PUBLIC SECTOR ROLES IN STRENGTHENING CORPORATE SOCIAL RESPONSIBILITY: TAKING STOCK

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Acronyms and Abbreviations

CSR	corporate social responsibility
IIED	International Institute for Environment and Development
IFC	International Finance Corporation
ILO	International Labour Organisation
NGO	nongovernmental organization
WTO	World Trade Organization

Preface

This report is an assessment of public policy roles to strengthen corporate social responsibility (CSR). It is derived from the work of the CSR practice of the World Bank Group's Investment Climate Department. The CSR practice was formed in 2002 to advise developing country governments on the roles and instruments that they can most usefully deploy to encourage CSR. The overall program involves building understanding of CSR incentives and pressure points and improving strategic interactions and alignment between public policy goals and the CSR-related activities of businesses.

The report draws from a series of reports on cross-cutting CSR issues that are relevant in defining the role of public sector agencies, as well as outputs from country-level technical assistance work in Angola, El Salvador, the Philippines, and Vietnam. The different focuses for the country-level work are highlighted in table 1.

The report also draws on discussions during a three-week World Bank–World Bank Institute e-conference on public policy and CSR held in July 2003; presentations and discussions at the International Conference on Public Policy for Corporate Social Responsibility organized by the CSR practice and held in Washington, D.C. in October 2003; and a short overview of the CSR practice's overall program to date, which was prepared for country-level reports by Tom Fox of the International Institute for Environment and Development (IIED).

The report reviews the overall context for addressing public sector roles in strengthening CSR and the range of public sector roles (sections 1 and 2). It considers five justifications for public sector actors to build familiarity with the mainstream CSR agenda (sections 3–8) and concludes by offering some suggestions on common themes that have emerged to date and those that could usefully inform initiatives in the next states of the CSR practice's work (section 9).

Except where otherwise indicated, the terms public sector and public sector agency are used to refer to the public sectors of middle- and low-income countries.

Table 1: Overview of Country Focal Areas

Country	Sector	Issues
Angola	Oil	Local content, transparency, and social development
El Salvador	General	Business and education
The Philippines	Mining	Socioeconomic and environmental impacts
Vietnam	Footwear	Labor

1. Introduction

Corporate social responsibility is 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.

The World Bank's working definition of corporate social responsibility

The contemporary corporate social responsibility (CSR) agenda is founded in a recognition that businesses are part of society, and they have the potential to make a positive contribution to societal goals and aspirations. CSR is at heart a process of managing the costs and benefits of business activity to internal and external stakeholders—from workers, shareholders, and investors through to customers, suppliers, civil society, and community groups. Setting the boundaries for how those costs and benefits are managed is partly a question of business policy and strategy and partly a question of public governance.

The notion of corporate social responsibility is not new, but the contemporary CSR agenda, with its immediate origins in the globalization debate of the 1990s, is still relatively immature. The dominant CSR agenda largely reflects the concerns of stakeholders based in high-income countries. It has not yet been fully connected to the range of "indigenous" CSR agendas around the world. Yet voluntary approaches to setting CSR standards are now transferring the dominant agenda to businesses in low- and middle-income countries through supply-chain relations and other kinds of private business interactions. This in turn is prompting concerns to address the impacts of action by businesses to reflect the demands of the new "fourth party" interests—those of consumers, workers, and citizens in developed countries (Nguyen Manh Cuong 2003).

Business approaches to CSR can largely be understood as a response to a series of external and internal drivers that generate a "business case" for CSR. The drivers include the pursuit of new business opportunities through social and environmental innovation, reputational risk management, campaign pressure from nongovernmental organizations (NGOs) or trade unions, media exposure to the practices of individual companies or sectors, regulation, and litigation. Building effective drivers of CSR is one pillar in approaches to build an optimal enabling environment for CSR or responsible business practices.

Optimizing the enabling environment calls for attention to more than just the drivers of CSR. The drivers will not be effective unless human capacities and institutions are in place to enable them to work in their particular sectoral or geographic context. These key human capacities form the second pillar. They include understanding of and capacity to engage with the CSR agenda, whether as citizens, consumers, regulators, workers, or businesses. The key institutions include government inspectorates and enforcement agencies, key departments or teams within local and national government, and CSR-related teams within businesses. Addressing the human capacities and institutions can help to generate the drivers of CSR.

The third pillar of the enabling environment is provided by the tools of CSR (RING 2003). These

include legislation and regulation, labels and certificates, codes of conduct, action-oriented partnerships among different actors, guidelines, management systems, and award schemes.

Efforts to address each of these three pillars of the enabling environment would not necessarily deliver responsible business across the board. There may be insufficient financial resources available to businesses to make the necessary investments, a lack of willing partners, or insufficient information on which to base decisions (Woicke 2003). The challenge is to identify the appropriate balance between the roles of the different actors and then explore how they could best be combined to maximize the contribution of business to sustainable development. In some areas, the public sector has unique competencies. Only the public sector can set the overall policy and regulatory frameworks within which businesses operate, and only the public sector has the legitimacy and authority to draw together the overall strands of the enabling environment in ways that allow each of the actors to make their contribution.

This has different consequences in different contexts. In countries or sectors where market drivers of CSR have the potential to support public policy goals, or are neutral in relation to established pub-

lic policy goals, public sector agencies may opt to take a laissez-faire approach, endorse current trajectories, or facilitate the emergence of voluntary approaches that are more directly aligned with public policy goals. But in those circumstances when the market fails to provide the signals, or when some market actors fail to respond to signals from consumers or other private actors, there is a case for stronger forms of intervention that establish clear incentives or lead the process of setting overall goals.

There are already many examples around the world of public sector actions that enable or drive CSR (Fox, Ward, and Howard 2002), though many of them are not explicitly described as CSR or considered to be CSR enabling. Yet the public sector has often been left out of discussion of CSR. Nonetheless, there is increasing evidence that developing country governments are beginning to view CSR practices as a subject with relevance for public policy—as a means to enhance sustainable development strategies and a component of their national competitiveness strategies to compete for foreign investment and position their exports globally, as well as to improve poverty-focused delivery of public policy goals.

2. Public Sector Rules

An initial desk-based review of existing public sector activities to strengthen CSR (Fox, Ward, and Howard 2002) indicated that public sector roles in supporting CSR could conveniently be divided into four broad categories: mandating, facilitating, partnering, and endorsing.

Understanding public sector interventions through these four central roles has the immediate advantage of simplicity. They allow coverage of the complete CSR agenda, and they are neutral in that they do not reflect inherent biases toward any particular set of public sector actions. They can also be applied at a range of levels and by a range of actors.

There are inevitable overlaps across the four categories, but the goal is simply to encourage lateral thinking about CSR. Different decisionmakers will apply an understanding of the different roles to their own contexts. It matters little where individual actors draw conceptual distinctions between categories.

