

# CSR and Developing Countries

## What scope for government action?

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### 1. What CSR is and how it impacts middle and low income countries

From the individual street hawker to the complex multinational enterprise, every business entity has its stakeholders and its impacts on society; both positive and negative. The concept of corporate social responsibility aims both to examine the role of business in society, and to maximise the positive societal outcomes of business activity.

This paper focuses on the role of public policy and of public sector actors in middle and low-income countries in CSR. It offers a framework for considering the range of potential roles and opportunities that exist for them not only to mitigate negative impacts of CSR but also to harness its potential positive benefits for public policy. As a call to action, CSR has mostly been directed to businesses themselves. The strategic challenge for government at national and local level is how best to adapt and shape an agenda that has been largely market-driven and market-oriented.

At its broadest, CSR can be defined as the overall contribution of business to sustainable development – it is in that sense that we apply it here. Defining corporate social responsibility in more detail than this remains a vexed issue. 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 business impacts, and potentially also through social or community investment actions. A maximum standard points toward the active *alignment* of internal business goals with externally set societal goals (those that support sustainable development).

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. The result has been CSR practices that are largely framed in rich countries, then internationalised and transferred to other businesses and social settings through international trade, investment, and development assistance.

This is not to say that 'CSR' has not previously existed in other countries. Rather, national CSR agendas in middle and low-income countries have been less visible internationally, and have often not been labelled 'CSR'. Over the past five years or so, governments, companies and NGOs in many middle-and-low-income countries have accelerated a process of adjustment in the OECD-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. In many cases these have built on long-standing traditions of philanthropy and concerns for social justice. 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.

Defensively, 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. The challenge is to do so in ways that actively support sustainable development.

In OECD countries too, there is increasingly 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.

## **2. Why should developing country governments be interested in CSR?**

Public governance underpins CSR, no matter what definition of CSR is adopted. If the practices of CSR have reached a stage where it is clear that they need to be more closely locally owned, and aligned to public policy goals, public sector actors in middle-income countries will need both to engage, and sometimes actively to lead the way.

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

### ***Defensive justifications for public sector engagement***

#### ***1. CSR in international trade***

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.

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 (Bass, Roe, Vorley 2002). These issues are partly rooted in power disparities between producers and buyers in which standards are one factor in a cost-price squeeze on producers worldwide (Tallontire and Vorley 2005). Similarly, assurance schemes say very little about the *responsibilities of sourcing companies*; the onus is on the producer to comply. Further problems arise for those supplier firms that have to comply with multiple codes, or that face conflicting requirements from 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.

## 2. *CSR in direct investment*

On the direct investment side, CSR may help multinational corporations adopt global best practices, as well as to comply with the laws of host countries. But ill-thought-out CSR activities on the ground 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; and they might prioritise those issues that are most subject to international campaign pressure. For example, community action groups have complained that multinationals working on Sakhalin have prioritised spending on research into the endangered Western Pacific grey whale over and above support for local socio-economic development.

### ***Proactive justifications for public sector engagement***

There are also positive justifications for public sector actors to engage with CSR.

#### 1. *CSR in international trade*

In those countries whose export sectors are closely associated with social, health or environmental consumer concerns (e.g. including agriculture or 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 (see Fox *et al* 2002) is seen by commentators as a leading example of public sector support for sustainable markets in Latin America.

#### 2. *CSR in direct investment*

There is real scope for public sector actors in middle and low-income countries to harness enthusiasm for CSR to help deliver public policy goals and priorities. For example, foreign investment offers potential to transfer technical expertise to local enterprises. Many large companies (as well as 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 mandated through government legislation on 'local content' (e.g. in Nigeria) or the terms of foreign investment contracts (e.g. with oil industry investors in Azerbaijan). In others, various kinds of partnership initiative – sometimes with the involvement of public sector actors – seek to transfer knowledge and expertise – including on environmental and social issues – between large and small companies.

