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## ETHICS, MULTINATIONAL ORGANIZATIONS<sup>1</sup> AND DEVELOPING COUNTRIES<sup>2</sup>

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### 1. Introduction

Multinational organizations (MNO's) operating in developing countries have long been subject to criticism. From the time of the powerful trading companies in England, the Netherlands and Germany, they have used their economic, political and some times military power to ensure their interests. Their economic and political power; their ability to change the behavior of others, may be as large if not larger than that of local governments.

On the other hand it is up to the local government to create a set of institutions (laws and regulations) in their jurisdiction, which is to the benefit of the citizens of their countries. Unfortunately, many of the institutions in developing countries are inadequate in that they do not serve the general interest of the people. Richard DeGeorge<sup>3</sup> has developed a set of principles for multinational organizations that they should follow when operating in a country with inadequate institutions, such as assist in the development of the country, pay a fair share of taxes and follow local customs when appropriate.

Most of the countries represented in the UN are corrupt. In the Corruption Index developed by Transparency International for 2012, only 40 (of 174) countries score 60 and above on a scale of 1 to 100; 100 being relatively corruption free. Most of the developing countries are plagued by corruption<sup>4</sup>. Corruption is mostly associated with politicians and other public officials who help themselves to economic and natural resources in order to stay in power and secure their own personal wealth. It is therefore unlikely that the UN can help rid the world of corruption. Corrupt politicians are not as common in democracies with a free press and free elections. In a study by the Economist, only 25 (of 167) countries were found to be “full democracies”<sup>5</sup>, and none of these can be classified as “developing countries”. The democracies are relatively free of corruption.

Hence, when we look at the interaction between multinational organizations and developing countries, we can get a relationship, which may not serve the interests of the local population. The politicians seek money

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<sup>1</sup> The term “multinational organizations” is used to include corporations, NGO's, government agencies and other organizations that operate in the international arena

<sup>2</sup> Presented at ICME 2013, the 2<sup>nd</sup> International Conference on Management and Economics. February 26-27, 2013 in Matara, Sri Lanka at the University of Ruhuna.

<sup>3</sup> De George, Richard T. (1993): *Competing With Integrity in International Business* (Oxford),

<sup>4</sup> Transparency International - <http://cpi.transparency.org/cpi2012/results/>

<sup>5</sup> The Economist [http://www.sida.se/Global/About%20Sida/Så%20arbetar%20vi/EIU\\_Democracy\\_Index\\_Dec2011.pdf](http://www.sida.se/Global/About%20Sida/Så%20arbetar%20vi/EIU_Democracy_Index_Dec2011.pdf)

to stay in power and enrich themselves and the organizations seek to maximize earnings and minimize costs.

It is the purpose of this paper to set out a few basic principles of ethics, and then look at five contexts in which problems might arise in the interaction between international organizations and developing countries:

- 1) International finance and banking,; the borrowing privilege
- 2) Out-sourcing production
- 3) Mining and natural resources; the resource privilege
- 4) Development aid, the aid privilege
- 5) Government procurement, the purchasing privilege

This will be followed by a brief conclusion

## **2. Micro, Mezzo and Macro Institutions**

Basic to all interaction, be it political and/or economic, is the transaction: the exchange of something between two or more parties. The rules for these exchanges can be seen as “institutions” or as traffic rules for interaction: norms, values, laws and regulations governing exchanges.<sup>6</sup> The institutions can be viewed at three levels. Micro institutions are the traffic rules of behavior present in a culture; what is seen as right and wrong, desirable and undesirable, expected and unexpected. Mezzo institutions are present at the governance/political level in a country. In a democracy one would expect that the values present in a culture, will be reflected in the governance of the country; in the mezzo institutions. However this may not be the case. No cultures embrace corruption as a desirable institution, yet it is tolerated and practiced at the mezzo level. Likewise, there may be strong cultural values that promote education, peace and social mobility, but this may not be reflected in the mezzo institutions. Finally we have the macro institutions. These are the traffic rules used in the international arena; trade, finance, politics and security issues.

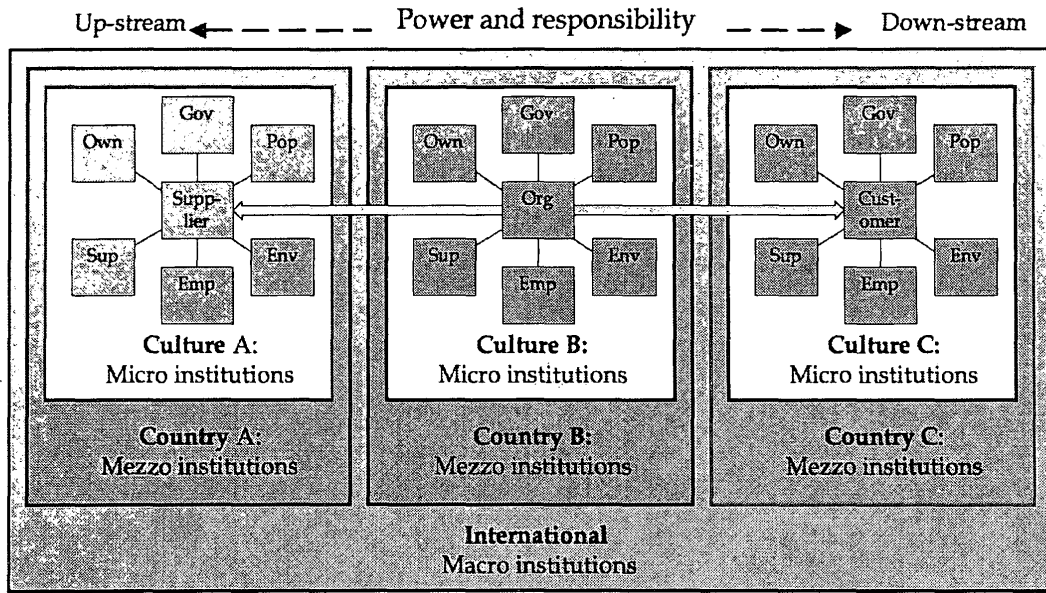
International value creation networks span a number of cultures and countries, and there are many stakeholders affected. Note the different levels of institutions; micro (culture) mezzo (governance) and macro (international) as illustrated in Figure 1:

