



# A Corporate Social Responsibility (CSR) Diagnosis Module for Application in Value Chain Analysis (VCA)

Foreign Investment Advisory Service  
World Bank/International Finance Corporation

April 2006



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## Background

This report has been prepared by the Foreign Investment Advisory Services (FIAS). FIAS is a joint facility of the International Finance Corporation and the World Bank. The facility provides advice to developing country governments on competitiveness and investment promotion.

In 2003 FIAS absorbed the work of the World Bank Group's program *Strengthening developing country governments' engagement with Corporate Social Responsibility*. Part of this work involved development and application of a framework for CSR diagnosis<sup>i</sup>, designed to identify public sector roles for strengthening CSR in ways aligned with public policy and responsibilities.

More recently, FIAS has engaged in developing methodology for global Value Chain Analysis. This methodology identifies demand-side, market-driven, opportunities for industrial sectors at the country level, and benchmarks the required performance (eg to access new markets or derive competitive differentiation). The analysis then identifies supply-side constraints to realizing these opportunities. This leads to recommendations for enhanced competitiveness and inwards investment, aimed at either the firm, industry, sub-sector or public policy levels.

This report develops the original CSR diagnostic to be used as a stand-alone analysis or in conjunction with a full value chain analysis. For example, the module presented in this report can be used along with the Manual on the Value Chain Approach: Analysis to Solution Design (World Bank 2006).

# 1. Introduction

This paper provides guidance to FIAS staff, consultants and others working on Corporate Social Responsibility (CSR) projects and global Value Chain Analysis (VCA). It is targeted at the industry sector (or sub-sector) level in emerging economies and regions, in relation to international export markets. The guidance enables users to conduct a diagnosis, design solutions and quantify the implementation of CSR initiatives, with the aim of enhancing international competitiveness and promoting inward investment.

As well as functioning as a module within broader value chain analysis, the guidance can be used as a free-standing methodology for investigating the contribution of CSR practices to sector competitiveness and inward investment.

*Section 2* provides an overview of CSR in the context of VCA. In *Section 3* guidance on CSR and VCA corresponds to a series of methodological steps, as follows:

- ❑ mapping the value chain and defining the parameters of the study;
- ❑ identifying the value drivers for the analysis and scoping the potential for different CSR practices to contribute to these drivers;
- ❑ assessing the demand-side factors driving CSR through the value chain, benchmarking required performance to gain competitive advantage or enhance investment, and measuring current CSR performance;
- ❑ identifying supply-side constraints to reach the benchmarks, both a government failure and market failure perspective;
- ❑ Identifying viable CSR-based strategies and the division of responsibilities for execution;
- ❑ calculating the costs and benefits of implementing the strategies and developing performance monitoring metrics.

The checklist in *Section 4* is a quick reference guide to applying the methodology.

## **2. CSR and VCA – An Overview**

This section provides an overview of CSR in the context of VCA. Users already familiar with the material are advised to progress directly to *Section 3*.

### **2.1 Defining Corporate Social Responsibility**

We consider Corporate Social Responsibility (CSR) to be 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.

### **2.2 Value Chain Analysis**

Under the influence of globalization, the nature of production processes is changing. In the case of domestic companies producing for export markets, whereas in the past the value added in creating a manufacturing product was built around investments in materials, labor, technology and capital costs, today just as much value, if not more, is added through information, finance, quality control and orientation to customer needs, eg through research, design, quality management, relationship marketing, branding, advertising, product 'fit' (eg 'made to stock' vs 'made to order') and product-based financial services, such as warranties and maintenance contracts.

On a global scale, the geographic configuration of investment and trade has changed too. For example, some East Asian countries – Malaysia, Thailand - have become original equipment manufacturers (OEM) and/or original brand manufacturers (OBM). This has been possible due in part to 'triangle manufacturing' where buyers from the United and European States place orders within these East Asian's newly industrializing countries (NICs), who in turn shift part of their production to regional low-wage countries, such as China, Indonesia or Viet Nam. Finished goods are then shipped directly from the third country to the United States or Europe under the quota systems which apply to the exporting country.<sup>ii</sup>

Improving the competitiveness of a firm or an industry within a country now means far more than just the efficiency of production and cost reduction. Value Chain Analysis (VCA), or more accurately 'global' VCA, is about better positioning a firm or sector within the context of the global markets - finding a competitive or investment 'niche' within the full range of production and informational activities that lead a product or service from conception, through intermediary phases of production, export and distribution, to retailers, end-users and consumers, and to its disposal after use.<sup>iii</sup> It is also about identifying strategic interventions that the public sector can make to strengthen local business infrastructure and re-position regulations so that they act as a competitive advantage rather than a hindrance. CSR standards, codes and practices offer one set sub-set of opportunities for finding this type of competitive investment 'niche' within global value chains.

### **2.3 CSR Categories, Standards and Codes**

CSR issues generally fall within one of four categories: environmental, social, economic and corporate governance. *Box 1* lists some of the common categories under these headings. CSR standards, codes and practices may be individual company quality requirements (such as those expressed in purchasing and sourcing agreements), driven by consumer expectations and shareholder reputational concerns. Alternatively they may be importer codes and standards, for example, those driven by concerns over liabilities for food safety. There are also CSR codes developed by NGOs, driven by ethical principles, and adopted by mainstream buyers, such as the UK Fairtrade scheme. In recent years, due to weaknesses in both business and NGO-led codes, consensus-based (often multi-stakeholder-driven) codes and certification schemes have developed. The ILO labour standards, ISO environmental standards, the Ethical



Trading Initiative Base Code (see *Box 1*), Forest Stewardship Council and Social Accountability SA 8000 are examples.

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**Box 1 Categories of CSR Standards, Codes and Practices**

<b>Economic</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Monetary flows to the public sector</li> <li><input type="checkbox"/> Employment and human resource development</li> <li><input type="checkbox"/> Procurement and supply chain management</li> <li><input type="checkbox"/> Technology transfer and intellectual property rights</li> </ul>	<b>Social</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Health and safety of employees</li> <li><input type="checkbox"/> Labour standards and working conditions</li> <li><input type="checkbox"/> Corruption and bribery</li> <li><input type="checkbox"/> Human rights</li> <li><input type="checkbox"/> Violence and conflict</li> <li><input type="checkbox"/> Social impact assessment and management</li> <li><input type="checkbox"/> Community and stakeholder engagement (non-commercial)</li> <li><input type="checkbox"/> Charitable giving</li> <li><input type="checkbox"/> Social/community investment</li> <li><input type="checkbox"/> Social reporting and management systems</li> </ul>	<b>Corporate Governance</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Rights and treatment of shareholder</li> <li><input type="checkbox"/> Governance policies and business principles</li> <li><input type="checkbox"/> Information disclosure and reporting</li> <li><input type="checkbox"/> Responsibilities of the Board</li> <li><input type="checkbox"/> Customer/end-user care</li> </ul>
<b>Environment</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Environmentally safe production, products and services</li> <li><input type="checkbox"/> Resource and energy efficiency</li> <li><input type="checkbox"/> Environmental impact assessment and management</li> <li><input type="checkbox"/> Environmental reporting and management systems</li> </ul>		

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Further layers of CSR standards and codes are industry-based, such as the EUREPGAP code developed by European retailers for food safety and good labour practices, or the ‘Kimberly process’ for diamonds. Others are driven by an industry or sector within a specific country, such as the Zambia Export Growers Association (ZEGA), which covers labour rights, working conditions and worker housing.

There are also legal and regulatory CSR standards and voluntary codes exercised within importer countries, eg on food health and safety and product labeling, and within export countries, eg national requirements for environmental protection and workers rights. CSR standards and codes may also be included as part of government investment and competitiveness incentive policies and programmes, such as the requirements for increased vocational training and labour standards linked to financial grants, fiscal/tax holidays, regulatory exemptions and participation in Export Processing Zones (EPZs). Some financial institutions such as stock-market listings and commercial and ‘development’ banks also carry their own CSR requirements, and these can influence inward investments and competitiveness. Finally, there are internationally recognized principles and CSR standards to which exporter and importer countries may be signatory, such as the OECD Multi-National Enterprise Guidelines,

## 2.4 CSR within Value Chain Analysis

In the context of broader global value chain analysis, consideration of CSR factors is likely to fall within the following areas of investigation: (i) market entry for developing country firms into global value chains dominated by firms in developed countries, (ii) quality enhancement of production and (iii) consumer-orientation to create new ‘niche’ markets. There may also be some linkage with productivity efficiency, for example in relation to worker health, skills and recruitment, and quality enhancement.

In order to assess the opportunities and costs of adopting CSR as a pathway to improved competitiveness and/or inward investment, it is necessary to look closely at which stakeholders are most influential in the value chain. Who governs the chain and sets the CSR rules? This could be stakeholders both internal and external to the industry on question. Internal stakeholders might include retailers, buyers, distributors, importers, exporters, producers, export/producer associations, local traders, raw material producers. External stakeholders include exporter country regulators, importer country regulators, policy makers (exporter or importer country), worker organisations, NGOs and the media.

International buyers, importers, distributors (and some large-scale producers) are increasingly influential across global value chains. This is either because of their own requirements for continuous improvements in the service and quality of suppliers (of which CSR standards and codes may form part), or because they have signed up to a voluntary set of CSR standards or codes developed by others (NGOs, governments, multi-stakeholder forma etc.).

The value chain for coffee illustrates the importance of unilateral CSR requirements. This industry has undergone a shift in recent years from governance by the large producer countries, based on quotas, to governance by importing countries, driven by individual multinational buyers.<sup>iv</sup> Examples of buyers adopting CSR codes developed by others includes the certification of 'blood' diamonds under the 'Kimberly process', and multinational tea packers who have agreed to require their suppliers to adhere to a code of conduct developed by the Ethical Tea Partnership.

In each of these cases, the competitiveness and investment case for developing country supplier firms and sectors in meeting CSR standards is built around the desire to either access new markets or maintain (or extend) existing contracts.

Yet many markets and commodities are not yet covered by such 'blanket' CSR standards or codes of conduct. For example, some commodities are unidentifiable in the end product, ie are not 'traceable', and therefore are not easy to monitor in terms of the environmental or labour standards used by individual suppliers. Vegetables in ready-made food is a case in point.

Likewise, the labour standards of small-scale producers and micro-enterprises are rarely covered by existing codes, for example, in cases where a multitude of micro enterprises and small family firms provide ancillary services to manufacturing or agri-processing units. This is due primarily to the costs involved of implementing compliance measures and a lack of capacity for CSR monitoring, auditing, recording and communicating compliance at this micro level. It is also a consequence of the sometimes poor fit of 'factory-driven' standards and codes with the realities of micro and small enterprises, where, for example, compliance with child labour standards may mean prohibiting a key input to the livelihood of a household.

These gaps and constraints in CSR coverage offer an alternative set of competitiveness and investment opportunities. Countries, producers or producer associations may be able to use CSR practices as a means to differentiate themselves from their competitors and position themselves as 'preferred suppliers'. For example, in South Africa, in the forestry sector, local firms unable to prevent global buyers such as IKEA from switching to Asia suppliers, have (with support from government) shifted to certified wood, enabling them to access the growing sustainable wood market. Likewise, the Kenya Flower Council, following international scrutiny for labor practices in the cut flower export business, is positioning itself within Dutch Auctions 'niche' markets. The Dutch Auctions in the Netherlands do not require labour or environmental codes. This allows Kenyan producers (with 66% of the country's exports going to the auctions)<sup>v</sup> to promote their voluntary adoption of the 'MPS' environmental and labour standards as a competitive advantage.<sup>1</sup>

Further, new levels of awareness by consumers in the developed economies on issues of biodiversity, global warming, human rights and poverty reduction (and the reputational risks this poses for branded multi-national companies) offer firms and government agencies opportunities to build or catalyze entirely new markets. For example, some tea firms have their own code, such as the Premier Beverages label based on the labour standards of the Ethical Trading Initiative, which then allows the firm to command a price premium. Likewise, a group of coffee producers are now differentiating themselves by marketing 'eco-friendly, shade-grown' coffee. In the extractive industries sector, domestic engineering companies are pro-actively seeking to help their international oil company clients find solutions to reduce carbon emissions. Those that do may well find themselves in an uncontested market space.

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<sup>1</sup> MPS – Floriculture Environmental Protection certification, a combined environmental and labour code, initially based on environmental standards for pesticide and water use, but later expanded to include core ILO standards and parts of the Universal Declaration of Human Rights.

These types of CSR opportunities are also relevant where buyers are the public sector, rather than private sector: international development assistance agencies and government ministries. In many low-income countries and regions, for example, the local private engineering company that is the first to develop commercially viable water or energy supply technologies for peri-urban and rural households, may also find itself in uncontested market space, able to attract public sector contracts and subsidized finance ahead of its competitors.

CSR regulations, standards and codes are also adopted or promoted by governments as part of policy to increase inward investment. One example is the role of CSR in Export Processing Zones (EPZs). EPZs are industrial zones offering free trade conditions, quality infrastructure, a liberal regulatory framework and other incentives, sometimes to compensate for bad fundamentals elsewhere in the country. In some cases, building labour standards into the terms of EPZ participation serves to attract more inward investment.<sup>vi</sup>

An illustration of how CSR factors might be incorporated into Value Chain Analysis is given in Box 2.

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**Box 2 Incorporating CSR Factors within Value Chain Analysis for Textile and Clothing Sector – a hypothetical illustration**

A major branded buyer in a textile and clothing value chain has sufficient commercial incentive to ensure that the products it sells fulfils a range of voluntary environmental and labour standards. Without these standards the buyer might not be able to sell its products, or if it does, carry substantial brand reputation risks. In other words, the market driver for the CSR standards is 'strong'. The buyer searches for efficient suppliers, including those operating in developing countries. The search is for supplies with the right type of quality garments, able to deliver within the right time frame, 'and' those who can fulfil the buyer's CSR requirements.

Local firms that do not meet these CSR standards may lose out on business, and countries supporting a garment sector may lose out on the opportunity to attract investment and generate employment. The main questions that will need to be asked by firms, the industry/sector and the government include:

- ▶ how much the current practices are deviating from the required CSR standards?
- ▶ why there is a gap between current and required standards buyers?
- ▶ how to close the gap, either through the actions or government or the firm, or both?
- ▶ whether it is efficient to close this gap, ie the net benefit of investment in higher standards, both for the firm and for achieving public policy.

This focus on net benefit is important. In some cases garment assembly firms may, for example, work with governments to invest in introducing labour standards and thereby improve competitiveness and attractive foreign direct investment. In other cases, the cost benefit calculation of meeting the new standards may yield a net negative return. In these circumstances the firm may elect simply to keep on producing for its current markets. Alternatively, a positive cost benefit ratio (ie a positive Internal Rate of Return) may arise because CSR standards assure that a firm has access to new markets through the global value chain (e.g. firms in China), or because engaging with global value chains will raise output quality or productivity (ie a simple order for certain types of garments may in itself involve learning on the side of the assembler).

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### 3. Value Chain Analysis – CSR Module

The following guidance is aimed at specific industry sectors in emerging economies and regions, in relation to international markets. The guidance can be used both as a module within a broader Value Chain Analysis, or a free-standing methodology for investigating the contribution of CSR practices to sector competitiveness and inward investment.

This module is divided into the following methodological steps:

*Step 1* map the value chain and define the **parameters of the study**

*Step 2* identify the **value drivers** for the analysis and conduct an initial investigation into the potential for different CSR categories to add value.

*Step 3* detail the **demand-side factors** driving CSR through the value chain, benchmark required performance to gain competitive advantage or enhance investment, and measure current CSR performance.

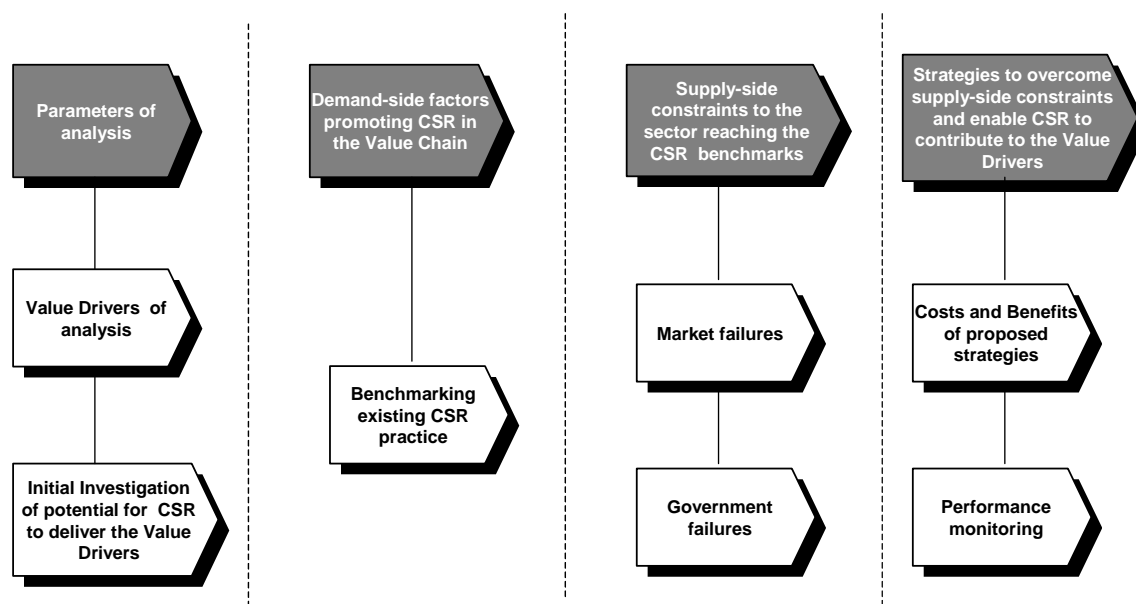
*Step 4* identify **supply-side constraints** to reaching the benchmarks, from both a government failure and market failure perspective.

*Step 5* identify viable **CSR-based strategies** that overcome these constraints and the division of responsibilities for execution.

*Step 6* calculate the **costs and benefits** of implementing the strategies and put in place performance monitoring **metrics**.

These steps are described in *Sections 3.1 to 3.9*, and illustrated in *Figure 1*. Each Section begins with the stated objective of this phase of the methodology, and is followed by a description of the key tasks that need to be undertaken. Illustrations are provided.

**Figure 1** CSR Module for application in Value Chain Analysis – Overview



### 3.1 Step 1: Value Chain Mapping<sup>2</sup>

#### Objectives

- ❑ **Develop a value chain map**
- ❑ **Establish the parameters of the analysis**

#### Tasks

1. Define which industrial **sector or sub-sector** is to be the unit of analysis.
2. Identify the principal **functions** (stages, nodes etc.) in the value chain for the sector or sub-sector, both domestic and cross-boarders. Examples include:
  - ❑ materials (eg land ownership, growing, mining)
  - ❑ collection, local trading
  - ❑ processing, production
  - ❑ packaging, assembly, fabrication
  - ❑ exporting
  - ❑ importing, distribution
  - ❑ product research and development
  - ❑ product design
  - ❑ marketing (commodity markets, market research, relationship-marketing, branding, advertising)
  - ❑ stocking, wholesale
  - ❑ retail (sales, sales 'experience', supporting financial products, warranties, maintenance and service contracts etc)
  - ❑ consumption by end-users
  - ❑ disposal and recycling
3. **Quantify** the routes (ie flows of goods and services) within the value chain map, for example by volume (actual, proportion etc.) or by value (revenues, profit etc.). (see *Figure 2*).
4. Overlay on the map the principal **stakeholders** who influence each stage or node in the chain, both those internal and external to the value chain.

Internal stakeholders may include:

- ❑ end users and customers
- ❑ retailers
- ❑ distributors
- ❑ importers/trading companies
- ❑ producers
- ❑ export/producer associations
- ❑ local traders/collectors
- ❑ raw material producers
- ❑ key competitors (throughout chain)

External stakeholders may include:

- ❑ exporter country regulators
- ❑ importer country regulators
- ❑ public policy makers (exporter or importer country)
- ❑ worker organisations
- ❑ NGOs and the media
- ❑ development assistance agencies

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<sup>2</sup> This step may be skipped if already completed under a broader Value Chain Analysis.

