



Federal Ministry  
for Economic Cooperation  
and Development

# Corporate Social Responsibility from a Development Policy Perspective



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# 1 Summary

**German development policy** helps fight poverty, build peace, realise democracy, render globalisation equitable and protect the environment worldwide. Thus, BMZ gears its actions to the **concept of sustainable global development**, which is reflected in equal parts in economic performance, political stability, social justice and ecological viability. In its pursuit of these goals, development policy works with a number of partners, including the private sector.

The particular importance of the private sector in **shaping globalisation** translates into a special responsibility for the consequences of entrepreneurial actions. The **global economic crisis** of 2008 illustrates in a most dramatic way, how disastrous the consequences of irresponsible action can be for the sustainable development of the global economy. Thus, particularly in view of the crisis, the willingness of more and more businesses to accept responsibility and actively integrate the imperatives of sustainable development in their corporate strategies must be welcomed. This trend is best summed up by the term '**corporate social responsibility**' which means responsible activity on the part of businesses with the aim of using the available leeway to foster sustainable development.

Corporate social responsibility is an integral part of the **vision of the social and ecological market economy** as laid out in the fundamental economic policy principles of the German Federal Government in general and the Federal Ministry for Economic Cooperation and Development (BMZ) in particular. These principles aim to put in place an economic system geared to achieve sus-

tainable development of the society as a whole. This system builds on a constructive partnership between a strong but not dominant state and a strong private sector that accepts commitments.

In spite of the growing importance of corporate social responsibility, it clearly remains the responsibility of the state to ensure compliance with human rights and internationally accepted labour standards.

The German Government thus helps the governments of partner countries to put in place a social and ecological market economy that encourages **sustainable business operations** and stops dangerous business practices. It promotes the dissemination and enforcement of internationally accepted norms and standards of entrepreneurial activity, and works towards binding bilateral and multilateral agreements within the international community that help ensure reliable international conditions for private businesses.

**In the field of corporate social responsibility, German development policy aims to**

- **improve the frameworks put in place by governments to foster pro-development business practices**
- **foster private-sector commitment to sustainable development**
- **improve the preconditions for partnership-based cooperation between government and the private sector.**

## 2 Development-Policy Objectives for Promoting Corporate Social Responsibility

German development policy is committed to pursuing the **concept of sustainable development**, i.e. economic efficiency, social justice, ecological viability and political stability. German development policy regards itself as part of the international effort to realise a global partnership for development as laid out in the Millennium Declaration, and to achieve the Millennium Development Goals (MDGs).

BMZ and its implementing organisations work with a variety of partners to this end. These partners include governments of developing countries (both low-income and middle-income countries), international institutions, trade unions, civil society organisations, and of course the private sector.

Within the framework of German development policy, the private sector plays a key role in several fields, for instance, in putting into practice the **fundamental principles of the social and ecological market economy**<sup>1</sup> that aims to promote sustainable development. The commitment of private businesses in partner countries is vitally important for economic, ecological, social and political progress.

**Private businesses are instrumental in shaping global value chains**, which stretch from the extraction of raw materials and production in developing countries to trading and on to consumers in Germany and elsewhere in Europe. Businesses create jobs and income, pay taxes, can introduce new technologies that are less damaging for the environment and the global climate.

They contribute significantly in the fight against corruption and in ensuring that human rights are respected. They are also key players in ensuring global food security, maintaining social security systems and infrastructure. Large companies with international operations have significant political influence in a number of countries, and are frequently seen as an example that local businesses aim to follow.

The flipside of this noteworthy importance of the private sector in shaping globalisation is a particular **responsibility** for the consequences of its actions. Development policy thus welcomes the fact that more and more businesses are accepting this responsibility, and **integrating sustainable development criteria in their corporate strategies**.

At the same time, crises in particular illustrate the fact that businesses need a properly functioning **regulatory framework**. This applies not only to the real economy, but also and indeed even more so to banks and other players in the financial markets. The current financial crisis has shown that governments must put in place the regulatory framework for this sector. Where businesses act inappropriately, the consequences can be disastrous, especially for people in developing countries.

In the context of their corporate social responsibility, many companies specifically refer to the concept of sustainable development, which is also the overarching goal of German Government policies. This offers the opportunity of linking the de-

<sup>1</sup> BMZ Strategies 158: 'Social and Ecological Market Economy Principles in German Development Policy', <http://www.bmz.de/en/service/infothek/fach/konzepte/konzept158.pdf>.

development policy of the German Government and private-sector corporate social responsibility on the basis of common values.

Corporate social responsibility cannot and must not replace political action and state legislation. But, in addition to advocating an effective and binding regulatory framework for the market economy, the BMZ makes the most of the opportunity of **pursuing shared goals on the basis of partnership**. Corporate social responsibility and global sustainability policy can be mutually supportive.

In **developing countries** this is particularly important. In comparison to most industrialised states, many developing countries suffer serious regulatory and enforcement deficits, which can encourage market players to act in a way that is detrimental to the development prospects of the country as a whole. Corporate social responsibility can shape positive societal trends, create social security and support reform processes, as

part of a political approach. For both responsible businesses and for development policy, **improving the frameworks for a social and ecological market economy** is an important concern.

As a way of working with the private sector to improve the situation of individuals in partner countries, BMZ supports **pro-development corporate activities**, partly by means of **public-private partnerships (PPPs)** within the scope of the develoPPP.de programme and partly through cooperation arrangements with business associations and chambers of commerce. Corporate social responsibility is also an important instrument for achieving development goals such as **human rights, in particular fighting discrimination against women and minorities, and effectively encouraging the adoption of internationally accepted social, environmental and transparency standards**. It is also effective in **supporting the introduction of incentives to encourage pro-development practices in markets**.

## 3 Understanding of Corporate Social Responsibility

### 3.1 Definition

**Corporate social responsibility** refers to responsible activity on the part of businesses with the aim of using their available leeway to foster sustainable development.