A multinational organization (MNO) in country B interacts with an organization in country A. The micro institutions (cultures) are different, as are the mezzo institutions. If the the MNO from country B is a big and important customer in country A, it may be able to change the behavior of the supplier in country A by specifying the products that are produced as well as the social and environmental sustainability of the supplier. Or if the MNO from country B operates a subsidiary organization in Country A, it most certainly will be responsible for its actions. In both cases can they be seen as “responsible” (able to respond) to possible inadequate institutions in country A.

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<sup>6</sup> North, Douglass C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge, UK: Cambridge University Press.

Figure 1: A multinational value creating network



Power: Can I change behavior? Response-ability: Am I able to respond?  
 Does your value chain promote flourishing for affected parties?  
 Extractive industries, labor issues, kleptocracies, subsidies...  
 Social and environmental foot prints

### 3. Ethics

The challenge in all exchanges is to make sure they are beneficial for all affected parties. Vilfredo Pareto suggested that exchanges should take place as long as at least one of the parties are better off without at the same time others were worse off. In modern parlance, we need to make sure that our exchanges are win-win for the parties involved. Do we get win-win exchanges if we follow the current micro, mezzo and macro institutions in our transactions? Do these “traffic rules” promote good lives for the affected parties? We all have a built-in moral compass implanted in us by our local culture. Some things feel right and other things feel wrong, and we have reasons why this is so. The moral compasses vary from one culture to the next, so what is seen as ethical and good can be different from one culture to the next – and also over time. This is a relativistic view of ethics. However, we need to take a more universal view of ethics if we are to resolve the current inequities. So what are the hallmarks of “good institutions”?

The purpose of ethics is to promote flourishing lives – promote Eudaimonia – “doing and living well” as described by Aristotle in his *Nicomachean Ethics*<sup>7</sup>. Thus the key question we need to ask is “do the institutions surrounding an international value chain promote flourishing lives for the affected parties?” And perhaps even more basic: what are “flourishing lives”? Amartya Sen (1992)<sup>8</sup> discusses “capabilities” as the ability to achieve “functioning” in what one chooses to do and manages to be in life. Some “functionings” are elementary like nourishment and health, others are more complex like achieving self respect or being socially integrated. We differ in the preferences and the weights we give to different functionings. The capabilities (or resources) depend in part on personal characteristics of the individual, (e.g. talent), and the

<sup>7</sup> Aristotle: *The Nichomachean Ethics*, Translated by Martin Oswald (1962). New York: The Bobs-Merrill Company.

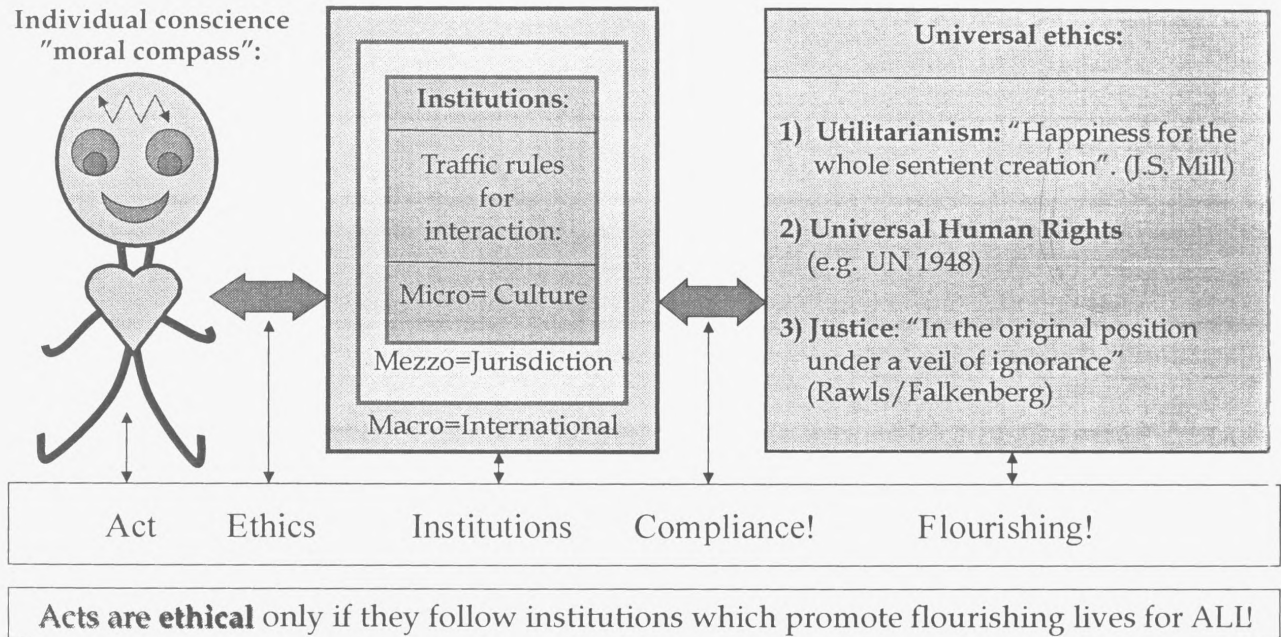
<sup>8</sup> Sen, Amartya (1993): *Capability and Well-Being* in Martha Nussbaum and Amartya Sen: *The Quality of Life*, Oxford University Press pp.30-53

social institutions surrounding the individual (e.g. a supportive family, benign micro and mezzo institutions etc).