- ❑ export promotion agencies
  - ❑ science and technology institutions
  - ❑ local government
5. Categorise and **prioritise** stakeholders in terms of their level of governance and co-ordination over the value chain. For example, divide stakeholders into:
- ❑ who makes the rules that govern business practice;
  - ❑ how influential the rules are across the whole value chain, ie how interconnected is the chain and who controls the main points of leverage (see *Box 3*)
  - ❑ who manages implementation of the rule; and
  - ❑ who ensures conformity with the rules

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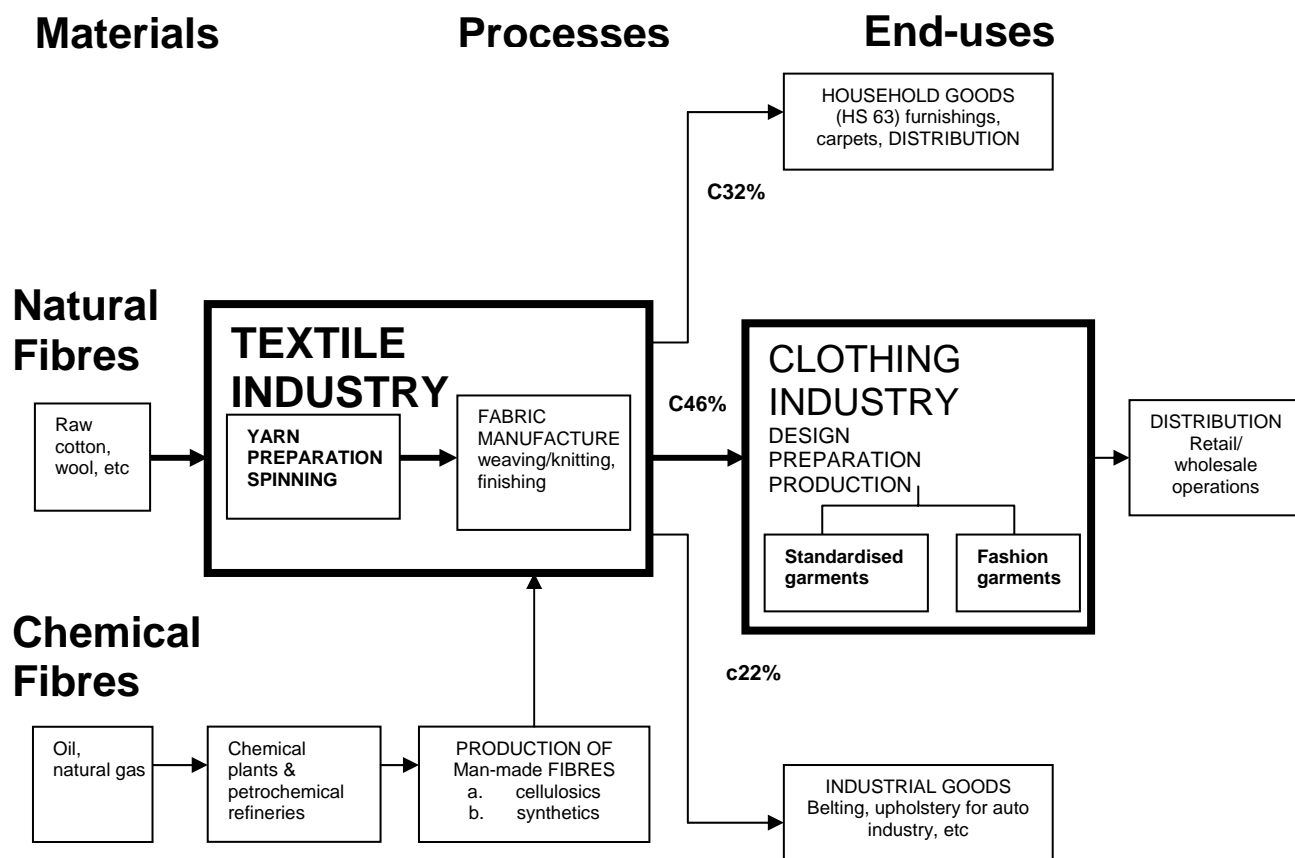
**Box 3    Leverage over the Value Chain<sup>vii</sup>**

The leverage of stakeholders over a chain depend on a number of factors. Generally chains tend to be more integrated (or have the potential to be more integrated), with greater influence of buyers and large producers where:

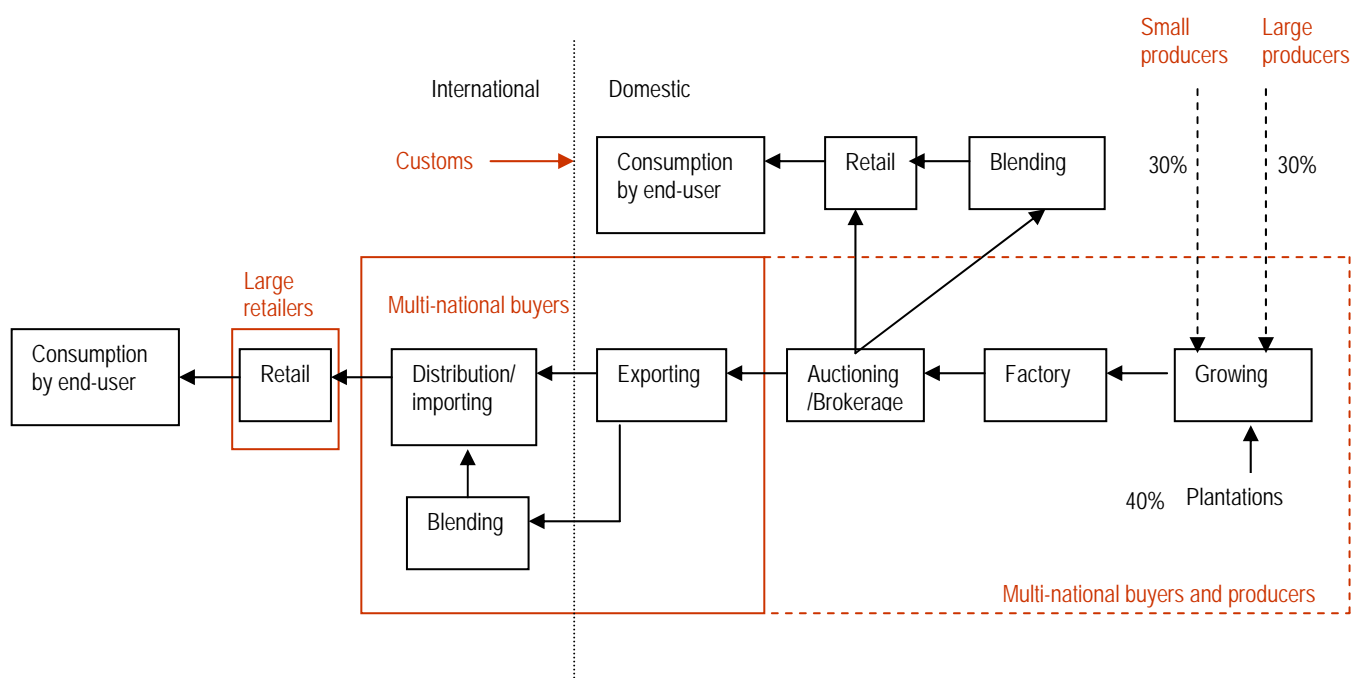
1. chains are short, ie where there is little separation between producers, distributors and retailers;
  2. it is possible to trace the source of raw materials;
  3. a commodity is clearly identifiable within an end-product;
  4. a small number of retailers dominate the sector;
  5. for commercial or legal reasons businesses must work closely together (such as in the case of quality or premium products).
- 

6. **Grade** the influence of each stakeholder in terms of high (H), moderate (M) or low (L) level of governance.
7. Based on this mapping, **define the parameters of the analysis** for investigating the role of CSR in the value chain in terms of the sector (sub-sector), geography, number of links and nodes and priority stakeholders.
8. Where necessary, condense and **simplify** the map to foster a manageable process of value chain analysis.

**Figure 2** *A Global Value Chain Map for Apparel (clothing industry)<sup>viii</sup>*



**Figure 3** *A Global Value Chain for Tea*



## 3.2 Step 2: Value Drivers<sup>3</sup>

### Objectives

- ❑ **Identify the competitiveness and investment ‘value drivers’ for undertaking the analysis**
- ❑ **Undertake investigation of the potential for different CSR categories to play a material role in supporting the value drivers.**

### Tasks

1. Identify the broader **value propositions** driving analysis of the chain. Critically, what aspects of competitiveness or investment is the government agency, industry association or firm interested in achieving? Consider both private sector and public sector value drivers, and where there might be potential alignment between the two, ie such that the public sector could justify playing a value-enhancing role.

Examples of value drivers for a sector-sub sector or other component of the value chain include the following:

#### Business value drivers

- ❑ business expansion
- ❑ upgrading (expanding operations into new parts of the value chain)
- ❑ improved operational risk management
- ❑ improved productivity efficiencies
- ❑ reduced human resource costs
- ❑ access to new markets
- ❑ continued access to existing markets
- ❑ creating new markets
- ❑ new branding & marketing strategies
- ❑ exploiting new PPP opportunities

#### Government value drivers

- ❑ macro economic and fiscal objectives, including tax revenue
- ❑ higher volumes or quality of foreign direct investment
- ❑ employment creation
- ❑ employment quality
- ❑ improved business infrastructure
- ❑ meeting of commitments to productive public investment
- ❑ enterprise development
- ❑ human, vocational and skills development
- ❑ improved pro-poor earning opportunities
- ❑ improved access for the poor to public services
- ❑ free-up government resources to devote elsewhere
- ❑ improved environmental standards/targets

2. **Prioritise** the main value drivers.
3. Undertake an **initial investigation** of the potential for different categories and sub-categories of CSR to play a material role in supporting these value drivers. *Figure 4* provides a framework for guiding the investigation and summarising the results. Some examples of the role of CSR in improving competitiveness and/or investment include the following:
  - ❑ complying with new CSR standards might enable firms to access to markets or sustain access to existing markets;

<sup>3</sup> If this module is being applied as part of a broader value chain analysis, the key value propositions for the study may have already been identified.



- ❑ certain CSR practices might reduce risk-related insurance premiums (most commonly by reducing the number or amount of claims);
- ❑ energy efficiency might introduce savings on overheads;
- ❑ higher labour and working standards might contribute to reduced staff turnover, injuries and worker disputes;
- ❑ certain local procurement policies might allow for brands to be repositioned and new 'niche' markets be developed;
- ❑ improved stakeholder engagement processes and pro-poor products and services might improve competitive differentiation when bidding for public procurement contracts or engaging in public-private partnerships

4. **Prompts** to use in the investigation include:

- ❑ Which CSR standards, codes or practices already adopted in the value chain might be strengthened (ie 'raising the bar')?
- ❑ Which aspects of existing CSR standards, codes or practices in the value chain could be achieved more cost-effectively, or could be eliminated?
- ❑ Which wholly new CSR standards, codes or practices could be introduced into the value chain (see Annexes A and B)?
- ❑ What other modifications to production processes etc. are likely to contribute greater net benefits than implementing these new CSR standards, codes or practices?

**Caution:** *this initial investigation is an important step. Without it there is the danger that analysis of CSR standards, codes and practices will be limited to those already known to have influence in the value chain, principally standards that foster, or sustain, market assess. Omitted will be a creative search for how a raising of CSR standards, or creation of new types of standards and codes, might enable export sectors and sub-sectors to (i) improve their productivity, (ii) find new 'niche' markets, (iii) create wholly new markets, or (iv) attract new investment.*

**Figure 4** Framework for an Initial Investigation of the Potential for CSR to Contribute to Value Drivers in the Private and Public Sector

CSR Categories	Private Sector drivers								Public Sector drivers								
	improved operational risk management	improved productivity efficiencies	reduced human resource costs	access to new markets	continued access to existing markets	creating new markets	new branding & marketing strategies	new PPP opportunities	macro economic and fiscal objectives	higher volumes or quality of foreign direct investment	employment creation	improved business infrastructure	meeting of commitments to productive public investment	enterprise development	human, vocational and skills development	improved pro-poor earning opportunities	improved access for the poor to public services
Weightings for Drivers (High; Moderate; Low)																	
Economic																	
Monetary flows to the public sector																	
Employment and human resource development																	
Procurement and supply chain management																	
Technology transfer and intellectual property rights																	
Environment																	
Environmentally safe production, products and service																	
Resource and energy efficiency																	
Environmental impact assessment and management																	
Environmental reporting and management systems																	
Social																	
Health and safety of employees																	
Labour standards and working conditions																	
Corruption and bribery																	
Human Rights																	
Violence and Conflict																	
Social impact assessment and management																	
Community and stakeholder engagement (non-commercial)																	
Charitable giving																	
Social/community investment																	
Social reporting and management systems																	
Corporate Governance																	
Rights and treatment of shareholder																	
Governance policies and business principles																	
Information disclosure and reporting																	
Responsibilities of the Board																	
Customer/end-user care																	

### 3.3 Step 3: Demand-Side factors

#### Objectives

- ❑ **Develop a value chain map**
- ❑ **Establish the demand-side factors promoting CSR in the value chain**
- ❑ **Benchmark the CSR performance required to access, maintain or create new markets or attract inward investment**
- ❑ **Measure current CSR performance in the sector against the benchmarks**

#### Tasks

1. Drawing on the results of the initial investigation, identify the **specific international, national and market CSR standards**, codes, principles, regulations, practices etc relevant to the analysis. A typology of CSR standards, codes and practices are given in *Box 4*. CSR standards specifically relevant to value chains in the apparel, agri-business and tourism sectors are given in *Annexes A1, 2 and 3*.
2. Once the relevant specific CSR standards, codes or practices are identified, determine the relevant **benchmark**. Benchmark standards are those CSR performance thresholds at which sectors, sub-sectors or individual firms secure material and measurable progress against the value drivers prioritised in Step 2.
3. As far as practicable, identify the key elements that comprise the benchmark, and **quantify**. These may include:
  - ❑ *quantitative thresholds*, eg ambient environmental levels from production processes, toxin levels in exported produce, percentage of national workers employed, working hours, number of inspections per year
  - ❑ *qualitative thresholds*, eg no discrimination in hiring on basis of gender or political affiliation, no sexual harassment
  - ❑ *management thresholds*, eg, independent auditors accredited by particular institutions
4. Measure the **current performance** of the sector, sub-sector or other defined component of the value chain against the benchmark.
5. **Classify** the sector, sub-sector or other component of the value chain in relation to the extent to which both the benchmark standards and nationally recognised standards are currently being met. If time or resources are limited, bring together a panel of relevant experts to inform the categorisation.
  - ❑ **Rn – resisting** – sectors/sub-sectors consistently and knowingly failing to meet minimal legal and regulatory CSR compliance requirements.
  - ❑ **Dn – deficient national compliance** – sectors/sub-sectors consistently, but unintentionally, failing to meet minimum legal and regulatory requirements for CSR performance, for reasons either due to a lack of awareness, lack of in-house capability or resources, or weaknesses in the regulatory inspection and enforcement regimes.
  - ❑ **Sn – successful national compliance** – sectors/sub-sectors that generally limit their corporate and social responsibilities to meeting the minimum legal and regulatory requirements of the host country, but which demonstrably succeed in meeting these standards.

- ❑ **Db – deficient benchmark compliance** – sectors/sub-sectors that generally meet national CSR standards, but are failing to meet benchmark standards relevant to securing advantage in the value chain.
  - ❑ **Sb – successful benchmark compliance** – sectors demonstrably succeeding in meeting benchmark standards relevant to securing advantage in the value chain.
  - ❑ **I – innovation** – sectors experimenting with novel approaches to exercising social responsibilities to advantage in the value chain.
6. **Quantify the gap** between the current performance and the benchmark standards. Note that for **Dn – deficient national compliance**, the 'gap' may be calculated as 'zero', but a CSR strategy will still be needed to enable the firm or sector to meet the required standard.

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#### **Box 4 Types of CSR Standards, Codes and Practices**

##### **National CSR standards**

- ▶ *National legislation* – frequently the environmental and social standards required by markets, are the same or similar to those already required by national laws, which in many cases are not being met or enforced. This includes: occupational health and safety legislation in the workplace, labour standards, anti-corruption and bribery laws, tax breaks for charitable giving, product and consumer safety and duty of care, environmental protection legislation, environmental impact assessment requirements, export and excise requirements, rights and treatment of shareholders, requirements for disclosure of company information etc.
- ▶ *Business start-up CSR standards* – these are the minimum national environmental, social and corporate governance standards that newly established firms would need to meet to operate within a country and to enter domestic markets.
- ▶ *Business expansion CSR standards* – firms that wish to grow may come up against new national CSR standards that were not applicable when smaller. Specific thresholds may apply, such as the need for a formal Health and Safety policy if shifting from contract to permanent employees. Alternatively, it may be that growth means taking on new assets or processes that carry certain environmental or safety requirements.
- ▶ *Investment promotion* – in some jurisdictions, firm eligibility for the benefits of locating within enterprise zones or Export Processing Zones, or receiving tax credits etc, may include compliance with certain regulatory CSR standards or codes.

##### **International CSR standards**

- ▶ *Trade-related CSR standard* – the eligibility criteria for joining quota and other preferential trade schemes may involve CSR standards. For example, in June 2005 the EU adopted the special incentive arrangements for sustainable development and good governance within its Generalised System of Preferences (known as the "GSP Plus").<sup>ix</sup> This provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection (Reg No. 980/2005). GSP plus will apply 27 key international conventions on sustainable development and good governance (including the Kyoto Protocol on global warming, Cartagena Protocol on GMOs).
  - ▶ *Stock market listing requirements* – the growth strategy of some larger firms in emerging markets is to achieve a listing on the domestic, or on other country's, public stock market. Increasingly, stock markets require the periodic publication of CSR information around social and environmental risks and performance.
  - ▶ *Socially responsible investment (SRI) funds* – the investment criteria of some large pension funds and insurers now include environmental, social and corporate governance standards. For example, pension funds and insurers now own 70% of the top 1000 US companies, pushing higher corporate responsibility standards in global sourcing and investment.
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- ▶ *International Principles* – many countries are now signatories to international conventions, codes and principles on environmental, social, economic and corporate governance, or are exporting to countries who are signatories. Examples include: UN Heritage (which can affect tourism sector), ILO conventions (which can affect the apparel sector) and the Extractive Industries Transparency Initiative (EITI) principles for transparency in payments and receipts of non-renewable natural resource revenues.

#### **Market-based CSR standards**

- ▶ *Buyer CSR sourcing criteria* – CSR standards and practices of buyers and purchases on environmental quality and labour rights are frequently incorporated into purchasing agreements. For example, in the early 1990s, sweatshop allegations lead to branded manufacturers in the apparel industry revamping their labor and environmental standards to avoid worldwide consumer boycotts and media attention.
  - ▶ *Tendering criteria* – more generally, public sector and private sector clients may include CSR standards as part of tender pre-qualification requirements, within in tender documents, as criteria for evaluating competing bids, or as terms of contract.
  - ▶ *Project finance requirements* – CSR standards may be required of firms seeking project or corporate financing or insurance from commercial and development banks. For example, in June 2003, the IFC developed the *Equator Principles*, a voluntary set of guidelines for commercial banks to manage environmental and social issues in project finance lending. The principles have now been adopted by 34 financial institutions, representing 80% of project finance to emerging markets.
  - ▶ *CSR standards in joint ventures* – part of the competitiveness or growth strategy of smaller, junior firms, may be to enter into joint equity ventures with larger domestic or international companies. For the principal partner/s, the joint venture may carry reputational and operational risks if the junior firm has lower CSR standards. Meeting these higher CSR standards may thus form part of JV agreements.
  - ▶ *Local community expectations for CSR* – moving into new countries or regions may offer firms a competitive advantage, eg to extract lower cost minerals, or access cheap labour. However, the communities resident in the area, especially if rural and economically deprived areas, may have very different expectations of what constitutes acceptable social responsibility by the relocating firm. This may include expectations around employment opportunities, security arrangements and environmental pollution. Though these standards may not be so directly relevant to international buyers, they may be relevant to the firm staying in business.
  - ▶ *End Customers and the media* – the purchasing decisions of end customers (and the way in which these decisions are influenced by the media) may not exactly match the sourcing criteria applied by large buyers or distributors. Understanding the CSR priorities of the very end users may be one way to access new markets, or influence buyers to change or raise their CSR standards so creating opportunities for competitive advantage.
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### 3.4 Step 4: Supply-Side Constraints

#### Objective

- ❑ **Identify key supply-side constraints to reach the benchmark standards**

#### Tasks

1. For those CSR standards considered material to competitiveness or investment aims, identify the key supply side constraints to the sector either achieving the benchmark standard or innovating to develop competitive differentiation. Consider both market failures and government/public sector failures.
2. For constraints from a **market failure perspective**, key lines of enquiry include the following:
  - ❑ To what extent are firms in the sector fully aware of the potential value of improving CSR standards and practices on firm performance?
  - ❑ What key market information is missing, and where is the constraint (eg within firms, between firms, within industry associations)?
  - ❑ Are there common weaknesses in firm policy and policy execution across the sector?
  - ❑ How effective are the CSR management systems within the sector; can they be trusted by buyers, financiers and end users to deliver the benchmark standards?
  - ❑ If the nature of the sector is fragmented and/or highly competitive, how much of a barrier is this to co-ordinating a unified response across the sector?
  - ❑ If the nature of the domestic sector or sub-sector is highly monopolistic (eg with a handful of key producers, exporters or family firms, and captured domestic markets) how much of a barrier is this to raising CSR standards to access new international markets? To what extent are certain firms in the sector holding back the rest of the sector.
  - ❑ What specific resource, organizational or skill constraints exist within the sector with respect to meeting the CSR benchmark standards:
    - affordability to implement the standard or code, eg raising wages to a 'living wage'
    - communicating the requirements for meeting standards to suppliers
    - monitoring and recording compliance
    - paying for auditing
    - communicating compliance to the relevant parties up and down the value chain (including customers, media, investors etc.)
  - ❑ What is the availability of accredited, private sector, auditors within the country?
  - ❑ What weaknesses exist in the capacity of civil society and the media to play a credible oversight role in CSR implementation and monitoring?
3. For constraints from a **government and public sector/public policy failure**, key lines of enquiry include the following:
  - ❑ Are current national CSR regulatory requirements adequate to meet benchmarks, and implemented efficiently and ubiquitously across the sector, eg are permitting requirements for health and safety or environmental clearance prohibitively time

consuming and/or outdated. In essence, can national CSR standards be trusted by buyers, financiers, end users to deliver market requirements?

- ❑ Are there regulatory inefficiencies, such as under-staffed or under-resourced government inspectorates and (public or private) auditors;
- ❑ What are the current investment, human resource and technology policies for this sector, and are they designed to assist the sector to improve its CSR performance towards the benchmarks?
- ❑ Are trade policies (e.g. tariffs, quotas) working against firms meeting the benchmark standards?
- ❑ Are there inappropriate domestic competition and investment policies at work that introduce perverse incentives, constraining progress towards benchmark standards, eg relaxed regulatory regimes in Export Processing Zones?
- ❑ Are there infrastructure deficiencies that constrain efforts to meet benchmarks, eg water quality in food processing, or road transport to support eco-tourism?
- ❑ What non-regulatory institutional capacity constraints are material?

## 3.5 Step 5: Strategies

### Objective

- ❑ **Identify strategies to overcome the constraints and achieve value-enhancing CSR benchmarks**

### Tasks

Knowing the demand-side requirements and the supply-side constraints allows new CSR-based competitiveness and investment strategies to be considered, which deliver on the value drivers for business and government identified in Step 2.

1. Identify **strategies** for how CSR practices might be changed to enhance competitiveness or investment. Consider bringing together panels of experts to explore different strategies.
2. Assess the strategies in terms of their contribution to the original value drivers and propositions, both for the private and public sectors.
3. Strategies may comprise actions by one set of stakeholders, eg producers; or may require coordinated actions by a number of parties, eg producers, producer association and government export promotion agency. Identify the **key actions** and the relevant **resourcing and implementing parties**.
4. Examples of strategies for governments and public agencies to adopt in supporting improvements in different aspects of CSR are given in *Annex C*. These comprise four basic types:
  - ❑ *Mandating* – laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations
  - ❑ *Facilitating* – incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue and publicity and praise (the public sector will not always be the lead agency in executing these activities)
  - ❑ *Partnering* – combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices
  - ❑ *Endorsing* – showing public political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' (demonstrating) through public sector procurement practices.
5. Assess the unintended consequences and risks of implementing the strategy, and mitigate where appropriate. For example:
  - ❑ closing-off other current or future markets, eg due to higher production costs;
  - ❑ reducing the available resources from government or donors to support those producers not involved in the scheme or strategy; and
  - ❑ increasing international media attention on those parts of the sector not able to reach the new standards.



