

**Development Cooperation
and corporate social responsibility**
exploring the role of development cooperation agencies
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Exploring the role of development cooperation agencies in corporate responsibility

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This document is based on discussions at an international conference: 'Development cooperation and corporate social responsibility: exploring the role of development cooperation agencies', which took place in Stockholm on 22-23 March, 2004, and documents provided by development cooperation agencies prior to the conference describing their activities in the area of corporate responsibility.ⁱⁱ A summary of the presentations, plenary sessions and workshops at the conference, as well as the submissions from donors, are provided as appendices to this document.ⁱⁱⁱ The conference was convened by the Swedish foreign ministry, in collaboration with IIED, IBLF, Sida and the World Bank.

Produced for policy makers in government and business, the report explores how bilateral and multilateral donors can support business activity that contributes to sustainable development, particularly in developing countries. It argues that, by helping to create an 'enabling environment' for responsible business practices, donors can enhance the effectiveness of their aid and increase the contribution of business to poverty eradication.

Why are development cooperation agencies talking about corporate responsibility?

Private sector activity plays a crucial role in international development. Trade and investment flows bring technology, skills, employment and access to markets. Foreign direct investment (FDI) in some developing countries far outstrips aid, and levels of domestic private sector investment in developing countries can be even higher. At the same time, companies are under increasing pressure from investors, employees and customers to demonstrate responsible behaviour. Corporate responsibility brings new opportunities for development cooperation agencies to engage companies, and donors can help to increase the developmental impact of business operations. Central to this work is helping to create an enabling environment for responsible business activity.

In examining how development cooperation agencies can support and enable corporate responsibility, it is helpful to take into account three assertions which underpinned discussions at the conference in Stockholm:

1 Development challenges are very urgent

The world faces enormous challenges, few of which are currently being tackled adequately by the current international system or by individual nations. According to a recent report produced by the World Economic Forum and the Brookings Institute, “the world is failing to put forward even half the effort needed to meet the Millennium Development Goals”.^{iv} Therefore, new solutions are essential in order to meet the goals and associated development challenges.

2 Collective action can play a crucial role in addressing development challenges

There is a recognition in the UN system and, increasingly, beyond it, that governments will not be able to address development challenges alone. For example, the ‘Monterrey Consensus’, a document produced after the IMF meeting in spring 2002, explicitly recognised the role of business in development, and a UN commission was established following an acknowledgement that the Millennium Development Goals would not be achieved without an active and vibrant private sector.^v Therefore, alliances between governments and non-state actors, including the private sector, are crucial. While the precise nature of the role of business in development remains the subject of important and necessary debate, there is an emerging consensus firstly, that a responsible, values-driven private sector can be an important actor in development; and, secondly, that new forms of cooperation between the public sector, the private sector and civil society – with all of the complexities and tensions this cooperation entails – offer enormous potential for achieving the development goals. In order to maximise this potential, it is necessary to bring together the development and business communities on a far more systematic basis, and do so in a pragmatic, solution-focused atmosphere.

3 Development cooperation agencies are already promoting corporate responsibility in many areas

As the appendix to this document shows, many development cooperation agencies are already working with the private sector on several fronts, even though they may not have a specific ‘corporate responsibility’ programme. As well as providing financial

and technical assistance, donors can also provide recognition of, and incentives, for responsible business practices (particularly in developing countries), convene multi-sector dialogue and nurture relationships for further action, and require companies to demonstrate adherence to responsible business practices as part of their grant-making activity. The challenge is to increase the scope and effectiveness of these interventions. In considering how development agencies can do this, it is recognised that the mandate, approach and resources of each agency differs considerably.

A note on the terminology used in this report

A variety of terms are used in this report – including corporate responsibility, corporate social responsibility and responsible business practices – reflecting the fact that different organisations have different entry points to the subject. Given this range of entry points, rather than searching for a universally-applicable definition, it can be more productive to think in terms of the purposes of corporate responsibility, which are: to act as prerequisite for investment in developing countries; to help overcome market inefficiencies and gaps in governance; and to provide a means for public and private sectors to cooperate in order to overcome social challenges.

|| Suggestions for development cooperation agencies in promoting and enabling corporate responsibility

Given these three statements, what exactly are donors doing to promote and enable corporate responsibility, and what more could they be doing? While significant work is already in progress, donors could play an even greater role in the following five areas, based on discussions at the workshops at the conference in Stockholm:

