

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDG): THE ROLE OF THE PRIVATE SECTOR

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"In addition to eliminating poverty, the new framework will need to address the drivers of change, such as economic growth, job creation, reduced inequality and innovation ... the private sector can get involved, including aligning CSR strategies with the SDGs, encouraging skills-based volunteering for SDG progress among employees, including global causes in your workplace giving campaigns, and raising awareness of the SDGs and efforts to achieve them among staff and the public²."



1. Introduction

The Sustainable Development Goals (SDGs) present the United Nation's view of the future of development until 2030. Their predecessor, the Millennium Development Goals (MDGs) finished in 2015 and were deemed successful but this was largely because of the success of China in achieving a huge reduction in poverty³. Did the private sector have anything to do with that success and will it be even more involved in the future. Yes, we think so as the quote above and this article suggests.

2. What happened?

It was in the year 2000, that the United Nations brought together more than 180 member nations at the Millennium Development Summit in a global effort to initiate progress towards eight MDGs⁴. These

¹ Contact via mjdhopkins@mhcinternational.com - thanks to Prof. John Lawrence for comments and suggestions based upon an earlier draft.

² See US Chamber of Commerce FoundationL <https://www.uschamberfoundation.org/blog/post/corporate-engagement-will-be-critical-sdgs-success/43828>

³ according to UNDP, between 1990 and 2005, more than 470 million people in China were lifted out of extreme poverty, see 'China, the MDGs, and the Post-2015 Development Agenda'. UNDP 2015

⁴ see <http://www.un.org/millenniumgoals/>

all had specific, measurable targets associated with each goal, across a broad spectrum of poverty eradication, human development, and environmental sustainability concerns⁵.

To update the MDGs and more, the SDGs function as a guide that U.N. member states will use to frame their policies from January 2016 through 2030. This means that almost all members of the U.N. – well 193 countries out of a global 196 - have signed up unanimously to make these goals a priority for the next 15 years. And, unlike the MDGs (which were developed by a relatively small group and perceived as relatively non-participatory by many stakeholders), the U.N. conducted the largest consultation program of its kind to ensure that all countries and groups would be a part of creating the SDGs, including 11 issue-based and 83 national consultations, as well as door-to-door surveys⁶.

Some success was achieved in the MDGs, as noted above, but the way the goals were selected were both 'limited and top-down, lacking the kinds of consultative engagements that are expected in today's information age. Further, the goals themselves were seen as focused mostly on less developed countries, in the context of anticipated aid donations from the more industrialized world. So, despite some gains inequalities persist and progress was uneven⁷.

3. What are the SDGs?

The UN felt it had considerable success⁸ in eliciting the world's attention to the MDGs, hence the new seventeen SDGs⁹ which, nevertheless, differ importantly from MDGs although they build on them both conceptually and institutionally. Identifying the SDGs took several years, and their scope is more extensive. They aim to bring in multiple interests and actors from public and private sectors as well as civil society. Most significantly, the SDGs have already attracted significant private sector interest and UNCTAD has suggested a plan to attract private investment¹⁰, not only in goal/target identification, but also in the early stages of moving towards their achievement as we shall see below.

4. Private sector involvement

Corporate involvement in the MDGs had been sporadic and restricted, partly because of the primary focus on poorer countries. In some sectors, (e.g. health, information technologies, environmental control) the private sector was on stage almost by default for its role in supply lines for drugs and other crucial commodities and utilities. The SDGs however are universal, not only crossing all sectors, but

⁵ <http://www.icsu.org/publications/reports-and-reviews/review-of-targets-for-the-sustainable-development-goals-the-science-perspective-2015/SDG-Report.pdf>

⁶ This foregoing paragraph largely based upon <http://charity.org/press/news/corporate-engagement-will-be-critical-sdgs-success>

⁷ Ban Ki-Moon, UN Secretary General in Foreword to the Millennium Development Goals Report 2015.

⁸ The UN says 'The Millennium Development Goals, (MDGs), are the most successful global anti-poverty push in history. Governments, international organizations, and civil society groups around the world have helped to cut in half the world's extreme poverty rate. More girls are in school. Fewer children are dying. The world continues to fight killer diseases, such as malaria, tuberculosis and AIDS.' see <http://www.un.org/millenniumgoals/mdgmomentum.shtml>

⁹ see <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

¹⁰ http://unctad.org/en/PublicationChapters/wir2014ch4_en.pdf

signed onto by all countries as nationally relevant to their individual agendas with many more opportunities for private sector involvement (see Table 1).