## 3.6 Step 6: Costs and Benefits

### Objectives

- ❑ **Reach a decision on the costs and benefit of implementing the strategies**
- ❑ **Put in place performance monitoring metrics**

This section is illustrated by a hypothetical case-study from the value chain for tea production and export (see Box 5).

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#### Box 5 Hypothetical case-study from the tea production and export sector

A value chain map has been prepared for the tea export sector of a particular country (refer to *Figure 1* Section 2.1). Large producers (> 100 employees) account for 50,000 of all those employed in the sector (full-time equivalent). Small producers (<100 employees) for 100,000 employees.

The large-producer sub-sector currently generates a combined pre-tax profit of \$100 million, of which 60% is derived from international buyers who are members of the Tea Buyers Partnership (TBP). The smaller producer sub-sector generates roughly the same pre-tax profits, but only 30% (\$30 million) of this is derived from TBP members. The Tea Buyers Partnership is a not-for-profit organisation based in London supported by a large number of multi-national tea producers and distributors.

The government export promotion agency and an industry association are working with both sets of producers to develop and assess different CSR-based strategies to enhance export competitiveness.

One of the strategies under consideration is to enhance labour standards across the sector. TBP are planning to raise their labour code to be in alignment with the Base-Code of the Ethical Trading Initiative. All TBP members are committed to implementing the new code.<sup>x</sup> The challenge, and the opportunity, is for producers in the country to raise their own labour practices to this new benchmark. Without this strategy local producers are likely to lose the current 'preferred supplier status' they enjoy with TBP members.

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It will not always possible to calculate the financial (present value) costs and benefits of implementing CSR strategies. For example, whilst measuring changes in minimum wages is relatively straight forward, calculating the financial effect of *cost shifting* (ie higher costs of labour practices passed not to buyer but to local suppliers) is problematic without considerable supply chain analysis. A pragmatic approach is needed. Certain rules of thumb apply, as follows:

- ❑ select readily **measurable indicators** for costs and benefits (financial, monetized, quantitative and/or qualitative). For the financials calculate **present value** for projections beyond one year.
- ❑ make explicit any assumed **proxy indicators** and any indirect measurements, eg using shadow pricing, extrapolations etc.
- ❑ provide an indication of the **level of dependency** of the attributed benefit (eg increased pre tax earnings) on factors lying outside implementation of the proposed CSR strategy, such as meeting other quality requirements of buyers.
- ❑ identify the **level of confidence** in the results of the calculations.

Key tasks in calculating the costs and benefits of CSR strategies are as follows:

1. Establish the '**without strategy**' (baseline) scenario, and quantify, eg what is the Discounted Cash Flow of the firm, sector or sub-sector if the CSR project does not go ahead; and what non-financial (eg reputational) benefits will be secured?

2. **Calculate the costs** of implementing the strategy to deliver the required CSR benchmark standards. Costs may be financial or monetised. Keep these separate. Financial costs should be discounted to present day value, based on a defined accounting period. A simplified set of cost variables for each stakeholder are:

- ☐ Exceptional (non-capital) costs, eg **awareness raising** of the new CSR requirements
- ☐ Capital costs of CSR initiative, eg **equipment, infrastructure**
- ☐ Recurrent costs of **monitoring and recording** compliance
- ☐ Recurrent **verification** costs (eg firm, inspectorate or 3<sup>rd</sup>-party auditing)
- ☐ Recurrent costs of **communicating compliance**
- ☐ Indirect costs and costs of **unintended consequences**

Costs may be born by different stakeholders in the value chain, and internal and external to it, including:

- ☐ **Firm level stakeholders**
  - *real direct costs*, eg increased minimum wage
  - *real indirect costs*, eg lost or improved productivity
  - *monetised costs*, eg lost management time/opportunity costs
- ☐ **Country level/sector stakeholders**
  - *cost shifting*, eg higher costs of labour practices passed not to buyer but to local suppliers
  - *eroding comparative advantage*, eg higher costs of labour practices reduces attractiveness of whole sector within the country to buyers
  - *rationalisation*, eg once one firm reaches higher labour standards, buyers press for rationalisation of industry to assure economies of scale
- ☐ **Public sector stakeholders**
  - *direct costs*, eg increased cost of inspections
  - *indirect costs*, reduced budget for other sectors
  - *monetised costs*, eg transaction costs

*Table 1* is a hypothetical illustration of some of the costs involved in enabling tea producers to adhere to the labour requirements of supermarket buyers who are members of the Tea Sourcing Partnership (whose CSR standards are derived in part from the Ethical Trading Initiative base code).

3. Identify **indicators** for calculating the benefit (outcomes) of adopting both the proposed strategy and conducting business-as-usual. The same set of indicators must be relevant to both scenarios. Indicators may be financial, monetised, quantified and/or qualitative. They might include:<sup>xi</sup>

- ☐ **Firm level benefits** (private sector benefits) – eg cost of labour; staff turnover; insurance costs; annual ROI on CSR-based marketing campaigns; annual number of positive media articles; results of investor or customer satisfaction surveys etc.
- ☐ **Public sector net benefits** (public goods) – eg current progress against public policy or development targets (eg MDGs); available skill levels across a sector; corporate tax revenues from the sector

4. Predict the **gross benefits** (present value for financials) of implementing the strategy, over a defined accounting period. (see *Table 2 for illustration*)
5. Calculate the anticipated **cost-benefit** (net benefit) of each strategy. (see *Table 3*)
6. Incorporate an indication of '**level of confidence**' in calculation of net benefit (quantified if possible, qualitative where not).
7. Incorporate an indication of the extent to which the anticipated net benefit is dependent on the effective implementation of **complementary strategies** (quantified if possible, qualitative where not).
8. **Compare** net benefit of different CSR strategies to determine priorities (see illustration in *Figure 5*).
9. If conducting full value chain analysis, compare the most favourable CSR-based strategies to other (non-CSR) market and factor strategies to improve competitiveness or inward investment.
10. Develop a detail case or **proposal** for implementation of preferred CSR-based strategies.
11. Establish targets and **milestones** for the physical implementation of the strategy.
12. On a periodic basis, **monitor performance** of CSR-based strategies against the without strategy scenario, based on the same indicators used to calculate costs and benefits.

**Table 1**      **Calculating the costs of implementing a three year strategy to achieve CSR benchmark standards: *An Illustration for Tea Producers implementing the Ethical Trading Initiative (ETI) Base Code***

Types of costs	Activities	Stakeholders			
		Export Promotion Agency	Industry association within country	Large producers (greater than 100 permanent employees)	Small producers (less than 100 permanent employees)
Exceptional (non-capital) costs  <b>Awareness raising of requirements</b>	Sector-wide dissemination (eg seminars and training etc.) on TSP and ETI base code (yr1)	\$50,000	\$25,000	8 hours lost worker time / employee	8 hours lost worker time / employee
Capital costs  <b>Implementation of Strategy</b>	Improvements in hygiene and water quality (yr1)	\$100,000 (grants for small producers)		\$20 / employee  (50,000 employees in sector)  = \$100,000	\$30/ employee  (100,000 employees in sector)  = \$3million
Recurrent costs  <b>Implementation of Strategy</b>	Costs of raising wages to industry benchmark (yr1-3)			no costs (industry benchmark already reached)	average increase of \$30 / employee / yr  PV <sup>4</sup> = \$9.93million
Recurrent costs  <b>Monitoring and recording</b>	New management responsibilities for monitoring (yr1-3)	New CSR outreach managers taken on to support small-scale producers (5 managers @ \$2000 / yr)  PV = \$33,100		20% increase in staff time of existing HSE managers  (no financial cost)	
Recurrent costs  <b>Verification (firm, inspectorate or 3<sup>rd</sup>-party auditing)</b>	Costs of annual independent verification (yr1-3)		\$500 / 3 <sup>rd</sup> -party auditing  (30 per year)  PV = \$49,650		
Recurrent costs  <b>Communication of compliance</b>	Communication programme on compliance to individual buyers and international trade media. (yr1-3)	\$10,000/yr support for combined government-association communication campaign  PV = \$33,100	\$10,000/y support for communication campaign  PV = \$33,100	\$3,000/y support for communication campaign (from each of the 10 largest producers)  PV = \$99,300	
<b>Costs (discounted to present value)</b>		<b>PV = \$216,200</b>	<b>PV = \$107,750</b>	<b>PV= \$299,300</b>	<b>PV = \$12,930,000</b>

<sup>4</sup> Present value (PV) based on 10% discount rate

**Table 2** Calculating the gross benefits of implementing a three-year strategy to achieve CSR benchmark standards: *A Hypothetical Illustration of Tea Producers implementing the Ethical Trading Initiative 'Base Code'*

Details	Large producers (greater than 100 permanent employees)	Small producers (less than 100 permanent employees)
Annual pre-tax profits of sector in country	\$100 million	\$100 million
Proportion of annual pre-tax profit currently derived from TSP members	\$60 million	\$30 million (less sales to TSP buyers, more sold domestically)
'Without' strategy scenario (ie if labour standards remain as they are) (yr1-3)	Current suppliers lose 'preferred supplier status' of TSP buyers  Estimated 20% fall in annual pre-tax profits  PV = (\$32.8 million)  No other viable markets available	Current suppliers lose 'preferred supplier status'  Estimated 50% fall in annual pre-tax profits to TSP members  PV = (\$41.0 million)  No other viable markets available
'With' strategy (if labour standards compliance with TSP criteria) (yr1-3)	One of a number of minimum quality requirements to retain 'preferred supplier' status  If all requirements achieved, suppliers will secure three-year purchasing agreement and increased orders worth an additional 10% per annum on pre-tax profits  PV = \$16.4 million	One of a number of minimum quality requirements to retain 'preferred supplier' status  If all requirements achieved, suppliers will secure three-year purchasing agreement and increased orders worth an additional 10% per annum on pre-tax profits  PV = \$8.21 million
<b>Gross benefit</b> (assuming all other TSP and buyer quality standards are achieved) (yr1-3)	<b>PV = \$49.2 million</b>	<b>PV = \$ 49.2 million</b>

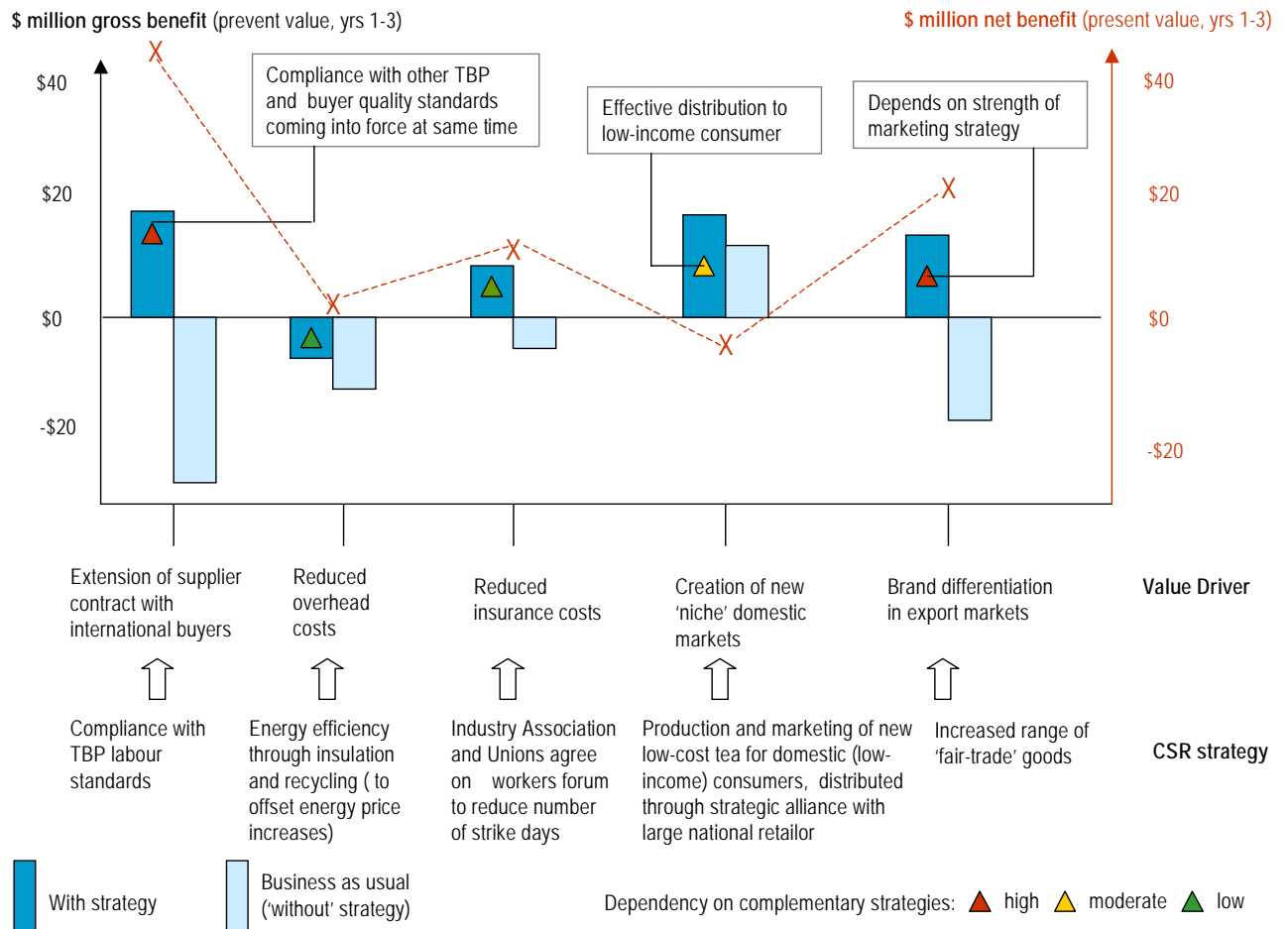
**Table 3** Calculating the net present benefit of implementing strategies to achieve CSR benchmark standards: *An Illustration for Tea Producers implementing the Ethical Trading Initiative Base Code*

Details	Large producers (greater than 100 permanent employees)	Small producers (less than 100 permanent employees)
<b>Costs of Strategy</b> (yr1-3)	<b>PV = (\$0.3 million)</b>	<b>PV = (\$12.9 million)</b>
<b>Dependent costs</b> (yr1-3) (costs of reaching other TSP and Buyer quality standards) <sup>5</sup>	<b>PV = (\$3.2 million)</b>	<b>PV = (\$20.5 million)</b>
<b>Gross costs</b>	<b>PV = (\$3.5 million)</b>	<b>PV = (\$33.4 million)</b>
<b>Gross benefit</b> (yr1-3) (assuming all other TSP and buyer quality standards are achieved)	<b>PV = \$49.2 million</b>	<b>PV = \$49.2 million</b>
<b>Net Present Benefit</b> (yr1-3)  Confidence in results of calculations Dependency on other actions	<b>NPV = \$45.7 million</b> high high	<b>NPV = \$15.80 million</b> moderate high

<sup>5</sup> Brought in from other aspects of Value Chain Analysis

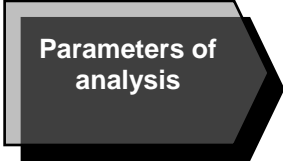

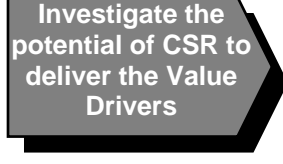
To assist the review and discussion of different CSR competitiveness and investment strategies, each can be plotted as illustrated below. If quantified information on net benefit (present day) is available, this should be used, but care should be taken to distinguish these from strategies based on qualitative measures.

**Figure 5** *Value Comparison of Different CSR-based Competitiveness and Investment Strategies: An Illustration for Large-scale Tea Producers (>100 permanent employees per firm)*



## 4. Quick Reference Checklist

The checklist below is a quick reference guide to the details in **Section 3**.

 <p><b>Parameters of analysis</b></p>	<ul style="list-style-type: none"> <li>▶ Which sector or sub-sector?</li> <li>▶ What geography? (cross-border trade or product stays local)</li> <li>▶ Which links and nodes in the value chain map? (materials, production, assembly, distribution, retail)</li> <li>▶ Which stakeholders make, manage or enforce the governance rules in the chain?</li> <li>▶ How interconnected is this governance across nodes?</li> </ul>
 <p><b>Value Drivers of analysis</b></p>	<p>Business value drivers for the industrial sector:</p> <ul style="list-style-type: none"> <li>▶ improved operational risk management</li> <li>▶ improved productivity efficiencies</li> <li>▶ reduced human resource costs</li> <li>▶ access to new markets</li> <li>▶ continued access to existing markets</li> <li>▶ creating new markets</li> <li>▶ new branding &amp; marketing strategies</li> <li>▶ new PPP opportunities</li> </ul> <p>Government value drivers for the industrial sector:</p> <ul style="list-style-type: none"> <li>▶ macro economic and fiscal objectives</li> <li>▶ higher volumes or quality of foreign direct investment</li> <li>▶ employment creation</li> <li>▶ improved business infrastructure</li> <li>▶ meeting of commitments to productive public investment</li> <li>▶ enterprise development</li> <li>▶ human, vocational and skills development</li> <li>▶ improved pro-poor earning opportunities</li> <li>▶ improved access for the poor to public services</li> </ul>
 <p><b>Investigate the potential of CSR to deliver the Value Drivers</b></p>	<ul style="list-style-type: none"> <li>▶ Investigate the potential for different categories and sub-categories of CSR (environmental, economic, social and corporate governance) to contribute positively to these value drivers.</li> </ul>

<p><b>Demand-side factors promoting CSR in the Value Chain</b></p>	<ul style="list-style-type: none"> <li>▶ Identify the specific international, national and market CSR standards, codes, principles, regulations and policies relevant to the priority value drivers.</li> <li>▶ Types of CSR standards, and sector specific standards and codes are given in the guidance (Annexes A and B).</li> <li>▶ Identify the benchmark standard, ie the quantitative or qualitative thresholds that need to be achieved to secure the competitive advantage or investment promotion.</li> <li>▶ Categorise the sector or sub-sector in relation to the benchmark standard as follows: <ul style="list-style-type: none"> <li>▶ Rn – resisting</li> <li>▶ Dn – deficient national compliance</li> <li>▶ Sn - successful national compliance</li> <li>▶ Db – deficient benchmark compliance</li> <li>▶ Sb - successful benchmark compliance</li> <li>▶ I – Innovation</li> </ul> </li> <li>▶ Examine whether the sector or sub-sector already meets the benchmark standards – and if not quantify the ‘gap’.</li> </ul>
<p><b>Benchmarking existing CSR practice</b></p>	
<p><b>Supply-side constraints to the sector reaching the CSR benchmarks</b></p>	<p><b>Government failure</b></p> <ul style="list-style-type: none"> <li>▶ What are the current investment, human resource and technology policy for this sector, and do they help firms to improve CSR standards?</li> <li>▶ Are trade policies (e.g. tariffs, quotas) working against firms meeting the benchmark standards?</li> <li>▶ Are current national CSR regulatory requirements: <ul style="list-style-type: none"> <li>▶ adequate to meet benchmarks?</li> <li>▶ implemented efficiently and ubiquitously across the sector (can implementation be trusted by buyers, financiers, end users etc?)</li> </ul> </li> <li>▶ Are there infrastructure deficiencies that constrain efforts to meet benchmarks?</li> <li>▶ What non-regulatory institutional capacity constraints are material?</li> <li>▶ Are there perverse incentives at work constraining the meeting of benchmark standards, eg within Export Processing Zones?</li> </ul> <p><b>Market failure:</b></p> <ul style="list-style-type: none"> <li>▶ Is the firm aware of the potential value of improving CSR standards and practices on firm performance?</li> <li>▶ What key market information is missing?</li> <li>▶ Are there weaknesses in firm policy and policy execution?</li> <li>▶ How effective are the firm’s CSR management systems?</li> <li>▶ Do the firms CSR management systems command the trust of buyers, financiers, end users etc?</li> <li>▶ What organizational and staff skill constraints exist?</li> <li>▶ How strong is the ‘public good excludability’ case for not increasing CSR standards?</li> <li>▶ Is the fragmented and competitive nature of competition too great to lead on co-ordination amongst firm to advance CSR opportunities</li> </ul>



<p><b>Strategies to overcome supply-side constraints enable CSR to contribute to the Value Drivers</b></p>	<ul style="list-style-type: none"> <li>▶ Identify strategies for how CSR practices might be changed to enhance competitiveness or investment in alignment with the value drivers.</li> <li>▶ Assess the strategies in terms of their contribution to the original value drivers and propositions, both for the private and public sectors</li> <li>▶ Who might need to be involved in realising the opportunity – the lead buyer, the supplier firm, business/trade associations, regulatory body, export promotion agency, government department, international donor agency etc?</li> <li>▶ What needs to be done to achieve these outcomes, and by whom, options include: <ul style="list-style-type: none"> <li>▶ Mandating</li> <li>▶ Facilitating</li> <li>▶ Partnering</li> <li>▶ Endorsing</li> </ul> </li> <li>▶ An inventory of strategies for the public sector to intervene to raise CSR standards is given in Annex C.</li> </ul>
<p><b>Costs and Benefits of proposed strategies</b></p>	<ul style="list-style-type: none"> <li>▶ Establish the 'business-as-usual' scenario, and quantify.</li> <li>▶ Identify the costs of implementing the proposed CSR-based strategies</li> <li>▶ Identify indicators for calculating the benefit (outcomes) of adopting the proposed strategy and conducting business-as-usual.</li> <li>▶ Predict the gross benefits of the initiative (ie the outcome of each CSR-based strategy less the 'business-as-usual' scenario).</li> <li>▶ Calculate the anticipated net benefit (gross benefit – costs) of each strategy.</li> <li>▶ Incorporate an indication of 'level of confidence' in calculation of net benefit (quantified if possible, qualitative where not).</li> <li>▶ Incorporate an indication of the extent to which the anticipated net benefit is 'dependent' on the effective implementation of complementary strategies (quantified if possible, qualitative where not).</li> <li>▶ Compare net benefit of different CSR-based strategies</li> <li>▶ Compare most favourable CSR-based strategies to other non-CSR market and market factor strategies (ie if conducting full value chain analysis)</li> <li>▶ Develop detail case or proposal for implementation of preferred CSR-based strategies</li> </ul>
<p><b>Performance monitoring</b></p>	<ul style="list-style-type: none"> <li>▶ Establish targets and <b>milestones</b> for the physical implementation of the strategy.</li> <li>▶ On a periodic basis, <b>monitor performance</b> of CSR-based strategies against the without strategy scenario, based on the same indicators used to calculate costs and benefits.</li> </ul>

