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CSR and Developing Countries

What scope for government action?

Public policy and public sector actors in middle and low-income countries are increasingly confronted with issues related to Corporate Social Responsibility (CSR). This paper presents the range of opportunities that exist for them to mitigate negative impacts of CSR but also to harness its potential positive benefits for public policy. Government involvement is illustrated through examples of policy instruments and programmes promoting CSR in developing countries.

The concept of **corporate social responsibility (CSR)** aims both to examine the role of business in society, and to maximise the positive societal outcomes of business activity.

In practice, much of the business activity that has so far been labelled 'CSR' has been driven by the concerns of investors, companies, campaign groups and consumers based in the world's richest countries. National CSR agendas in middle and low-income countries have been less visible internationally, and have often not been labelled 'CSR'. The result has been CSR practices that are largely framed in rich countries, then internationalized and transferred to other businesses and social settings through international trade, investment, and development assistance. The strategic challenge for governments at national and local levels is how best to shape an agenda that has been largely market-driven and responsive to concerns of rich country stakeholders.

Over the past five years or so, governments, companies and NGOs in many middle-and-low-income countries have accelerated a process of adapta-

This Brief is based on a background paper prepared by Halina Ward, Emma Wilson, and Lyuba Zarsky, from the International Institute for Environment and Development (IIED), and Tom Fox (UNDP).

Corporate social responsibility

What CSR is...and is not

At its broadest, CSR can be defined as the overall contribution of business to sustainable development — it is in that sense that it is used here. Defining corporate social responsibility in more detail than this remains a vexed issue. In practice views differ based on two factors. First, the extent to which importance is placed on the centrality of the 'financial business case' for responsible business behaviour in defining the scope of CSR practices — i.e. the extent to which tangible benefits to companies must be demonstrable. Secondly, the extent to which government is seen to have a role in framing the agenda — and how. A minimum standard for CSR might be that businesses fulfil their legal obligations or, if laws or enforcement are lacking, that they 'do no harm'. A median approach goes beyond compliance, calling for businesses to do their best, where a 'business case' can be made, to contribute positively to sustainable development by addressing their social and environmental impacts, and potentially also through social or community investments. A maximum standard points toward the active *alignment* of internal business goals with externally set societal goals (those that support sustainable development).



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tion of the developed-country-driven CSR agenda through greater direct engagement. CSR movements and initiatives have emerged in countries such as China, India, South Africa, the Philippines and Brazil, among others. Governments of some middle-income countries facing major social challenges have explicitly sought to engage business in meeting those challenges, as with Black Economic Empowerment in South Africa, or Presidential encouragement of business efforts to tackle poverty in the Philippines.

In developed countries too, there is increasing recognition among companies that a 'one-size fits all' approach to CSR in operations around the world is ineffective in responding to the business drivers of socially responsible behaviour. The result has been reinvigorated focus on themes of greater importance in middle and low-income countries — including the value of sustainable local enterprise and the role of business in poverty reduction.

Why developing country governments should be interested in CSR

There are two broad sets of justifications for public sector actors in middle and low-income countries to engage with CSR: *defensive* and *proactive*. The two are not mutually exclusive: a policy initiative that initially has a defensive justification may quickly become part of a proactive strategy of engagement.

The *defensive* justification relates to minimizing the potential adverse effects of CSR on local communities, environments and markets when it is imposed through international supply chains and investment. Governments of some major middle-income economic powerhouses such as China have undertaken a variety of initiatives to ensure that CSR practices with impact in their countries are tailored to national economic and social interests.

Codes of corporate conduct and certification schemes applied in international trade have become particular areas of concern. Codes of conduct implemented through supply chain requirements and enforced through audits can provide positive opportunities for niche marketing by producers and suppliers based in middle and low income countries. But they can also act as a barrier to market access.