These four public sector roles have been applied across the CSR practice's program of technical assistance at the national level to express and identify a range of possible public sector activities in support of CSR. The relevance of the four overall categories of public sector activity has generally

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Box 1: Four Central Public Sector Roles in Strengthening CSR

Mandating: Laws, regulations, penalties, and associated public sector institutions that relate to the control of some aspect of business investment or operations.

Facilitating: Setting clear overall policy frameworks and positions to guide business investment in CSR, development of nonbinding guidance and labels or codes for application in the marketplace, laws and regulations that facilitate and provide incentives for business investment in CSR by mandating transparency or disclosure on various issues, tax incentives, investment in awareness raising and research, and facilitating processes of stakeholder dialogue (though not necessarily in the lead).

Partnering: Combining public resources with those of business and other actors to leverage complementary skills and resources to tackle issues within the CSR agenda, whether as participants, convenors, or catalysts.

Endorsing: Showing public political support for particular kinds of CSR practice in the marketplace or for individual companies; endorsing specific award schemes or nongovernmental metrics, indicators, guidelines, and standards; and leading by example, such as through public procurement practices.

Source: Adapted from Fox, Ward, and Howard (2002).

been affirmed, with a tendency in the national-level technical assistance to focus in particular on strengthening the facilitating and partnering roles. But there may be ways to optimize the value of the categories for the future. The case for adding a fifth role—demonstrating—is addressed further in the final section of this report.

Public sector understanding of the four central roles would not be enough in and of itself to guide decisionmaking to strengthen CSR. In an early effort to offer a framework for underpinning public sector decisionmaking in relation to CSR, the World Bank Group commissioned work to develop a diagnostic tool for corporate social responsibility (Warner 2003). The aim was to offer a framework through which public bodies could begin to navigate their way toward roles that better align CSR practices with public sector development strategies (Warner 2003).

A diagnostic tool needs to support smart thinking about public sector roles to strengthen CSR, achieve alignment between public and private goals to the greatest extent possible, capitalize on core competencies, and take full account of the risks and unintended consequences of CSR practices. For example, new labor standards can some-

times prohibit poor families from earning an income; higher environmental quality standards for suppliers may act as a barrier to market entry for local firms; and requirements for community investment and greater transparency can reduce profit margins and disincentivize investors (Warner 2003). The balance is between accessibility, practicality, and relevance, recognising that different appraisal tools may appeal to different users, depending in part on their disciplinary backgrounds and on resourcing considerations.

The draft diagnostic tool is divided into two parts, each designed for application by World Bank technical assistance staff or skilled consultants. An overall framework guides assessment of the current status of CSR practices at the national or subnational level (whether sectorally or across the board) and the range of public sector options available to strengthen the business and development benefits of CSR. This is accompanied by an appraisal tool that incorporates guidelines for appraising the relative merits of public sector options. The diagnostic tool will continue to be refined as it is piloted in a number of developing countries.

3. The Case for Engagement in CSR

The CSR agenda as a whole may now have reached a turning point in which the public sector is repositioned as a centrally important actor. The mainstream CSR agenda as currently constituted leads directly to the need for greater engagement by the public sector in middle- and low-income countries. There is also a range of justifications for public sector actors to develop greater familiarity with the mainstream CSR agenda as a basis for strengthening CSR in developing countries.

CSR AND PUBLIC GOVERNANCE CONCERNS

The link between public governance and CSR is seldom given attention, yet public governance defines not only the type and trajectory of CSR in different contexts, but also the respective roles of different stakeholders.

Public sector regulatory and enforcement capacity plays a critically important role in underpinning CSR. When minimum environmental and social standards are established and evenhandedly implemented by public sector actors or by citizens acting on rights reflected in public sector action, market-based signals can work to reward those players who go further. Without that capacity or the necessary

> We have to strive towards a very strong government, [that is] corruption free [with a] streamlined, transparent bureaucracy. A world-class bureaucracy would make CSR irrelevant and would allow our businesses to compete with the best in the world.
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> *Raul V Angeles, Board of Investments, the Philippines, remarks at the International Conference on Public Policy for Corporate Social Responsibility, Washington, D.C., October 8–9, 2003.*

attention to fundamental citizens' rights, businesses face substantial difficulties in finding and maintaining appropriate boundaries for their CSR interventions, and they may find themselves pressured into activities that are beyond their core competence and represent a financial drain on business rather than a sensible CSR investment. Though CSR may still be useful in these circumstances—particularly when it reflects business's core competences—the voluntary CSR practices of private enterprises are not and cannot be an effective substitute for good governance.

CSR also tends to reinforce the importance of addressing fundamental issues of the investment climate through public sector action. As Peter Woicke (2003), Executive Vice President of the International Finance Corporation has remarked, "For businesses to continue to improve their social and environmental performance, the public sector needs to provide two key contributions: (1) clarity in its regulations, the baseline standards it requires of all firms, and (2) predictability of government intervention".

The CSR agenda has also become linked to issues of good public governance in relation to the prob-

lem of lack of transparency in government income and expenditure. Lack of transparency can hamper citizen efforts to call governments to account. It has become a particular focus of campaign action—with businesses, not governments, as the first concern in countries whose economies are heavily dependent on oil, gas, or mining revenues and in circumstances where there are substantial risks of embezzlement or a possibility that revenues may be used to fund armed conflict. Here the CSR agenda has evolved to incorporate concern for the role of businesses in generating financial resources that fuel corruption and armed conflict.

TACKLING OUTSTANDING CHALLENGES IN THE CSR AGENDA

Evidence is increasingly emerging that the effectiveness of the existing body of CSR tools—such as codes of conduct, labels, or certification schemes—can be improved only with the help and direct engagement of public sector agencies in developing countries. Similarly, many broader challenges in the CSR agenda concern a need to localize CSR so that it is rooted in local sustainable development concerns, not imposed from above by the "fourth party" stakeholders. The needs to build local ownership of CSR issues, support the emergence of CSR initiatives tailored to the local circumstances of particular sectors, and capitalize on

> Virtually all participants [in a World Bank–commissioned study to assess barriers to implementation of CSR codes] noted that the absence of action by local governments presented a significant barrier; not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by non-state actors. The consensus on this point was so overwhelming that it was taken into consideration despite the fact that the focus of the present study, as formulated in the Bank's Terms of Reference, was intended to be on the private sector rather than the public sector.
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> *Source:* Jørgensen and others 2003.

the potential to align domestic CSR practices to public policy goals remain important challenges. They cannot be effectively confronted without the engagement—and in some cases, the leadership—of public sector agencies.

JUSTIFICATIONS FOR PUBLIC SECTOR FAMILIARITY WITH MAINSTREAM CSR

CSR leads directly to the public sector, but why should public sector agencies in developing countries acquire an understanding of the mainstream CSR agenda? There are five principal justifications:

1. CSR can inform the development of national competitiveness approaches. Three possible public sector strategies have emerged: (1) aligning national investment promotion strategies with the CSR interest of foreign investors, (2) turning the market access impacts of CSR to positive competitive advantage, and (3) aligning businesses' CSR practices with the broader public goods that are a fundamental underpinning of national competitiveness.
2. With appropriate public sector engagement and support, CSR expressed through international supply chains and foreign direct investment can act as a positive catalyst for domestic enterprise development.
3. Public sector understanding of CSR in international supply chains and foreign direct investment can help to build and ensure the long-term sustainability of local CSR agendas.
4. CSR can help inspire new strategies to address gaps in public sector capacity.
5. CSR can offer valuable insights for partnerships that create synergies between the complementary skills of public, private, and civil society actors to achieve public policy goals related to sustainable development.