# Annex A1

## CSR Standards, Codes and Practices in Apparel Value Chains

The user of this Module is strongly advised to refer to the following publication for an inventory and comparison of internationally-recognised and company and country-driven CSR standards, codes and practices in the Apparel sector:

- ❑ World Bank (2003) Company Codes of Conduct and International Standards: An Analytical Comparison, Part I: Washington DC: World Bank, Foreign Investment Advisory Services:  
[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20051214170210](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20051214170210)

The codes in this publication include:

- |  |  |
|--|--|
| ❑ Adidas-Salomon AG                                | ❑ Organization for Economic Cooperation and Development – Guidelines for Multinational Enterprises |
| ❑ Clean Clothes Campaign                           | ❑ Pentland Group plc   |
| ❑ Ethical Trading Initiative                       | ❑ Phillips-Van Heusen Corporation  |
| ❑ Fair Labor Association                           | ❑ Pou Yuen Vietnam Enterprise, Ltd.  |
| ❑ Gap Inc.   | ❑ Reebok International, Ltd.   |
| ❑ H&M Hennes & Mauritz AB                          | ❑ Social Accountability International – SA8000   |
| ❑ IKEA Services AB                                 | ❑ Timberland Company (The)   |
| ❑ International Confederation of Free Trade Unions | ❑ Worker Rights Consortium   |
| ❑ LEGO Company                                     | ❑ World Federation of the Sporting Goods Industry  |
| ❑ Levi Strauss & Co.                               | ❑ Worldwide Responsible Apparel Production   |
| ❑ Liz Claiborne Inc.                               |  |
| ❑ Marks & Spencer Group p.l.c.                     |  |
| ❑ New Balance Athletic Shoe, Inc.                  |  |
| ❑ NIKE, Inc.                                       |  |

A sample of relevant codes are described below.<sup>xii</sup>

Code	Comments
Worldwide Responsible Apparel Production (WRAP)	<p>In 1998, the American Apparel and Footwear Association (AAFMA), with over 700 members representing about 85 percent of sewn clothes sold at wholesale in the U.S., created a non-profit organization called Worldwide Responsible Apparel Production. WRAP has a very strong industry representation, but includes in its Board of Directors five (out of eight) members not directly associated with the industry.</p> <p>WRAP is based on 12 basic principles, covering the standard employment issues as well as requirements regarding customs compliance and tight security controls. Based on these principles, WRAP monitors and certifies individual factories upon their request. The actual monitoring is conducted with the help of external monitoring agents that are listed on its website that have to be accredited by WRAP in a separate process.</p> <p>Certification is a three-step process, consisting of:</p> <ul style="list-style-type: none"> <li>❑ Submission of self-assessment, registration form and US\$750 application fee valid for 6 months;</li> <li>❑ Request for on-site compliance evaluation from an accredited independent monitor and implementation of any corrective measures deemed necessary.</li> <li>❑ Review of the independent monitoring report by the WRAP Certification Board and granting of certification.</li> </ul>
FLA. The Fair Labor Association	The Fair Labor Association is the successor of the Apparel Industry Partnership convened by President Clinton in 1996 with the objective improving the working conditions in apparel and footwear factories in the U.S. and abroad. At present, the FLA includes 11 major companies with

Code	Comments
	<p>over 3,000 facilities in 80 countries and is supported by close to 180 U.S. colleges and universities.</p> <p>The FLA has developed a “Workplace Code of Conduct and Principles of Monitoring” based on the ILO principles, accredits monitors, reviews audits and reports on audit results. Different from other certification programs, the FLA focuses on companies rather than individual facilities. Thus, companies receive certification for their worldwide production and have to bear all costs associated with the monitoring requirements. To obtain the one-year certification, FLA companies must:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> First submit an application including intentions for implementation of the CoC and monitoring protocol.</li> <li><input type="checkbox"/> Submit a monitoring plan for the FLA Code and the company's internal compliance.</li> <li><input type="checkbox"/> Retain FLA accredited monitors to audit 30 percent of their suppliers within three years through unannounced visits.</li> <li><input type="checkbox"/> Submit monitoring reports and listings of suppliers.</li> </ul> <p>FLA also considers itself a source of information and for that reason FLA requires the publication of any facility auditing reports. In addition, the FLA provides a mechanism through which workers, unions, civic groups or private individuals may inform the FLA of perceived violations of one of its member companies.</p>
SA8000	<p>In 1997, the non-profit NGO Social Accountability International (SAI) introduced SA8000 as a uniform auditable standard that should apply to all industries worldwide. The standard is modelled after the ISO9000 and ISO14000 standards for quality and environmental management and implemented through third-party verification based on external auditing through accredited auditing firms or groups. At present, there are 310 facilities SA8000 certified in 38 countries worldwide. Of these 17 percent are in the apparel industry.</p> <p>SAI presents the SA8000 standard as a marketing mechanism for companies to demonstrate appropriate employment and human rights conditions at these workplaces. While it does not make individual audit reports publicly available, the SAI website lists individual companies that have been certified. To obtain an SA8000 certification, a company must:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Submit an application with supporting documentation showing compliance with relevant national and local regulations, and commit to apply for a certification audit within one year by placing a non-refundable deposit for auditing fees.</li> <li><input type="checkbox"/> Participate in initial assessment audit and complete subsequent corrective measures.</li> <li><input type="checkbox"/> Contract a full certification audit and address take any further remediation steps and develop a plan for addressing non-compliance issues.</li> </ul> <p>An SA8000 certification is valid for a period of three years, after which the process needs to be repeated in order to renew the certification. During the certification period, SAI auditors – who are trained and accredited by SAI, but selected and paid for by the requesting company – conduct surveillance audits every six months. Additional audits can be required in cases of complaints or identification of particular risks.</p>

## Annex A2

### CSR Standards, Codes and Practices in Agri-Business Value Chains

The user of this Module is strongly advised to refer to the following publication for an inventory and comparison of internationally-recognised and company and country-driven CSR standards, codes and practices in the Apparel sector:

- ❑ World Bank (2003) Company Codes of Conduct and International Standards: An Analytical Comparison, Part I: Washington DC: World Bank, Foreign Investment Advisory Services: [http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20051214170210](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20051214170210)

The codes in this publication include:

- |   |   |
|---|---|
| ❑ Banana Group (The) – UK Banana Industry Code of Best Practice                         | ❑ Fresh Del Monte Produce, Inc.   |
| ❑ Chiquita Brands International, Inc.   | ❑ International Code of Conduct for Production of Cut-Flowers               |
| ❑ Dole Food Company, Inc.   | ❑ McDonald's Corporation  |
| ❑ European Federation of Food, Agriculture and Tourism Trade Unions/European            | ❑ Nestlé S.A. (Brands include Hills Brothers, Taster's Choice, and Nescafé) |
| ❑ Sugar Manufacturers' Committee – Corporate Social Responsibility in the European      | ❑ Procter & Gamble Company (The) (Brands include Folgers)                   |
| ❑ Sugar Industry  | ❑ Rainforest Alliance – Better Banana Project                               |
| ❑ Fairtrade Labeling Organizations International – Fair Trade Standards for Hired Labor | ❑ Rainforest Alliance – Generic Coffee Standards                            |
| ❑ Flower Label Program  | ❑ Starbucks Coffee Company  |
|   | ❑ Tate & Lyle p.l.c.  |
|   | ❑ International Standards   |

A sample of relevant codes are described below.<sup>xiii</sup>

Code	Sub-sector	Comments
World Cocoa Foundation	Cocoa	2001 protocol committing the industry to develop standards to deal with working practices problems, particularly in West Africa.  Standards due to be completed in July 2005, are being developed by industry representatives working with the International Labour Organization (ILO), and West African governments. Verification system also being developed.
Utz Kapeh	Coffee	The Utz Kapeh code for 'Certified Responsible Coffee' was set up with the support of the global retailer Ahold. It is based on EUREPGAP, but with more detail on worker welfare. It recommends that buyers pay a Sustainability Differential to producers when market prices are low. These are not fixed and at present it is not clear if this is monitored.  Large estates and cooperatives of smallholders can be certified.
Common Code for the Coffee Community	Coffee	Programme funded by German government, managed by the donor agency GTZ and the German coffee industry association. It has broad stakeholder membership in its advisory board  In late 2004 it produced a code that aims to cover the whole of

Code	Sub-sector	Comments
		<p>the coffee chain.</p> <p>Currently 4C is developing pilot projects to test the code in different contexts over the next two years.</p>
Kenya Flower Council	Cut flowers	<p>The KFC was formed in 1994. The code originated as a technical standard addressing primarily environmental and pesticide related issues, but recent editions of the code have been much more comprehensive in their coverage of social issues.</p> <p>Members of the KFC account for the majority of Kenya's total cut flower exports.</p> <p>Member farms are regularly audited by KFC auditors and the auditing system is externally verified by a professional auditing firms.</p>
MPS	Cut flowers	<p>The Floriculture Environmental Project (MPS) originated as a technical standard to reduce the environmental impact of cut flower production but added an optional social chapter based on the Universal Declaration of Human Rights and ILO Conventions in 2001.</p> <p>The MPS environmental standard, which focuses on pesticide and water use, leads to grading as MPS-A, B, or C</p> <p>The MPS Social Chapter (known as MPS –SQ) has been benchmarked against the multi-stakeholder International Code of Conduct for Cut Flowers</p>
Ethical Trading Initiative Base Code	General (but has been applied to agricultural commodities)	<p>Not in itself a defined auditable standard but members are required to base their own code on the nine principles in the ETI Base Code which are based on ILO Conventions.</p> <p>The ETI has established a number of pilot projects with the aim of experimenting with different multi-stakeholder approaches to monitoring or to deal with specific implementation issues (e.g. definition of living wage, smallholder sector)</p> <p>The ETI has a tri-partite structures whose members are drawn from NGOs, trade unions and companies. It has had some funding from the British government.</p>
SA8000	General Limited application in agriculture to date	<p>Established by Social Accountability International. Its principles are essentially the same as those of the ETI, with the addition of a management system.</p> <p>It is an auditable standard, for which there are accredited auditors.</p> <p>It was developed in consultation with multiple stakeholders (including NGOs, trade unions and private companies), representatives of whom sit on the SAI board.</p>
Zambian Export Growers Association code	Horticulture	<p>All major growers of vegetables and roses for export are members of the Zambian Export Growers' Association, formed in 1984. The ZEGA code was developed in the late 1990s.</p> <p>All members are required to implement the code but (as of 2003) members were not systematically audited for compliance. The code has been promoted in a step-by-step manner, starting with the pesticides sections, followed by</p>

Code	Sub-sector	Comments
		worker welfare, environment and finally the due diligence sections. The code is presented as a developmental tool for good management.
EUREP GAP	Initially fresh produce but scope widening	<p>EUREPGAP began in 1997 as an initiative of the Euro-Retail Produce Working Group with the aim of harmonising supply chain standards worldwide for good agricultural practice (GAP).</p> <p>The main focus of the EUREPGAP Protocol 2000 is standards for food safety and traceability designed to meet consumer concerns about pesticides and food hygiene, with environment and worker welfare issues as a secondary concern. Growers receive EUREPGAP approval through independent verification from an approved certification body.</p> <p>EUREP has developed an accreditation scheme that recognises certification by local or regional schemes. However to date there has been only one auditing scheme accredited in a developing country, ChileGAP in September 2004.</p>
Ethical Tea Partnership (formerly the Tea Sourcing Partnership)	Tea	<p>The code focuses on terms and conditions of employment, health and safety, maternity, education, housing and basic rights. It is working towards all of the ETI principles (one significant gap is that it refers to local minimum wages rather than a living wage and in general defers to national legal requirements rather than ILO Core Standards).</p> <p>Members originally were just UK tea packers and blenders, with multi-national companies only using the code with respect to products sold in the UK market. However in the past year most members e.g. Unilever (Europe) have extended their scope to products sold in Europe. In addition companies from Australasia have joined.</p> <p>To date the scheme operates in seven of the seventeen countries from which members source tea, accounting for 65% of supply. ETP members pay for supplier audits, which are undertaken by PricewaterhouseCoopers on a biannual basis.</p>
Wine Industry Ethical Trade Association code	Wine	<p>WIETA was established in 2004 by the South African wine industry partly as a result of an ETI pilot project.</p> <p>Now an autonomous organisation.</p> <p>The code is based on the ETI base code.</p>

## Annex A3

### CSR Standards, Codes and Practices in Tourism Value Chains

The user of this Module is strongly advised to refer to the following publication for an inventory and comparison of internationally-recognised and company and country-driven CSR standards, codes and practices in the Apparel sector:

- ❑ World Bank (2003) Company Codes of Conduct and International Standards: An Analytical Comparison, Part I: Washington DC: World Bank, Foreign Investment Advisory Services: [http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20051214170210](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20051214170210)

The codes in this publication include:

- |  |  |
|--|--|
| ❑ Coalition for Environmentally Responsible Economies, Inc. – CERES Principles             | ❑ InterContinental Hotels Group p.l.c. (Brands include InterContinental, Crowne Plaza, Holiday |
| ❑ Commonwealth of Australia – National Ecotourism Strategy                                 | ❑ Inn, and Britvic Soft Drinks)  |
| ❑ Foundation for Environmental Education – Blue Flag Campaign                              | ❑ British Airways p.l.c.   |
| ❑ Government of Brazil – Guidelines for an Ecotourism Policy                               | ❑ International Ecotourism Standard  |
| ❑ Government of Costa Rica – Certification for Sustainable Development                     | ❑ Lindblad Expeditions, Inc.   |
| ❑ GREEN GLOBE 21   | ❑ Royal Caribbean Cruises Ltd.   |
| ❑ Hilton Group p.l.c. (Brands include Hilton, Scandic, Livingwell, Conrad, and Ladbroke's) | ❑ World Tourism Organization – Global Code of Ethics for Tourism                               |

Existing codes of conduct and ethical guidelines in the tourism industry are not as developed or recognised as for many other industrial and investment sectors. To date relevant codes are more thorough on the question of environmental management and much so less detailed on questions of labor and human rights. Very few reference the ILO core conventions on labor rights.<sup>xiv</sup>

An illustration is given below.<sup>xv</sup>

Code	Comments
ACCOR Environmental Sustainability <sup>xvi</sup>	<p>In 2002, ACCOR group established a Sustainable Development Division that reviews all aspects of operations, oversees environmental management and tries to integrate international policies with local hotel actions. ACCOR operates 3,829 hotels and 440,807 rooms in 90 countries.</p> <p>The group has an Environmental Charter posted in all participating hotels, that it uses as a training tool for hotel employees. Hotels use Consumption and Environmental Charter indicators to measure environmental performance with relation to waste management and recycling, technical controls, architecture and landscape, and awareness and training. As of February 2003, it applied the principles of its Environmental Charter to 2048 hotels in 28 countries.</p> <p>The main aim of the program is to find pragmatic ways to optimize both water and energy consumption and enhance the application of the Environmental Charter. Results are communicated through corporate annual reports in the Sustainable Development section, as well as on the internet. In addition, there is an annual global report of the Environmental Charter which allows hotel managers to compare their environmental performance on each of the 15 actions monitored.</p>

## **Annex B**

### **Inventory of International CSR Practices, Standards, Instruments and Codes**

#### Economic

1. Monetary flows to the public sector
2. Employment and human resource development
3. Procurement and supply chain management
4. Technology transfer and intellectual property rights

#### Environment

5. Environmentally safe production, products and services
6. Environmental impact assessment and management
7. Environmental reporting and management systems

#### Social

8. Health and safety of employees
9. Labour standards
10. Corruption and bribery
11. Human Rights
12. Violence and Conflict
13. Social impact assessment and management
14. Community and stakeholder engagement (non-commercial)
15. Charitable giving
16. Social investment
17. Social reporting and management systems

#### Corporate Governance

18. Rights and treatment of shareholder
19. Governance policies and business principles
20. Information disclosure and reporting
21. Responsibilities of the Board
22. Customer/end-user care



## ECONOMIC

### 1. Monetary flows to the public sector

- Disclosure of **corporate income tax and royalty payments**
- Disclosure of **government subsidies** (tax breaks, grants, etc.)
- Disclosure of all **payments to government officials** and third parties
- **No seeking or accepting exemptions** not contemplated in the statutory or regulatory framework relating to taxation and financial incentives

### 2. Employment and human resource development

- **Level of wages** consistent with industry average and livelihood needs of employees and their families
- **Reasonable employee benefits**: e.g. access to health care and medicines; accident insurance; pensions; meals or food allowance; housing; travel allowance; performance bonuses etc.
- Encouragement of human capital formation through employment opportunities, **on-the-job training** and life-long learning
- Within legal and international constraints, **preference to employing local personnel** and incorporation of such terms into procurement and supplier contracts
- Fair and adequate **redundancy terms**, including compensation management

### 3. Procurement and supply chain management

- Development of databases on **local business capabilities** and business development and support/facilitation service requirements
- Within legal and international constraints, incorporation of a **proportion of national content** in procurement and supplier contracts
- Adoption of **fair competition practices for purchase and service contracts**, e.g., transparent competitive tendering and transparency in call-down contractor lists
- Contracts paid in **accordance with agreed terms and legal requirements**
- Facilitation of access to **working capital** and **credit** for local suppliers, contractors and licensees
- Provision of **information on quality standards** (technical, environmental etc.) for suppliers and contractors, and proactive training where this is in the business interest, eg for reliability or speed of suppliers
- **Purchase of equipment for use by resource-poor suppliers**, contractors and licensees, and provision of associated training in equipment operation, maintenance and safety, and consideration of arrangements for eventual transfer of ownership
- **Horizontal strategic business alliances** between domestic goods and service contractors and suppliers to reduce operating and investment costs and improve the efficient transfer of technology
- Promotion of social and environmental codes and **standards through the total value chain**, accompanied by training and other support and facilitation necessary to prevent standards becoming a barrier to market entry

### 4. Technology transfer and intellectual property rights

- Operational and R&D activities **compatible with public policies** and plans for science and technology
- Practices that permit the **transfer and rapid diffusion of technologies** and know-how, with due regard to the protection of intellectual property rights
- Operational technology, products and services that address **local market needs**
- Employment of **host country personnel** in a science and technology capacity
- In granting licences for the use of intellectual property rights or when transferring technology, application of **reasonable terms and conditions** and in a manner that contributes to the long-term development prospects of the host country
- Development of links and **collaborative research projects** between local universities and other public research institutions, and local industry, industry associations and/or the R&D facilities of domestic and foreign corporations

## ENVIRONMENT

### 5. Environmentally safe production, products and services

- Development of **policy and guidelines** for promoting end-user health and safety during production and/or during use of products and services pursuant to domestic laws and regulations and international obligations, including monitoring system (e.g. customer satisfaction) and performance disclosure
- Adoption of product (environmental) **life-cycle analysis** into product and service research and development, e.g. ISO 14040-49, and ISO 14062 (R&D)
- Development of voluntary codes for **product labelling**, e.g. ISO 14021
- **Optimal use of operational wastes** (processed and unprocessed) from internal and external sources and including both consumer and industrial wastes
- Optimal use of **renewable energy sources**
- Optimal use of **energy-intensive materials**
- Promotion of **levels of awareness among customers** and end-users of the environmental implications and risks of products and services
- Compliance with all relevant domestic legislation and international obligations pertaining to **environmental hazards management**, for production, transportation, import and export and disposal of materials and wastes
- Incorporation into **risk assessments**, analysis of environmental risks at each stage of the production process or each stage of a project life-cycle, including both isolated and cumulative risks, e.g. application of risk matrices
- **Education and training of employees** in environmental health and safety, including handling of hazardous materials and the prevention of environmental accidents and risk realization
- Implementation and monitoring the effectiveness of **environmental risk mitigation plans** and preparation of **risk/accident contingency plans**, including **contingency fund** for uninsured environmental risks
- **Consultation with potentially affected parties** to enhance risk mitigation and contingency measures
- Disclosure in a timely manner **information on environmental risks** to key stakeholders
- Development of effective procedures for **redressing injuries** caused to customers, others persons or property from use of products or services
- Development of effective procedures for **redressing damage to environmental resources**

### 6. Environmental impact assessment and management

- Compliance with spirit (as well as letter) of **law and regulations pertaining to the preparation of environmental (impact) assessment studies**, including requirements for stakeholder engagement and impact and mitigation monitoring
- Independent preparation of **impact assessment studies**, free from 'conflicts of interest' e.g. 'streamed' contracts
- Environmental impacts of proposed operations and facilities assessed not only to secure environmental clearance permits, but also to secure the informal **social license to operate** of local communities
- Environmental impacts assessed over the **life of the project or operation**, including site/route/plant selection, construction and development, operations, and decommissioning and closure
- Indirect environmental impacts assessed over the **total value chain** (both formal and informal) and including distribution networks
- Potentially significant environmental impacts systematically assess and **mitigation/management plans** prepared and implemented, for issues that include:
  - protection of terrestrial, fresh-water and marine ecosystems and habitats
  - protection of open spaces and wilderness
  - protection and enhancement of bio-diversity
  - sustainable use of renewable natural resources – surface and ground water, soils, forests
  - reduction and safe disposal of non-hazardous and hazardous wastes
  - energy conservation

- mitigation of adverse changes in air quality
- mitigation of noise and vibration
- mitigation of visual and landscape impacts
- Environmental impact assessment studies to include assessment of **adverse social impacts** and to identify **socio-economic opportunities** linked to the investment
- **Integration of environmental, social and health impact assessments** into single environmental assessment with aim of sharing logistics costs and better targeting mitigation and risk management measures

## 7. Environmental reporting and management systems

- Disclosure of timely, regular and reliable **information on environmental performance** to Supervisory Board, Executive Management, shareholders, employees, trade unions and non-commercial stakeholders (government departments and agencies, affected communities, NGOs, community groups)
- Commercial and non-commercial **stakeholder participation in target setting and performance evaluation** including: Supervisory Board, Executive Management, key shareholders, employees or their representatives and noncommercial stakeholders (government departments and agencies, affected communities, NGOs, other community groups etc.)
- **Environmental reporting to include aggregated data** across operations on environmental performance against set targets, including:
  - materials used;
  - energy use;
  - water use;
  - landtake from conservation-worthy environment; greenhouse gas emissions (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>);
  - use and emission of ozone-depleting substances;
  - other emissions to air (NO<sub>x</sub>, SO<sub>x</sub> etc.);
  - method of waste treatment; significant discharge to surface and ground water;
  - significant spills and pollution incidents;
  - reclaimable/recyclable products;
  - significant environmental impacts (and risks) of principal operations, products and services;
  - incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional and local regulations associated with environmental issues
- Regular **evaluation of stakeholder satisfaction** with environmental performance (commercial and non-commercial)
- Establishment of formal **Environmental Management Systems (EMSs)** that promote continuous improvement based on targets and periodic review of performance against these targets and their continuing relevance, and with independent expert assurance of **annual environmental reports**, i.e. **certification** (through audits) of individual operational businesses and facilities, e.g. ISO14001 certified
- EMSs that record and report **changes and innovation in organizational structures**, management responsibilities, processes and resourcing as a result of improved environmental practices
- Integration of environmental management plans generated through Environmental Impact Assessment studies with Environmental Management Systems (i.e. **integrate EIA with EMS**).
- Systematic adoption of a **precautionary approach** to environmental challenges made explicit within the procedures of EMSs, i.e. refrain from using lack of full scientific certainty to postpone impact mitigation measures or technology
- EMSs that calculate scientifically the **optimal level of recycling, product remanufacture, raw material substitution** and **resource efficiency** and report on this as part of company performance
- Annual environmental reporting to make explicit **linkage between environmental performance and commercial performance**, e.g. in reduced operating and insurance costs, improved energy and resource efficient, reduced compliance and liability charges, improved access to capital, improve customer/buyer satisfaction, and improved community and public relations.

