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Thematic Section

The Role of Multilateral Development Institutions in Fostering Corporate Social Responsibility

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ABSTRACT *Antonio Vives argues that multilateral development institutions are one of the most important drivers of Corporate Social Responsibility (CSR). Taking advantage of their unique position as honest brokers, their global reach and their developmental objectives that coincide with those of CSR, they can advocate responsible practices, help develop a conducive environment, finance CSR activities and support measures to enhance the accountability of businesses.*

KEYWORDS *policy; accountability; projects; advocacy; developing countries*

Introduction

In order to discuss the role of multilateral development institutions (MDIs)[1] in fostering Corporate Social Responsibility (CSR), it is advisable to start by defining CSR and establishing its scope and boundaries. There are as many definitions of CSR as there are authors, and it is known by many names, including corporate citizenship, strategic philanthropy, sustainability and corporate responsibility, all of which have various meanings.

For the purposes of this article, we define CSR as ‘the practices of the corporation that, as part of their corporate strategy, complementary and in support of the main business activities, explicitly seek to avoid damage and promote the well-being of stakeholders (clients, suppliers, employees, financial resource providers, community, government and the environment) by complying with current rules and regulations and voluntarily going beyond those requirements’.[2] Notice that this concept includes responsible behaviour towards shareholders and lenders, which has aspects in common with the concept of corporate governance, including ethical behaviour, as there is no CSR without ethical behaviour. However, CSR goes beyond corporate governance by encompassing other stakeholders, and beyond ethics by being proactive in activities of distributive justice. CSR calls for compliance with the law, but also for voluntarily going beyond current rules and regulations. For developing countries, this is particularly important given the shortcomings of existing rules and regulations, the lag in the adoption of internationally accepted norms and the lack of uniformity between countries, where some companies operate.

In what follows, we will show that, not only do some MDIs have a role to play in fostering CSR practices by the private sector, but also it should be one of their priorities. CSR, by its very nature, is development done by the private sector, and it perfectly complements the development efforts of governments and multilateral development institutions. This is not to say that all MDIs have to play some role, the suggestions that this article makes will apply to some MDIs but not others.

We argue that multilateral development institutions have a broad role to play in fostering CSR through:

- promotion and advocacy;
- development of a conducive policy environment;
- financial support; and
- promoting compliance, reporting and accountability.

Before exploring these roles, we discuss the comparative advantages of MDIs in the promotion of CSR.

Comparative advantages of MDIs in fostering CSR practices

By their very nature, CSR practices are desirable for the well-being of society and the natural environment. As such, fostering CSR should be the responsibility of all members of society, from individuals to civil society, from governments to corporations to MDIs.

One of the major advantages of MDIs is that they can act as honest brokers of the process. MDIs are independent parties that are not directly affected by CSR activities, but whose mandate is to accomplish objectives that are similar to those that can be accomplished through CSR practices. The ultimate objective is the enhancement of the quality of life of the population. This relative independence and commonality of objectives allows MDIs to play many roles, as will be seen below. It also allows MDIs to exercise their ability to convene the parties to discuss the issues and persuade those involved to work together. Furthermore, most MDIs tend to work with the parties involved in one way or another, some finance governments and the private sector. For their part, governments are either shareholders or members of MDIs, and civil society is a partner in development with all of them. MDIs have relationships with all parties in the 'CSR market'. Also, many MDIs have the capacity to address failures in the CSR market, by providing financial and technical support to the parties involved, ranging from providing financing to the private sector and governments, to providing technical assistance to civil society.

Their independent position, relationship with all the parties involved in the CSR market, and their ability to provide financial and technical support, indicate that not only do MDIs have a role to play in fostering CSR, but also given the common objective of CSR and MDIs (i.e. development), they have an obligation to do it.