So in order to look at the ethics of MNO's in developing countries, we need to look at the degree to which the institutions, the traffic rules governing the transactions, indeed promote flourishing lives. The proper unit of analysis is not "ME", whether I am better off, or "US" whether my organization or my country is better off. In order to have universal ethics, the unit of analysis must be to see if our transactions promote better lives for "ALL" – and not at the expense of some. As the world becomes more and more interdependent from a social and an environmental viewpoint, we need to look beyond ME and US – to ALL.

Three possible approaches to a universal ethic can be utilitarianism and/or human rights and/or justice, which will promote flourishing for ALL. One can look at the institutions that one is about to follow for a given exchange and see if these, if practiced generally, will promote flourishing lives for the whole "sentient creation" as John Stuart Mill proposed.

Figure 2: Ethical analysis: promote flourishing not just for ME or for US but for ALL<sup>9 10 11 12</sup>



This framework is useful for evaluating the exchanges between MNO's and a developing country. We need to look at the institutions that govern their interaction to see if they indeed promote "happiness for the whole sentient creation" or if they protect and promote Human Rights or if they are in compliance with the conception of Justice formed in "the original position under a veil of ignorance".

<sup>9</sup> John Stuart Mill (1863): Utilitarianism, Chapter 2 <http://utilitarianism.com/mill2.htm>

<sup>10</sup> United Nations: Universal declaration of Human Rights <http://www.un.org/Overview/rights.html> or Council of Europe: Convention for the Protection of Human Rights and Fundamental Freedoms as amended <http://conventions.coe.int/Treaty/en/Treaties/Html/005.htm>

<sup>11</sup> John B. Rawls (1971) *A Theory of Justice*, Harvard Paperbacks

<sup>12</sup> Falkenberg, Andreas W. (1996): "A Yardstick for Evaluation of Justice and Ethics in Economic Organizations", *Journal of Socio Economics*, no. 2

On one hand, we have formal institutions anchored in local laws and regulations. These are often quite acceptable in the areas of for example corruption, working conditions, pollution and the system of justice. Most countries have signed the UN Universal Declaration on Human Rights. However, these institutions are not always practiced. An organization needs to map out the institutions that will govern its exchanges to see if they promote flourishing lives for the affected parties. The different options are illustrated in figure three below.

Figure 3: Adequate and inadequate institutions: possible alternatives for a MNO

	Formal institutions (laws and regulations)		Informal institutions (practiced norms and values)	
	Adequate	Inadequate	Adequate	Inadequate
Act	Follow institutions Go ahead	Immoral Voice or exit	Follow institutions Go ahead	Immoral Voice or exit
	Go against institutions	Illegal Consider benign civil disobedience	Go against institutions	Immoral Consider behavior "over and above the call of duty"

Sometimes, the only acceptable act is to go against the local institutions and act better than what is required. Organizations in South Africa under apartheid did on occasion engage in "benign civil disobedience" as they refused to treat blacks and whites differently. Some chose to voice their concerns and some chose to exit. If a MNO has been put into a situation where it participates in financing an oppressive regime, then perhaps one should be prepared to withdraw and blow the whistle on the kleptocratic oppressors.

#### 4. The Current State of Affairs

There can be many measures of flourishing lives. It seems that "experienced happiness" can be independent of economic well-being. Relatively poor people in some cultures experience more fulfilling lives than richer people in other cultures. However, this measure is dependent on how the local culture has calibrated one's expectations. If one expects little, but experiences more than one expects, satisfaction and happiness goes up. If one expects a lot and fails to achieve it, then satisfaction and happiness suffers. We have a number of indicators that may contribute to an understanding of human flourishing globally. Some of these include:

##### *Some indicators of human flourishing*

- 1) Life Expectancy<sup>13</sup> – longer lives and low infant mortality promotes flourishing
- 2) Hunger<sup>14</sup> – absence of hunger and malnutrition promotes flourishing
- 3) Corruption<sup>15</sup> – the diversion of public funds removes the opportunity to pave the way for laudable pursuits such as health, education, infrastructure etc.
- 4) Democracy<sup>16</sup> – ensures that the values of the people are also reflected in the governance of the country – and one is able to remove malign rulers.

<sup>13</sup> CIA: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2102rank.html>

<sup>14</sup> World Food Program: <http://cdn.wfp.org/hungermap/>

<sup>15</sup> Transparency International: - <http://cpi.transparency.org/cpi2012/results/>

<sup>16</sup> The Economist:

[http://www.sida.se/Global/About%20Sida/S&S%20arbetar%20vi/EIU\\_Democracy\\_Index\\_Dec2011.pdf](http://www.sida.se/Global/About%20Sida/S&S%20arbetar%20vi/EIU_Democracy_Index_Dec2011.pdf)

- 5) Failed states<sup>5</sup> – some countries are coming apart with consequences for security, the rule of law, and all the other functions normally ensured by a well functioning state.
- 6) GINI coefficient<sup>6</sup> – a measure of income distribution. A high coefficient means a big income gap between the rich and the poor, which can result in unrest as well as lack of flourishing for the least well off.
- 7) GDP per capita<sup>7</sup> – when the citizens are allowed the opportunity to be as productive as possible, the work needed to secure the basic needs will go down and flourishing becomes easier.
- 8) Economic Freedom<sup>8</sup> – when the citizens are free to engage in economic activity, more welfare will be produced and more flourishing will take place.

