwegian Code of Practice for Corporate Governance». The Oslo stock exchange, Oslo Børs, stipulates that all companies listed on Oslo Børs or Oslo Axess must publish a statement specifying what they have done to comply with the various recommendations of the Code, or explaining why the company has chosen another solution. Information must also be provided about plans for future follow-up of the recommendations. Oslo Børs evaluates all annual reports in relation to the recommendations of the Code. The results are publicised, including the names of companies that have failed to comply with the Code.

The currently applicable Code, which was revised in December 2007, states that the board of directors should define the company's basic corporate values and formulate ethical guidelines in accordance with these values. It also recommends that the board of directors ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Internal control and the systems should also encompass the company's corporate values and ethical guidelines. In the commentary on the provision, it is recommended that the ethical guidelines should provide guidance on how employees can communicate with the board to report matters related to illegal or unethical conduct by the company.

The Government urges the Norwegian Corporate Governance Board to incorporate recommendations concerning more detailed reporting of social responsibility in its «Norwegian Code of Practice for Corporate Governance». It must be up to the Corporate Governance Board to determine how the Norwegian Code of Practice can be extended in relation to social responsibility. The Board has members from a large number of organisations with expertise in this area.

The Government

- attaches great importance to transparency and will submit a proposal on extension of the Accounting Act's duty to disclose information to include information on ethical guidelines and

social responsibility for the largest companies that have an accounting obligation.

8.4 Grievance and monitoring mechanisms

The establishment of an ombudsman post for social responsibility, or an independent body for monitoring and advising Norwegian companies, has been proposed in certain quarters. It is argued that this would increase focus on the inadequate practice of social responsibility.

Amnesty International Norway has proposed the establishment of an information and monitoring body or appointing an ombudsman for corporate social responsibility. The Norwegian ForUM for Environment and Development advocates setting up a public advisory service for international business and an index of Norwegian companies' conduct in the areas of human rights and the environment. In an official report (NOU 2008:14), the Norwegian Policy Coherence Committee recommends the establishment of a national information and monitoring body in the form of an ombudsman for corporate social responsibility that would have right of access to documents that are exempt from public disclosure.

The institution of ombudsman is used in several areas to protect the interests and rights of individuals or groups. Examples in Norway are the Parliamentary Ombudsman for Public Administration, the Equality and Anti-discrimination Ombudsman, and the Consumer Ombudsman. Existing ombudsmen have a clearly defined role in relation to the legislation they are charged with monitoring and they have certain sanctions at their disposal. The appointment of an ombudsman for social responsibility would require dedicated legislation or relevant guidelines.

If the idea is to give an ombudsman for the public sector responsibility for protecting individuals and groups abroad in relation to the activities of Norwegian companies, the concerns described under 8.1 and 8.2 above will apply in relation to enforcing Norwegian legislation or standards. The prosecution of such cases would involve legal and economic complications. If the idea is to set up an advisory body for social responsibility, the main questions will concern resources and organisation.

National mechanisms

If a company against which a grievance has been brought is registered in an OECD country and its

business can be said to contravene the OECD Guidelines for Multinational Enterprises, the grievance may be brought before the National Contact Point (NCP) in the company's country of registration, or the NCP in the country where the breach occurred if the host country has endorsed the OECD Guidelines. Complaints against all Norwegian companies may be brought before the NCP for the OECD Guidelines. The Guidelines are wide-ranging and incorporate human rights, environmental concerns, the ILO core conventions, anti-corruption measures and consumer interests. Measures for strengthening the Norwegian contact point's guidance and information efforts are discussed under 6.1.

It may be relevant to look more closely at the NCPs organisation and procedures. NGOs in Norway argue that the contact point should hold annual meetings with various stakeholders, report annually to the Storting and make more extensive use of external advisers. The international network of civil society organisations, OECD Watch, points to the possibility of setting up an independent panel or consultation group consisting of different stakeholders. In the UK, an external board has been established, and in the Netherlands the contact point has been given a more independent status.

Making the contact point independent with an external leader, and possibly its own secretariat

outside the Ministry, could enhance its independence and legitimacy. This could enable it to play a more active role in promoting social responsibility through information and dialogue and issuing statements in specific instances. An alternative could be to strengthen the contact point in its present form by increasing its resources and capacity to provide information and guidance about the OECD Guidelines for Multinational Enterprises.

The Government will consider various models that could provide a better overview of how the private sector follows up its social responsibility. In its assessment, it will examine various models for further strengthening the NCP for the OECD Guidelines. Strengthening advisory services in relation to CSR will also be considered. The Government will submit these issues to the involved parties for consultation before the summer of 2009.

International mechanisms

There are an increasing number of cases where companies that are formally or actually based in countries that do not endorse the OECD Guidelines are accused of causing damage even though no grievance has been brought by the host country. International grievance mechanisms can supplement NCPs in such cases.

With regard to working conditions, the ILO has a permanent committee for dealing with disputes.

Boks 8.1 Principles for grievance mechanisms

In his 2008 report to the Human Rights Council, the UN Special Representative on the issue of human rights and transnational corporations and other business enterprises recommends principles on which non-judicial grievance mechanisms should be based:

- *Legitimate*: a mechanism must have clear, transparent and sufficiently independent governance structures to ensure that no party to a particular grievance process can interfere with the fair conduct of that process.
- *Accessible*: a mechanism must be publicized to those who may wish to access it and provide adequate assistance for aggrieved parties who may face barriers to access, including language, literacy, awareness, finance, distance, or fear of reprisal.
- *Predictable*: a mechanism must provide a clear and known procedure with a time frame for each stage and clarity on the types of process and outcome it can (and cannot) offer, as well as a means of monitoring the implementation of any outcome.
- *Equitable*: a mechanism must ensure that aggrieved parties have reasonable access to sources of information, advice and expertise necessary to engage in a grievance process on fair and equitable terms.
- *Rights-compatible*: a mechanism must ensure that its outcomes and remedies accord with internationally recognized human rights standards.
- *Transparent*: a mechanism must provide sufficient transparency of process and outcome to meet the public interest concerns at stake.

