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PUBLIC SECTOR ROLES IN STRENGTHENING CORPORATE SOCIAL RESPONSIBILITY: A BASELINE STUDY


Tom Fox, Halina Ward, Bruce Howard

Corporate Responsibility for Environment and Development Programme
International Institute for Environment and Development (IIED)

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Private Sector Advisory Services Department, The World Bank

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EXECUTIVE SUMMARY

This report categorizes and discusses the range of roles that public sector agencies have played in providing an “enabling environment” for corporate social responsibility (CSR). The starting point is a broad definition of CSR that goes well beyond a more limited understanding of CSR as being about business activities that go “beyond compliance”. A broader definition that considers the overall potential commitment of business to sustainable development is better suited to understanding public sector roles in CSR.

This report classifies public sector engagement along two axes. First are four key public sector roles:

- Mandating
- Facilitating
- Partnering
- Endorsing

The second axis reflects public sector activities under 10 key themes of the CSR agenda:

- Setting and ensuring compliance with minimum standards
- Public policy role of business
- Corporate governance
- Responsible investment
- Philanthropy and community development
- Stakeholder engagement and representation
- Pro-CSR production and consumption
- Pro-CSR certification, “beyond compliance” standards, and management systems
- Pro-CSR reporting and transparency
- Multilateral processes, guidelines, and conventions

There are examples of developing country public sector initiatives in almost all of the categories in this overall classification. Though the focus is on initiatives that have taken place at the national

level, the role of local and regional agencies should not be underestimated. Undoubtedly a rich body of experience—so far unexplored—exists at the subnational levels in many developing countries.

The contemporary CSR agenda is relatively immature, and the term “CSR” has not yet taken hold within many public sector agencies, in both industrial and developing countries. Many of the initiatives highlighted in the report have not been undertaken explicitly as “pro-CSR initiatives” but nonetheless have the potential to promote corporate social responsibility. For example, the primary aim of public sector activities that promote exports of sustainably produced goods and services might well be to earn foreign exchange or to reduce the national economic impact of the market access restrictions that can result from CSR requirements incorporated in contracts for the provision of goods and services. Public sector agencies that do not use the expression “corporate social responsibility” are not necessarily doing any less than those that do.

The challenge is for public sector bodies to identify priorities and incentives that are meaningful in the local and national context and to build on existing initiatives and capacities. There is a significant opportunity for public sector bodies in developing countries to harness current enthusiasm for “CSR” to delivery against public policy goals and priorities.

The report assesses some important overall drivers for public sector engagement in pro-CSR activities in developing countries, as well as constraints to engagement.

Intergovernmental processes have begun to drive some promising initiatives, although much remains to be done for intergovernmental initiatives to realize their full potential as drivers of

pro-CSR public sector activities in developing countries.

Trade and investment promotion is a key driver of pro-CSR initiatives by public sector agencies in developing countries. Examples are now beginning to emerge of public sector activities in developing countries to build capacity of local producers to meet requirements of voluntary CSR standards such as SA8000. But there are also increasing suggestions that tools of CSR such as labeling or certification schemes may be viewed as non-tariff barriers to trade or an unwelcome imposition of “foreign” concerns when applied to developing country producers. For the time being at least it is striking that there is little evidence of developing country government engagement in processes to develop internationally applied voluntary CSR standards.

The CSR agenda brings a new focus to the need to maintain a level playing field of minimum environmental and social standards so that the marketplace is able to reward higher standards and innovation. Anecdotal evidence suggests that the CSR agenda on child labor in industrial countries has given renewed impetus to public sector labor inspectorates in some developing countries to step up their compliance activities. But lack of capacity to enforce minimum standards remains a significant problem in many countries.

Consumer demand is a significant driver of CSR practices by companies in high income countries. Yet stories of public sector successes in stimulating consumer demand for “pro-CSR” goods and services are hard to come by in those middle-income countries with potential to develop substantial domestic “green” or “ethical” consumer markets.

Five key themes emerge for future work to strengthen the CSR-related roles of public sector agencies in developing countries.

- Work to build awareness of the contemporary CSR agenda within developing country agencies, including building understanding on the overall drivers, key players, and effective pressure points, as well as country-specific impact assessments of the CSR agenda for trade and investment promotion. Any work in this area will need to be sensitive to the particular importance of support for small, medium, and micro enterprises in many developing countries.
- Initiatives that enable public sector bodies in developing countries to become effective players in setting the terms of the CSR debate and its associated standards. The CSR agenda to date has been largely shaped by multinational corporations, consumers, investors, and governments based in developed countries.
- Work to build a stable and transparent environment for pro-CSR investment, including efforts to strengthen basic norms of social, environmental, and economic governance and their enforcement.
- Initiatives to engage the private sector more directly in public policy processes associated with delivery of public goods (for example, national sustainable development or poverty reduction strategies).
- Support for public sector bodies to develop frameworks within which to assess local or national priorities in relation to CSR.

The current capacity constraints for public sector agencies in developing countries to engage in the CSR agenda should not be underestimated. But the opportunities are significant, and, as this report shows, there is a wealth of experience to draw on.



1. INTRODUCTION

This report categorizes and discusses the range of roles that governments have played in providing an “enabling environment” for corporate social responsibility (CSR). By “enabling environment” we mean a policy environment that encourages (or mandates) business activity that minimizes environmental and/or social costs and impacts while at the same time maintaining or maximizing economic gains.

The World Business Council for Sustainable Development (WBCSD) has defined corporate social responsibility as “[t]he commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”¹

Corporate social responsibility is at heart a process of managing the costs and benefits of business activity to both internal (for example, workers, shareholders, investors) and external (institutions of public governance, community members, civil society groups, other enterprises) stakeholders. Setting the boundaries for how those costs and benefits are managed is partly a question of business policy and strategy and partly a question of public governance.

Our starting point for this study is broadly compatible with the WBCSD’s definition. But it is quite distinct from an alternative commonly maintained starting point that views CSR as essentially about going “beyond compliance.” Assessing the role of the public sector by considering only those initiatives that provide incentives for business to go “beyond compliance” would fail to take account of the dynamic linkages between voluntary approaches and regulation and the potential for voluntary initiatives of various kinds to crystallize, over time, into mandatory minimum standards.² Neither does the rigid “voluntary versus regulatory” divide

that is promoted by a narrow starting point of CSR as “beyond compliance” does not make sense in the context of developing country economies where tools to encourage compliance with minimum legislation can be understood as a significant element of the CSR agenda.³ A broader definition of CSR is also better suited to understanding the significance of the economic globalization agenda as a driver of the contemporary CSR agenda. In many developing countries, discussion on CSR is inescapably tied to perceptions on the risks and opportunities of economic globalization. CSR definitions that focus on business activities and responsibilities “beyond compliance” tend to ignore this broader context.

We have not sought in this paper to make recommendations on how, at the country level, choices should be made on the appropriate balance between different policy instruments. Public policy choices about to what extent and how individual business decisionmaking should be framed by public policy intervention necessarily differ from country to country and are dependent on particular socioeconomic circumstances. Just as the drivers for corporate social responsibility differ from country to country, so too do appropriate and effective roles for the public sector.

In this report, we highlight:

- Areas where the contemporary corporate social responsibility agenda has itself given rise to new kinds of policy instrument, or new roles for government

1. See, for example, WBCSD (2002).

2. See, for example, Gordon (1999).

3. See, for example, Annan (1999).

- Initiatives that are not necessarily explicitly associated with the corporate social responsibility agenda, but that nonetheless have the potential in bringing useful insights to understand the role of the public sector in the context of CSR.
- Internet-based research to identify concrete examples of initiatives, supplemented by email, telephone and face-to-face discussions with a variety of public sector officials, entrepreneurs, nongovernmental organizations (NGOs), and consultants in industrial and developing countries alike.

The report is based on:

- A short review of the existing literature on the role of government in providing an enabling environment for corporate social responsibility

2.

A CLASSIFICATION OF PUBLIC SECTOR ENGAGEMENT IN CSR

2.1 Introduction

There is a variety of lenses through which to view and categorize public sector engagement in the CSR agenda, depending on the purpose of analysis and the answer to the question, “Why is it important to consider the role of the public sector?” Annex 1 provides an overview of the key roles identified in existing literature on the role of the public sector in the CSR agenda. Annex 2 provides an overall listing of public sector activities given our broad starting point for understanding the CSR agenda.

For the purposes of the present report, we have developed an overall classification that draws on two axes. The first describes the public sector role, and the second considers key themes of the contemporary CSR agenda. Table 1 summarizes the approach.

Public sector bodies may choose to address different CSR themes through actions reflecting a variety of roles. For example, it is quite feasible for a government to seek to increase and improve the level of corporate sustainability reporting by using any one or a combination of various mandatory (legislative), facilitating (guidelines on content), partnering (engagement with multi-stakeholder processes), and endorsing (publicity) tools. It is also apparent that some public sector activities, such as procurement, have multiple linkages with the contemporary CSR agenda.