Global public consultations were held on how to partner with the private sector in the post-2015 agenda¹¹. Refreshingly, it was immediately apparent that commercial interests at many levels would have to be directly concerned in both goal selection as well as specific measures of achievement across time. Broad agreement was evident as to the crucial contribution of business and industry as 'drivers' of socio-economic progress. The corporate role was seen as encouraging public sector policy driving sustainable commerce and trade, working towards building trust through greater transparency and accountability, and promoting a constructive localized environment for small and medium enterprises.

Corporate social responsibility (CSR) is now a key business function, as is growing awareness of how private sector economic activity must be well-managed so as to ensure profitable sustainability¹². In fact an earlier book by one of the present authors had insisted on including the private sector in development issues¹³. The remainder of this paper outlines some of these examples, and underscores the critical role of private enterprise in SDG achievement.

Interestingly, the private sector's role in achieving the MDGs had hardly come up in UN discussions at that time¹⁴. Yet, when the UN began reviewing MDG progress in 2012, the results in areas such as hunger and sanitation were sobering, according to Olav Kjørven, then a special advisor to the UN Development Programme¹⁵. His team decided that many targets — for example to do with employment, the environment and the delivery of key services — could not be achieved without the private sector¹⁶.

The goals launched in 2000, amid aggressive, but unsuccessful, campaigning against the Washington Consensus pro-market economic policies had excluded the private sector from planning. "Nobody was thinking about the private sector because the private sector had won the debate," Kjørven explained. Then, after the financial crisis, people realised that to make progress on energy, food, liveable cities, and job provision, the private sector would have to be brought into this process¹⁷. [was in the original seemed to have got deleted]

¹¹ Engaging with the Private Sector in the Post-2015 Agenda. Consolidated Report on 2014 Consultations. UNIDO and the UN Global Compact. 2014

¹² Hopkins M. *CSR & Sustainability: From the Margins to the Mainstream*. (Greenleaf Publishing. Sheffield 2016).

¹³ Hopkins M *CSR and International Development* (Earthscan, London, 2007)

¹⁴ In fact one of the present authors had failed in his attempt to have a Human Development Report (HDR) devoted to development and CSR and the private sector when he worked as an adviser to the HDR in the 1990s.

¹⁵ See more at: <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html#sthash.5xSbDZZI.dpuf>

¹⁶ Op.cit <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html#sthash.5xSbDZZI.dpuf>

¹⁷ See more at: <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html#sthash.5xSbDZZI.dpuf>

With this in mind, SDG planning proceeded along three tracks: consultations with policy experts, national consultations of citizens' priorities, and private sector consultation, managed by the UN Global Compact. The process highlighted at least two key ways tech companies could make a difference. First, the priorities survey helped put access to technology on the agenda. Goal 9 on infrastructure development includes a target to "provide universal and affordable access to the internet in least developed countries by 2020". In an era when global job growth is likely to come from high-tech industries, and where all businesses increasingly require the use of technology, the digital divide between rich and poor countries is a major obstacle to development¹⁸.

Similarly, Goal 17 on international partnerships emphasised technology as a key area where rich countries could transfer expertise to poor ones. This is an opportunity for technology companies that can distribute phones and tablets, install telecommunications infrastructure at low cost and help other industries use technology to thrive in the global South¹⁹.

'Further, data companies have helped develop tools to monitor SDG progress. These include telecoms firms BT and Verizon, which support UN initiative the Sustainable Development Solutions Network, an online platform where development practitioners, governments and businesses can share practices and progress related to the SDGs'²⁰.

UNIDO²¹ found, in analyzing its consultative feedback on SDGs from businesses worldwide, that 'respondents saw corporate sustainability regimes as one way of improving regulatory frameworks, for example, via better understanding by all parties as to importance of data quality and reporting procedures. It was suggested that closer cooperation between public and private sectors might lead to incentive structures such as reduction of penalties for more corporately responsible firms, or rewards for compliant behavior including preferential awards of procurement tenders'.

Moreover, successful development UNIDO argued²², leads to enhanced markets, and more consumer demand. Thus health, education and employment goals are seen by business as fostering national investments in human resources on both supply and demand sides. 'CSR in the context of South-South collaboration must also move beyond traditional notions of philanthropy to embrace principles of sustainability and harness the transformational power of a shared value approach focused on people.'