This committee, the CEACR, has been active since 1926, and it considered 515 cases in 2007. While clear breaches of the 184 ILO conventions are dealt with at conferences of states parties, and occasionally as matters between states, the role of the CEACR is more that of developing «soft law». The ILO's 194 recommendations also serve as guidance in disputes. The CEACR reports to the ILO's general assembly, and in its conclusions it confines itself to giving advice to the state against which a grievance has been brought.

There is no corresponding global mechanism for hearing grievances and issuing recommendations in cases concerning the environment. In view of this, it may be desirable to develop a global system that could be applied to all countries and business activities regardless of where the companies operate. This could supplement the NCP function in countries that have endorsed the OECD Guideline for Multinational Enterprises. Such a system should be based on generally recognised standards for minimising environmental impact in each industry.

Norway will discuss with the other Nordic countries whether to take an initiative to examine the possibility of establishing a global mechanism for clarifying facts in cases where companies are accused of serious breaches of generally accepted environmental practice. Such a mechanism could take the form of a panel composed of independent experts from the research community and the private sector, supported by a secretariat with wide-ranging knowledge about the environment and business, for example under the UN Environment Programme, UNEP.

In accordance with his renewed mandate, the UN Secretary-General Special Representative on human rights and business will consider national and international grievance mechanisms for dealing with companies' violations of human rights. The Special Representative emphasises the need for thorough evaluations before such a mechanism could potentially be introduced.

The Special Representative's recommendations will be one of the foundations on which the Government will base its deliberations on an appropriate organisation of the NCP for the OECD Guidelines.

The Government

- will consider various models that can provide a better overview of how the private sector fol-

lows up its social responsibility, different ways of organising advisory services and appropriate ways of organising the NCP for the OECD Guidelines. A proposal will be submitted for consultation by the summer of 2009.

- sees a need for thorough discussions and studies of international grievance mechanisms and will support initiatives in this field.

8.5 Considerations

In the Government's view, the establishment and implementation of a strong international framework would be more expedient than setting up national schemes that would vary from one country to another and give rise to uncertainty for both the business community and society at large. The Government will therefore work to further develop international frameworks for the private sector rather than developing special Norwegian schemes. The Government will also seek to get more countries to adhere to international conventions and implement them in national legislation and practice.

The introduction of special Norwegian legislation and provisions for Norwegian companies' operations abroad would raise a number of matters of principle and practical problems. Similar problems would arise if Norwegian legislation were to be made applicable to the operations of Norwegian companies abroad. This also raises a number of legal considerations and matters of principle, for example with regard to national legislation in host countries. The fact that many Norwegian companies are engaged in ventures in which local companies or others may have strong ownership interests is also a factor to be considered.

As regards the environment, other countries may be facing different climatic and topographical conditions, which means that Norwegian provisions are not automatically transferable. This white paper therefore discusses several contexts in which Norwegian companies are expected to aim towards best practice in their operations abroad.

In the Government's view it would be most expedient to consider international grievance and monitoring mechanisms with respect to human rights and the environment. The NCP for the OECD Guidelines plays an important role, and the Government emphasises its significance.

9 Instruments for strengthening corporate social responsibility



Figure 9.1

Providing knowledge and guidance about corporate social responsibility (CSR) is an important task for the authorities, social partner organisations and civil society. The Government will intensify its efforts in this area and emphasises the importance of close cooperation between various actors in order to support companies in their efforts.

Most of the Norwegian private sector consists of small and medium-sized enterprises. Small enterprises often have neither the resources nor the competence to work as systematically and thoroughly on CSR as larger ones. The Government will make active use of the instruments at its disposal to communicate information and provide guidance to small and medium-sized enterprises. CSR will increasingly be a criterion for receiving funding and other services.

9.1 Public instruments targeting the private sector

The Foreign Service

In connection with their international operations, companies frequently contact the Foreign Service for information about local conditions. This can be particularly important to companies operating in countries where there is significant economic or political risk. The Ministry of Foreign Affairs can provide information and guidance, but is in general

cautious about giving any advice that has a direct bearing on financial decisions.

The diplomatic and consular missions have an important function as door openers to local authorities and key local actors. In some situations it will be natural to make on-site political visits in order to promote Norwegian economic interests and support CSR initiatives by Norwegian companies. In many cases this may be decisive in terms of gaining access to the market. When Norwegian authorities back the activities and interests of Norwegian companies in this way, they do so on the assumption that the companies will conduct themselves decently and comply with international guidelines for social responsibility.

In addition to assistance with purely commercial or financial aspects, companies can also obtain information about social and environmental conditions. The diplomatic and consular missions and Innovation Norway's offices abroad can provide information about public institutions and relevant legislation in the host countries. They can also advise on how to establish contact with national and local authorities and potential local partners.

The missions can organise seminars and conferences about relevant issues for Norwegian companies seeking knowledge regarding local conditions. On request, they can also assist companies or industries in gaining better insight into their supply chains. Companies can use the diplomatic and consular missions as dialogue partners when dealing with challenges and dilemmas.

In order to make relevant information from the Foreign Service available to companies interested in setting up business in or trading with specific countries, a focal point will be established in the Ministry of Foreign Affairs to deal with queries, establish contact with or communicate information from the Foreign Service – both from sections within the Ministry and from the missions abroad. To make it easier for the Foreign Service to provide Norwegian companies with updated and relevant information and guidance, the focal point will also gather and systematise information on a general basis. It will work actively to enhance knowledge about CSR among Norwegian companies engaged in international operations, and to promote dialogue between companies and other interest groups.

