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SUSTAINABILITY OF THE GLOBAL COMPACT LOCAL NETWORKS

Guidance Note

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1. ABOUT THIS PAPER

This paper aims to serve as a guidance note for the Global Compact Local Networks (GCLNs) on what constitutes the key aspects or elements of GCLN sustainability and how it can be achieved. It is recognized that there is no blueprint or a single model for network sustainability. This note does not provide ready-made answers, but rather a basic framework and guiding principles for building sustainability, which are supported by concrete models, experiences and pertinent practices of the GCLN. It provides guidelines on the institutionalization of the network aimed towards ensuring the network's sustainability which essentially concerns achieving institutional and financial viability of the network while formalizing working relationships in a governance structure that ensures accountability and effective delivery.

2. ABOUT THE GC NETWORKS

In the context of the rapid growth of the United Nations Global Compact (GC) initiative, GCLNs have become increasingly significant platforms for a number of business and non-business participants to engage in concrete actions at the country level, thus increasing the impact of the GC.

GCLNs are an integral part of the governance structure of the Global Compact initiative. It is therefore important that the GCLNs be well governed and in a transparent manner, managed effectively and cohesive, have institutional and financial stability, and remain truly multi-stakeholder and business-led. It is recognized that sustainability is critical for making them truly viable multi-stakeholder platforms for stakeholders' engagement in sustainable development.

A sustainable network has a unique advantage over other individual or collaborative approaches with their particular ability to lead to wide-scale change, since they:

- emphasize joint value addition by all the network members (beyond the sharing of information to the aggregation and creation of new knowledge);
- strengthen capacity for research and communications for all members in the network; and
- identify and implement strategies to engage decision-makers more directly, putting the network's knowledge into policy and practice.

The following categories of activities represent the key characteristics of a GCLN.

a. Awareness-raising, outreach, membership recruitment and stakeholder engagement and dialogue

Outreach and awareness-raising activities for attracting new members, building a knowledgeable stakeholder base and educating the general public are necessary, ongoing activities for ensuring the growth of the network. They are needed for the continued improvement in the quality and effectiveness of the dialogue and engagement with the diverse social actors and businesses.

One of the prerequisites for building a sustainable GCLN is reaching out to, and actively engaging with a diverse range of stakeholders, including small-to medium-sized enterprises (SMEs), which in most countries represent the largest segment of the business community and the most challenging one to be involved with the Global Compact initiative. The active participation of non-governmental organizations (NGOs), academic institutions and the media ensures a level of dialogue necessary for identifying local priorities relating to responsible business practices. It also ensures proper communication and development of the network's capacity, which is needed for finding solutions to key problems, reaching consensus and receiving support from all stakeholders required for widely implementing these solutions. Establishing good relations, engagement, or at a minimum, constructive dialogue with the national and local governments has also proven essential for the long-term success and sustainability of the GCLN, regardless of the specific political and economical situation in the country.

b. Networking and information-sharing activities – among members and with external parties

Among the highly valued benefits offered through the GCLNs is the opportunity for GC members to meet regularly, network, get to know each other and other external parties to the network, and exchange valuable information for their respective organizations.

c. Capacity building – training, education and technical assistance to members

A growing number of GCLNs are focusing on capacity-building activities and provide valuable learning platforms where GC stakeholders can gain a better understanding of the GC ten principles, as well as more general concepts of corporate responsibility, the role of business in society and the business case for responsibility. These activities include workshops, training and study tours, as well as forums peer reviews, translations of key GC resources and tools into the local context and language, and development of local case studies and learning materials. The learning platforms also provide interactive methods for stakeholders to share experience and lessons learned; GC participants often state this as the main reason for engaging in a local network.

d. Partnership projects

Another important GCLN activity is facilitating partnerships with GC stakeholders by motivating participating companies to develop partnership projects to contribute to the United Nations Millennium Development Goals (MDGs) and addressing critically important local social, environmental and economic development problems. More than 75% of GC participants surveyed for the 2007 Annual Review reported that they engage in cross-sector partnerships. GCLNs have the unique potential to act as platforms for cross-sector engagement and partnership activities that will remain a key component for ensuring long-term sustainability of the GCLNs. GCLNs can also play an important role in helping to identify pertinent partnering themes and engaging relevant actors in concrete projects where their comparative advantages are used.

e. Collective action

Mobilizing collective action within the network on different priority issues is an important factor for building a sustainable network. Similarly, the GCLN can serve as a means to engage and interact with social actors (such as governments) to promote the creation of an enabling environment for corporate citizenship or raising public support and awareness within academia as well as with other stakeholders through, for example, marketing and communication campaigns.

f. Policy dialogue

The GCLNs worldwide are expanding their role as conveners and facilitators of public-private dialogues related to the business in society agenda. Increasingly, political and public issues are seen by the business community as relevant to their commercial future, for example, in areas related to improving the business climate such as anti-corruption, as well as the role of the private sector in supporting development. It is anticipated that more companies, both domestic and foreign, will be interested in participating in public discourse in the future and that this activity will become more widespread among the GCLNs.

3. DEFINING THE CONCEPT OF A SUSTAINABLE GC NETWORK

Sustainability is a measure of an organization's ability to fulfill its mission and serve its stakeholders over an unlimited period of time.

Sustainable networks usually have certain components that ensure their long-term success, some of which are well understood and have been extensively documented, and others that are less well understood or previously not investigated. For example, member relations and governance are often overlooked in the building of networks. Human resource issues usually have not been adequately addressed, in particular, the pivotal role

of the network manager. In addition, evaluation is elusive: it is necessary to have a better understanding of how to measure the outcomes and influence of a network.