1 Build responsible practices into development agencies' own activities

If development agencies themselves operate in an open and transparent manner companies are more likely to do the same. In part this is a question of leading by example, but it also means clarifying expectations of companies, and creating incentives for responsible private sector action. Activity in this area includes:

- *Adhering to rigorous standards:* like companies, donors being called on to demonstrate their commitment to ethical standards and their openness to external scrutiny. By taking a proactive stance and welcoming external assessments of their impacts, they not only set an example for companies, but they can also learn where and how to intervene most effectively to promote corporate responsibility. Agence Française de Développement, the French public sector financial institution, has taken some first steps towards this by signing up to the UN Global Compact and starting to assess itself against the nine principles.
- *Integrating corporate responsibility issues into lending and procurement processes,* in order to raise awareness and create incentives for responsible business activity. For example, Sweden's international development agency, Sida, is currently considering the use of integrity pacts as a condition of a loan to a Swedish construction firm, NCC, for a construction project in Bangladesh. These pacts can help to ensure that business is conducted in an open and transparent way.
- *Developing corporate responsibility and cross-sector partnership resources and expertise.* For example, the US government's international development agency, USAID, has created the *Global Development Alliance*, which has disbursed about \$500m, leveraging an additional \$2bn, to fund cross-sector partnerships; and the World Bank's private sector arm, the IFC has created a Corporate Citizenship Facility in response to the increased demand for guidance and support from companies in relation to environmental and social performance.
- *Forging closer links between government and responsible industry representatives.* For example, an informal corporate social responsibility contact group has recently been established for representatives of the Danish foreign ministry and Danish industry; the European Commission launched a cross-sector CSR stakeholder forum in October 2002, which currently involves 44 participating organisations; and the German government's technical assistance corporation, GTZ, is increasingly involving private sector companies in general technical cooperation with developing countries.
- *Simplifying policy documents,* to ensure that they can be more broadly understood by the business community and by other parts of the development community. This will help to bridge the gaps in culture and language between the development and business communities^{vi}.

2 Build government capacity and public governance frameworks

Donors can play a crucial facilitating role in helping developing country governments to create the conditions for responsible business behaviour by strengthening public governance frameworks. Donors can also act as drivers for responsible business practices within state-owned enterprises, given that they do not face the same pressure to demonstrate responsible behaviour as companies with vulnerable brands.

Work in this area includes:

- *Strengthening the implementation of existing laws and guidelines* e.g. by helping governments to translate international principles, for example on labour and the environment, into national legislation; building the capacity of policy makers and regulatory authorities; and encouraging partnerships between public inspectors and private auditing, monitoring and certification schemes.
- *Strengthening compliance and monitoring capacity, and supporting grievance mechanisms*, to help manage the impacts of foreign direct investment through multi-stakeholder processes at a national or local level, and to resolve issues when things go wrong. For example, the Canadian International Development Agency (CIDA) is working with the Association of Latin American State-Owned Companies (Arpel) to improve dialogue between government, industry and indigenous groups; to strengthen the capacity of Arpel members to develop and implement environmental protection practices; and to promote a standardised approach to environmental management. Corporate responsibility issues can also be incorporated into sectoral and project risk analysis, and donors can support the implementation of mediation clauses and the work of project mediators. Also a number of donors have supported the establishment of national ombudsman services (sometimes as part of justice reform programmes), such as the Defensoria de Pueblo (public defender) in Bolivia.
- *Strengthening revenue management mechanisms and increasing transparency*, so that FDI can be attracted, and the revenues invested in legitimate social and economic development, supported by public expenditure reviews and initiatives, such as the work proposed by the Extractive Industries Transparency Initiative.
- *Strengthening financial markets and corporate governance*: As well as supporting the capacity of financial sector regulators, donors can support and share lessons from innovative mechanisms that seek to link access to finance with good corporate governance, e.g. Sao Paolo's Novo Mercado, a listing segment of the Sao Paolo stock exchange designed for the trading of shares issued by companies that undertake to abide by certain corporate governance practices and disclosure requirements^{vii}. Donors can also lead work on improving corporate governance standards in a developing country context, as the IFC is undertaking in relation to board responsibilities in small private companies.