The Government

- will intensify efforts to provide information and guidance about CSR;
- will set up a focal point in the Ministry of Foreign Affairs for dealing with companies' CSR queries;
- will request the Foreign Service to draw up country profiles tailored to the private sector's needs in areas relating to CSR that are relevant to the situation in the countries concerned;
- will provide arenas for discussing specific problems and challenges that companies encounter internationally;
- will make active use of Norwegian diplomatic and consular missions to increase awareness and knowledge in the Norwegian private sector about the challenges and opportunities involved in doing business in developing countries.

The Ministry of Trade and Industry, and Innovation Norway

Innovation Norway was established to promote nationwide industrial development that is profitable to both the private sector and society in general. As a manager of public funds, Innovation Norway has particular responsibility for promoting sustainable business development that benefits the entire community. The company provides a wide range of services aimed at promoting innovation, internationalisation and reputation building. It has extensive experience of dealing with issues such as gender equality, sustainable restructuring in local communities, the development of environmental technology, tourism, including environmental tou-

Box 9.1 Client-oriented measures in Innovation Norway's action plan

- All clients who seek access to Innovation Norway's funds will be systematically challenged about their attitudes to social responsibility.
- Innovation Norway's website will be used as a channel for informing companies and stakeholders about what is being done on the CSR front, providing advice about what companies can do and where they can find more information.
- In 2009, CSR will be a compulsory part of all competence-building services provided by Innovation Norway.
- An interactive dilemma-training tool, based on a StatoilHydro tool, will be developed and offered to small and medium-sized enterprises.
- Seminars will be held for companies on issues such as CSR and corruption.

rism and geotourism, and the development of small-scale food production.

Innovation Norway has offices in all the counties of Norway and in more than 30 different countries. Its offices abroad cooperate closely with the diplomatic and consular missions and are, where possible, co-located with the embassy or consulate general.

Small and medium-sized enterprises are Innovation Norway's main target group. Through advising, network-building and funding, Innovation Norway has an important role to play in extending CSR efforts to the full breadth of the Norwegian private sector. Innovation Norway encourages small and medium-sized enterprises to integrate social responsibility as a strategic tool into their operations.

In consultation with other actors, the Ministry of Trade and Industry will initiate measures to strengthen social responsibility efforts in small and medium-sized enterprises. Innovation Norway will be given a special role in implementing these measures and will be encouraged to cooperate with business associations and other relevant partners at the regional level to reach out to their member companies.

Innovation Norway has implemented several measures to support social responsibility and com-

bat corruption. It has drawn up guidelines for national and international advisory services in which CSR is an important element. A special CSR module has also been developed and included in the company's competence-building services. Internally, dilemma training is used to increase knowledge and awareness about corruption. Innovation Norway's sustainability reporting is in accordance with the Global Reporting Initiative (GRI) standard, and it is also certified in accordance with the Norwegian «Eco-lighthouse» environmental certification system.

The Government

- will initiate efforts to improve CSR performance in small and medium-sized enterprises. The responsibility for this will lie with the Ministry of Trade and Industry, in consultation with other actors;
- will establish a web-based overview of information and expertise regarding CSR prepared by authorities and organisations. The responsibility for this will lie with the Ministry of Trade and Industry;
- will strengthen the efforts of the diplomatic and consular missions and Innovation Norway to provide information, guidance and dilemma training;
- will require funding agencies to evaluate companies' CSR performance in connection with advisory services and financial support.

The Norwegian Guarantee Institute for Export Credits (GIEK) and Eksportfinans ASA

GIEK is a central governmental agency offering long-term guarantees for export credits tailored to the needs of Norwegian export companies for risk coverage. GIEK's clients export capital goods to countries all over the world. Most of the portfolio relates to the maritime sector and oil and gas. Eksportfinans administers the «108 scheme» of fixed interest (CIRR) loans to foreign buyers of Norwegian capital goods.

Together, GIEK's guarantees and the 108 scheme administered by Eksportfinans constitute Norway's officially supported export financing. It is regulated by the OECD «Arrangement on Officially Supported Export Credits».

Social responsibility is becoming an increasingly important issue in GIEK and Eksportfinans. Many of their commitments concern exports to or investments in countries whose social and environmental standards differ from those applied in Nor-

way. In recent years, the OECD has been increasingly concerned with reaching agreement on common anti-corruption and environmental guidelines. Norway has been actively engaged in this work. GIEK and Eksportfinans cooperate closely on Norwegian implementation of the OECD guidelines for export credits and go somewhat further than the OECD minimum requirements in that they also evaluate maritime matters and minor matters.

The OECD Environmental Guidelines have been broadened in that they now also refer to the moving of people and the effects on vulnerable or ethnic groups and cultural heritage in addition to impacts on the natural environment. In 2007, working conditions were also incorporated into the guidelines through the reference in the agreement to the International Finance Corporation (IFC) Performance Standard 2 (Labour and Working Conditions), which, in turn, refers to the ILO conventions. In general, the OECD Environmental Guidelines refer to international environmental and social responsibility standards such as the World Bank Safeguard Policies, and the IFC Performance Standards.

So far, the revised guidelines of 2007 have shown that practical implementation of more wide-ranging social responsibility, in particular the ILO conventions, is challenging. Implementation will be a trial and error process and will be further discussed in the light of the export credit agencies' experience. The guidelines will be revised again in 2010.

It is still unclear how the various export credit agencies view standards for working conditions, and meetings in the OECD have revealed great divergence as regards interpretation and implementation. The best way to implement the requirements in practice will be a topic for future discussions.

Efforts are also being made through the OECD to involve export credit institutions in countries outside the OECD, such as China, India, Brazil and South Africa, in CSR efforts. The goal is thereby to enhance awareness and understanding of the OECD Environmental Guidelines.

