A Framework for Constructive Capital:
Investment, Integrity, Impact

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Part Five: Advancing a Framework for Constructive Capital

This report has presented numerous insights on strengthening Constructive Capital and curbing Corrosive Capital. Part Five draws together an approach to advancing a Framework for Constructive Capital.

The first section, with a focus on awareness, considers the broad constituency for Constructive Capital. The second section offers an indication of potential actions by key stakeholders. The third section highlights business opportunities for engagement. These steps are interrelated and ongoing, with a view toward promoting collaborations for systemic change.

I. Awareness of Constructive Capital

Policy implementation occurs top-down or bottom-up. With time, elements of a Framework for Constructive Capital may gain traction at the normative level for adoption or at the grassroots level for advocacy. As a starting point, the Framework should rely on the stakeholders within a given jurisdiction who are already working on questions of investment, integrity, and impact. This could be at a national, subnational, or local level. The ideal anchor is the wider business community, to include companies of all sizes and sectors, financial institutions, professional service firms, research and training institutes, business and trade associations, multi-stakeholder partnerships, and others. They could help form a constituency for the advancement of Constructive Capital.

This report has emphasized the vital role of a values-driven private sector, as well as the contributions of responsible business. Chambers of commerce, for example, are well-placed to take the lead in mobilizing such a constituency. The involvement of investment promotion agencies, port authorities, and special trade zone administrators would be vital. Outreach should include a range of civil society and local community representatives. Given the importance of diversity and inclusion, special efforts should be made to ensure the participation of women, minorities, and other under-represented groups. This constituency for Constructive Capital can be leveraged to encourage awareness and to support assessment across governance and accountability systems. It is also central to effective action and dissemination of best practices.

The process of raising awareness among stakeholders will evolve over time. Consideration might be given to hosting local events to introduce the Framework, encourage dialogue, and build the constituency. The Cornerstones could serve as an initial focal point, notably with respect to their relevance and resilience. Specific examples of investments with either corrosive or constructive consequences might also be identified. This may later lead to the development of a collaborative strategy for action.\textsuperscript{136}

II. Action to Advance Constructive Capital

The process of stakeholder engagement will bring clarity to a range of issues and help identify emerging priorities for action. Given the availability of new digital tools, options to advance the Framework for Constructive Capital should be grounded in data-driven approaches. These may include stakeholder and supply-chain mapping; risk analysis and scenario planning; assessment of misinformation and disinformation; institutional integrity standards; program monitoring and evaluation methodologies. The OECD, for example, has prepared a guide on Analytics for Integrity: Data-Driven Approaches for Enhancing Corruption and Fraud Risk Assessments.\textsuperscript{137} Such efforts would also help operationalize the Investment, Integrity, Impact model at the core of this report.
In addition, the advancement of a Framework for Constructive Capital requires attention to geo-political challenges, along with related risks and responses. Such concerns also pertain to broader questions about the future of global political and economic governance. The year 2020 marked the 75th anniversary of the founding of the United Nations organization. The milestone brought into sharp relief the strains in global cooperation, and indeed the perceived assault on a rules-based international order. Such developments implicate global governance reforms, but they can also be relevant to local problem-solving. Overall, the assessment process should consider both economic and ethical rationales for action, building the case for Constructive Capital.

To accelerate implementation, specific actions for stakeholder application of Constructive Capital should be identified. By way of a starting point, examples are offered in the following outline:

**Governments**
- Integrate the Framework into various aspects of government programs and oversight procedures
- Collaborate with Investment Promotion Agencies on effective strategies tied to rule of law commitments
- Re-evaluate investment treaty regimes, notably in view of current critiques about justice in economic governance\(^{138}\)
- Apply innovations in metrics and measurement related to impact, including benchmarks\(^{139}\)
- Apply data, analysis and toolkits developed by international financial institutions and other agencies involved with economic governance
- Ensure the effectiveness of domestic legal regimes and procedures at all levels, notably through transparency and accountability mechanisms
- Identify weaknesses in various phases of the procurement process and undertake needed reforms
- Enhance due diligence procedures regarding inbound investment, especially for long-term projects and infrastructure
- Enhance processes for assessing overall government outcomes\(^{140}\)

**Business and financial sector**
- Enhance transparency and due diligence procedures throughout business operations and value chains
- Integrate the Framework into investment evaluation and decision-making processes
- Examine the implications of trends in sustainable investment and finance for FDI strategy and ESG factors
- Enhance the benefits of portfolio investment, including through initiatives such as Sustainable Stock Exchanges\(^{141}\)
- Expand the application of impact-related metrics, measurement, and management
- Consider how private sector activities may support the Cornerstones of Constructive Capital through direct operations, value chains, and collective action