Finally, a number of analysts (Zadek *et al*, 2005) and governments are also beginning to develop approaches which explore the hypothesis that promotion of CSR in the domestic economy can bring benefits for competitiveness as a whole. The potential for positive CSR-competitiveness links at the national level offer an important avenue for exploration; but as with CSR as a whole, they are likely to be positive only for some sectors and countries, some of the time.

### 3. **What can governments do to engage with CSR?**

If these are the *justifications* for governments to play a role in promoting CSR and enhancing the public policy contribution of CSR practices, what *goals* might they adopt in doing so? In other words, what might they seek to achieve?

The goals of public sector engagement in CSR are potentially as varied as the goals of CSR itself. They will differ from country to country. *Thematically*, 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. At an overall level, however, given the nature of the justifications for public sector engagement, *what* governments choose to do might be structured in relation to the underlying drivers for their engagement in CSR:

- Enhancing the positive benefits of foreign direct investment
- Addressing market access for domestic enterprise
- Promoting adoption of responsible practices by domestic enterprises, and
- Aligning business activities and public policy to achieve social goals

#### *Enhancing the positive benefits of foreign investment*

Governments may seek to align national investment promotion strategies with 'responsible' foreign investors (see *Box 1* below). In foreign investment contract negotiations, public sector negotiators may seek to make the most of foreign investors' expertise in social investment, education or training.

#### **Box 1: 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 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 Peruvian people". (<http://www.proinversion.gob.pe/>)

#### *Addressing market access for domestic enterprise*

One response to divergent views on the local relevance of environmental or social criteria in labelling or certification schemes is to develop practical mechanisms for 'mutual recognition' of different codes and standards. But governments can also work to raise the CSR content and profile of major exported products and services, or work to develop their own schemes.

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 these processes by providing support to domestic SMEs in meeting these requirements – sometimes in partnership with larger companies.

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 (Ward, 2004). The Vietnamese government has also been experimenting to this end (*Box 2*).

#### **Box 2: Increasing national competitiveness by stimulating CSR performance in the Vietnamese garment and footwear industries**

In efforts 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, organised 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.

<http://www.vietnamforumcsr.net/default.aspx?portalid=5&tabid=306>

see also Twose and Rao 2003, MOLISA 2004)

### *Promoting and supporting socially desirable business practices by domestic enterprises*

Governments can choose to draw inspiration from the CSR agenda to promote socially responsible forms of business practices by domestic enterprises, regardless of their engagement with the international economy. Many governments around the world, in collaboration with donor agencies, support enterprise development activities designed to promote healthy local enterprise, building skills and supporting formalisation of those that are informal. The shape and subject matter of those interventions is increasingly shaped by new CSR-related concerns.

For example, concerns are increasing among civil society internationally over the impacts of market concentration on domestic suppliers. Competition policy and equity considerations in supply chain management are increasingly becoming part of the CSR agenda. Against this background, government efforts to support small enterprises can increasingly be understood as responses to negative impacts of economic globalisation within the CSR arena. Box 3 offers one example.

#### **Box 3: Thailand's Ministry of Commerce assists small food stores**

In Thailand, the impact of supermarkets and convenience stores on the survival of small independent stores became a controversial issue in 2000, triggering a variety of policy initiatives including a loan to a cooperative of small retailers to allow it to pool the purchasing power of its members so as to achieve economies of scale and compete more effectively with larger stores. In October 2006 the Ministry of Commerce established a special committee to establish new rules, principles and guidelines for the expansion of retailers prohibiting them from 'unfair practices' such as selling products below cost, or asking suppliers for large discounts, demanding higher 'introduction fees' for new products.

See [www.planetretail.net](http://www.planetretail.net) and [www.pwc.com/gx/eng/about/ind/retail/growth/thailand.pdf](http://www.pwc.com/gx/eng/about/ind/retail/growth/thailand.pdf)

One under-explored area is the potential for governments 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 non export-oriented.