In practical terms, in order to be sustainable, a network needs to meet two main requirements: to have institutional viability and to be financially sustainable. Each GCLN should address a number of questions at the earliest possible stage of its development as part of the development of its sustainability strategy such as:

- What are the mission and long-term vision of the network, supported by which specific targets?
- Will the network membership be exclusively business-oriented or will it also include non-business organizations? Who among the local actors are the network's external partners?
- What capacities do the network's members and partners need to have? How can these be strengthened?
- Who are the network leaders? How to strengthen the local leadership? At what stage of network development does this occur?
- To what extent is there need to formalize the network?
- What are the current and potential sources of support for the network? Who are the network's potential providers of resources and other support? How can the network secure its long-term support?

Sustainability is a process of continuing organizational development, not an end. A network's sustainability is influenced by its structure, elements and functions, and every major decision made within it. Thus, commitment to the sustainability process must involve all levels of the organization and all aspects of its development, which leads to both financial stability and institutional viability.

4. MAIN ASPECTS/ELEMENTS OF GCNL SUSTAINABILITY

A. Institutional viability

One important requirement for the institutional viability and long-term sustainability of the GCLN is getting the right social actors to endorse and join the network – organizations and businesses that have influence and reputation and that are committed to the GC values and to making positive change. It is even more important to recruit the right people who are capable of doing the required job as members of the network, leaders and coordinators, etc. The network's leadership needs to be selective concerning members of the network, and the organization that could eventually host the network's Secretariat. Thus, it is important that, from its establishment, each GCLN develop sets of basic criteria for:

Institutional viability is a state in which an institution has developed a culture of strong commitment towards shared values and visions, and a common sense of purpose with its members, and has established effectively functioning governance that ensures successful implementation of the network's agenda in the foreseeable future.

- the selection and recruitment of new members. This criteria must not hinder companies wishing to learn about and commit themselves to corporate social responsibility from joining, the network regardless of their initial low level of experience. Rather, it must ensure that all GC network members comply with the network's and the GC values and principles. The network should also have an outline of the roles and responsibilities of its members;
- the selection and recruitment of leaders, and the strategic development of a group of leaders to guide and drive the local network forward;
- the selection of network's governance structure and organizational model, in accordance with the local legislation and conditions.

a. Integrity and inclusiveness

The integrity of a network is expressed through the level of commitment of the network members, and the degree to which they support and proactively participate in the network's activities. Many characteristics contribute to GC institutional viability by ensuring the integrity of the GC network such as: having a common vision and understanding of the purpose of the GCLN; having a highly committed and engaged membership united by a sense of common purpose and ownership; and being active, dynamic, relevant and responsive to the needs of its participants and to the current issues and local conditions.

The GCLN UK – a neutral forum for cross-sector dialogue

The UK network has created a category of membership called the “non-business participant”. Such members pay a reduced fee and can attend network events. Some non-business participants in the GCLN UK with particularly valuable perspectives on the GC are granted observer status in the network. They are invited to attend network steering committee meetings to observe the network's decision-making process. Also, the network collaborates with its observers to deliver specialized expertise relating to the GC issue areas. For example, in 2008, the World Wide Fund for Nature (WWF) participated in a GCLN UK meeting presenting information on climate change adaptation.

As mentioned, one of the unique values of the GC Networks is their multi-stakeholder nature. It is important for its sustainability since it allows its members to directly exchange up-to-date information and different views on the changing social and environmental issues and development agenda. It also creates a culture of multi-stakeholder collaboration and accountability necessary for the development of an active and competitive business community – socially and environmentally responsible – that plays a significant role in the creation and implementation of this agenda.

In order for the GCLN to fully use the above benefits, it is recommended that not only the network's membership as a whole, but also every element of the network's governance and operational structure maintain optimal multi-stakeholder balance by ensuring representation of all key stakeholders involved in the network. There is no golden rule for this balance in the GCLN, but years of experience have proven that in order to stay effective and productive in achieving its mission, the GC Network should be busi-

ness-driven i.e. have a majority of business members led by a core group of business leaders. However, it must also remain open and inclusive to non-business participants and have them actively engaged in every aspect of the network's governance and activities. In this regard, the GCLN UK is an example of a very creative, inclusive approach to non-business signatories, which has created a neutral forum for cross-sector dialogue as one of its most valuable services.

Finally, an important aspect of becoming sustainable is the ability of the GCLN to develop, maintain and benefit from relationships among its members and with key players outside the networks – locally and internationally. A sustainable GCLN should act as a strong communication and engagement platform and have exceptional capacity for information sharing, not only among its members, but also between the network members, key external parties and society as a whole. One important factor that supports the information sharing and communication capacity of a local network is the experience and learning acquired through its participation in global and regional GC events, including, for example: showcasing the local good practices at the regional and international events (public websites, global tools and publications) with regard to implementation and partnerships at the local level; partnering with other GCLNs in specific issues of interest; and mentoring and sharing resources with new and less developed GCLNs.

b. Effective governance

The term “governance” is derived from the Greek verb *κυβερνάω* [*kubernáo*] which means *to steer, define expectations, grant power, or verify performance*. Governance is about the establishment of, and compliance with, institutional values and principles. It comprises practices for the development of long- and short-term strategies and directions, and for the monitoring and oversight of an organization's management and performance. GCLN governance is necessary for providing strategic leadership and oversight for the development of the network and planning and implementation of its activities in line with its mission, and for ensuring the network's sustainability. Effective governance is also necessary for improving the quality and quantity of activities and engagement at the local level and achieving greater positive impact on the ground, which will in turn serve to protect and build the GC brand in general.