GIEK is in dialogue with its Nordic counterparts about ways of improving CSR efforts, including whether membership of the UN Global Compact would be advisable.

The Government is concerned that different countries should be able to compete on equal terms, and this is also the main rationale for international agreements on export financing. It would be a significant advantage if all export credit agencies were to implement the same guidelines and, as

far as possible, have the same procedures and interpretation of the regulations.

The Government is also interested in having guidelines that are possible to realise in practice, so that actions can reflect policy. The OECD is the most important forum for institutions such as GIEK and Eksportfinans as regards developing common, realistic rules. The Government attaches great importance to this work in the OECD and wants Norway to be a driving force for increased efforts by export credit institutions to promote social responsibility.

The Government

- wants Norway to be a driving force in the OECD's export credit groups in their efforts to implement concrete guidelines for ensuring good working conditions;
- will request Eksportfinans (as administrator of the 108 scheme) and GIEK to draw up a dedicated policy for social responsibility that can be tried out in 2009.

Norad – The Norwegian Agency for Development Cooperation

Norad administers various support schemes to promote Norwegian businesses' activities in developing countries. These schemes are based on the principle that Norwegian businesses abroad can help to promote economic and social development through technology transfer, knowledge-building, employment, market development and access to international markets. The desired results can only be achieved if companies operate responsibly. The guidelines for these schemes stipulate inter alia that:

- projects are to be based on the ILO core conventions;
- measures must be in accordance with international environmental obligations and national environmental priorities;
- if any corruption or attempted corruption is detected in a project funded by these support schemes, this will result in the immediate cessation of payments and/or a demand for the repayment of Norwegian funding.

Norad's support schemes for the private sector include special schemes for social measures and measures targeting HIV/AIDS, and several Norwegian companies have established HIV/AIDS programmes with such support. Norad also provi-

des support to companies that establish trade relations with and import from developing countries.

Norad administers grant schemes aimed at strengthening civil society. Norad's guidelines for grants to civil society contain provisions that encompass social responsibility. They apply in particular to the natural environment and human rights, including the rights of workers, children, the disabled, indigenous peoples and minorities. There is now greater emphasis on effective aid, results and combating corruption in the dialogue with civil society organisations.

The Government

- will place particular emphasis on social responsibility in connection with business activities in developing countries that receive support from Norad's schemes for the private sector;
- will impose environmental requirements on suppliers in connection with tenders for aid-funded projects;
- will use respect for workers' rights, in particular the ILO core conventions, as a criterion for the use of Norwegian aid funds;
- will seek to consistently integrate social responsibility as a factor in the administration of aid.

Norfund – The Norwegian Investment Fund for Developing Countries

Norfund's mission is to help to establish viable and profitable businesses that would otherwise not have been started because of the high risks involved. A well-functioning private sector and access to risk capital are important preconditions if a developing country is to achieve economic growth, make use of its advantages and become better integrated in the global economy. To this end, Norfund invests equity and other risk capital, provides loans and furnishes guarantees for the development of sustainable businesses in developing countries.

Norfund is a company established through special legislation and owned by the Norwegian state through the Ministry of Foreign Affairs. It operates in accordance with fundamental principles of Norwegian development policy. Norfund is allocated funds over the development assistance budget and is the most important national instrument for generating economic growth in developing countries through value creation.

Some of the investments are made directly in local companies along with industrial partners and others through investment funds and financial

institutions that are set up in the countries concerned. Norfund helps to lower the threshold for Norwegian companies that are considering investing in developing countries. Its portfolio, which ranges from microfinance to renewable energy, local banks and fish farms, shows that it is possible to make profitable investments in challenging markets. Norfund gives priority to investments in the least developed countries (LDCs), particularly in Africa, and it promotes public-private partnerships on investments in clean energy. The largest single investment is a joint venture with Statkraft in the energy company SN Power.

Good corporate governance and zero-tolerance of corruption are central to Norfund's investments. This is essential as the majority of the Norfund investments are in countries that are struggling with corruption and illegal capital flight, inadequate legislation and institutions, poorly developed and monopolised markets, poor infrastructure and unpredictable governance. There may also be political unrest and a risk of extreme situations such as civil war and expropriation. This calls for effective awareness-raising among local company managers, fund managers, partners and co-investors about acceptable business practice, as well as focus on the environment and social conditions, the quality of contracts and reporting procedures.

Positions on companies' boards give Norfund an opportunity to ensure that progress is made in companies' efforts regarding environmental standards and social conditions.

Like its sister organisations, Norfund makes investments in various ways. It invests in funds and individual companies, in addition to its banking activities. The possibility of controlling HSE conditions and actively contributing to improvement varies from one business area to another. Norfund's responsibility and influence is greatest in relation to direct investments. Norfund's holdings in funds vary from single units of just two or three per cent of the total capital to interests in fund management companies and lead-investor positions in the funds. Microfinance is an example of an investment where it is difficult to ensure that the standards are followed all the way to the end user.

Norfund can also invest in companies that do not meet the most stringent environmental and social requirements since bringing companies with an acceptable starting point up to international standard has a substantial development effect. This also applies to corporate governance. In such cases, an improvement programme is a central part of the contract between the company and Nor-

fund, and therefore also one of the development effects of the investments.

The Government

- wants Norfund to invest in profitable enterprises that also promote development goals and improve environmental and social conditions;
- requests Norfund to exert its influence actively through directorships and investment positions in order to improve working conditions and social responsibility in the projects in which the fund invests;
- calls on Norfund to play a leading role in attracting more private investors in order to raise capital for economic development and employment in poor countries;
- encourages Norfund to make renewable energy a cornerstone of its portfolio.

