

How Sida promotes responsible business practices



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Introduction

“Sida contributes towards corporate responsibility in many different ways, but has, as yet, not called it CSR”

Inger Axell, Sida-Policy, February 2004

Is Sida promoting corporate social responsibility (CSR)? Yes, quite a lot, although it may not call it CSR. This report looks at existing work carried out by Sida which directly or indirectly relates to CSR. It documents examples of Sida supported activities which promote responsible business practices. The report begins with an overview of current attitudes to CSR. It then examines how donor agencies such as Sida can support the promoting of responsible business practices, and concludes with some suggestions on how Sida can further its efforts to ensure that private sector activities in developing countries have a positive impact on society.

Why should Sida be involved with CSR? There are two main reasons. Firstly, there is an obvious benefit to society if its businesses are acting responsibly. In addition to generating growth, a responsible private sector brings training and capacity-building for staff; increases health, safety and worker association by adhering to core labour standards; spreads international business standards; and produces safe products and services. Secondly, it may be necessary to meet high international standards in order to enter into a global market. It is recognized that many developing countries struggle to implement environmental, labour and human rights conventions. This is for a range of reasons, perhaps most importantly because of a lack of capacity within both the public and private sectors. A lack of capacity that Sida can help to address.

In doing this report, it became apparent how much Sida does that promotes responsible business practices. In its aim to reduce poverty, Sida has recognized the importance of, for example, good governance and private sector development (PSD). As a consequence of its work in these and other areas, Sida also contributes to an enabling environment for responsible business practices. This is often done through projects that may have main aims other than the promotion of responsible business practices. Clearly the link between each of Sida’s operational areas and responsible business practices varies greatly but, as the examples in this suggest, much of what Sida does has some bearing on the ability of companies to operate in a responsible manner.¹

¹ Sida divides its international development cooperation into the following operational areas: democratic governance and human rights; social sectors; infrastructure, private sector development, urban development and financial systems; natural resources and the environment; economic reform; research cooperation; humanitarian assistance and conflict prevention; and non-governmental organisations.

What we are seeing now is a meeting of two international policy agendas: development agencies' support to create an enabling environment for responsible business practices; and the emerging interest in the social impact of private sector activities. There is a need for development agencies and businesses to collaborate and to recognize each others' work in furthering the positive impact of private sector activities.

The views expressed in the report may not necessarily be those of Sida.

1. CSR – where is it heading?

1.1 Defining corporate social responsibility

CSR has increasingly become a term used to describe the positive ways in which the private sector may affect society. A number of different definitions of CSR exist. This suggests that the term has yet to become universally understood and acceptable. The World Bank defines CSR as

“...the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development.”²

This definition is unequivocal in that CSR is about business making a commitment and working together with all stakeholders. The international business membership organisation, Business for Social Responsibility (BSR) uses a different definition of CSR:

“Responsible companies achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment. This involves addressing the expectations society has for business, and making decisions that fairly balance the claims of all key stakeholders.”³

NGOs critical of companies’ ways of trying to portray an enhanced image of their activities tend to use more politically charged definitions. Christian Aid for example defines CSR in its recent report “Behind the mask – the real face of corporate social responsibility” as

“...an entirely voluntary, corporate-lead initiative to promote self-regulation as a substitute for regulation at either national or international level. CSR is a catch-all term increasingly used by business, which encompasses the voluntary codes, principles and initiatives companies adopt in their general desire to confine corporate responsibility to self-regulation.”⁴ Although Christian Aid naturally welcomes companies acting responsibly, its view on CSR demonstrates that it considers it necessary that the concept go beyond being about voluntary action.

² Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock, page 3.

³ <http://www.bsr.org/BSRResources/IssueBriefDetail.cfm>.

⁴ Behind the mask – the real face of corporate social responsibility, Christian Aid 2004, page 6.

Lastly, in the policy document commissioned by Sida “Making markets work for the poor”, CSR is considered a universal institution defining

”...the widening behavioural norms and codes of conduct for business in terms of social responsibility for its workers, community or the environment beyond what is required by law.”⁵

These definitions all have in common that CSR is about something that goes beyond what is required by law. Apart from that, the differences of nuance and emphasis indicate that the concept of CSR is controversial and is yet to be defined in a universally accepted way.

1.2 Exploring criticisms of CSR

This section is an edited version of the introduction to ‘Economic Multipliers: revisiting the core responsibility and contribution of business to development’ by Jane Nelson.⁶

CSR has become the focus of increasing criticism from some very different perspectives. Four of the most common critiques are as follows:

First, there are those who continue to argue that *the sole corporate responsibility of business is to make profits and obey the law, within a minimalist legal framework*. They argue that adhering to the principles of CSR raises costs and prices, increases regulations and may actually reduce society’s welfare rather than enhance it.⁷ Certainly profitability and basic legal compliance are crucial foundations for responsible business. They are not sufficient, however, in today’s world where new societal expectations are creating reputation and litigation risks for companies that fail to demonstrate and account for their performance against responsible business principles and values. As Sir Mark Moody-Stuart, chairman of Anglo American and former Chairman of Shell has observed, “*Without profits, no private company can sustain principles. Without principles, no company deserves profits.*”⁸

Second, there are those who argue *the case for comprehensive global regulation of business behaviour*. They base this on the rationale that many companies cannot be trusted to behave responsibly on a voluntary basis, regardless of the values and principles they profess to have. A group of over 80 NGOs and academics, for example, has called on the UN for such regulation. They argue that, “*Multinational corporations are too important for their conduct to be left to voluntary and self-generated standards. A legal framework, including monitoring, must be developed to govern their behaviour on the world stage.*”⁹

In most cases the advocates of such an approach have given insufficient thought to the practical challenges of implementing, monitoring and sanctioning a global regulatory framework that aims to cover all CSR-related issues (economic, social, environmental and ethical) in all countries, all industry sectors and all major companies. This is in addi-

⁵ Making Markets Work for the Poor – challenges to Sida’s support to Private Sector Development, October 2003, provisional edition, page 57.