3 Build the capacity of local private sector, labour and civil society organisations, including intermediaries

As well as building government capacity, development cooperation agencies can support other institutions that contribute to an enabling environment for responsible business activity in developing countries. These institutions can variously act as intermediaries, advocates, technical advisers, whistle-blowers and pressure groups. They can also play a valuable role in managing or disbursing aid funding to the private sector, particularly where direct transfer of funding from a donor to a company would be inappropriate. Donor activities in this area can include:

- *Supporting labour unions*, eg CIDA is funding the Canadian Labour Congress's work to strengthen the capacity of developing country trade unions to defend workers' rights and promote core labour standards and codes of conduct.
- *Supporting business associations* that can share good practice and provide peer pressure. These include chambers of commerce, progressive business leadership groups, or trade associations. Business associations can be used to build the capacity of businesses in developing countries to engage in trading relationships on an equal footing – for example, donors can mediate and support the engagement of producer associations in standard-setting processes and negotiations with international buyers.
- *Supporting specialist local intermediary organisations* that can provide advice and support on corporate responsibility, not only to companies but also to governments and other actors. Such organisations can catalyse action and bring together companies and local stakeholders. They can also help to ensure that corporate responsibility is relevant to the local context.
- *Supporting civil society organisations* that can encourage corporate responsibility locally. These include universities, media bodies and other civil society groups that can gather and disseminate information on business activity and represent the interests of companies' stakeholders. Donors can also help to raise awareness of rights and norms such as those of the ILO core conventions and the OECD Guidelines for Multinational Enterprises.
- *Supporting multi-stakeholder dialogues*, at local, national and international levels, which bring together businesses, intermediary organisations and civil society organisations to find solutions for sectoral or cross-cutting issues, e.g. codes and standards, corruption, conflict, health, education. Donors can help to ensure that each stakeholder group is adequately represented in such dialogues, and also act as facilitators. The Swedish foreign ministry provides significant funding to the Global Compact, for example, and the German federal ministry for economic cooperation and development has established a series of roundtable dialogues to establish codes of conduct for entire industry sectors.
- *Recognising and sharing good practice*. While it is difficult for public sector bodies to endorse private sector entities, donors can catalogue and share good practices in corporate responsibility without going beyond their public sector remit. For example, the Dutch government has created the 'CSR stimulation award' for companies in the Dutch agribusiness and food industry, and Sida has worked with the Swiss-Swedish company ABB to identify good practice in rural electrification projects in developing countries.

4 Relate the corporate responsibility debate to SMEs and domestic enterprise

Discussions about corporate responsibility largely take place in the US and western Europe, and relate mostly to the activities of big companies operating in international markets. SMEs and the domestic private sector in developing countries have rarely figured in the debate, except as actors within the supply chains of multinational enterprises. There are of course exceptions, and distinctive local agendas have emerged, e.g. in Brazil, South Africa and the Philippines^{viii}. But from the point of view of a development cooperation agency, there is an urgent need to focus the corporate responsibility debate on SMEs, the informal sector, and the domestic private sector in developing countries. Activities in this area include:

- *Supporting the development of responsible SMEs.* Development agencies have significant experience of supporting local enterprise development. There is scope for further progress in this area, as illustrated by the work of the private sector development team of PovNet (an informal working group looking at poverty elimination, coordinated by the OECD's development assistance committee); and the Sida-supported project 'Developing Business Services Markets', in Bangladesh, which is working with SME chambers of commerce and NGOs to promote the enforcement of national environmental and social regulations, including core labour standards. As another illustration of donor work in this area, UNIDO is working in Vietnam to integrate social and environmental standards into SME operations, in order to show the link between responsible business conduct and enhanced productivity and competitiveness.
- *Encouraging business links between multinational companies and the domestic private sector in developing countries.* By using local suppliers and outsourcing where possible, companies maximise the transfer of assets and skills to local communities, and create a multiplier effect that increases local business activity, employment and income. To support these links, donors can identify local champions; and they can help local firms to become ready to link with large companies through technical assistance and financial support. There are a number of donor initiatives in this area. For example, links between large companies and the SMEs in their supply chain - whereby a large company provides skills, technology and other resources, and the SME as a result provides goods and services of increased quality - have proved to be a crucial element of the UNDP *Growing Sustainable Business Initiative*; DfID has created a series of 'challenge funds', which provide grants to enterprises that help to develop sustainable business links with companies in developing countries; and USAID is involved in an 'enterprise development alliance' with UNDP and ChevronTexaco, which is providing technical assistance and financial support to small enterprises in Angola, with an emphasis on the agricultural and water sectors.