### *Alignment of business activities and public policy to achieve societal goals*

Governments that are able to provide clear public policy statements and frameworks for addressing issues where there are potential trade-offs between economic, social and environmental considerations will be better placed to channel business's strategic decision-making. Since many of the overall drivers of CSR practices by businesses originate in the concerns of stakeholders based in the world's richest countries, one aim is to increase the chances of public policy frameworks in middle and low-income countries competing with these other stakeholders to play a greater role in shaping CSR.

National sustainable development or regional economic development strategies offer an opportunity for public policy actors to offer clear signals, as do negotiated contracts or concessions between foreign investors and host country governments. Such strategies can provide a basis for productive partnerships between businesses and governments in areas linked to core business activities (Box 4). And philanthropic spending, which is derided by some CSR commentators as a public

relations 'add-on', also has an important role to play in supporting socially beneficial activities in many parts of the world. There are opportunities for public sector actors to seek to encourage businesses to put it to maximum productive use in achieving public policy goals through alignment.

**Box 4: BP and enterprise development in Trinidad and Tobago**

In Trinidad and Tobago, BP, the government and the local Centre for Energy Enterprise Development (CEED) have identified a number of upstream activities which offered both sustainable business opportunities for smaller companies and provided a high impact on national development through the transfer of skills and technologies used in extraction operations. BP 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. A representative of CEED has suggested that if this kind of corporate contribution to national development were to succeed, will have been largely the result of a clear government vision for the use of the country's resource endowment for socio-economic development.

Source: <http://www.opi.org.uk/documents/ESRC06Workshop5Note.pdf>

**4. What instruments do governments have at their disposal?**

Thus far, we have considered *why* governments in middle and low income countries should take an interest in CSR and, in broad terms, *what* they might do. But *how* could they go about meeting the various possible goals of engagement in the agenda?

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. In slightly amended form, these are: 1) regulating; 2) facilitating; 3) partnering; 4) endorsing; and 5) demonstrating. *Box 5* below introduces these different roles. In practice, there are no bright lines between them – their value is to facilitate thinking about the full range of activities that could be undertaken.

**Box 5: Overview of public sector roles in strengthening responsible business**

**Regulation** – the role of governments at different levels in a) defining minimum legal standards and regulations for business performance and b) the implementation and enforcement of these standards and regulations. The regulating role also encompasses efforts to strengthen public sector institutions with responsibilities in these areas.

**Facilitation** – including through the adoption of policy frameworks and non-binding guidance addressing business; adoption of 'information-based' laws and regulations that facilitate and incentivize responsible business by mandating transparency or disclosure on various issues; adoption of laws or guidance that promote dialogue and engagement between companies and local communities or employers; provision of tax incentives for socially responsible business behaviour of different kinds (including philanthropic donations); investment in awareness raising and research; facilitating processes of stakeholder dialogue.

**Partnership** – combining public resources with those of business and other actors to leverage complementary skills and resources to tackle issues within the responsible business agenda – whether as participants, convenors or catalysts. 'Partnering' is a central tool of CSR.

**Endorsement** – through public support for particular kinds of responsible business practice in the marketplace, for CSR as a whole, or for individual companies; endorsement of specific non-governmental metrics, indicators, guidelines and standards or award schemes.

**Demonstration** – demonstrating social responsibility in the way in which public sector actors engage with stakeholders, uphold respect for fundamental human rights, or practice transparency and accountability. In a business environment where corruption is endemic or enforcement of legislative norms biased, the playing field on which enterprises compete is anything but level. Leadership by example – even if isolated - can help to encourage those businesses that already have an interest in CSR, whilst stimulating further action by those that do not. A further important dimension of this 'demonstrating' role concerns the role of governments as market actors in their own right, including through the inclusion of considerations related to socially responsible business practices in public procurement.