This is particularly a concern when certification requirements, or the cost of meeting supply chain requirements, harm the local small or medium-sized enterprises that represent the large majority of enterprises and account for a significant part of employment in developing countries.

The experience of business-to-business standards is that costs and benefits tend not to be equitably distributed along value chains, with costs of private standards borne by producers whereas benefits accrue to the retailer. These issues are partly rooted in bargaining power disparities between producers and buyers. Similarly, assurance schemes say very little about the responsibilities of sourcing companies; the onus is on the producer to comply. Depending on the strength and durability of ties, however, between buyer and supplier, the former may have an incentive to assist the latter with compliance. Further problems arise for supplier firms that have to comply with multiple, even conflicting, codes of different buyers.

Another concern is that CSR standards imposed through supply chains can supplant domestic legislation. This may be because they are more closely linked to commercial outcomes (market access) than domestic legislation that reflects less stringent standards or because, where there is weak public sector capacity, they are more likely to be monitored and enforced than domestic legislation.

Tensions can also arise because CSR standards are frequently designed and applied with little or no input from governments or firms in supplier countries. As a result, standards may do little to achieve social and environmental goals in exporting countries. For example, EU Ecolabelling Regulation criteria for paper products became controversial in the 1990s because they favoured energy efficiency, not use of renewable energy sources such as hydropower which were important for producers in Brazil.

Ill-thought-out CSR activities on the ground also have the potential to generate or exacerbate social tensions at local level. For example, social investment programmes that focus exclusively on indigenous people may serve to heighten social tensions between indigenous and non-indigenous members

of mixed communities. Also, they might prioritize issues that are most subject to international campaign pressure. For example, community action groups have complained that multinationals working on Sakhalin have prioritized spending on research into the endangered Western Pacific grey whale over support for local socio-economic development.

The *proactive* justification for public sector actors to engage with CSR is provided by the opportunity to increase the domestic public benefits of CSR practices in economic, social and environmental terms.

In countries whose export sectors are closely associated with consumers' social, health or environmental concerns (e.g., in agriculture and textiles), there may be positive opportunities for governments to facilitate market access gains for their producers. For example, the government of Zambia is working with the WTO/UNCTAD International Trade Centre and the Utz Kapeh Foundation to improve access to high value markets for Zambian coffee growers, in

part through the creation of local inspection capacity intended to reduce the cost of certification needed in those markets. And Colombia's Mercados Verdes programme, which is designed to incentivise production of environmentally friendly goods and services that are competitive in international markets is seen by commentators as a leading example of public sector support for sustainable markets in Latin America.

Foreign investment offers potential to transfer technical expertise to local enterprises. Many large companies (encouraged by governments) are interested in exploring practical mechanisms for enhancing the input of local enterprises, and locally hired workers, into their projects. In some cases, this is encouraged through investment incentives (e.g. in Nigeria) or through the terms of foreign investment contracts (e.g. with oil industry investors in Azerbaijan). In others, various kinds of partnership initiative seek to transfer knowledge and expertise, including on environmental and social issues, between large and small companies.

Box 1

'Citizens' Economic Empowerment' in Zambia

An important new development in Zambia is the government's promotion of 'Citizens' Economic Empowerment' (CEE). Inspired by South Africa's Black Economic Empowerment legislation, CEE focuses on broad-based economic empowerment and is intended to broaden participation among Zambian citizens in the economy. The Zambian parliament has passed an Act which refers *inter alia* to business ownership, employment, procurement and training, as well as reporting by businesses using a CEE scorecard, which is to be developed at sectoral level.

The challenge for the government is to implement the Act without harming investor confidence or increasing undue administrative burdens for businesses in terms of implementation and reporting and for the government in terms of monitoring. Procurement offers one such opportunity. Increasing local procurement is already on the agendas of some businesses operating in Zambia, primarily to improve access to supply and to reduce costs. The government has already created positive incentives in some areas, e.g. through tax breaks for certain products with high local content.

