CSR and Trade & Investment Promotion

A literature review and discussion of key research questions[1]

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1 Introduction

IIED's Corporate Responsibility for Environment and Development (CRED) programme works to build an understanding of where and how corporate social responsibility (CSR) initiatives can best contribute to sustainable development in developing countries. One of our research themes – the role of government – examines the role of public authorities at national, regional and sub-national levels in providing the supporting framework for effective corporate social and environmental responsibility (CSR).

This paper is the result of a scoping exercise in relation to this theme, carried out in collaboration with IIED's Environmental Economics Programme (EEP), which has a research interest in investment for sustainable development. Previous work by CRED for the World Bank[2] indicated that trade and investment promotion is a key driver of pro-CSR initiatives by public sector agencies in developing countries. Examples are beginning to emerge of public sector activities to build capacity of local producers to meet requirements of voluntary CSR standards such as SA8000. The relationship between CSR and economic competitiveness is emerging as a prominent theme within the CSR debate.

However, it is less clear whether any elements of CSR are being integrated into the strategies and activities of public sector trade and investment promotion agencies themselves. This paper is a preliminary attempt to assess whether this is the case. It is based on a literature review, a brief review of the websites of investment and trade promotion agencies in a selection of countries, and correspondence with a limited number of experts. The aim is to inform future research priorities for IIED and its partners on this theme.

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[1] Prepared by IIED's CRED and EEP Programmes. Please address comments to sustainablemarkets@iied.org.

[2] T. Fox, H. Ward and B. Howard (2002) *Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study*, World Bank, Washington, DC.

2 Existing literature and work on the theme

Within the donor community and in the mainstream development literature, trade and investment are seen as powerful drivers for development and poverty-reducing growth.[3] Significant emphasis is therefore placed on the ways that developing country governments can promote trade and investment, and reap the full developmental benefits of doing so. During the 1990s, the number of public sector 'Investment Promotion Agencies' (IPAs) increased substantially – there are now over 150 national and over 250 sub-national IPAs such as the *Investment Board of Thailand*, *CzechInvest*, and the *Ghana Investment Promotion Centre*.[4] These agencies aim to respond to the needs of potential investors, while seeking to optimise the benefits of FDI for their national economies. Likewise, trade promotion agencies such as the *Vietnam Trade Promotion Agency (VIETRADE)*, the *Estonian Trade Promotion Agency*, *Trade Venezuela*, and the *Export Board of Zambia*, undertake various activities to support the expansion, and often the diversification, of exports.

Although there are significant bodies of literature on trade and investment promotion, and on the developmental effects of trade and investment, there are few instances where links with the CSR agenda have been made. However, the CSR agenda has the potential to bear directly on the strategies and activities of trade and investment promotion agencies, notably:

- in debates on the 'enabling environment' for investment and/or business development, with higher social, environmental and ethical standards being seen either as conducive to investors and trade partners, or as an additional cost;
- given the perceived negative consequences of CSR supply chain initiatives and tools on market access, particularly for smaller or under-resourced enterprises.

A significant development is the work of the World Bank's "CSR Practice", which advises developing country governments on public policy roles and instruments they can most usefully deploy to encourage corporate social responsibility. This is predicated on the hypothesis that "*Governments are beginning to view CSR as a cost-effective means to enhance sustainable development strategies, and as a component of their national competitiveness strategies to compete for FDI inflows and to position their exports globally*".[5] This assumes that consumers are increasingly concerned about the social and environmental impacts of the products that they buy, and that companies are therefore increasingly interested in investing in and sourcing from countries with good labour and environmental practices. It follows that some countries might seek to position themselves as locations for 'responsible enterprise', for example through encouraging and supporting domestic companies to meet voluntary standards and codes of conduct.

IIED's review of public sector roles in strengthening CSR was a baseline study to inform the Bank's project. This noted that "in contrast to the relatively well-defined status of trade promotion as a driver of CSR activities (see box 1), there is only anecdotal evidence to confirm a direct link

[3] See for example DFID (2000) *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development, London, DFID: 65 "Trade has a vital role to play in helping developing countries to boost their economic growth and to generate the resources necessary for reducing poverty" and OECD (2002) *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*, Paris, OECD: 3 "Foreign Direct Investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development".
[4] Őğűtçű, M (2002) *Good Governance and Best Practices for Investment Policy and Promotion*, Paper for an UNCTAD workshop on Efficient and Transparent Investment Promotion Practices: The Case of LDCs, Geneva, 6-7 June 2002, OECD, Paris.
[5] http://www.worldbank.org/privatesector/csr/index.htm

between pro-CSR public policies and wider economic competitiveness, particularly in attracting foreign direct investment”.[6]