Each of these justifications for public sector engagement in CSR brings potential benefits for development processes in middle- and low-income countries, but there is also a risk that CSR activities could inadvertently undermine public sector roles. For example, it would be wrong for voluntary and time-bound business investment in CSR in the education sector to substitute for fiscal reforms that could allow the state to play a greater role in

the systemic delivery of public education. A country whose government and agencies understand the CSR agenda will be well placed to manage the risks and reap the rewards.

The key drivers, opportunities, and risks of public sector engagement in each of the four countries in the CSR practice's current technical assistance program are highlighted in table 2.

Table 2: Overview of Country Drivers, Risks, and Opportunities

Angola		
Driver	*Opportunity*	*Risk*
The needs to (a) address the country's fundamental development challenges, (b) mitigate against the risks associated with an over-reliance on the oil sector within the economy overall, and (c) respond to calls for transparency in the application of oil revenues.	To align the CSR practices of oil companies with Angola's fundamental development challenges while tackling the obstacles to further progress in the CSR agenda.	That the CSR agenda distracts from the need to tackle fundamental issues of public governance; that CSR's potential as a voluntary business approach is significantly constrained by public sector governance failures and lack of investment in civil society empowerment.
El Salvador		
Driver	Opportunity	Risk
The need to build a strong public education system to tackle the country's development challenges and, by developing a highly skilled work force[WB style], giving the country the best chance to prosper in the face of international competition for trade and investment.	To improve the alignment between CSR in the education sector and the country's overall international competitiveness.	That business investment in education through CSR becomes a substitute for fiscal reform that could enhance the systemic capacity of public sector agencies to deliver education goals.
The Philippines		
Driver	Opportunity	Risk
A government shift in policy toward the mining and minerals sector from "tolerance" to "promotion," against a background of strong historic opposition and a de facto mining ban based on community and civil society–based pressure.	To align voluntary CSR practices to public policy goals related to sustainable development in the mining and minerals sector, thereby enhancing the attractiveness of the Philippines as an investment location, enhancing the social acceptability of mining, and increasing (through economic development) the resources available to tackle poverty reduction.	That a focus on the role of voluntary CSR practices by businesses could detract attention from the need to tackle basic issues of governance in relation to minimum legal requirements and may prove insufficient to secure high-quality investment across the board.
Vietnam		
Driver	Opportunity	Risk
The need to sustain market access in the face of foreign demands for implementation of supply chain–based codes of conduct in the textile and footwear sectors.	To enhance the capacity of export-oriented businesses in the textile and footwear sectors to meet the requirements of supply chain–based codes of conduct.	That the "indigenous" CSR agenda is stifled, generating a misplaced emphasis on improvements in export-oriented businesses at the expense of non-export-oriented domestic enterprise, or a benchmark is set that prevents small domestic businesses from competing internationally.

The next sections address each of the five justifications in turn.

4. CSR and Competiveness Strategies

Could public sector investment in the enabling environment for CSR support sustainable development while promoting national competitiveness? If the answer is yes, there would be a clear justification for public sector agencies to acquire sufficient understanding of the CSR agenda to develop appropriate support strategies.

CSR AND INVESTMENT AND PURCHASING DECISIONS

An empirical starting point for testing the CSR competitiveness hypothesis is analysis of how CSR issues affect the investment and purchasing decisions of multinational enterprises. Interviews with representatives of 107 leading multinational companies have generated promising (though, so far, statistically inconclusive) insights (Berman and others 2003). Far from supporting the notion of a "race to the bottom" of CSR-relevant laws as an optimal strategy for attracting trade and investment, a clear majority of respondents in interviews with multinational enterprises indicated that they seek strong laws on CSR (which in this case should be taken to mean legislation in the areas that are addressed by the CSR agenda, including legislation on environmental and social issues) and even-handed implementation and enforcement.

Although effective public sector capacities for implementation and enforcement of minimum social standards can be attractive to businesses that take CSR seriously, and even attract investment, enthusiasm among suppliers for the market-based CSR standards that those businesses bring is weaker. CSR can be viewed as a market entry requirement for CSR "standards takers" or simply a means to retain existing customers, not a source

- Over 80% of respondents reported that they look at the CSR performance of potential partners and locations before they close the deal on a new venture.
- More than half of the respondents reported that the review takes place while they are still looking at multiple partners and countries.
- A majority of extractive companies reported that they have chosen not to enter a country based on CSR issues. Fewer, though, have left a country once invested there.
- US-based companies are the most likely to reject locations based on CSR concerns.
- A majority of companies reported that CSR issues are at least as influential as traditional considerations (for example, cost, quality, delivery) in new venture assessment, and that this influence has grown in the last five years.

Source: Berman and others 2003, pp. 2–3.

of additional business for CSR-ready suppliers. For example, in interviews on the challenges of integrating CSR into global supply chains, participants "held mixed views on whether good CSR performance helped suppliers maintain or secure business. Suppliers in particular did not see a direct link between CSR performance and obtaining or keeping contracts, except in a handful of cases in which buyers were genuinely involved with CSR practices of suppliers" (Jørgensen and others 2003, p. 27). But this gloomy picture is far from universal, and there is also evidence of CSR-ready suppliers who view their CSR practices as a source of new business or long-term relationships with some of

their sector's most prized customers (Tran 2003). Either way, public sector engagement in CSR needs to be linked to efforts to address mainstream investment climate issues, including efforts to cut the costs to business of weak state institutions and poor infrastructure (Petkoski and Twose 2003).

Work in the Philippines has offered opportunities to identify public sector roles that could help to implement one part of the CSR competitiveness hypothesis—namely, those roles that can help to integrate support for voluntary CSR practices in international investment promotion strategies. If the Philippines mining sector were to fully develop, the government could expect to secure an average of US$380 million in mining investment annually over the next 10 years (Hubo 2003). Yet the industry's share in economic development has declined over the years. The most important factor in that decline has been increasing stakeholder activism of various civil society groups and the Catholic Church in relation to the social acceptability and sustainability of mining practices. Today "… activism is present at every step from service delivery to policy development and political mobilisation. It has developed into coalitions and has managed, to a large degree, in securing a 'mining ban' in the country" (Hubo and Lewis 2003).

Just as civil society opposition to mining has effectively halted foreign investment in the sector, the expanded CSR competitiveness hypothesis is that public sector engagement in strengthening CSR could help to both address civil society concerns and revive quality investment in the sector. Accordingly, public agencies, including the Board of Investments of the Department of Trade and Industry, are exploring the potential to integrate CSR into investment promotion for the mining sector.