Our classification has the merits of being relatively simple; that is, holistic in its ability to cover the complete CSR agenda and neutral in that it does not reflect inherent biases toward any particular set of public sector actions. But it is by no means the only way to categorize public sector initiatives. We have not devoted separate headings to distinctive themes such as “busi-

ness and conflict,” “business and human rights,” “business and environment,” or “business and labor.” Rather, our classification of CSR themes reflects a high level of generality, which has the additional advantage of underscoring the need for integration across themes. Annex 3 sets out some alternative dividing lines for frameworks to build understanding on public sector roles.

2.2 Four Public Sector Roles

Four principal public sector roles reflect the overall range of initiatives that we have identified: mandating, facilitating, partnering, and endorsing (table 2).

2.2.1 Mandating

In their “mandating” role, governments at different levels define minimum standards for business performance embedded within the legal framework. Examples include establishment of emission limit values for particular categories of industrial installations, or requirements for company directors to take particular factors into account in their decisionmaking. Even “mandating activity can drive industrial innovation and best practice. For example, the familiar notions that enterprises should apply the best available techniques, best available technology, or the best practicable environmental option to manage industrial emissions allow for the fact that what is “best” will change over time with technological innovation and technology transfer.

2.2.2 Facilitating

In their “facilitating” role, public sector agencies enable or incentivize companies to engage with

Table 1. Classification of Public Sector Activities

Public sector role				
CSR theme	Mandating	Facilitating	Partnering	Endorsing
Setting and ensuring compliance with <i>minimum standards</i>	Defining minimum standards and establishing targets; establishment of enforcers and inspectorates; supporting citizen legal action	Tax incentives and penalties; ensuring access to information; facilitating understanding on minimum good practice abroad; naming and shaming poor performers; frameworks for voluntary agreements; supporting civil society	Working with multilateral agencies and civil society to build capacity	
<i>Public policy</i> role of business	Reforming political financing; legislation as policy setting for voluntary action; mandatory disclosure of payments to public bodies	Engaging business in public policy processes; clearly defining societal priorities; including CSR elements in other policy areas	Forums for debating public policy proposals	Including business representatives in policy arenas
<i>Corporate governance</i>	Stock exchange regulations and codes; company law	Implementing international principles	Multi-stakeholder code development	
Responsible <i>investment</i>	Guidelines for FDI; requirements for government loan guarantees	Facilitating legislation for SRI; guidelines for public investments; linking investment opportunities to SD policy	Public-private partnerships	Endorsing metrics and indicators; supporting civil society initiatives
<i>Philanthropy</i> and community development	Mandating corporate contributions	Tax incentives; "timebank" schemes; league tables to promote peer pressure	Public-private partnerships	Publicizing leading corporate givers
<i>Stakeholder engagement</i> and representation	Licensing requirements for stakeholder consultation	Supporting civil society engagement; defending key stakeholder interests in key forums	Facilitating dialogue and multi-stakeholder processes	Association with particular multi-stakeholder processes
Pro-CSR <i>production and consumption</i>	Pollution taxes; command and control legislation driving pro-CSR innovation	Pro-CSR export initiatives; capacity building; business advisory services; enterprise development; public procurement; voluntary CSR labels; education and awareness raising; support for civil society action; tax incentives	Joint government-industry investment in capacity; developing sectoral guidelines	Public procurement; pro-CSR management in public sector bodies; labeling schemes
Pro-CSR certification, " <i>beyond compliance</i> " standards and management systems	Mandatory environmental management systems	Information and capacity building; supporting business-to-business partnering / mentoring; public procurement; tax and regulatory incentives; supporting supply chain initiatives and voluntary certification	Engaging in standards-setting processes	Endorsing specific standards systems and approaches; public procurement and public sector practices
Pro-CSR <i>reporting and transparency</i>	Mandatory reporting	Guidelines for voluntary reporting; informal incentives	Engaging in multi-stakeholder dialogue on guidelines	Supporting instruments for peer pressure; commending reporters
<i>Multilateral processes, guidelines and conventions</i>	Implementing guidelines through legislation	Capacity building and technical support	Negotiating agreements; shared monitoring	Endorsing guidelines

Table 2. Public Sector Roles

Mandating	"Command and control" legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	"Enabling" legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

the CSR agenda or to drive social and environmental improvements. In many of the approaches reflected under this heading, the public sector plays a catalytic, secondary, or supporting role. For example, in Britain an amendment to the 1995 Pensions Act⁴ requires pension funds to disclose whether they take social, environmental, and ethical issues into account, but stops short of requiring fund managers to adopt any particular policy.⁵

In their role as facilitators, public sector bodies can stimulate the engagement of key actors in the CSR agenda— (for example, by providing funding for research or by leading campaigns, information collation and dissemination, training, or awareness raising). Public sector bodies can also develop or support appropriate CSR management tools and mechanisms, including voluntary product labeling schemes, bench-

marks, and guidelines for company management systems or reporting. And they can stimulate pro-CSR markets by creating fiscal incentives and by applying its public procurement and investment leverage. One example is highlighted in box 1.

2.2.3 Partnering

The notion of “partnership” is central to the CSR agenda. Strategic partnerships can bring the complementary skills and inputs of the public sector, the private sector, and civil society in tackling complex social and environmental problems (box 2). In their partnership role, public sector bodies may act as participants, convenors, or facilitators (box 3).

BOX 1.

Proudly South African

Proudly South African is a non-profit company set up by the government-led NEDLAC (see box 10). It involves a campaign to promote South African companies, products, and services in order to support job creation and economic growth, but crucially also requires companies to demonstrate their commitment to social responsibility. A logo signifies to consumers that the company satisfies criteria on local content, quality, commitment to fair labor standards, and sound environmental practices. Two hundred members had been granted membership by June 2002, and the campaign expects to have around 400 members by the end of 2002.

Negotiations are under way to recognize membership status as a factor in government procurement decisions, with the Department for Education so far having committed itself to giving preference to members in awarding tenders. Future plans for the campaign also include international promotions and publicity, and export advice.

Source: www.proudlysa.co.za.

4. Although this legislation did not require funds to undertake any particular policy, most companies preferred to give a positive signal. The Act has been instrumental in encouraging the growth of Socially Responsible Investment, which in turn encourages industry to be more proactive on CSR (O. Lankester, personal communication). France and Germany have now introduced similar legislation (Adams 2002).

5. DTI (2002).

BOX 2.

Business Partners for Development

The Business Partners for Development (BPD) program was established to study, support, and promote strategic examples of partnerships involving business, civil society, and government working together for the development of communities around the world. Thirty focus projects were carried out in 20 countries, with the aim of demonstrating that tri-sector partnerships benefit the long-term interests of the business sector while meeting the social objectives of civil society and the state by helping to create stable social and financial environments. The findings of the program suggest that such partnerships, between local or central government, companies, and civil society organizations, can provide business benefits, enhanced community developmental impact, and positive outcomes for public sector governance. Public sector officials often played crucial roles, including drafting contract provisions and concession design, endorsement, dispute resolution, awareness raising, and ensuring the long-term sustainability of investments and infrastructure resulting from the partnerships. However, BPD also stressed that there are often public sector capacity issues to be overcome to enable such engagement.

Source: www.bpdweb.org.

BOX 3.**Dialogue Through Partnerships: Human Rights**

In 1998 the Norwegian government established the Consultative Body for Human Rights and Norwegian Economic Involvement Abroad (KOMpakt) to promote increased dialogue, information sharing, and mutual understanding between the human rights community, the private sector, and the Norwegian authorities. The members primarily represent five groups that contribute to this dialogue: business associations (including representatives of individual enterprises), unions, human rights organizations, research institutes, and the government. The Ministry of Foreign Affairs acts as convener and secretariat for the initiative. The Norwegian Agency for Development Cooperation and Ministry of Trade and Industry and Ministry of Petroleum and Energy also engage as stakeholders in the three working groups, which discuss normative, private sector, and political aspects of CSR, respectively.

Source: Ministry of Foreign Affairs odin.dep.no/ud/.

BOX 4.**Green Business Award, Taiwan**

The Taiwan Environmental Protection Administration (EPA) has run an annual Green Business Award since 1992, to “commend industrial organizations that have made a contribution to environmental protection in Taiwan.” The EPA exhibits practices from award-winning companies to create a demonstration effect for other companies. In the nine years since the award was founded, 90 companies have been showcased. The EPA holds a high profile award ceremony, and arranges for winning companies to meet with the president and “receive his personal words of praise.” The EPA believes that Taiwan’s high ranking in ISO14000 certification (fifth in the world with over 560 organizations certified) can be linked to the promotion effect of the Green Business Award.

Source: www.epa.gov.tw.

2.2.4 Endorsing

Political support and public sector endorsement of the concept of CSR and in particular, CSR-related initiatives reflect a fourth public sector role in our typology. Endorsement can take various forms, including through policy documents, the “demonstration” effect of public procurement or public sector management practices,⁶ or direct recognition of the efforts of individual enterprises through award schemes (box 4) or “honorable mentions” in Ministerial speeches (box 5).

There are often no bright lines between these four roles. For example, there may be cases where government acts as partner, but the incentive for partnership derives from the possibility (explicit or implied) that legislation may follow if a partnership is unsuccessful.⁷ Equally, the lines between “facilitating,” “partnering,” and “endorsing” are not always clear. For example, the U.S.-U.K. Voluntary Principles on Security and Human Rights initiative has combined a partnership process of stakeholder engagement with a facilitating role and implicit government endorsement of the outcomes (box 6).