Most of these indicators are highly correlated. Poor developing countries are also short on democracy, experience higher frequency of hunger, they are long on corruption, have a number of poor people and a few rich ones, have low GDP per capita and lack economic freedom.

Figure 4: Flourishing Lives: The global State of Affairs

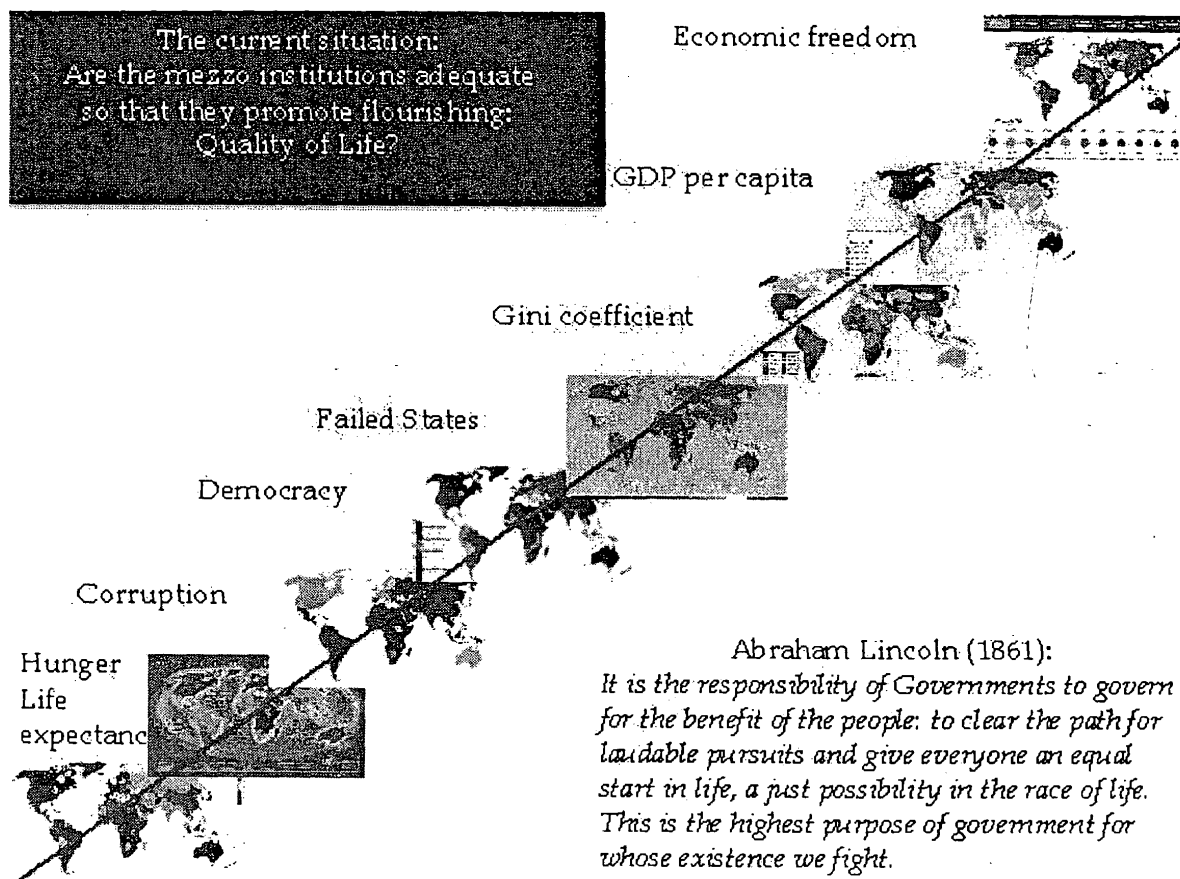


Figure four gives an overview of country indexes for many aspects of flourishing. Interested readers are encouraged to look up the maps individually. However, one can observe that there is need for further

<sup>5</sup> Foreign Policy: [http://www.foreignpolicy.com/failed\\_states\\_index\\_2012\\_interactive](http://www.foreignpolicy.com/failed_states_index_2012_interactive)

<sup>6</sup> CIA: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

<sup>7</sup> The World Bank: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

<sup>8</sup> The Heritage Foundation: <http://www.heritage.org/index/>

development in a series of countries, whose mezzo institutions have failed to promote flourishing lives for their citizens.

The next question we need to address is if these conditions are a result of powerful multinational organizations exploiting the weaknesses in the institutions of the developing countries or if there are other factors, which cause these outcomes. No single paper can possibly answer these questions, so the analysis below must be brief. However, it is hoped that the perspective taken in each of the areas will inspire further investigations into these crucial relationships. We will look at phenomenon related to international finance and banking, outsourcing production, mining and natural resources, development aid and government procurement.

## **5. International Financing – The Borrowing Privilege**

Countries borrow money and banks are normally happy to lend money against government guarantees. It seems, however, that the banks do not always assess the risks associated with government loans. Is the government borrower a responsible one? Will it spend the money in a productive way so that it is able to repay the loan later? Or is the money borrowed by kleptocrats who use it to stay in power or simply to enrich themselves? This is also a problem in democratic countries, where politicians make expensive promises at election time without asking for unpopular tax increases. One is in fact buying the election and passing the bill to future tax-payers. In either case, the citizens are left with the bill, austerity measures are implemented, guided by the World Bank and IMF.