The terms corporate responsibility, corporate citizenship and responsible business conduct<sup>2</sup> are used more or less synonymously, as are other terms. In the debates of recent years several attempts have been made to define these terms precisely. However, it remains unclear which term and which definition will become standard usage, as a result of the different emphases of different users and the wide spectrum of individual topics covered. Although German terms exist, so far they have not replaced the English terms in common usage.

German development policy recognizes corporate social responsibility to embrace both compliance with binding regulations, and voluntary ini-

tiatives launched by private businesses that aim to improve their own competitiveness and meet society's expectations. Different legal frameworks and discrepancies in the extent to which norms and standards are effectively applied from one country to another, and particularly in developing countries, do, however, make it difficult to compare the quality of voluntary measures.

Corporate social responsibility deals not only with a number of different topics, but can be found **at different levels**. The responsibility of a company for the products and services it produces is obvious. They must not pose a threat to consumers or for the environment. However, this responsibility applies not only to finished products or services but extends to the processes involved in production or service delivery. We refer here to clearly defined environmental standards, human rights and aspects of corporate conduct, such as the paying of taxes and good corporate governance.

### Corporate Governance

'Governance' is a term used frequently in development policy as elsewhere. 'Corporate governance' deals with the rules of management, corporate legal structure and corporate control (such as the relations between shareholders and executives or the interaction between the board and the supervisory council). Above all, corporate governance aims to achieve systemic efficiency and safeguard proprietary interests, but is generally understood to also embrace the relations between a company and its stakeholders, in particular the workforce.<sup>3</sup>

<sup>2</sup> The term 'responsible business conduct' introduced by the OECD mirrors the understanding of corporate (social) responsibility laid out here, because it is based on a broad definition of the framework and the expectations of business conduct. The term 'responsible business conduct' is not, however, used as frequently at national or international level as the term 'corporate social responsibility' (CSR)."

<sup>3</sup> See OECD Principles of Corporate Governance at [www.oecd.org/dataoecd/32/18/31557724.pdf](http://www.oecd.org/dataoecd/32/18/31557724.pdf).

### 3.2 Corporate social responsibility in the context of globalisation

The CSR movement is closely linked to increasing **globalisation**, which has changed the playing field for the private sector in many ways. The **societal challenges** faced by business have amplified. The specific circumstances vary, however, from one sector, value chain, region and corporate profile to another. It is often necessary to establish the company's responsibility in a given situation, for instance when market failure coincides with failure of the state.

The responsibility of a medium-sized company in Africa cannot be paralleled with that of a European 'global player' because their respective scope for action is very different. Nevertheless there are some fundamental issues and requirements that are particularly relevant for development policy, such as the influence of companies in shaping globalisation, in fighting poverty, on improving the human rights situation with particular reference to women's rights and overall working conditions, and on intensifying environmental protection.

The **growing importance of CSR** is related to a number of factors.

- **New sales, sourcing and labour markets.** In the course of globalisation and the ongoing international division of labour, there has been a surge of interest in the markets of developing countries and transition states. The potential to improve living conditions in partner countries through the sustainable development of these markets is vast. Corporate social responsibility can refer to entrepreneurial activities that aim to integrate poor and disadvantaged population groups into market activities in this context.
- **Increasing competitive pressure and the power of consumers.** Many companies are facing increasingly harsh competition in new markets. This pressure can be an incentive to adopt business practices that are diametrically opposed to the vision of sustainable development. In certain raw material sectors and supply industries, for instance, the price war is often cited as a reason for ignoring environmental and social standards. In this context we often hear of a 'race to the bottom', or demand-driven low prices. There are, however, also counter-movements to these business models that can only undermine development. Consumers and employees in Northern home markets today want to know about the social and ecological conditions of production in developing countries in the global South. On the one hand this entails the risk for a company damaging its reputation, productivity and sales if, for instance, unacceptable conditions are discovered within its supply chain. On the other hand, however, more and more companies are beginning to see this as an opportunity. They realise that it can be a competitive advantage to act responsibly and thus attract a growing number of educated consumers and motivated staff members. And businesses can often significantly improve their competitiveness by dealing better with their staff and by using resources more responsibly. Labour productivity rises, the time lost due to strikes drops as does the error rate, the production costs of energy and other resources decreases. Some businesses already use their compliance with the principles of sustainability actively in their advertising.
- **Critical civil society.** In this context the role of civil society organisations, non-governmental organisations and trade unions must be mentioned in particular. They draw attention to inappropriate

corporate conduct and are in a position to make such cases public without delay around the world. Protests, for example against pollution, child labour, discrimination against women, 'wage dumping', lack of occupational health and safety provisions, abuse of data, and business practices which impede the work of trade unions have made this clear. In many cases these organisations see themselves as the advocates of disadvantaged population groups and call for corporate social responsibility, in particular in states with weak government structures.

- **Strategies for sustainable investment.** In the financial world, corporate social responsibility today plays an important part. Share indices such as the Dow Jones Sustainability Index (DJSI) and the related ratings assess companies listed on the stock exchange not only in terms of traditional financial key performance indicators and market data, but also in terms of their corporate social responsibility. The importance of investment funds that consider sustainability principles is rising. International project financing, too, is increasingly tied to compliance with environmental and social standards.
- **Export guarantees and sustainability criteria.** The OECD member states have adopted common procedures that put in place minimum ecological and social requirements for export projects. Internationally accepted environmental and social standards are used when awarding state export credits. Within the framework of the OECD, common principles have also been drawn up to stamp out corruption. Since 2007 the application procedure has included a separate declaration on corruption prevention within the framework of export credit guarantees. When investment guarantees are awarded, the OECD's Guidelines for Multinational Enterprises<sup>4</sup> are pointed out as the reference for business conduct.
- **Corporate governance.** The development goal of good governance is not only to be achieved in terms of government action. The equivalent in the businesses sector is the improvement of corporate governance. Today's corporate governance standards aim at achieving greater transparency in corporate legal structures, management and corporate control. Since good corporate governance improves processes and minimises risks, it is in the interest of a company to underpin its sustainable success by making progress in these areas. Companies are now also expected to provide open and comprehensible information about risks to society or the environment. Managerial decisions are required to foster sustainable value creation.
- **Assumption of public duties by the private sector.** Often companies in developing countries handle tasks that in OECD countries are generally the responsibility of the public sector, for instance in health and education. Accepting this additional responsibility in these fields, companies can offset certain governmental deficits, but at the same time they are must improve their transparency and legitimacy towards the general public and civil society. Where the goods or services supplied by the private sector relate to public goods that are of elementary importance to large sections of the population, the requirements in terms of responsibility are particularly high. Each case must be appraised critically.