BOX 5.**Presidential Speech and Annual CSR Week, the Philippines**

President Gloria Macapagal-Arroyo gave a speech at the 2002 conference of the Asian Forum on CSR, stressing the importance of collaboration between government, the private sector, and civil society in the Philippines poverty reduction strategy. By presidential decree, the first week of July is designated CSR week in the country.

Source: Asian Forum Today, July 3 2002.

6. For example, the U.K. government indicates its support for positive human resources policies through targets for employee diversity and accreditation to the Investors in People award among government departments (DTI 2002).

7. Examples include German “self-obligations,” producer responsibility initiatives in the U.K. and at EU level, and the European Commission’s round tables on CSR.

BOX 6.

U.S.-U.K. Voluntary Principles on Security and Human Rights

The U.S. and U.K. governments, companies in the extractive and energy sectors, and NGOs engaged in a dialogue on security and human rights that resulted in the publication in December 2000 of a set of voluntary principles to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms. The process continued in 2001, working on translating the principles into action, particularly in Nigeria. The Dutch government joined the process in November 2001.

Source: <http://hrpd.fco.gov.uk/reports.asp>.

BOX 7.

Office on Labor Standards Development, Thailand

The Department of Labor Protection and Social Welfare, a division of the Ministry of Labor and Social Welfare, has recently set up an Office on Labor Standards Development. It aims to address the lack of enforcement on labor issues and to promote compliance to voluntary labor standards. A support program entitled “The Power of Labor Standards” has been launched, which will provide presentations and free training programs to industry, subsidized consulting for factories, and a self-monitoring process. A budget of “approximately \$5 million has been allocated to the training and development of Ministry staff and Thai industry in order to foster voluntary compliance with voluntary labor standards and corporate codes of conduct.”. In collaboration with Thai NGO the Kenan Institute Asia, the ministry organized a conference in March 2001 on voluntary labor codes.

Sources: Parissara Liewkeat, ILO, personal communication; www.kiasia.org; Kaufman, et al. (2002).

2.3 Ten CSR Themes

The second axis for our classification considers the core themes of the CSR agenda. Taking our broad definition of CSR as a starting point, we have identified 10 key CSR themes that are relevant to identification of public sector roles (see table 1). Additional key themes might be developed as the CSR agenda matures, and this classification does not attempt to predict these.

Setting and ensuring compliance with minimum standards

There is little need here to illustrate the conventional mandating role of the public sector setting and ensuring compliance with minimum standards in mandating role. But minimum standards can also be addressed by the public sector in other ways, underscoring the dynamic relationship between minimum legislative standards and the burgeoning body of corporate codes of conduct and standards on CSR-related issues. Box 7 provides one example of public sector facilitating action that makes linkages with such CSR tools as a way of tackling poor compliance with minimum standards.

Partnership also has a role in setting standards that are regarded as reflecting minimum good practice or performance requirements. Cooperative environmental policy instruments such as environmental covenants (box 8) offer one example. The U.S.-U.K. Voluntary Principles on Security and Human Rights (box 6) is another.

Finally, an emerging area for public sector activity on minimum standards lies with support for citizen actions against “worst practice” companies. The public sector role of defining minimum legal requirements on environmental or social issues accompanied by access to justice for affected individuals lies within the traditional mandating role of government. New endorsing roles are now emerging. As transnational litigation against parent companies of multinational corporations over environmental or social impacts increases, particularly when it would be difficult or impossible for affected individuals to secure access to justice in their own countries, there are examples of host country governments supporting citizens’ actions in home country courts, and effectively endorsing such action.⁸

8. For example, the South African government in English litigation against the English and Welsh multinational Cape plc. See also Ward (2002).

BOX 8.

Cooperative Policy Instruments

1. Environmental Covenants, the Netherlands

The environmental covenant is a policy instrument intended to give new impetus to established relationships between the public and private sectors in tackling environmental issues. It involves at least two parties, of which one is a government agency and the other a representative of a sector of industry, that agree on the realizations of environmental targets. Following consultations, the participants agree in writing the roles that they will play in order to tackle the issue in mutual dependence.

Source: Glasbergen (1998).

2. Environmental Management Cooperation Agreements, South Africa

A key outcome of post-1994 environmental policy debates in South Africa has been a statutory recognition of voluntary agreements or “Environmental Management Co-operation Agreements” (EMCAs) in section 35 of the National Environmental Management Act (NEMA). Influenced by the Dutch experience with environmental covenants, EMCAs are conceived of as a type of *administrative agreement* between public authorities and “any other person—or community” for the purpose of compliance with NEMA.

Work within the Department of Environmental Affairs and Tourism to implement EMCAs has met with resistance from some South African NGOs that argue that the minimum conditions for these kinds of tools to be effective instruments for environmental protection are not present in South Africa.

Sources: Acutt, (2002), .Albertyn and Watkins (2002).

Public policy role of business

Public sector activities that set a clear and transparent framework for private sector engagement in public policy can make an important contribution to alignment of business practices with sustainable development goals. For example, in many countries corporate donations and lobbying are prominent features of the political landscape, sometimes to the extent that the voices of other interest groups may be drowned out.⁹ Political financing rules can help to set public policy boundaries for business engagement in democratic processes (box 9).

On occasion, legislation that may not appear to be part of the CSR agenda in one context sets

9. UNDP (2002).

BOX 9.

Reforming Political Financing, Thailand

The 1997 Thai constitution introduced new party, political finance, and election laws, under the Organic Law on Political Parties and the Organic Law on Elections, and empowered an independent Election Commission (ECT) of Thailand with oversight authority. These laws strictly regulate party operations and accounting practices to enhance transparency and accountability within the party system. A key objective of the new legislation is also to strengthen parties as ideological bodies and broaden their membership bases, with the aim of reducing the prevalence of patronage and vote buying.

Source: National Democratic Institute/CALD (2002).

the public policy context for business-led “beyond compliance” activities in another, reflecting the range of regionally specific definitions of CSR. For example, the South African government has introduced a raft of legislation to promote black economic empowerment as a means of tackling the legacy of apartheid. Business initiatives around race issues in this specific national context are understood as an integral part of the CSR agenda. As well as defining certain procedures that companies must follow, the government also gives a strong lead to the business community by defining national socio-economic priorities to which companies can contribute.

Affirmative action policies include those related to employment practices, private, and public sector procurement and company ownership, all of which give preferential treatment to historically disadvantaged South Africans. For example, in July 2002 the government put forward a charter to provide a framework for progressing the empowerment of historically disadvantaged South Africans in the mining and minerals industry. This includes a proposal for an undertaking by government and industry to negotiate the

transfer of ownership of at least 51 percent of mining industry assets to historically disadvantaged South Africans within the next 10 years.¹⁰

Governments can also seek to engage business in public forums for debating policy proposals (box 10), and by involving industry representatives in international policy arenas, for example, many governments, industrial and developing, included business people in their delegations to the 2002 World Summit on Sustainable Development.

Challenges remain in defining the proper boundaries of business involvement in public governance. The dilemmas are acutely expressed in demands for developed country businesses operating in conflict zones or countries associated with egregious human rights violations or corruption to press governments to fairly distribute the financial benefits of their investment. The “publish what you pay” campaign (see box 11) offers one way forward by promoting mandatory reporting of information that can then be used by non-business actors to hold governments accountable.

Taking a different starting point in the “business and conflict agenda,” partnership-based promotion of enterprise development and business activity in conflict zones can also play an important role in building and sustaining peace. For example, governments at both national and regional levels have recognized the contribution of enterprise development and business promotion—particularly among Muslim businesses—to delivery of lasting peace and security in the island of Mindanao in the Philippines.¹¹

Corporate governance

Corporate governance guidelines and codes of best practice offer one way to respond to poor corporate performance and a perceived lack of effective board oversight. Some governance codes are linked to listing or legally mandated disclosure requirements. Business-driven codes, such as those contained in the 1994 King Report in South Africa (box 12) can be important driv-

10. Source: www.ocnus.net.

11. See generally www.mindanao.org.

BOX 10.

National Economic Development and Labor Council, South Africa

National Economic Development and Labor Council (NEDLAC) is a statutory body launched in 1995 as a forum for multilateral decision-making and consensus-building related to social and economic policy formulation for the South African government. It is led and funded by the public sector and also involves business, labor and civil society organizations. The main government department involved is the Department of Labor, out of which it is funded, but the Department of Trade and Industry and the Department of Finance and Public Works are also centrally involved in NEDLAC. Other departments attend when there is an issue that relates to their portfolio. Organized business is represented by Business South Africa, which is an umbrella body of 19 different employer organizations. Organized labor is represented by the three main labor federations in South Africa. Organized community is represented by the South African Youth Council, National Women’s Coalition, South African National Civics Organization, Disabled People of South Africa, and the National Co-Operatives Association of South Africa.

Source: <http://www.nedlac.org.za>.

BOX 11.