⁶ Economic Multipliers: revisiting the core responsibility and contribution of business to development, Jane Nelsons, IBLF, July 2003.

⁷ For one useful critique see Misguided virtue: false notions of corporate social responsibility, by David Henderson, Institute of Economic Affairs, London, 2001, quoted in Economic Multipliers.

⁸ Shell Report Profits or principles: does there have to be a choice? 1998; quoted in Economic Multipliers

⁹ Citizens charter to the UN, in response to the launch of the Global Compact, CorpWatch website, quoted in Economic Multipliers.

tion to the fact that many developing country governments have capacity problems in implementing existing environmental, labour and human rights conventions agreed at the level of nation-states, let alone a more detailed set of standards aimed at business. A focus on building public sector capacity to implement existing international agreements would seem the best use of resources at present. Having said this, there is clearly a need to 'level the playing field' and ensure that laggard companies are held to a greater level of account on core ethical, corporate governance, labour, environmental and human rights standards. This calls not only for capacity building, but also for increased dialogue between representative business organisations, government bodies and civil society to negotiate the most appropriate balance between regulatory frameworks, fiscal incentives, market mechanisms and voluntary business initiatives. Such dialogue should lead to interventions that influence corporate behaviour for all major companies, not only the leaders, but do so in a manner that is most likely to be efficient and effective. In some cases this may involve extra regulation, but not necessarily. Even if legislation does ensue, companies that engage in its formulation stand to benefit.

Third, there are a growing number of business leaders, academics and others who worry that *too much is being expected of the private sector* in a period of massive competition, economic downturn and political uncertainty. Klaus Schwab, President of the World Economic Forum, spoke for many when he argued in a May 2003 Newsweek article, "*Even before recent scandals, responsibilities that used to be the purview of governments – like fighting poverty, guaranteeing public health and protecting the environment – have been handed over to corporations, as if businesses were bottomless pits of money whose sole function was to provide social benefits to the world. Now may be the time to re-examine these assumptions, because the role of business has become confusing. In this era of slowing economic-growth, we must re-embrace the wealth-enhancing, job-creating role that business plays in society. And business leaders must again take the lead, offering up an assertive, positive vision of their function in the world at large.*"¹⁰ In certain circumstances there is a danger of governments and other stakeholders expecting too much of business and/or failing to reciprocate in terms of their own responsibilities and accountability. Once again, this points to a growing need for regular stakeholder dialogue, by both individual companies and industry bodies, to debate the appropriate boundaries of corporate responsibility *vis a vis* that of governments and civil society actors.

A fourth and final critique argues that all too often CSR is positioned as an 'add-on' to a company's core business activities and economic development impact, rather than recognising these as central to what CSR is all about. As Lord Holme, former Deputy Chair of Business Action for Sustainable Development and an adviser to Rio Tinto observes, "*We need to get better at measuring and communicating the contribution that companies make to economic development.*"¹¹ This is a comment echoed by Bruce Klatsky, Chairman and CEO of Phillips-Van Heusen, "*We need to do a better job at raising awareness of the development benefits of successful, legal, well-governed private*

¹⁰ Schwab, K. Get back to business; article in Newsweek International, May 5, 2003, quoted in Economic Multipliers.

¹¹ Comments made by Lord Holme at meeting hosted by IBLF and UNDP to discuss the contribution of business to meeting the Millennium Development Goals, April 5th, 2003, quoted in Economic Multipliers.

investment.”¹² Clearly, producing goods and services in a way that meets customer needs or aspirations and generates profits is a central part of a company’s social responsibility in its own right. If done in a manner that moves beyond legal compliance to reflect international norms and standards in areas such as corporate governance, human rights, labour, the environment and bribery and corruption, these core business activities and their economic multipliers can make a major difference to people’s lives and to tackling global poverty.

To stay clear of the challenges posed by attempting to find a universally applicable definition of CSR, and to avoid association with a concept that faces criticism from both NGOs and market liberals, the broad concept of *responsible business practices* is used in this report. *The main aim of this report is to provide examples of how Sida ensures, enables, facilitates and promotes responsible business practices.*

¹² Comments made by Bruce Klatsky at meeting hosted by IBLF and World Bank to discuss the boundaries of business in developing countries, quoted in Economic Multipliers.

2. Sida promoting responsible business practices – a part of core policy

The need to promote responsible business practices has been specifically addressed in a request for new guidelines for Sida's activities. In the Swedish Government's allocation decision for 2004, it requested Sida to establish guidelines for its continued involvement in issues concerning CSR.¹³

More broadly, the Swedish Government and Sida are strong supporters of the Millennium Declaration. The Millennium Development Goals together with the human rights conventions provide organizing frameworks for Sida's activities.¹⁴ The Goals are being used both by the Ministry for Foreign Affairs and Sida to create awareness and support for development efforts, and to generate public interest in international development issues. These Goals will not be met without the active involvement of the private sector.

The Prime Minister Goran Persson has also demonstrated the Swedish Government's willingness to engage with the private sector and promote responsible business practices. In March 2002 he launched the initiative Global Responsibility, which aims to create awareness in Swedish companies about international codes and standards, and ensures the respect for human rights, and the contribution towards sustainable development. In short, it is a national manifestation of the UN Global Compact.

¹³ Regeringsbeslut 2003-12-18, regleringsbrev for budgetaret 2004 avseende Styrelsen for internationellt utvecklingssamarbete.

¹⁴ Sida's annual report 2002, page 8.