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<sup>4</sup> For more information on the OECD's Guidelines for Multinational Enterprises see Section 3.3.

### Financial crisis

During the 2008/2009 financial crisis in particular, it became clear that alongside the goal of generating short-term profits, social responsibility and transparency are crucially important factors in ensuring the long-term success of a business. In international efforts to find a way out of the global financial and economic crisis, and to avoid any repetition in the future, the issues of corporate sustainability, responsibility and transparency play a key role. Within the scope of the G20 (group of the most important industrialised nations and emerging economies plus the European Union), important resolutions have been adopted in order to make the global financial system more sustainable and more transparent. For instance, specific financial market players, in particular hedge funds, have been subjected to stricter regulation and efforts have been stepped up to tackle tax havens. Also high on the G20-agenda is the need to translate into more concrete terms the Charter for Sustainable Economic Activity, proposed by the German Government. Against the backdrop of the dramatic impacts of the crisis on development, the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, held in June 2009, focused on the responsibility of all actors to help overcome the crisis on the basis of a global consensus on principles to promote more equitable sustainable development. It specifically mentioned corporate social and environmental responsibility as an important element thereof.

- **Global environmental problems.** Resource-intensive business and the ruthless exploitation of nature have led to dramatic environmental challenges. Not only is the environment jeopardised. The resource base on which industry depends is also under threat. Agrarian societies, for instance, in which agriculture is a mainstay of the economy, are increasingly coming under pressure as a result of deforestation, over-fertilisation, waste of water, soil erosion, over-fishing etc. In young industrial regions, air, soil and water pollution often impede development. The search for strategies to help countries and regions adapt to climate change has also reached the private sector, which is increasingly seeing it as an opportunity. The growing awareness that successful business depends on ecological criteria being firmly anchored in business strategy thus plays an important role in the development of the corporate social responsibility movement. By developing and using innovative environmental technologies and making more efficient use of natural resources, the private sector can help resolve global environmental problems.
- **Avoiding criminal prosecution.** The criminal prosecution of companies acting inappropriately abroad is handled differently by different countries. A general trend can be seen, however, towards a stricter use of legal instruments of this sort. This applies increasingly also to the direct or indirect violation of human rights and for crimes involving corruption. Consistent compliance with corporate social responsibility throughout a company's worldwide operations can thus offer one important way for companies to avoid legal risks.<sup>5</sup>

<sup>5</sup> Guidelines for businesses and other actors were published in 2008 by the Office of the UN High Commissioner for Human Rights: Human Rights Translated: A Business Reference Guide (2008), see [http://www.unglobalcompact.org/docs/news\\_events/8.1/human\\_rights\\_translated.pdf](http://www.unglobalcompact.org/docs/news_events/8.1/human_rights_translated.pdf).

These and other challenges are shaping the context of CSR. As a result, corporate social responsibility has in recent years moved away from a niche existence towards becoming an integral part of the corporate strategy of many businesses.

### 3.3 Major reference texts and initiatives for corporate social responsibility

A series of international conventions, codes of conduct and initiatives lay out specific norms, values and recommendations for businesses relating to individual fields of action of sustainable development. They provide an accepted framework of reference for both the CSR movement and for state and civil society actors.

The best known international conventions and initiatives, which were specifically referred to by the G8 states at the Heiligendamm Summit, are the basis for cooperation between the German Government and private companies and industry associations.<sup>6</sup>

- The **ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy** represents an international consensus between governments, trade unions and business associations. The declaration lays out comprehensive guidelines for multinational businesses in the field of labour and social standards. It comprises a total of 59 rules on working conditions, including the four ILO core labour standards: freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labour, effective abolition of child labour and elimination of discrimination in respect of employment and occupation.
- The **OECD's Guidelines for Multinational Enterprises** are a comprehensive code for globally responsible business action at international level. They contain recommendations issued by governments of signatory states to multinational businesses operating in or based in their countries. They are broken down into ten chapters and call on companies to act responsibly, for instance in terms of human rights and labour-law regulations, with reference to international agreements such as the Universal Declaration of Human Rights and ILO's core labour standards. The aim is to promote sustainable development and the precautionary principle. Recommendations are also made on taxation, environmental and consumer protection, corruption and good corporate governance. The guidelines have already been signed by the 30 OECD member states and ten non-members (as of May 2009). Each signatory government is required to set up a National Contact Point to push towards improved implementation of the guidelines and that is responsible for dealing with complaints. In Germany the National Contact Point is located in the Federal Ministry of Economics and Technology, and is supported by a working group with representatives of various federal ministries and the social partners, unions and employers.
- The **United Nations Global Compact** was founded as a worldwide alliance between the United Nations and the private sector. The initiative, which is based on the voluntary commitment by companies based on ten principles taken from international conventions on human rights, labour and social standards, environmental protection and anti-corruption, is set up as a dialogue and

<sup>6</sup> An overview of the codes, norms and instruments listed here, and others, was drawn up jointly by the OECD and the ILO in response to a request of the G8 states in 2008: <http://www.oecd.org/dataoecd/20/18/41988592.pdf>.

peer learning forum for corporate social responsibility. It conducts a locally and globally networked multi-stakeholder dialogue and initiates partnership projects between industry, state authorities and civil society. Participating companies are obliged to regularly report on their corporate social responsibility activities.