Social and environmental CSR practices can act as a bridge between the legal framework and implementation of the best available local-level technologies, environmental management practices, and social or community development strategies. But public sector promotion of CSR cannot be a stand-alone strategy. The situation in the Philippines further underscores the importance of integrating support for voluntary CSR practices with efforts to secure an effective legal and institutional baseline for public sector governance of the sector's environmental and social issues.

Over the past 10 years, the government of the Philippines has developed a series of legislative changes for an overarching sustainable mining regime in the Philippines, with the Mining Act of 1995 at the center. A newly adopted National Minerals Policy ("EO Seen to Revitalize…" 2003) aims to promote sustainable development through responsible mining practices. Important issues still need to be addressed if the new body of policy and legislation is to be effectively implemented and public sector institutions at national and subnational levels are to be equipped for the task of driving forward action in support of overall public policy goals (Domingo 2003). These issues will all need to be addressed alongside efforts to promote CSR.

TURNING THE MARKET ACCESS IMPLICATIONS OF CSR TO COMPETITIVE GAINS

CSR concerns become market access concerns when they are integrated into value chains as market entry requirements, whether through the mechanisms of direct investment, supply chain requirements, or successful marketing by competitors. The standards, guidelines, and principles that reflect these concerns are often referred to collectively as *codes of conduct,* a term that can encompass a range of third-party labels and certification schemes, business's own statements of values or codes, or informal guidelines for application in particular sectors or on particular issues.

Concerns have begun to surface about the potential negative impacts of these requirements for businesses in developing countries. They have the potential to impose new costs on businesses that are ill equipped to respond. Yet the market access impacts of the private tools of CSR cannot be controlled through the established mechanisms of the World Trade Organization (WTO), which are addressed to government action.

For public sector agencies in developing countries, understanding the dynamics and sources of these CSR requirements and their various drivers—in other words, acquiring a familiarity with the mainstream CSR agenda—has the potential to enhance capacity to strengthen domestic CSR practices and implement the requirements, as

well as enable better tuning of policies to address the market access issues.

No two sectors are alike in their adoption of codes of conduct or the detailed content of the codes (Smith and Feldman 2003). What is clear is that codes of conduct are proliferating. Businesses often argue that convergence or harmonization among codes is the most appropriate response to the potential economic inefficiencies generated by efforts to comply with multiple CSR requirements.

Such convergence as is happening between the provisions of different codes of conduct seems to be taking place principally at the sectoral level, and even then, there is little consistency. An agreed set of core International Labour Organisation (ILO) Conventions has certainly had an impact on convergence among labor provisions within codes of conduct in the apparel, footwear, and light manufacturing sectors (Smith and Feldman 2003). But the extent to which even these core requirements have been incorporated into codes of conduct also tends to reflect specific CSR issues and pressures within individual sectors. In the tourism sector, for example, there are very few specific labor or human rights standards, but health and safety issues are addressed in more detail. In the oil and gas sectors, a majority of companies had no articulated principles on forced labor, child labor, or freedom of association and collective bargaining.

For environmental considerations, there is no collection of international legal requirements akin to the ILO's core Conventions. Taking the work that has so far emerged from the CSR practice as a sole reference point, the consequence is that in the

Among 24 surveyed enterprises [in the Vietnamese footwear and textile sectors], 18 enterprises are implementing one or more codes of conduct, of which 9 are textile enterprises and 9 footwear enterprises. Of the 18 code-of-conduct-performed enterprises, 11 enterprises are practicing 2 codes of conduct or more, [with] 2 firms applying 6 codes of conduct.

Source: Government of Vietnam, Ministry of Labor, Invalids, and Social Affairs and Institute of Labor Science and Social Affairs. 2003, p. 32

environmental policy field, codes of conduct appear overall to be less significant in mediating the relationship between buyers and suppliers or host countries and foreign investors (Smith and Feldman 2003). Whether this is a significant gap depends on the impact of codes of conduct on different stakeholder groups, including in particular the effect on market access and environmental performance. In the absence of authoritative international agreement on core environmental standards, World Bank and International Finance Corporation (IFC) guidelines have sometimes been applied as reference points in shaping national standards in areas where they are lacking (Evans 2003). Now they are also beginning to play a similar function in the CSR agenda. For example, IFC guidelines provide the basis for the new, voluntary Equator Principles, which guide the project finance decisions of a group of signatory banks that together make up some 78 percent of global project loan volume.

If the proliferation of codes generates efficiency-based arguments for convergence, the performance arguments for convergence appear less strong. Work on CSR in global supply chains has questioned the oft-asserted assumption that the current plethora of codes per se poses a considerable obstacle to improved performance on the part of suppliers (Jørgensen and others 2003). Instead, the inconsistent interpretation and application of codes presents the greatest source of confusion and inefficiency for suppliers in developing countries. Among the problems are multiple auditing by different buyers, differing auditing methodologies, contradictory approaches to remediation, inconsistent application of code interpretations of overtime requirements, and different buyer approaches to asking suppliers to demonstrate how they manage and implement the standards included in codes (for example, through differing documentation requirements).

All of this is coupled with the prevalence of a top-down approach to implementation of codes of conduct requirements, in which buyers demand changes in the management practices of their suppliers and monitor progress without reference to principles of partnership that guide CSR practices elsewhere. There is a "widely held view that the top-down approach remains important in many cir-

cumstances, and that engagement from buyers and other institutions in the North would continue to be part of the picture, and could reinforce needed bottom-up strategies for capacity building, worker empowerment, and government enforcement of laws" (Jørgensen and others 2003). But it is increasingly recognized that investment in localized approaches to implementation of environmental and social standards in transnational supply chains is more likely to provide lasting contributions to the task of improving performance than current efforts, in which buyer pressure from above is the principal catalyst for change (Jørgensen and others 2003).

The nature of public sector engagement in individual countries or sectors will differ according to a range of factors, including the sector, the existing level of awareness of CSR among producers, the geographic location, and the significance of the potential market access issues. For example, though codes of conduct are being applied within the supply chains of a core of multinational enterprises in the garment and footwear sectors and, to some extent, agribusiness (Smith and Feldman, 2003), there may be little pressure to implement codes of conduct in other sectors or in the case of businesses that are supplying domestic markets that are not susceptible to the same CSR drivers.

Whatever the circumstances, gathering information on the various ways in which domestic enterprises of various kinds understand the CSR agenda becomes a valuable part of preparations to assess the optimal scope and type of engagement by public sector agencies to strengthen CSR (Governement of Vietnam, Ministry of Labor, Invalids, and Social Affaris, 2003). It can also help the public sector to effectively target information on CSR and codes of conduct to different domestic enterprises.