3. How a donor such as Sida can promote responsible business practices

3.1 Analysing the public sector contribution to CSR

The examples given in this report of how Sida already supports, promotes and facilitates responsible business practices are drawn from across the organisation's extensive activities around the world. The need arose to find an appropriate categorization of, and to establish the key characteristics of how a development agency such as Sida can further responsible business practices.

Two World Bank studies and a forthcoming report by Jane Nelson of the International Business Leaders Forum all provide frameworks for understanding public sector roles in enabling responsible business practices (see box). However, these have been created with host country governments in mind, rather than donor agencies. While there may be overlaps between the objectives of governments and those of donor agencies, this is not always the case. Furthermore, a development agency will often work in ways different to those of the governments with which they collaborate. For governments, the ultimate resource to change practices is the use of laws and regulations. Even if development agencies work together with legislative institutions and promote national implementation of international standards, they tend to limit their involvement in law-making and the execution of democratic duties. Development agencies have an overarching ambition to support and enable governmental decision-making in the countries with which they have collaborative programmes, rather than to influence a sovereign government's mandating responsibilities.

Almost all development agency interventions include financial support and most involve some form of partnership. Building local capacity to act – in government institutions, in civil society or in the private sector – is central to many activities in which development agencies engage.

Analysing the public sector contribution to responsible business practices

The World Bank study published in 2002 “Public Sector Roles in Strengthening Corporate Social Responsibility – a baseline study”, in which “a classification of Public Sector Activities” was presented.¹⁵ This

¹⁵ Public Sector Roles in Strengthening Corporate Social Responsibility: a baseline study, The World Bank October 2002, Tom Fox, Halina Ward, Bruce Howard.

classification was later adapted and summarised in another World Bank report.¹⁶ Briefly, it divides government actions into four different categories:

- *Mandating*: laws and regulations:
- *Facilitating*: setting clear overall policy frameworks to guide business investment in CSR:
- *Partnering*: combining public resources with those of business and other actors to leverage complementary skills and resources:
- *Endorsing*: showing public political support for particular kinds of CSR practice.

It is suggested in the second World Bank report that a fifth category should also be considered: *demonstrating*.¹⁷ The report goes on to say, that “Public sector agencies can demonstrate leadership to business in the exemplary way that they themselves engage with stakeholders, or promote and uphold respect for fundamental rights.”. The World Bank has also developed a set of diagnostic tools for governments to use in creating enabling environments for corporate responsibility.¹⁸

This categorisation draws in part on the structure Jane Nelson uses in her forthcoming publication *Creating the Enabling Environment – mechanisms to promote global corporate citizenship*, (ref) in which she analyses the enabling environment by considering:

- *Establishing Rules*
 - Command and control regulations
 - Market mechanisms
 - self-regulatory/voluntary approaches
 - citizen action
- *Building Relationships*
 - Public policy consultation mechanisms
 - Business-led coalitions
 - Stakeholder accountability structures
 - Partnership programmes of international agencies
 - Civic partnership agencies
 - informal networks
- *Mobilising Resources*
 - Financial resources
 - Technology
 - Skills and managerial resources
 - Information and advisory services
- *Giving Recognition*
 - Award programmes
 - League tables and reputation surveys
 - Role of the media

¹⁶ Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock, page 5.

¹⁷ Ibid. page 28.

¹⁸ www.worldbank.org/privatesector/csr/diag_tool.htm

Jane Nelson also provides a list of recommendations for governments in creating an enabling environment for global corporate citizenship(ref):

- 1) Provide leadership and moral suasion.
- 2) Carry out awareness raising on the business benefits of global corporate citizenship.
- 3) Convene and/or catalyse voluntary initiatives and guidelines.
- 4) Offer technical advice and input into the development of standards and voluntary initiatives.
- 5) Leverage or catalyse private sector funds and resources, with public funds.
- 6) Integrate social and environmental requirements into procurement and tendering programmes and into export credit guarantees.
- 7) Explore the potential of revenue raising, revenue expenditure and revenue neutral fiscal policies to address social and environmental impacts.
- 8) Legislate for disclosure requirements on corporate social and environmental performance.
- 9) Identify a core level of minimum social, ethical, and environmental standards, in line with international agreements, and regulate for these.
- 10) Increase dialogue, learning and co-operation with other governments.

The UK Department for International Development (DFID) has had a team devoted to corporate citizenship issues for some time. DFID published a brief report in 2003 in which it broadly equated the role of governments with that of the donor agencies.¹⁹ Drawing substantially on the World Bank categorisation, it suggested, that “governments and development agencies:

- *Regulate* against persistent poor performance or towards increased openness;
- *Facilitate* processes, information and cooperation to bring about changes to help the poor;
- *Form partnerships* with businesses and civil society, where each partner uses its specific skills or knowledge to tackle problems; and
- *Endorse* best practice and transparency.

Adapting the studies mentioned above to better reflect the nature of the activities of a donor agency, the following key characteristics can be considered when looking at how development efforts can promote responsible practices:

- *Funding requirements* – Development agencies can ensure adherence and stipulate high international standards in projects they fund. When bilateral programmes are negotiated, they can insist measures are in place to ensure host governments undertake efforts to regulate poor performance, or to increase openness. It is however important to

¹⁹ DFID and Corporate Social Responsibility, DFID, October 2003.

recognise the limitations of conditionality, and that financial support can be used as a platform for dialogue between development agencies and host country governments.

- *Build capacity* – capacity building through training, research and technical assistance is fundamental to the awareness and practice of responsible business.
- *Facilitate* – Donor agencies can use their capacity and authority to facilitate dialogues, to convene discussions between different interest groups. They can also, and often as a consequence of facilitating dialogues, endorse good practices.
- *Form partnerships* with businesses and civil society, where each partner uses its specific skills or knowledge to tackle problems.