Publish What You Pay

A coalition of NGOs and civil society organizations is calling on governments to take leadership in promoting transparency over resource revenues worldwide. A recent move by the U.K. government calls for voluntary disclosure of revenues paid to developing country governments by extractive industries. The aim is to encourage the transparency and accountability of the national authorities receiving these payments. However, the coalition argues that regulation linking disclosure to stock exchange listing requirements is required to prevent companies flouting a voluntary agreement.

Source: www.publishwhatyoupay.org.

ers for changes in companies legislation. Others, though purely voluntary in nature, may be designed to help forestall further government or listing body requirements.

Beyond government legislation establishing basic requirements for business organization and corporate accountability through principles of company law, public sector roles have also included negotiation and implementation of international principles, partnership-based code development and engagement in capacity building, and pensions legislation linked to good corporate governance practices (box 13).

Responsible investment

The notion of “socially responsible investment” within the CSR agenda is most commonly used to refer to the Socially Responsible Investment movement within the financial services sector. Governments in some developed countries have taken steps to promote socially responsible investment, for example by enacting enabling legislation such as the British Pensions Act (described above), by endorsing particular systems of indicators and metrics, or by engaging in civil society-led initiatives to promote socially responsible investment.¹²

Beyond the financial services sector, a broader view of responsible investment encompasses public sector inward investment policies linked to CSR-friendly practices. These may include requirements on technology transfer, local economic linkages, or local community consultation (box 14); guidelines for public sector loan guarantees and public investments; and public-private partnerships that seek to align corporate investment with public sector investments (for example, in infrastructure, education, and health provision).

Philanthropy and Community Development

Philanthropy and investment in community development initiatives are common CSR strategies for businesses. Governments can harness the community development potential of corporate philanthropy and social investment through dialogue to optimize their alignment with public sector goals. In certain cases, they can mandate corporate contributions in return for a license to operate (box 15).

12. For example, the U.K. Department for International Development sits on the advisory group of the “Just Pensions” project, which encourages pension trustees to use their influence to persuade fund managers to invest in socially responsible enterprises (www.justpensions.org).

BOX 12.

King Report, South Africa

In 1994 South Africa’s King Committee on corporate governance, initiated by the Institute of Directors, issued an influential report on corporate governance. Chapter 20 of the report contained a Code of Corporate Practices and Conduct. The South African Companies Act was subsequently amended to reflect certain code recommendations. The report’s successor, the so-called “King II Report” was published in 2002. It identifies social responsibility as one of seven characteristics of good corporate governance and makes extensive recommendations for amendments to existing legislation.

Sources: www.iodsa.co.za/corpgov; www.ecgi.org/codes/comparative_summaries.

BOX 13.

Sao Paulo’s Novo Mercado

The Novo Mercado is a listing segment of the Sao Paulo stock exchange designed for the trading of shares issued by companies that voluntarily undertake to abide by key corporate governance practices and disclosure requirements beyond those already required by Brazilian legislation. The national government is supporting the new exchange with a directive that allows pension funds to invest a higher percentage of assets in domestic equities, as long as they are listed on the Novo Mercado.

Source: www.bovespa.com.br.

BOX 14.**Social Responsibility Agreements, Ghana**

One outcome of the overhaul of forest policy in Ghana in the 1990s was a new regulation stipulating that companies tendering for timber cutting permits would be assessed in terms of their respect for the social and environmental values of local residents. Under the new law, which came into operation in 1998, logging companies are required to secure a “Social Responsibility Agreement” with the customary owners of the land. This agreement follows a standard pattern, to include a code of conduct for a company’s operations—guiding environmental, employment, and cultural practices—and a statement of social obligations, which is a pledge of specific contributions to local development.

Each agreement must be fully negotiated with the local community. There is a strict procedure for developing an agreement with local representatives and the district forest office before submission to a central evaluation committee. While these agreements are still in their infancy, the policy itself already provides useful lessons for other countries where high-value timber is logged in community areas and in how to implement a fairly simple, cost-effective, accountable system to support sustainable and socially responsible logging.

Source: Mayers and Vermeulen (2002).

BOX 15.**Niger Delta Development Commission**

Oil and gas companies operating in the Niger Delta are required by law to contribute three percent of their annual revenue to the Niger Delta Development Commission, which is also funded by federal government and state governments from the region. The Commission channels these funds into infrastructure, environmental, and social development projects in the Delta.

Source: www.nddconline.org.

BOX 16.**Tax Incentives for Corporate Donations: Law of Donations, Chile**

The Chilean government offers a variety of tax credits to corporations for charitable donations. Most are oriented to support educational activities, such as schools, universities, and vocational institutions. Donations may attract tax deductions or be deducted as an expense, thus reducing tax liability.

Source: CONAMA.

Another relatively common public sector intervention is to create incentives for voluntary corporate donations and social investments. This may be through tax incentives (box 16) or through broader reputational mechanisms of public recognition for leading corporate givers.

Stakeholder engagement and representation

The public sector has a key role to play in facilitating meaningful stakeholder dialogue with the business community (for example, by building the capacity of civil society actors or by directly facilitating dialogue and multi-stakeholder processes). In some cases governments require companies to enter into stakeholder engagement through mandatory legislation (as with the Ghanaian social responsibility agreements described in box 14).

Governments have also represented the interests of particular stakeholder groups, for example to make the case within the World Trade Organization (WTO) that CSR initiatives developed by third parties are discriminatory (box 17).

Pro-CSR production and consumption

Public sector agencies promote pro-CSR production practices through business, technical and advisory services,¹³ and research. Government-led export promotion of “green” goods and services can build international market access opportunities for sustainably produced goods and services (box 18).

13. For example, the German agency GTZ provides technical assistance for private companies’ long-term activities in developing countries through public-private partnerships (GTZ 2002).

BOX 17.**Environmental Labels and Market Access, Colombia**

In 1998 the Colombian government made representations to the WTO Committee on Trade and Environment and the Committee on Technical Barriers to Trade, setting out its concerns regarding private European ecolabeling schemes for cut flowers and their potential negative implications for Colombian exporters' access to European markets. Colombia put forward the case that private labeling schemes should be subject to the Code of Good Practice for the Preparation, Adoption, and Application of Standards of the Agreement on Technical Barriers to Trade, thereby ensuring that they do not constitute an unnecessary barrier to international trade. The Colombian government has supported a national industry program that encourages the adoption of environmental management systems.

Source: Government of Colombia (1998).

BOX 18.**Green Markets Program, Colombia**

The Ministry of the Environment created the Green Markets Program to develop instruments and mechanisms that induce the production of “green” goods and services that may be competitive in both national and international markets. The program will be supported by a voluntary National Ecolabeling Program. The Green Markets Program is in charge of coordinating various related government initiatives, including:

- Organic Agricultural Program (Ministry of Agriculture and Rural Development): promoting the production and consumption of organic food in Colombia.
- Clean Development Mechanism (Ministry of the Environment): promoting and approving projects oriented to the reduction of Greenhouse Gases.
- Industrial Eco-Products and Environmental Services Initiative (Ministry of the Environment): promoting the production of environmental friendly goods and services.
- Bio-Commerce Initiative (developed by the Alexander Von Humboldt Institute): promotes projects and companies that are aware of the ecosystems surrounding them and use them in a sustainable way.

Source: web.minambiente.gov.co/mercadosverdes/.

Legislation that supports pro-CSR industrial investment within businesses—for example, pollution charges associated with implementation of the “polluter pays principle”—can also contribute to “pro-CSR” production processes. For example, a 1999 World Bank study of top polluters in China found that a Chinese pollution levy, although low, had significantly improved investments in abatement.¹⁴

On the consumption side, support for environmental and social labeling schemes designed to stimulate consumer demand for environmentally or socially preferable goods and services can be found in developing as well as industrial countries. This area of activity is considered later.

Governments may also choose to include CSR-related requirements in public procurement practices; that is, linking their actions as consumers to promotion of pro-CSR production. Two U.K. government departments, the Department for International Development and the

Foreign and Commonwealth Office, have switched to Fairtrade products in their staff restaurants.¹⁵ The Environmental Protection Administration of Taiwan has linked public procurement to promotion of its Green Mark (box 19).

Pro-CSR certification, “beyond compliance” standards, and management systems

Many of the examples associated with the overall theme of “pro-CSR production and consumption” reflect the role of certification, “beyond compliance” standards, and environmental or social management systems in the CSR agenda. Some labeling and certification schemes, like the product-based Indian Ecomark Scheme (box 20), have been initiated by public sector bodies. Others are awarded at company

14. Hua and Ming (1999).

15. See www.fairtrade.org.uk.

BOX 19.**Public Procurement, Taiwan**

The Taiwan Environmental Protection Administration (EPA) has run an eco-labeling scheme (Green Mark) since 1992. In 1998 a Government Procurement Act was introduced that included a clause to promote the scheme. This stipulates that products bearing the Green Mark or with comparable characteristics should be given priority in government procurement bids and benefit from a price advantage of 10 percent. The EPA and the Public Construction Commission have since drawn up Regulations for the Priority Procurement of Eco-Products by Government Organizations. The EPA provides training and guides in green procurement for government procurement staff. By November 2000, the Green Mark program had drawn up 67 product criteria and awarded the logo to 906 products manufactured by 225 companies, with a combined product value equivalent to the annual turnover of the Taiwanese clothing industry.