5 Invest in human capacities and leadership

As well as building the capacity of enterprises and various institutions, there is a need to invest in individuals who can take forward a development-oriented corporate responsibility agenda. Effective development activity and successful business activity are both highly dependent on the leadership and risk-taking of individuals, which in turn requires a clear information flow on these issues between sectors and countries. Development cooperation agencies can therefore usefully invest in leadership development programmes and other forms of training such as:

- *Developing brokerage capacity.* For example, as part of its *Growing sustainable business initiative*, UNDP is looking to create a cadre of brokers who can bring together actors from business, government and civil society to create alliances and mediate solutions. And CIDA is working with UNDP to develop a brokerage mechanism to support two-way information exchanges, linkages and partnerships between private sector actors in developing and developed countries.
- *Investing in corporate responsibility and cross-sector partnership training*, particularly for country officers and commercial attachés. For example, the UK's Foreign and Commonwealth Office has a two-day training programme for its commercial officers on all aspects of corporate responsibility, including combating bribery and corruption. UNDP, ILO, the Swedish government and the British government have all sent representatives on a training course on cross-sector partnership at the University of Cambridge, provided by the Cambridge Programme for Industry, the IBLF and the Copenhagen Centre.
- *Using convening power to encourage leadership* and as a platform for developing new partnerships, such as the Swedish Partnership for Global Responsibility, an initiative developed by the Sweden's foreign ministry, to promote corporate social responsibility based on internationally agreed principles.



Conclusion

This paper shows that there are many existing, replicable ways in which development cooperation agencies can support corporate responsibility. The paper shows that these agencies can work not only as funders, but also in many other capacities – through policy advocacy within their own governments and within multilateral institutions; and as mediators; facilitators; translators; technical advisors; and as disseminators of good practice and learning. Three other concluding remarks can be made:

1. The potential for development agencies to share good practice in supporting corporate responsibility, and for coordination among themselves, becomes more manageable if their activities are grouped around particular industry sectors, themes or countries. This allows a focus on the regions or sectors where the development challenges, and the potential for the corporate responsibility to contribute, are the greatest. One example of where this has already taken place is in Uganda, where USAID chaired a discussion group between donors and the local private sector.
2. There is an ongoing discussion about whether or not increased regulation of companies would improve their impact on development. This discussion can sometimes obscure the fact that it will require a mixture of tools and policy interventions, and a combination of the inputs of public, private and civil society actors, in order to maximise the private sector contribution to international development. The essential factor in every case, whatever mechanism is chosen, is effective governance.
3. Finally, the conference in Stockholm highlighted the need for more meetings of this type, particularly in developing countries. It remains important to bring the public and private sectors together in order to find new ways to address issues of common concern.

Endnotes

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ⁱⁱ The conference was hosted by the Swedish Minister for International Development Cooperation, Carin Jämtin, together with Sida, the Prince of Wales International Business Leaders Forum, the International Institute for Environment and Development and the World Bank. This document draws heavily on the proceedings of this conference, as well as submissions made prior to the conference by AFD, BMZ, CIDA, DANIDA, the European Multi-stakeholder Forum on CSR, GTZ, Sida, MBZ, DfID and USAID. The views expressed in this document do not necessarily reflect those of the conference organisers, nor of the delegates at the conference.

ⁱⁱⁱ Available at www.foreign.ministry.se, www.iblf.org, www.iied.org, www.sida.se, www.worldbank.org

^{iv} Report of the *Global Governance Initiative*, World Economic Forum, January 2004 available at www.weforum.org. The Millennium Development Goals are a set of targets, agreed by the world's governments, to be achieved by 2015 on poverty, the environment, health, education etc. See www.developmentgoals.org

^v See *Unleashing entrepreneurship: making business work for the poor* UN Commission on the Private Sector and Development, March 2004, available at www.undp.org/cpsd

^{vi} The *Unleashing entrepreneurship* report was produced with a broad audience in mind

^{vii} See www.bovespa.com.br

^{viii} See the work of Instituto Ethos in Brazil, the National Business Initiative in South Africa, and Philippine Business for Social Progress in the Philippines

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