Reporting against sectoral scorecards alone is unlikely to be enough to achieve the desired outcomes of the Act in terms of stimulating local enterprise. As it develops, the policy could go further, creating further incentives for companies to invest in their employees or develop local suppliers, and using companies which successfully do so to demonstrate how businesses can contribute to the CEE agenda.

Finally, a number of analysts and governments are also beginning to explore the hypothesis that promotion of CSR in the domestic economy can bring benefits for competitiveness as a whole. The extent to which this happens, however, is likely to depend on the sector and country-specific features.

More broadly, there is also scope for public sector actors in middle and low-income countries to harness enthusiasm for CSR to help deliver public policy goals and priorities. These avenues will be explored below.

Potential roles of governments in the CSR agenda

From a sustainable development perspective, public sector engagement with CSR potentially spans social, economic and environmental spheres, including issues of corruption, poverty reduction and human rights. The goals of public sector engagement in CSR are likely to differ from country to country. They might be structured in

relation to the underlying drivers for public engagement in CSR.

A first broadly defined goal of public engagement in CSR is the alignment of business activities and public policy to achieve societal goals. A clear government vision of how it wants to address issues where there are potential trade-offs between economic, social and environmental considerations, as in the case of the use of the country's natural resource endowment for socio-economic development, may increase the likelihood of success of corporate contribution to national development. National sustainable development or regional economic development strategies offer an opportunity for governments to offer clear signals as to public policy priorities, as do negotiated contracts or concessions between foreign investors and host country governments. In Trinidad and Tobago, BP, the government and the local Centre for Energy Enterprise Development (CEED) have identified a number of upstream activities which offer both sustainable business opportunities for smaller companies and provide a high impact on national development through the transfer of skills and technologies used in extraction operations. BP has agreed to purchase the required services from local suppliers rather than to import them. The public policy context for this initiative lies with the government's 2005 documents *Vision 2020* and the *Strategic Development Plan* for the country's energy sector.

CSR also has clear potential links with government strategies aiming at ensuring better access of certain categories of citizens to the economy. One example of such strategy is the Citizen Economic Empowerment in Zambia, which aims in particular at increasing local participation in economic activities (Box 1).

Governments may seek to align national investment promotion strategies with 'responsible' foreign investors (Box 2). In foreign investment contract negotiations, public sector negotiators may seek to make the most of foreign investors' expertise in social investment, education or training.

Another broad concern for governments is to address market access for domestic enterprise. The ability to meet rising environmental standards is

increasingly required to export to OECD markets, especially the EU. In addition, some OECD-based multinationals, for example, in the chemicals industry, require ISO 14000 certification of all their suppliers. Governments can facilitate market access by providing support to domestic SMEs in meeting these requirements — sometimes in partnership with larger companies.

Governments can work — preferably with business, labour and NGOs — to raise the CSR content and profile of major exported products and services, perhaps developing domestic certification or labelling schemes. To facilitate trade, however, it is important to work towards 'mutual recognition' of different codes and schemes.

The government of Cambodia is focusing its national strategy for development of the textiles sector on creation of a niche market for the country by establishing a national reputation as a trade and investment location that is associated with good labour practices. The Vietnamese government has also been experimenting to this end (Box 3).

Governments can also use the CSR agenda to promote socially responsible forms of business practices by domestic enterprises, regardless of their engagement with the international economy. Many governments, in collaboration with donor agencies, support enterprise development activities designed to promote healthy local enterprise, building skills and supporting formalization of those that are

Box 2

Investment promotion agencies and responsible business

In Peru, the responsibilities of Pro Inversion, the private investment promotion agency, include "To attract investors able to transfer state-of-the-art technology and to take responsibilities with respect to the development of their social environment" and "To assist in the disclosure, among potential investors, of the role and social commitment they have with the environment and people". The goal of the agency's work is expressed as being: "to foster competitiveness and sustainable development in Peru to improve the welfare of the Peruvian people".

informal. Another challenge for governments is to develop initiatives to help transfer positive learning and capacity-building on environmental and social issues from export-oriented domestic enterprises or foreign investors to those that are not export-oriented.