## SOCIAL

### 8. Health and safety of employees

- Development of **policies and guidelines for health and safety** pursuant to the framework of domestic laws and regulations and international obligations (such as ILO 176), and that includes management and employee training, a monitoring system and performance/results disclosure
- Effective **management structure** for promoting health and safety at all levels of the organization
- Disclosure to employees and other relevant third-parties parties of **occupational accidents and diseases** and any associated risks
- **Joint health and safety committees** comprising management and workers
- **Formal agreements** with trade unions or other employee representatives covering health and safety
- Specific policies for **HIV/AIDS and STDs** and where applicable integration with government programs
- **Life-long training in health and safety standards**, with particular emphasis on new employees, job transfer, hazardous jobs, and the introduction or modification of equipment and procedures

### 9. Labour standards

- Participatory development of **policies and guidelines** to deal with labor standards and industrial relations pursuant to the framework of laws, regulations and international obligations and takes into account established public policies; and that includes management and employee training, a monitoring system and performance disclosure.
- **Philanthropic contributions to employer welfare**, e.g. bonuses, recreational activities, staff outings etc.
- **Compensation** at a rate to meet legal requirements, and/or prevailing industry wage, and/or sufficient to meet basic need workers and their families (no disciplinary deductions)
- **Voluntary overtime paid at a premium rate** and not to exceed a maximum period, e.g. 12 hours per week, 300 hours per year etc. (overtime may be mandatory if part of a collective bargaining agreement)
- **Establishment of reasonable working hours** that meet legal requirements and/or prevailing industry wage, e.g. no more than 48 hours per week with at least one day off per seven day period.
- Elimination of all forms of **forced, bonded and compulsory labor**, including debt bondage and no lodging of deposits or identify papers by employers or recruitment agents
- **Abolition of child labor** – no employment of young persons below a certain age, or younger than the age for completing compulsory education in the country (*in contradiction to human rights law if it does not include proactive measures for already employed children*)
- **Equal opportunities** for gaining and retaining employment regardless of gender, race, disability, race, caste, religion, sexual orientation, political affiliation or age
- **No corporal punishment**, mental or physical coercion or verbal abuse
- **Recognition of maternity rights**, e.g. prohibition of women 7 months pregnant or those raising children under 1 to undertake overtime or night working
- **Reasonable notice** to, and consultation with, employees in the case of closure involving layoffs or dismissals, and minimization of effects of layoffs on livelihoods of employees
- **Managed home work**, to support women with young children and discourage child labor
- Promotion of **employee diversity** to address historical patterns of discrimination
- Facilitation of employee **freedom of association** and effective recognition of the right to collective bargaining
- Recognition of the **right of employees to be represented**, e.g. by trade unions or other associations and provision of **facilities** to employee representatives needed for the development of effective collective agreements and meaningful negotiations on conditions of employment

- Systems for communicating with employee and accessible **mechanisms for employees to seek redress** for grievances/breaches of policy and standards, including appeal procedures
- **Strategic alliances between purchaser companies** and possibly principal contractors to align best practice labor codes and management systems
- Promotion of **labor standards in supply chain** and contractors, e.g. through procurement practices, and **welfare of under aged workers** if in supply chain
- Promotion of **life-long learning** for adults

## 10. Corruption and bribery

- Development of **policies and guidelines** on anti-corruption and bribery that takes into account established public policies; and that includes management and employee training, a monitoring system and performance disclosure
- **Refrain from offering bribes** or other undue advantage to public officials and regulators or the employees of business partners to obtain or retain business
- **Refrain from yielding to demands** or extortion
- **Procurement/contracting free from facilitation payments**
- **Refrain from using sub-contracts, purchase orders or consulting agreements** as a means of channelling payments to public officials or employees of business partners
- **Maintain a list of agents** employed in connection with the negotiation or execution of transactions with public bodies and state-owned enterprises
- Disclose the **company policy on funding political parties or individual elected representatives or candidates for public office** and party lobbying
- **Full transparency in relation to** payments to candidates for public office, e.g., disclosed and updated registry of payments
- **Foster openness and dialogue with the public and government** so as to promote awareness and co-operation in the fight against corruption
- Adopt financial and tax accounting and auditing practices that prevent the establishment of **'off-the-books' or secret accounts** or the creation of documents that which do not properly and fairly record the transactions to which they relate

## 11. Human rights

- Development of **policies and guidelines** to deal with human right violations pursuant to the framework of domestic laws and regulations and international obligations, and that takes into account established **public policies**; and that includes management and employee **training**, a monitoring system and performance **disclosure**
- Company security policy and practices take into account the **risks of complicity or abetting human rights violations** and abuse (e.g. harassment, denial or freedom of assembly, arbitrary arrest and detention, hostage taking, disappearances, torture, extra-judicial killing)
- Where **involuntary resettlement/displacement** (forced relocation) is unavoidable, all relevant laws (e.g. for compensation) stringently applied and consideration given to international best practice for achieving full livelihood restoration
- Compliance with **indigenous peoples' (legal) rights**
- Respect for **broader human rights** of individuals in accordance with the United Nations Declaration of Human Rights, e.g., extent to which procurement practices and use of natural resources
- Procurement **screening of suppliers** for human rights compliance

## 12. Conflict and violence

- Development of **policies and guidelines** to deal with conflict that take into account established **public policies**, and that include management and employee **training**, a monitoring system and performance **disclosure**
- assessment of **non-commercial risks** of conflict and violence on operational performance
- assessment of risks that operational activities might **fuel or trigger conflict and violence**
- training for employees and contractors working in **conflict zones** (security and conflict prevention/management)

- good **stakeholder and community engagement** acting to prevent conflict and/or act as a 'social fence' for the operation
- **partnerships with government agencies and civil society** on community development projects to open channels of communication of value in preventing disputes escalating into, or fuelling, violence and conflict

### 13. Social impact assessment and management

- Development of **policies and guidelines** for social assessment and management pursuant to the framework of domestic laws and regulations and international obligations, and that takes into account established **public policies**; and that includes management and employee **training**, a monitoring system and performance/results **disclosure**
- **Independent preparation** of assessment studies, free from 'conflicts of interest', e.g., 'streamed' contracts
- Impact assessed over **supply chain** and **distribution networks**
- Preparation, implementation and monitoring of **Social Management Plans** incorporating, where applicable, **sub-plans** to manage continuous Stakeholder Engagement and Information Disclosure, Resettlement and Displacement, impacts on Indigenous Peoples, and Community Development opportunities
- Social Management Plans developed either **free-standing or integrated** with Environmental Management and Mitigation Plans
- **Key issues** for social assessment and mitigation (see annex A for list)
- Development of standards and procedures for ensuring adequate and **fair compensation** for loss of land, assets and disturbance, and that delivers livelihood security and opportunities commensurate with the prior situation

### 14. Community and stakeholder engagement (non-commercial)

- Development of **policies and guidelines** for community engagement and noncommercial stakeholders (community groups, NGOs, non-shareholding government authorities, universities etc) pursuant to the framework of domestic laws and regulations and international obligations and including management and employee **training**, monitoring system and performance **disclosure**
- Disclosure of information about project operations and potentially adverse environmental and social impacts sufficiently **early in planning** of each stage of new operations (conceptual design, feasibility studies, construction, operations and decommissioning) to allow **engagement with stakeholders** on weighing the trade-offs and contributing to design and impact mitigation measures
- Provision of meaningful information that stakeholders to make **informed choices**, i.e. information in readily understandable formats tailored to the needs of different stakeholder groups
- Provision of information that is **accessible** to those stakeholder most affected by business operations
- **Identification and informing** of all relevant stakeholders, with sufficient **time** (and where necessary facilitation) the interpretation of the information
- **Continually engage** with and 'track' stakeholder engagement, within emphasis on measuring company performance (i.e. stakeholder satisfaction) and 'bundling' of different activities that stakeholder would wish to address collectively, e.g. compensation negotiations, employment opportunities and mitigation of adverse socio-economic impacts
- Company to maintain oversight of the **outcomes of stakeholder engagement** undertaken in the name of the company by others, e.g. cases where engagement is undertaken by government (e.g. for asset loss compensation) or contractors (e.g. during Environmental Impact Assessment studies)
- **Involvement of government agencies** and legitimate **community groups, NGOs** etc. in engagement activities to build trust and mutual understanding
- Provision of accessible and safe mechanism for stakeholders to raise and resolve **grievances** with the company
- Special recognition of the need to secure informed consent on decisions affecting **indigenous peoples** and their domain areas

- Involvement of community, local government and NGOs in environmental and **social monitoring**, e.g. of ESIA– related management plans and on-going social management systems

## 15. Charitable giving

- Making of **donations**, grants and scholarships, either directly or through foundations and trust
- Provision of **sponsorship** for events and organizations
- Establishment of issue-specific philanthropic **trusts and endowments**
- Facilitation of **employee giving**, e.g., through company payroll
- Facilitation of employee **volunteering** ‘in the community’ either in or out of work time, including **secondments**
- Making **in-kind gifts** such as product, equipment, vehicles etc.
- Offering **in-kind loans** such as premises, equipment etc.

## 16. Social investment

- Implementation of **community development projects** (e.g. health clinic, school construction, water supply and sanitation, credit facilities etc.)
- Deployment of market research, distribution networks and retail channels to **support community-based enterprises**
- Provision of **emergency assistance** (e.g. for natural disasters)
- Increased use of **cause-related marketing**
- Development of employment policies that **secure local labor supply**, i.e. that favor local low-income communities
- Development of procurement practices that place local businesses on call-down lists, and provide appropriate levels of support to enable them to meet procurement quality standards
- Facilitating local access to **working capital and vocational training** for local businesses to secure supplier reliability
- Development and marketing of **products and services for low-income consumers**
- **Pooling health care resources** with local authorities to improve productivity of workforce (including HIV and STD management)
- **Sharing capital expenditure costs** of operational infrastructure with local authorities (power, water, sanitation, transport, telecommunications)
- **Engaging principal contractors** to act as delivery agents for social investment projects down the supply chain, e.g. through contracts and performance incentives

## 17. Social reporting and management systems

- **Establishment of social management system** for evaluating, reporting and assuring social performance
- **Disclosure** of timely, regular and reliable information on **social performance** to Supervisory Board, Executive Management, shareholders, employees, trade unions and non-commercial stakeholders (government departments and agencies, affected communities, NGOs, other community groups etc.)
- **Stakeholder participation** in target setting and performance evaluation including: Supervisory Board, Executive Management, key shareholders, employees or their representatives, and non-commercial stakeholders (government departments and agencies, affected communities, NGOs, other community groups etc.)
- Independent expert **assurance** of social information disclosed, ie **certification** (through audits) of individual operational businesses and facilities, eg AA1000
- Aggregation of operational-level social performance across corporations and facilities, reflecting balanced view of performance rather than selected highlights, including: health and safety of employees, employee satisfaction, stakeholder engagement (non-commercial), labor policies and performance, human resource development, customer satisfaction, customer safeguards (quality, safety, advertising, privacy etc), organizational learning, interaction with conflict and violence (if applicable), management of human rights, management of bribery and corruption, social and community investment, social performance of supplier and distributors, stakeholder satisfaction with social performance (commercial and noncommercial)

## CORPORATE GOVERNANCE

### 18. Rights and treatment of shareholders

- Basic **shareholder rights upheld**:
  - A secure **method of ownership**/shareholder registration
  - the right to convey or **transfer of shares**
  - right to obtain **information** on the corporation on a timely and regular basis
  - right to **participate and vote** in general shareholder meetings
  - **elect board members** onto the Supervisory and Executive management Boards
- Shareholders informed and able to participate in decisions concerning **fundamental corporate changes**
- Disclosure of arrangements enabling certain shareholders to obtain a degree of **control disproportionate to their equity** ownership
- Disclosure of the rules and procedures governing the **acquisition or sale** of corporate control (through the capital markets, mergers, sale of major assets etc.)
- Shareholders (including institutional investors) consider the **costs and benefits** of exercising their voting rights
- All shareholders of the same class receive **equal treatment** with regard to voting rights
- No **insider trading** or abusive self-dealing

### 19. Governance policies and business principles

- Make publicly available company policy on CSR or **Code of Business Principles**
- Incorporate in company policy a **commitment to obey domestic laws** and regulations and international obligations of the countries of operation
- Incorporate in company policy a commitment to conduct operations in accordance with the principles of **fair competition** including refraining from making anti-competitive agreements among competitors (e.g. price fixing, collusive tenders, output restrictions, allocating customers, suppliers, territories or lines of commerce)
- Develop management systems that continuously improve the extent to which above policies are adopted within **business affiliates** within which the corporation has an investment or influence
- **Adopt a zero reprisal policy** for compliance with business principles, where an individual's or team's remuneration, bonuses and other benefits, as well as promotion prospects or priority ranking in layoffs, are protected against failing to meet commercial targets for reasons relating to the proper application of business principles. The aim is to reduce the incentives for false information disclosure or facilitation payments arising from competing commercial vs. compliance interests.

### 20. Information disclosure and reporting

- Disclosure of **ownership profile**, e.g. state, foreign investors, domestic institutional investors, retail investors, important families, holding companies etc.
- Provision of **timely, regular and reliable information** to shareholders, employees and key stakeholders on:
  - **operational** activities
  - **proposed** activities
  - **financial** and operating results of company
  - **company objectives**
  - major **share ownership** and voting rights
  - members of **Supervisory Board** and **Executive Management**
  - material foreseeable **risks**
  - material issues regarding **employees and stakeholders**, e.g. HIV/AIDS, risk of accidents
  - **governance** structure and policies
  - environmental and **social** performance
- Information internally **verified by Supervisory Board** and externally **audited by independent experts**
- Establishment of channels for information **dissemination fair, timely, cost efficient** and meaningful to shareholders, employees and key stakeholders
- Disclosure of **other information**, including: value statements (business principles, governance policies, environmental and social policies, others); management systems for



managing risks and complying with laws; and information on relationships with employees and stakeholders

- Annual **financial performance reporting** based on reliable sources of information, and describing operating profit, dividends paid, loan preferences, asset sales, interest paid on debt and borrowings etc.
- Annual **environmental performance reporting** based on reliable sources of information and as far as practicable aggregated, quantified, data across companies measured against pre-set targets
- Annual **social performance** reporting based on reliable information and as based on information reflecting a balanced view of performance rather than selected highlights
- **For all annual reporting, internal verification** both by the Management Board and Supervisory (non-executive) Board members
- **For all annual reporting, expert external verification** of information and reporting, free from conflicts of interest

## 21. Responsibilities of the board

- Disclosure by members of the Supervisory Board and all executive managers of **material interests** in transactions or other matters affecting the corporation
- Ensure Supervisory Board and Management Board comprise individuals with **experience in corporate governance, and financial, social and environmental management**
- **Board members to act** on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and shareholders
- **Key functions of Management Board:**
  - Review and guide **corporate strategy**, risk policy, annual budgets and business plans
  - Set **performance objectives**
  - **Monitor** implementation and performance
  - Oversee **capital expenditure**, acquisitions and divestitures
  - Select, compensate, monitor, and where necessary, replace **key management executives**
  - Review key executives and **board remuneration**, and ensure transparent board nomination process
  - Monitor and **manage potential conflicts of interest** of management, board members and shareholders, including misuse of corporate assets and abuse in transactions
  - Ensure the **integrity** of accounting, financial, environmental and social reporting, including impartiality of independent auditing
  - **Monitor effectiveness** of the governance practices and making changes as needed
  - **Oversee the process of information disclosure** and communication
- **Key functions of Supervisory Board** (or non-executives on Management Board):
  - Exercise **objective judgment** on corporate affairs independent of management
  - Verify **integrity** of accounting, financial, environmental and social reporting, including impartiality of independent auditing
- **Equity partners** encouraged to bring experience in **investment and business management and social and environmental management**
- **Executive managers responsible for External Affairs, CSR, HSE** with adequate experience and of sufficient seniority to discharge duties effectively

## 22. Customer / End-user care

- Compliance with all legally required standards for **customer health and safety** and include **health warnings** and product safety and information labels
- Development of **policy and guidelines for customer care**, pursuant to domestic law and regulations and international obligations, including management and employee training, monitoring system and performance disclosure
- For goods and services, provision of **accurate and clear information** regarding the content, safe use, maintenance, storage and disposal sufficient to enable the end-user make informed decisions
- Development of disclosure policy and voluntary codes relating to **fair marketing and advertising**
- Respect for **consumer privacy** and protection of personal data

- Management of an effective **customer complaints** procedures and timely resolution of consumer disputes without undue cost or burden
- Consideration of **consumer diversity** in product labelling
- Co-operation in a transparent manner with **public authorities** in the prevention or removal of serious threats to public health and safety deriving from the consumption or use of products or services.

## Annex C

### Inventory of Public Sector Interventions to raise CSR Standards (enabling environment)

The body of recent research on the role of ‘public goods’ in supporting industrial development suggests the need to appraise different public sector interventions against three criteria, as follows:

- ▶ whether the intervention is demand driven (so as not to distort the market);
- ▶ the extent of public goods delivered from modifications to CSR practices, as opposed to private goods; and
- ▶ the delivery of international and national development objectives (in the case of FIAS this centres on increased competitiveness in global value chains and inward investment promotion).<sup>xvii</sup>

#### Economic

1. Monetary flows to the public sector
2. Employment and human resource development
3. Procurement and supply chain management
4. Technology transfer and intellectual property rights

#### Environment

5. Environmentally safe production, products and services
6. Environmental impact assessment and management
7. Environmental reporting and management systems

#### Social

8. Health and safety of employees
9. Labour standards
10. Corruption and bribery
11. Human Rights
12. Violence and Conflict
13. Social impact assessment and management
14. Community and stakeholder engagement (non-commercial)
15. Charitable giving
16. Social investment
17. Social reporting and management systems

#### Corporate Governance

18. Rights and treatment of shareholder
19. Governance policies and business principles
20. Information disclosure and reporting
21. Responsibilities of the Board
22. Customer/end-user care

# ECONOMIC

## 1. Monetary Flows to the Public Sector

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establish a legal or regulatory framework for the public <b>disclosure of payments by companies</b>.</p> <p>Within the framework of securities law establish linkage between the disclosure of payments and the <b>requirements for publicly listed companies</b> on stock exchanges (<a href="#">See EXAMPLE 1</a>)</p> <p>Establish legislation and regulatory controls setting out a framework for <b>distribution of resource rents and taxes</b> from national to sub-national and local levels, including, where appropriate a focus on the regions of production, for example:</p> <ul style="list-style-type: none"> <li>a minimum <b>percentage of company retained profits</b> (eg 1%) to be paid into a local community development trust or endowment fund (or similar arrangement), with requirements for community-management and credible regulation</li> <li>a minimum <b>percentage of government revenues</b> from company profits (eg 20 – 50%) to be directed to local governments in the regions of operations</li> </ul> <p>Augment the regulatory framework for statutory corporate taxation to <b>balance the burden on business</b> of complying with applicable tax laws with the need for tax authorities to have complete, timely and accurate information to enable the law to be enforced.</p>	<p>Make publicly available a register of payments by companies, or an annual publication, with effective <b>promotion of the register internationally</b> to strengthen the confidence of investors and buyers</p> <p>Instigate a transparent <b>system of tax concessions</b> for companies actively promoting the diffusion of investment-friendly CSR activities to local contractors, such as SME development or technology transfer</p>	<p>Participate in <b>international discussions</b> on private sector disclosure of public sector payments, with a view to identifying and implementing supportive public sector policies</p> <p>Convene in-country <b>multi-stakeholder forums</b> to develop principles for the management and redistribution of tax revenues</p> <p>Integration of discussions on revenue distribution from <b>sensitive industrial sectors</b> (eg those in the extractive industries) with overall policy planning for nation and regional security, with the aim of preventing the escalation into violence of community-company disputes in production regions</p> <p>Local governments and communities jointly management of <b>local community development trust or endowment funds</b> (or similar arrangement) financed through the distribution of tax revenues or other rents</p>	<p><b>Public statements</b> from government (eg disseminated through investment promotion channels) of support for disclosure of payments by foreign investors</p>