4. Examples of Sida projects involving the responsible business practices

Sida supports thousands of projects each year, and it would be near impossible to establish whether there were any elements in each of them that in one way or another, contribute towards responsible business practices. Many larger technical assistance programmes seeking to improve good governance in host government institutions are examples of efforts that, *inter alia*, create an enabling environment for responsible business practices. Sida is a considerable donor to a large number of multinational and regional organisations, which may run relevant projects. Unfortunately there is a bias in the list of examples towards international activities, as relevant information is more readily accessible than that pertaining to local projects.

4.1 Democratic governance and human rights

Good governance is fundamental to the creation of an enabling environment for responsible business practices. Without effective and democratic public governance to endorse and support their actions, it is extremely difficult for companies to act in a responsible manner. Sida works together with governments, NGOs and other organisations to promote good governance and fight corruption. The promotion of the respect for human rights is fundamental to many of Sida's projects. In collaborating with trade unions and ILO, Sida provides considerable support to the furthering of core labour standards. Sida funds organisations such as Anti-Slavery International in their work to fight forced labour as well as child labour and trafficking of human beings.

The Swedish Government, including Sida, actively participate in the global development of rules and regulations. Many of the instruments that have been developed are designed to improve the regulatory framework for private sector activities in developing countries. An example of this is the OECD's Guidelines for Multinational Enterprises.

Global Compact – international principles for the environment, and labour and human rights

Although the funding comes from the Swedish Ministry for Foreign Affairs and not from Sida, and thus could be considered to fall outside the remit of this report, it should be recognised that the Swedish government is one of the countries that makes the largest financial contributions towards the UN Global Compact (www.unglobalcompact.org).

*Transparency International – fighting corruption,
also with focus on the private sector*

Sida provides substantial core funding to the NGO Transparency International (TI). TI works globally to fight corruption and promote transparency. The organisation works both to prevent corruption within governments and in the private sector. TI is increasingly working directly together with the private sector, on for example the promotion of universal ethical business principles and so-called integrity pacts.
www.transparency.org

*LO-TCO Secretariat of International Trade Union Development Cooperation
(LO-TCOs bistandsnamnd) – trade unions working together to raise standards*

The Swedish Trade Union Confederation (LO) and the Swedish Confederation of Professional Employees (TCO) jointly run the Secretariat of International Trade Union Development Cooperation. The main aims of its activities are to promote worker's rights, trade unions and democracy in developing countries. The specific objectives behind a project may, for example, be the improvement of occupational health and safety, the implementation of the ILO's core labour conventions and to spread the fair trade labelling. The Secretariat is almost exclusively funded by Sida and receives some 90M SEK annually.
www.lo-tcobistand.org

*Labour Market Dialogue (LMD) – employees and
employers working together to foster dialogue and high standards*

Labour Market Dialogue is a newly started project initiated by the Confederation of Swedish Enterprise, the Swedish Trade Union Confederation (LO) and the Swedish Confederation of Professional Employees (TCO). It is a collaboration between LO-TCOs bistandsnamnd and International Council of Swedish Industry (NIR see below), and will focus its activities on the labour market and industrial relations, promotion of trade union and other human rights. Social accountability and conflict management on the labour market will be of special priority for LMD. It has, during a pilot phase, obtained support from Sida and it has applied for substantial long-term support.
www.lmd.se

4.2 Social sectors

Even in these areas traditionally held to be the responsibility of the public sector, Sida has increasingly been supporting partnerships with the private sector seeking to address social challenges. Sida for example supports Unicef's work, which includes working with the private sector to reduce child labour.

Public-private partnerships can be effective mechanisms to deliver social services such as health and education, and can be a way for the private sector to contribute to social needs. While these partnerships can be difficult to manage, the complementary skills and resources of the public and private sectors can achieve more together than in isolation. One example is the Global Fund to which Sida contributes.

The Global Fund to fight Aids, Tuberculosis and Malaria – PPP to raise funds

The Swedish Ministry for Foreign Affairs supports the Global Fund and Sweden is also represented on the Board of the Fund. The Fund was created to substantially increase the resources available to fight the Aids, TB and Malaria. It is a financial instrument and is not designed to implement projects. The Fund is raising financial resources from both governments and private sources and is in itself a public-private collaboration. It is an organisational experiment exploring new ways of raising funds to fight some of the world's most serious challenges. It is pivotal to the success of the Fund that the private sector takes what the Fund would consider to be the sector's responsibility.

www.theglobalfund.org

ECPAT International and ECPAT Sweden – collaborating with the private sector to create awareness and prevent the sexual abuses of children

Sida supports ECPAT International and ECPAT Sweden, the national arm of the NGO-network to end child prostitution and child pornography. ECPAT-Sweden was one of the initiators of the collaboration with travel businesses to develop a travel code of conduct for the protection of children from sexual exploitation. The code, for example, requires staff of travel companies to be trained to and raise awareness amongst travelers about child abuse.

www.ecpatsweden.org

4.3 Infrastructure, private sector development, urban development and financial systems

4.3.1 Infrastructure

The Global Village Energy Partnership – global PPP to promote access to energy

The Global Village Energy Partnership was launched as a so-called type 2 initiative at the World Summit for Sustainable Development in Johannesburg 2002 and came out of the World Bank lead Village Power project. A technical secretariat was created with the purpose of coordinating, brokering and facilitating partnership activities that seek to provide electricity including heating, cooling and cooking to the world's poor. Sida has supported a number of GVEP-projects. Sida has also collaborated with the partly Swedish based company ABB in identifying examples and good practice in rural electrification in developing countries.

www.gvep.org

Integrity pact as a condition of loan-making – credit to construction work in Bangladesh

Sida is considering providing a credit to the Swedish construction firm NCC, for a construction project in Bangladesh. As part of the conditions for the credit, Sida has stipulated that integrity pacts need to be used.