The following also merit special mention:

- The initiative of the **International Organization for Standardization (ISO)**, to develop a comprehensive standard for social responsibility with its **ISO 26000** standard. The final version, which will be based on broad-based multi-stakeholder participation, is to be adopted in 2010. ISO 26000 comprises seven core topics, which companies are expected to bear in mind within the scope of their corporate social responsibility activities: transparent corporate legal structures, human rights, good working conditions, compliance with the imperatives of environmental and climate protection, fair competition and anti-corruption, consideration of consumer interests, and social commitment for society as a whole.<sup>7</sup>
- The guidelines of the **Global Reporting Initiative (GRI)**, which form the basis for transparent and comprehensible reporting on corporate sustainability activities.<sup>8</sup>
- The work of the **United Nations' Special Representative of the Secretary-General on human rights and transnational corporations and other business enterprises**, whose 2008 report entitled '**Protect, Respect and Remedy: a Framework for Business and Human Rights**' underlines corporate responsibility to respect human rights.<sup>9</sup>
- The **Performance Standards on Social & Environmental Sustainability**<sup>10</sup> published by the **International Finance Corporation (IFC)** in 2006, which have become a de facto standard for international financing in private-sector projects, as well as the Rome Consensus of the European Development Finance Institutions (EDFI), and the Equator Principles of commercial banks<sup>11</sup> involved in project financing, which are based on the performance standards.
- The **Principles for Responsible Investment (PRI)** developed by major institutional investors such as pension funds in conjunction with the United Nations.<sup>12</sup>

The documents and initiatives laid out above differ in terms of character, but all have emerged with the participation of major stakeholders (industry, civil society, trade unions, government agencies, politicians) and all enjoy broad support.

7 See [www.iso.org/sr](http://www.iso.org/sr).

8 For the framework for GRI reporting see: [www.globalreporting.org/ReportingFramework/G3Guidelines](http://www.globalreporting.org/ReportingFramework/G3Guidelines).

9 See [www.business-humanrights.org/Documents/RuggieHRC2008](http://www.business-humanrights.org/Documents/RuggieHRC2008).

10 For explanations of the eight IFC performance standards see: [www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards](http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards).

11 The Equator Principles are voluntary regulations adopted by banks, which thereby undertake to respect environmental and social standards in the field of project financing. See [www.equator-principles.com](http://www.equator-principles.com).

12 PRI aims to ensure that more attention is paid to sustainability factors in investment decisions. At the end of 2008 almost 500 institutional investors had already joined the initiative, representing assets of USD 18 trillion. [www.unpri.org](http://www.unpri.org).

## 4 Strategy Adopted by German Development Policy to Promote Corporate Social Responsibility

The German Government's development policy agenda seeks to enhance governmental **frameworks to foster corporate social responsibility**, to promote **private-sector commitment** to sustainable development, and to enhance the preconditions for **cooperation between governments and the private sector on the basis of partnership**.

### 4.1 Enhancing national and international frameworks

German development policy is informed by the conviction that private-sector commitment can only flourish within a **stable national regulatory framework** put in place by government that allows the positive social impacts of responsible businesses to develop as fully as possible, rather than providing incentives to less responsible competitors and free rider actions.

The German Government believes that this stable framework must comprise effective social security systems, which ensure that weaker sections of the population do not slide into absolute poverty. Many developing countries have no social safety net of this sort. In this context, CSR can make a major contribution, in conjunction with trade unions and the public sector.

At the international level, the CSR standards and initiatives mentioned above specify fairly precisely the form corporate social responsibility can take in today's globalised world. Apart from the binding international agreements, however, they generally take the form of recommendations

or voluntary associations of stakeholders with a common set of values. There are practically no effective mechanisms to ensure that the provisions are enforced, and even proven violations tend to have no consequences for the offender.

Thus both local and globally operating companies with operations in developing countries often complain of ineffective state institutions and call for more efficient enforcement mechanisms in social and environmental issues in line with internationally accepted standards. In states with well developed regulatory and monitoring systems, by contrast, many industry associations and individual businesses are extremely sceptical of the need for yet more government regulation.

From the point of view of development policy, corporate social responsibility means making responsible use of the available room for manoeuvre. It is, however, the politician's role to define this scope for action. Although voluntary commitments on the part of industry, which are devised, monitored and respected within the framework of a dialogue with all relevant stakeholders, are an important step on the way to identifying an appropriate solution to the problem, legislation and the enforcement thereof is crucially important at both the national and international level.

The German Government hence supports the governments of partner countries in putting in place a social and ecological market economy that provides the best conditions for the unfolding of corporate social responsibility. Development policy also works to achieve binding bilateral and multilateral agreements within the in-

ternational community, which help establish a reliable international framework for business embracing corporate social responsibility as defined in the reference texts cited (ensuring a level playing field for all business actors).

#### 4.2 Supporting private-sector commitment to sustainable development

On the basis of major international reference texts and initiatives, German development policy supports businesses that choose to adopt responsible practices. It works to ensure that the competitiveness of companies that demonstrate exemplary corporate social responsibility is strengthened. This goal need not necessarily be served by legislative measures. Other options can be found where the state acts as a player in the market, or where businesses request state support for their activities. For instance, development policy advocates taking into account compliance with basic social and environmental standards as criteria for public procurement orders and when state export credit guarantees, investment guarantees or guarantees for untied financial credits, are awarded, both in Germany and in partner countries. Germany was also successful in establishing tighter standards, say for project financing, within multilateral institutions such as the World Bank Group.