Source: www.epa.gov.tw.

level. These include Belgium's Social Label,¹⁶ South Africa's *Proudly South African* scheme (box 21), and Costa Rica's Certification in Sustainable Tourism Program (box 22). Public sector bodies have created guidelines designed to feed into development of private sector codes of conduct or standards (box 22).

Public sector agencies have also engaged in a range of activities to encourage take-up of established environmental management system standards (box 23), as well as developing locally appropriate management approaches (box 24).

Other interventions by public sector agencies in developing countries have included capacity building activities designed to help domestic pro-

BOX 20.**Ecomark, India**

This voluntary product labeling scheme was initiated by the Indian Parliament in 1991. The Ministry of Environment and Forests, the Central Pollution Control Board, and the Bureau of Indian Standards are all involved in its administration. Assessment of consumer products in 16 categories ranging from foodstuffs to fire extinguishers is designed to take into account full life cycle of product (materials, production, and disposal). So far, however, it seems that few businesses have participated in the scheme, few labeled products are available, and that "ordinary consumers are hardly aware of the Ecomark or the concept itself." Suggested reasons for this are the wider regulatory requirements for registering new products, the nature of the labeling criteria, and the lack of consumer education.

Sources: Making India Green (2001); envfor.nic.in/cpcb/ecomark; www.epa.gov/opptintr/epp/pubs/envlab/india.

BOX 21.**Certification in Sustainable Tourism Program, Costa Rica**

This program, developed by the Costa Rican Tourism Institute, is subsidized by the Costa Rican government as part of its national strategy to promote sustainable tourism. It comprises mainly performance-based standards for environment, internal company management systems, local community relations, and customer relations and is applicable to all accommodation establishments. It is administered by a voluntary committee, which includes representatives from a wide range of stakeholder groups including government, NGOs, industry, and academia. To encourage wide participation, registration and the first evaluation are free, and certified hotels receive a Certification in Sustainable Tourism plaque showing the level they have achieved on a one to five scale. The scheme is often held up as one of the best models of tourism certification. In June 2001 six other Central America countries agreed to promote a regional scheme based on it.

Source: www.turismo-sostenible.co.cr.

ducers to meet CSR standards. The Thai Office on Labor Standards Development described in box 7 is one example. Box 25 outlines a broad complementary initiative in India.

Pro-CSR reporting and transparency

Discussion on the importance of promoting public access to information on environmental and social issues is a familiar part of the sustainable

16. This label is awarded by the Ministry of Economic Affairs, on the advice of an independent, multi-stakeholder body, to companies and enterprises that ensure that their goods are produced in a socially responsible manner. The principle and the criteria for allocating the label are based entirely on the five core labor standards of the ILO. Source: www.ilo.org.

BOX 22.**National Responsible Tourism Guidelines, South Africa**

A 1996 White Paper sets the policy framework for tourism development and includes specific reference to the concept of “responsible tourism”. “Responsible tourism is not a luxury for South Africa. It is an absolute necessity if South Africa is to emerge as a successful international competitor.” In 2001 the Department of Environmental Affairs and Tourism (DEAT) drafted a set of responsible tourism guidelines, in consultation with a wide range of stakeholders. These provide “a framework within which responsible tourism is defined in South Africa and within which benchmark standards can be set for accommodation, transport, cultural and natural heritage and for operators and marketing associations.” Marketing and trade associations, or geographically defined groups, are expected to use the guidelines as the basis to develop codes of conduct and best practice. Individual enterprises are then expected to develop their own responsible tourism policies based on the guidelines, identify appropriate standards and targets, and report on progress.

Source: www.environment.gov.za.

BOX 23.**The Egyptian Environmental Policy Program**

The Egyptian Environmental Policy Program (EEPP) is a four-year (1999–2003) sector policy reform program, funded by the U.S. Agency for International Development (USAID), to support policy, institutional, and regulatory reforms to address Egypt’s most pressing environmental policy problems. The program is currently supporting implementation of an Integrated Environmental Management System for the Tenth of Ramadan Industrial City. To support implementation of this initiative, the Egyptian Environmental Affairs Agency has designed and initiated a program of activities consisting of an ISO 14001 awareness campaign, an environmental policy workshop, preparatory gap analysis, and implementation workshops.

In a distinct initiative—the Red Sea Sustainable Tourism Initiative’s Environmental Management Systems Program—EEPP has worked to “promote the adoption of best environmental practices in existing hotels and resorts along the Red Sea coast. Its primary focus is to introduce and demonstrate improvements in operational efficiency and environmental performance. This is achieved through a multi-disciplinary approach that combines awareness and training programs, on-site property environmental assessments, and the establishment of operating [environmental management systems], with funding provided for selected demonstration projects.”

EEPP is carried out with the collaboration of the Ministry of Petroleum (Organization for Energy Planning) and the Ministry of Tourism (Tourism Development Authority).

Sources: Eye on Environment, Newsletter of the Egyptian Environmental Policy Program, September 2001, Issue 1; EEPP leaflet: “ISO 14001 Preparatory Program.”

BOX 24.**Environment-Friendly Company Certification, Korea**

The Korean government designates businesses that practice prevention-oriented environmental management as “environment-friendly.” These businesses handle pollutants in a responsible manner and make tangible contributions to environmental improvement. The system was adopted in April 1995 with a view to engaging businesses in sustainable management and development efforts. A total of 126 companies had been named environment friendly by the end of December 2001.

These companies are linked through a nationwide Environment Network established in May 2001 to build a system that facilitates exchange of environmental information between companies, provides technical assistance and consultation services to small and medium-sized enterprises, and develops effective environmental improvement tools. As of December 2001, 342 “superb” environmental improvement cases are on the web for public access.

Source: Ministry of Environment, Korea (2002).

BOX 25.**Capacity Building on CSR Standards, India**

The Indian Textiles Committee, part of the Ministry of Textiles, has taken up a national campaign to sensitize the textile and clothing industry, particularly in the “decentralized SME sector,” to the emerging challenges resulting from the forthcoming liberalization of the Indian textile and clothing industry. The Committee is working with the Ministry of Commerce, state governments, and local industry and trade associations on the campaign. Approximately 7,500 company representatives will have taken part in 25 workshops. The aim is to disseminate information on various standards and compliance mechanisms including ISO 9000 QMS, ISO 14000 EMS, and Social Accountability (SA 8000) standards, offering technical assistance to encourage implementation.

Source: <http://textilescommittee.nic.in/ncompain.htm>.

BOX 26.**Mandatory Sustainability Reporting, France**

In 2001 the French Parliament passed a law requiring mandatory disclosure of social and environmental issues in companies’ annual reports and accounts. It requires all French corporations listed on the “premier marché” (those with the largest market capitalizations) to report against a template of social and environmental indicators, including those related to human resources, community issues and engagement, labor standards and key health, and safety and environment issues.

Source: www.occes.asso.fr/fr/comm/nre.html.

Multilateral processes, guidelines, and conventions

The contemporary CSR agenda is associated with a number of multilateral processes and guidelines. The UN Global Compact, launched by Kofi Annan in 1999, has received endorsement from government officials in both developed and developing countries. The globally applicable Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, concluded in 2000, have resulted in the establishment of National Contact Points to oversee implementation of the guidelines.¹⁹

Intergovernmental processes have also emerged to tackle sector-specific issues—for example, through the innovative Kimberley Process on so-called “conflict diamonds” (box 28)—and to create sectoral frameworks for implementation (box 29).

development agenda. Company reporting on nonfinancial policies and impact has become a tool within the CSR agenda. Social and environmental reporting by companies, or so-called “triple bottom line” reporting on environmental, social, and economic impact has attracted government attention in many high-income countries,¹⁷ although it is difficult to find examples of developing country public sector action in this area. Public sector initiatives related to reporting include requirements for mandatory disclosure against social or environmental indicators (see box 26) or development of guidelines for voluntary reporting. At the level of international cooperation, some industrial country governments—though so far no developing country governments—have engaged in the Global Reporting Initiative.¹⁸ As new themes evolve within the CSR agenda, the potential value of company disclosure as a means of driving better public governance is also receiving increasing attention, as reflected in the “publish what you pay” campaign outlined in box 11.

17. A summary of some government initiatives on corporate sustainability reporting is available in the report of a UNEP/GRI Roundtable held in 2001 at www.uneptie.org/outreach/reporting/.

18. The Global Reporting Initiative has recently provided input to the Netherlands government on how they could seek to use the GRI in their relationships with developing country governments (Mark Brownlie, personal communication).

19. The text is available via <http://www.oecd.org/pdf/M000015000/M00015419.pdf>. There are National Contact Points in the 30 OECD member states, as well as in Argentina, Brazil, Chile, Estonia, Lithuania, and Slovenia.

BOX 27.**OECD Guidelines in Dutch Official Support Programs**

The Dutch Ministry of Foreign Affairs and Ministry of Economic Affairs have chosen to incorporate the OECD Guidelines into official support programs for export, overseas investment promotion, and international cooperation. As of January 2002, companies seeking such support are required to declare in writing that they are familiar with the guidelines and that—within the limits of their ability—they will attempt to apply the guidelines to their own actions. However, the government will not monitor compliance with this “declaration of intent,” and sanctions are not foreseen.