9.2 Social partner organisations

Social partner organisations have engaged in various areas of national and international work on social responsibility. They have been driving forces in the development of guidelines and principles for social responsibility, and they participate actively in international forums. The organisations are working to strengthen independent sister organisations in partner countries. They play a central role in the provision of information and guidance about CSR.

The Confederation of Norwegian Enterprise (NHO)

NHO's work on CSR is grounded in a long tradition of collaboration with trade unions and efforts to improve working conditions and ensure that companies take responsibility for the natural environment. In matters concerning the natural environment, NHO has been active in the promotion of non-financial reporting and environmental standards. As an employers' association, NHO was quick to demonstrate how companies can take responsibility for human rights, and the confederation has been a driving force in Norway in its member companies' work to promote social responsibility and combat corruption.

NHO participates in international forums relating to CSR, including through membership and involvement in the UN Global Compact, the World Business Council for Sustainable Development, the International Organisation of Employers,

Box 9.2 World Business Council for Sustainable Development

As its name indicates, the World Business Council for Sustainable Development (WBCSD) is an international association of companies working for sustainable development. The WBCSD consists of about 200 companies and meets once a year at CEO level and twice a year at expert level. There is continuous activity in its focus areas of energy and climate, development, the business's role and ecosystems, as well as various sector projects.

The WBCSD also has a regional network of partner organisations (Business Councils) in more than 50 countries. NHO is the Norwegian partner organisation. Norwegian companies and business leaders have been active in this network. The Norwegian members are Det norske Veritas, Grieg International, Leif Höegh & Co, Norsk Hydro, Norske Skog, Statkraft, StatoilHydro and Storebrand.

BUSINESSEUROPE and expert groups in the European Commission.

NHO's Secretariat for Private Sector Development in developing countries has been engaged for several years in projects in selected developing countries aimed at strengthening the private sector. An example is a broad private-sector programme in Uganda, financed by Norad and managed by NHO and the Ugandan employers' confederation, where several companies are working with Ugandan partners on business development and improving working conditions, among other things.

NHO's Advisory Committee on Ethics and Sustainability is composed of union representatives and external experts, and it advises NHO's management and working groups. NHO also has a network for persons in charge of CSR in its members companies, the NHO forum for CSR and sustainability, which meets twice a year to exchange information and experience. In addition, NHO has produced CSR guides and publications that have helped to raise the private sector's ambitions with respect to social responsibility.

The Norwegian Confederation of Trade Unions (LO)

From the trade unions' point of view, democracy and employee participation are central aspects of

social responsibility efforts. The labour movement believes that active participation by employees, through their HSE organisations, works councils, trade unions and representatives on company boards, is a must when companies draw up their CSR policies and strategies. The content of systems and guidelines for CSR must be developed in cooperation with employees and their representatives.

Through collaborative projects, LO has helped to build stronger trade unions in developing countries. In addition, local union branches in some companies have formed partnerships with their colleagues in a number of countries to combat child labour.

LO will help the unions by producing a set of «aids» to enable employee representatives and members of boards to contribute to making the OECD Guidelines for Multinational Enterprises part of their companies' value base and ensuring that they are made known through European Works Councils or are incorporated into global trade union agreements.

The Federation of Norwegian Commercial and Service Enterprises (HSH)

For many years, HSH has prioritised measures to promote social responsibility as an operational part of its members' activities. Importers' requirements with respect both to the conditions under which the goods they import are manufactured and to environmental considerations have been central, which is why HSH was one of the founders of the Ethical Trading Initiative. HSH has also prepared a practical guide for matters relating to values and organisational development for the whole of the service sector.

HSH works to promote sustainable production and consumption, and it has participated for many years in the development of environmental tools for the private sector. The Nordic eco-labelling (the Swan label) system and the «eco-lighthouse» environmental certification system are examples of this. HSH has also developed a web-based climate guide for the private sector.

At the request of its member companies, HSH also assists its suppliers to comply with the core ILO conventions and important environmental requirements. Such support involves collaboration with employers and manufacturers and often with LO, and it helps to clarify the requirements of Norwegian companies and consumers concerning manufacturing conditions and products.



Figure 9.2 Young boys and men working as shipbreakers on a beach in Bangladesh.

Photo: Corbis/Scanspix.

HSH has signed a five-year agreement with Norad aimed at increasing imports from poor countries to Norway. One of the measures employed is the training of manufacturers and exporters in developing countries to prepare them for the Scandinavian market, with social responsibility and the environment as central elements.

Box 9.3 CSR Europe

CSR Europe, the leading European business network for corporate social responsibility, counts approximately 80 multinational corporations and 25 national partner organisations (NPOs) among its members. Its goals are to link companies more closely together, enabling them to share CSR solutions, to set up new projects involving the companies and their stakeholders and to draw up an agenda for sustainability and a competitive Europe. Green Business Network Norway is the Norwegian partner in the NPO network.

The Norwegian Shipowners' Association

The Norwegian Shipowners' Association is an employers' organisation for enterprises in the Norwegian international shipping and offshore industries. The association works actively to ensure good working and social conditions for seafarers, and it currently has collective agreements on wages and working conditions with seafarers' unions from twelve different nations.

The Norwegian Shipowners' Association is a driving force for stringent environmental standards, and it has adopted an environmental policy designed to reduce environmentally harmful emissions to the atmosphere and discharges to sea to zero. The industry is seeking to find good, cost-efficient solutions within the framework of the UN International Maritime Organisation (IMO) in close cooperation with Norwegian authorities and the shipping industry's own organisations. A system of flag-state and port-state controls has been established to ensure that the IMO requirements are actually complied with.

The recruitment and training of seafarers is an important priority area for the Norwegian Shipow-

ners' Association. As well as its recruitment campaigns in Norway, the association currently runs training projects in collaboration with local educational institutions in the Philippines, China, Russia, Brazil and Vietnam. The association is also considering setting up a centre of excellence in West Africa.