Efforts to build supplier capacity to deal with the new body of CSR requirements in transnational

> We are not cheap, but [our high labor standards give us] an edge that will look good on your annual report. We know you are going to continue to source from China, but if you can save 5 to 10 percent for our country, it will look good in your annual report. And it works well for us.
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> *Sok Siphana, Cambodian Secretary of State for Commerce, in response to the question, "How would you market Cambodia as CSR-friendly?" at the International Conference on Public Policy for Corporate Social Responsibility, October 8–9, 2003, Washington, D.C.*

supply chains may also result in opportunities to secure new business through integration of CSR into national strategies for competitiveness. The textile sector is a case in point. As a deadline of January 2005 approaches for the complete elimination of import quotas on textiles and clothing, producers around the world are faced with an unfamiliar playing field. The goalposts will shift further as China's highly competitive and technologically advanced textile and footwear sector begins to reap the benefits of full WTO membership. The consequence is a search for new competitiveness strategies. Could public sector action to enable CSR provide part of the answer?

Cambodia now accepts that its textile industry cannot compete with China simply on the basis of low input costs. Instead, the country is seeking to position itself as a location for "responsible" purchasing.

In the future, the same could apply to Vietnam, where the footwear and textile sectors in particular are increasingly export oriented. Against a backdrop of fierce competition and considerable domestic constraints to international competitiveness, these sectors have "proven to be particularly susceptible to market-based CSR pressure" (Government of Vietnam, Ministry of Labor, Invalids, and Social Affairs and Institute of Labor Science and Social Affairs 2003, p. 4).

> The most fundamental drivers of implementing or initiating CSR would be to meet customers' demands in [an] effort to gain more business orders or have more customers to guarantee. . . stable and developed production for enterprises.
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> *Source:* Government of Vietnam, Ministry of Labor, Invalids, and Social Affairs and Institute of Labor Science and Social Affairs 2003, p. 16.

A new U.S.-Vietnam textiles agreement, signed in May 2003, incorporates an obligation for the Vietnamese authorities to encourage implementation of CSR codes in return for access to the U.S. market (now Vietnam's top market, after just two years of formal trade relations). This appears to be the first time that an international trade agreement has included a government obligation to encourage CSR codes, as opposed to requiring additional regulation or enforcement, as in an earlier U.S.-Cambodia textile agreement (Petkoski and Twose 2003, p. 43).

ALIGNING CSR INVESTMENTS WITH PURSUIT OF PUBLIC GOODS

Could the CSR and national competitiveness hypothesis be applied to channel CSR investments by businesses toward pursuit of social and environmental public goods linked to overall public policy goals?

Work in El Salvador has explored this aspect of the CSR competitiveness hypothesis. Could CSR directed toward the education sector deliver enhanced national competitiveness based on a higher level of participation in international markets? Few issues are as significant in the reproduction of poverty as lack of education. From a development perspective, there is clearly value in considering the roles of the full range of stakeholders in enhancing the quality of education. What could the private sector's role be? And how could public sector agencies and businesses work together to improve the quality of education and its relevance to the challenges of participation in a globalized economy?

In El Salvador's current, post-conflict context, there is already a strong basis for achieving progress toward shared goals on the basis of broad-based participation and dialogue. Businesses regularly engage in a range of activities beyond their core business. The country's leaders have consistently acknowledged that El Salvador's future prospects rest on the skills of its people.

Interviews with company chief executive officers and other senior executives in El Salvador have revealed a strong willingness to consider options for public sector roles that might increase the spread and impact of the current range of education-focused activities, as long as they remain voluntary, individual business decisions. In contrast, there had been relatively little formal public sector engagement with education-focused CSR. When these factors are placed alongside the fact that education initiatives form a core part of many large companies' CSR strategies in El Salvador, the potential for new and powerful synergies to be realized immediately becomes clear.

The government has a critically important role to play as a facilitator of CSR in the education sector—first, by setting a clear overall policy framework for national education and, second, by helping to set an overall framework and set of policies on CSR and its role within national education. This in turn presents an important opportunity for businesses to "lead from behind," (Petkoski and Twose 2003) making a positive and transparent contribution to public policy and planning processes and helping to build the capacity of public sector agencies to plan and implement policies in support of CSR. In El Salvador, work is now ongoing within the Ministry of Education to develop an overall national plan for CSR and education.

In the Philippines, initial diagnostic work focused on exploring the alignment between existing CSR practices in the mining sector and public policy goals, including those relating to environmental and social issues, as well as overall investment priorities. The key objectives now are to increase the alignment between private CSR and public policy goals, achieve greater take up of CSR across the sector, and strengthen the government understanding of CSR as an investment objective.

> A low level of education does not allow companies to have the capacities that they need to face the challenges of globalization.
>
> *Fernando Bogantes, Director of Technical Secondary Education and Training, Ministry of Education, Costa Rica, speaking at the International Conference on Public Policy for Corporate Social Responsibility, October 8–9, 2003, Washington, D.C.*

In the case of the mining sector, only a small number of companies lead the way in CSR, the majority are still trying to keep abreast of the ever-increasing developments in the field. It is in this sense that the public sector should play an increasing role. But it has to go beyond its conventional and traditional role of passing or mandating laws and regulations. More importantly, the public sector has to: a) make sure that the industry realises the significance of the changes that are brought about by such developments; and b) recognize the need to enter into new forms of partnerships with stakeholders to clearly communicate the implications and the impacts of CSR on the social and ecological issues raised by them.

Source: Hubo 2003

5. Sustaining Indigenous CSR Agendas

In many parts of the world, domestic enterprises are primary drivers of economic development. Public sector policy for strengthening CSR needs to be capable of addressing the interests of all enterprises, not just the largest or the export-oriented or the foreign investors. There is a clear need within the CSR agenda to support the existing positive practices of domestic companies, including those operating outside international supply chains. The World Bank Group's work in Vietnam has revealed a risk that "foreign" CSR practices could undermine indigenous CSR agendas when they fail to respect the value and relevance of indigenous agendas in their particular setting. Public sector understanding of the range of "imported" CSR agendas therefore has the potential to enable better policymaking for localized CSR.

Domestic visions of what it means to be socially responsible may well be quite different from those of international buyers. In Vietnam, there is an existing and distinctive national CSR agenda, focused on the business contribution to tackling social crises, such as floods, or improving the lot of disabled citizens—what some other business communities would characterize as corporate philanthropy. When buyer-imposed CSR norms that do not address these indigenous dimensions of responsible business behavior are referred to as CSR, there is a risk of confusing or even undermining the local agenda.

From this starting point, addressing codes of conduct in international supply chains purely in terms of their implications for market access is a prag-matic short-term approach that preserves the indigenous CSR agenda by separating it from "foreign" CSR concerns. The "good for business, good for society" entry point into discussions on CSR with businesses in high-income countries can be less highly valued by public sector agencies, who see their role as communicating foreign CSR agendas to their business communities and assisting those communities in staying ahead of the game. Even so, understanding the mainstream CSR agenda and its dynamics is likely to strengthen the positive impact of any public sector intervention.