The remainder of this section considers a few of the different policy *instruments* that could be applied. In practice, many could be considered as expressions of more than one of the government 'roles'. So the instruments are roughly grouped instead on a broad scale from more to less 'interventionist' in terms of their market impacts.

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. 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.

Governments should avoid the tendency to over-engineer policy responses – particularly in countries where public sector intervention is viewed by businesses as 'interference'. In such cases, the best approach might be to keep interventions to a minimum, but to give CSR a level of political support.

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.

Public policy-makers also need to think about how best to adopt *combinations* of different instruments over time. For example, in the case of Citizens' Economic Empowerment in Zambia (Box 6), 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.

**Box 6: 'Citizen's 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. There are opportunities to do so, for example in relation to procurement. 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.

***Regulation and self-regulation***

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. Governments are also increasingly engaged in shaping the 'self-regulatory' tools of CSR, including through engagement in industry-led labelling or certification schemes.

**a) *Minimum legal requirements***

From command and control legislation, an emerging contemporary emphasis is on regulation that incorporates built-in incentives for firm-level innovation, for example by requiring polluting industries to apply the 'best available techniques' to achieve desired environmental outcomes.

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; a government response to concerns that social unrest could result from widening income disparities.<sup>1</sup>

**b) *Taxes, charges and payment schemes***

A variety of taxes, charges and payments schemes are well-established in the environmental field (for example, through the adoption of regulations addressing charges for polluting emissions by industry). Such approaches have considerable potential to change company behaviour, but they rely on public sector capacity to collect payments.

A range of tax mechanisms have also found their way into national approaches for incentivising socially desirable business practices of various kinds. For example, 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. Many middle and low-income countries also provide tax incentives of various kinds for philanthropic or charitable donations by businesses.<sup>2</sup>

**c) *Foreign investment contract negotiations and concessions***

Foreign investment contract negotiations offer opportunities for governments to set clear expectations for investor contributions to social investment, 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.

Governments issuing natural resources concessions in sectors including mining and oil and gas also need to consider the extent to which infrastructure and services (e.g. health, housing, or education) associated with new projects should be provided by the company making the investment in the concession, rather than the state. If revenues from taxes are low, it might be possible to place more emphasis on provision of social or other infrastructure by investors. But the capacity of public sector actors to take over the administration of the services or infrastructure in due course is also an important consideration.

**d) *Cooperative environmental management***

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

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<sup>1</sup> See e.g. Global Companies Fight Chinese Effort on Aiding Unions, *New York Times*, October 12 2006, available online at <http://www.iht.com/articles/2006/10/12/business/sweat.php>, and

<sup>2</sup> See [www.usig.org](http://www.usig.org) for a country-by-country guide to approaches

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 (Box 7), which is based on firm-specific negotiated agreements towards plant-based environmental improvements. 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 quantifiably to demonstrate full compliance is difficult and costly.

**Box 7: Mexico's Industria Limpia Program**

The Mexican Environmental Protection Agency, PROFEPA, has devised an innovative, voluntary “carrot”-based certification approach to improve environmental compliance in manufacturing industries—the *Industria Limpia* (clean industry) programme. Certification is given on a facility, not company-wide, basis.

When a firm signals interest, PROFEPA sends an auditor to the plant to carry out a formal audit of the firm's environmental activities. The firm chooses an auditor from a list of private sector certified auditors. After the audit is completed, PROFEPA negotiates an action plan with the firm based on improvements towards quantifiable targets.

When the firm signs an agreement to adhere to the action plan, it is officially admitted into the programme. The firm must demonstrate concrete improvements on an annual basis and meet specified targets. If they do not, they face the inspections and fines required by law for non-compliance.

Once the firm has achieved compliance, it is “certified” and can use the *Industria Limpia* label to promote its products in domestic and foreign markets. Certification expires after two years. To stay in the program, firms must quantifiably demonstrate every three months that they remain in compliance. If firms want to go beyond compliance they can be given a certification of “excellence.”