The following functions and elements are of particular importance for the effectiveness of the GCLN governance and contribute to its sustainability.

i. Membership role in the GCLN governance

The membership role in the network's governance varies for different networks. However, it has been proven that making the GCLN governance bodies

GCLN UK Peer Review

One important, innovative practice by the memberships' engagement in support of the network's sustainability is the system for the Communications on Progress (COP) mentoring and peer review pioneered by the GCLN UK, where participants share practices and support on COP preparation, and evaluate each others' compliance with the GC requirements for COP. The UK network requires that each COP must be made available for peer review. All members are required to act as peer reviewers. A peer review group consists of three members. The network's Secretariat organizes the process, which aims to ensure that 50% of all members' COPs will be selected for review each year. The review group decides on COP compliance, according to the following categories: compliant, compliant with qualification, and non-compliant with reasons. If non-compliant with reasons, there is a possibility for one resubmittal.

members are responsible for giving final approval of the network's workplan, and strategic decisions related to network's governance and activities.

The GCLN's members express their ownership of and commitment to the initiative through a **wide membership involvement in, and performance of, specific technical and organizational functions concerning plan-**

ing and implementation of the network's activities. Currently, in more than half of the networks, the governance bodies are appointed by the annual general meeting of all network participants. In Europe, most of the well-established networks such as the GCLN France, GCLN UK and GCLN Spain follow this model. In the Americas, this occurs in 63% of networks. In all these cases, the members of the GCLN have the highest decision-making power in its governance. They not only elect its major governance body – the Steering Committee (SC) (i.e. the Coordination Committee, the Board of Directors, the Executive Committee or the Advisory Board), but through their participation in the **Annual Network Meetings/General Assembly**, all network

GCLN Ukraine – organization of working groups (WGs)

One of the best practices in organization and membership engagement in network's activities is the innovative approach created by the GCLN Ukraine for grouping the network activities in annually agreed strategic thematic areas, which present specific GC principles or priority topics of CSR. The work within each stream is planned and implemented by specific WGs on the base of specific Terms of Reference, which are developed by the WGs and approved annually by the network's General Assembly. At the end of 2009, there were six thematic areas as follows: the environment, labour, human rights, anti-corruption, the media, and finance.

ing and implementation of the network's activities. In the case of many GC networks, every year a number of **Technical Committees and Working Groups** are initiated by the network members and set up to coordinate and carry out the network activities in a structured way.

ii. Strategic leadership

In many of the GCLNs, the main governance functions are delegated to an elected body known as the **Steering Committee (SC)**, the **Executive or Coordination Committee, or the Board**. As stated above, in most GCLNs, the members of the SC are elected among the GC signatories by the members of the GC network. In most cases, this is done by voting at the annual network meeting/assembly, or on-line following a nomination and self-nomination process.

This practice shows that a successful GCLN SC typically has a majority of company representatives while also including other organizations. Participants of the SC should have solid standing and reputation in their country, region or sector. They should be respected by the members and the other stakeholders, ready to take responsibilities, and able to dedicate time to meetings, share experiences and give testimonials. SC members should have a sound understanding of the GC philosophy and work to implement GC ten principles in a spirit of compe-

As per the 2008 GCLN Annual report, the GC network governance bodies are clearly business-led. Business participants hold the majority of seats on SCs in 90% of networks.

tence, respect and integrity while pursuing commercial interests. The effectiveness of the local network can be significantly driven when GCLN SC members have good connections to local business leaders, government departments, civil society, labour organizations, and the media. It is helpful to elect a highly regarded leader as SC chairperson, chosen by the companies and other participants within the GCLN. To ensure renewed energy and fresh ideas, in some instances, the rotation principle can be applied, both to the chairmanship and/or to the SC membership.

- iii. Ongoing coordination and management of the network's day-to-day activities and logistical support to the network and its governance elements

Once a GCLN is created, one of the first priorities is to nominate a **Focal Point** – a person responsible for coordination of the GCLN's day-to-day work and for communicating with the Global Compact Office. The **Focal Point** and his/her team are often referred to as the **Local Network's Secretariat**. There are cases when the UNDP hosts the network's Secretariat and other cases where the network outsources its secretariat, such as the GC UK, where the role of Focal Point/Secretariat is performed by an external agency, the International Business Leaders Forum, a non-profit organization promoting responsible business practices.

A sustainable network needs to maintain a professional, efficient and talented secretariat in order to implement targeted activities and actions. The secretariat must not only have a logistical and coordination role, but must also manage and facilitate the flow of activities and all elements of the network's governance and operations. A strong secretariat would have technical expertise and the capacity to propose ideas, advise, guide and lead the network and its leadership. One of the main sustainability challenges for the GCLNs is ensuring adequate human resources of a consistent number and quality for the network's secretariat. It is critically important that the Focal Point of a GC Network work full-time and exclusively for the network. In many GCLNs, the capacity of one Focal Point person or a small two-person secretariat to perform the growing range of responsibilities – from logistical support of the network's SC, working groups, and operations to sourcing ideas – is reaching its limit. Ensuring resources for a larger secretariat is a requirement for long-term sustainability.

It is also critical that each GCLN retain the talented members of its Secretariat as a priority and ensure that they continue to contribute to the GC network future development. The Focal Point position has a steep learning curve and in most cases, demands more than one year of on-the-job training. The loss of capacity and institutional knowledge due to people leaving or changing positions imposes serious risks to the GCLNs' organizational sustainability. Such risks are especially high in the absence of a good record-keeping system outlining the responsibilities and activities that the Focal Point and Secretariat members should perform, and their detailed job descriptions.

A sustainable network requires well-developed management systems and processes to be set in place to ensure efficient and smooth strategic and operational planning, implementation, monitoring of activities and outcomes, reporting and evaluation of outputs and impacts, and continuing systematic improvement of the networks' management, operations and members' engagement. At a minimum, a good record of the GCLN development, activities and their impacts, and its operational procedures and rules (frequency and organization of meetings, communications, etc.) are a must for any network committed to achieve long-term sustainability.