As noted in the two most recent Human Development Reports of the UN Development Program (2014, 2015), a resilient and healthy economic climate is conducive to greater private investment in the virtuous circle of sustainable human progress. As evidence shows repeatedly, although large firms are often the loudest voice of the private sector, small and medium-sized enterprises (SMES) are inevitably

¹⁸ <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html>

¹⁹ Op. Cit. <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html>

²⁰ <http://www.scidev.net/global/sdgs/analysis-blog/focus-on-private-sector-competition-can-deliver-sdgs.html#sthash.5xSbDZZI.dpuf>

²¹ UNIDO op cit 2014

²² UNIDO op cit 2014

the backbone of commerce everywhere. Their capacity, and access to assets (physical infrastructure, finance, internet connectivity) are highly constrained by several factors onto which the SDGs have brought strong light. The SDGs open up a new space for SME partnerships with large firms, through subcontracting, locking in to already established supply chains, or transportation arrangements. More particularly, CSR in both large and SMEs will enhance such aspects as trust, living wage, fair trade, less pollution, more human rights, community development as well as other key stakeholders and issues.

Table 1: Examples of private sector involvement per SDG

| Goal | Meaning | Private sector involvement? |
|----------------|--|---|
| Poverty | End poverty in all its forms everywhere[| Pay living wage, reach out to families and communities |
| Food | End hunger, achieve food security and improved nutrition and promote sustainable agriculture | New methods of sustainable crops and products |
| Health | Ensure healthy lives and promote well being for all at all ages | Work with public health sectors to develop cheaper and more appropriate products |
| Education | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all | Work with public sector to ensure supply of appropriate skills and education |
| Women | Achieve gender equality and empower all women and girls | Gender equality in companies |
| Water | Ensure availability and sustainable management of water and sanitation for all | Neslte has shown the way with big push on clean and available water |
| Energy | Ensure access to affordable, reliable, sustainable and clean energy for all | Govt to provide incentives and adequate tax and pricing structure to mobilize alternative energy private sector |
| Economy | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all | Private sector led |
| Infrastructure | Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation | Sustainable construction to lead to many new companies |
| Inequality | Reduce inequality within and among countries | Accept fairer tax regimes |
| Habitation | Make cities and human settlements inclusive, safe, resilient and sustainable | New technologies for Construction will lead to more new companies and innovation |
| Consumption | Ensure sustainable consumption | Major efforts required by |

| | | |
|----------------|--|--|
| | and production patterns | retailers and supply chains |
| Climate | Take urgent action to combat climate change and its impacts | Needs massive private sector innovation |
| Marine | ecosystems Conserve and sustainably use the oceans, seas and marine resources for sustainable development | Shipping and fishing industries to innovate and then expand rapidly |
| Ecosystems | Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss | Millions of new products and companies required with Govt incentives |
| Institutions | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels | Companies to respect local laws, weed out corruption and benefit through enhanced reputation |
| Sustainability | Strengthen the means of implementation and revitalize the global partnership for sustainable development | Huge opportunities for public-private partnerships in sustainability agendas |

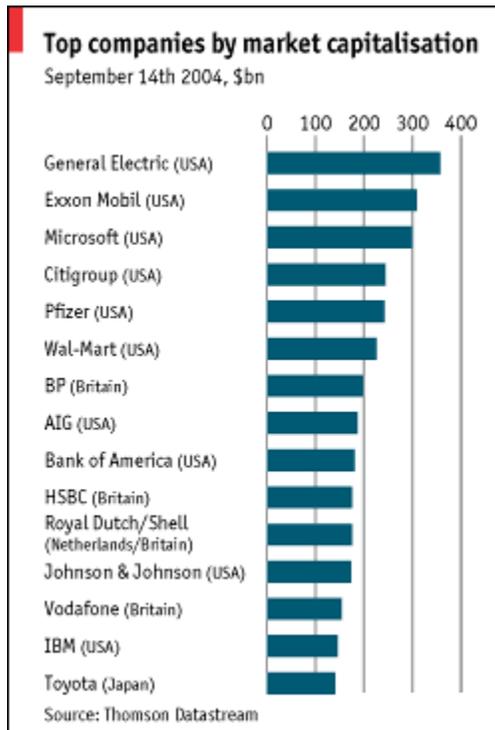
5. The size and power of corporations²³

Before addressing the issue of corporations and development, it is worth putting the power of corporations into context. Straddling the world, these large companies command immense power and reach – the biggest, in terms of market capitalisation, is General Electric which is worth \$US350bn. Most major Multi-National Enterprises (MNEs) are domiciled in the First World and are owned and controlled largely by citizens of these countries although ten of the world’s top fifteen companies have their base in the USA (Table 2). There are Third World MNEs too, although numbers are small with only around 30 figuring in the Fortune 500 list of largest companies²⁴.