Recommended next stages of work in Vietnam include a number of options that could serve to ground the foreign CSR agenda that is reflected in supply chain requirements much more closely than in domestic policy priorities. Achieving that goal will call for development of extended contacts with stakeholders in the foreign agenda—for example, through discussions with buyers and CSR standards makers on areas where harmonization between CSR code content and national law may be possible.

Work in El Salvador has taken a strong indigenous CSR agenda as its starting point—in this case, on CSR-related investments in education—and then sought to strengthen the positive impacts of that agenda by learning from international experience. The next generation of public sector action to strengthen CSR could usefully draw inspiration from the Salvadoran model, consciously applying foreign CSR agendas and international perspectives on best practice to strengthen indigenous agendas.

6. Building Positive Spillovers for Domestic Enterprise Development

Public sector understanding of the CSR agenda could catalyze new approaches to domestic enterprise development. The potential value of this entry point remains largely unexplored, but there are indications that it could offer a valuable strategy for the future.

The policy goal of building domestic enterprise capacity in an overall climate of economic liberalization is shared by many developing country governments. Within the CSR agenda, the so-called business linkages theme is one entry point for addressing this goal. It explores ways to develop best business practice through partnerships between large and small enterprises. For example, in Vietnam, there are already positive examples of foreign buyers working with domestic suppliers to implement codes of conduct. But there is little sense that the CSR agenda reflected in those codes is exerting a positive influence on non-export-oriented production.

Enterprise development considerations may also be an appropriate entry point for public sector engagement in CSR when there are no local suppliers of goods and services. For example, foreign oil companies and government agencies in Angola all agree on the importance of developing a local supply market. Alongside this, the contribution of foreign investors to local economic empowerment processes is increasingly being scrutinized through a CSR lens. However, most oil companies currently import everything that they need (Blakeley and others 2003).

Stimulating oil company investment in building local supply capacity appears to bring with it the potential both to deliver progress toward public policy goals and minimize costly dependence on foreign imports. Achieving this kind of engagement from enterprises demands companies that are able to see beyond projects to the value of sector-based approaches, beyond foreign-driven CSR priorities to national priorities, and beyond bilateral partnerships with NGOs to public-private partnerships (Beye 2003). However, this also has some limits: There are questions about whether this kind of investment is more or less sustainable for the long term than development of effective public sector capacity to lead a process of diversification and enterprise development. The business case for investment in these kinds of initiatives is limited without public sector support and an underlying endorsement for their goals. The most sustainable initiatives are likely to be those that reflect an appropriate balance between the skills and competencies of the key stakeholders. The public sector can set the overall public policy goals of the framework for local enterprise development while working to support and catalyze the effective engagement of the full range of actors with relevant skills and insights.

7. Building Positive Links between CSR and Public Regulation

There is already a range of ways in which the private standards and tools of the CSR agenda interact with public sector regulation of environmental and social issues.

First, positively, a review of company codes of conduct and international standards in selected sectors (Smith and Feldman 2003) notes the tendency for codes to defer to national legislative requirements in certain areas that are key to determining the economic competitiveness of nations. Most notably, findings from recent research suggest that in those sectors where code of conduct provisions address wages, benefits, and terms of employment (apparel, footwear and light manufacturing, and certain agricultural sectors, of those included in the study), there appears to be a trend to allow local laws to set monetary guidelines (Smith and Feldman 2003).

Second, CSR-driven supply chain requirements have the potential to supplant domestic legislation, even when they do not directly conflict with it. In Vietnam, labor legislation allows employment of workers younger than 18 years old (though not younger than 15 years old) in certain jobs. A limited survey of 24 enterprises in the Vietnamese textile and footwear sectors suggested that the effect of efforts to comply with buyer codes of conduct was to establish a recruitment criterion of age 18 years or older (Government of Vietnam, Ministry of Labor, Invalids, and Social Affairs and Institute of Labor Science and Social Affairs 2003). The impact on public policy goals in relation to employment of youths between the ages of 16 and 18 is potentially negative.

Third, businesses have sometimes raised concerns about how best to behave when norms found in CSR guidelines or codes generate direct conflicts with national legislation. For example, China does not allow for freedom of association or collective bargaining under its national laws (Smith and Feldman 2003, p. 11). In Vietnam, it has been reported that one of the business demands for government support in relation to implementation of codes of conduct is to "timely amend and supplement legal documents which are no longer suitable" (Nguyen Huu Dzung 2003).

Finally, the relationship between monitoring under private codes of conduct, on the one hand, and enforcement by public sector agencies, on the other, is an important area for consideration by public sector actors. In the supply chain context, buyer-imposed pressure to comply with terms of codes of conduct, on ultimate pain of termination of supply relationships, has the potential to act as a more important incentive for compliance with minimum standards than the limited deterrent effect of state inspections in countries with severe shortages of staff or facilities. In interviews on codes of conduct in global supply chains, one Indian apparel supplier, echoed by others, professed that buyers' efforts to enforce codes of conduct "had achieved more in a few years than the Indian labor inspectorates had in 30 years" (Jørgensen and others 2003, p. 24). Although the additional pressure for compliance that comes with codes of conduct may be welcomed, it also has the potential to be viewed as an unwelcome insertion of (often foreign) private enterprises in domestic compliance processes.

One route forward might be to explore options for establishing ways for private monitors to share information with public sector inspectorates. However, there is a risk that such collaboration may be viewed as "imperialistic" or tainted by the perception that local labor inspectorates are inefficient and corrupt or that governments should not be spending resources on the development and enforcement of private law (Jørgensen and others 2003, p. 32). This is an area where further work to explore preconditions for success and social acceptability is needed, drawing in particular on the environmental policy community's experience of "coregulation" around the world.

In all of these areas, private CSR tools have the potential to either support or undermine domestic regulatory and enforcement capacities. Public sector actors in developing countries have central roles in working through the different points of intersection, ensuring that tensions are avoided, and working with private CSR standards agencies and those businesses that apply CSR standards in their trading relationships to ensure that the potential benefits of CSR standards to domestic regulatory capacity are realized and the potential to undermine domestic capacity avoided. This is largely uncharted territory, where multicountry and sector-wide approaches at the level of analysis could generate considerable efficiencies.

One outstanding information gap for effective public sector engagement in this field will soon be partially filled: an assessment of the relationship between the provisions of codes of conduct and national legislation, based on selected sectors and countries, is now being carried out. This analysis could inform development of new approaches to linking public and private sector monitoring and enforcement, as well as the future development of codes of conduct.

8. Building on the Strengths of Different Actors

Public sector agencies can apply an understanding of CSR to generate synergies among the complementary skills of public, private, and civil society actors to achieve public policy goals.

In Angola, the bulk of oil companies' CSR activity has focused on humanitarian responses from a quasi-philanthropic perspective. Recognizing the unique opportunity to affect the shared objective of peace and development in Angola, companies appear potentially ready to ratchet up that CSR involvement to a more strategic level, provided that they see a real commitment from the government of Angola to seek a more efficient and transparent partnership with them (Blakeley and others 2003, p. 5).