The roles of MDIs in fostering CSR

Promotion and advocacy

Even though the bulk of the promotion of and advocacy for CSR practices has come from civil society organizations and the private sector itself, MDIs can further contribute to this process by making use of the comparative advantages described above. They can complement these efforts through engagement with businesses, governments and civil society in researching and disseminating best practices in developing countries, in particular, by making the business case for CSR practices in a language that businesses can understand. Most promotion and advocacy efforts have been concentrated in the developed world. Given their experience in development issues and their reputation as partners of the developing countries, MDIs are better able to carry out research on native cases and practices and adapt international experiences to the realities of their member countries.[3]

In addition, MDIs have the ability to convene conferences and other events for discussing best practices and exchanging ideas and information about the experiences of the different parties involved. An example is the series of Inter-American Conferences on CSR, organized by the Inter-American Development Bank (IDB).[4] The World Bank Institute also organizes periodic electronic conferences to engage all parties, from all over the world, in discussion of CSR issues, particularly taking account of the realities of developing countries. More formally, MDIs can also offer *training* on CSR issues in developing countries. The World Bank Institute is the most active institution in this regard.[5]

Promotion and advocacy are also achieved through participation in national and international networks of CSR organizations like the Global Compact (see below) as well as participation in international conferences and meetings.[6]

The value added of MDIs in promotion and advocacy over other institutions in civil society is mostly in their ability to take a comprehensive, worldwide view and bring their experience working with developing countries to bear. In particular, MDIs conduct research on the issues affecting developing countries and smaller firms, whereas most of the research carried out by civil society and academia has tended to come from developed countries and large firms.[7]

One of the most effective ways to promote CSR is by example. MDIs can and do engage in partnerships with businesses in order to do just that. The most active MDIs in this regard are the agencies that are part of the United Nations system. They have an extensive programme that covers most activities, from fund-raising to policy dialogue, from learning to operational delivery,[8] capitalizing on the CSR activities of businesses. For instance, Coca Cola and UNAIDS work together on coordinating AIDS education, prevention and treatment; Cisco Networking and UNDP are involved in delivering e-learning to 24 of the least developed countries; UNICEF and the ILO work with sporting goods manufacturers to prevent the use of child labour. The World Bank also engages in partnerships. An example is its work with The Gap and Nike to improve the working conditions of workers in developing countries.

Needless to say that there are other institutions also engaged in these activities, particularly academia, in the areas of research, dissemination and training. The activities of MDIs must complement those of academia, each bringing its comparative advantage.

Development of a conducive policy environment

One of the most important roles that MDIs can play (which is possibly the one with the highest impact) is supporting the development of a conducive policy environment for CSR to thrive. Some of the CSR activities will be in response to rules and regulations and some will go beyond what is required, and be part of the voluntary efforts of the firm. The policy environment must be such that it does not stifle private sector initiative, does not involve unnecessary obstacles to the exercise of CSR and, in general, is supportive of voluntary activities.[9]

Policies will have to strike the right balance between rules and regulations on non-negotiable behaviour (for example, water and air pollution, child labour, respect for human rights, product safety, safe working conditions and the like) and a business environment that promotes decisions made by businesses friendly to society and the environment. For instance, pollution and child labour must be regulated and penalized, but conservation may be left entirely up to individual firms, in some cases through the use of incentives. Even some forms of child labour may be tolerable, but in this case, strict regulations must be in place regarding working conditions and incentives or pressures on the firms to provide support for the working child's development through schooling and recreation. To strike the fine balance needed between what is voluntary and what has to be regulated and enforced, countries should be able to rely on the advice of independent entities like MDIs. Moreover, these issues should be part of the MDI's overall developing country support programmes.

As rules and regulations vary from country to country, MDIs can engage in a policy dialogue with the private sector and governments and advice them on suitable sets of policies that can stimulate CSR practices. A very important role that

MDIs can play is that of ensuring a level playing field whereby all businesses are subject to the same rules, and that also ensures that no loopholes exist in the rules and regulations that would allow some businesses to acquire a competitive advantage at the expense of those who behave responsibly. Nevertheless, private firms will only carry out CSR activities if they are driven by some convictions and incentives. We call these convictions and/or incentives 'the CSR drivers'. In addition to the convictions of the owners/managers that CSR activities are part of their responsibilities, one of the most effective drivers is the search for competitiveness by the firms. MDIs can support the development of these drivers.

For instance, by supporting the development of financial and capital markets, MDIs are making available a vehicle for investors and lenders to express their preference for responsible firms through the demand for the firm's financial products, which, in turn, will affect their costs and rate of return. Socially responsible investment (SRI) can emerge in developed financial and capital markets, providing incentives to the firms to behave in a responsible manner.