²³ Updated from Michael Hopkins ‘CSR/Sustainability: From the Margins....’ 2016 op.cit,

²⁴Leslie Sklair & Peter T Robbins, ‘Global Capitalism and Major Corporations from the Third World’, *Third World Quarterly*, Vol 23, No 1, pp 81–100, 2002

Table 2: Size of top MNEs by country



These figures mean nothing on their own, of course, but note that the World Bank lends around \$US15-20bn a year in the early 2000's while the annual budget of oft-cited UN agencies such as the ILO was only ¼ billion dollars. Either figure is microscopic compared with the power and wealth of the largest corporations.

A large portion of world trade – figures vary but some estimates put this at 40-50% – is conducted either within the walls of MNEs or at their behest. Their role in development has only recently been acknowledged since only until relatively recently corporations were thought to have as their main focus the maximisation of corporate profits. To date, corporations have been generous in philanthropic giving – witness the large amounts dedicated and raised for the victims of the Asian tsunami. Around \$US400 million was donated by corporations in the USA in only a few weeks in early 2005²⁵. In the UK, according to the London Evening Standard, about \$US15mn was contributed by corporations – such as \$US3mn from the giant Swiss bank, UBS, which set up a UBS Tsunami Relief Fund to bring together individual contributions from staff and clients worldwide. In fact²⁶ the 500 largest global corporations in 2004 took a record \$7.5 trillion in revenue and earned \$445.6 billion in profit. If MNEs (Multi National Enterprises) followed Governments and contributed even a modest amount on the lines of the 0.3% of net income this would have allocated \$13.37 billion for development.

²⁵ According to tally on the Web site of The Chronicle of Philanthropy trade newspaper

²⁶ Riva Krut: "Understanding Corporate Social Responsibility after the 2004 Pacific Tsunami: an argument for a financial target for MNE contributions", Cameron Cole, New York, 2005

So size alone shows, based upon figures for 2004 alone, that MNEs can be a powerful engine for development if, of course, this can be shown to be in their interest and they have the wherewithal to go about development. Both these topics will be discussed below, the former under the business case for MNEs in development and the latter under CSR.

However, there is no doubt that nation states will continue to be the power of last resort. Simply because they have the power to tax and allocate huge resources, they can veto MNEs more than the other way around (in industrialised countries at least) and they can pass laws that MNEs, at best, can only hope to influence but not create and implement.

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6. New way is CSR²⁸

Given the rise in prominence of CSR, is there now more mileage for corporations to be more involved in development than hitherto? There is more interest from corporations than even a decade or so ago in being involved in SDG development. Although much of this interest to date has been in philanthropy (charitable giving) rather than development per se. Clearly development is a wider concept than purely philanthropy. Development projects are much more complicated than philanthropic or charitable donations that hand over cash directly for a school or hospital however welcome these seem to be. Development means working with local partners as well as the public institutions to create sustainable projects. Much of development, and probably the most effective albeit unsung, is purely creating capacity since the best development projects are those in which help people to help themselves.

Clearly, corporations are not experts in 'development' and tend to make many of the mistakes that were made in the post-Second world war crusade against under-development by aid agencies. Stories are legion of companies providing direct grants to projects that are unsustainable or simply allow host Governments to feather the nests of the most corrupt among them. For instance Coca Cola funded an hospital in Mozambique, it was beautiful, modern, latest equipment etc. When Coca Coal executives

²⁷ According to tally on the Web site of The Chronicle of Philanthropy trade newspaper

²⁸ Much of the following sections has been discussed in fuller detail in the author's recent books on CSR/Sustainability and Development – see Hopkins (2007) and Hopkins (2016).

returned to the site a few months later the hospital was being used as housing for the many homeless people and much of the equipment had been 'sold'.

Moreover, given the power and size of corporations, and the private sector, in general, coupled with the failure of public institutions, corporations must be involved in development. Clearly, to move the case forward, large corporations must also see that there is a business case to be involved in development. The business case for MNEs to be involved in CSR has been made²⁹. But involved in development too?

7. But why corporations and development?

The key issue for corporations is why should they be interested in development as defined above? A sub-issue is if development is so important for companies why go the CSR route?

There are at least nine benefits from CSR that will both improve their bottom line and help to resolve the problem of under-development and poverty.