Box 1 Trade and Investment Promotion as a Driver for Public Sector CSR activities[7]
Public sector bodies are recognising the potential for the CSR agenda to open new market access opportunities for exports of sustainably produced goods and services and to tackle potential exclusion from existing markets as CSR conditions are introduced. For example, literature from an environmental policy programme in Egypt states “*Improving environmental standards should be considered as an integral means of maintaining our access to foreign markets in those sectors where we have a comparative advantage, and increasing our ability to compete in new ones. It is in this context that the Egyptian Environmental Affairs Agency through the USAID-supported Egyptian Environmental Policy Program has initiated the ISO 14001 Preparatory Program*”.[8]

Public sector responses also include capacity building for domestic producers to enable them to meet CSR standards. For example, the Thai Office on Labour Standards Development aims to address the lack of enforcement on labour issues and to promote compliance to voluntary labour standards. A support programme entitled *The Power of Labour Standards* has been launched, which will provide presentations and free training programmes to industry, subsidised consulting for factories, and a self-monitoring process.[9]

The link between CSR and national competitiveness is also the focus of ongoing work by AccountAbility and the Copenhagen Centre[10], in the context of the European Union’s aim to become “*the most competitive knowledge-based economy in the world*”[11] and the European Commission’s consultation process and Communication on CSR in 2002. AccountAbility and the Copenhagen Centre ask “whether corporate responsible practices can play a significant role in driving ‘responsible competitiveness’, characterised by a positive relationship between national and regional competitiveness and a nation’s sustainable development performance”, and note that “the relationship between international competitiveness and corporate responsibility is not a simple one. However, our research suggests that corporate responsibility can, *under certain conditions* [emphasis in original], stimulate innovation, investment and trade, and so competitiveness”.[12] The authors describe ‘statutory corporate responsibility clusters’ that involve public policies focused on corporate responsibility standards and practices that support competitive advantage, and note that the challenge is to “shape public policy in ways that deliver responsible business practices and competitiveness” and “not to frame public policy within existing business models, but to nurture the evolution of new ones”. Box 2 gives examples of some of the connections between CSR and competitiveness as highlighted by the authors. One of the key findings is that there is a need for more detailed empirical studies examining these links, recognising that there has been practically no research or debate to date on this theme.

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6 T. Fox, H. Ward and B. Howard (2002) *Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study*, World Bank, Washington, D.C.
7 Ibid.
8 Egyptian Environmental Policy Program leaflet: ISO 14001 Preparatory Program.
9 Parissara Liewkeat, ILO, pers. comm.
10 See Swift, T. and S. Zadek (2002) *Corporate Responsibility and the Competitive Advantage of Nations*, The Copenhagen Centre/AccountAbility, and Zadek, S., J. Sabapathy, H. Dossing and T. Swift (2003) *Responsible Competitiveness: Corporate Responsibility Clusters in Action*, The Copenhagen Centre/AccountAbility.
11 Lisbon Summit, March 2000.
12 Zadek, S. et al. (2003), op cit: p2.

Box 2 CSR and Competitiveness[13]

- South Africa has pursued a policy of black empowerment as an integral part of its economic development strategy. Yet in doing so, it faces challenges that this might negatively impact on its international competitiveness and so ability to attract foreign direct investment.
- Vietnam has sought to respond to international criticism about labour standards in its all-important, export-based, footwear sector. Yet it has simultaneously voiced concerns that in doing so it may price itself out of this market as manufacturing multinationals shift towards lower-cost parts of the region, notably China.
- The South African wine industry's main export market is the UK, which means that it has been particularly impacted by the Ethical Trading Initiative, a UK-based partnership working around labour standards in global supply chains… Unexpected and unplanned for, however, is that it will give the South African wine industry an additional competitive edge if labour standards becomes a significant issue for wine exports beyond the UK.

There appears to be no other work that directly addresses the link between CSR, competitiveness and the activities of trade and investment promotion agencies. However, three other areas of enquiry provide useful background information to the theme.