The CSR practice's work on issues surrounding the mining sector in the Philippines is focusing on building effective collaboration among the different actors and sharing examples of best practices in CSR. Since 1998, a Working Group Process on Mining and Sustainable Development has provided opportunities for broader and more participative stakeholder engagement, addressing impacts of mining on human development and environmental sustainability along with its potential economic development and employment benefits. By early 2003, the need for broader civil society engagement in matters surrounding the mining and minerals sector was well established at the government level. With the support of the World Bank Group, a pilot workshop in a mining region is planned for 2004, with the aim of helping build the capacity of the range of local stakeholders to enhance CSR practices. The hope is that the workshop will provide a venue for a wide variety

of local stakeholders jointly to build understanding on different ways to enhance the management or mitigation of local environmental impacts from mining activity and maximize local social and economic benefits. The Philippines work also points out the importance of engaging with local government agencies. In the Philippines, local government agencies have important policy functions that are directly relevant to current efforts to build backing for responsible mining that is supportive of sustainable development. For example, they are responsible for allocating those mining tax revenues that are specifically allocated to the regions. In the past, some local governments have also expressed strong policies against mining.

The Salvadoran technical assistance strategy has been rooted in an ongoing process of national dialogue, driven by shared recognition of national challenges and a strong measure of participation by a range of national stakeholder groups. That this has been possible is in part attributable to changes in the role of key stakeholder groups. It has been suggested, for example, that the engagement of the Salvadoran trade union movement has become less ideologically driven over time, shifting from essentially political institutions to broad-based instruments of worker representation (Marín 2003). The consequence is that the movement's focus on education has become better attuned to focusing on quality and excellence through partnership-based approaches. Technical assistance work in El Salvador has aimed to stimulate dialogue around appropriate stakeholder roles in strengthening the implementation of an education-focused CSR strategy.

The preeminent business model for CSR activity in education in El Salvador has traditionally been the so-called deficiency model, where companies fill gaps in the education system. This deficiency model has some benefits, particularly given lack of public resources to invest in the education sector, but it often results in scattered projects with limited opportunities for cross-project learning. In the worst cases, the deficiency model can lead to ad hoc investments by businesses (for example, in information technology training for teachers) that are ineffective because they cannot succeed without simultaneous investment in other areas (such as in the necessary hard technologies). Now, with government engagement in an overall partnership approach, the general objective is to harness core business competences and skills to delivering a work force with the abilities and attitudes needed to obtain and retain employment in a competitive environment.

In the Angolan oil sector, the immediate driver for investment in education is legislation. Beginning in 1982, the government has passed various laws to set targets for local labor within the oil sector, a process referred to as"'Angolanization." Many companies have already achieved compliance with the targets for hiring unskilled workers, but com-

pliance with the targets for higher-level staff is more difficult. There is overall consensus and a building momentum among oil companies, the government (led by the Ministry of Petroleum), and other development institutions for a comprehensive approach to the problem of development of human capacity, skills, and training for Angolan citizens. The Angolanization targets offer a potential catalyst for development of strategies for long-term investment in education and training. A key to future efforts will be application of the legislation as a trigger for efforts to seek a common vision for education among the core stakeholders..

Public sector actors are well placed to map different stakeholders' roles and set a policy framework that reflects and supports the different complementary core competencies at the national level, but without capacity or interest from key stakeholder groups, partnerships cannot succeed. Public sector action to support the role of local civil society–based actors and trade unions in partnerships must be central in efforts to localize the CSR agenda. Effective partnerships need to be grounded in local stakeholder interests and needs and be capable of tackling and transcending real or perceived power imbalances among the different players.

9. Taking the Agenda Forward

The CSR agenda increasingly recognizes the central role that must be played by public sector agencies in developing counties if the agenda's potential contribution to sustainable development is to be realized. The work that has been undertaken to date by the World Bank Group's CSR practice with its partners is an early investment in this emerging field. It is too soon to measure the impact of that work or draw conclusions about the effectiveness or the efficiency of the investments that have been made compared with other possible policy approaches. Nonetheless, some common themes are already emerging from the work, as are indications of the kinds of initiatives that could usefully be undertaken in the next stages of the CSR practice's work.

REFRAMING THE AGENDA: LOCALIZING CSR

The enabling environment for CSR is the sum of the drivers, tools, and human capacities and institutions directed toward that goal (RING, 2003). In middle- and low-income countries, there is much to be done to strengthen each of these three pillars so that the drivers of CSR derive as much from action in those countries as from demands from stakeholders based in high-income countries; the tools of CSR are appropriate to their local contexts; and the human capacities and institutions that underpin efforts to promote responsible business behavior are nurtured in all countries.

The clearest overall message concerns the value of public sector engagement as a way to localize the CSR agenda so that implementation and engagement by the various stakeholders is properly grounded in an understanding of and respect for local, national, and regional development priorities.

The goals should be to make CSR responsive to and reflective of local stakeholder concerns related to sustainable development, maximize its alignment with public policy goals that are supportive of sustainable development, and build effective local capacities to engage with CSR agendas that may be imported through foreign direct investment or international trade. A localized CSR agenda will build on the strengths of local enterprises as well as those of foreign multinational corporations.

Adoption of this localization theme in future work could build a more legitimate and ultimately more sustainable CSR agenda—one that is better able to meet both the outstanding needs of stakeholders in developing countries and those of businesses investing in or sourcing from developing countries.

Some tricky balancing acts lie ahead, particularly in finding ways to manage and sustain balances among international priorities, globally applicable baseline standards, and legitimate local distinctions. Only a more inclusive agenda, in which public sector actors and stakeholders based in developing countries are accorded a central role, will be able to deliver lasting resolution of the tensions that currently arise from local implementation of an agenda that remains largely "foreign."

Five themes point the way to future localization strategies:

1. Work on global supply chains stressed the need to *move beyond the current top-down model for implementation of code of conduct requirements,* in which codes of conduct are understood simply as presenting new compliance requirements. This is reflected in work in Cambodia and Vietnam, which is beginning to explore the potential for public sector agencies to work with foreign buyers to secure more cooperative

approaches to code of conduct implementation. Work to localize code of conduct implementation through various kinds of collaborative strategies among buyers, suppliers, and workers is likely to be supportive of a shift toward understanding how CSR could be strengthened in global supply chains

2. International insights into best practice can strengthen and support indigenous CSR agendas, as work on CSR and education in El Salvador demonstrates. There could also be value in *disseminating information on indigenous agendas to 'foreign' stakeholders* to prevent the dominant CSR agenda from undermining indigenous practices

3. Public sector leadership in developing countries can help to achieve appropriate *linkages between the CSR practices of foreign companies and local enterprise development.*

4. There is a need to *engage in deeper analysis of the relationship between national laws and the norms of the burgeoning body of CSR-related codes of conduct.* There is little understanding as yet of practical ways to take advantage of the additional pressure for compliance that can come from CSR tools while ensuring that public sector regulatory capacity is not undermined and avoiding the creation of inappropriate tensions between national and transnational priorities. Public sector agencies, as sole sources of domestic legislative authority, have a unique role to play in catalyzing work on these issues.