CSR benefits from corporations being involved in development are:

1. Reputation is improved since it is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment.
2. Access to finance is greatly improved as socially responsible investment (SRI) becomes more and more important. The creation of new financial indexes is also supporting these trends for example FTSE4Good and the Dow Jones Sustainability Index (DJSI) are publicly ranking the major international companies according to their environmental and social performance.
3. CSR is an important factor for employee motivation and attracting, motivating and retaining top quality employees.
4. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy. Given that 80% of the value of many new economy companies is now their intellectual capital its preservation through the positive treatment of internal stakeholders is becoming more and more necessary.
5. Better risk management can be achieved by in-depth analysis of relations with external stakeholders. Factors such as new technologies, changing societal, regulatory and market expectations, drive companies to take a broader perspective when analyzing the range of risks they may encounter.
6. CSR positively helps in the building of relationships with host governments, communities and other stakeholders and can be of vital importance should the company encounter future difficulties with regard to its investment decisions. CSR gives a company a 'competitive' advantage over companies with poorer images.

²⁹ See for instance, Michael Hopkins and Roger Crowe *Corporate Social Responsibility: Is there a business case?*, ACCA, 2003 see http://www.accaglobal.com/pdfs/members_pdfs/publications/csr03.pdf

7. Greater corporate social responsibility is linked to the heightened public debate on the benefits and shortcomings of globalisation and the perceived role of business in this process. Those companies perceived to be socially responsible are, more and more, those companies of consumer choice.

8. The energy, technology and management skills learned and honed in large companies are increasingly being made available for the management of poverty alleviation through such instruments as the UN's Global Compact, Business in the Community, private and public partnerships etc.

9. There is a growing consensus of a Planetary Bargain whereby beggar-thy-neighbour policies of companies through using the cheapest labour, the most polluting industries etc. are neither in the interests of the companies concerned nor their consumers.

Of course, there are costs and limitations of the CSR approach and the idealisms behind the approach can also hinder its spread as hard-nosed businessmen try and squeeze every ounce out of cost cutting and profit maximization. But, as the classic study *Built to Last*³⁰ has shown, CSR companies perform better for shareholders in financial and market terms, carry less debt, and are long stayers numbering many decades if not more.

9. What are the main actions that corporations could take to enhance corporate social development following the SDGs?

There are actions both within the MNE itself touching its internal stakeholders and actions outside of the MNE reaching toward its external stakeholders. Most, if not all, of a MNE's actions affect development in some way. Some more than others, of course. For instance, good governance of a company written and applied in a code of conduct for boards of directors will impact on development more marginally than direct community level interventions. Although clearly, a company policy at board level to assist development would be no bad thing.

A MNE looking at its involvement in development could approach the issue in one or more of three main ways. It could:

Simply say that it is focusing on profit maximisation for its shareholders and claim that development is none of its business.

Work on a partial approach such as with the UN Global Compact and support that process

Engage fully with its stakeholders and explore options for furthering development efforts while ensuring that the actions it takes are fully in line with preserving shareholder value

The argument in this paper is that the third approach is in the long-term interest of MNEs and, of course, is crucial for development to move faster than it has to date.

³⁰ James Collins and Jerry Porras: *Built to Last*, Century, 1994.

So, what could the key areas of MNE involvement in development be?

7.1 Development actions inside the company

The adoption of a fully-fledged approach to CSR within a company has a number of benefits. The demonstration effect of good internal CSR policies should not be forgotten even though these are indirect and hard to measure. CSR policies inside a company can be a lightning rod for other companies both in the location where the MNE is based as well as its overseas locations. CSR also makes good business sense in multifarious ways. For instance, consumers develop a higher degree of identification with companies having good policies and practices..

Companies which maintain environmental and health standards; propagate transparent business practices; protect human rights at the workplace; and work against corruption are widely respected and appear as more attractive to shareholders, reduce the possibility of industrial action and maintain a working environment that leads to higher worker productivity.

A strong anti-corruption culture needs to be built within the organisation through active support from the senior management. Today, anti-corruption is widely discussed both inside companies and in their dealings with the outside world. Companies, too, see the overwhelming advantages of good governance in the countries where they work overseas and, in particular, the advantages of working with a Government that is implementing anti-corruption policies. Much corruption occurs between external sources of finance and the host Government. Thus it takes two to tango on the anti-corruption front. The line between corruption and accepting small gifts or hospitality is sometimes blurred. On the larger stage, many companies are almost forced to pay bribes or kick-backs to win contracts. And this is not only the case in developing countries, industrialised countries have also not been blameless as we know with the Enron scandal, the Credit Lyonnais scandal affecting top Government officials in France, Volkswagen in Germany and so on. Even a single dubious payment can come back and haunt a company down the line. Just like payments to payments to blackmailers, once started the web of deceit and intrigue can be hard to break. Thus, each company should have a set of guidelines and business principles which must be followed by all staff. This code of conduct needs to be followed at all national and international offices which the company may have. Local business practices and culture must not influence or change the organisation guidelines. The system of internal communication and training has to be strengthened to keep all staff aware of the policies and principles.