## ECONOMIC

### 2. Employment and human resource development

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
Within company or labour law establish nationally appropriate minimum <b>wage levels</b> (or formula) and <b>worker benefits</b> , eg health insurance or facilities; pensions; redundancy pay	<p>Within legal and international constraints, when negotiating investment, development or management agreements with investors, operators and contractors, require agreement on performance targets for <b>local content</b> (employment and supplier preferences).</p> <p>Prepare guidelines or 'models' for incorporating criteria and procedures for local employment content and skills development into <b>competitive tendering and contract design</b></p> <p>Work with investors and buyers to build understanding of linkages between <b>national employment policies</b> and companies' own employment policies</p> <p>Build incentives for companies to go <b>'beyond compliance'</b> on employment and skills transfer initiatives – eg through tax rewards, public policy statements in appropriate international forums, etc</p>	Relevant government-sponsored educational and training institutions to partner with companies that have <b>in-house training activities</b> , with the aim of examining potential for synergies (whilst retaining and exploiting links to private sector 'philanthropic' education activities)	<p>In cases of <b>redundancy and retrenchment</b> development of multi-stakeholder partnering agreements between business Human Resources Departments, trade unions, government manpower and employment agencies and civil society groups working on livelihood income and enterprise development, eg Placer Dome retrenchment programme in South Africa (<a href="http://www.southdeep.co.za">www.southdeep.co.za</a>)</p> <p>Endorse, through award schemes, companies that show <b>innovation in skills development</b> and skills transfer, eg those who transform conventional training programmes for upgrading semi-skilled workers to more formal certified apprenticeship training programmes (with consideration of future market demands) and linked to nationally or internationally recognized standards of excellence</p> <p><b>Lead-by-example</b> – incorporate criteria and procedures for local employment and skills development into competitive tendering and contract design on government contracts</p>

## ECONOMIC

### 3. Procurement and supply chain management

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establish <b>maximum payment periods</b> in respect of invoices properly issued by small enterprises</p> <p>Establish <b>mandatory framework for 'local content'</b> in public procurement/tendering on contracts above a certain value, backed by penalties for abuse</p>	<p>Prepare guidelines or '<b>models</b>' for incorporating criteria and procedures for local content and local business development into <b>competitive tendering and contract design</b></p> <p>Establish simplified, accessible procedures for <b>small claims</b> for breach of contract</p> <p>Facilitate linkages between large and small companies (non-competitors) to build <b>tendering capacity</b> in smaller companies – eg through cross-sectoral training sessions, perhaps hosted by public sector agencies.</p> <p><b>Grant schemes</b> or subsidies for places on ISO 9000/14000 training courses for SMEs</p> <p>Promote professionalisation of purchasing and supply practice through advocacy for <b>skills sharing/international exchanges</b> etc with international agencies and investors</p> <p>Incorporation of references to environmental/social issues in <b>investment promotion literature</b> making clear government preference for 'pro-CSR' investment and opportunities for showcasing the performance of domestic contractors in meeting these standards.</p> <p>Brokerage of skills transfer through <b>staff secondment from large-to-small business</b> in areas of key enterprise development need – eg in relation to bookkeeping and financial accounting skills.</p>	<p>Promote uptake of ISO 9000 and ISO 14000 certification by funding/hosting training or skills centers that showcase companies already certified and promote <b>business-to-business fertilisation</b>.</p> <p>Convene and contribute to <b>local enterprise development partnerships</b> designed to build local SME capacity to act as contractors and suppliers. Partnerships may involve:</p> <ul style="list-style-type: none"> <li>companies – procurement departments, quality inspectors and contract managers</li> <li>local government - vocational training agencies, extension services and micro-credit agencies;</li> <li>NGOs with business management training capacity, market research and regulatory navigation expertise</li> <li>Banks and development agencies – working capital and business development expertise</li> </ul> <p>Partner with local trade associations and business-development NGOs to build <b>data-base</b> and promote awareness among potential buyers and procuring businesses of <b>local enterprise capacities</b> in different regions and industrial sectors</p> <p>Work with exporters/trade associations and buyers in export markets to build <b>early-warning awareness of new requirements</b> (eg on environmental issues) likely to affect contracts for supply of goods and services in key sectors</p>	<p><b>Lead by example</b> through public procurement practices that facilitate effective access for small/start-up enterprises – eg through review of tender requirements on accounts such as meeting certain environmental standards (<a href="#">see EXAMPLE 2</a>),</p>

## ECONOMIC

### 4. Technology transfer and intellectual property rights

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p><b>Compulsory licensing</b> of key products and technologies (within limits allowed by international law) that are in the <b>public interest</b></p> <p>Legal protection for <b>intellectual property rights</b></p> <p>Legal or regulatory framework for companies licensing or selling technologies to ensure that terms and conditions are reasonable and allow for on-going <b>technology diffusion</b> and adaptation to local market opportunities</p>	<p>Prepare guidelines for incorporating criteria and procedures for promoting technology and skills transfer into <b>competitive tendering and contracts</b></p> <p><b>Facilitate investor</b> access on fair terms to locally developed technologies and work to build local capacity to conclude mutually beneficial contracts that do not exploit the innovating party</p> <p>Fund or seek international donor support for development of <b>negotiation skills for technology transfer/licensing</b> and awareness of legal aspects</p> <p>Undertake 'mapping' exercises to aid potential investors identify <b>commercial opportunities for technology transfer</b> at national/local level, eg environmentally clean technologies</p>	<p>Seek business input in the development of <b>public policy</b> in key areas of industrial policy with the explicit intention of promoting 'leapfrogging' to new (eg environmentally cleaner) technologies</p> <p>Joint business/public sector (university) partnerships to fund <b>scholarships</b> in areas of key industrial importance to the nation with respect to technology transfer, and incorporate <b>secondment of students to the sponsoring companies</b></p> <p>Joint industry-government development of guiding principles and clauses for technology licensing and purchase contracts</p> <p>Public sector support (eg through <b>export credits</b> with bi-lateral donors) to assist companies/investors in supplying critical 'hard' technologies necessary to develop domestic industries and markets</p> <p>Joint industry-business forums to agree public policy in relation to <b>intellectual property rights</b> (eg pharmaceuticals) and to negotiate preferential licenses to meet public policy goals such as <b>poverty reduction</b></p>	<p>Political endorsement of company best practice – eg <b>voluntary licensing</b> or transfer of key technologies to local businesses, universities or health centres</p>

## ENVIRONMENT

### 5. Environmentally safe production, products and services

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p><b>Legal framework</b> for environmentally safe production, products and services:</p> <ul style="list-style-type: none"> <li>- incorporate environmental considerations into existing production, product and service quality standards, including 'polluter pays' principles</li> <li>- require fair and quick remediation for redressing injuries caused to buyers, customers and others persons or property or other acts of non-compliance</li> <li>- redress for damage to valued environmental resources, eg for affected communities</li> <li>- legal protection for 'whistle blowers'</li> </ul> <p><b>Improved enforcement</b> of existing regulatory system for production, products and services:</p> <ul style="list-style-type: none"> <li>- <b>capacity-building</b> for health and safety and environmental regulators in preparing ToRs for site visits, reviewing reports and monitoring effectiveness of environmental risk management and contingency plans</li> <li>- more stringent <b>remediation</b> for production or product non-compliance and incidents, eg raise penalties for unauthorized release or disposal of pollutants or lack of contingency planning</li> <li>- regulatory requirements based on use of '<b>best available techniques</b>', or 'best practicable environmental option' to support continuous innovation in industry, eg in energy-intensive production, low pollutant emitting technologies and recycling</li> <li>- regulatory <b>product quality and labeling</b> criteria in accordance with standards of potential buyers and investors</li> <li>- Inspectors reports to include steps company is taking to move <b>beyond compliance</b>, and credit/endorse accordingly (aim is to link voluntary improvements in environmental risk management with legal framework)</li> </ul> <p>Establishment of mandatory <b>performance bonds</b> in relation to environmental and/or social issues in key sectors or key developments, eg as a clause in Development Agreements</p> <p><b>Race to the top</b> – adopt best corporate practice and/or best international codes into law, and create culture of ratcheting up environmental standards for production, products and services and related risks</p>	<p><b>Develop business outreach awareness</b> programmes on importance for international market access of incorporating certification for production and products, eg environmental management (ISO 14001); product labelling (eg ISO 14021); product life-cycle analysis (eg ISO 14040-49); product research and design (R&amp;D), eg ISO 14062</p> <p>Establish <b>national certification scheme</b>, with subsidies for participating companies to contract auditors</p> <p>Conduct overseas diplomatic and trade missions <b>promote exports of 'green goods'</b> and services in markets with significant numbers of ethical buyers and consumers</p> <p>Provide <b>tax incentives</b> for that proportion of operating costs or profits re-invested in setting up environmental management systems</p> <p>Develop <b>environmental management cooperation agreements</b> with key industry players<sup>xviii</sup> (<a href="#">see EXAMPLE 4</a>)</p> <p>Convene <b>standards setting</b> fora to promote uptake of international environmental production, products and service standards:</p> <ul style="list-style-type: none"> <li>- domestic industry based consensus; and/or</li> <li>- multi-stakeholder based forum</li> </ul> <p>Establish a <b>resource centre</b> for representatives of employees (eg trade unions) and employer/trade associations to inform effective labour-company agreements on conditions</p>	<p>Convene government-industry-civil society forums to develop '<b>home grown</b>' codes and labeling for key local products, coupled with development of marketing strategies for these goods in other markets, including exports (<a href="#">See EXAMPLE 5</a> and <a href="#">see EXAMPLE 6</a>)</p> <p><b>Collaborate with research institutions</b> and company R&amp;D departments to explore both market-based and regulatory methods for incentivising recycling and the development of recycling technologies, both in production and products &amp; services</p> <p>Joint government-industry <b>awareness raising among customers</b> and end-users of the measures taken to reduce the environmental risks of production technologies, products and services with aim of building consumer confidence in the market place for goods produced domestically</p> <p>Joint government-business-civil society training programmes involving company outreach and quality control managers, and civil society groups working with small-scale suppliers, with the aim of reducing the unintentional consequence of the environmental requirements of buyers acting as a <b>barrier to market access for local SMEs</b></p> <p>Incorporate teaching of production, products and service environmental safety and related management systems into <b>university and MBA curricula</b>.</p>	<p>Promote '<b>green/ethical consumerism</b>' at national level, eg publicity for locally produced goods and services that meet 'fair trade' or other relevant criteria (<a href="#">see EXAMPLE 3</a>)</p> <p><b>Endorse</b> companies (eg through awards schemes) with environmental production, product and service codes and <b>practices</b> that go beyond legal compliance</p>



## ENVIRONMENT

### 6. Environmental impact assessment and management

Mandating	Facilitating	Partnering	Endorsing
<p>Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations</p>	<p>Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)</p>	<p>Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices</p>	<p>Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices</p>
<p><b>Legal framework for environmental impact assessment (EIA):</b></p> <ul style="list-style-type: none"> <li>- formal (project-based) Environmental Impact Assessment procedures and requirements (with specific consideration of social, health, resettlement and indigenous peoples issues; community development opportunities; stakeholder engagement throughout life of investment; and integrated (environmental and social) impact assessment and management)</li> <li>- <b>harmonisation of requirements</b> for environmental clearance between ministries and sectors (eg mining and environment ministries)</li> <li>- setting or upgrading environmental <b>quality standards</b> (emissions and ambient quality)</li> <li>- instituting a <b>civil liability</b> legal framework for environmental pollution</li> <li>- <b>remediation</b> for acts of legal non-compliance, and protection for 'whistle blowers'</li> <li>- explicit <b>integration of EIA with the development planning system</b> (national and regional) and investment decision making</li> </ul> <p><b>Improved enforcement</b> of existing regulatory system for environmental impact assessment:</p> <ul style="list-style-type: none"> <li>- <b>capacity building</b> for environmental regulators in preparing ToRs for impact studies, negotiating fair compensation, reviewing reports and monitoring effectiveness of mitigation/management plans</li> <li>- <b>more stringent remediation</b> for non-compliance, eg raise penalties for lack of mitigation monitoring</li> <li>- independent preparation of impact assessment studies, <b>free from 'conflicts of interest'</b> eg 'streamed' contracts or commercial or family links between EIA contractors and contracting company</li> <li>- EIA reports and statements to include steps company is taking to move <b>beyond compliance</b>, and credit/endorse accordingly (aim is to link voluntary improvements in environmental management with legal framework)</li> </ul> <p>Development of a regulatory framework and enforcement capability for identifying and resolving liabilities over <b>environmental legacies</b> (especially extractive industries, forestry, and pollution incidents during manufacturing), without outcomes ranging from 'zero pollution' to 'fit for purpose'</p>	<p>Provide official guidance to national, regional and district planning authorities to develop <b>planning frameworks</b> that manage the impact of business operations, their facilities, supply chains and distribution networks across the life time of the investment in relation to:</p> <ul style="list-style-type: none"> <li>• <b>environmental protection</b> and rehabilitation; and</li> <li>• <b>capturing social and economic benefits</b>, eg skills development, local enterprise development, social and public infrastructure, employment opportunities, chronic poverty reduction etc.</li> </ul> <p>Establishment of accessible, independent and <b>effective courts, ombudsman, tribunal or arbitration services</b> staffed by experts in environmental assessment regulations and related laws (eg compensation), and skilled in alternative dispute resolution (ADR)</p>	<p>Convene multi-stakeholder forums to <b>cross-fertilise best practices in environmental impact assessment</b>, and involving, inter alia: environmental and health regulators; leadership companies; the principal contractors in the country; and civil society groups</p> <p>For controversial projects, government environmental regulators <b>partner with impact assessment teams</b> (company and contractors/consultants) to:</p> <ul style="list-style-type: none"> <li>• ensure regulatory compliance</li> <li>• promote mitigation acceptable to those affected</li> <li>• facilitate early consultation with local government authorities</li> <li>• review draft environmental management plans at a time when environmental considerations can still affect strategic design and investment decisions</li> </ul> <p>Joint awareness raising campaigns with industry and trade associations on the <b>potential cost savings</b> in engineering and project/production management arising from early consideration of environmental impact mitigation and technology improvements in front-end-design</p> <p><b>Joint research</b> with companies and civil society groups to tailor international and corporate best practices in environmental (and social) impact assessment to the local conditions and public/community expectations</p>	<p>Endorse (eg through awards schemes) companies applying best practice environmental impact assessment standards, in particular: explicit consideration of social, health resettlement and indigenous peoples issues; community development opportunities; stakeholder engagement throughout life of investment; and integrated (environmental and social) impact assessment and management</p> <p>Government to <b>lead-by-example</b> and incorporate best practice environmental (and social) impact assessment and management requirements into relevant government contracts, competitive tendering procedures, Development, Management or Concession agreements, and new investment in state-owned enterprises</p>

# ENVIRONMENT

## 7. Environmental reporting and management systems

Mandating	Facilitating	Partnering	Endorsing
<p>Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations</p>	<p>Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)</p>	<p>Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices</p>	<p>Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices</p>
<p>Establishment of <b>mandatory corporate environmental reporting</b> integrated within company law reporting requirements, and either attached to existing environmental controls on particular emissions, or as stand-alone legislation addressing a range of environmental issues including those that are not the subject of pollution control legislation</p> <p><b>Race to the top</b> – adopt best corporate environmental reporting practices and/or best international codes into law where practicable.</p> <p>Require companies publicly listed on national <b>stock exchange</b> to comply with minimum environmental management requirements (see <a href="#">EXAMPLE 7</a>), options include:</p> <ul style="list-style-type: none"> <li>▶ statement of business principles that incorporates environmental policy</li> <li>▶ commitment to continuous improvement in environmental performance</li> <li>▶ commitment to disclose environmental performance</li> <li>▶ commitment to independent verification of performance</li> <li>▶ commitment to related training for management and employees</li> <li>▶ commitment to develop a monitoring system</li> <li>▶ commitment to the precautionary approach in all operations in line with Principle 15 of the Rio Declaration on Environment and Development</li> </ul>	<p>Develop <b>business outreach programmes</b> on importance for international market access of incorporating environmental certification for production and products, eg environmental management (ISO 14001); product labelling (eg ISO 14021); product life-cycle analysis (eg ISO 14040-49); product research and design (R&amp;D), eg ISO 14062 (see <a href="#">EXAMPLE 8</a>)</p> <p>Publication of best practice <b>guidelines on environmental reporting</b> and establishment of related EMSs, based on broad consultations with industry, industry associations, other government departments and civil society groups (and endorsement of these guidelines by national environmental protection agency (or equivalent) and key political figure – eg Environment Minister)</p> <p>Establish <b>national certification scheme</b> for environmental reporting, with subsidies for participating companies to contract auditors</p> <p>Provide <b>affordable capital</b> (eg grants, matched funding, access to low interest debt) to support companies' efforts to improve labour-related management systems and pay for certification, or to support consultancy firms develop auditing/certification capacity</p> <p>Provide <b>tax incentives</b> for that proportion of operating costs or profits re-invested in setting up environmental management systems</p> <p>Augment existing <b>regulatory systems</b> to endorse companies in their adoption of environmental management systems, eg health and safety (and/or environmental agency) inspectors' reports to include summary of steps company is taking to move towards EMSs, and credit/endorse accordingly (aim is to link voluntary EMSs with legal framework)</p>	<p>Public sector participation in multi-stakeholder processes for development of international environmental reporting criteria (eg Global Reporting Initiative)</p> <p>Incorporate teaching of environmental management systems into <b>university and MBA curricula</b>.</p> <p>Convene multi-stakeholder forums to <b>cross-fertilise best practices in environmental management systems</b> (either generalized practice or industry-specific) involving: inter alia: environmental and health regulators; leadership companies; the principal contractors in the country; and civil society groups</p>	<p>Annual/biennial <b>environmental reporting 'green' awards</b> schemes to endorse companies that report on environmental performance and/or instigate EMSs</p>

## SOCIAL

### 8. Health and safety of employees

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Minimum legal requirements on <b>health and safety in the workplace</b>, including, inter alia:</p> <ul style="list-style-type: none"> <li>maximum permitted exposure levels of specific substances</li> <li>clear establishment of general duties on employers for provision of a safe working environment</li> <li>prohibition on employer 'contracting out'</li> </ul> <p>Mandatory <b>insurance</b> for workers in the event of occupational injury, with effective anti-avoidance provisions (eg to deal with subcontracted labour)</p> <p>Mandatory disclosure requirements in respect of <b>reportable incidents/injuries</b></p> <p><b>Rights of access to worker information</b> on health records held about them</p> <p><b>Whistle-blower protection</b> from recrimination for workers reporting health and safety breaches to regulators and/or others (eg NGOs)</p> <p>Effective access to <b>remedies</b>, including meaningful compensation for injured workers</p> <p>Effective legal underpinning for collective bargaining and freedom of association in respect of health and safety issues</p>	<p>Establish appropriate legal incentives for <b>continuous improvement</b> in workplace health and safety practice, eg mandatory business contributions to employers' compensation funds can be graduated in line with the number/frequency of reported incidents, so that 'best practice' companies are rewarded through lower premiums</p> <p>Build <b>capacity among local doctors</b> to identify key occupational diseases and hazards</p>	<p>Work in partnership with businesses and civil society based organizations – eg led through national medical research agencies - to establish <b>workplace policies on HIV/AIDS</b> that are integrated with public policy goals and public sector experience of 'best practice' on public health and disease prevention, taking account of local cultural norms</p> <p><b>Joint government-industry training programmes</b> in occupational health and safety, and health and safety risk assessment</p> <p>Business <b>health monitoring equipment</b> shared with health safety inspectorates and local hospitals with a view to facilitating attainment of public sector health goals and enhancing overall workforce productivity</p> <p>Leadership companies work with government and trade unions to build awareness and <b>best practice</b> in health and safety and associated management systems, including the design of training packs/resources for local SMEs</p>	<p>Political <b>endorsement for legal action</b> seeking redress for victims of industrial accidents</p> <p>Political endorsement/recognition for <b>best performing companies</b>: eg through an annual 'health and safety awareness' week endorsed by senior political figures</p>

## SOCIAL

### 9. Labour standards

Mandating	Facilitating	Partnering	Endorsing
<p>Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations</p>	<p>Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)</p>	<p>Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices</p>	<p>Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices</p>
<p>Generic legal framework for <b>minimum labour standards</b> (eg in company and contract law)*, based, for example, on ILO conventions if country is a signatory):</p> <ul style="list-style-type: none"> <li>- remuneration (minimum wage)</li> <li>- hours of work</li> <li>- health and safety</li> <li>- child labour (Convention 182)</li> <li>- compulsory labour (Convention 105)</li> <li>- freedom of association</li> <li>- non-discrimination (Convention 111)</li> <li>- non-harassment</li> <li>- remediation for acts of non-compliance, and protection for 'whistle blowers'</li> <li>- employee participation (Convention 94)</li> </ul> <p>*Development of <b>industry-specific legal framework</b> (company and contract law), drawing on above.</p> <p><b>Improved enforcement</b> of existing regulatory systems for labour standards:</p> <ul style="list-style-type: none"> <li>- Established or strengthened <b>Labour Commission</b></li> <li>- <b>More stringent remediation</b> for non-compliance, eg raise penalties</li> <li>- <b>Bias penalties</b> to companies that have not instituted voluntary systems of management and certification</li> <li>- Increases in capacity of labour and <b>health and safety Inspectorate</b></li> <li>- <b>ID systems</b> for workers on employee age to prevent perceived corporate risk of employing minors acting as an investment disincentive</li> <li>- <b>Inspectorators'</b> reports to include summary of steps company is taking to move beyond compliance, and credit/endorse accordingly (aim is to link promotion of voluntary codes with legal framework)</li> </ul> <p><b>Race to the top</b> – adopt best corporate practice and/or best international codes into law, and create culture of ratcheting up labour standards</p>	<p>Develop <b>business outreach programmes</b> on the importance for international market access of incorporating statements of principles on Labour Standards and on codes and certification options for operations and facilities (eg SA8000)</p> <p>Use diplomatic and trade links to <b>promote domestic companies</b> that are already compliant with the labour codes of potential foreign investors and/or have certified management systems</p> <p>Provide <b>tax incentives</b> for that proportion of operating costs or profits re-invested in setting up or running labour standards-related management systems</p> <p><b>Capacity-building for legal professionals</b> (criminal and civil) and adjudicators in relation to domestic and international labour rights (especially if signatory of ILO Convention)</p> <p><b>Capacity-building for trade unions, trade associations</b> and other employee/ employer representative organizations and affiliated NGOs to strengthen non-government enforcement and promotion of labour rights and codes, and raise awareness of grievance mechanisms and resources available for addressing non-compliance</p> <p>Convene <b>standards setting</b> forum to promote uptake and reduce prospect of parallel systems:</p> <ul style="list-style-type: none"> <li>- domestic industry based consensus; and/or</li> <li>- multi-stakeholder based forum</li> </ul> <p><b>Convert international labour codes</b> (non-binding codes and certification schemes) to be applicable to all suppliers in a sector. Options include:</p> <ul style="list-style-type: none"> <li>- corporate labour codes of main foreign investors, buyers or operators</li> <li>- international codes of conduct, eg ETI, ILO, OECD</li> </ul> <p>Establish a <b>resource centre</b> for representatives of employees (eg trade unions) and employers (eg trade associations) to inform effective labour-company agreements on conditions</p> <p>Establish accessible, independent and <b>effective courts, ombudsman, tribunal or arbitration services</b>, staffed by experts in labour laws, standards and skilled alternative dispute resolution (ADR)</p>	<p>In cases of <b>redundancy and retrenchment</b> development of tri-sector partnering agreements between business Human Resources Departments, trade unions, government manpower and employment agencies and civil society groups working on livelihood income and enterprise development, eg Placer Dome retrenchment programme in South Africa (<a href="http://www.southdeep.co.za">www.southdeep.co.za</a>)</p> <p>With business associations, unions and independent civil society groups, establish joint <b>national certification scheme</b>, with subsidies for participating companies to contract auditors</p> <p>Undertake <b>joint research</b> with companies and civil society groups to better understand barriers to compliance and to monitor the effect of labour standards on business, economic and social objectives, be they positive or negative.</p> <p>Incorporate teaching of labour standards and codes into university and MBA curricula.</p> <p>Collaborate with foreign development agencies to support NGOs in programmes of managed home working with aim of supporting women with very young children and to discourage child labour</p> <p>Provide grants, matched funding, access to low interest debt and other forms of affordable capital to support companies' efforts to improve labour-related management systems and pay for certification, or to support consultancy firms develop auditing/certification capacity</p> <p>Broker strategic alliances between purchaser companies (and possibly principal contractors) to align best practice labour codes and management systems and agree strategies for adoption by suppliers (with aim of reducing transaction costs and promote cross-fertilisation)</p>	<p>Government to <b>lead-by-example</b> and incorporate best practice labour codes into government contracts, competitive tendering procedures, Development, Management or Concession agreements, and the operations of state-owned enterprises</p> <p><b>Publicly endorse labour codes</b> that go beyond legal compliance, eg in policy statements</p>