A multiplicity of policy instruments

Work carried out by IIED for the World Bank Group's CSR Practice has identified five distinctive (if generic) roles for public sector engagement with CSR: regulation; facilitation; partnership; endorsement; and demonstration. In practice, there are no bright lines between them, and many of the policy instruments governments wanting to promote a CSR agenda can use could be considered as expressions of more than one of these government roles.

The range of policy instruments used by governments to promote goals related to CSR is wide and reflects varying policy approaches as well as economic circumstances. Some governments may prefer interventionist approaches. Others may prefer to work with the grain of market drivers, including consumer interest or civil society pressure. The factors that may determine the course of action taken by any individual government include capacity constraints; the size of domestic markets for products potentially affected by CSR concerns; the degree of export orientation of the economy in sectors affected by international CSR drivers (e.g. agriculture, textiles, pharmaceuticals); the presence of enterprises willing to champion change; and the degree to which different stakeholders are comfortable working in partnership for commonly defined outcomes.

In the broadest sense of CSR, the entire body of social and environmental legislation in any country can be seen as an expression of public sector engagement with CSR. Other areas of legislation including competition policy, basic investment and enterprise frameworks, and rights of access to information and public participation in decision-making are also important parts of the 'enabling environment' for CSR.

In this respect, devising minimal standards, especially for labour and environment, and enforcing

Box 3

Increasing national competitiveness by stimulating CSR performance in the Vietnamese garment and footwear industries

In an effort to increase national competitiveness through improved CSR practice, the Vietnamese Government assigned the Vietnamese Chamber of Commerce and Industry (VCCI) to provide CSR-related support services to businesses. ActionAid Vietnam (AAV) has been raising awareness and developing employees' CSR skills as well as promoting good CSR practice among employers. Following an initial pilot with the footwear industry in 2005, AAV, together with VCCI, the Ministry of Labour, Invalids and Social Affairs (MOLISA) and other government ministries, organized the 'Corporate Social Responsibility Award 2006' for the footwear and garment industries. The award aims to increase the competitiveness of Vietnamese businesses by providing an incentive for them to enhance their reputation for good CSR performance.

existing minimal standards, are two of the main duties of governments. The dominant notion of CSR as being principally market-driven and voluntary in nature can on occasion hamper government progress in setting minimum requirements for business behaviour. For example, in China, multinational corporations have lobbied heavily against current moves to tighten labour legislation, which is a government response to concerns that social unrest could result from widening income disparities.

Company reporting on environmental and social issues is an increasing subject of legislation in high income countries. There are so far few (if any) specific examples of comprehensive CSR reporting requirements in middle and low income countries. But reporting requirements on specific issues, such as the Black Economic Empowerment scorecard in South Africa, are more common.

Cooperative environmental management approaches — in which environmental regulators negotiate staged approaches to environmental improvement and compliance, or give credit for strong environmental management systems in the form of

reduced inspections — are also an area of public policy innovation. But they can be controversial when they are seen as undermining strong regulation, or reducing scope for citizen scrutiny of environmental policy implementation.

One example is the Mexican Environmental Protection Agency's (PROFEPA) *Industria Limpia* programme, which is based on firm-specific negotiated agreements towards plant-based environmental improvements, combined with a certification and labelling scheme. The programme is designed to attract the “leader” firms in corporate social responsibility to show leadership by example. But take-up of the programme has been limited in some sectors, such as electronics. The reason may be that the business benefits are unclear, since for companies selling into the European, Japanese or US markets, Mexican standards are less important than the standards of those importing countries. According to PROFEPA, lack of interest also stems from the fact that the requirement to quantifiably demonstrate full compliance is difficult and costly.