Create a vision statement on how the MNE can (and does) assist in development. This does not mean simply listing a number of philanthropic activities that the company intends to carry out. Development requires careful thought on how, once an injection of funds has been made, development initiatives can be sustainable i.e. continue without the requirement for additional funds. Too often, company development initiatives have been dominated by generic global initiatives that are not tailored to suit specific circumstances.

7.2 Development Actions outside the company³¹

Private Sector Participation for Poverty Alleviation: There is not an awful lot a company can do to reduce national poverty itself. However, working with National Governments to work out how best the private sector can stimulate economic growth for poor people is in the interest of both the Government and the company. In addition, public-private partnerships for tackling man-made or natural disasters can also speed-up reconstruction activities.

Improving people's skills in a myriad of ways is undoubtedly the best way to create development. Education, training, skill development, capacity development are all aspects of the same issue - improving human skills. MNEs with their wealth of experience in in-house training, have an enormous amount to contribute. At minimum MNEs could be involved in national training policy to ensure the private sector needs are incorporated in Government training plans. It may be surprising to some but many Government training schemes in developing countries have little contact with private sector needs. MNEs can also set up, perhaps in partnership with others, courses and organisations to create sorely needed skills.

Small & Medium Sized Enterprises (SMEs) are where most new employment occurs in developing countries. MNEs have a role to play either directly through assisting SMEs to improve their management, marketing, technological and financial skills. Or indirectly through ensuring that SMEs as suppliers are not subject to complex contractual paperwork and, once hired, are paid rapidly.

Helping people to help themselves is a key mantra to encourage development. Assisting budding entrepreneurs, or even existing ones through mentoring can help launch new businesses, improve existing ones or even assist Government departments to improve their efficiency.

Essential, of course, is to invest in emerging market and developing countries and work toward allowing their exports to be freely imported into the rich countries – a huge and controversial issue that will play out for many decades to come. Will not these new imports hurt local markets in industrialised countries where the MNEs are located and many of their staff? Again, an issue that is being discussed vigorously in the development literature right now. The author's view is that the rich countries will innovate quicker than the LDCs simply because of their higher level of skills and continue to move into brain intensive knowledge industries. As the LDCs start to move into these markets too, the economic growth that is being created will allow room for many and there is no particular reason for unemployment to rise drastically, but that is another story.

³¹ Asia conference on MDGs under the framework of the UN Global Compact: GLOBAL COMPACT REGIONAL CONCLAVE, 8 March 2005, Jamshedpur, India
http://www.unglobalcompact.org/content/NewsEvents/mdg_bus/mdg_jamshed.pdf

To many, CSR is simply working with the local community. Clearly, improving local conditions is in the interest of MNEs to enhance reputation and preserve harmony. Assistance to local communities can also help to improve purchasing power that leads to an expansion in the market size. But these actions are not as easy as they seem on the surface. Three questions not easily answered are: Where does the role of the MNE start and stop vis a vis the local community? What are the key issues to be involved in? Should MNEs be involved in human rights and, if so as many think, what are the limits?

Philanthropy has always been a big part of MNEs actions in LDCs. But few philanthropic actions are sustainable – not to be confused with environmental sustainability - in the sense of once the project has finished will the project and its related activities continue? As discussed in above, this author is very skeptical of philanthropic activities. The test of a 'philanthropic' project is that the intervention must lead, as far as can be judged, to a sustainable i.e. developmental result.