Integrity pacts are relatively new kinds of agreements that have been spearheaded by the NGO Transparency International. The basic concept is that all the bidders on a public contract enter into an agreement committing to transparency in commissions paid, and undertake not to pay any bribes. To date, they have only been used in larger contracts to a limited extent. Sida's conditioning of a credit agreement on the use of

integrity pacts is probably one of the first times an agency is making the use of these pacts a requirement for funding. For further information about integrity pacts, see www.transparency.org/integrity_pact/index.html.

4.3.2 Private Sector Development

Private sector activities often contribute towards the reduction of poverty, because they tend to lead to economic growth: to investments being made, to jobs being created, staff trained and infrastructure built. Many PSD-activities will not only promote the growth of the private sector, but also improve the standards adhered to and private companies' understanding that it is often in its business interest to act responsibly and safeguard, for example, good working conditions. It is through its private sector development work that Sida has some of the most direct opportunities to support more responsible business practices

Start and Improve Your Own Business, Expand Your Own Business – enterprise development leading to responsible business practices

25 years ago Sida started to develop training programmes for entrepreneurs in developing countries. The running of the programmes was later taken over by the ILO but Sida continues to fund “Start and Improve Your Own Business” and “Expand Your Own Business”. Thousands of people have not only developed their businesses as a result of these programmes, but also enhanced the social and environmental impacts of their businesses. Labour conditions have often improved as a result of these programmes – especially when managers understand that it improves efficiency and quality if employees are treated well. These programmes are multi-agency: in Vietnam, for example, the local training programme is a collaboration between ILO, The Vietnamese Government and the Vietnamese Chamber of Commerce.

www.ilo.org

The International Council of Swedish Industry (NIR) – industry organizations working together to raise standards

The International Council of Swedish Industry (NIR) is affiliated to the Confederation of Swedish Enterprise and strives to improve the collaboration between Swedish companies and the private sector abroad. NIR has, with the support of Sida, run business development programmes in many developing countries. Promoting high ethical standards has been an integral part to many of NIR's activities.

www.nir.se

Environmentally and Socially Responsible Business (Catalyst) – SME programme that promotes responsible business practices in Bangladesh

Sida is one of the bilateral agencies that support the project Developing Business Services Markets, in Bangladesh. The project collaborates with organisations such as Chambers of Commerce for small and medium enterprises (SME), and NGOs to promote the enforcement of national environmental and social regulations, including core labour standards. It is also envisaged that the project will work together with SMEs to in-

crease the disclosure of environmental and social information, undertake social appraisals and environmental screening of company activities.

Soyapango development fund – joint fund to improve local infrastructure

In Soyapango, El Salvador, a development fund has been created to fund local infrastructure projects. The fund is 55 % funded by large multinational companies such as Coca-Cola, and 15 % by each of the local council, central government and civil society. Sida has been among the donor agencies that have provided technical assistance. This development fund is an interesting example of a public-private partnership where donors such as Sida have contributed towards a mechanism by which the private sector provides funds for the development of the societies in which they are active.

4.3.3 Urban Development

Sida's Urban Transport Policy – working together with city councils and private companies to improve urban transportation

Sida's policy for support to urban transport is an example of how Swedish development assistance could benefit from cooperating with actors in Swedish society in the fight against the severe urban transport problems in developing countries. Sida's policy was developed in close cooperation with representatives from transport research, public authorities, consultants and the vehicle industry in Sweden. The policy is based on international and Swedish experience, and in particular on positive examples of cities in developing countries which have managed to create well functioning public transport systems. Swedish actors play important roles in the implementation of the policy.

www. <http://www.sida.se/Sida/articles/5900-5999/5957/urbtra.pdf>.

4.3.4 Financial Systems

Global Corporate Governance Forum (GCGF) – building private governance capacity

The Global Corporate Governance Forum is a joint OECD and World Bank project that provides analysis, facilitates dialogues and commissions research on corporate governance. It was established in 2001, is housed in the World Bank's Private Sector Advisory Services Department and is funded by a small group of donors, including Sida. Corporate governance and corporate responsibility are in many ways mutually reinforcing. www.gcgf.org

Foreign Investment Advisory Services (FIAS) – building the enabling environment

FIAS' activities seek to promote foreign private investment in developing countries by improving the local legal and institutional framework. Cutting red tape, transparency and anti-corruption efforts have been important themes of its activities. FIAS is a good example of how activities that primarily seek to promote private sector development also contribute to the enabling environment for responsible business practices. Like GCGF, FIAS gets its funding from a World Bank trust fund, to which Sida contributes.

4.4 Natural resources and the environment

Sida runs extensive agricultural programmes. Although these tend not to be designed with the purpose of promoting responsible business practices, many of them seek to improve, for example, environmental standards amongst small-scale farmers, and through acting responsibly themselves demonstrate how this can be done.

Many valuable natural resources are located in remote, poorly-governed areas where land rights may be unclear. There may be a risk of conflict and other forms of social instability can be found. This has driven companies in the natural resources sector to develop policies and practices at the leading edge of corporate social responsibility. Through working in this area in particular Sida can identify and promote responsible practices. Much of the work Sida has funded regarding the role of the private sector in zones of conflict relate to natural resources (eg through International Alert, see below).

Social Accountability in Sustainable Agriculture: promoting fair trade

To increase the trade in goods produced in accordance to high environmental and social standards, Sida funded the project Social Accountability in Sustainable Agriculture. This is a collaboration between Fair Trade Labelling Organisation International, Social Accountability International (SA 8000), the International Federation of Organic Agriculture Movements and The Conservation Agriculture Network. The project has developed guidelines and a handbook for labelling of agricultural products and has worked to internationally harmonise labelling.

