A Framework for Constructive Capital:
Investment, Integrity, Impact

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Part Two: Cornerstones of Constructive Capital

The Framework for Constructive Capital is built upon a set of six precepts that provide both a normative and practical foundation. These are referred to as Cornerstones of Constructive Capital. Shaped by policy evaluation as well as field experience, the Cornerstones draw on strategies CIPE has facilitated in collaboration with business communities around the world.

The question of whether constructive or corrosive capital flows come to dominate global investments holds profound economic, political, and social implications. To put it simply, capital flows that align with these Cornerstones are considered as Constructive, while capital flows that weaken them are considered as Corrosive. The Cornerstones can serve as a focal point for diverse stakeholders, including development agencies, business associations, and civil society groups. At the local and global levels, they are relevant to many aspects of Investment, Integrity, and Impact. Indeed, in keeping with the building metaphor, the set of six Cornerstones can help support the structural integrity of democracy and markets alike.

The Cornerstones of Constructive Capital are comprised of: Positive Peace, Rule of Law, Accountable Institutions, Political and Economic Freedom, Social and Economic Inclusion, and Values-Driven Private Sector. Of special relevance to the Framework for Constructive Capital is Sustainable Development Goal 16.6 It aims to “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.” Thus, it readily reinforces all the Cornerstones of Constructive Capital. CIPE recognizes that the power of SDG 16 lies in its catalytic role in the achievement of all the SDGs. Successful action on this goal is also tied to SDG 17: “Strengthen the means of implementation and revitalize the global partnership for sustainable development.”

SDG 16 is often framed in terms of “SDG 16 Plus,” based on the conviction that peace, justice and inclusion must be integrated throughout the UN Sustainable Development Agenda. For example, Pathfinders for Peaceful, Just and Inclusive Societies – a group that includes international agencies, states, and civil society organizations – has developed an SDG16+ roadmap to deliver on the Agenda.7 Their cross-cutting strategies on prevention of harm, institutional change, inclusion, and empowerment are consistent with the approach CIPE takes in many communities. Likewise, mobilizing multiple sources of finance is a priority. The Pathfinders partnership builds a persuasive case for investment in SDG16+, with a particular focus on the needs of the most vulnerable countries.

The private sector plays a vital role in the advancement of SDG 16 at the local and global levels. Examples of such engagement are provided in Part Four of this report on responsible business.

I. Positive Peace

Peace is essential to human security and flourishing. It is the foundation of thriving societies and economies. While there is no single definition of peace, it certainly encompasses more than just the absence of conflict. The dynamics of contemporary conflicts are complex.8 However, the powerful nexus between peace and development is reshaping political, economic, and human security policies.9 The UN affirms the vital role of peace in the achievement of all SDGs, underscoring the link to just and inclusive societies. Global economic institutions such as the International Finance Corporation (IFC), for example, view the private sector as an essential driver of peace and prosperity, even in the world’s most challenging markets.10
The *Framework for Constructive Capital* expressly refers to this first Cornerstone as “positive peace” to reflect the authoritative research of the Institute of Economics and Peace (IEP).\(^\text{11}\) Each year, the IEP issues an annual Global Peace Index (GPI), which ranks 163 independent states and territories according to their level of peacefulness. In addition, the IEP analyzes positive peace, defined as “the attitudes, institutions and structures that create and sustain peaceful societies.”\(^\text{12}\) The factors considered in the Positive Peace Index (PPI) lead to other desirable socioeconomic outcomes and contribute to resilience.

The eight pillars of positive peace can serve to reinforce the conditions for Constructive Capital:

1. Well-functioning government
2. Sound business environment
3. Acceptance of the rights of others
4. Good relations with neighbours
5. Free flow of information
6. High levels of human capital
7. Low levels of corruption
8. Equitable distribution of resources

Moreover, business competitiveness and economic productivity are both associated with the most peaceful countries. While the concept of positive peace is a *Cornerstone of Constructive Capital* as a foundation of stability and prosperity, it also offers insights on business climate and investment decision-making.

The findings of the 2021 GPI reveal a world in which “the conflicts and crises that emerged in the past decade have begun to abate, only to be replaced with a new wave of tension and uncertainty as a result of the COVID-19 pandemic and rising tensions between many of the major powers.”\(^\text{13}\) Nonetheless, research indicates that a better PPI outcome in a given year will increase the probability of favorable economic results in the future.\(^\text{14}\) The *Framework for Constructive Capital* may thereby support economic processes which, in turn, will contribute to further improvements in positive peace.