The association has intensified its CSR information and awareness-raising efforts vis-à-vis its members. Among other things, it has collaborated with Det Norske Veritas and issued a guide that concretises CSR in the shipping industry. It has also produced a members' anti-corruption guide, containing general advice, examples of recommended guidelines and an ethics test.

The Government

- urges social partner organisations to assist companies in competence-building and dilemma training;
- encourages industry-specific exchange of experience and development of guidance on social responsibility;
- will cooperate with the social partners on the exchange of information and experience.

9.3 Non-governmental organizations

Non-governmental organisations (NGOs) play a key role in the promotion of socially responsible behaviour in companies. They act as drivers and watch-dogs in relation to various issues and sectors. They are engaged in the prevention of human rights violations in companies' work and production, protecting the environment, ensuring better management of natural resources, and preventing and exposing corruption. They are often important partners for companies in connection with projects and training in developing countries.

The NGOs disseminate information about rights, targeting employees, employers and the local population. They influence and cooperate with local and central authorities to improve or establish adequate legislation and frameworks. They also offer services not provided by other actors.

NGOs are important spokespersons for local stakeholders, ensuring that their needs and views are communicated to national and international decision makers. The media also have an important role to play in ensuring that matters raised by NGOs gain more widespread attention.

The Norwegian Forum for environment and development (ForUM) is a network of more than 50 NGOs. The main objective of ForUM's working group on CSR is to support and promote national and global binding agreements on CSR and ethical capital management. Among other things, ForUM has issued recommendations concerning investments and public ownership in a collection of articles entitled *Næringslivets samfunnsansvar – hvilken rolle kan og bør norske myndigheter spille? (Social responsibility in the private sector – what role could and should Norwegian authorities play)*

Amnesty International Norway endeavours to ensure that the private sector fulfils its social responsibility, with the main emphasis on human rights. The organisation works to influence international and supranational bodies, national authorities and organisations, and it also targets companies directly. Amnesty also utilises various methods to hold accountable and influence authorities and the private sector, ranging from campaigns and lobbying to dialogue and cooperation.

Norwegian Church Aid is a co-founder and board member of Fairtrade Max Havelaar, The Ethical Trading Initiative Norway and Publish What You Pay (PWYP) Norway. The organisation emphasises companies' independent duty to respect and actively promote human rights and sustainable development as expressed in international conventions. It also believes that knowledge about and familiarity with actual conditions and rights, and the will to use such knowledge, is an important prerequisite for responsible business.

Transparency International (TI) Norway is a driving force behind efforts to combat corruption. TI urges the authorities to implement effective legislation and policies against corruption, to increase awareness of corruption and promote transparency in international business transactions. TI cooperates with sister organisations in several African countries on projects to advance transparency, anti-corruption measures and ethical business conduct. The «Business Principles for Combating Bribery» is an important tool developed by TI in cooperation with the international private sector to prevent bribery in the private sector. TI has also compiled a user guide showing how the OECD Guidelines for Multinational Enterprises can be applied in combating corruption.

Publish What You Pay Norway (PWYP Norway) is the Norwegian chapter of an international civil society coalition mobilising around 400 organisations from about 70 countries in promoting transparency, accountability and the mandatory dis-

closure of payments, receipts and allocations of revenues from oil, gas and mining.

Future in Our Hands works to promote environmental responsibility, equitable global benefit sharing and ethical business. It runs Norwatch, a journalistic news service that monitors Norwegian businesses in poor countries.

WWF Norway (World Wide Fund for Nature) cooperates with a number of industries, companies and authorities to identify challenges and propose solutions for ways in which natural resource management, production, technology and trade can contribute to more equitable growth with a smaller ecological footprint. The WWF runs campaigns against illegal fishing and overfishing, and it cooperates with companies and authorities on innovation and the development of sustainable markets and products that demonstrate that this is possible. The WWF promotes the Stewardship Council and the Forest Stewardship Council certification schemes.

The Government

- emphasises the importance of NGOs as drivers and monitors in relation to CSR, both in international processes and vis-à-vis companies and authorities;
- regards NGOs as important partners in both national and international processes and in project work.

9.4 Research and education

The private sector, the authorities and public opinion need knowledge and empirical information about CSR. Strengthening the knowledge base in this area will necessarily involve research and the integration of the discipline into higher education and further and continuing education.

9.4.1 The need for research

Research is an important source of objective and legitimate knowledge about the effects of CSR. There is a need for research on methods for measuring the socio-economic effects of companies' operations and methods for ensuring CSR. Research can also help identify instruments for stimulating the private sector to more actively exercise social responsibility.

A report prepared in 2003 by a working group under the Research Council of Norway resulted in a dedicated Research Council programme for CSR

for the period 2006–2008. The programme was allocated a financial framework of NOK 7.5 million for the whole period, and funds were granted to three projects. The evaluations and recommendations of the working group are still relevant, and they should continue to be an important basis for further Norwegian research in the field.

The working group recommended setting up a research programme concentrating on the role of businesses in vulnerable communities where there is a considerable potential for exerting influence and the need for social responsibility is most urgent and challenging. The group recommended five priority areas:

- CSR and the fight against poverty;
- The development of democracy and good governance – corporate responsibility and legitimate freedom of action;
- Mechanisms for access, disclosure and accountability;
- Ethical capital management;
- The role of Norwegian authorities: policy making and institutional instruments.

In addition to these areas, research relating to responses by the private sector and individual companies to climate challenges has become one of the main constituents of the CSR debate. In the Government's view, these areas remain important subjects for research. The need for more knowledge about corporate responsibility and conduct in conflict zones and areas with particular challenges relating to human rights and weak governance is closely linked to the aforementioned topics. Legal research can further elucidate issues such as the scope of «complicity» in violations of international humanitarian law and human rights.