The organizational structure of the GCLN is an expression of the network's legal status and reflection of its governance. Formalization of networks is on the rise. By 2008, 23% of networks have been established as independent legal entities, with Asia/Oceania at over 50%. Hosting the GCLN by local organizations is also becoming popular. One important but often overlooked requirement when selecting the host organization is to ensure that the GC is preserved as a topic on its own, and that the GC holds a central position in the host's agenda and focus.

The three most popular models of the organizational structure of the GCLN are the formal, semi-formal and informal structures. The table below summarizes the advantages and disadvantages of the different organizational structures, as summarized by the Bulgarian network:

Organizational Structure:

«**Formal**» structure – registered legal entity

The structure requires formal registration of the network as a legal entity in accordance with the laws and regulations of the country where it operates. It is financed through membership fees and/or contributions from companies' members of the network. *Example: Spain, UK GCLNs*

Advantages	<ul style="list-style-type: none"> – Independence of the network from external influence. – Focus on GC agenda and priorities. – The preservation of the GC brand and logo. – Clarity and focus in defining its values, mission, and vision and their realization. 	Disadvantages	<ul style="list-style-type: none"> – Most expensive among all models. – Membership fees might result in loss of membership. – Development of a new organization would strongly depend on the management skills of the Executive Director.
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GCLN Spain (ASEPAM) – an example of the formal organizational model

Asociación Española del Pacto Mundial de Naciones Unidas (ASEPAM) consists of signatories of the GC who pay an annual membership fee depending on the type of entity they represent (e.g. a large company, an SME, an NGO, etc.). It has a Steering Committee representing the different groups that make up the network. The Committee decides on the steps to be taken in support of the ten principles of the Global Compact. It is selected and appointed by the ASEPAM's General Assembly. The ASEPAM Office (Secretariat) is responsible for, among other things, overall coordination and organization of the network activities, provision of technical support on regular Communications on Progress (COP), communications and website maintenance.

The GCLN UK's example of a formal model

The GCLN UK has a Steering Committee composed of ten members representing multinational corporations and SMEs. It also includes observers from the government, non-governmental organizations and trade unions. The role of the Focal Point/Secretariat is performed by an external agency, the International Business Leaders Forum, a non-profit organization promoting responsible business practice. There are four working groups, each focused on a specific topic (communications on progress, network liaison, SMEs and communications).

Organizational Structure:

«**Semi-formal**» structure – not registered but with governance structure and governance bodies in place

In the most common case, an organization, most often a business association, takes over the role and functions of network's Secretariat.

Examples: Japan, Egypt, and Turkey GCLNs

Advantages	<ul style="list-style-type: none"> – Less expensive to implement. – A potential development of synergies between the two organizations, and opportunity for them to complement each other and build on each other's strengths. 	Disadvantages	<ul style="list-style-type: none"> – If GC is one of many topics on the host's agenda, the GCLN could lose its neutrality and identity, which could lead to a loss of members. – If the host organization has a strong business focus, as is often the case with business associations, the multi-stakeholder character of the network can be put at risk. – Loss of independence and GC focus due to the lack of an independent governance system focused exclusively on the GC Network. – Possible conflicts of interest between the host organization and the network.
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The GCLN Japan: the transition from an UNDP-hosted semi-formal structure to a formal model

At the network's General Meeting in February 2008, the network members endorsed a plan for evolving into a CEO-ed network with a formal legal status. Under the new system, the role of the GC Secretariat developed from being that of a United Nations Information Centre to a full-time private sector-led Secretariat within the GCLN in Japan. The network created a Global Compact Board Japan (GC-BJ) to provide the network with direction and publish important messages related to CSR developments in Japan and throughout the world. The network also organized subcommittees in key areas, such as the supply chain in Asia, global warming, case studies and public relations, so that network members can work together to learn about and research important topics.

GCLN Egypt – an example of semi-formal organizational model

Currently, Egypt's GCLN is part of the Egyptian Corporate Responsibility Center (ECRC), a joint project between the Egyptian Government and UNDP. The Center is established under the Egyptian Institute of Directors (EIoD), which is supervised by a Board of Trustees, headed by the Minister of Investment, and has 30 members from the private sector, banks, insurance companies, NGOs and regulators. The actual work is carried out by the ECRC team, managed by the EIoD Executive Team, and supervised by the Board of Trustees. Financial supervision is conducted by UNDP. The current governance structure is both flexible and well supervised, providing the team on the ground with a high level of autonomy while maintaining UNDP standards of financial supervision and control. Currently, GCLN Egypt has some private sector support in addition to UNDP support, and is trying to generate funds through training courses and conferences. The key challenge is to prove that the Network can become financially viable before the end of the project in 2011. Creating awareness among companies on the importance of GC and sustainability reporting, as well as CSR compliance are strategically developed to help the network generate funds from the support and training they can offer to companies.

GCLN Turkey

The Network is hosted by the UNDP country office and works in partnership with Turkish Employers Association Federation (TISK). GCLN Turkey has a semi-formal structure, whose main element is the National Steering Committee. There are plans for the creation of a Secretariat for the Network by the SC. The United Nations GCLN Turkey does not charge fees from its signatories. Members and other business organizations ensure financial support for the Turkish Network and in-kind contributions for its activities. For example, the NSC members offer their time and expertise in moderating sectoral working sessions. These events are planned in partnership with the local chamber of commerce and industry. At the January 2008 NSC meeting, it was decided that a contribution of US\$5,000 for the next three years would be committed by six of the members. This indicates that GCLN Turkey can pool approximately US\$90,000 to cover the costs of a separate GCLN Turkey Network website, translation of materials, and participation in regional and international meetings – evidence of the Network's potential for financial sustainability.