Firstly, there are significant bodies of work examining the relationship between economic competitiveness and certain issues within the CSR agenda, notably environmental[14] and labour[15] standards. The findings are sometimes extrapolated in order to draw conclusions on the competitiveness impacts of CSR more generally.[16] With regard to labour standards, the most common conclusion is that there is only patchy evidence of a positive correlation between high labour standards and FDI, with any adverse effect apparently being offset by positive effects via greater social stability[17], although some conclude that there is a positive relationship between labour standards and FDI.[18] Despite the lack of firm evidence to support it, the intuitive negative link remains among policymakers: DFID[19] warns that "*action to promote workers' rights should not restrict the livelihood opportunities of the poorest workers in the poorest countries through intentional or unintentional protectionism, nor raise labour costs in the poorer countries to a point where competitiveness in trade is reduced to the detriment of livelihood opportunities for poor people*". The evidence of correlation between environmental standards and FDI is similarly patchy. Both sets of literature stress that conclusions are drawn from limited data sets and the fact that a mix of different factors are taken into account when investment decisions are made – the relationship between FDI and any CSR-related issues is therefore likely to be complex.

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[13] Adapted from Zadek, S. et al. (2003), op cit.

[14] See in particular Zarsky, L (1999) Havens, Halos and Spaghetti: Untangling the Evidence About the Relationship Between Foreign Investment and the Environment, OECD, Paris.

[15] See Kucera, D. (2001) *The effects of core workers' rights on labour costs and foreign direct investment: evaluating the "conventional wisdom",* ILO Discussion Paper 130; Martin, W. and K. Maskus (1999) *Core Labor Standards and Competitiveness: Implications for Trade Policy*, World Bank, Washington, DC; and Busse, M. (2002) *Multinational Enterprises, Core Labour Standards and the Role of International Institutions*, paper presented at the 2002 Centre for the Study of International Institutions conference, University of Innsbruck.

[16] See for example the interventions on CSR, Trade and FDI during the July 2003 World Bank e-conference on Public Policy and CSR, at www.worldbank.org/devforum/.

[17] Kucera (2001).

[18] Busse (2002).

[19] DFID (2003) *Labour Standards and Poverty Reduction*, Consultation Document, DFID, London.

Secondly, the OECD recently published a seminal paper, *Foreign Direct Investment for Development*[20], and, with the South East Europe Regional Roundtable for Investment Promotion, developed 'Best Practice Guidelines for Investment Promotion'. The paper makes various references to CSR-related issues, particularly related to the 'enabling environment' for FDI (box 3). It also comments on 'FDI and environmental and social concerns', noting that there is little evidence that efforts to attract FDI may lead to a 'race to the bottom'. As would be expected, it is suggested that home country authorities have a role to play in raising standards for CSR in host countries, by inducing MNEs to observe commonly agreed standards such as the OECD Convention on Combating Bribery of Foreign Public Officials, the Declaration on International Investment, and the Guidelines for Multinational Enterprises. In contrast, the Guidelines for Investment Promotion do not directly relate to social and environmental standards or other elements of CSR, beyond the second guideline, to "articulate and advocate national policy on FDI among social partners and civil society as well as investors in order to create a better awareness and consensus on the aims of policy".[21]

Box 3 Social and environmental standards and FDI for development[22]

"Among the … important elements of the enabling environment are the host country's labour market standards. By taking steps against discrimination and abuse, the authorities bolster employees' opportunities to upgrade their human capital, and strengthen their incentives for doing so. Also, a labour market where participants have access to a certain degree of security and social acceptance lends itself more readily to the flexibility that is key to the success of economic strategies based on human capital. It provides an environment in which MNEs based in OECD countries can more easily operate, applying their home country standards and contributing to human capital development. One strategy to further this goal is a wider adherence to the OECD Declaration on International Investment and Multinational Enterprises, which would further the acceptance of the principles laid down in the Guidelines for Multinational Enterprises."

"Empirical studies have found a positive relationship between FDI and workers' rights. Low labour standards may, in some cases, even act as a deterrent to FDI, due to investors' concerns about their reputation elsewhere in the world and their fears of social unrest in the host country. Problems may, however, arise in specific contexts. For example, the non-trivial role that EPZs play in many developing countries could, some have argued, raise concerns regarding the respect for basic social values."

"A comparatively sound environmental and social framework becomes increasingly important for countries seeking to attract international investments operating on high standards."

Thirdly, UNCTAD is running a project on 'Good Governance in Investment Promotion'. Although this primarily relates to upholding good governance in investment promotion and facilitation itself, in order to build national capacities in developing countries to attract FDI, there may be some cross-overs with the CSR agenda. UNCTAD tends to work with countries that have difficulties in attracting FDI and that generally would "lack the capacity to launch sophisticated targeting campaigns towards TNCs that are socially and environmentally more conscious"; however, UNCTAD helps to "make investment promotion agencies more aware of these choices, and many

[20] OECD (2002) *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*, OECD, Paris.

[21] Őgűtçű, M (2002) *Good Governance and Best Practices for Investment Policy and Promotion*, Paper for an UNCTAD workshop on Efficient and Transparent Investment Promotion Practices: The Case of LDCs, Geneva, 6-7 June 2002, OECD, Paris.