In policy environments that stimulate competition, consumers have a choice and a vehicle to express their preferences for responsible firms. In monopoly situations, it is almost impossible for firms to feel pressure to behave responsibly from consumers, the media and civil society. MDIs can promote competition policies and institutions that can then become a driver for CSR practices because they can be used as a tool for product differentiation.

Even if there is no local competition, in an age of fast-moving goods and services, for some firms there is bound to be international competition, which could promote responsible firm behaviour. International competition can be stimulated through international trade agreements that would include complying with environmental and social requirements in the production of traded goods. Nevertheless, there is the potential that these trade agreements can be used as protectionist measures against less developed countries where CSR practices are not widely used. There is a fine balance to be achieved between encouraging responsible behaviour and supporting protectionism. MDIs can support developing country governments in trade negotiations to make sure that these provisions are drivers of CSR but not impediments to trade.

The most important driver of CSR is the actions of stakeholders, particularly consumers, buyers, the media and civil society, some exercising their choices, others promoting the dissemination of information about firm behaviour. However, only knowledgeable stakeholders will reward responsible firms or pressure irresponsible ones. Support for strengthening institutions and educating individuals to exercise these roles is another task for MDIs.

One of the most pervasive forms of irresponsible behaviour is that of corruption, which is fueled by excessive regulations and weak institutions. Again, as part of their independent role, MDIs can promote policies, practices and institutions that minimize the potential for corruption and penalize its occurrence.

Financial support

In addition to providing support for the creation of an appropriate policy environment, MDIs can get involved in direct actions to foster CSR activities. Multilateral financial institutions (MFIs), which are part of MDIs, can provide financial support for some of these activities. The discussion below is by no means exhaustive and only illustrates the areas of involvement.

A traditional and relatively easy way for fostering CSR in some of its forms is to request borrowers to demonstrate CSR practices as a requirement for financing their projects.[10] The request for good practices in the subset of corporate governance is part of the normal practice of MFIs. These practices have to be in place before a borrower can qualify for financing or part of the resources have to be used for a substantial improvement. Lately there has been a movement to demand compliance with national and international norms on environmental and social regulations. Some of these requirements have been consolidated in the form of the Equator Principles, which are a set of safeguards developed by the International Finance Corporation, which is the private sector arm of the World Bank Group (see below).

Beyond making them a condition of financing, MFIs can finance CSR practices by financing part of the costs of compliance with these requirements, be it in expenses related to implementation or in securing and monitoring compliance. The willingness of MFIs to finance these expenditures may enhance the willingness of the private sector to include them in their projects and constitutes a true value added, beyond what other sources of finance may require. This is particularly the case in extractive industries projects.

Going even further, MFIs can finance CSR projects, that is, projects that have as a goal fostering CSR practices in private firms. For instance, the Inter-American Development Bank is financing microenterprise projects jointly with private firms as a win-win proposition. The private firms, as part of their CSR activities are interested in the development of their communities and, in particular, that of their suppliers, some of which are microentrepreneurs that need technical assistance to be able to reliably sell their products to the firm. The IDB has been working for the past 25 years in microenterprise development. By combining its financial resources to buy equipment and working capital with the technical advice of buyers, microentrepreneurs gain market access and buyers get the benefits of an enhanced reputation and support the community. Either party going at it alone would have a hard time achieving these results.

Businesses can enhance the benefits they derive from their CSR activities by linking with MDIs. In particular, doing so has the potential for mitigating their investment risks, particularly in developing countries, where MDIs not only finance projects but their participation can reassure stakeholders that rules, regulations and contractual obligations will be enforced, providing a buffer between the firm and stakeholders. By being a responsible corporation, the firm can have access to financial resources provided by the private sector arms of the MFIs, which in turn may lead to access to financial resources provided by other financial institutions or markets that may otherwise not be willing to finance their projects. The due diligence and oversight of MFIs can provide the reassurance that can make this happen. This participation, even it is does not finance CSR practices itself, has the *potential for improved credibility/reputation*, which may enhance the value of the firm and lead to better access to markets.