In German development policy, experience with public-private partnerships (PPP) and investment financing in particular have demonstrated that dialogue and cooperation between the state and the private sector (preferably with the involvement of civil society and the trade unions) can be highly effective. For cooperation is to be successful and dynamic, stakeholders must subscribe to the common goals of sustainability and corporate social responsibility.

Four major types of cooperation can be identified<sup>13</sup>:

- **Working together for development.** By cooperating with businesses within the framework of corporate social responsibility, progress can be made with respect to common concerns and overall obstacles to development. One good example is the fight against HIV/AIDS, which development policy is supporting in conjunction with German and South African companies. Activities include establishing social facilities and supporting local community development funds that implement development projects in consultation with the local population.
- **Further developing norms and standards.** CSR activities can contribute to implementing and further improving standards in conjunction with development policy measures. In particular international value chains, based on agricultural or raw materials production in developing countries, cooperation between development policy and the private sector along with other stakeholders can lead to significant social, environmental and qualitative improvements. But also in commerce or more industrial sectors, such as the textile industry, there are impressive examples of what can be achieved through cooperation. Globally valid sustainability standards, which address international value chains and are devised and realised with the involvement of stakeholders, thus offer an opportunity to make economic globalisation more socially and environmentally sound. Corporate social responsibility can then play an important part in realising and disseminating standards.

<sup>13</sup> See Witte, Jan Martin and Wolfgang Reinicke, 2005: *Business UNusual: Facilitating United Nations Reform through Partnerships*, New York: United Nations.

- **Pooling know-how and resources.** By supporting corporate social responsibility activities, development policy can achieve a greater impact thanks to the use of complementary pooled resources and capacities. If the technical and specialist expertise of business is combined with the influence, resources and advisory capacities of the German implementing organisations, both sides benefit, for instance in the field of training or technology transfer.
- **Tapping and shaping markets for sustainable development.** Development policy and private industry can collaborate within the framework of corporate social responsibility activities in order to tap markets for sustainable development. Outstanding examples can be seen in the rapid development of the market for microfinance products in developing countries and in the development of mobile communication networks. Other approaches, too, generally summed up under the buzz word 'Business at the Base of the Pyramid' offer further growth potential.<sup>14</sup>
- **Significance:** To what extent does the measure play a pioneering role for an entire industry, country, region or value chain?
- **Degree of innovation:** Does the measure involve a promising new approach or does it use methods that are already common practice? Will the project develop something innovative, which would increase the economic, ecological or social benefits of business activities?

To ensure that CSR approaches are sustainable, it is important that the private company in question has a discernible business interest. The clearer the link to the commercial success of the company, the more probable it is that CSR will bring about lasting improvements for people in developing countries.

#### 4.3 Improving preconditions for partnership-based cooperation

When promoting corporate social responsibility German development policy pursues a participatory approach that takes account of the legitimate interests of all stakeholders. Cooperation based on partnership requires dialogue. **Dialogue between development policy, private industry, civil society organisations, parliament, political parties and trade unions** has in past helped stakeholders to better understand the approaches pursued, and has reinforced the legitimacy and credibility of measures by ensuring that voluntary approaches were actually put into practice. It has often laid the foundations for pioneering cooperation projects. The importance of these so-called multi-stakeholder approaches, geared to participation, is also reflected in the fact that all major corporate social responsibility reference texts and initiatives have their roots in processes of this type.

From the perspective of development policy agenda, special mention should be made of the following criteria for support:

- **Development policy relevance:** To what extent does the project help resolve the particularly urgent development problems facing partner countries? For instance, do especially disadvantaged and marginalised sections of the population benefit from the project?
- **Broad-based impact:** To what extent do people in developing countries benefit from the measure? How many individuals stand to benefit?

<sup>14</sup> See, for instance, Prahalad: The fortune at the bottom of the pyramid: eradicating poverty through profits', 2006.

This is why German development cooperation supports both the international community and partner countries in establishing dialogue forums, in which the contribution of corporate social responsibility to sustainable development is discussed in practical terms by all stakeholders. When talks between government, private industry, trade unions and civil society break down because of the traditional gulfs that separate dis-

tinct interests, a huge opportunity for sustainable development is lost. No one side can master the current challenges of development alone. Improved cooperation and shaping a global partnership for development are thus not only the precondition for effective corporate social responsibility, but also concerns addressed in the United Nations Millennium Development Goals (MDGs).

## 5 Fields of Action of Development Policy

When realising the development policy strategy **to promote corporate social responsibility** a large number of measures can be identified, which can be broken down into the following fields of action.

### 5.1 Providing information

In the field of information, BMZ promotes corporate social responsibility and emphasizes the importance of the contribution that private businesses can make to achieving sustainable development in partner countries.

BMZ supports, for instance:

- The promotion of internet forums aiming to make information and corporate social responsibility tools available in developing countries and emerging economies. Along with other donors, BMZ fosters, for instance, the **Business Anti-Corruption Portal**, a multi-language website that provides governments, civil society, businesses and research institutes with detailed country information and helpful tools for their work and for putting anti-corruption efforts into practice. ([www.business-anti-corruption.com](http://www.business-anti-corruption.com))
- Germany-based web portals that provide information for German companies in particular about corporate social responsibility and encourage them to make a commitment. One example is the cooperation with the Bertelsmann Foundation and the German Federal Foreign Office in running the website ‘**CSR-weltweit**’ ([www.csr-weltweit.de](http://www.csr-weltweit.de)) that offers country profiles on regulatory framework and practice in CSR.
- Development policy education and information campaigns, such as the measures to promote **fair trade**. These aim to raise general public awareness of the importance of complying with social and environmental standards, in particular when manufacturing in developing countries. One example is support for the annual fair trade action week, **Faire Woche**. ([www.faire-woche.de](http://www.faire-woche.de))
- The ‘**Afrika - Kontinent der Chancen**’ (Africa –Continent of Opportunities) initiative that ran in 2007-2008 in several German towns and cities in conjunction with industry associations, to inform businesses about the promising opportunities for sustainable economic development in Africa. This campaign also resulted in the produc-

tion of guidelines for businesses, entitled 'Schritt nach Subsahara Afrika' ('Approaching sub-Saharan Africa'). (BMZ Topics 188)

- Conferences on innovative approaches and urgent development challenges, such as the **business at the base of the pyramid** approach, the role of private industry in conflict regions, the **impacts of voluntary social and environmental standards** and investment projects in conjunction with corporate social responsibility strategies.