## SOCIAL

### 10. Corruption and bribery

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establish <b>minimum legal requirements to criminalise corrupt payments</b>. Consider the boundaries of such legislation, and whether there is a case for covering payments between private sector actors, backed by whistle blower protection.</p> <p>Establish legislation and appropriate penalties on <b>party and political finance</b>, with particular reference to corporate contributions. (See <a href="#">EXAMPLE 9</a>)</p> <p>Develop clear legislation on the <b>proportion of revenues</b> paid by businesses to central government that should be allocated to the local level</p> <p>Require mandatory disclosure of <b>business payments</b> to government/public sector officials (see <i>CSR category: Monetary Contributions to the Public Sector</i>)</p>	<p>Establish clear <b>corruption complaints mechanism</b> with independent governance and a power of inquiry and referral to prosecutors (eg in the form of a Corruption Commission)</p> <p>Disseminate information regarding access to <b>company-run hotlines</b> for reporting instances of corruption</p> <p>Provide <b>anti-corruption training</b> for public officials, including, for example, the provisions of the OECD Convention on Bribery (Table B1), and incorporating international case studies from 'best practice' businesses (with aim of reducing the 'demand side' of bribery)</p> <p>Maintain publicly available information on <b>duties of different public sector departments</b> and their reporting/accountability lines.</p> <p>Provide clarity, eg public statements, on <b>scope of discretionary powers</b> held by authorities empowered to grant licences/award contracts and intervene with day to day business activities</p> <p>Establishment of a free and <b>independent judiciary</b> including transparent appointment processes for judges and training in key areas of law identified as relevant to bribery and corruption</p>	<p>Joint <b>government-business-civil society forum</b> to negotiate consensus on principles for anti-corruption, including identification and diagnosis of institutional weaknesses, ie 'hot spots', and</p> <p>With regard to extractive industries, develop multi-stakeholder dialogue to agree <b>voluntary compensation frameworks</b> for communities and individuals affected by extractive industry activities</p>	<p>Political endorsement of <b>enforcement against corrupt officials</b>, and whistle-blowing by individuals.</p> <p>Political <b>endorsement of press freedom</b></p> <p>Political endorsement of <b>cross-sectoral multi-stakeholder partnerships</b> between business and civil society to combat corruption through greater transparency and trust.</p> <p><b>Lead by example</b> – government departments maintain published <b>registry of all payments</b> to and from contractors working on government projects,</p> <p>In state owned enterprises, discourage employee reward and <b>incentive schemes that facilitate dishonesty</b> and mal practice by creating an unreasonable pressure to achieve targets</p>

## SOCIAL

### 11. Human Rights

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p><b>Constitutional recognition</b> for and legal protection against human rights violations (harassment, denial or freedom of assembly, arbitrary arrest and detention, hostage taking, disappearances, torture, extra-judicial killing), and <b>penalties for companies aiding and abetting</b> or complicit in, human rights abuses by public sector agents/bodies</p> <p>Legal recognition for <b>traditional land rights</b></p> <p><b>Whistle-blower protection</b> legislation for employees reporting human rights violations</p> <p>Establishment of a <b>constitutional court</b></p>	<p>Establishment or strengthening of a <b>free and independent judiciary</b> including transparent appointment processes for judges and training in key areas of law relevant to human rights</p> <p><b>Human rights training</b> for members of the judiciary and other key public sector actors such as security forces</p> <p>Publicly available registers of court hearings and judgments relating to human rights violation cases</p> <p>Public rights of <b>access to information</b> and direct participation in decision-making connected to new developments and other investment decisions</p> <p>Clear public policy statements on operational arrangements in relation to provision of <b>security around sensitive business facilities</b></p> <p>Inclusion of human rights education in <b>national curricula</b></p> <p>Effective <b>legal assistance</b> for human rights cases, including through legal endorsement of appropriate charging structures for lawyers (eg on a 'no-win-no-fee' basis)</p> <p>Support for establishment of independent <b>human rights commissions</b> at national level, with a mandate sufficiently broad to allow consideration of private sector roles and responsibilities</p>	<p>Joint government-industry training and <b>policy development</b> on human rights issues involving key public sector personnel (eg security forces) and leadership businesses in potentially <b>sensitive sectors</b>, eg extractive industries</p> <p><b>Company/state co-funding</b> for human rights education in school curricula</p>	<p><b>Political commitment</b> to respond to relevant findings of national human rights commissions</p> <p>Clear political <b>denouncement of human rights violations</b></p> <p>Promotion of the relevance of the <b>Universal Declaration of Human Rights</b> to 'all organs of society' including businesses</p> <p>Inclusion of '<b>star performers</b>' in the private sector in nominations for human rights awards</p>

## SOCIAL

### 12. Violence and Conflict

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
A clear, accessible and equitable <b>land rights framework</b> , including provisions for mandatory consultation and adequate compensation for compulsory acquisition of land and accessible and independent dispute settlement fora	Clear 'conflict minimising' guidelines and <b>policies for security</b> personnel working around sensitive business operations, including clear divisions of roles between state and company security forces  Establishment of a <b>free and independent judiciary</b> including transparent appointment processes for judges and training in key areas of law identified as relevant to conflict prevention (eg land rights; freedom from workplace discrimination, etc)	<i>Where appropriate in the light of the sources of conflict or violence:</i>  Establishment of <b>enterprise development</b> promotion initiatives in conflict zones to provide a credible 'alternative' to the economic advantages gained from violence.  Dialogues on the local impacts of security measures around <b>security sensitive investments</b>  Joint government-company <b>conflict prevention training</b> for new public sector recruits to conflict zones focusing on the detailed local context and sensitivities  Partnerships with local businesses in <b>post-conflict</b> situations to ensure freedom from discrimination in recruiting new staff and in employment benefits	Political endorsement for the principle of legal action by victims for <b>redress</b> in cases of human rights violations



## SOCIAL

### 13. Social impact assessment and management

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p><b>Augmentation of legal framework for environmental impact</b> assessment to explicitly encompass social and socio-economic factors, including: health impacts, resettlement, indigenous peoples issues, community development, stakeholder engagement.</p> <p><b>Improved enforcement</b> of existing regulatory system for environmental impact assessment to include social and socio-economic factors (as above), in particular:</p> <ul style="list-style-type: none"> <li>- <b>capacity building</b> for environmental regulators in: preparing ToRs for social impact assessment studies; negotiating fair compensation; reviewing social impact statements and management plans; and monitoring effectiveness of mitigation/management plans over time</li> <li>- Require independent preparation of social impact assessment studies, <b>free from 'conflicts of interest'</b> eg 'streamed' contracts or commercial or family links between EIA contractors and contracting company</li> <li>- EIA reports and statements to include steps company is taking to move <b>beyond compliance</b> with current social requirements (such as consulting only at time of final draft report), and credit/ endorse accordingly (aim is to link voluntary improvements in social management with legal framework)</li> </ul> <p>Development of a regulatory framework and enforcement capability for identifying and <b>resolving disputes</b> between companies and communities, eg over compensation for compulsory land acquisition, resettlement and displacement claims, access to employment opportunities or SME contracting</p> <p>Development of a legal framework for negotiation of <b>social responsibility agreements</b> (<a href="#">see EXAMPLE 10</a>)</p>	<p>Develop best practice guidance to assist national, regional and district planning authorities to develop <b>planning frameworks</b> that manage the impact of business operations, their facilities, supply chains and distribution networks across the life time of the investment in relation to:</p> <ul style="list-style-type: none"> <li>• mitigating and managing adverse social and socio-economic impacts, and</li> <li>• capturing the <b>social and economic benefits</b>, eg tax revenue distribution, skills development, enterprise development, social and public infrastructure, employment opportunities, chronic poverty reduction etc.</li> </ul> <p>Best practice guidance notes (either generalised for industry specific) aimed at EIA contractors to help them <b>recruit consultants</b> who can focus on social, socio-economic and health impacts.</p> <p>Developed through broad consultation, clear statements of <b>economic and social development policy</b> in relation to sector-specific industrial/ enterprise development priorities in different parts of the country/region.</p> <p>Clear public policy statements for different industrial sectors on expectations in relation to how private sector investments will facilitate <b>local enterprise development</b> and the development of <b>social infrastructure</b> (the aim is to define from the outset the boundaries between public and private sectors in contributing to public goods)</p> <p>Establishment of accessible, independent and <b>effective courts, and ombudsman, tribunal or arbitration services</b> staffed by experts in (new) social assessment regulations and related laws (eg compensation and displacement), and skilled in alternative dispute resolution (ADR)</p>	<p>Convene multi-stakeholder forums to <b>cross-fertilise best practices in social impact assessment</b> (either generalized guidance or industry-specific) involving: inter alia: environmental and health regulators; Ministries for Rural/Local Development and Employment; leadership companies; the principal contractors in the country; and civil society groups</p> <p>Undertake <b>joint research</b> with companies and civil society groups to tailor international and corporate best practices in social impact assessment to the local conditions and public/community expectations</p>	<p><b>Endorse (eg through awards schemes)</b> companies applying best practice social impact assessment standards, in particular: explicit consideration of health impacts, resettlement, indigenous peoples issues, community development opportunities, and stakeholder engagement throughout life of investment</p> <p>Government to <b>lead-by-example</b> and incorporate best practice social impact assessment and management requirements into relevant government contracts, competitive tendering procedures, Development, Management or Concession agreements, and new investment in state-owned enterprises</p>



## SOCIAL

### 14. Community and stakeholder engagement (non-commercial)

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Adopt <b>best corporate practice</b> and/or best international codes on aspects of stakeholder consultation, engagement and information disclosure into the following provisions:</p> <ul style="list-style-type: none"> <li>granting of environmental permits for large projects or projects in environmentally sensitive locations (eg through use of EIA instruments)</li> <li>national poverty reduction planning and implementation</li> <li>sectoral reform programmes</li> <li>regional development planning</li> <li>district development planning</li> <li>privatisation programmes</li> <li>large-scale or potentially controversial investment and development decisions</li> </ul> <p><b>Harmonise standards</b> for stakeholder engagement across different industries to streamline regulatory enforcement and avoid duplication</p> <p>Require informed consent of <b>local government authorities</b> (relevant village, district and regional levels):</p> <ul style="list-style-type: none"> <li>prior to exploration or site investigation; and/or</li> <li>prior to reaching a decision on a development, management or concession agreement</li> </ul>	<p>Establish a <b>clear property rights framework</b> to reduce potential for disputes</p> <p>Provide access to information on consultants or individuals from civil society groups, to advise on <b>locally appropriate stakeholder consultation</b> processes and ways to maximize engagement</p> <p>Support development of professional associations seeking to enhance their <b>capacity in stakeholder consultation</b> and engagement</p> <p>Develop <b>best practice guidance notes</b> (either generalised for industry specific) aimed at EIA contractors to help them adjust to a greater emphasis on stakeholder engagement and consultation.</p> <p>Establishment of accessible, independent and <b>effective courts, ombudsman, tribunal or arbitration services</b>, staffed by experts in environmental and social performance regulations and related laws (eg compensation), and skilled in alternative dispute resolution (ADR) and consensus building</p>	<p>Joint development of 'best practice' guidelines on stakeholder engagement in environmental and social impact assessment</p> <p>Convene multi-stakeholder forums to <b>cross-fertilise best practices in stakeholder engagement and consultation</b> (either generalized guidance or industry-specific) involving: inter alia: environmental and health regulators; Ministries for Rural/Local Development and Employment; leadership companies; the principal contractors in the country; and civil society groups</p>	<p>Government to <b>lead-by-example</b> and incorporate best practice stakeholder engagement and consultation into relevant government contracts, competitive tendering procedures, Development, Management or Concession agreements, and new investment in state-owned enterprises</p>

## SOCIAL

### 15. Charitable giving

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
	<p><b>Tax incentives for corporate donations</b>, eg donations as tax deductions (<a href="#">see EXAMPLE 11</a>)</p> <p>Enabling legislation or regulations to encourage <b>corporate sponsorship</b> of education and vocational training establishments, eg those specializing in skills critical to the development of a particular industrial sector</p> <p>Enabling legislation to protect companies that establish <b>charitable trust funds</b> or endowment funds from liabilities</p>	<p>Government-industry joint identification of strategic opportunities for <b>employee volunteering</b> and placement to assist government deliver public policy goals and public goods, eg local business development</p> <p><b>Joint funding schemes</b> where government agrees to match corporate resources donated to selected charitable causes, eg industry related scholarships or research</p> <p><b>Government-industry placement trading</b>, with aim of cross-fertilising best practices and knowledge</p>	<b>Public praise</b> and awards for companies or CEOs who have demonstrably contributed to charitable causes

## SOCIAL

### 16. Social investment

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Mandate in law a minimum <b>percentage of company retained profits</b> (eg 1%) to be paid into a local community development trust or endowment fund (or similar arrangement), with requirements for community-management and credible regulation</p> <p>Mandate in law a minimum <b>percentage of government revenues</b> from company profits (eg 20 – 50%) to be directed to local governments in the regions of operations</p>	<p>Develop <b>clear statements of policy</b> on willingness to engage in various forms of public private partnership relevant to CSR – eg in relation to provision of infrastructure incidental to new developments</p> <p><b>Tax incentives</b> for companies providing priority community infrastructure and clear statements of principles on respective roles and responsibilities.</p> <p>Clear public policy statements for different industrial sectors on expectations in relation to how investments will facilitate <b>local enterprise development</b> and the development of social infrastructure (aim is to define from the outset the boundaries between public and private sectors in contributing to public goods)</p> <p><b>Support and fund domestic research institutions</b> that collaborate with the R&amp;D departments of companies (either in country or overseas) to develop commercially viable products and services for low income consumers, with aim of developing a dynamic innovation culture in the host country that expands commercial opportunities for domestic or foreign investors</p>	<p>Convene and contribute to multi-stakeholder partnerships that '<b>roll-out</b>' the <b>operational infrastructure</b> of business operations in alignment with the public sector strategic infrastructure plans of regional and district level government. Such partnerships can be built around any type of investment where permanent or temporary infrastructure (water supply, sanitation, telecommunications, transportation, and power generation and/or distribution, waste disposal, health facilities) is a feature of the development or operational phases. Partnerships may involve:</p> <ul style="list-style-type: none"> <li>▪ <i>companies</i> – engineering and design, procurement of contractors, project management, construction materials;</li> <li>▪ <i>local government</i> – regulatory authorities, infrastructure development planning, public works departments</li> <li>▪ <i>NGOs</i> - with expertise in appropriate infrastructure technology and design and <i>management of cost-recovery systems for low income user</i>;</li> <li>▪ <i>development agencies</i> – low cost finance and/or risk guarantees</li> </ul> <p>Convene and contribute to multi-stakeholder business development partnerships designed to <b>build local SME capacity</b> to act as contractors and suppliers. Partnerships may involve:</p> <ul style="list-style-type: none"> <li>▪ <i>companies</i> – procurement departments, quality inspectors and contract managers</li> <li>▪ <i>local government</i> - vocational training agencies, extension services and <i>micro-credit agencies</i>;</li> <li>▪ <i>NGOs</i> - with business management training capacity, market research and regulatory navigation expertise</li> <li>▪ <i>Banks and development agencies</i> – working capital and business development expertise</li> </ul>	Publicise (eg through award schemes) companies showing <b>innovation in social investment</b> , in particular those investments that combine a strong community development benefit with achieving strategic business objectives

## SOCIAL

### 17. Social reporting and management systems

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establishment of <b>mandatory social management and performance reporting</b> integrated within reporting requirements under company law, or as stand-alone legislation addressing a range of social issues not currently addressed through other legislation</p> <p>Require companies publicly listed on national <b>stock exchange</b> to comply with minimum social performance and management requirements, options include:</p> <ul style="list-style-type: none"> <li>▶ statement of business principles that incorporates social policy</li> <li>▶ commitment to continuous improvement</li> <li>▶ commitment to disclose social performance</li> <li>▶ commitment to independent verification</li> <li>▶ commitment to related management and employee training</li> <li>▶ commitment to develop a monitoring system</li> </ul> <p>For socially sensitive industries, include in reporting guidelines for Environment Agency and/or specific <b>industry inspectorates</b> a request for information on social management and performance (aim is to link promotion of voluntary codes on social performance within current regulatory framework)</p>	<p>Establish guidelines, codes or policy statements on social performance/accountability for <b>socially sensitive industries</b></p> <p>Request information on social performance issues from potential <b>new investors</b> and national companies (eg those with particularly significant impacts or employing more than a threshold number of employees, or with turnover above a particular threshold)</p> <p>Develop <b>business outreach programmes</b> on importance for international market access of preparing for certification of social performance in the future, eg dissemination of key social standards: SA8000/AA1000</p> <p><b>Subsidised training for local auditors/verifiers</b> and dissemination of information on key social standards</p> <p>Provide grants, matched funding, access to low interest debt and other forms of <b>affordable capital</b> to support companies' efforts to improve their social management systems and pay for certification, or to support consultancy firms develop auditing/certification capacity</p> <p>Provide <b>tax incentives</b> for that proportion of operating costs or profits re-invested in setting up social management systems</p>	<p>Participation in multi-stakeholder processes for development of social reporting criteria (eg Global Reporting Initiative, SA8000)</p> <p>Joint training programmes with company outreach and quality control managers, and civil society groups working with small-scale suppliers, to reduce unintentional consequence of social management systems, eg where social management requirements of main buyers acts as a <b>barrier to market access for local SMEs</b></p> <p>Incorporate teaching of social management, performance and reporting systems into <b>university and MBA curricula</b>.</p> <p>Convene multi-stakeholder forums to <b>cross-fertilise best practices in social management systems</b> (either generalized guidance or industry-specific) involving: inter alia: environmental and health regulators; leadership companies; the principal contractors in the country; and civil society groups</p>	<p>Lead by example, incorporate within the requirements for tender submissions on <b>government contracts</b>, evidence of social reporting and management</p> <p><b>Publication of guidelines on social reporting</b> and establishment of related management systems, based on broad consultations with industry, industry associations, other government departments and civil society groups (and endorsement of these guidelines by key political figures).</p>

## CORPORATE GOVERNANCE

### 18. Rights and treatment of shareholders

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Assuming that basic shareholder rights (<i>see CSR column</i>) are captured in company and securities law, consider <b>specific amendments</b> or changes in the regulatory and securities systems to:</p> <ul style="list-style-type: none"> <li>allow shareholder approval of auditors</li> <li>establish maximum terms for external auditors and protection against conflicts-of-interest</li> <li>allow direct nomination of board members</li> <li>afford and ability to pledge shares</li> <li>afford rights to approve the distribution of profits</li> <li>prevent insider dealing</li> <li>prevent use of anti-takeover devices</li> <li>prevent tactical impediments to shareholders exercising their rights, eg charging fees to voting, requiring personal attendance at AGMs, or sending proxy materials to close to the time of voting etc.</li> <li>shareholder/creditor involvement in insolvency proceedings</li> </ul> <p>Establishment of laws to protect <b>'whistle-blowers'</b> exposing corporate wrongdoing</p> <p>Develop a legal system that strikes the <b>right balance</b> between allowing investors and shareholder to seek remedies for infringement of ownership rights, but avoiding excessive, drawn-out, litigation</p>	<p>Promote <b>multi-country exchange</b> of private sector best practice through advocacy: eg by promoting the idea of best practice exchanges with donors, visiting trade missions, commercial law firms or bar associations</p> <p>Preferential trading of shares by companies that voluntarily undertake to abide by key corporate governance practices and disclosure requirements beyond those in legislation, eg allowing pension funds to invest a higher percentage of assets in domestic equities (<a href="#">see EXAMPLE 12</a>)</p> <p>As an alternative to a legal system of shareholder redress for corporate infringement of ownership rights, establish <b>alternative adjudication procedures</b> such as administrative hearings or arbitration procedures organized by securities regulators or others.</p> <p>Develop <b>best practice guidance</b> or codes on employee participation as shareholders (and lead by example in state-owned enterprises), including:</p> <ul style="list-style-type: none"> <li>employee representation on the board</li> <li>employee stock ownership and other types of profit sharing</li> </ul>	<p>Initiate dialogue with concerned trade associations and enterprises to discuss options for <b>strengthening implementation and enforcement of securities</b> regulations eg by using commercial levers such as exploring the potential for enhanced synergies with public policy goals and relevant professional associations for the banking, finance, legal and accountancy sectors</p>	