MFIs can also promote CSR practices through their procurement policies. They can promote environmentally and socially responsible procurement by requiring that private firms that supply goods and services for their corporate needs and for projects financed with MFI resources engage in CSR practices. In this case, as in others mentioned above, care must be exercised that these practices be required in such a way that it does not have a negative impact on competition in procurement, which also remains a worthwhile goal. In addition, corrupt corporations must, in all cases, be prevented from participating in the bidding process.

MFIs can contribute to capacity building in institutions devoted to the promotion of CSR practices by providing technical assistance grants. In particular, support can be given to business associations, CSR networks, CSR service providers, civil society institutions, academia, compliance institutions and government institutions. For instance, the Multilateral Investment Fund of the Inter-American Development Bank has provided a grant to strengthen the Latin American private sector network of national CSR associations (EMPRESA). In addition, the Bank is supporting the creation and development of national networks in developing countries that are starting to introduce the concept in a systematic manner. It is also considering providing support for developing and strengthening incipient providers of CSR services to smaller firms. Support can also be given to initiatives that promote CSR practices, like Fair Trade and Transparency International, among others. These institutions can then act as drivers of CSR practices in private firms, either through education, persuasion or pressure.

Promoting compliance, reporting and accountability

MDIs can facilitate, monitor and legitimize corporate accountability standards. Yet, there is no consensus regarding involvement in compliance and enforcement. Some argue that without enforcement capabilities, compliance will be limited to the leaders, and laggards will engage in business as usual. This is part of the debate on voluntary versus compulsory compliance. Under our definition of CSR, implementation belongs to civil society[11] and business; the role of governments is to demand compliance with those aspects that are part of the national legislation, and MFIs (not MDIs) are limited to demanding compliance of the contractual conditions in their loans. Needless to say, in countries where governments are weak or captured by the private sector, or where civil society is also weak, MDIs have a duty to strengthen these institutions in private firm behaviour monitoring and enforcement, but not to get involved directly in enforcement.

One of the most visible and effective forms of MDI participation has been in the development of global instruments that are similar to codes of conduct. A good example is the The International Labor Organization (ILO) 'Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy'. Adopted in 1977 on a consensus by the ILO Governing Body, where governments, employers and workers have equal voice, the Declaration provides guidance in the fields of employment, training, working and living conditions and industrial relations (which governments, employers and workers organizations, and multinational enterprises are encouraged to observe on a voluntary basis). The Declaration was revised in 2000 to take account of the ILO's core mission as defined in the 1998 'Declaration on Fundamental Principles and Rights at Work,' whereby all ILO member states committed themselves to respecting and realizing freedom of association and collective bargaining; an end to child labour; and non-discrimination.[12]

The latest revision of the Organization for Economic Cooperation and Development (OECD) 'Guidelines for Multinational Enterprises' was adopted by the member countries of the OECD in June 2000 and cover fair trade issues ranging from employment relations to competition, taxation, and bribery. The 'Principles for Corporate Governance', adopted in 1999, covers a subset of CSR issues dealing with shareholder rights, equitable treatment of shareholders, the role of Boards, disclosure and transparency, and has one section on the rights of stakeholders (different from shareholders).

In 1999, the United Nations Secretary-General Kofi Annan challenged business leaders to support nine principles in the areas of human rights, labour and the environment, now called the Global Compact. It seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. The Global Compact, which is housed at and funded by the United Nations, is not a regulatory instrument – it does not police, enforce or measure the behaviour or actions of companies. Rather, the Global Compact is a network that relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society. It has been criticized by some for not following up on the behaviour of firms that have adopted the principles, particularly in countries where civil society is not strong enough.

The International Finance Corporation (IFC), of the World Bank Group, convened a meeting of ten commercial banks in 2002 to discuss environmental and social issues in project finance. The banks represented at that meeting decided to try to develop a banking industry framework for addressing environmental and social risks in project financing for large projects (over $50 million). This led to the drafting of the 'Equator Principles'.[13] As of early 2004, 20 international banks covering over 80 per cent of project finance have adopted the principles, that is, they have made a public statement that their project finance will abide by those principles. Other MFIs are directly or indirectly following them. While the principles do not imply compliance with IFC's social and environmental safeguards, they constitute the basis for their application at the commercial banks. The IFC has also developed a framework for analysing and improving corporate governance and social and environmental sustainability in financial transactions, which is used to assess its own transactions and can be used by other MFIs and even commercial banks (International Finance Corporation, 2003).