Third world debt has long been a problem and now we are seeing the same problems in the more developed countries. International banks issue these loans and recognize these governments as legitimate borrowers for their countries – they are granted the borrowing privilege. When a customer country has problems serving its debt, the banks turn to their home governments and ask for support. The banks are often too big to fail, and they receive support from their home governments. As such, they have a capitalistic upside; they get to keep their profits in good times, and they have a socialistic downside, they get public support when they suffer from self-inflicted losses. This is indeed a perverse set of incentives: banks may lend too much money to corrupt governments, which causes the countries to default on the loans. The debtor countries implement harsh austerity measures for the poor people, who are governed by the corrupt leader and then the banks ask their home government for a bail-out.

The traffic rules for behavior, the institutions governing these transactions, are clearly inadequate and cause the opposite of flourishing lives. The actors in these transactions follow unsustainable institutions. Who is to be blamed for this? The fingers should be pointed to the corrupt politicians who borrow the money for their own benefit, and to the banks for their lending practices as well as to the governments in the banks home country for helping the banks who are in trouble. We have inadequate macro and mezzo institutions.

An individual or a country with insurmountable debt loses freedom. One becomes a debt slave and is no longer sovereign in the conduct of one's affairs. Kofi Annan's economic advisor, Professor Jeffrey Sachs first called on the developed countries to cancel Africa's debt. But failing that, he said that Africa should ignore its \$ 201 billion debt burden.<sup>21</sup> Perhaps even more seriously, some developed countries have used debt as an

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<sup>21</sup> BBC news: <http://news.bbc.co.uk/2/hi/business/3869081.stm>

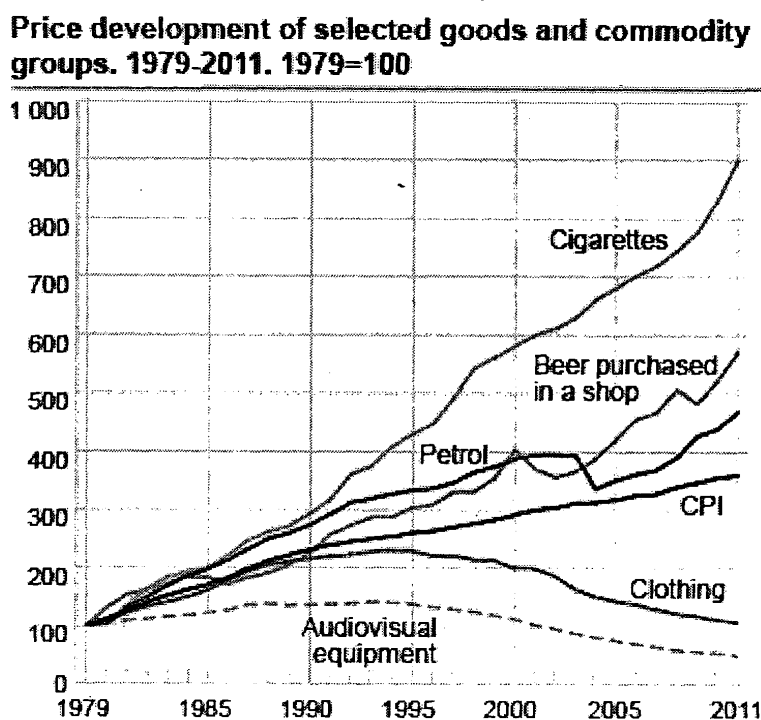
instrument of foreign policy. When a developed country's government stimulates the lending of money to a developing country, the borrowing country becomes beholden to the lending country and can be made to obey the wishes of the lender. This is described by John Perkins<sup>22</sup> in his book "Confessions of an Economic Hit Man".

This brief analysis reveals a great set of inadequate institutions: the incentive system in the banks encourage loans to governments. Politicians can stay in power by putting their countries in debt. Developed countries are willing to bail out their banks when they incur big losses. Banks recognize kleptocratic governments as legitimate borrowers for their countries.

#### Outsourcing

Many activities that used to take place in the developed countries have now been outsourced to developing countries. This is the case for the garment industry, the shoe industry and much of the electronics industry. The high cost of labor in the US and Europe has made it less profitable to produce these products at home, when much cheaper labor was available in other countries. This has made it possible for developing countries to create jobs and economic opportunities for a large number of people. An international value chain can consist of a set of factories in a developing country, an international buyer/marketer who makes all the product and marketing decisions and subsequently sells the products, mostly in the developed world. That means that the customers in the rich countries are indirectly employing low paid workers in developing countries to support their standard of living. Figure five below illustrates this.

Figure 5: Price index for Norway 1979 - 2011<sup>23</sup>



As we can see, the consumer price index from 1979 to 2011 has gone from 100 to about 360. However, for the products that are typically outsourced to developing countries, the prices rose until 1995 and then declined to 100 for clothing and to about 50 for audiovisual products. The overall price index includes these

<sup>22</sup> Perkins, John (2004) Confessions of an Economic Hit Man <http://www.economichitman.com/>

<sup>23</sup> Statistics Norway (2012) <http://www.ssb.no/priser/>



products, so if it had not been for the low costs in developing countries, then the price index would have been even higher. Norway has a very low GINI index on salaries paid in Norway. If one were to look at the salaries paid for the production of products consumed in Norway rather than the salaries paid in Norway, then the GINI index would be much higher.

The international value chains are interesting in that they take full advantage of the market forces in different countries. In developing countries, there is a shortage of jobs and a lot of poverty. A local factory owner can therefore offer work to those who are the most desperate; willing to work for the lowest possible pay. This will make the most money for the local factory owner; low cost – high value produced. Hence we hear report of extremely low salaries paid in Vietnam, Cambodia and Bangladesh to workers producing for famous brands in the developed world.