International Federation of Organic Agriculture Movements (IFOAM) – international standards for organic farming

Sida supports IFAOM's efforts to develop criteria for organic farming and ethical responsibilities. IFOAM's overall goal is the worldwide adoption of ecologically, socially and economically sound systems that are based on the principles of Organic Agriculture. An important part of IFOAMs activities has been to gather and spread knowledge and statistics about organic farming in the world through a series of publications.
www.ifoam.org

4.5 Economic reform

The development of a sound macro-economic framework that encourages a free market while implementing the necessary checks and balances is of crucial importance to the implementation of responsible business practices. Sida is actively involved in economic reform programmes in a number of countries.

Economic reform and fight against corruption in Nicaragua

In early 2002 the new Government in Nicaragua led by President Enrique Bolaños launched a program of economic reforms combined with a forceful fight against the corruption that had flourished during the reign of his predecessor Arnoldo Alemán. Latin America passed a milestone in December 2002 in fighting corruption, when the Nicaraguan parliament decided to withdraw the parliamentary immunity from Mr. Aleman, who

subsequently became subject to public persecution. The major donors in Nicaragua including Sweden gave strong moral support combined with a strategic financial support to President Bolaños' successful fight against corruption. The subsequent agreement between the Government and the IMF on an economic reform program paved the way for renewed budget support from the World Bank and key bilateral donors, and in early 2004 the economic reforms culminated in that Nicaragua could reach the completion point for the HIPC debt relief initiative.

4.6 Research cooperation

Research and training (capacity building) are fundamental enabling factors for responsible business practices to occur. They lead to more business managers and their partners around the world understanding and implementing responsible business practice standards. Sida funds organisations that, for example, research labour rights and that further the understanding of the relationship between corporate social responsibility and sustainable development.

The International Institute for Environment and Development (IIED) – researching CSR and sustainable development

The International Institute for Environment and Development in London has over a number of years received support from Sida. IIED runs the research programme Corporate Responsibility for Environment and Development (CRED), which has played an important role in furthering the understanding of the relationship between CSR and sustainable development. IIED are also co-hosting the conference Corporate Social Responsibility exploring the role of development agencies, which the Ministry for Foreign Affairs is hosting together with Sida in March 2004. www.iied.org/cred

4.7 Humanitarian assistance and conflict prevention

There has been an increasing recognition of the role the private sector can play in preventing conflicts and in conflict resolutions, partly as a risk management issue, but increasingly as a form of positive value creation. Sida gives support to NGOs that research, and collaborate with the private sector in this area.

International Alert – International NGO working with the private sector on preventing conflicts

Sida supports International Alert, a NGO that has been engaged in conflict resolution by working in-country together with other NGOs and the private sector. International alert has facilitated dialogues in for example Azerbaijan. International Alert has also internationally worked to further the understanding of the role of the private sector in conflict situations and in conflict prevention. Of particular relevance is its publication “Transnational Corporations in Conflict Prone Zones: Public Policy Responses and a framework for action”.²⁰ www.international-alert.org

²⁰ Transnational Corporations in Conflict Prone Zones: Public Policy Responses and a framework for action, International Alert, by Jessica Banfield, Virginia Haufler, Damian Lilly.

FEWER – International NGO working with the private sector on preventing conflicts
Sida has been supporting FEWER, a global network of organisations committed to preventing conflict by providing early warning and informing peace-building efforts. As part of its research into the causes of conflicts, FEWER has analysed the role of the private sector in the early stages of conflicts.

www.fewer.org

4.8 Non-governmental organisations

As part of its considerable support to NGOs, Sida is supporting organisations that promote responsible, or, as the case may often be, advocate against irresponsible business practices. The support to some NGOs is described elsewhere in this study. Here are some examples of contributions from Sida to organisations that are engaged in advocacy. These NGOs work to improve the impact of private sector activities in developing countries by gathering information and undertaking analysis about their activities.

Global Witness – on the ground fact-finding

Global Witness is a non-governmental organisation that tracks and analyses natural resource flows and financial transactions related to these. By factually reporting on, for example, illegal trade in diamonds and on the revenue flows relating to oil production in Angola, it has forced companies and governments to act more transparently and responsibly. It has been a key force behind the Publish What You Pay Campaign and contributed extensively to the Kimberley Process leading to an international certification regime for the trade in diamonds. Global Witness received some funding from Sida in the early phases of the organisation.

www.globalwitness.org

Swedwatch – on the ground fact-finding

Sida supports the new Swedish NGO-coalition Swedwatch. The purpose of Swedwatch's activities is to investigate and report on how Swedish companies behave in developing countries, on the impact they have on the environment, on local populations and how they treat their own staff.

www.swedwatch.org

WTO-fund and South Centre – building negotiating capacity

Sida has over a three year period supported the World Trade Organisation's fund to aid the least developed countries in their negotiating capacity with some 30M SEK. To aid developing countries' trade negotiating capacity is an example of the enhancement of the enabling environment, as it is hoped that it will help sustainable development in developing countries. Sida also supported the Geneva based intergovernmental organisation South Centre's work in developing countries. One of the centre's tasks is to promote the interests of developing countries in international trade negotiations.

www.southcentre.org

4. 9 Other Operational Areas

4.9.1 Training

International Training Programmes

Sida has a long-standing and extensive programme of providing training, often in Sweden, of managers from the public and private sectors of developing countries. Many of the programmes promote high business standards, and it is through these and other capacity building efforts that Sida makes amongst its most significant contributions to the promotion of responsible business activity, and to its enabling environment. Some examples of these programmes are: Forest Certification; Mining and the Environment; World Trade, Conformity Assessment and Quality Infrastructure Development; and Intellectual Property Rights for the Least Developed Countries. Following the trend of increased interest in Corporate Social Responsibility, participants of programmes like Applied International Management have increasingly expressed the desire to learn more about CSR during the course.

www.pxcontrol.com/upload/konsulttjanster/Utbildning/internationellakurser/aim

Environmental managers in Bolivia

For many years, Sida has funded a programme with the Bolivian Chambers of Industry and Commerce seeking to improve industrial competitiveness in Bolivia. As part of this programme, managers in Bolivian companies have received training in environmental management.