[22] OECD (2002), op cit. These comments are echoed by Őgűtçű, M (2002), in a specific section entitled 'Corporate Responsibility for Development'.

governments are sensitive to these facts".[23] The activities of investment and trade promotion agencies in relation to CSR are explored in the following section.

3 Current CSR-related functions

3.1 Investment Promotion Agencies

According to UNCTAD's 2000 review of investment promotion[24], the core functions of IPAs vary according to the type of economy in which they are situated. IPAs in OECD countries focus particularly on investor targeting, after care programmes, and consulting services. In contrast, a high proportion of IPAs in LDCs and other developing countries perform a much wider range of tasks, and investor targeting is therefore likely to be less focused and sophisticated. In total, 80% of IPAs included in the UNCTAD survey carry out some form of investor targeting, either by country, sector or type of investment. Approximately two-thirds of IPAs (and 75% of developing country IPAs) reported that they had instigated special efforts to attract projects that would bring environment-friendly technology, and 59% had targeted labour-intensive investment.

There are few examples of IPAs that have used sought to develop an explicit CSR-related image. At a sub-national level, the Oregon Economic and Community Development Department has used strict environmental regulations to promote a 'green' image, supported by a campaign from the mid-1980s, which targeted companies that could benefit most from the environmental conditions and incentives available.[25] But on the basis of a brief review of a selection of IPA websites carried out by IIED, there is no evidence that national-level IPAs are so far either seeking to demonstrate their CSR credentials in their communications to potential investors, or targeting companies that have a particular interest in CSR.

However, it is likely that national IPAs will increasingly engage with the CSR agenda. Firstly, there are some signs that this is already happening, even where this is not obvious to casual visitors to IPA websites. For example, as well as working on corporate governance, the Uganda Investment Authority is "*sensitising companies on what is a good corporate citizen*" and it takes environmental, labour and community responsibility into account in its 'Investor of the Year' competition.[26] Secondly, the UNCTAD review notes that most IPAs' targeting is likely to become more sophisticated in the future – particularly to match the needs of investors with the development objectives of the host country. It also suggests that more and more countries are paying increased attention to optimising the benefits of FDI, for example by promoting stronger linkages between foreign companies and domestic enterprises.[27] Hence, there appears to be potential for exploring this and other possible links between CSR and investment promotion, and the benefits to countries of doing so. As a starting point, it would be useful to carry out a comprehensive survey of IPAs to establish whether (and how) they are already engaging with the CSR agenda, despite not explicitly mentioning this on their websites and promotional literature.

3.2 Trade Promotion Agencies

Compared with the relatively scant evidence of IPAs acting on the potential link between CSR and FDI, there is clearer evidence that developing country agencies are starting to make concerted attempts to respond to CSR-related supply chain pressures. Twose and Cranmer (2003)[28] describe

[23] Paul Wessendorp, Advisory Service on Investment and Training, UNCTAD, pers. comm.
[24] UNCTAD 2002 *The World of Investment Promotion at a Glance: A survey of Investment Promotion Practices*, Advisory Studies number 17, UNCTAD, Geneva. This was based on a survey of 101 IPAs in 2000.
[25] Paul Wessendorp, UNCTAD, pers. comm.; see also http://www.econ.state.or.us/ and UNCTAD (2002: 22).
[26] Dr Maggie Kigozi, Executive Director, Uganda Investment Authority, pers. comm.
[27] For example, Thailand's Board of Investment has established a special Unit for Industrial Linkage Development. See http://www.boi.go.th/english/build/index.html.
[28] Twose, N. and Z. Cranmer (2003) *Responsibility Breeds Success*, Development Outreach, July 2003. World Bank Institute, Washington, D.C.

a ‘CSR cycle’ whereby large companies selling to consumers in developed countries, under pressure from stakeholder groups, seek to demonstrate the social and environmental integrity of their products through codes of conduct for their suppliers, who are often based in emerging markets. In order to maintain or win new contracts, producers need to respond by developing the capacity to implement and adhere to such codes. Twose and Cranmer note that – with the support of the World Bank CSR Practice – the Government of Vietnam is planning to improve the advice and training available to Vietnamese factories seeking to institute CSR programmes, “*as they try to position Vietnam as a responsible location for sourcing*”.[29] Other countries are carrying out similar support programmes for producers – notably Thailand, where the Ministry of Labour has developed its own labour standard, TLS 8001, and is seeking to provide consultation and certification for companies who wish to enter the export sector[30], and India, where the Ministry of Textiles is providing support for small and medium-sized enterprises on various CSR standards.[31]