# CORPORATE GOVERNANCE

## 19. Governance policies and business principles

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establish minimum requirements of <b>competition and anti-trust law</b> to prevent price fixing and cartels, rigging bids, competitor agreements on output restrictions and market allocations). Incorporate appropriate penalties and related enforcement framework.</p> <p>Prepare <b>regulatory guidance</b> on enforcement of anti-competitive practices, making clear the scope for discretion by the regulators in response to pressure from other public bodies.</p> <p>Develop securities regulation that links certain good governance standards to stock <b>exchange listing requirements</b>, for example:</p> <ul style="list-style-type: none"> <li>• corporate statement of business principles</li> <li>• functions and responsibilities of executive and non-executive board members</li> <li>• specific risks register</li> <li>• the meeting of core environmental, labour, health and safety standards</li> <li>• audited financial statements that disclose transactions relating to the entire corporate group, including off-balance sheet items</li> </ul>	<p>Government to amend regulations, eg on health, safety, human rights, corruption, labour and environment to <b>underpin zero reprisal policies</b> of companies aimed at preventing conflicts of interest between commercial objectives and CSR compliance; and provide capacity building for establishing ombudsmen, tribunal and arbitration services accordingly</p> <p>Establish wide <b>rights of access to justice and public access to information</b> (including duties on companies to consult with stakeholders in defined/priority circumstances) with a view to supporting local capacity to hold business to account.</p> <p>Development of in-country <b>industry-wide protocols</b> and principles, combined with reporting procedures, auditing/verification management systems and capacity building capabilities for companies agreeing to adopt the systems</p>	<p>Joint working parties and consultative programmes involving industry, government regulators and interested civil society groups in the development of voluntary codes, policies, regulations and/or laws relating to various aspects of CSR.</p> <p>Convene dialogue with civil society organizations to develop principles and arrangements for these organizations to play a constructive role in <b>monitoring corporate governance, social and environmental performance</b> and exposing bad practice that could undermine investment promotion</p>	<p>Initiative Government-backed <b>awards schemes</b> for CSR innovators within businesses (including SMEs)</p>

## CORPORATE GOVERNANCE

### 20. Information disclosure and reporting

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Within company and/or securities law establish minimum <b>legal requirements</b> for disclosure in annual <b>financial accounts</b>, and for auditing and verification</p> <p>Establish minimum <b>legal requirements</b> for corporate disclosure of <b>environmental or social information</b> attached to environment, health and safety and/or labour legislation and consider provisions on public access</p> <p>Legal and regulatory provision for citizens to <b>access information</b> in government possession on company governance, financial, social and environmental performance for which there is not a valid and publicly stated reason for non-disclosure</p>	<p>Give political support to development of <b>independent professional bodies</b> in the financial/accounting sector who can develop 'best practice' standards on an ongoing basis and effectively contribute to development of international accounting standards</p> <p>Facilitate participation by professionals within local (non foreign controlled) businesses in the <b>development of standards</b> - eg through advocacy and encouraging 'partnering' arrangements between multinationals and local companies.</p> <p>Establish a <b>resource center</b> providing a single point of access for citizens to information in government possession on company governance, financial, social and environmental performance.</p> <p>Promote linkages between company targets on social and environmental issues and relevant <b>public sector policies and goals</b> – eg through discussion forums, leaflets, etc – to facilitate voluntary private sector action in areas of synergy</p>	<p>Take part in multi-stakeholder process to develop <b>standards on environmental/social reporting</b> that reflect the variety of local contexts (eg Global Reporting Initiative)</p> <p>Convene <b>multi-stakeholder fora</b> to build understanding on most appropriate balance between public sector regulation and professional self-regulation in relation to reporting and auditing</p>	

## CORPORATE GOVERNANCE

### 21. Responsibilities of the Board

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establishment of minimum standards of company and related law addressing issues of business management and governance, with special consideration of various <b>functions of the management board</b>, including:</p> <ul style="list-style-type: none"> <li>▪ corporate strategy,</li> <li>▪ risk policy,</li> <li>▪ annual budgets and business plans,</li> <li>▪ performance objectives,</li> <li>▪ overall performance,</li> <li>▪ capital expenditure, acquisitions and divestitures,</li> <li>▪ management remuneration</li> <li>▪ integrity of accounting, financial, environmental and social reporting, including impartiality of independent auditing, process of information disclosure and communication</li> <li>▪ monitor performance of pension fund</li> </ul> <p>and of the <b>Supervisory Board</b> or non-executive board members:</p> <ul style="list-style-type: none"> <li>▪ verification of the integrity of accounts, and financial, environmental and social reports, including impartiality of independence of external auditing</li> <li>▪ monitoring potential conflicts of interest of Management Board</li> <li>▪ nomination process and remuneration of for executive management board</li> <li>▪ oversight of pension fund</li> </ul>	<p>Commission <b>survey</b> of professional needs/requirements for capacity building around auditing/ verification issues</p> <p>Consider potential for government <b>incentives for pension fund investment</b> in companies with good corporate governance practices (<a href="#">see EXAMPLE 12</a>)</p>		<p>Lead by example on active corporate governance, eg through promotion of active engagement by trustees of <b>civil service pension funds</b> on key corporate governance/corporate citizenship/ corporate accountability issues</p>



## CORPORATE GOVERNANCE

### 22. Customer/end-user care

Mandating	Facilitating	Partnering	Endorsing
Laws, by-laws, regulations and penalties pertaining to the control of some aspect of business investment or operations	Incentives, non-binding guidance and codes, endorsements and deterrents, such as market stimulation, tax incentives, awareness raising, processes of stakeholder dialogue (the public sector will not always be the lead agency in executing these activities)	Combining public resources with those of business to leverage complementary resources, realise economies of scale and cross-fertilise best practices	Public or political support for CSR performing companies and facilitating civil society organisations in the form of publicised praise or awards; involving leadership companies in the public policy arena; endorsing specific metrics, indicators, guidelines and standards; and 'leading by example' through public sector procurement practices
<p>Establish <b>minimum legal requirements</b> to tackle false and misleading product and advertising claims, backed with appropriate complaints and enforcement mechanisms</p> <p>Establish <b>data protection</b> legislation</p> <p>Establish minimum requirements for <b>consumer protection</b></p>	<p><b>Raise awareness</b> within private sector and among citizens of obligations in relation to data protection and other relevant legislation</p> <p>Support establishment of <b>professional regulators in the advertising/marketing industry</b>, eg through appropriate endorsements of professional bodies' codes</p> <p>Protect domestic export markets by secure technical assistance from bilateral donors or business channels to strengthen capacity for <b>product lab testing, accreditation and certification</b> for internationally traded goods</p>	<p>Partner with professional bodies/civil society based groups to develop and minimum professional <b>codes of ethics</b>.</p> <p>Joint government industry <b>awareness raising among customers</b> and end-users of the measures taken to reduce the environmental risks of production technologies, products and services with aim of building consumer confidence in the market place for goods produced in the country</p>	

## Selected Examples of Public Sector Roles in Strengthening CSR<sup>xix</sup>

CSR Themes	Examples of Public Sector Roles
ECONOMIC	<p><b>Example 1 Publish What You Pay</b></p> <p>A coalition of NGOs and civil society organisations is calling on governments to take leadership in promoting transparency over resource revenues worldwide. A recent move by the UK government calls for voluntary disclosure of revenues paid to developing country governments by extractive industries. The aim is to encourage the transparency and accountability of the national authorities receiving these payments. However, the coalition argues that regulation linking disclosure to stock exchange listing requirements is required to prevent companies flouting a voluntary agreement.  Source: <a href="http://www.publishwhatyoupay.org">www.publishwhatyoupay.org</a></p>
ECONOMIC	<p><b>Example 2 Public Procurement, Taiwan</b></p> <p>The Taiwan Environmental Protection Administration (EPA) has run an eco-labelling scheme (Green Mark) since 1992. In 1998 a Government Procurement Act was introduced which included a clause to promote the scheme. This stipulates that products bearing the Green Mark or with comparable characteristics should be given priority in government procurement bids and benefit from a price advantage of 10%. The EPA and the Public Construction Commission have since drawn up Regulations for the Priority Procurement of Eco-Products by Government Organisations. The EPA provides training and guides in green procurement for government procurement staff. By November 2000, the Green Mark programme had drawn up 67 product criteria and awarded the logo to 906 products manufactured by 225 companies, with a combined product value equivalent to the annual turnover of the Taiwanese clothing industry.  Source: <a href="http://www.epa.gov.tw">www.epa.gov.tw</a></p>
ENVIRONMENT	<p><b>Example 3 Proudly South African</b></p> <p>Proudly South African is a non-profit company set up by the government-led NEDLAC. It involves a campaign to promote South African companies, products and services in order to support job creation and economic growth, but crucially also requires companies to demonstrate their commitment to social responsibility. A logo signifies to consumers that the company satisfies criteria on local content, quality, commitment to fair labour standards and sound environmental practices. By June 2002 two hundred members had been granted membership, and the campaign expects to have around 400 members by the end of 2002.  Negotiations are under way to recognise membership status as a factor in government procurement decisions, with the Department for Education so far having committed itself to giving preference to members in awarding tenders. Future plans for the campaign also include international promotions and publicity, and export advice.  Source: <a href="http://www.proudlysa.co.za">www.proudlysa.co.za</a></p>
ENVIRONMENT	<p><b>Example 4 Environmental Management Cooperation Agreements, South Africa</b></p> <p>A key outcome of post-1994 environmental policy debates in South Africa has been a statutory recognition of voluntary agreements or 'Environmental Management Co-operation Agreements' (EMCAs) in section 35 of the National Environmental Management Act (NEMA). Influenced by the Dutch experience with environmental covenants, EMCAs are conceived of as a type of <i>administrative agreement</i> between public authorities and 'any other person – or community' for the purpose of compliance with NEMA (Acutt, 2002).  Work within the Department of Environmental Affairs and Tourism to implement EMCAs has met with resistance from some South African NGOs, who argue that the minimum conditions for these kinds of tools to be effective instruments for environmental protection are not present in South Africa.  Sources: Acutt, N. (2002), <i>Corporate Environmental Responsibility: The South African Experience with Voluntary Initiatives</i>, paper presented to CEMSA conference, Johannesburg, August 2002  Albertyn, C. and G. Watkins (2002) <i>Partners in Pollution: Voluntary agreements and corporate greenwash</i>, Groundwork and FoE International</p>

CSR Themes	Examples of Public Sector Roles
ENVIRONMENT	<p><b>Example 5 Green Markets Program, Colombia</b></p> <p>The Ministry of the Environment created the Green Markets Program in order to develop instruments and mechanisms that induce the production of "green" goods and services that may be competitive in both national and international markets. The Program will be supported by a voluntary National Eco-labelling Program. The Green Markets Program is in charge of coordinating various related government initiatives, including:</p> <ul style="list-style-type: none"> <li>• <i>Organic Agricultural Program (Ministry of Agriculture and Rural Development)</i>: promoting the production and consumption of organic food in Colombia.</li> <li>• <i>Clean Development Mechanism (Ministry of the Environment)</i>: promoting and approving projects oriented to the reduction of Greenhouse Gases.</li> <li>• <i>Industrial Eco-products and Environmental Services Initiative (Ministry of the Environment)</i>: promoting the production of environmental friendly goods and services.</li> <li>• <i>Bio-commerce Initiative (developed by the Alexander Von Humboldt Institute)</i>: promotes projects and companies that are aware of the ecosystems surrounding them and use them in a sustainable way.</li> </ul> <p>Source: <a href="http://www.minambiente.gov.co/mercadosverdes">www.minambiente.gov.co/mercadosverdes</a></p>
ENVIRONMENT	<p><b>Example 6 Kaleen Label, India</b></p> <p>The Rugmark programme was initiated by civil society groups in response to European consumer awareness of child labour in the South Asian carpet industry. In response to pressure from some carpet exporters, who perceived Rugmark as overly stringent and "unnecessary foreign intervention in Indian commercial affairs" (Hilowitz, 1997), the Indian government introduced its own carpet labelling initiative, Kaleen. This is based on an industry-wide, self-regulated code of conduct administered by the quasi-governmental Carpets Export Promotion Council and a national monitoring committee chaired by a government representative.</p> <p>Source: <a href="http://www.india-carpets.com">www.india-carpets.com</a></p>
ENVIRONMENT	<p><b>Example 7 Mandatory sustainability reporting, France</b></p> <p>In 2001, the French Parliament passed a law requiring mandatory disclosure of social and environmental issues in companies' annual reports and accounts. It requires all French corporations listed on the "premier marché" (those with the largest market capitalisations) to report against a template of social and environmental indicators, including those related to human resources, community issues and engagement, labour standards and key health, <i>safety and environment issues</i>.</p> <p>Source: <a href="http://www.occes.asso.fr/fr/comm/nre.html">www.occes.asso.fr/fr/comm/nre.html</a></p>
ENVIRONMENT	<p><b>Example 8 Capacity building on CSR standards, India</b></p> <p>The Indian Textiles Committee, part of the Ministry of Textiles, has taken up a national campaign to sensitize the textile and clothing industry, particularly in the "decentralised SME sector", to the emerging challenges resulting from the forthcoming liberalisation of the Indian textile and clothing industry. The Committee is working with the Ministry of Commerce, State Governments and local industry &amp; trade associations on the campaign. Approximately 7500 company representatives will have taken part in 25 workshops, titled "Quality and Compliances: Route to Global Competitiveness for Indian Textile &amp; Clothing Industry." The aim is to disseminate information on various standards and compliance mechanisms including ISO 9000 QMS, ISO 14000 EMS and Social Accountability (SA 8000) standards, offering technical assistance to encourage implementation.</p> <p>Source: <a href="http://textilescommittee.nic.in/ncompain.htm">http://textilescommittee.nic.in/ncompain.htm</a></p>
SOCIAL	<p><b>Example 9 Reforming political financing, Thailand</b></p> <p>The 1997 Thai Constitution introduced new party, political finance, and election laws, under the Organic Law on Political Parties and the Organic Law on Elections, and empowered an independent Election Commission of Thailand (ECT) with oversight authority. These laws strictly regulate party operations and accounting practices in order to enhance transparency and accountability within the party system. A key objective of the new legislation is also to strengthen parties as ideological bodies and broaden their membership bases, with the aim of reducing the prevalence of patronage and vote buying.</p> <p>Source: NDI/CALD (2002)</p>

CSR Themes	Examples of Public Sector Roles
SOCIAL	<p><b>Example 10 Social Responsibility Agreements, Ghana</b></p> <p>One outcome of the overhaul of forest policy in Ghana in the 1990s was a new regulation stipulating that companies tendering for timber cutting permits would be assessed in terms of their respect for the social and environmental values of local residents. Under the new law, which came into operation in 1998, logging companies are required to secure a 'Social Responsibility Agreement' with the customary owners of the land. This agreement follows a standard pattern, to include a code of conduct for a company's operations – guiding environmental, employment and cultural practices – and a statement of social obligations, which is a pledge of specific contributions to local development.</p> <p>Each agreement must be fully negotiated with the local community. There is a strict procedure for developing an Agreement with local representatives and the district forest office before submission to a central evaluation committee. While these agreements are still in their infancy, the policy itself already provides useful lessons for other countries where high-value timber is logged in community areas, in how to implement a fairly simple, cost-effective, accountable system to support sustainable and socially responsible logging.</p> <p><i>Source: Mayers, J. and S. Vermeulen (2002), <i>Company-community forestry partnerships: From raw deals to mutual gains?</i> IIED, London</i></p>
SOCIAL	<p><b>Example 11 Tax incentives for corporate donations - Law of Donations, Chile</b></p> <p>The Chilean government offers a variety of tax credits to corporations for charitable donations. Most are oriented to support for educational activities, such as schools, universities and vocational institutions. Donations may attract tax deductions or be deducted as an expense, thus reducing tax liability.</p> <p><i>Source: CONAMA (2000)</i></p>
CORPORATE GOVERNANCE	<p><b>Example 12 Sao Paolo's Novo Mercado</b></p> <p>The Novo Mercado is a listing segment of the Sao Paolo stock exchange designed for the trading of shares issued by companies that voluntarily undertake to abide by key corporate governance practices and disclosure requirements beyond those already required by Brazilian legislation. The national government is supporting the new exchange with a directive that allows pension funds to invest a higher percentage of assets in domestic equities, as long as they are listed on the Novo Mercado.</p> <p><i>Source: <a href="http://www.bovespa.com.br">www.bovespa.com.br</a></i></p>

## **Annex D**

### **Terms of Reference**

#### **1.1 Objective**

The objective of this assignment is to develop a user-friendly tool for FIAS staff and consultants working on CSR projects and Value Chain analysis. The tool will align relevant parts of the Diagnostic Framework and Tool and Options Appraisal tool with the FIAS Value Chain Analysis methodology. Within the framework of Value Chain Analysis, the will guide the user (public or private) to conduct a diagnosis, design solutions and quantify the implementation of CSR initiatives that enhance the international competitiveness of firms and industrial sectors and/or promotes inward investment in emerging economies.

#### **1.2 Approach**

The following approach may change as the project evolves, as agreed jointly between the Client and Contractor:

- ▶ Undertake a general mapping exercise, looking at the demand-side, ie CSR standards and practices of buyers, eligibility for joining quota and other preferential trade schemes (eg GSP plus), efficiency of regulatory and statutory authorities, eg EPAs, H&S inspectors; public listing requirements, project finance requirements, enterprise zone conditions - with reference to production (efficiency), market access (appropriate fit) and enabling environment. Identify their relative contribution to competitiveness and/or investment promotion. Identify benchmark standards amongst these, ie the standards that really matter in terms of competitiveness and investment for the firm or sector, including the value chain governance perspective.
- ▶ Identify supply-side constraints and opportunities to meet the benchmark standards or other critical standards, in terms of (i) firm policy, practices and behaviour (eg training, ISO9001 compliance); and public sector policies and priorities (eg training, environmental protection, competitiveness/investment policy and regulation).
- ▶ Determine metrics for (a) categorising firms in relation to current status in meeting the benchmark standards; and (b) tracking the relative costs and benefits of implementing CSR practices in terms of competitiveness or investment promotion (be that by public or private sector).

#### **1.3 Key Tasks**

- ▶ The consultant will be responsible for the following key tasks:
- ▶ Review all relevant FIAS literature and case-studies on (i) Value Chain Analysis and (ii) known linkages between CSR and competitiveness/investment.
- ▶ Consult with external parties as appropriate.
- ▶ Work closely with FIAS' CSR and Value Chain teams to draft the tool, including participation in an inception conference call on 10th November.
- ▶ Submit a draft generic tool (eg map, common questions, scoping protocol) to FIAS by December 10, 2005, along with a rationale for whether the tool should have additional sector-specific questions and metrics, and if so any cost implications.
- ▶ Finalize the tool and submit final product to FIAS by January 13th, 2006.

#### **1.4 Deliverables**

- ▶ A question-driven, free-standing, CSR diagnostic module applicable in the context of Value Chain analysis, and accounting for both demand and supply side issues; and
- ▶ Accompanying guidance and quantifiable impact (cost, benefit) monitoring metrics (for either, the generic tool, sector-specific tool, or both, as appropriate and as agreed after the 10<sup>th</sup>).

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## End Notes

<sup>i</sup> See: [www.ifc.org/ifcext/economics.nsf/Content/CSR-diagnostic](http://www.ifc.org/ifcext/economics.nsf/Content/CSR-diagnostic)

<sup>ii</sup> Gereffi, G. (1999), International trade and industrial upgrading in the apparel commodity chain, *Journal of International Economics*, 28, pp37-70.

<sup>iii</sup> Kaplinsky, R. (2000), Spreading the gains from globalization: what can be learned from value chain analysis, *IDS Working Paper*, Brighton, UK: University of Sussex.

<sup>iv</sup> Tallontire, A., and Greenhalgh, P. (2005) *Establishing CSR Drivers in Agri-Business*: Final Report for Foreign Investment Advisory Service, International Finance Corporation and World Bank, Natural Resources Institute

<sup>v</sup> Tallontire, A., and Greenhalgh, P. (2005), *ibid*

<sup>vi</sup> There is also the counter fear by some that workers in EPZs are faced with lower labour standards, and that this is a conscious act by government to incentivize investment.

<sup>vii</sup> adapted from Tallontire, A., and Greenhalgh, P. (2005), *ibid*

<sup>viii</sup> Dicken P, 1998 *Global Shift: Transforming the World Economy* 3rd edition, London: Paul Chapman

<sup>ix</sup> EU (2005) GSP: *The new EU preferential market access system for developing countries*. Memo, EU – [http://europa.eu.int/comm/trade/issues/global/gsp/memo230605\\_en.htm](http://europa.eu.int/comm/trade/issues/global/gsp/memo230605_en.htm)

<sup>x</sup> Ethical Trading Initiative: The Base Code – [www.ethicaltrade.org/Z/lib/base/code\\_en.shtml](http://www.ethicaltrade.org/Z/lib/base/code_en.shtml)

<sup>xi</sup> adapted from: CIE (2003) *CSR Codes: Benefit-Cost Framework and Application*, Canberra: Centre for International Economics

<sup>xii</sup> FIAS (2004) Corporate Social Responsibility, Competitiveness and Foreign Direct Investment in El Salvador, Washington DC: World Bank Group, Foreign Investment Advisory Service

<sup>xiii</sup> Tallontire, A., and Greenhalgh, P. (2005), *ibid*, Annex 1

<sup>xiv</sup> Epler, M, and Leray, T. (2005) Corporate Responsibility and the Tourism Sector in Cambodia, Washington DC: World Bank Group, Foreign Investment Advisory Service

<sup>xv</sup> FIAS (2004) Corporate Social Responsibility, Competitiveness and Foreign Direct Investment in El Salvador, Washington DC: World Bank Group, Foreign Investment Advisory Service

<sup>xvi</sup> Epler, M, and Leray, T. (2005) *ibid*

<sup>xvii</sup> Te Velde, D. and O. Morrissey (2005) *Supporting Industrial Development: Overcoming Market Failures and Providing Public Goods*, Geneva: UNIDO, COMID

<sup>xix</sup> Fox, T., Ward, H., and B. Howard (2002) *The Public Sector's Role in Promoting CSR*, Washington DC: World Bank, Private Sector Development Department