Organizational Structure:

«Informal» structure (virtual network)

An informal network without a legal registration and members rotate to play the role of Secretariat. *Examples: Japan, Lithuania and Nordic GCLNs*

Advantages	<ul style="list-style-type: none"> – Most inexpensive among the three models. 	Disadvantages	<ul style="list-style-type: none"> – Unstable structure. – Partial loss of independence and neutrality due to the influence of different organizations while they take on responsibilities of the Secretariat. – Difficulties related to issuing official documents and other paperwork, opening accounts, making payments, receiving funding, applying for funds, etc. – Difficulties in establishing proper management in the case where the Secretariat and the Director of the network are in two different organizations.
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GC signatories in Denmark, Finland, Norway and Sweden

These signatories have established the Nordic GCLN as an informal network of companies, including also two business associations (the Confederation of Danish Industry and the Confederation of Norwegian Enterprise, both of which are GC members). For the past five years, it has met regularly twice a year on a rotating basis in one of the four countries. The Network appoints its Focal Point every two years through an election held among the Network's members. The Network has no steering committee or decision-making body; it works in collaboration with the UNDP Nordic office. The Network communicates via e-mail in addition to participating in two annual meetings. National working groups are established to prepare these two annual meetings. Special working groups may be appointed on a case-by-case basis. The Nordic Network is financed by a membership fee (EUR 500 per year). This covers all expenses related to meetings as well as those of the Focal Point. No civil society organizations, trade unions or government representatives authorities are currently admitted as members of the Network; however, representatives from all these groups are invited on a regular basis to the meetings to contribute to specific discussions on the GC principles.

The GCLN in Lithuania: the informal model

The Lithuanian GCLN is an interesting example, where the leadership for the GC Network activities and facilitation of meetings have been transferred to a company leader on a rotational basis for a period of six months. There are no membership fees and no formal Secretariat – the functions of Secretariat are performed by the company leader, which leads the Network for six months.

B. Financial sustainability

What is important for GCLN to understand as they strive for financial sustainability is what the characteristics of financial sustainability are and how to achieve it. The following questions could be asked in order to determine if a network is financially sustainable:

- i. Does the network attract, create and sustain new resources by continuously seeking potential funding from a variety of sources, including international and domestic?
- ii. Are there mutual respect, shared knowledge and relationship of integrity between the network members and its funders?
- iii. How much does it cost to achieve each specific aim of the network?
- iv. How much funding is available now and for the future with respect to requirements for expanding and improving network's activities?
- v. How do the funds flow from the source to its end use?
- vi. How efficiently are the funds used to advance the goals of the GC Compact and CSR in the country?
- vii. Are appropriate financial controls established and followed within the network?

Financial sustainability is a state in which an institution has a reasonable expectation of covering its costs for the foreseeable future through a combination of donor funding and income generation. When the donor funding declines, an organization may work to return to financial sustainability through some combination of cost control and income generation.

Depending on the types of expenses that need to be covered, there are two basic categories of funding that the GCLNs need to secure in order to support a steady level of ongoing activities:

- **Core organizational funding/operational support** – covering administrative and organizational expenses for: operating and supporting the

GCLN on a daily basis; maintaining the website; supporting the Secretariat and coordinating staff; drafting notes, reports, annual reports; organizing meetings of the governance bodies and other events for members; publishing and translations of key documents, and developing marketing materials, etc.

- **Specific/project funding** – in-kind and cash contributions for specific expenses associated with projects and activities.

The most common sources of funding for networks are described below together with their advantages and disadvantages:

- **Fund-raising:** grants from local and/or international donors, individual donations

Fund-raising for grants from donors is challenging and requires resources and time. However, it is one of the most common and powerful funding venues for both network activities and structural support. It is one of the most widely recommended and successful funding sources for the GCLNs, which helps strengthen the local network and its relationships with external actors, and opens opportunities for joint projects with various partners.

In the case of activity-based fund-raising, the funds can be applied only to developing specific network activities and cannot be used for core organizational support. As a result, there are ample activities and a wide-ranging projects agenda, but such an approach often results in a lack of necessary funds for covering the network's overhead costs and ensuring the required organizational support.

- **Membership Fees:** The GCLN is a legal entity and collects membership fees from its members. NGOs may pay low fees or/and could be expected to contribute in kind.

GCLN Spain

The GCLN Spain, ASEPAM, consist of signatories of the Global Compact who pay an annual membership fee depending on the type of entity they represent (e.g. a large company, an SME, an NGO, etc.).

Members usually pay fees for tangible and intangible benefits obtained by becoming a member. In this respect, charging fees responds directly to demand and it is the best indicator for the network of value added for its members. Examples of Spain and Argentina show the need to differentiate between multinational companies, SMEs, and NGOs/civil society organization when designing the GCLN's fee scheme.

By 2008, approximately one-third of the GCLNs had established a fee-based structure, which significantly differs throughout the regions. For example, 70% of the networks in Asia/Oceania have introduced participant fees, while this figure is significantly lower in Europe/CIS, at only 20%. In the future, fees might provide a sustainable income for network activities. However, they are not recommended at the beginning when it is just becoming established and building a critical mass (fees may create too high a barrier for entry).

- **Corporate Sponsorship, specifically:**

- Fund-raising from and/or development of partnerships with the business sector.
- Annual donations come from member companies.
- Business or non-business GCLN participants assuming costs related to the network's Secretariat maintenance (i.e. hosting the Secretariat at their own expenses)

This is one of the most promising, long-term financial sources for the GCLNs and an indicator that network members have made a long-term commitment to the network and are willing to pay for the GC brand, the valuable services of the network, and for all benefits that come with being GC members.