Source: Gallagher and Zarsky (2007)

**e) Company-community agreements**

Rights of public participation have long been recognised 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 (noted in Fox *et al* (2002)) and agreements between natural resource companies and local communities in Western Siberia (Box 7) are examples.

If such initiatives are to bring real benefits, communities need to be able meaningfully to take part as negotiating partners. Public policy makers should therefore 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.

**Box 7: 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. The detail of these agreements is agreed between the parties and generally includes construction of power lines, housing and cultural facilities. As a rule, each household living on land used for industrial activities receives a snowmobile, motorboat, electric generator, spare parts, building materials, fuel and a quarterly financial compensation payment. The agreements also cover the cost of higher education, health treatment, specialist training and work placements, the transportation of food to migrating herders and 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.

Source: Liudmilla Alferova, in Wilson and Stammler (2006)

#### **f) Company reporting**

Company reporting on environmental and social issues is an increasing subject of legislation in high income countries (see Fox *et al* 2002). 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.

#### **g) Labelling schemes**

Government engagement in labelling and certification schemes of different kinds has become among the most visible ways, internationally, in which governments have responded to the drivers for engagement with CSR. For example, in China officials have actively endorsed efforts to place the country in active mode as a standard-setter, not simply a 'taker' of standards developed elsewhere. CSC9000T, a textile industry standard, was adopted in 2005 and developed within the China Textile and Apparel Council and with government endorsement. It is based on Chinese legislation, and provides a management system for companies wishing to be socially responsible.<sup>3</sup>

The institutional design of such 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 licence in the 15 years since its adoption.<sup>4</sup> 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.

#### **Partnerships**

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 8*) or sustainable economic development (*Box 9*).

#### **Box 8: 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 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

<sup>3</sup> See [www.csc9000.org.cn](http://www.csc9000.org.cn)

<sup>4</sup> Source: News from CUTS, September 2006, available online at <http://www.cuts-international.org/news-cutsSep06.htm>

integration with government strategy and its ability to harness private-sector expertise in support of national efforts to address HIV/AIDS.

Source: Inspiris 2006

See also: <http://www.eskom.co.za/content/ACHAP%20Merck.ppt>  
<http://www.achap.org/>

**Box 9: The Mineral Technology Centre, Brazil (CETEM)**

Initiated and supported by the Ministry of Mines and Energy, The Mineral Technology Centre in Brazil works with industrial partners to develop pollution control technologies for the minerals and metals industry. This includes associations representing the construction materials industry and the metallurgical industry. CETEM has also worked with representatives of small-scale miners in Amazonia to disseminate technologies that reduce discharges of mercury from gold mining.

<http://www.cetem.gov.br/>

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-based policy commitments that involve major commitments of public resources may be vulnerable in the event of economic downturns (*Box 10*).

**Box 10: Brazil's Zero Hunger Programme**

In 2003, President Lula da Silva set up the Zero Hunger (*Fome Zero*) Programme with the aim of coordinating public actions to eradicate hunger and reduce poverty in Brazil. *Fome Zero* is run by the ministries of Social Development and Fight against Hunger, Agrarian Development, Health, Education, Agriculture and Livestock, Labour and Employment, Science and Technology, National Integration, Environment, and Finance. In 2005, the federal budget assigned to *Fome Zero* was R 21 billion (around US\$ 8.4 billion), with additional loans and technical assistance from the UN Food and Agriculture Organisation (FAO) and the World Bank. However, broader economic problems in the country may threaten the long-term sustainability of the programme.

Through *Fome Zero* the government has worked to direct CSR activities to public goals: in 2003, Nestlé donated 1.8 million kilos of food products to the Zero Hunger Programme. In recognition of Nestlé's support, the Brazilian government granted Nestlé its first Zero Hunger Programme Partnership Certificate. *Fome Zero* also stimulates local enterprise for social purpose, focusing on increasing production of family farmers and distributing food produced to vulnerable members of the population. In 2004, some 430 family farmers were provided access to rural credit for the first time. In 2005 between 1.4 million and 1.8 million families were expected to have access to total credit of 2.8 billion USD.