National Institute for Working Life: International Occupational Health Training

The Swedish National Institute for Working Life has run a series of Sida-funded training programmes on occupational health and safety and core labour standards for managers and trade union representatives in developing countries.

www.arbetslivsinstitutet.se

4.9.2 Information in Sweden and abroad

As part of Sida's mandate to raise awareness of development issues, Sida engages in extensive information activities and work with the media both in Sweden and developing countries. Many of Sida's information activities seek to promote responsible business practices through raising awareness of the issues.

In its own publication *Omvarlden*, Sida has written about responsible business practices and about how private sector development efforts have led to improved social and environmental standards.

In 2003 Sida funded the publication in Sweden of the book *Det Globala Ansvaret* (The Global Responsibility). It contains 17 contributions on international business and ethics. It aims to improve the awareness in Sweden and amongst the managers of Swedish companies about the challenges they may face in particular in developing countries and about how these challenges can be met.

Sida has contributed to the debate on the links between human rights and core labour standards and trade by supporting the Global Publications Foundation's forthcoming book "Integrating Human Rights: The Challenge for Multilateral Institutions."

5. Looking ahead

5.1 Issues of strategic importance for a development agency promoting responsible business practices

It is concluded in Sida's own paper *Challenges to Sida's Support to Private Sector Development – Making Markets Work for the Poor* that “ Donors can support the universal institutions relevant [such as CSR] for business by various means:

- Applying them in action, for example making sure that enterprises participating in donor funded activities aimed at PSD fulfil the conventions. This should also include local or international contractors undertaking investments funded by donors.
- Support international efforts to develop such universal institutions.
- Assist countries to develop systems to monitor and enforce the adherence of conventions relevant for business.

Sweden is at the forefront in the development of ‘universal institutions’...Sida should make this a strong aspect of its development assistance...”²¹

There are some issues and challenges that should be of crucial importance to a development agency that wishes to promote, facilitate and support the continuing development of responsible business practices in developing countries or emerging economies. These challenges are:

- the *current CSR-agenda* – the identification of what the critical issues are – is largely driven by the debate and priorities identified in developed countries, in Western Europe and Northern America in particular;
- the *regulatory framework* in many countries is weak, and that there is a need to internationally address policy issues relating to the impact private sector activities may have;
- there is a *lack of capacity* in many developing countries and emerging economies to identify its own priorities and effectively pursue these;
- there are *risks that raised business standards* in developing countries will lead to losses of business opportunities and that indigenous businesses

²¹ Making Markets Work for the Poor – challenges to Sida's support to Private Sector Development, October 2003, provisional edition, page.

will not be able to compete on an international market due to lack of capacity to satisfy high international standards. It is also possible that high international standards become a non-tariff barrier to trade and that developed countries try to prevent the import of cheap products from developing countries because of failure to satisfy high social and environmental standards in the production of these products;

- there is often a *lack of information*, knowledge and understanding of what the impact – positive as well as negative – businesses have on the communities they affect. A *lack of transparency* in the relationships between host country governments and large international companies sometimes contribute towards a lack of governmental accountability;
- there are occasions when the negative impact of a company's activities is not adequately addressed, either because a lack of capacity in the host country Government or because of lack of clarity in what the *boundaries may be between the responsibilities of a government and a company*.

In addition, it is necessary to briefly consider to what extent current international CSR-priorities converge with the geographical and other overarching priorities Sida has. The apparent lack of overlap between the high profile geopolitical priorities of the current CSR-debate and those of a development agency such as Sida may help to explain why Sida until now has played a relatively minor role in the international CSR debate. There are two particular kinds of activities that stand out in the current CSR-debate: the impact and relationship between large natural resource extracting companies and the communities in which they operate; and the labour intensive production in developing countries of products exported to consumers in the developed world, most notably garments and footwear.

There appears to be only a limited overlap between the countries in which substantial extractive activities and the production of consumer goods takes place and those where Sida has considerable programmes. Sida is of course also active in many other countries and globally on many policy issues. The apparent lack of overlap should not be taken as a reason for Sida not to give current CSR-themes priority. It should however be acknowledged that there may be development agencies and actors other than Sida who are better suited to take a lead in addressing some currently debated issues.

China – of particular importance

The extent to which business practices are responsible will be of particular importance in a country such as China. With production of goods and services throughout the world finding it increasingly difficult to compete with Chinese production, the question will inevitably arise whether there is a 'raise to the bottom', with low Chinese standards making it difficult to apply higher standards elsewhere in the world. This will reinforce the importance of ensuring efforts are made to adhere to high standards. The lack of NGOs and other civil society organisations common in other parts of the world, will contribute towards the challenges in promoting responsible business practices in China.

Within the programme for “contract-financed technical cooperation (KTS)” with China, Sida supports a number of initiatives regarding labour market information systems and training programmes in labour law for law school teachers. A great number of study visits have been arranged for Chinese to study Swedish social security systems. In the environmental area great efforts are being made to strengthen authorities in the fields of pollution control, air and water control management etc.

Sida should, within its bilateral programme, be in a good position to facilitate dialogues, and to support the government and the private sector in China. There are also many Swedish companies with considerable interests in China and for whom the respect of core labour standards in China is a critical issue. Thus collaboration and the formation of partnerships with these companies could be considered.