Source: Ybema (2001); Anema (2002).

BOX 28.**The Kimberley Process**

The high profile issue of “conflict diamonds” (those mined areas of civil conflict in Africa) has led to recognition of a need for large mining companies to ensure that their products can be clearly identified on the global market. The Kimberly Process has been working to establish minimum international standards for national certification schemes relating to trade in rough diamonds. The process has involved more than 30 governments, the European community, the diamond industry, and civil society. Through participation in the Kimberley Process, the governments of various diamond-producing countries in Africa have helped to support the legal trade in diamonds, as well as create the potential for reduction in the illicit trade. The South African government has acted as chair of the process. The governments of South Africa, Namibia, Angola, and Botswana have hosted meetings for the development of the certification scheme.

Source: www.kimberleyprocess.com.

BOX 29**Global Code of Ethics for Tourism**

This code was approved in 1999 by the World Tourism Organization (an intergovernmental body with business affiliate members) following two years of wide consultation with the industry. The code includes nine articles outlining the “rules of the game” for destinations, governments, tour operators, developers, travel agents, workers, and travelers. The tenth article provides an enforcement mechanism based on conciliation through the creation of a World Committee on Tourism Ethics, made up of representatives of each region of the world and representatives of each group of stakeholders in the tourism sector, governments, the private sector, labor, and NGOs.

Source: www.world-tourism.org.

2.4 Beyond the National Level

This review of initiatives has focused particularly on engagement in “pro-CSR” activities by national level public sector bodies. But it would be wrong to assume that public sector engagement is limited to this level. Many CSR-related initiatives are based on collaboration between national governments (box 30) at a regional level or on activities undertaken at provincial or state level (box 31).

The local level should not be ignored either. Agenda 21, the policy blueprint for action toward sustainable development adopted at the UN Conference on Environment and Development in Rio de Janeiro in 1992, stresses the role of local authorities. So-called “Local Agenda 21” initiatives have provided opportunities for private sector engagement in processes to define locally relevant policy frameworks for sustainable development, with incidental benefits in promoting responsible business practices.²⁰

20. See ICLEI (2002).

BOX 30.**New Partnership for African Development**

New Partnership for African Development (NEPAD) was announced by the representatives of 15 African countries in October 2001 as an integrated program for the socioeconomic development of Africa. A background paper for the Africa Economic Summit held in Durban in 2002 summarizing the links between CSR and NEPAD states “good corporate citizenship will be absolutely central to the success of [NEPAD] and its goals of encouraging economic growth and reducing poverty. African governments must play the key leadership role in setting the appropriate framework,” in order that the private sector itself can contribute to these goals.

Source: World Economic Forum (2002); see also www.nepad.org.

BOX 31.**Promoting Provincial Government Action on CSR: British Columbia, Canada**

The regional government of British Columbia set up the Green Economy Secretariat with dedicated resources to promote sustainability across and outside government. This was abolished under a new administration as of June 2001. However, while it existed it implemented projects relating to eco-labeling, social auditing standards, indicators, and support for “green” venture projects and environmental technologies. It also introduced legislation to permit social and environmental minority shareholder resolutions, and carried out a survey to gather the views of the private sector on the roles that government could play to support CSR programs.

Source: Coro Strandberg, personal communication

3.

UNDERSTANDING PUBLIC SECTOR ENGAGEMENT IN CSR

3.1 Introduction

The baseline assessment of public sector activities in this report is far from providing a global database of “public sector enabling examples” or allowing any robust comparative assessment of which countries have done “more” than others. There are three key reasons for this.

First, our research has revealed many initiatives that have not expressly been promoted or recognized as part of the “enabling framework for CSR” but that nonetheless fall within the scope of our study. For example, the primary aim of public sector activities that promote exports of sustainably produced goods and services may be to earn foreign exchange. Certainly some governments have taken up and helped to shape the terms of the CSR agenda. But governments or agencies that do not use the expression “corporate social responsibility” are not necessarily doing any less than those that do. Understanding on basic terms within the CSR agenda is far from consistent, reflecting the relative immaturity of the contemporary agenda.

Second, established environmental management tools such as life cycle assessment, cleaner production, eco-efficiency, and environmental management systems are evolving rapidly. But in industrial and developing countries alike, advocates of CSR sometimes lack understanding of these established approaches. Full integration of the social, economic, and environmental issues within the overall CSR agenda is some way away.

Third, building understanding on why some public sector agencies have done “more” than others to build an “enabling environment for CSR” begs questions about the effectiveness of particular approaches in meeting “CSR-enabling” goals. Many of the initiatives that we have highlighted are relatively recent. To our knowledge few have been the subject of formal evaluations, so it is impossible to point to best practice examples. Inadequate funding, maladministration, or insufficient consumer demand can and do frustrate promising initiatives. Caution should equally be taken in drawing conclusions as to the transferability of any particular initiative to different socio-economic contexts.

3.2 Drivers and Constraints

Building understanding on why some public sector bodies choose to engage in promoting an “enabling environment” calls for an assessment of the positive drivers of engagement, and the constraints to broader or deeper engagement. One of the limitations of this short global review of public sector initiatives is that it has not allowed us to develop a comprehensive list of drivers that takes account of the national or local “CSR context” for individual initiatives. However, some clear overall indications of key potential drivers of and constraints to public sector engagement are presented in table 3 and described in more detail below.

Table 3. Drivers of and Constraints to Public Sector Engagement

Driver	Key constraints
<p><i>International policy processes</i></p> <ul style="list-style-type: none"> • Intergovernmental frameworks • Regional intergovernmental cooperation • Application of multilaterally agreed guidelines (for example, OECD Guidelines) 	<ul style="list-style-type: none"> • Lack of public sector capacity to engage in negotiation and implementation • Lack of take-up of CSR issues in regional processes • Lack of engagement with processes and guidelines (for example, OECD Guidelines National Contact Points)
<p><i>Trade and Investment promotion</i></p> <ul style="list-style-type: none"> • New pro-CSR export market opportunities • CSR-related requirements being introduced in existing export markets • The need to attract and retain domestic and foreign direct investment 	<ul style="list-style-type: none"> • Lack of awareness of “green” or “ethical” market opportunities in export markets • Lack of capacity to equip domestic industry to meet CSR-related export requirements • Lack of capacity to engage in key standards-setting processes • Lack of understanding on the link between public sector interventions on CSR and economic competitiveness
<p><i>Maintaining minimum standards</i></p> <ul style="list-style-type: none"> • Demand from business and civil society for a level playing field of social and environmental standards that allows the market to reward leaders • Weak enforcement through traditional activities 	<ul style="list-style-type: none"> • Lack of capacity to maintain and enforce minimum standards • Perception that corporate social responsibility is about voluntary business action, not public sector action • Weaknesses in the institutions of civil society that are necessary for cooperative management approaches to be effective
<p><i>Partnership and civil society demands</i></p> <ul style="list-style-type: none"> • Demonstrations of the potential value of partnerships and private sector engagement to address complex social and environmental issues • Domestic civil society pressure to improve environmental and/or social standards (for example, from workforce) 	<ul style="list-style-type: none"> • Lack of financial or human resources to participate in partnerships • Weak institutions of civil society (for example, trade associations, NGOs, trade unions, community based organizations) • Weak organized labor
<p><i>Consumer demand for sustainable goods and services</i></p>	<ul style="list-style-type: none"> • Lack of domestic consumer demand

3.2.1 Intergovernmental Processes

International policy processes, such as the Kimberley Process on conflict diamonds (box 28), have the potential to drive public sector engagement that creates an enabling environment for CSR. Intergovernmental cooperation at the regional level can also drive public sector understanding on the implications of the CSR agenda by bringing together different governments in settings where one or more of the participants have already engaged in the agenda.²¹ The Clean Development Mechanism of the Kyoto Protocol to the Framework Convention on Climate Change also has the potential to drive public sector engagement in promotion of “pro-CSR” business (box 32).

Elsewhere, intergovernmental policy processes have not yet realized their potential to drive public sector engagement. For example, it appears that there has so far been little or no developing country public sector engagement in complaints to national contact points under the OECD Guidelines on Multinational Enterprises.²²

3.2.2 Trade and Investment Promotion

Public sector bodies are recognizing 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 (box 33).

Public sector responses include capacity building for domestic producers to enable them to meet CSR standards (see box 7), and engagement in CSR standard-setting initiatives to ensure they do not create unfair market access barriers. There is increasing anecdotal evidence that the tools of CSR may come to be viewed as non-tariff barriers to trade²³ or an unwelcome imposition of “foreign” concerns (box 34). However, we have found little evidence of devel-

21. AG/RES. 1786 (XXXI-0/01), 5 June 2001 on Promotion of Corporate Social Responsibility in the Hemisphere.

22. Source: John Evans, TUAC, personal communication.

23. See box 17 on Colombia’s submission to the WTO Committee on Trade and Environment over the impact of German cut flower labeling schemes on Colombian producers.