Sources: Various, including

Statement by Brazil's Minister of Social Development and Fight against Hunger to the United Nations System Standing Committee on Nutrition (SCN), *June 2005* (see

<http://www.unsystem.org/scn/publications/ecosoc/2%20FINAL%20Patrus%20Ananias%20presentation.doc>)

<http://www.community.nestle.com/Americas/Brazil/Food+Donations/Zero+Hunger+Programme.html>

*Public procurement*

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 preferable enterprises through the marketplace. For example, in 2004, Indian Railways announced that it would be using only hand spun and hand woven materials for bedding on its trains. The move was reported to be motivated in part by concerns to improve rural employment.<sup>5</sup> Local and regional government could equally make use of public procurement to promote CSR. For example, the Municipal government of ShenZhen (see *Box 11*) has recently expressed interest in directing its public procurement to promote CSR.

<sup>5</sup> "And now, Khadi makes its appearance on Indian railway", *Hindu Business Line*, June 9<sup>th</sup> 2004, <http://www.blonnet.com/2004/06/09/stories/2004060902230400.htm>

**Box 11: 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)."

Source: *ShenZhen Says No to Sweatshops*, ShenZhen Daily, March 31 2006, available online at <http://fuzhou.china.com.cn/english/government/164130.htm>

*Overarching public policy frameworks*

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 also listed as a priority work area of China's Ministry of Commerce under the heading 'transforming trade growth pattern'.<sup>6</sup> And Shanghai's 11<sup>th</sup> 5-year plan, adopted in 2006,<sup>7</sup> gives CSR the status of 'an integral part of public governance'. The Government of Kazakhstan has also incorporated corporate social responsibility within its work programme for 2006-2008 (*Box 12*).

**Box 12: Government of Kazakhstan Commitment to CSR**

With the overall goal of formulating the normative legal basis for stimulation of increased corporate social responsibility on the basis of international standards, the 2006-2008 government Programme of the Republic of Kazakhstan includes references to elaboration of norms on social reporting by business based on international standards, and of a set of measures to support business initiatives. The government indicates in its work programme that a "general agreement" between the government, trade union associations of the republic and republic employer associations will be concluded during 2007-2008, taking into account the principles of the United Nations Global Compact.

Source: 2006-8 Government Programme at: [http://www.government.kz/ru/doc/U060080\\_1.htm](http://www.government.kz/ru/doc/U060080_1.htm)

**4. Concluding Comments**

CSR offers real opportunities for the governments of middle and low-income countries to change the terms on which they interact with business. The governments and citizens of low and middle income countries need 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. CSR defined only or primarily in rich countries could create obstacles to sustainable development.

There is plenty of room for ground-breaking innovation. Engagement with CSR can help to develop capacity within public policy and regulatory institutions, to free up existing resources, and leverage additional resources through partnership. But for each potential intervention, there is a need too to assess the likely costs and benefits; the risk of failure or undesirable side effects. Policy-makers need to be aware that little can be generally concluded about the potential benefits of engagement based on the wide-ranging experiences to date. Policy choices, in short, matter as much here as any other field of social endeavour.

<sup>6</sup> Shuaihua Cheng, pers comm, referring to [http://www.gov.cn/gongbao/content/2006/content\\_334826.htm](http://www.gov.cn/gongbao/content/2006/content_334826.htm)

<sup>7</sup> *Idem*, referring to <http://www.shanghai.gov.cn/shanghai/node2314/node15822/node15823/node15851/userobject21ai139411.html>

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### **Acknowledgements**

The authors are grateful to Shuaihua Cheng and Peiyuan Guo for pointing the way to the Chinese examples in this paper, and to Bill Vorley of IIED for insights from his work on supermarkets and small producers.