Many GCLNs seek funding from their members, especially the larger corporate participants, to help operate and support their activities. There is

GC Alliance in Ukraine

In Ukraine, the GCLN brought together an alliance of multinational and national companies that have agreed to pool funds for operational support of the Secretariat and the Network.

a direct relation between the usefulness of the GCLN and the willingness of companies to finance its activities. Fundraising from member companies stimulates the network members to invest in developing the network and raises their level of engagement and ownership. It also contributes to the development of close ties with the stakeholders interested in supporting the network. However, reliance on voluntary annual contributions from members and external supporters alone could expose organization to risks due to a high concentration of power and control in the hands of a few large companies-sponsors, and/or risks of unexpected changes in the economical and political climate and in the priorities of the sponsors.

- **Public Contracting:** partnership with the State

A number of GCLNs were established with direct financial support from national governments (in the case of GCLN Italy, the Italian Government contribution to the GC Trust Fund), or ensure funding of their Focal Point through governmental institutions (GC Germany). Different types of partnerships with the state (represented by ministries and other national and local governmental institutions) may also provide the GCLN with core and/or project funding.

Another venue for accessing government funds is public contracting as part of development and implementation of GC partnership projects. For example, in Poland, the local government of the City of Plock made a US\$ 277,000 financial contribution, and together with two major companies, Levi Strauss (US\$ 50,000) and Orlen (US\$ 327,000), they created The Grand Fund for Plock, aiming at improving the quality of life for Plock citizens as a part of a joint GC partnership project. The Fund seeks to attract and disperse financial resources to local NGOs for projects in eight key areas defined in the Sustainable Development Strategy of the City of Plock: welfare aid;

GCLN Germany

The German GC Network is funded through an external agency, such as the German Development Co-operation Agency (GTZ). The Network's Focal Point is financed by the German Federal Ministry of Economic Cooperation and Development, set up within the structure of GTZ's Public Private Partnership Office.

environment protection; education; public safety; heritage protection (i.e. revitalization of the old town); social security; sports and tourism; and economic support for the city.

One of the main challenges in having GCLN funded by and working in partnership with the national or local government is the fact that both governmental institutions and companies lack traditions and experience in maintaining two-way dialogue and working together. Companies are cautious, and to some degree resistant, to becoming overly involved in initiatives sponsored by the government or implemented in partnership with it. Businesses want to avoid the risk of governments taking over the CSR agenda and using it to put pressure on companies through regulations that can suffocate rather than stimulate entrepreneurial activities and initiative. Thus, the GCLNs often prefer to avoid close engagement with the government because it could result in loss of member companies.

- **Revenue-Earning Activities and Services:** The Network's own revenues are earned from providing of fee-based services to members and non-members, such as training, publications, business lunches and workshops. Specific fund-raising events/campaign can be organized by the Network alone and/or in collaboration with other partner organizations with the goal to gather funds and support for the network.

Financing through the collection of fees for the network's organized events has a positive effect on the expansion and diversification of the network's services. At the same time, it could result in too strong a commercial focus; thus, important activities for which the demand is still low could be left unattended.

Each GCLN should analyse the strengths and weakness as well as risks of different financing models and select a combination of the most appropriate financing approaches that will not jeopardize its vision and objectives, and multi-stakeholder and inclusiveness principles. When a GC Network aspires towards financial sustainability, there are a number of potential lessons and successful models that can be considered:

- It is essential that, from the very beginning, the private sector have a share in funding network actions. There are always companies that are

either willing to do so for marketing purposes or have a genuine commitment in supporting the network activities, which should be given recognition and guidance on how to invest in the network in the most mutually beneficial ways. Companies should be encouraged to commit to both monetary and in-kind longer-term contributions.

- It is critical that the network's Secretariat and governance body are fully accountable to the network's donors and/or partners and to all members for the financial resources — the amounts, their sources, how they have been utilized – and for the impacts/results achieved.
- The issue of financial sustainability should be discussed and included in the network's agenda as a priority right from the establishment of the GCLN.
- Securing funding should become a major priority for the Network's leadership. Development of the Network's budget, monitoring and reporting of the expenditures, together with the development and execution of funding strategies should involve all key governance structures – the Secretariat, the SC, and working groups.
- Sustainable funding is likely to be reached when both specific funding (ad hoc sponsorships for specific actions) and operational funding (some kind of annual contribution or fee) are provided. Core funding is essential to cover coordination costs, including staff and network's communications. It is also critical for the sustainability of the Network and ensuring that it be given top priority.
- Fundraising training and capacity building for the Network's leadership/ SC/BOD and Secretariat is essential.
- Use of diversified funding sources may prevent risks associated with unexpected drying out of individual sources.
- Financial sustainability:
 - is a *shared concern* and a *shared responsibility* of all members of the Network;

- requires matching *financing* to evolving *program objectives*;
- includes the concepts of (i) *adequate* and (ii) *reliable* financial resources, focusing not only on the quantity of funds, but on how well they reach the levels where they are needed; and
- is related to both *mobilization* and *efficient use* of financial resources.

Achieving financial sustainability is a critical part of the overall sustainability of the GC networks. Planning and implementing a strategy to reach this goal is essential to achieving its mission, goals and objective, and should be given constant attention by the network once it has established itself as a viable GC network in the country.

5. UNDP ESTABLISHING AND STRENGTHENING THE GCLNS

The development of an UNDP agenda for partnering with business marks changes in its priorities and approaches. In many cases, the local GCLNs serve as an entry point for UNDP to the business community. This determines UNDP's interest in supporting the launch of the GCLNs, their establishment, and further, their strengthening at the country level. UNDP support is crucial, especially during the preliminary phase of establishment of the network. The UNDP brand brings credibility, weight and attention to the GC network, which is necessary for attracting companies to join the network until achieving a critical mass of members, successfully maintaining policy dialogue between business and the government, and for achieving financial stability and organizational viability of the local network.