**Business associations**
- Create opportunities for dialogue between stakeholders on issues of cross-border capital flows and their impacts, raising awareness and driving action
- Respond to relevant policy developments and coordinate business positions
- Share best practices in responsible business conduct and investor relations
- Identify emerging industry-sector issues in relation to Constructive Capital
- Enhance training in corporate governance, compliance, risk assessment, and reporting
- Facilitate the role of small and medium-sized enterprises, including in supply chains
- Contribute to strengthening integrity measures throughout the local economy
III. Business Opportunities for Stakeholder Engagement

The context and modalities for actions to advance Constructive Capital are undergoing continual change. Several developments are explored here, with a view to helping businesses frame opportunities and priorities for stakeholder engagement.

A. Influence of Corporate Purpose

To both support and benefit from Constructive Capital, companies should recognize how the business responsibility agenda is evolving. Several of these trends are indicated in Part Four. In addition, various initiatives seek to redefine the role of corporations in society. One key idea relates to the fundamental understanding of business purpose. In 2019, the Business Roundtable organized an effort for 181 of its members – all CEOs of major US corporations – to adopt a Statement on the Purpose of a Corporation. They declared that companies should serve not only their shareholders and maximize shareholder return, but also their stakeholders and deliver societal benefit. The statement garnered exceptional attention. In 2018, the British Academy launched an ambitious research and engagement program on the Future of the Corporation. It has defined the purpose of business as “profitably solving the problems of people and planet, and not profiting from creating problems.” The Academy’s Principles for Purposeful Business examine accountability and implementation. Key reforms to enable such commitments relate to corporate law and regulation; ownership and governance; measurement and performance; finance and investment.
broadly, such questions about purpose tie into debates about the place of shareholders and stakeholders within the capitalist system – and the need to build collaboration and trust.

B. Momentum for ESG Investment

The trends within ESG-driven investment will influence opportunities to support Constructive Capital. This momentum is accelerating with the harmonization of sustainability standards and reporting requirements as well as the expansion of human rights and environmental due diligence regulations. More investors will become engaged, and more companies will incorporate ESG issues into their strategies, operations, and key performance indicators. Board responsibilities and risk analysis will continue to be realigned to meet investor expectations. These shifts will lead to the development of more comprehensive datasets and analytical tools. Attention is also focused on each of the three factors, with pressure for various emerging issues to be included within the ESG lens. Overall, in terms of Constructive Capital, both the quality of capital flows and the conduct of business enterprises will be enhanced – with prospects for driving broader changes that thwart Corrosive Capital flows.

It must be understood that the baseline of putting measures in place to identify, prevent and mitigate adverse impacts on society and the environment is no longer sufficient to satisfy stakeholders. Where companies fail to deliver positive changes quickly enough, stakeholders – increasingly including investors – will demand legally binding approaches to ensure transparency and accountability. The Constructive Capital approach offers advantages, encouraging companies to maintain high standards through voluntary codes of conduct. It places a priority on transparency and accountability for all actors and relies on active engagement with both civil society and the public sector.

C. “Shared Space” between Civil Society and Business

Civil society actors as well as companies depend on the legal and institutional frameworks that define the shared space to operate. Civil society cannot flourish, and business cannot thrive outside these frameworks. As expressed in a report on *Shared Space Under Pressure: Business Support for Civic Freedoms and Human Rights Defenders*: “Successful, sustainable business and investment environments require accountable governance bound by rule of law. Such environments can only be maintained when the rights that define the shared civil society space – freedom of expression, assembly and association – are respected and protected.” These elements allow other human rights to be realized. Importantly for business, they are also the lifeblood of innovation and entrepreneurship, and of the freedom to create value and generate both economic profit and societal benefit. As such, this approach is relevant to Constructive Capital, both because of its objectives and its modalities for action.

Business has sometimes taken the “shared space” – and the associated benefits of a stable business and investment environment – for granted. However, this shared space is now under pressure around the world. Attacks on human rights defenders are increasing. Autocracies are acting with impunity, and even some long-standing democracies are backsliding. Amidst these trends, various stakeholders are calling on business to join forces with civil society in defending the shared space. The shared space framework calls for companies to be “voices and forces” for civic freedoms and for human rights defenders when they are directly linked to companies’ own operations and supply chains. It also challenges companies to see the opportunity to act in situations where their operations are not directly involved, but where the shared space on which business and civil society both depend is at stake.
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