Governments are also increasingly engaged in shaping the ‘self-regulatory’ tools of CSR, through engagement in industry-led labelling or certification schemes. In China, officials have actively endorsed efforts to make the country a standard-setter, not simply a ‘taker’ of standards developed elsewhere. CSC9000T, a textile industry standard, was developed within the China Textile and Apparel Council with government endorsement and adopted in 2005. It is based on Chinese legislation and provides a management system for companies wishing to be socially responsible.

The institutional design of labelling schemes may on occasion hamper positive outcomes. India's voluntary product labelling scheme, Ecomark, was adopted in 1991 at the initiative of the Indian Parliament. But the initiative has not been successful, with just 12 manufacturers applying for the Ecomark license in the 15 years since its adoption. The Indian NGO CUTS cites heavy reliance on government agencies in

the overall administration of the scheme as among the reasons, making it susceptible to being weakened by frequent changes in government personnel.

Another wide array of instruments at the government's disposal is through taxes and payment schemes. A range of tax mechanisms have found their way into national approaches to incentivising socially desirable business practices. For example,

Box 4

Company-Community agreements in Western Siberia

The Khanty-Mansiisk Autonomous Region (or Yugra) lies in north-western Siberia and 2% of the population is indigenous, with about 2,000 living permanently on the land. The Yugra Charter sets out the role of the provincial government, including implementation of social development programmes; ensuring benefits to communities from resource exploitation; and facilitating training and work placements for indigenous skilled workers. Regional legislation passed in 1989 and 1990 requires that agreements be signed between developers and indigenous resource users, which cover such areas as construction of power lines, housing and cultural facilities; provision to each household of a snowmobile, motorboat, electric generator, spare parts, building materials, fuel and a quarterly financial compensation payment; financing for higher education, health treatment, specialist training and work placements; and the transport of food to migrating herders and of traditional craft products to markets. Virtually all the companies working in the area have their own charitable foundations which sponsor indigenous projects. The regional government runs an annual competition for the best performing oil and gas company, ‘Black Gold of Yugra’, which includes a special prize for the best work with indigenous peoples.

in both Uganda and Zambia, reduced excise duty rates were granted for a beer produced with locally sourced smallholder-produced sorghum rather than imported barley. This reduced rate was the crucial element in allowing the local brand to compete with global brands, whose total costs were lower. Many middle and low-income countries also provide tax incentives of various kinds for philanthropic or charitable donations by businesses.

Foreign investment contract negotiations offer opportunities for governments to set clear expectations for investor contributions to skills and enterprise development, and technology transfer. The terms of these agreements (which are often

not publicly available) may on occasion explicitly address companies' community and social investment strategies.

Rights of public participation have long been recognized as key instruments of sustainable development. In the field of CSR, public sector actors can help by mandating public participation in defined circumstances relating to private sector investment. Legislation can help to secure benefits for communities at local level by requiring negotiated agreements between companies and communities. Legislation on Social Responsibility Agreements between holders of forest concessions and local communities in Ghana and agreements between natural resource companies and local communities in Western Siberia (Box 4) are examples. Communities need to be able meaningfully to take part as negotiating partners. Thus, public policy makers should do more than simply setting overall policy frameworks by working to support efforts to ensure that communities are aware of their rights and have capacity to secure positive outcomes.

Partnerships are potentially a valuable way for public sector actors to seek to combine the skills and competences of public and private sector actors as well as civil society in areas of broad societal concern such as HIV/AIDS (Box 5) or sustainable economic development.

However, the experience shows that partnerships are no easy fix to the most difficult policy challenges, often requiring considerable investment of time and sometimes also financial resources. Public sector actors should assess carefully the level of ongoing commitment that is required before entering into partnerships that may effectively be unsustainable. Partnership initiatives that involve major commitments of public resources may be vulnerable in the event of economic downturns.