In the multinational organizations, the CEO's are also rewarded by the market. From the owners' viewpoint, if a CEO is able to increase the value of the company by \$ 50 million – then one might be willing to pay the CEO \$20 million. That is a good investment. Thus we find ourselves in a peculiar situation: it would take an average Sri Lankan sports wear worker 14 000 years to earn the Nike CEO's annual pay.<sup>24</sup> Both salaries are set by a market – however the market does not always result in flourishing lives for all involved. Hence we have governments and labor unions that should help make sure that all are paid a living wage. If the government fails or if the unions are weak or unwelcome, it is up to the rest of the actors in the value creation network to ensure a living wage. In some cases, big firms have been responsible (= are able to respond) and have demanded that their suppliers treat their employees well. Nike has had a program to do this in Vietnam for a long time.

On further investigation, however, it turns out that money earned in these value chains do not always end up in the pockets of the big brand organizations like Nike. The numbers in the example below are not a true case, but an illustration. However the retail price and the production costs are reasonably accurate. A pair of Nike shoes out of the Korean owned factory in Vietnam may cost about \$10. This price covers materials used, energy, the factory, worker salaries, management compensation and profits to the owner of the factory. Nike then buys the shoes, and puts them into its international distribution system. A pair of shoes may end up in Norway and is sold for \$ 250. This includes taxes to pay for the welfare state in Norway to the tune of 25% value added tax as well as taxes on the profits earned in Norway – perhaps a total of \$ 80 dollars, or 8 times the original costs of the shoes. The Norwegian retailer may have a mark up of \$ 100 to pay for transportation, advertising, rent, employees and the like. This leaves \$ 60 for Nike in Oregon to cover product development, marketing, transportation etc. The relationship between the factory owner and local officials in Vietnam may also contain payments, which further erode the ability to pay a living wage in the factories. Or there may be arrangements between government and Korean owned factory made to reduce taxes in Vietnam – thus contributing less than what might be reasonable to the health and educational institutions in Vietnam. So who adds the most value in this process? The Norwegian government, Nike or the workers in Vietnam? The distribution of the rewards does not seem to match the input provided.

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<sup>24</sup> Oxfam (2011) <https://www.oxfam.org.au/2011/01/1400-years-for-sri-lankan-workers-to-earn-nike-ceo-pay/>

Here we have mezzo institutions in Vietnam, the US and in Norway involved in one value chain. Do they promote flourishing lives for the parties involved? Could we have done better for the stakeholders? If we were to have a set of institutions which would be to the benefit of ALL and not US (the countries) or ME (the individual manager/worker/share holder), perhaps the value generated by the production, marketing and sale of these products might be distributed differently; perhaps more to the factory workers and less to the governments involved. Is it correct for an international value chain to apply different standards from one jurisdiction to the next? If we were to follow the maxi-min principle in Justice, or the marginal utility of money argument in Utilitarianism – then it would be correct to increase the standard of living in the poorest end of the value chain. No firm is an island especially in these inter-dependent value chains, so the proper unit of analysis must be more than just one firm. It is also the responsibility for the local government to provide and enforce a legal and regulatory framework that promotes flourishing for the citizens of their country. By definition, this is a job not well done in developing countries. Had they done so, the countries would have been more developed.

## **6. Natural Resources: The Resource Privilege**

Many developing countries are blessed with vast natural resources, for which there is a great demand internationally. Oil, coal, minerals, gems, forests and agricultural resources are included here. In most countries, natural resources are owned by the citizens collectively and the government is supposed to manage the resources on behalf of the people. Unfortunately, many governments have not managed these resources to the benefit of their citizens. Too often, the government of resource rich countries have sold the resources to MNO's and have used the revenue generated for their own benefit; both politically (to stay in power) and to increase their personal wealth. MNO's have recognized these governments as legitimate seller of their countries' resources; they have been granted the resource privilege. MNO's acting as buyers of these resources thus assist in the financing of governments. Many developing countries do not have a tradition of property rights to the land on which they carve out a living; be it in the forest or for agricultural lands. It is therefore assumed that the land belongs to the government, and not to the people who have used it for centuries. An opportunistic government can therefore chose to sell or lease agricultural lands and forests to MNO's - leaving the original population without the resources they have traditionally used for survival.

These governments have “stolen” the resources from the people they are supposed to serve. Normally, a buyer of stolen goods does not have legitimate property rights to the items traded; they have been sold by a fence. If this had happened inside a country, the exchange would have been illegitimate. However, this seems to be an acceptable practice; or an inadequate institution at the macro level in international trade. A buyer who accepts to do business with a kleptocratic government has given recognition to the seller; the seller has been granted the resource privilege.

This is a wide spread problem in many developing countries and it is the subject of much discussion internationally. Where is the money that Shell helped Nigeria earn from its vast oil fields over the past 40 years? When it comes to health, education, infrastructure and general level of living, Nigeria is still poor. This is very much a two-sided problem. Oil companies need to be where the oil is – and if the resources are controlled by kleptocrats – i.e. inadequate mezzo institutions, then perhaps voice and exit are the only options for the MNO.

We have often considered the big oil companies as very powerful MNO's. However compared to the state oil companies in the oil producing countries, the big sisters are rather small. In table two below, some of the worlds biggest oil companies are listed, ranked based on how many billions of barrels of oil/gas they own. These state owned companies are controlled by the local politicians and are typically the partners with the MNO's when they do business with the oil rich countries. Needless to say, vast sums of money go through these firms, some of which end up in the pockets of the kleptocrats. The transactions between the Nigerian National Petroleum Corporation and Shell or Statoil may be done on usual international terms. However, what happens to the money that NNPC receives is what is of concern.