CSR is a relatively small field of research, both nationally and internationally, so the amount of research-based knowledge is limited. Much of the empirical knowledge in the field resides with private enterprises and consultancies. The research is often initiated and funded by various special interest groups (companies, other commercial actors, ministries and their administrative agencies and NGOs).

For Norwegian companies and authorities, it is important to find proficient Norwegian research environments in this field. The peculiarities of Norwegian society and Norwegian companies mean that international research findings are not always directly applicable to Norwegian conditions. Research into the conduct and experience of Norwegian companies may also be of international interest, both because Norwegian companies come in

part from a different social tradition from that of many of their competitors and partners abroad, and also because several Norwegian companies have come relatively far in the area.

The Government is positive towards the increased interest in CSR shown in research environments. It is also important to develop environments with sufficient activity to ensure professional depth and breadth. This will make it possible to manage and further develop the knowledge base. In this context, it is important that Norwegian research environments participate in international research networks and obtain funding from international sources, such as the EU's 7th framework programme.

9.4.2 Social responsibility and education

Integrating the CSR perspective into business-related higher education is essential in order to enhance knowledge about the issue among future managers and implementers of CSR in Norwegian companies. It is important that educational institutions develop further and continuing education programmes in which CSR is an integral element. It should also be a central component of educational programmes in management and management development.

In the Government's view, it is important for educational institutions to collaborate with the private sector when drawing up their CSR programmes. This will help to ensure that the programmes meet the private sector's actual needs and allows for individual companies' experience to be included in the teaching. The quality of the teaching at these institutions will be improved if they also carry out their own research in the field and participate in national and international knowledge and research networks.

Several universities and university colleges currently include CSR modules in their Bachelor and Master's degree programmes in economics and business studies, technology subjects and other business-related subjects. The Government encourages all relevant educational institutions to include the subject in their study programmes.

The Government

- urges the Research Council of Norway to continue and strengthen its programme for the funding of CSR-related research;
- encourages Norwegian research environments to join international CSR networks and apply for funding from international sources;

- urges Norwegian educational institutions to include CSR in relevant educational programmes.

9.5 Dialogue and exchange of experience

The private sector, the authorities and civil society have different roles but a clear common interest in promoting social responsibility. Dialogue and exchange of experience will enable the various actors to come together to improve practice in the area of CSR. There is a need for reflection and debate about the challenges and dilemmas facing companies, the authorities and NGOs in relation to international activities.

Norway participates actively in a number of multi-stakeholder initiatives for social responsibility and transparency. Experience of what works and how to organise various initiatives can be useful in strengthening ongoing processes and developing new ones. This applies to participation in and support for the UN Global Compact, the Voluntary Principles for Security and Human Rights, the ongoing UN process on business and human rights and the Extractives Industries Transparency Initiative (EITI). The Government will build on experience from the various initiatives when assessing other partnership models for social responsibility and transparency in different industries. This will be a topic for discussion in KOMpakt and other forums in which the authorities participate.

KOMPakt – Consultative Body for Corporate Social Responsibility

KOMPakt was established as early as 1998 as the Government's Consultative Body for Human Rights and Norwegian Economic Involvement Abroad. In 2006, its mandate was modified to include more aspects of CSR. Through the early establishment of KOMPakt, Norway has in many respects been a pioneer in the promotion of dialogue and exchange of experience regarding CSR. KOMPakt was established before the UN Global Compact was founded, which was in 2000.

KOMPakt's overriding goal is to improve the Norwegian authorities' decision-making basis. It also facilitates the exchange of information between Norwegian stakeholders. The dialogue within KOMPakt is also intended to increase motivation for exercising CSR. The dissemination of information about international social responsibility frameworks is a priority task. It was in KOMPakt

Box 9.4 Members of KOMpakt (The Government Consultative Body for Corporate Social Responsibility)

Amnesty International
Centre for Development and the Environment (SUM)
Chr. Michelsen Institute
Confederation of Norwegian Enterprise (NHO)
Confederation of Vocational Unions (YS)
Det Norske Veritas
DNB Nor ASA
Ethical Trading Initiative
Federation of Norwegian Commercial and Service Enterprises (HSH)
Innovation Norway
INTSOK (Norwegian Oil and Gas Partners)
KLP Kapitalforvaltning ASA
Mellomkirkelig Råd (Church of Norway Council on Ecumenical and International Relations)
Ministry of Children and Equality
Ministry of the Environment
Ministry of Finance
Ministry of Foreign Affairs
Ministry of Labour and Social Inclusion
Ministry of Petroleum and Energy
Ministry of Trade and Industry

Norad – Norwegian Agency for Development cooperation
Norfund – Norwegian Fund for Investments in Developing Countries
Norske Skogindustrier ASA
Norsk Hydro ASA
Norwegian Centre for Human Rights (University of Oslo)
Norwegian Confederation of Trade Unions (LO)
Norwegian Church Aid
Norwegian Helsinki Committee
Norwegian P.E.N.
Norwegian People's Aid
Norwegian Red Cross
Norwegian Shipowners' Association
Orkla ASA
Research Council of Norway
Royal Norwegian Society for Development
SN-Power AS
StatoilHydro ASA
Storebrand ASA
Telenor ASA
Transparency International Norway

that the Norwegian approach to corporate social responsibility was first formulated, in a working group report entitled «Sosialt ansvarlige bedrifter» (Socially Responsible Companies) (2000).

In March 2008, a separate working group under KOMpakt published a report on small companies and social responsibility. The report includes an overview of the expertise and tools available to Norwegian authorities, organisations and companies. The report also makes recommendations for further initiatives in relation to smaller companies. A working group has also looked more closely at greener supply chains, cf. chapter 3.4.3.