## 5.2 Engaging in dialogue

In promoting corporate social responsibility in partner countries and improving the preconditions for partnership-based cooperation between the state and industry, BMZ is involved in a number of dialogue processes, some of which are outlined below.

- Support for the **United Nations Global Compact**. BMZ supports and accompanies the central Global Compact Office in New York. This office is primarily responsible for the overall political management and updating of the global initiative. BMZ also assists local and regional Global Compact networks in sub-Saharan Africa. BMZ provides the German Global Compact Network with a secretariat that delivers advisory services, coordination and support for activities. [www.globalcompact.de](http://www.globalcompact.de)
- Facilitation of the **Round Table 'Codes of Conduct'**, bringing together representatives of business and political communities, civil society and trade unions for some years now. They share their experiences in the implementation of sustainability stan-

dards with a view to realising joint pilot projects, publications and events. [www.coc-runder-tisch.de](http://www.coc-runder-tisch.de)

- Support for **business and multi-stakeholder networks** in partner countries that work towards greater corporate social responsibility, for instance the establishment of round tables within the scope of PPPs in India and Bangladesh.
- Strengthening the **dialogue on standards and principles of corporate social responsibility** at international level and with developing countries and emerging economies, in particular within the framework of the Heiligendamm Process<sup>15</sup>, which was launched at the 2007 G8 summit in Germany, and involves major emerging economies, such as China, Brazil, South Africa, India and Mexico.
- Initiating **public-private dialogues**, within the framework of which governments and businesses consult in particular on reforms to improve the business and investment climate. BMZ supports an international network of experts that has, for instance, published a manual on the practical application and evaluation of public-private dialogues. [www.publicprivatedialogue.org](http://www.publicprivatedialogue.org)
- Collaboration within the scope of the **working group of National Contact Points for the OECD's Guidelines for Multinational Enterprises** in Germany, which aims at disseminating the guidelines within the business community and providing assistance in dealing with complaints received of inappropriate business conduct. [www.bmwi.de/BMWi/Navigation/Aussenwirtschaft](http://www.bmwi.de/BMWi/Navigation/Aussenwirtschaft)

<sup>15</sup> At the G8 summit in L'Aquila it was decided to pursue and further develop this process under the new title of the Heiligendamm-L'Aquila Process.

### 5.3 Realising corporate social responsibility

...

- **...through public-private partnerships (PPPs)**

BMZ encourages businesses to make greater use of the opportunities to collaborate with development cooperation in their foreign activities. It has devised the **develoPPP.de** programme for development partnerships, also known as public-private partnerships (PPPs) to provide a framework for cooperation with private industry.<sup>16</sup> In partnership with businesses BMZ's implementing organisations realise PPP projects in almost all partner countries and priority sectors of development cooperation. PPP projects

- create jobs
- foster the development and implementation of environmental and social standards
- improve water and energy supply systems
- integrate climate protection imperatives into the design of global value chains
- give HIV/AIDS patients access to medical care

- improve training facilities
- strengthen microfinance systems and put in place social protection, for instance in the form of insurance packages for poor sections of the population
- support technology and innovation transfer (for instance in the ICT sector)
- foster transparency and help stamp out corruption
- facilitate small farmers' access to global markets
- develop innovative products and services for the markets of the poor (e.g. microinsurance policies).

Current examples of PPPs are published regularly by BMZ and its implementing organisations.<sup>17</sup>

In order to **develop initiatives and standards that are particularly structure-building and have as broad an impact as possible**, in specific sectors BMZ has established **strategic alliances** with private industry. Well-known examples include the "Common Code for the Coffee Community" (4C) and the "Cotton made in Africa"-Initia-

#### Strategic Alliance – "Cotton Made in Africa"

About 20 million people in sub-Saharan Africa earn their living from growing cotton. Although the quality of the cotton is good, low world market prices, delayed payment and low productivity cause small farmers problems. Often, the incorrect use of agricultural chemicals poses a health hazard. The PPP project 'Cotton made in Africa' aims at ensuring that high-quality cotton from Africa is available in the long term, as well as securing the income of small farmers and improving productivity and health and safety. An alliance of textile traders promotes the introduction of minimum environmental and social standards in cotton production.

<sup>16</sup> See [www.develoPPP.de](http://www.develoPPP.de).

<sup>17</sup> BMZ's 2008 annual report on PPPs available at <http://www.bmz.de/en/service/infothek/fach/materialien/materialie201.pdf> and the publication 'PPP-Report'.

tive (see box). Support for the further development, harmonisation and dissemination of instruments of this sort that could be replicated, are central issues for development policy.

Despite huge potential offered by private industry to meet economic, ecological and social challenges, including development policy goals such as poverty reduction, there are still too few instances of cooperation between the public and private sectors in developing countries.

Public-private partnerships (PPPs) can help mobilise private-sector forces as the driver for sustainable development and advance the debate on a redistribution of roles between the state, civil society and the private sector. In this way development constraints can be tackled and potentials harnessed that can help realise a social and ecological market economy.

On the basis of positive experience gained with PPP measures, BMZ is increasingly supporting its partner countries in initiating suitable approaches towards their own PPP programmes. To this end, under the banner of **Capacity Development for Partnerships (CDP)**, programmes are being developed that deliver advisory and train-

ing services for state partners in developing countries, thus enabling them to realise their own PPP measures.