MDIs support the development of reporting guidelines. For instance, the United Nations Environment Program (UNEP) together with the Coalition of Environmentally Responsible Economies (CERES), created the global reporting initiative (GRI), funded mainly by the United Nations Foundation. It became an independent institution in 2002 when GRI issued reporting guidelines that are multistakeholder and consensus-based and now represent the benchmark standard for the preparation of triple bottom-line public reports.

Concluding remarks

MDIs can play a powerful role in fostering CSR practices in business, enhancing the good work of corporations, civil society and governments. From their position as honest brokers, they can relate to all parties in the CSR market. Their mandate to promote economic development, which should also be the goal of CSR practices, makes them particularly suited to promote the adoption of good practices and to work with governments in creating a conducive environment for these practices to flourish and be effective. Furthermore, the subset of MDIs that provide financial resources, the MFIs, are suited to use those resources to finance projects that promote CSR practices, to build the capacity of institutions that foster CSR, to educate all parties to demand those practices in businesses and to demand responsible behaviour from their private sector clients. In so doing they can enhance the credibility and reduce the risks of those businesses, thereby creating a win-win situation. Finally, from their global, independent perspective MDIs can develop compliance, reporting and accountability principles and guidelines to be used in assessing the commitments of businesses.

Notes

1 MDIs include the development institutions of the United Nations system, the World Bank Group, and the regional and subregional development banks, among others.
2 In our definition of CSR the term 'social' should be understood in the widest sense and includes both human beings and their environment. A better, but awkward, name would be Corporate Responsibility towards Society, or Corporate Social and Environmental Responsibility.
3 The World Bank produces many publications that can be found on their website www.worldbank.org/privatesector/csr. See also, the United Nations Research Institute for Social Development, UNRISD (www.unrisd.org), under Corporate Responsibility. UNRISD held a conference in November 2003 where the role of MDIs in CSR was discussed. A very good example of best practices is the recent publication: SustainAbility, International Finance Corporation and Ethos Institute of Brazil (2002) *Developing Value: The business case for sustainability in emerging markets*, London: SustainAbility.
4 The most recent one held in Panama in October 2003, had as a theme 'CSR as a Tool for Competitiveness', and presented best practices to support the business case. The Proceedings have been published by the IDB and are available at www.csramericas.org, accessed 4 April 2004.
5 The most recent e-conference was on the media and corporate responsibility. Visit their site www.worldbank.org/wbi, accessed 4 April 2004.
6 An example of intra-MDI and bilateral donors' network is the Development Agency Roundtable on CSR, held on January 2002. The report was produced by the International Institute for Environment and Development. For the report visit www.iied.org/docs/cred/cred.roundtable.pdf, accessed 4 April 2004.
7 The United Nations Industrial Development Organization, UNIDO, completed research on the implications of CSR for small and medium enterprises in developing countries (www.unido.org/userfiles/BethkeK/csr.pdf, accessed 4 April 2004.
8 For an extensive discussion of partnerships with the United Nations system and the World Bank Group see: Zadek, Simon and the staff of BSR (2002) *Working with Multilaterals*, San Francisco: Business for Social Responsibility (BSR).
9 For a comprehensive discussion of public sector roles in CSR, see the World Bank publication *'Public Sector roles in strengthening Corporate Social Responsibility'* (www.worldbank.org/privatesector/csr/doc/csrtool.userguide.pdf)

10 Needless to say, unlike some of the other roles discussed in this article, when working directly with one or several firms, the impact of MFIs is more limited than when working on an overall basis, as it affects only those firms, although by example, the impact may be extended to others.

11 Independent institutions like Social Accountability International developed a standard for compliance with international labour rights and the corresponding standard for verification of compliance. AccountAbility develops standards for measuring and reporting the social and ethical achievements of companies. The International Organization for Standardization (ISO), as of April 2004, is considering developing a CSR standard.

12 ILO published in 2002 a *Guide* for the implementation of the Tripartite Declaration (see www.ilo.org/public/english/employment/multi/download/guide.pdf, accessed 4 April 2004).

13 The equator principles can be found in www.ifc.org/equatorprinciples, accessed 27 April 2004.

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