International conferences and dialogue meetings

To generate greater focus on and engagement in CSR, the Ministry of Foreign Affairs organised an international conference, *Partnerships for Sustainable Development*, in March 2007. The aim was also to create a cross-sectoral platform for discussing CSR. As a follow-up to this conference, the Oslo Agenda for Change was presented at the fifteenth session of the UN Commission on Sustainable Development (CSD).

The Ministry of Foreign Affairs has held a number of meetings on CSR with key actors. In February 2008, a dialogue meeting was held on human rights and business in which the Norwegian Minister of Foreign Affairs, the Special Representative of the UN Secretary-General on human rights and business, and 10 Norwegian business



Figure 9.3 Open debate on business and human rights in February 2008.

Photo: Gisle Nomme, StatoilHydro

leaders participated. Meetings in KOMpakt with NHO's network for CSR and sustainability, the trade union movement and central participants from civil society have also made valuable contributions to the authorities' work on CSR.

The Government

- will use KOMpakt to discuss key questions concerning social responsibility. Factors relating to the implementation of the principles of the UN

Global Compact and the OECD Guidelines for Multinational Enterprises will be central.

- will take steps to make KOMpakt an arena for exchanging experience and highlighting examples of best practice;
- will use KOMpakt to further develop policy and governance regarding CSR;
- will create new forums for discussing challenges and opportunities facing Norwegian companies in relevant markets.

10 Economic and administrative consequences

This white paper provides an account of the Government's efforts to strengthen international frameworks that raise minimum standards for corporate social responsibility (CSR). The Government intends to play a proactive role in efforts in the UN and the OECD to develop guidelines and processes that promote CSR.

The white paper provides an overview of the authorities' expectations of the private sector in terms of social responsibility. However, the authorities and the public sector also have responsibility for maintaining high ethical standards in their own activities. The authorities play an important role as owner, investor and purchaser. Companies with state ownership are required and expected to observe high standards of social responsibility, as are the authorities in managing the assets of the Government Pension Fund and in their procurement policy.

The white paper also discusses how the authorities will provide improved guidance and advisory services concerning CSR. This will be followed up by the Ministry of Foreign Affairs in cooperation with other ministries and the social partners, and in contact with NGOs. These and other measures outlined in the white paper will be covered by the budgets of the ministries concerned.

The Government expects all companies to actively exercise social responsibility. Although the financial consequences of this for the companies

are uncertain, various stakeholders are increasingly expressing similar expectations. Companies that actively exercise social responsibility can therefore strengthen their competitiveness and enhance their reputation, whereas those who fail to do so may find that this has negative consequences for their access to capital, value creation and recruitment. On the other hand, corporate responsibility may entail new costs for companies, particularly if they are not already engaged in systematic CSR efforts.

An extension of the duty to provide information set out in the Accounting Act to include information on social responsibility, which the Government intends to propose, would not in itself necessarily involve any significant costs for the companies concerned. Internal measures and procedures introduced by companies to follow this up could, however, entail additional costs.

The Ministry of Foreign Affairs

h e r e b y r e c o m e n d s :

that the recommendation from the Ministry of Foreign Affairs concerning corporate social responsibility in a global economy dated 23 January 2009 should be submitted to the Storting.

Annex 1

Relevant websites and tools

Norway

NHO, www.nho.no
 HSH, www.hsh-org.no
 LO, www.lo.no
 Innovation Norway, www.innovasjon norge.no
 Norwegian Shipowners' Association,
www.rederi.no
 Norad, www.norad.no
 Norfund, www.norfund.no
 GIEK, www.giek.no
 Council on Ethics for the Government Pension
 Fund – Global
<http://www.regjeringen.no/nb/sub/Styret-rad-utvalg/etikkradet.html?id=434879>
 Ethical Trading Initiative Norway,
www.etiskhandel.no
 Eco-Lighthouse, www.miljofyrtarn.no
 Norwegian Forum for Environment and Develop-
 ment (ForUM), www.forumfor.no
 Amnesty Norway, www.amnesty.no
 Norwegian Church Aid, www.nca.no
 Transparency Norway, www.transparency.no
 Publish What You Pay – Norway,
www.publishwhatyoupay.no
 Future in Our Hands – Norwatch,
www.norwatch.no

Other countries

Denmark, www.eogs.dk/sw32171.asp
 and www.samfundsansvar.dk/
 Sweden, www.regeringen.se/sb/d/2657
 EU,
http://ec.europa.eu/enterprise/csr/index_en.htm

International guidelines and initiatives

OECD Guidelines for Multinational Enterprises,
www.oecd.org
 UN Global Compact, www.unglobalcompact.org
 ILO, www.ilo.org
 UN Principles for Responsible Investments,
www.unpri.org
 UN Development Programme, www.undp.org
 Extractive Industries Transparency Initiative,
www.eitransparency.org
 Equator Principles, www.equator-principles.com
 Global Reporting Initiative,
www.globalreporting.org
 Voluntary Principles on Security and Human
 Rights, www.voluntaryprinciples.org
 Carbon Disclosure Project, www.cdproject.net
 The Kimberley Process,
www.kimberleyprocess.com
 International Organization for Standardization
 (ISO), www.iso.org

Tools and networks

Human rights and business,
www.business-humanrights.org
 Anti-corruption business portal,
www.business-anti-corruption.org
 FAFO Red Flags, www.redflags.info
 Human Rights Compliance Assessment,
www.humanrightsbusiness.org/040_hrca.htm
 World Business Council for Sustainable Develop-
 ment (WBCSD), www.wbcsd.org
 CSR Europe, www.csreurope.org

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Kofi Annan, "The Business Contribution to the Millennium
Development Goals," 14 June 2005

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