- **... through regional development cooperation projects and programmes**

Within the framework of regional development cooperation, advisory components for **corporate social responsibility can be integrated into programmes**. In China and India BMZ is, for instance, helping local institutions and businesses to take into account the imperatives of sustainable development and corporate social responsibility in the design of value chains.

The promotion of **dialogue forums** and **multi-stakeholder networks**, which aim to improve the understanding of corporate social responsibility and roll it out, is also part of regional programmes.

**Responsible finance** is being integrated into a large number of projects as an additional component. It comprises all measures geared to ensuring a fair balance of interests between financial institutions, clients, staff, business partners, shareholders and financiers, and thus building trust.

### **German-Ghanaian cooperation for financial systems development**

In Ghana large sections of the population know too little about their rights vis à vis financial institutions and about the costs and risks involved in specific financial products. There is thus a serious risk of them becoming victims of deceitful service providers. Against this background, German development cooperation supported **Financial Literacy Road Shows** throughout the country in collaboration with more than 100 microfinance institutions. Drama groups played in market squares, spreading very simple messages relating to savings, loans and insurance. Employees of the financial institutions involved distributed information and were available to answer (potential) clients' questions. An evaluation of this measure demonstrated that many of the financial institutions involved have since improved their customer service and introduced new financial products tailored to the needs of customers. At the same time the number of accounts and the amount of savings paid into these accounts almost doubled within three months. The Ghanaian Government has picked up on the topic and now plans to mainstream financial literacy in schools. In this, too, it will receive support from German development cooperation.

Measures in this field also include ensuring a transparent information policy on the part of banks and microfinance institutions vis-à-vis their clients.<sup>18</sup>

When helping businesses to improve their corporate governance, German development policy plays a watchdog role in the financial sector. Its representatives sit on supervisory boards of microfinance banks, for instance, thus helping to monitor compliance with the tenets of good corporate governance. Within the scope of back-up measures, it helps public-sector companies to introduce appropriate structures, such as transparent cost and financial management systems.<sup>19</sup>

- **...by strengthening the human rights responsibility of private businesses**

The BMZ flagship project ‘Human Rights, Corporate Responsibility and Sustainable Development’ aims to help businesses perceive their human rights responsibilities and to involve them to a greater degree in sustainable development processes. The focus is on the improved use of existing instruments under international law to resolve conflicts and prevent human-rights infringements, as well as on options open to governments to steer activities (e.g. in the form of incentive systems) and on the wider use of voluntary instruments and initiatives.

- **...by financing investments in developing countries and emerging economies**

Private-sector investments are of central importance for the development of these countries and thus for achieving development policy goals (especially poverty reduction). In addition to direct promotion and financing of investments within the

framework of official financial cooperation (for instance in the infrastructure sector) the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) also provides advisory services and finances investment by private-sector businesses in developing countries and emerging economies. It pays particular attention to ensuring **positive development results** (e.g. job creation, increasing government revenues in target countries) and to realising internationally accepted social and environmental standards. Over and above this, DEG also works for good corporate governance in its partner businesses through its anti-corruption clauses and transparency requirements.<sup>20</sup>

#### 5.4 Generating transparency

Transparency is the **best medicine against corruption**, which plagues both government and private industry in many countries.

In a number of developing countries rich in raw materials poor governance, mismanagement and corruption prevent citizens from benefiting from their countries’ natural wealth through sustainable development.

For businesses, a lack of transparency and corruption are both an obstacle to external business as a result of the uncertainty and market distortion entailed, and an internal risk. Alleged successes in business achieved with the help of corruption are not reconcilable with corporate social responsibility and a corporate strategy geared to sustainability. Criminal prosecution, substantial financial penalties and the debarring of companies found to be guilty of corruption from international tendering procedures have already clarified the negative consequences of this lack of corporate social responsibility.

<sup>18</sup> See also the client protection criteria for the microfinance sector drawn up by the Consultative Group to Assist the Poor (CGAP) at [www.cgap.org/p/site/c/template.rc/1.26.4943/](http://www.cgap.org/p/site/c/template.rc/1.26.4943/).

<sup>19</sup> See the activities of the Global Corporate Governance Forum at [www.gcgf.org](http://www.gcgf.org).

<sup>20</sup> See also the declaration of international development finance institutions at [www.ifc.org/ifcext/corporategovernance.nsf/Content/DFI\\_Statement](http://www.ifc.org/ifcext/corporategovernance.nsf/Content/DFI_Statement)

### **EITI (Extractive Industries Transparency Initiative)**

EITI has become a globally accepted transparency standard for extractive industries and has triggered an in-depth international debate on the issue of good financial governance in the extractive sector. The aim of EITI is to make more transparent the cash flows involved in the extraction of oil, gas and other natural resources. In order to achieve this goal, the payments made by extractive industries are compared with the declared revenues of governments within the framework of a multi-stakeholder process involving the governments of countries rich in raw materials, the private sector, and civil society.

BMZ supports EITI politically, financially and through bilateral technical cooperation.

Another goal of transparency in conjunction with corporate commitment in developing countries is to help **counter conflicts**.

Illegal trade in raw materials in conflict areas, for instance, is often used to finance armed hostilities. Transparency with respect to the origins of minerals such as coltan is a fundamental precondition for stopping this illegal trade. German development cooperation hence supports the establishment of an analytical instrument (fingerprinting), which can be used to ascertain the origin of minerals. BMZ, along with the German Federal Ministry for Economics and Technology, also assists in the establishment of transparent trading chains for minerals within the scope of the G8 Heiligendamm Initiative. Initiatives of the European Union and the World Bank within the framework of UNCTAD go in the same direction.

### **5.5 Promoting sustainability standards**

Voluntary standards initiatives have proven to be an efficient and effective instrument in improving production and living conditions in **businesses and their international value chains**.