### II. Rule of Law

The rule of law is a multi-faceted precept of good governance that helps sustain the political and economic conditions for Constructive Capital. Renowned jurist Tom Bingham set forth the core principle of the rule of law as: “all persons and authorities within the state, whether public or private, should be bound by and entitled to the benefit of laws publicly and prospectively promulgated and publicly administered in the courts.”\(^\text{15}\) Drawing on this understanding, several linkages to the rule of law will be considered here.

**Investment Flows:** The rule of law is a significant factor in foreign direct investment (FDI) decision-making and risk analysis. For example, one survey of multinational company executives found that the rule of law is among the top three considerations in FDI decisions, together with “ease of doing business” and “a stable political environment.”\(^\text{16}\) Investors identified the most important elements of rule of law as integrity, stability, and transparency.

**Corporate Responsibility:** The rule of law helps to create favorable conditions for business operations and innovation, including long-term growth and sustainability. Moreover, the private sector itself contributes to the rule of law by acting responsibly through the support of voluntary codes, multilateral guidelines, and collective industry initiatives.\(^\text{17}\) The benefits of such efforts extend through supply chains. In 2015, the UN Global Compact released a *Framework for Business and the Rule of Law* to encourage engagement and support values such as accountability and equality.\(^\text{18}\)
Economic Inclusion and Access to Justice: The rule of law helps ensure that the benefits of investment flows and business activities extend to the wider population. It also facilitates the legal empowerment of women and of marginalized communities.¹⁹ The recognition and enforcement of property rights are considered essential to economic security and opportunity.²⁰ Advancing the rule of law, including access to justice, is an objective of bar associations and legal organizations around the world.²¹ In 2019, the Task Force on Justice estimated that 5.1 billion people globally have unmet justice needs.²² The pandemic has since exacerbated the plight of those who fall within this justice gap. A new Justice Action Coalition has been formed to support a people-centered approach to justice systems, which also addresses the related challenges of economic inclusion.²³

Sustainable Development: The process of elaborating the Sustainable Development Agenda forged new connections between the rule of law and development. In 2012, the Rio+20 Conference affirmed: “We acknowledge that democracy, good governance and the rule of law, at the national and international levels, as well as an enabling environment, are essential for sustainable development, including sustained and inclusive economic growth.”²⁴ Thus, the rule of law came to be viewed as both an enabler of development and an outcome in itself. The International Development Law Organization (IDLO) reinforced this approach, noting that the rule of law “strengthens laws to drive transparency and participation and steers responsible and equitable investments in economic, social, and environmental priorities.”²⁵ After significant debate among UN Member States, SDG 16 on Peace, Justice and Strong Institutions included target 16.3: “promote the rule of law and ensure equal access to justice.”²⁶

The influence of such linkages is reflected in the work of the World Justice Project (WJP), which undertakes interdisciplinary research on rule of law issues.²⁷ According to the WJP’s Four Universal Principles, the rule of law is a durable system of laws, institutions, norms, and community commitment that delivers: Accountability, Just Law, Open Government, and Accessible and Impartial Justice. Each year the WJP publishes its Rule of Law Index, which measures how the rule of law is experienced and perceived across 128 jurisdictions.²⁸ Such trends help shape programs and advocacy to enhance rule of law performance. The reinforcing action of the Rule of Law, as well as the need for vigilance in upholding it, affirms its place as a Cornerstone of Constructive Capital.²⁹

III. Accountable Institutions

The need for accountable institutions, both formal and informal, is evident throughout the Framework for Constructive Capital. Each of the Cornerstones depends upon the policies, practices, and decisions of institutions at every level of society. Integrity, including transparency in decision-making, is one of the primary features of accountable institutions. This is key to countering corruption. Another attribute is inclusiveness, whereby people can access economic opportunity and public services in an equitable manner. Further indicators relate to effectiveness, with a focus on institutional outcomes.³⁰ Finally, an overarching theme is the importance of building a culture of trust.

This Cornerstone provides a foundation for Constructive Capital, but also a focal point for ongoing evaluation of the governance gaps that may increase the risk of corrosive capital flows. Given the transborder nature of such flows, jurisdictional issues may impede accountability. This demands a systematic approach.