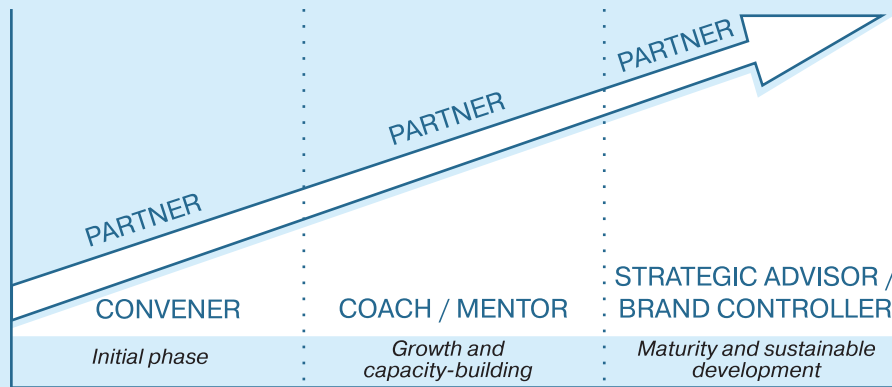
At the country level, there are various relationships between the GC networks and the UNDP COs in different countries, for example: (i) a very close relationship when a GC project is included into the UNDP CO programme portfolio with UNDP staff assigned to manage the GC Network

Secretariat; (ii) where the GC Secretariat hosted by the UNDP office is slightly more independent and not completely linked to the overall CO portfolio programme; (iii) where the GC network operates independently from UNDP. As shown below, these different levels correspond to UNDP's different roles that UNDP with respect to the GCLNs.

UNDP's involvement in establishing and developing a GCLN involves developing through a number of phases, from first launching the GC initiative at the country level to establishing a robust and sustainable business-led model. The transition towards independence from UNDP requires not only significant financial and structural changes, but also changes in culture and mindsets within the network's membership and leadership. Since changes on such a scale and of such a nature take time, it is recommended and expected that the networks will gradually move from UNDP support to a more solid footing within the business community. Such a transition usually occurs in three stages/phases. Each phase requires specific kinds of expertise and support. At all times, the engagement of committed individuals and organizations is needed. And in each phase, UNDP plays a specific role in the GCLN development (*see Figure 1*):

- In the first phase, during the establishment of the GCLN, the UNDP CO plays a key supporting role by providing resources (human and monetary), convening key players, and ensuring coordination and organization of the networks' set up and launch.
- During the second phase, when the GCLN grows and strengthens its operations, management and governance, the UNDP usually plays an important role in the network's capacity building and in ensuring the flow of fresh ideas, experience and knowledge from the UNDP and GC Global Network by providing technical support, coordination, guidance and monitoring of the network's development.
- During the third final phase, UNDP transfers all its coordination and operational functions to the network's leadership and members with the goal to remain engaged in the long-term in the network's development as a partner, observer and adviser.

Figure 1. The changing role of the UNDP in the network development



It is important to underline that during all of these phases, UNDP should never lead the network. It is critical that it facilitate and coordinate but leave the leadership of the network to the local partners.

GCLNs transition to independence in Latin America

GCLN Panama was established within and operated by UNDP, yet it shifted gradually toward the formal model by forming an NGO that provides services to members for small fees. In Mexico, the GCLN almost overnight needed to become independent from the UNDP, which created a great deal of tension. In a situation of drastically shrinking United Nations support, guidance and assistance, it took a year for the companies to understand that if they do not provide support, the GCLN cannot survive nor create a strategy on raising funds from the private sector.

At times, there is a rapid development of the GC network towards independence from UNDP. In other cases, it is a more gradual process. It could be triggered by changes in UNDP's priorities and strategy, or it could follow a natural evolution towards a higher level of confidence and capability of the business community to support and lead the network.

In any case, it is essential that the issues of long-term sustainability and the development

of the relationship with UNDP have a permanent place on the network's agenda and list of priorities right from the establishment of the network. Lack of preparedness for and consideration of these issues, combined with

reduced funding and last minute changes in UNDP policies, could harm the integrity of the network. A GC network that has been abruptly disconnected from the United Nations, left completely on its own and unaccountable in terms of compliance with the GC values, could create risks for the GC brand and the United Nations brand as a whole.

It is important that both UNDP COs and GC Networks become aware of the differences in their attitudes towards and relationship with the private sector. These differences can become beneficial for both United Nations and GC Network members if addressed properly and if both sides are open to finding creative solutions to issues rooted in differences between private and public sector approaches. For example, one important question to be addressed by the United Nations/UNDP is the United Nations' culture of providing valuable knowledge, information, training and other services free of charge, which is influencing the mindset of the GC networks. For companies, free services are not seen as valuable, and accordingly, the GC might not be taken seriously. Also, the practice shows that after a United Nations-hosted GC network adopts the United Nations policy not to charge its participants for services, its transition to financial independence is made difficult due to resistance among the GC members to charging such fees later by the network. As a convener of a GCLN, the UNDP should take into consideration the overall lack of experience of the United Nations systems and staff in working with the private sector. At a minimum, UNDP should establish an open platform for open dialogue, two-way information exchange and learning between the GC Network and the United Nations CO. Both GCLNs and UNDP Country Office (CO) should remain open-minded, flexible and practical in managing their relationship.

UNDP's involvement during and beyond the third phase is particularly important for GCLN sustainability and for the preservation of the GC and United Nations brand and reputation, because in the public's view, the United Nations brand will remain linked to the GC network for a long time. By ensuring its participation in the network as a partner and adviser, UNDP will be able to monitor how the GC and United Nations brand is used and to protect it after the Network becomes independent from UNDP and financially sustainable. In its long-term role, and by sitting on the GCLN's SC, UNDP should also be able to provide quality assurance, guidance and advice to

the SC. This would ensure that the operational structure, built on the governing principles of the network, is fully functional and meets the UNDP and GC criteria for sustainability — being multi-stakeholder and showing commitment to the GC principles and universal values.