BOX 32.**The Clean Development Mechanism in the Uganda Investment Authority**

The government-established Uganda Investment Authority promotes investment in Uganda. The Uganda Investment Authority has always insisted on Environment Impact Assessments for all projects before implementation. However, in a recent initiative, the Uganda Investment Authority has begun to promote projects under the Clean Development Mechanism. It is a requirement (under the Kyoto Protocol to the Framework Convention on Climate Change) that clean development mechanism projects should meet sustainable development criteria set by national authorities. In Uganda's case, this requirement is met when project proposals fit with the national Poverty Eradication Action Plan. Priority sectors for Clean Development Mechanism projects are energy, agriculture, forestry, waste management, and cleaner production in manufacturing and transport. Concept papers have been prepared in these areas for promotion to private sector investors who can then benefit from the Carbon Fund. Projects already benefiting from the fund are in the energy, forestry, and agriculture sectors.

Source: Dr. Maggie Kigozi, Executive Director, Uganda Investment Authority, mkigozi@ugandainvest.com.

BOX 33.**Egyptian Environmental Policy: A Response to Market Access Considerations**

“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.”

Source: Egyptian Environmental Policy Program leaflet, “ISO 14001 Preparatory Program.”

oping country government engagement in processes to develop internationally applied voluntary CSR standards outside the mainstream standards-setting bodies such as International Organization for Standardization (ISO). Issues of developing country capacity to engage in standards setting activities such as those of ISO and its member standards bodies are being addressed through a number of initiatives.²⁴

In contrast to the relatively well-defined status of trade promotion as a driver of CSR activities, there is only anecdotal evidence to confirm a direct link between pro-CSR public sector policies and wider economic competitiveness, particularly in attracting foreign direct investment.

3.2.3 Maintaining Minimum Standards

The CSR agenda is giving rise to new demands on the public sector to maintain a “level playing field” of minimum environmental and social standards alongside legal frameworks to protect commercial transactions and free and fair competition. Without a credible risk of penalties for failure to comply—whether through civil society

BOX 34.**Kaleen Label, India**

The Rugmark program was initiated by civil society groups in response to European consumer awareness of child labor in the South Asian carpet industry. In response to pressure from some carpet exporters, who perceived Rugmark as overly stringent and “unnecessary foreign intervention in Indian commercial affairs”,²⁵ the Indian government introduced its own carpet labeling initiative, Kaleen label. This is based on an industry-wide, self-regulated code of conduct administered by the quasi-governmental Carpets Export Promotion Council and a national monitoring committee chaired by a government representative.

Source: www.india-carpets.com.

24. For example, UNIDO's service module for quality and productivity, which works to strengthen the capacity of existing standardization bodies in developing countries, many of them within the public sector. See <http://www.unido.org/doc/501746.html>.

25. Hilowitz (1997). It is unclear how successful the Kaleen label has been, both in terms of market penetration and elimination of child labor.

pressure or compliance actions by public agencies—minimum mandatory standards cannot create the level playing field that allows the marketplace to reward higher standards and innovation. The introduction of voluntary labor codes of conduct may have given new impetus to public sector inspectorates in some cases.²⁶ Lack of capacity to enforce minimum standards through traditional “command and control” methods may also lead public sector bodies to experiment with cooperative management approaches to attaining environmental goals, and in turn generating criticism from civil society (see box 8).

3.2.4 Partnership and Civil Society Demands

Some of the potential drivers of public sector engagement in CSR in developing countries appear to have been unexploited to date. For example, public sector experience of involving private sector actors in the development of national strategies for sustainable development or for poverty reduction is relatively limited outside developed countries (box 35). Business engagement in national policy processes can also foster alignment between CSR strategies at the business unit level and pursuit of overall public policy goals.

“Partnership” initiatives spearheaded by public sector bodies—whether national governments or local administration—are often resource intensive. Many of the non-OECD initiatives highlighted in our overall review of public sector initiatives are associated with donor interventions.²⁷ A further constraint lies with the fact that partnership calls for significant input from key sections of society such as NGOs, trade unions, or community based organizations alongside public sector input. Indeed, civil society or work-force pressure is often a key driver for government action (box 36).

However, in many middle- and low-income countries, civil society voices are weak (box 37), and significant barriers to organization of workers remain around the world.²⁸ Support for capacity building within civil society, alongside support for fundamental labor rights such as freedom of association²⁹ can therefore be a crucial public sector facilitating role.

26. Fiona Gooch, personal communication; Clare Lissaman, personal communication.

27. This might also be a reflection of the added visibility of donor-funded initiatives in desk-based research.

28. See ICFTU (2002).

29. For a comment on the value of public sector support for capacity-building within civil society in the context of CSR see Borregaard (2002).

BOX 35.

Private Sector Engagement in Policy Development

Fair and workable development strategies demand input from governments, development agencies, civil society, the research community, and business. Yet, until now the voice of the latter has been almost entirely absent. Donors and NGOs increasingly admit the need for a forceful private-sector view. Discussions on investment-friendly policies in general, and taxation reform, infrastructure funding, and skills-building in particular, are far more likely to produce tenable, efficient and relevant outcomes if business is at the table.

Source: Deutsche Bank et al. (2002).

Recognizing the Value of Private Sector Engagement in Implementation of National Policy

To enhance participation of NGOs in the implementation of Agenda 21, the Government in collaboration with all stakeholders need to set aside a certain portion of the fiscal budget to support and strengthen NGOs and the private sector for the implementation of activities that fall within the National Action Plan and other national policies.

Source: Government of Lesotho (2002).

BOX 36.**Workers as Drivers of Public Sector Engagement in CSR**

The National Tripartite Agreement on Benzene concluded in 1995, between Brazilian trade unions; the petrochemical, iron, and steel industry; and the national government, provides a model of employer-union cooperation for sustainable development. Signed by industrial associations, Brazilian trade union centers, the government and Fundacentro, after a vigorous campaign led by the Unified Workers Confederation, it targets benzene as a hazard, and makes it mandatory for companies and subcontractors to carry, store, use, or handle it and its derivatives in a prescribed manner, register its use with the ministry, and ensure a “Program of Prevention” in every workplace. Standards and procedures define objectives, applications, and responsibilities for each workplace party, and a technical standard for safe exposure determined by workers, employers, and government. Strict procedures are defined for evaluation, with workers involved in monitoring. Workers in each plant participate in a Representative Group of Workers, educated and responsible for monitoring and enforcing the designated Program for Prevention of Occupational Exposure to Benzene. They also have equal representation on a “Permanent National Commission for Benzene” that oversees developments, monitors compliance, promotes studies, supplements laws and regulations, and issues Certificates for the Controlled Use of Benzene to companies. Periodic seminars on benzene organized under the Accord provide for joint evaluation.

Source: ICFTU, TUAC, GUF (2002).

3.2.5 Consumer Demand for “pro-CSR” goods and services

Public sector intervention to stimulate consumer demand for sustainably or ethically produced goods and services or to facilitate pro-CSR consumer differentiation, for example, through product labeling schemes, relies on the purchasing choices of a significant minority of informed and concerned consumers. Government-led schemes to promote such decisionmaking are numerous in high-income economies, but less common in developing countries. Even in middle-income countries with the potential to develop substantial “green” or “ethical” consumer markets domestically, experience to date is limited and public sector success stories are hard to come by.³⁰

30. See box 21 on the Indian Ecomark scheme.

BOX 37.**Role of African Civil Society in CSR**

“Only South Africa is familiar with the concept of Corporate Social Responsibility, in the rest of SADC Member States this is a new concept. CSR is mostly driven by NGOs even in South Africa, government comes in at a later stage.”

Source: Themba Mhlongo, Chief Director, SADC Secretariat, personal communication

4.

STRENGTHENING PUBLIC SECTOR ACTION ON CSR IN DEVELOPING COUNTRIES

These drivers and constraints outlined above indicate some core themes for work to strengthen developing country public sector roles in CSR.

4.1 Building Awareness of the CSR Agenda and its Implications

If developing country agencies are to effectively capture the potential sustainable development and poverty reduction benefits of the CSR agenda, access to tailored information on the overall drivers of the agenda, key players, and effective pressure points is invaluable. For example, governments are beginning to consider the relevance of specific voluntary approaches (such as SA8000) to national economic development priorities. However, effective policy decisions can only be made if public sector bodies have access to information on the effectiveness of voluntary schemes in enhancing business performance and market access.

Supporting initiatives could include country-specific impact assessments of CSR-related requirements imposed through contracts for supply of goods and services, and work to strengthen the integration of CSR-related themes in enterprise development and export and investment promotion. Work to build awareness of the CSR agenda should be sensitive to the particular social and economic importance of small, medium, and micro enterprises (SMMEs) in many developing countries, their vulnerability in the face of some CSR requirements, and the policy priority for a number of developing country governments of supporting SMME development.

4.2 Building Capacity to Shape the CSR Agenda

Developing country governments are often not represented in the development of CSR-relevant policies and standards formulated or promoted by inter-governmental bodies such as the European Union or organizations such as ISO. The CSR agenda to date has been largely shaped by multinational corporations, consumers, investors, and governments based in industrial countries. Stakeholders in developing countries have often been objects of CSR initiatives rather than active participants shaping the basic terms of the debate. This is particularly reflected in limited developing country public sector engagement in CSR-related standards-setting activities, which generates the potential for trade-related tensions and accusations of “privatized neo-colonialism.”