Governments around the world are typically large-scale consumers themselves. Whilst international public procurement rules need to be factored into decision-making, public procurement offers real potential for governments or state enterprises to express their interest in CSR or socially prefer-

able enterprises through the marketplace, as well as to expand markets for sustainable products. Local and regional government could equally make use of public procurement to promote CSR. For example, the municipal government of Shenzhen, China, has recently expressed interest in directing its public procurement to promote CSR (Box 6).

Clear public policy frameworks on matters related to international trade and investment or domestic enterprise development can help to steer voluntary CSR activities to meet public policy goals. For example, improving CSR is listed as a priority work area of China's Ministry of Commerce under the heading "transforming trade growth pattern". And Shanghai's 11th five-year plan, adopted in 2006, gives CSR the status of 'an integral part of public governance'.

Conclusion: leveraging CSR to support public policy goals

From the limited experience over the last few years, some lessons nonetheless emerge. CSR offers real opportunities for the governments of middle and low-income countries to change the terms on which they interact with business. Engagement with CSR can help to develop capacity within public policy and regulatory institutions, to free up existing resources, and to leverage additional resources through partnership.

Box 5

The Africa Comprehensive HIV/AIDS Partnership (ACHAP) in Botswana

The Africa Comprehensive HIV/AIDS Partnership (ACHAP) was established in 2001 as a formal partnership between the drug company Merck, the Bill and Melinda Gates Foundation and the Government of Botswana. ACHAP works with government agencies, development partners, the private sector and civil society. The aim is to develop and implement a national comprehensive HIV/AIDS strategy, with the goal of decreasing the spread and mitigating the impact of HIV/AIDS in Botswana. The initiative includes capacity building and strategic planning within government institutions. As of December 2005, total spending on the programme was just over 45 million USD. The strength of ACHAP lies in its full integration with government strategy and its ability to harness private-sector expertise in support of national efforts to address HIV/AIDS.

However, CSR defined only or primarily in rich countries could have limited benefits for — or in some cases create obstacles to — sustainable development. SMEs in particular may need some assistance in responding to CSR demands from foreign buyers. The governments and citizens of low and middle income countries would do well to set the CSR agenda for themselves, taking the best of what has evolved to date and of what their business communities already have to offer. Governments may derive greater developmental benefits from CSR where there is a national strategy framework which explicitly recognizes its potential contribution and seeks to align CSR with development goals.

Foreign investors bring with them expertise on CSR that could be tapped more effectively to strengthen domestic capabilities; contractual arrangements and public-private partnerships are two ways of doing so.

For each potential intervention, there is a need to assess the likely costs and benefits and possible undesirable side effects. Governments should avoid the tendency to over-engineer policy responses. More generally, there is a need to ensure that CSR-related interventions are seen as contributing to an enabling and predictable environment for private sector activity. If they are ill-conceived or represent an extra burden for business that is not justified by the business benefits, they are unlikely to succeed.

Innovation Briefs

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**United Nations Department of Economic and Social Affairs
Division for Sustainable Development
Policy Integration and Analysis Branch
2 UN Plaza
New York, NY 10017**

Voice: (1-917) 367-3269

Fax: (1-212) 963-1267

E-mail: carpio@un.org

www.un.org/esa/sustdev/innovationbriefs/index.htm



Box 6

Public procurement and regional government: Shenzhen

In March 2006, the Shenzhen Municipal Bureau of Labour and Social Security published a report on CSR in Shenzhen and announced that it would be working to produce guidelines on CSR by the end of the year. A press report suggests that the guidelines could include provisions refusing to give contracts to companies that do not shoulder social responsibility, or refusing to subsidize such firms. A spokesman for the municipality was quoted in the *Shenzhen Daily* saying that "The city government's annual procurement reaches more than 2 billion yuan (US\$241 million). It should make full use of its economic influence to promote corporate social responsibility (CSR)."

Key Reading

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