The Norwegian oil company Statoil has operations in a number of countries, some of which do not seem to have benign governments. The latest tragedy in Algeria was aimed at a gas field in which Statoil and BP cooperated with the Algerian state oil company Sonatrach.

Table 2: The world's biggest energy companies and the level of country corruption\*

<u>Company</u>	<u>Total bill barrels</u>	<u>Corrup- tion (2011)</u>
1 Saudi Aramco	303	4.4
2 Nat. Iranian Oil	300	2.8
3 Qatar Petroleum	170	6.8
4 Iraq Nat Oil	134	1.8
5 Petról Venezuela	129	1.9
6 Abu Dhabi	126	6.8
7 Kuwait	111	4.4
8 Nigerian	68	2.8
9 Libya NOC	50	2.1
10 Sonatrach (Algeria)	39	3.4
11 GazProm	29	2.8
12 Rosneft	21	2.8
17 Exxon	13	7.3
19 BP	13	7.4
21 Chevron	10	7.3
27 Statoil	6	8.5

\*Transparency International Corruption Index where 10 is relatively free of corruption and 1 is thoroughly corrupt.

From the viewpoints of the citizens of countries rich in resources, but with kleptocratic governments, the MNO's can be seen as assisting their corrupt governments in oppressing them and keeping them in poverty while benefiting a small elite. This can lead to civil unrest, which is typically met with brutal force by the local government. Some citizens may be tempted to engage in what their opponents might call "terrorist activities" against the regime and their financiers. Others might call it a "resistance movement" – resisting the MNO's collaboration with their traitorous government. For a MNO, it seems that there is an increasing political- and safety risk associated with the cooperation with corrupt governments

Figure 6: Some of Statoil's "partners" in the oil business

**Raw materials and mining**  
**We must be where the oil is**

Azerbaijan (1.9\*)  
Pres. Aliev

Nigeria (1.9)  
Pres. Goodluck Jonathan

Libya (2.6)  
Col. Gaddafi  
Mr. Magariaf

Iran (2.3)  
Pres. Ahmadinejad

Angola (1.9)  
Pres. Dos Santos

Venezuela (1.9)  
Pres. Chavez

Russia (2.1)  
Pres. Putin

Kazakhstan (2.2)  
Pres. Nazarbayev

Algeria (2.9)  
Pres. Abdelaziz Bouteflika

Statoil

Statoil has operations in 41 countries including those listed above in figure six.<sup>25</sup>

The wars in Congo during the last 20 years have mostly been related to control of natural resources. If the buyers do not care if the transactions are legitimate, the way to great wealth and political power goes through the control of valuable resources. Similar issues have been raised with the activities of major international mining companies and forest companies in South America, Africa and Indonesia.

In a more recent trend, we have seen that China, India and Saudi Arabia have sought to secure agricultural resources in Africa in order to feed their own populations at home<sup>26 27</sup>. In the process they displace local inhabitants. Again, it is doubtful that local farmers have been selling their land to these foreign interests. Many countries guard their agricultural resource jealously – for example the state of Iowa in the US where foreigners are not allowed to own agricultural land. Similar mezzo institutions are also present in Scandinavia. In the case of land purchases, it seems clear that some of the investors are countries or organizations controlled by countries, and not privately controlled organizations. Again the question must be asked if these transactions promote flourishing for the parties affected and if not, what institutions are inadequate and what should be changed in order to ensure good lives for the affected stakeholders.

<sup>25</sup> Statoil Annual Report (2011)

<http://www.statoil.com/AnnualReport2011/en/Download%20Center%20Files/01%20Key%20Downloads/12%20Statutory%20report/Statutoryreport2011.pdf>

<sup>26</sup> United Press International (2012) African Land Grabs are out of Control <http://stream.aljazeera.com/story/are-foreign-investors-colonising-africa-0021551>

<sup>27</sup> Al Jazeera (2012) Are Foreign Investors Colonizing Africa? <http://stream.aljazeera.com/story/are-foreign-investors-colonising-africa-0021551>

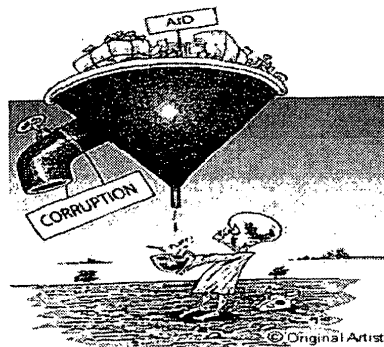
## 7. Development Aid and the Voluntary Sector: The Aid Privilege

Big MNO's are engaged in development aid. Some aid comes from (tax payers) national government either through the UN or national government aid organizations like NORAD or the Peace Corps. Some of the big NGO's involved in development and emergency work are Caritas Internationalis, Oxfam, CARE, Red Cross/Red Crescent and many others. There are also NGO's with a specific agenda like Transparency International, Doctors without borders, European Council on Refugees and Exiles, Human Rights Watch and Amnesty International. In addition there are religiously based organizations, which seek to assist people in their development as well as to increase the "market share" of their religion. An exhaustive list has not been attempted here. Some of the MNO's in this category are government controlled and/or financed. Others get most of their funding from private donations. Common to all of them is that they are "non-profit" organizations.

A non-profit organization will typically work with people/clients/customers who for one reason or another are unable to pay for their services. The market will not deliver food or aid to people who cannot pay – so these must be provided as gifts. The market gives immediate feedback to sellers: If I provide products or services which have great value for a customer, I can engage in an exchange and the customer will vote with her/his money for my products by purchasing them. When the needs of very poor are being served, someone else is paying. Often the payer is a government in a developing country. The developing aid from Europe and North America has been substantial over the past 60 years, but not all projects have resulted in sustainable development and the payers may not get feedback from those they serve.