There are other ways in which CSR relates to trade promotion. At a sectoral level, it is common for industry associations to promote pro-CSR activities, for example Cotton Australia’s introduction of a Best Management Practice environmental programme amongst its producers, in order to maintain a ‘clean, green’ image.[32] Colombia runs a Green Markets Program, to support the production of ‘green’ goods and services for national and international markets.[33] Finally, an emerging area of interest is the inclusion of CSR in bilateral trade agreements. For example, the US-Vietnam Bilateral Textile Trade agreement includes an obligation on both parties to encourage the implementation of CSR codes of conduct.[34]

Despite these examples, it remains uncommon for mainstream trade promotion agencies to build CSR into their activities in a comprehensive way, according to a brief review of a selection of their websites carried out by IIED. And even these examples tend to be in certain sectors – notably textiles and garments – rather than more widespread. Again, it would be useful to carry out a more comprehensive survey of trade promotion agencies to understand better where they are integrating CSR into their activities, even where this is not obvious.

4 Issues arising from the review

This review has identified the following conclusions and issues for further exploration:

4.1 Defining the scope

- There is a clear difference between the institutions used for investment promotion and trade promotion. The literature sometimes fails to distinguish between the two, but the drivers for each to engage with CSR are potentially quite different.
- There is a fuzzy distinction between trade promotion and more general business support. The Thai and Indian examples of capacity building for exporters are led by ministries of labour and textiles respectively rather than explicit trade promotion bodies. Further analysis of the activities of trade promotion agencies should be sensitive to this.
- There is also a fuzzy distinction between the roles of public agencies, quasi-public agencies acting as private entities, and private business or industry associations. Each could potentially

[29] ibid.
[30] Ivanka Mamic, Management and Corporate Citizenship, ILO, pers. comm. The TLS 8001 standard is based on existing standards including ILO standards and conventions, SA8000 and ISO9000. Other examples of government action to help exporters meet CSR requirements are given above in box 1.
[31] See http://textilescommittee.nic.in/ncompain.htm. The standards include ISO9000, ISO 14000 and SA8000.
[32] See www.cottonaustralia.com.au.
[33] For details see web.minambiente.gov.co/mercadosverdes/.
[34] Nigel Twose, World Bank CSR Practice, pers. comm.

seek to integrate CSR into its activities, but again, the drivers and institutional differences could result in this being done in very different ways.

4.2 Evidence of existing activities

- On the basis of our brief review of IPA and TPA websites, there is little evidence of CSR elements being integrated into their activities. However, given the few examples identified above, it is reasonable to assume that many such activities will not be visible on websites, and it is possible that CSR elements are integrated into strategies, without being visible or particularly promoted. A more comprehensive survey would therefore be valuable.
- CSR-related issues are unlikely to be labelled as such. They may be linked to environmental, labour standards, corruption, corporate governance or other strategies to improve the 'enabling environment' for business activity more generally.

4.3 Links to the CSR and competitiveness debate

- Considering the role of CSR in trade and investment promotion agencies' activities would contribute significantly to the emerging debate on CSR and competitiveness, which is relatively conceptual and/or anecdotal at present.
- Whether CSR is seen as an incentive for, or a condition of, FDI and trade, is likely to depend on the bargaining position of the country concerned, and its primary industrial sectors. It would be interesting to carry out analysis that differentiates between LDCs and other developing countries, and between sectors.

4.4 Links to the FDI and development debate

- This theme has strong links to the debate on what makes investment and trade 'good' for development. The CSR agenda is broad enough to deal not only labour and environment issues, but also more explicitly developmental issues such as backward linkages, technology and skills transfer, employment and terms of trade. Investment and trade promotion may provide a useful lens through which to explore how the development side of CSR can be strengthened.

5 Ways forward

This review has clearly shown that neither trade- nor investment promotion agencies are integrating CSR into their activities in a comprehensive and visible way, and the benefits of doing so remain unclear. There are some examples, but these are patchy and often anecdotal. A comprehensive review of the CSR-related activities of IPAs and TPAs would therefore be a useful first step. Organising this with partners or through existing networks – such as the Multilateral Investment Guarantee Agency's IPANet network of investment promotion agencies, the World Bank CSR Practice, or UNCTAD – would be sensible. This would allow access to a large number of agencies, and provide a useful means of dissemination.

A second step could be to identify a small number of countries from this review for a more in-depth project, that seeks to identify how their IPAs and TPAs could engage with the CSR agenda, and to explore what impacts this would have on investment and exports.