Development assistance is key in many countries. This would best be done with existing development agencies such as the UNDP who have vast experience in development. Clearly, MNEs should not replace the UN nor Government's own efforts. Simply, the power and wealth of MNEs needs to be harnessed in positive development efforts. Should these efforts be in addition to the taxes that MNEs pay anyway? There is no easy answer. But many taxes that MNEs pay in developing countries are misused. A democratic Government will tend to use tax revenue in ways that benefit its electorate so as to ensure re-election next time around. Yet most Governments in developing countries are not democratic. So should MNEs be involved in those countries and, if so, what should they do exactly? First, MNEs should evaluate their position based on existing relations with the Government. Clearly, if a host Government simply says how we use your taxes is none of your business then the MNE can decide whether to stay or leave. Second, where possible the MNE can, at least, assist the Government in ensuring that tax revenue is used effectively to promote development. MNEs have vast experience in tax issues and could well lend some of this experience to develop capacity (better governance) within Government. Third, when MNEs carry out their own development projects these should draw upon the development experience available in NGOs and local UN offices such as the UNDP. Fourth, MNEs are not the Government and obviously cannot, nor should not, carry out the major programmes of the Government such as education, health, security or employment systems. But MNEs can be involved as an agent of positive change through lending their expertise to improving efficiency in Government programme delivery. Fifth, if more than one MNE is involved in a developing country they should work together to ensure increased efficiency of development programmes in the host country.

But how much will all this cost? How much of its time and money should a MNE invest in any of the above-mentioned activities? There is no easy answer to this question. It is worth bearing in mind, however, that a MNE is involved in many of the above-mentioned processes as much as by default than a clearly thought out strategy. A MNE has to be continually involved with the host Government negotiating all sorts of deals from land acquisition to taxation to import and export. Often these discussions will influence Government policy and changes will be made. So what I am suggesting here, at least as a first step, is to place the myriad of discussions with Government in an overall development framework. The more transparency the better since the MNE will then be seen to be working in the country's best interest rather than colluding in smoke-filled darkened rooms. Thus, the MNE strategy in

any particular country could be framed with a clear idea as to the benefits and costs of its intervention in terms of its own bottom line and, also, in terms of its benefit to development. Some of these are highlighted in the Table 3 below.

Table 3: Corporate Development to promote SDGs

| Actions | Benefits to MNE | Disadvantages to MNE | Benefits to SDG Development |
|---|---|--|---|
| 1. Anti-corruption culture embedded throughout organisation | a. Reputation enhanced b. costs of delivery of services and products reduced | More difficult to win contracts | Increased efficiency as poorly managed projects are eliminated and good projects properly monitored |
| 2. New investment in LDC | Take advantage of cheap labour Closer to raw materials | Increased costs of expatriate managers and local training Increased costs in management Need to deal with host government and local institutions | 1. Increased employment and incomes 2. Enhanced external trade position |
| 3. Improving community relations | Reputation enhanced | 1. Increased costs 2. Increased criticism if badly designed | Well designed projects can create sustainable development |
| 4. Philanthropic actions | Reputation enhanced | Increased costs Will need to continue pay-offs if project design is non-sustainable | One off actions are rarely sustainable |
| 5. Development assistance | International reputation enhanced | 1. Accused of becoming a new United Nations 2. Entering unfamiliar territory | 1. Obtain expertise from practical managers 2. More resources available than from international public |

| | | | |
|------------------------|---------------------|---|---|
| | | | sources 3. Less strings tied to development assistance |
| 5.Capacity Development | Reputation enhanced | Few, if existing skills are used but there is management cost | Sustainable training can never be lost, essential for development |

In a nutshell what could a ten point programme for MNEs involved in developing countries (and just about all MNEs are involved either directly or indirectly) be?

7.3 CSR ten point strategy for companies

Inside the company

1. Develop a CSR strategy that includes an overall vision for the company's place in development. Decide what benefits and costs emanate from involvement in international initiatives such as the UN Global Compact, SA8000, ISO9000, Fair Trade, ISO26000, GRI, IIRC, etc.
2. Investigate whether the company is paying a 'living wage' within the company and that it is paying its main suppliers properly and on time. If not, why not and then ask what steps should be taken to move toward this
3. Work with trade unions to ensure proper environmental and safety regimes within the company.
4. Monitor and evaluate the company's anti-corruption policy on a regular basis.

Outside the company

5. Work with the Government in host country to see how the Government's anti-policy policy can be enhanced. Work with local UN and NGO organisations to increase efficiency of development initiatives, including ensuring its tax contributions are used wisely.
6. Be pro-active in lending in-house training skills to a wider public.
7. Assist the creation and improvement of SMEs through the setting up of an advisory office and/or joining with other private sector or NGO partners.
8. Be involved in mentoring budding entrepreneurs.
9. Invest so as to support wider development objectives of host country.
10. Ensure community or philanthropic company initiatives are sustainable in the development sense.