5.2 Examples of further contributions promoting responsible business practices in which Sida could engage:

Funding

- Sida could continue its work ensuring that the highest international standards are required when funding is approved.
- Sida could insist on that instruments such as integrity pacts are used when it is funding local procurement.
- In providing grants to multilateral institutions and NGOs Sida can insist on adherence to responsible business practice principles within any private sector involvement in their projects.
- In demonstrating its commitment to the adherence to internationally recognised principles, Sida could explore ways how to most efficiently support the UN Global Compact.

Build capacity

- Sida could consider enhancing its support to local organisations raising awareness about the importance of responsible business practices.
- Sida could make explicit efforts to incorporate the promotion of responsible business practices into its international courses.
- Sida could be involved in building capacity in NGOs that promote issues such as transparency.
- Sida can inform and raise awareness of responsible business practices and the necessary enabling environment in government institutions with which it works.

Facilitate and convene dialogue

- Sida could consider supporting efforts to promote awareness and discussion in local companies and local representation of multinational companies about relevant conventions and guidelines, such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact. Sida could fund the Global Compact’s local dialogue forums.
- Sida could consider supporting sector-specific initiatives to develop

local adaptations of good practice and international standards. It could for example facilitate the implementation of forestry certifications schemes.

- Sida could consider supporting international policy dialogues seeking to improve the impact of the private sector in developing countries.
- Sida could suggest that promoting responsible business practices is higher on the agenda at various international fora, such as OECDs PovNet and the European Union's Development Council. It could for example propose that special working groups are established.
- Sida could initiate dialogue with, in particular, Swedish industry about best practice and about how to collaborate.

Form partnerships

- Sida could consider increasing its engagement in partnerships with Swedish and host country companies, and with multinational agencies, businesses and NGOs where each partner uses its specific skills or knowledge to tackle problems. Sida could, for example, draw on the experiences from major development partnerships such as the Global Fund in other areas.
- Partnerships between Sida and private companies can, through the exemplary following of high international standards, have a positive influence on host-country government institutions.

5.3 Meeting the challenge

In 2003 Sida decided to appoint a senior officer to be in charge of CSR-activities, based in the central policy unit, which has enabled Sida to raise its profile in this area. In order for the guidelines Sida has been requested to develop by the Swedish Government to be implemented comprehensively, it will need a long-term organisational home for these activities. As with many other development issues, the promotion of responsible business practices is often 'cross-cutting' and the way Sida chooses to administer its efforts needs to reflect this.

In developing its guidelines for corporate social responsibility, Sida may wish to consider a name, under which it can gather its activities. It will need to weigh the advantages of the term CSR, being commonly recognised and broadly understood, against the disadvantages of that it is still a politically charged concept, in the past attacked both by NGOs and by market liberals, lacking a universally accepted definition. There does not appear to be a coherent practice emerging amongst the donor agencies. The World Bank uses the term CSR extensively, whereas for example DFID houses its activities in the "Multinational Enterprises Engagement Team". The use of the term CSR would have the benefit of that the Swedish translation of the phrase – *foretagens sociala ansvar* – has gained some domestic recognition. That cannot be said about for example "corporate citizenship", which is a term that has failed to be successfully translated. An alternative would be to simply talk about responsible business practices.

Many efforts will require financial resources, others mainly human resources, knowledge and capacity. If Sida intends to extend its activities promoting responsible business practices, it will have to allocate further resources to these efforts, and staff resources will be of critical importance. With the agenda still being shaped and with many small organisations active, it will need to continue searching for ways to channel its support and continue to engage in a considerable number of projects, with different purposes and remits.

5.4 Conclusion

Sida supports many different kinds of activities that contribute towards an enabling environment for responsible business practices. Its direct involvement in projects of which the *main* objective is to improve the private sector's contribution to society is however still relatively limited. Given the importance of responsible private sector development for reducing poverty, there are considerable opportunities for Sida to have a positive impact. The boundaries between the traditional roles of governments, NGOs and the private sector are becoming blurred. For development agencies this creates new collaborative opportunities in achieving their objectives. Sida could further these opportunities together with in particular Swedish companies and NGOs.

Further reading

In addition to those listed in the footnotes below, the following books and reports provide an overview of responsible business practices in the wider context of economic globalisation. They are a mixture of management handbooks, academic theories and journalistic investigations, listed alphabetically by author:

- Human rights – is it any of your business?* Amnesty International and IBLF, 2000
- Green, Inc: A Guide to Business and the Environment*, Frances Cairncross, 1995
- The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Hernando de Soto, 2000
- Cannibals With Forks: The Triple Bottom Line of 21st Century Business*, John Elkington, 1998
- The Lexus and the Olive Tree: understanding globalisation* Tom Friedman, 1999
- Natural Capitalism*, Paul Hawken and Amory & Hunter Lovins, 2000
- No Logo: money, marketing and the growing anti-corporate movement*, Naomi Klein, 1999
- When Corporations Rule the World*, David C. Korten, 1995
- Gaia: A New Look at Life on Earth*, James Lovelock, 1979
- Corporate Citizenship: Successful Strategies for Responsible Companies*, Malcolm McIntosh, Deborah Leipziger, Keith Jones and Gill Coleman, 1998
- Building competitiveness and communities: how world class companies are creating shareholder and societal value*, Jane Nelson, IBLF, 1998
- Business as partners in development: creating wealth for countries, communities and companies* Jane Nelson, IBLF, 1996
- The business of peace: the private sector as a partner in conflict prevention and resolution*, Jane Nelson, IBLF, International Alert and Council on Economic Priorities, 2000
- The fortune at the bottom of the pyramid*, C. K. Prahalad and Stuart L. Hart, article in Business + Strategy, issue 26

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Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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