The work of the Organisation for Economic Co-operation and Development (OECD), which aligns with CIPE’s priorities in several areas, addresses how institutional accountability can be strengthened. For example, the OECD recommendation for a public integrity strategy is built on three pillars of System,
Culture, and Accountability.\textsuperscript{31} The OECD emphasizes that trust is “a basic element for the well-functioning of institutions, including governments, markets, businesses, and for society more broadly.”\textsuperscript{32} With respect to government, both a culture of integrity as well as competence in delivering public services are crucial for boosting trust in institutions.\textsuperscript{33} In 2019, the OECD launched a “Trust in Business Initiative,” which seeks to strengthen connections between companies and its policy work on corporate governance, responsible business, and anti-corruption.\textsuperscript{34} CIPE has also been pursuing this topic, starting with trust in business and expanding the scope to trust in democratic and market institutions more broadly.\textsuperscript{35}

Researchers have examined the reciprocal relationship between social trust and the moral fabric of society, noting that these can “work together in virtuous upward cycles of mutual reinforcement, or in vicious downward spirals of mutual corrosion.”\textsuperscript{36} Thus, the enhancement of social trust is not just a matter of utility or instrumental value – it is of fundamental importance for sustaining society. This also holds implications for how business activity can be aligned with social trust.

Accountable institutions can support the flow of Constructive Capital. Conversely, Corrosive Capital poses greater risks if such institutions should fail. Not only would Corrosive Capital not be deterred, but the mechanisms for corrective action would be weakened. The culture of integrity and trust would also be at stake, with potential long-term consequences.

IV. Political and Economic Freedom

As a Cornerstone of Constructive Capital, the concept of freedom holds many dimensions. Freedom is often expressed in terms of individual rights and liberties. Such rights and liberties shape the political, social, and economic order. In turn, the nature of this order underpins the free exercise of rights and liberties. More broadly, this process of mutual reinforcement ties into fundamental questions of participation and democracy.\textsuperscript{37} A dynamic understanding of freedom can raise awareness of the risks of Corrosive Capital and foster conditions supportive of Constructive Capital.

A manifold concept of freedom, grounded in inherent dignity, is found within the Universal Declaration of Human Rights.\textsuperscript{38} It proclaims that “the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world.” With reference to the UN Charter, it invokes freedom of speech and belief, freedom from fear and want, and the equal rights of men and women.

The Universal Declaration holds profound implications for the just ordering of society. It promotes “social progress and better standards of life in larger freedom.” It affirms the will of the people as the basis for the authority of government. It asserts the right to own property.\textsuperscript{39} Over the past seven decades, the Universal Declaration has shaped the development of human rights law and the human rights movement. In many contexts, human rights are advanced alongside principles of democratic governance.\textsuperscript{40} Moreover, human rights guidelines are now transforming the responsibilities of business enterprises.\textsuperscript{41} This Cornerstone of Political and Economic Freedom can support freedom and democracy, as well as private sector commitments and advocacy.

Freedom House has described democracy as “a continuous project of renewal that ultimately ensures security and prosperity while upholding the fundamental rights of all people.”\textsuperscript{42} Its recent report from a bipartisan Task Force on US Strategy to Support Democracy and Counter Authoritarianism offers a series of policy strategies.\textsuperscript{43} Several recommendations – such as combatting state capture and supporting corporate respect for human rights – could be deployed in relation to Constructive Capital. Beyond the geopolitical implications, such measures could bolster the local environments in which rights and freedoms can be realized.
V. Social and Economic Inclusion

The need for social and economic inclusion forms part of the overall context for Constructive Capital. Indeed, one of CIPE’s aims in developing a *Framework for Constructive Capital* is to support foreign investment that promotes inclusion through local opportunities, job creation, and mutual benefits. More broadly, the *Cornerstone* on social and economic inclusion encourages engagement across government, business, and society. This holds implications for both community prosperity and democratic values.

For example, in 2020 the demand for diversity, equity and inclusion (DEI) became a rallying cry across countries and continents. The DEI movement exposes multiple forms of exclusion, confronts discriminatory attitudes and practices, and challenges entire systems. Various DEI initiatives are being implemented across multiple sectors, reshaping organizational leadership, workplaces, and cultures. Connections are also being made to the field of responsible investment, given the significance of ESG factors. A project is underway through a new Task Force on Inequality-related Financial Disclosures (TFID). It seeks to develop a set of metrics to guide companies and investors in measuring and managing their impacts on inequality, as well as the impact of inequality on company and investor performance.