BMZ has long been involved in promoting initiatives for the elaboration, realisation and dissemination of voluntary standards, such as those established in the coffee and textile industries. The aim is to commit producers and companies to comply with predetermined environmental and social standards in manufacturing and processing and to have this monitored by an independent body. In many cases compliance is also certified. BMZ has set up its own Social and Environmental Standards Programme Office to this end.

### **United Nations Convention against Corruption (UNCAC)<sup>21</sup>**

BMZ supports partner countries in realising the United Nations Convention against Corruption (UNCAC), which in the prevention section commits signatory states to meet calls for transparent governance. States are required to align anti-corruption strategies and policies, public procurement processes and public administration in general with transparency criteria. The convention also demands that governments promote transparency in the private sector.

<sup>21</sup> See [www.unodc.org/unodc/en/treaties/CAC/index.html](http://www.unodc.org/unodc/en/treaties/CAC/index.html), and concerning development-policy support for the convention [www.gtz.de/en/themen/politische-reformen/korruption/19075.htm](http://www.gtz.de/en/themen/politische-reformen/korruption/19075.htm).

**Fair Trade.** Fair trade is a commercial partnership run by private organisations, which ensures better terms of trade, a guaranteed price above world market prices and guaranteed social rights for often extremely poor producers. By promoting fair trade, development policy aims firstly to reduce poverty of producers in developing countries, and, secondly, to encourage development policy education work in Germany. Appropriate quality labels designate fair trade products so that consumers can easily recognise them. ([www.forum-fairer-handel.de](http://www.forum-fairer-handel.de))

**FSC.** Cooperation with the Forest Stewardship Council (FSC), an international organisation that aims at protecting forests through sustainable forest management, is intended to strengthen national FSC working groups at the institutional level, so as to increase their political influence for purposes of promoting sustainable forest management. The FSC label for timber from FSC-certified forests has already become established in the market and is being spread more and more widely. The PPP project with the FSC is implementing activities in three key regions: the Amazon Basin, the Congo Basin and China. ([www.fsc.org](http://www.fsc.org))

## 5.6 Improving reporting on corporate social responsibility

The key factor in ensuring the successful recognition of corporate social responsibility is **transparent reporting** by private businesses on the impacts of their activities on society. Highlighting the positive contribution made by corporate social responsibility has a direct impact on the credibility of the companies concerned, and encourages others to integrate the imperatives of sustainability into their strategies too.

Under the German presidency, the G8 emphasized the importance of reporting on corporate social responsibility. The final document of the Heiligendamm Summit called on stock-exchange listed companies to report on corporate social responsibility within the framework of their annual reports.

German development policy supports the **Global Reporting Initiative**, which seeks to standardise the way companies report on their sustainability

activities and spread this as a comparable format for all. Specifically, development policy cooperates with the Global Reporting Initiative on the introduction of sustainability reporting for small and medium-sized suppliers of transnational companies so as to increase transparency in global supply chains with the help of reporting.<sup>22</sup> The Global Reporting Initiative is also supported in developing indicators to be used to report on gender equality measures taken by businesses.

BMZ also supports the **United Nations' Global Compact**, which provides for compulsory reporting (communication on progress or COP) for participating businesses. The COP-policy continues to be further developed and now also offers the opportunity to impose sanctions of non-reporters such as the delisting of participants from the Global Compact if no communication is submitted. Via partnership arrangements with GRI and the Principles for Responsible Investment (PRI) Initiative, the scope of reporting on the principles of the Global Compact is being increased, as is the possibility for public feedback.

<sup>22</sup> See [www.globalreporting.org/CurrentPriorities/SupplyChain/GRIGTZProject/](http://www.globalreporting.org/CurrentPriorities/SupplyChain/GRIGTZProject/).

**The GRI guidelines on sustainability reporting (G3)**

The GRI reporting framework contains recommendations on how businesses can disclose their performance with respect to sustainable development.

The framework applies to all organisations irrespective of size, industry sector or location. The GRI uses a consensus-oriented cooperation process, which involves businesses, civil society and workers' organisations as well as sector associations in order to develop new reporting criteria and update existing materials. The third revised version (G3) of the guidelines for sustainability reporting is now available. The G3 guidelines are supplemented by sector-specific recommendations and indicators that focus on sector-specific aspects of sustainability (e.g. mining, the automotive industry, the financial sector).

## 6 Outlook

In view of the global economic crisis of 2008/2009 the question of corporate social responsibility in the financial sector has moved centre stage. This presents a major challenge for development policy and development cooperation. It will support its partner countries increasingly in establishing an enabling environment that ensures transparency and stability, offers private investors major incentives for sustainable economic activities and clamps down on irresponsible financial activities. Topics such as responsible lending and effective customer protection in the financial system (i.e. responsible finance) offer suitable points of entry.

Overall, in recent years corporate social responsibility has moved from a niche existence to becoming an integral part of the corporate agenda. A large number of measures, activities and initiatives of varying quality and effectiveness have emerged worldwide. In the coming years, it will then be a major challenge for coherent development policy to bundle, focus and strengthen structural and broad-impact approaches by

- promoting measures that are implemented not only by individual companies but by entire industry sectors that have the potential to change major markets, and

- supporting the harmonisation of different sustainability standards and initiatives, e.g. in the fields of environmental protection, social justice, respect for human rights and transparency.

Corporate social responsibility is private action in a public space. Linking private-sector efforts towards sustainable development with those of governments and civil society remains an important concern of development policy. In its bilateral cooperation it will thus continue to support those national processes in partner countries in which sustainability strategies are jointly elaborated and implemented within the scope of multi-stakeholder processes. Accordingly, development policy will work within the scope of multilateral cooperation for international initiatives such as the ongoing work of the UN Special Representative of the Secretary-General to operationalise the human rights responsibility of the private sector.

Corporate social responsibility has the potential to make important contributions to almost every priority area of development cooperation. Development policy will continue to pay increased attention to this topic in the future, and will seek to harness synergies with pro-development initiatives of the private sector.

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