During the last phase, the UNDP country office also needs to work closely with the GC network SC on the development of the network's sustainability strategy in line with the aspirations of the GC network members. UNDP's long-term involvement in the GC network development has great potential to serve as a platform for collaboration between the different United Nations agencies in the countries, on regional and global levels, for developing joint efforts and a coordinated approach for United Nations engagement with the business community on CSR.

Regional UNDP project for local GC networks development in the Western CIS and Caucasus

The regional project "Fostering Multi-stakeholder Partnerships to Achieve MDGs in the Western CIS and Caucasus in the Framework of United Nations Global Compact" has been implemented since April 2006 in six countries, Armenia, Belarus, Georgia, Moldova, Russian Federation and Ukraine, and is funded by the Government of Belgium.

Its main goal is to harness value-adding assets of the private sector for poverty reduction in the Western CIS and Caucasus by launching and strengthening local GC networks and promoting multi-stakeholder partnerships in their framework.

The UNDP involvement in the networks development has been of great importance for both UNDP and the GCLNs. The UNDP brand has brought credibility, weight and attention to the GC networks. Close involvement of the UNDP country offices (COs) and UNDP Regional Office, and efficient use of UNDP contacts, influence, diplomacy and consensus-building skills, and role as a facilitator in policy development have contributed towards effective engagement of a number of GCLNs in their dialogue towards agreement on governmental national CSR agendas.

For the UNDP local offices, GCLNs serve as an entry point to the business community and its resources (financial, technical, intellectual, in-kind etc.), providing an op-

portunity to build linkages between companies and UNDP projects or even the wider United Nations family, as in the case of Ukraine where the project has been placed within the Resident Coordinator Office. Such an approach in the spirit of "delivering as one" helped to improve the level of coordination and collaboration between the different United Nations agencies on CSR-related issues. The general conclusion is that continuing involvement of the United Nations/UNDP in the GC network's development as an adviser, resource, and partner in a longer term, even after the networks have been established as independent institutions, would not only be of great importance for the networks' sustainability, but also of benefit for effective implementation and achievement of greater impacts from the United Nations/UNDP country programmes and strategies.

The GCLNs established within the framework of this regional project show various levels of potential for reaching sustainability. The next years will be critical for achieving the level of maturity and responsibility within the networks, and the level of awareness on CSR among the stakeholders in the countries that would allow independent development of the GC networks in accordance with the United Nations GC values and principles on the base of self-control and self-monitoring.

In all the countries, UNDP project team has been playing a crucial role of the Focal Point/GC Secretariat. As the governance structures of the GCLNs were built and the network participants became increasingly involved in planning and implementation of the activities, defining the role of the UNDP country office in the local network's governance structure and operations became essential for ensuring the stable evolution towards a sustainable and locally owned network. The network should be guarded against any governance solutions that lead to a few self-proclaimed business leaders privatizing the initiative for their own ends.

Currently, few networks envision future governance and operational structures and financial models beyond United Nations active engagement and Secretariat support. There is no blueprint for this solution; however, some principles should be observed for securing sustainability and a public role for the networks: inclusiveness, integrity mechanisms, agreement on joint actions and links to global issues.

At the final stage of the GC regional project, it is expected that UNDP will continue to provide various levels of financial support and will stay closely engaged in the local networks' development and governance. However, many factors may drive the establishment of the networks as independent institutions capable of ensuring their own financial support.

6. ESSENTIAL ASPECTS TO RECALL FOR DEVELOPING A SUSTAINABLE GCLN

In conclusion, the practices, guiding principles for building sustainability and the experience from GC and other networks' worldwide presented above can be summarized in a list of essential characteristics and elements, which can contribute to the networks' long-term success and can be defined as prerequisites for building a sustainable network.

In order to achieve institutional viability, the GC Network should:

- ☑ have a vision and purpose;
- ☑ be active and relevant;
- ☑ be business-driven while remaining multi-stakeholder;
- ☑ have key (strategic) partners on-board, and when necessary, have external institutional backing;
- ☑ have a committed, engaged membership united by a sense of common purpose and ownership;
- ☑ have strong and respected leadership;
- ☑ have a strong institutional base;
- ☑ have a workable and transparent governance structure;
- ☑ have a stable operational framework ensuring effective management, implementation and monitoring of all programmatic and administrative operations and functions (including expanding membership, providing services to members, building relationships, etc.);
- ☑ be accountable;
- ☑ develop strong communications and information-sharing capacity.

In order to achieve financial sustainability, the GC Network should:

- ☑ have a Long-Term Financial Sustainability Strategy;
- ☑ have short- and long-term financial support for its operations and activities;
- ☑ have fund-raising capacity, workplan, and ongoing activities;
- ☑ engage the membership actively in ensuring financial sustainability of the network.

Every GCLN, regardless of the national context in which it operates, has a challenge to apply the GC principles and establish a platform for their implementation in the specific context of the country. The GCLNs have the unique role in raising awareness of the local business community, both large- and small-size companies, and the local stakeholders on how to think globally but act locally, and thus facilitating and building capacity to develop unique solutions to local problems. In this regard, GCLN sustainability is critical for defining the role of business and for involving the business community in partnership with other stakeholders in the task of seeking solutions for the major environmental, social and development issues faced by communities, nations and individuals today.

As the GCLNs grow and mature, with links locally, nationally and globally, a continuous process of assessing each network's governance, financial viability and sustainability with respect to these guidelines and characteristics will assist the GCLNs in becoming more sustainable, achieving their vision, and enhancing CSR awareness and activities in their country and the region. Thus, with leadership from and collaboration with UNDP, they will harness value-added of the private sector for its contribution to achieving the MDGs.