5. There is a need to *build stronger understanding of the value of investment in the broader enabling environment for CSR* by helping local stakeholders to play their role in driving forward local CSR agendas. Relevant activities could include facilitating or mandating locally relevant information flows on business impacts (see box 2); legal protection and maintenance of respect for the basic rights without which no multistakeholder process can be equitable, including in particular respect for common and private property; and recognizing and maintaining support for fundamental procedural rights that enable citizens to realize their full potential as drivers of CSR, including through freedom of association, broad rights of public participation, and access to justice.

REASSESSING THE DRIVERS OF CSR

A baseline assessment of public sector roles in strengthening CSR put forward five drivers of public sector action to strengthen CSR. Each offers insights for possible future initiatives.

Trade and investment promotion has been a theme across much of the work. A key goal is to align the CSR–trade and investment promotion nexus to domestic policy concerns and national and local contexts. Increasingly, this will call for public sector actors to broaden their networks beyond the national level to influence the practices of international NGOs, foreign buyers, parent companies of foreign investors, and home country governments.

Box 2: Localizing Company Reporting

Reporting is often understood as a central tool of the CSR agenda. There is important activity through the Global Reporting Initiative to develop internationally applicable guidelines for "global" company reports to external stakeholders on environmental, social, and economic issues. Without an emphasis on defining and implementing CSR through reporting at the local level in addition to reporting at the global level, many company reports are of limited utility to stakeholders and public sector agencies in developing countries. With the increasing number of companies reporting beyond their financial bottom line, the next questions for the CSR agenda are "How could localized reporting frameworks best be developed?" and "How could public sector agencies seek to capitalize on the available information?" and "What capacities would be needed to allow them to do this, whether in terms of trade and investment promotion or alignment with public policies?"

These stakeholders all play an important role in setting the priorities of the mainstream CSR agenda and consequently its impacts. There may also be value in exploring further the range of cooperative linkages that could be made through bilateral and regional trade and investment agreements to strengthen the overall enabling environment for CSR.

Business demands for more effective public sector implementation and enforcement of minimum standards and good public sector governance emerged clearly from much of the CSR practice's work—from overall assessments on integration of CSR into investment decisionmaking, to the challenges of integrating CSR in global supply chains and country work in Vietnam and Angola. The general message is that efforts to strengthen CSR cannot be uncoupled from efforts to address broader issues of good public governance. This is a message targeted principally to public sector agencies, but also to donor agencies and the international community more widely. Issues of good governance set the boundaries for the voluntary CSR agenda to make a positive contribution to development. Only when good public governance is integrated into CSR—and CSR into good governance—will the potential value of the CSR agenda be maximized.

Local, national, and international civil society demands for responsible business and support for partnership-based approaches to tackling complex problems are an important driver of public sector activity in the Philippines to integrate CSR into the development of the mining and minerals sector. Also, work in El Salvador builds on a sense of shared purpose among different social actors to establish a strategic framework for linking CSR and education. What has not yet been directly addressed is the potential value of public sector support for the development of strong local civil society and trade union capacity to engage with the CSR agenda.

Consumer demand for sustainable goods and services in industrial countries relates closely to the trade and investment promotion driver and its expression through codes of conduct. What has not yet been addressed is the scope for public sector agencies in developing countries to help build and channel effective domestic demand for sustainable goods and services. This will not be a cost-efficient

investment in all countries, but as a first step, such experience as already exists from middle- and low-income countries could usefully be drawn together with a view to identifying more clearly the potential and limits of public sector engagement. There is also potential to link to the considerable interest among multinational corporations in finding new ways to identify and deliver against potential market demand for goods and services that support sustainable development for the economically poorest consumers "at the bottom of the pyramid" (Prahalad and Hart 2000).'

International policy processes appear to be a limited driver of public sector action to strengthen CSR (as opposed to public sector action to step up implementation and enforcement of minimum requirements imposed by law). However, a new bilateral trade agreement between the United States and Vietnam is one trigger for public sector efforts to strengthen implementation of codes of conduct by domestic suppliers. There are also indications that in the future, regional intergovernmental policy processes could play an increasingly helpful role in coordinating the development of linkages among CSR, regional competitiveness, and trade and investment promotion in certain sectors. In Central America, there may be potential to investigate the efficiencies that could be achieved through a regional process to link CSR, public education, and the development of national and regional comparative advantages, building on the experience of the CSR practice's work in El Salvador. In Southeast Asia, the new competitive environment that will emerge after China has entered the WTO may bring opportunities for regional coordination to link competitiveness with social and environmental goals. The key is not to compete directly with China, but to generate a "race to the top" among the social and environmental standards of members of the Association of Southeast Asian Nations Free Trade Agreement. China's own strategy for engaging with CSR will be an important determining factor for the effectiveness of such a strategy.

As the CSR agenda evolves, the relative importance of each of the drivers of public sector action will also shift. The adoption of the Equator Principles may indicate that private financial institutions are set to play a bigger role in driving public sector

action on CSR. Similarly, as the notion of localizing CSR gathers momentum, new dynamics will emerge to reframe the contexts in which public sector agencies define their strategies and roles in enabling CSR.

REASSESSING PUBLIC SECTOR ROLES

The work of the CSR practice has generally reinforced the relevance of the four public sector roles in strengthening CSR—mandating, facilitating, partnering, and endorsing. Care needs to be taken when applying these four public sector roles so that they do not draw attention away from the need to tackle deeper systemic issues in the CSR enabling environment. These include concerns about the basic economic investment climate issues, such as clarity and predictability of public sector action and the need to eradicate corruption, respect for fundamental procedural rights that allow citizens to express their views effectively in both the marketplace and the public policy arena, and the need to invest in building the capacity of civil society in developing countries to engage with CSR. Civil society–based organizations can drive market-based CSR, and they may be able to act as a bridge between companies and government. These organizations can provide information on enterprises' activities to the public, and they may be able to translate the language of social development into terms that can guide business action.

One way to reflect these broader enabling environment issues within the overall categories of public sector roles in the mandating to endorsing spectrum is to add a distinct fifth role—demonstrating. Public sector agencies can demonstrate leadership to business in the exemplary way that they themselves engage with stakeholders or promote and uphold respect for fundamental rights. They can demonstrate leadership by carrying out their activities with probity and free from corruption. And they can show leadership in the way that they support transparency about their own activities in relations with external stakeholders.

CONCLUSION

There are considerable opportunities for the public sector in middle- and low-income countries to harness the present enthusiasm for CSR to help deliver public policy goals and priorities. In exploring and performing its potential roles, the public sector can play an important role in shaping national CSR agendas that not only respond to external pressures, such as codes of conduct, but are also in line with local needs. The two priorities for the next phase of work are to localize CSR and bring a contemporary understanding of it to efforts to revisit the remaining challenges of good governance in developing countries. The result could be to place CSR on a trajectory that is both good for business and good for sustainable and equitable development.

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