When non-profit organizations enter a developing country there are a number of challenges:

- The products and services offered are often developed in cultures far away from the reality in the recipient country and may be quite inappropriate.
- The donor countries may have political agendas attached to the aid.
- Some of the aid includes a desire to change the institutions in the recipient country; - perhaps change the culture and challenge the local power structure. Are these legitimate activities?
- The priorities set by the donor governments may be "politically correct" in the donor country, and not really meet the needs of the poor in the developing country.
- There may be unacceptable political or economic conditions attached to the assistance offered?
- In order for an aid agency to operate in a developing country they need the permission of the local government, which may be mostly interested in assisting its own political base and not that of rivaling groups.
- Then there is the biggest problem of all: corruption. Both central and local officials seem to help themselves to some of the funds and benefits provided. It has been stated that only 2-4% of the Tsunami aid to Sri Lanka actually benefitted the victims. Other sources claim that hundreds of millions of dollars disappeared. This is also the experience with Norwegian aid to many African countries.



By and large, we seem to have observed more economic development in countries like China, India, Thailand, Malaysia and Brazil that have not received much development assistance. Much of the assistance received by African countries may not have helped much – and the current economic growth in Africa may be due to improved mezzo institutions and some foreign trade. In some African countries the assistance received may not have contributed as much to the current economic growth as the improved mezzo institutions and foreign trade.

## **8. When Governments Buy**

Some of the biggest transactions between MNO's and developing countries take the form of government purchases. There is a need for many developing countries to purchase military equipment, transportation equipment, mining equipment, road and rail road projects, build a power grid, install communications equipment and the like. Numerous instances have been reported in which the buying government pays extra for the equipment purchased – and that the extra price is deposited into the accounts of the officials involved – in tax heavens. A classic report from Global Witness details the dealings of the Angolan Government in oil and weapons.<sup>28</sup>

In a more recent example, two Norwegian companies each sold a drilling rig to a small London firm for what was considered world market prices in 2012<sup>29</sup>. The small London firm was owned by two Latvian business men, Erik Vanagels and Stan Gorin. The two rigs were immediately re-sold on to Chornomornaftogaz, owned by the Ukrainian state oil company Naftogaz under the Ministry of Fuel and Energy, Minpalyvenerho, for \$ 342 million extra. Two of the politicians with direct responsibility over the uses of Ukrainian funds, are the minister of Fuel and Energy, Mr. Yuriy Boyko and President Viktor Fedorovych Yanukovych. If they did not know about the extra millions paid, they should have known – and they should find out where the money went. The investigation has not resulted in significant findings, so perhaps the two are involved themselves. In this transaction, many could have reacted. The Norwegian broker who put together the deal probably knew that the real buyer was not the small London firm. Any due diligence report would have revealed that this firm was not capable of financing the purchases. So the Norwegian MNO's probably knew that the London firm was not the final buyer, and that the rigs would be resold to another entity able to pay. And it is not likely that the Norwegian rig owners would sell their equipment for a process that were 342 million dollars below market.

This may be an example of outright theft from the Ukrainian people of money that could have been spent to ensure flourishing for the ordinary citizens of that country. Perhaps a number of lives could have been saved if the hospitals had received some of the money that is now missing from the Ukrainian economy.

## **9. Conclusion**

The purpose of ethics is to promote and ensure flourishing lives for ALL. Throughout this paper we have seen examples where this may not be the case. Often times, powerful economic entities like MNO's and interacting with powerful governments in a way that fail to benefit the citizens of developing countries.

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<sup>28</sup> Global Witness (2002) "All the Presidents Men" The devastating story of oil and banking in Angola's privatized war. <http://www.globalwitness.org/library/all-presidents-men>

<sup>29</sup> Dagens Næringsliv (2012) Seadrill- rigg videresolgt for Nok 900 millioner mer, <http://www.dn.no/energi/article2376704.ece>

As we analyze several aspects of big MNO's interaction with developing countries we encounter a series of examples of exchanges, which fail to be to the benefit of the citizens of the developing countries.

Foreign MNO's seem to be willing to pressure salaries and costs to a point where a living wage may not be realized. Many of the international value chains include enormous differences between the rewards paid to its participants. MNO's also seem to be willing to work with and finance unfaithful servants – corrupt and kleptocratic governments – in many developing countries.

We need to look at the institutions which govern these transactions in several places: in the developed world and their banking policies, with the MNO's engaged in extraction of natural resources and the pursuit of political goals on part of many countries. We need to look at the mezzo institutions in the developing world and stop rewarding governments officials when they fail to act in the interests of their people by acting as oppressive and opportunistic kleptocrats.

The situation is dangerous. There is tension between the kleptocrats and their citizens, the MNO's are facing a more dangerous and unsafe environment for their activities. One of the consequences of these practices is unemployment and poverty for an increasingly well-informed citizenry whose patience may come to an end. This provides an opportunity for some who are willing to use extreme means to fight back. Their motivation can be lack of justice and their propaganda can be a mixture of social activism and religious righteousness.

Moral suasion seems to be the best change agent when things are unjust. Nelson Mandela, Desmond Tutu and Mahatma Gandhi achieved more social change than has been achieved by armies or armed liberation groups. However, while we wait for a moral change agent, we may want to study the (in)adequacy of the institutions that govern international MNO's relationship with firms and governments in developing countries as well as the institutions in place in the developed countries.