New initiatives are needed to enable public sector bodies in developing countries to become effective players in setting the terms of the CSR debate and its associated standards. This applies as much to international initiatives such as the UN Global Compact as to private standards-setting processes.

4.3 Building a Stable and Transparent Environment for pro-CSR Investment

Specific initiatives to enhance pro-CSR investment need to be accompanied by action to build the basic governance characteristics of attractive investment locations, including freedom from corruption, effective administration of tax systems, regulatory certainty, and an effective judi-

cial system. Counterparts to these basic characteristics that reflect core concerns of the CSR agenda include provision for rights of public participation and access to information and effective access to justice.

Over-regulation or regulatory uncertainty can deter pro-CSR investment and enterprise development. But an ability for best practice companies to distinguish themselves in the marketplace is in part contingent on a consistently applied and enforced set of minimum environmental and social standards. Interventions that help to strengthen basic norms of environmental and social governance and their enforcement, including through respect for human rights, can be comfortably understood as “CSR-enabling” initiatives. Work in this area should take account of the potential to capitalize on locally relevant incentives for compliance, including peer group or civil society pressure at the national or local level.

Support for pro-CSR public sector activities would also benefit from greater empirical understanding on the links between implementation and enforcement of the bottom line of corporate behavior and the existing CSR activities of investor companies.

4.4 Engaging the Private Sector in Public Policy Processes

If public sector bodies in developing countries are to harness the CSR agenda to national, regional, or local policy goals, then greater efforts will be needed to overcome the current lack of private sector engagement in key policy processes. This includes overall strategic frameworks such as national sustainable development strategies and poverty reduction strategies, but also extends to

other areas where achievement of national public policy goals could be strengthened through private sector engagement, such as education. Relevant resources might include regional or sector-specific toolkits on private sector engagement in public policy processes; establishment of forums to bring together public spending agencies with companies considering and undertaking community development activities; and efforts to build frameworks for understanding the respective strengths and core competences of public sector and private sector funding, spending, and capacity development activities.

Public sector bodies need also to be aware of the potential for promoting CSR that is supportive of national policy priorities. For example, there may be opportunities to integrate business linkages programs into national poverty eradication strategies. Businesses could benefit from advice on how their country- or site-specific activities could be aligned with national development strategies. The development of public sector advisory services in these areas may require external support.

4.5 Frameworks for Assessing Priorities and Developing Strategies

Finally, support could be given for public sector bodies to develop frameworks within which to assess local or national priorities in relation to CSR. These could map existing drivers and constraints in the local context in order to define appropriate modes of intervention within an overall strategy. Capacity constraints should not be underestimated, particularly given the resource implications of many of the examples highlighted in this report. Support should therefore be given to development of locally appropriate modes of intervention rather than simply applying models from elsewhere.

ANNEX 1

PUBLIC SECTOR ROLES IDENTIFIED IN THE LITERATURE

Document	Governments considered	Theme/focus of document	Public sector roles identified
SustainAbility et al. (2002)	Emerging market economies	Business case for sustainable development	Setting targets and enforceable minimum standards Facilitating stakeholder partnerships and voluntary initiatives Promoting internalization of costs Participating in codes of conduct (local and international)
Bell (2002)	Members of the G8	Role of governments in promoting corporate sustainability	Setting of vision and goals for the role of business in society Leading by example, especially public procurement Creating framework conditions (for the market) Fiscal policy (especially taxation) Promoting innovation
Zadek (2001)	None in particular	A new "Third Generation" CSR framework	Promoting concept of corporate citizenship Developing markets that encourage corporate citizenship ^a Ensuring that business is accountable to civil society Negotiating and enforcing global principles and goals
OECD (2001)	OECD members	Development of voluntary business initiatives	Legal and regulatory incentives Tax incentives for NGO sector Issuing codes, publicizing initiatives that promote responsible practice Contributions to compliance expertise
BPD (2002)	Developing countries	Benefits of tri-sector partnerships to governments	Ensure innovative and adaptable core standards Guidelines for reporting Stimulate dialogue on roles and responsibilities of actors Build internal capacity to participate in partnerships Ensure transparency and accountability of business
Committee of Inquiry (1999)	UK	Public policy to reinforce best business CSR practice	Economic instruments and incentives Brokering voluntary agreements and codes Leading by example ^b Promoting good practice: education, advocacy Encouraging partnerships: in supply chains and between stakeholders
Leighton et al. (2002)	California	How can public policy support CSR: lessons for California	Increase quantity and quality of company information Convenor bringing together stakeholders Technical assistance to companies and citizen groups Leverage as investor and purchaser
PIU (2000) (chapter 9)	UK	Enabling environment for voluntary action	Promoting best practice in business Reducing unintended impacts of voluntary action re. trade Protecting consumer choice Encouraging business reporting Incentives for participation in voluntary initiatives
Aaronson and Reeves (2002)	Five EU governments	Public influence on CSR: lessons for US	Developing markets that encourage corporate citizenship ^a Giving CSR a higher profile and coordinating across departments Promoting partnerships for setting standards Promoting international standards as basis for business reporting
CBSR (2001)	Canada, UK, Denmark, the Netherlands	How can public policy support CSR: lessons for Canada	Creating government departments and committees to discuss CSR Promoting international guidelines for business Initiating and supporting websites, networks, and multi-stakeholder partnerships to maximize positive impact of business
Nelson (2002)	None in particular	Creating enabling environment for CSR: roles for government, companies, NGOs	Develop a coordinated CSR policy, provide leadership, support research Identify minimum standards, establish regulation Cooperate with other governments Support voluntary initiatives and partnerships Apply fiscal policies Encourage disclosure Use public funds to lever private resources Include CSR in procurement and export credit guarantees

a. Including product labeling, public procurement and contracting, fiscal policy (including pension fund rules).

b. Through procurement, environmental management, reporting, employment practices.

- Setting minimum standards for business
- Encouraging and ensuring compliance
- Setting frameworks for business participation in public policy
- Supporting citizen action against poor performers
- Creating fiscal incentives for pro-CSR activities
- Engaging in intergovernmental and international initiatives, conventions, and guidelines
- Setting policy goals and overall strategy frameworks for private sector action
- Catalyzing voluntary CSR initiatives
- Defining socioeconomic priorities from which businesses can take a lead
- Promoting “joined-up” government on CSR by coordinating across departments
- Coordinating industry and civil society actions
- Leading by example (for example, through public procurement and management systems)
- Enabling and promoting pro-CSR consumer choice
- Pro-CSR export promotion
- Developing, supporting, and implementing codes of conduct
- Stimulating pro-CSR markets (for example, through public procurement)
- Promoting the interests of particular stakeholder groups (for example, producers or employees)
- Defining the boundaries of the CSR agenda in the local/national context
- Working in partnership: intergovernmentally and/or with business and civil society
- Linking businesses’ CSR activities to public sector expenditures
- Encouraging responsible investments and loans
- Formal and informal judging of what constitutes good practice
- Collating and disseminating information on good practice, and encouraging replication
- Explaining CSR to companies and other stakeholders
- Informing the international CSR debate about the local and national CSR context
- Developing the technical knowledge base for pro-CSR business
- Capacity building to help companies meet external CSR requirements
- Supporting civil society to drive CSR
- Informing and educating businesses, consumers, employees, investors, and regulators
- Facilitating dialogue among other stakeholders
- Giving political support and official endorsement to CSR initiatives
- Highlighting individual companies’ good practice

ANNEX 3

ALTERNATIVE WAYS OF CLASSIFYING PUBLIC SECTOR ACTIVITIES

Application to <i>domestic</i> or <i>foreign</i> companies and location of business activity (for example, public sector action designed to influence the domestic behavior of domestic companies, the behavior of domestic companies operating outside national borders, or foreign companies in either context).
Engagement with each of the key actors in the CSR agenda, and the specific roles required of the public sector in maintaining these relationships.
Distinguishing between the management challenges for business engaging in the agenda: impact in the value chain versus impact of internal business practice versus contributions to <i>community development</i> .
<i>Outward-looking</i> (encouraging companies to inform external stakeholders, for example, reporting requirements) versus inward-looking (for example, supporting public rights of consultation).
<i>Level of government</i> ; that is, local, national, regional, international.
Incentivizing good practice versus disincentivizing bad practice.
<i>Consciously enabling</i> versus incidentally enabling CSR (for example, strong enforcement of minimum standards versus green export promotion).
<i>Target audience</i> or actor whose behavior public sector initiatives try to change (for example, foreign companies, domestic companies, investors, consumers, public sector employees such as regulators).
Which <i>public sector agencies</i> or <i>government departments</i> are involved, and the extent of “CSR integration” across departmental functions.

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THE WORLD BANK

1818 H Street, NW

Washington, DC 20433 USA

Telephone: 202-473-7646

Facsimile: 202-522-2138

Internet: www.worldbank.org

E-mail: Gorracaatayi@worldbank.org

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