8. India and CSR

India has made some initial steps in including CSR in its Government framework. It is, at time of writing, not clear exactly how it will influence companies but is important to include as it shows that CSR has moved out of the mainly academic and business area as in the past, but now into Government responsibility. India is not alone and other countries, such as Mauritius and Denmark, have worked on legal frameworks. India insists that its framework is essentially voluntary, while Mauritius has insisted on 1% of company profits to be allocated to 'CSR projects'. Companies have, of course, reacted in Mauritius negatively against such a law. In India a legislative provision on corporate social responsibility (CSR) was embedded in a new company law and passed by Parliament passed in August, 2013³².

The law requires companies with a net worth of over Rs 500 crore (\$US80million), turnover of over Rs 1,000 crore (\$US160million), or net profit of more than Rs 5 crore (\$0.8mn), to spend at least 2 per cent of the average net profit in the immediate three preceding years on CSR activity. However, it isn't mandatory, and apparently boards of the companies will only have to report how much they spent on CSR and explain why they couldn't meet the commitment. The government will not, it seems, even ask them to amplify on that explanation.

Another main provision, and seemingly to come closer to the CSR model of this paper, as you remember CSR is not the same as philanthropy, is that Companies will have to set up a corporate social responsibility (CSR) committee at the board level that must be headed by an independent director on the board. The committee will frame a CSR policy for the company or group and recommend expenditure on various projects. It will also monitor the CSR policy of the company from time to time.

The company will have to provide information on their CSR policy and the attendant spending on the website and in the directors' report, putting all the relevant information in the public domain that can be accessed by the company's shareholder, the media and social activists.

The idea is not to regulate too much which is why the entire principle of CSR has been encapsulated in just one section – section 135 of the Companies Act 2013 – with five sub-sections. It is expected that there won't be more than 12 to 14 rules that are currently under formulation.

The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India. The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

³² Material in this section has been taken from 'New CSR guidelines in the works', Friday, November 29 2013, The Telegraph, Calcutta, India see: http://www.telegraphindia.com/1131129/jsp/business/story_17623999.jsp#.UrkgffQW3T8 accessed 13 Jan 2013; and 'Handbook on Corporate Social Responsibility in India' PwC, India, Nov 2013

The draft rules (as of September 2013) are:

- Surplus arising out of CSR activities to be reinvested into CSR initiatives, and this will be over and above the 2% figure
- The company can implement its CSR activities through the following methods:

Directly on its own

Through its own non-profit foundation set-up so as to facilitate this initiative

Through independently registered non-profit organisations that have a record of at least three years in similar such related activities

Collaborating or pooling their resources with other companies

- Only CSR activities undertaken in India will be taken into consideration
- Activities meant exclusively for employees and their families will not qualify
- A format for the board report on CSR has been provided which includes amongst others, activity-wise, reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company.

So quite a programme which, no doubt, will be chopped and changed as time moves on. The programme also asks for impact analysis (see Chapter??) of CSR activities. The PwC report³³ makes a number of suggestions on how companies can address the tools, technical guidance and standards to be used and they advise use of:

- London Benchmarking Group(LBG) model
- Social return on investments (SROI) • Global impact investing network (GIIN)
- Accountability -: AA 1000, Institute of Social and Ethical Accountability
- ISO 26000: social responsibility
- Public consultation guidelines of Government of India, etc

Thus, as you see, an awful lot of hurdles are being set up in companies paths and it is unlikely that all, or even some, of them will eventually be implemented in the new law nor even followed by companies.

³³ Ibid footnote 24

11. Concluding Remarks

So, can CSR pave the way for development? The short answer is yes. CSR has paved the way for corporations to examine their wider role in society in ways that have never been done before. CSR is a systems concept that touches every part of a company and has both positive and negative effects. The wide role of CSR coupled with the power and technological capacity of corporations coupled with the failure of most development efforts to date, provides additional impetus for corporations, and the private sector itself, to be more involved in development than ever before.

Clearly, Governments will be the overall arbiter of development through the public purse. But their failure in many developing countries has provided an empty space that must be filled by another entity, and the only one around is the private sector and its champions, the large corporations. It is relatively easy to argue the obverse that corporations should stick to making profits and leave development for Governments. But this is a dance to the death, since the market left to purely profit maximisation has been unable to fulfil social roles such as reducing unemployment, creating primary and secondary education for all, tackling the major diseases of the Third World and so on. Only time will tell whether corporations will take on this new challenge although, as we saw with India, legislation may well creep up upon them if they don't start to act. To a certain extent MNEs will engage in development simply to ward off problems such as rising energy prices, resentment at off shoring, consumer boycotts and the like. But whether they will take on the wider challenge of development and how they will do this if they decide to go forward are still subjects of intense discussion.