In recent years, topics such as societal integration and cohesion, equal opportunities, access to public services, citizen participation, respect for diversity, and group legitimacy have become more central to policymaking. This is reflected in everything from legal reforms to eliminate gender-based discrimination across industry sectors to community engagement protocols on major infrastructure projects. The World Bank has also made significant contributions to social and economic inclusion through its annual *Human Development Report* (HDR) and *Human Development Index* (HDI). Such approaches to wellbeing focus on multidimensional aspects of poverty, as well ways of overcoming barriers to prosperity. Further impetus for such policies is provided through the UN Sustainable Development Agenda, which is committed to “leaving no one behind.”

Finally, the private sector plays an indispensable role in social and economic inclusion. This is the focus of a partnership between the OECD and a global CEO-led coalition: Business for Inclusive Growth (B4IG). Its objectives include addressing inequalities, creating opportunities, and fostering inclusive micro-economic business models. This work program may reinforce several strategies of relevance to the *Framework for Constructive Capital*, such as inclusion in company ecosystems, governance of public-private partnerships, and assessment of FDI qualities.

VI. Values-Driven Private Sector

The commitment to a values-driven private sector can be leveraged in multiple ways to advance the *Framework for Constructive Capital*. This section highlights several themes which contribute to the creation of progressive and accountable business cultures. Such themes also affirm CIPE’s own core values of inclusive markets and democracy as the means of fostering inclusive growth for every citizen. Part Four of this report considers the changing landscape for responsible business and finance.

**Scope of Values:** This *Framework* identifies numerous values that can inform business conduct in relation to company compliance, business models and broader societal responsibilities. Active business support for all the *Cornerstones* can facilitate the realization of such values. Moreover, such support can help diffuse values throughout commercial relationships and supply chains, influencing the wider economic system.

**Role of Leadership and Governance:** Throughout the private sector, leaders are increasingly affirming values and shaping organizational culture. In the US, the National Association of Corporate Directors
characterizes culture as a “corporate asset” and urges the board, CEO, and senior management to clarify foundational elements of values and culture. In the UK, the Corporate Governance Code provides: “The board should establish the company’s purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.” Improvements in corporate governance and compliance, along with business culture standards and outcomes, are key to CIPE’s overall objectives.

**Stakeholder Engagement:** Stakeholder engagement, augmented by the notion of “shared values,” is a long-standing feature of responsible business conduct. The parameters of such relationships are currently being tested, notably in view of the debates surrounding corporate purpose and the maximization of shareholder value. CIPE includes a wide range of stakeholders throughout its programs, supporting their role in strengthening private and public sector accountability.

**Long-term Perspective:** A commitment to values inspires a different time horizon, looking beyond quarterly financial results to long-term value creation. This can encourage investment in human, social, and natural capital. It demands a rigorous assessment of a range of risks, including to corporate reputation. Such a perspective may lead to greater organizational resilience and commercial opportunities.

**Entrepreneurial Community:** Values-driven companies are actively engaged with the wider entrepreneurial community, including business and professional associations. Across jurisdictions, this shapes the design of CIPE’s programs: “Over time, the strengthening of governance and markets can foster a supportive ecosystem of laws, regulations, culture, and institutions that foster innovative enterprises and create wealth for a broader section of society.” Such an ecosystem is central to the implementation of the *Framework for Constructive Capital*, including the identification of governance gaps. The concept also underscores a changing dynamic with respect to business competition and collaboration.

**Trust:** Ensuring consistent alignment between values and actions promotes trust in business relationships – whether with workers, customers, suppliers, or other stakeholders. More broadly, the values-driven approach can strengthen trust between business, government, and civil society. Research presented in the *Edelman Trust Barometer 2022* indicates that business has maintained its position as the most trusted institution. CEO Richard Edelman observed: “Business must now be the stabilizing force delivering tangible action and results on society’s most critical issues. Societal leadership is now a core function of business.” This suggests an enhanced mandate for the private sector, which can open opportunities for advancing Constructive Capital.

The six *Cornerstones of Constructive Capital* offer a foundation for analysis and action by various stakeholders. In particular, they can serve as a reference point for enhancing investment environments and assessing investment outcomes. The following section of this report considers a model for bridging governance gaps through an integrated approach to Investment, Integrity and Impact.
About CIPE

The Center for International Private Enterprise (CIPE) is a core institute of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. CIPE’s mission is to strengthen democracy around the globe through private enterprise and market-oriented reform.

Founded in 1983, CIPE partners with local business associations, chambers of commerce, universities, think tanks and advocacy groups worldwide to implement innovative, cost-effective, business-led solutions to complex policy and governance challenges.

Currently CIPE has more than 300 programs or grants in more than 80 countries.

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