Corporate Social Responsibility and Poverty

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Summary

Corporate Social Responsibility has been adopted as an approach to international development. But who does it benefit, how and why? There are a number of reasons for doubting the claim that adopting CSR will make growth more inclusive and more equitable, and thereby reduce poverty. A key factor constraining the impact it is likely to have on the production side is the relatively small number of people employed in developing countries by the leading transnational companies (TNCs) that have adopted CSR. The centrality of stakeholders within CSR also limits its usefulness in approaching poverty. In conclusion, it remains the role of governments, supported by donors and working both with firms and civil society groups to enable a more critical CSR agenda one which looks at the range of business impacts upon poverty and the potential contributions of all actors in development towards helping to achieve the Millennium Development Goals.

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Any inquiry into the potential role of CSR in promoting development must first raise the logically prior question of what development is. Here it may be useful to begin with a distinction between two visions of development: modernization and human development. The primary objective of modernization is the establishment of an industrial economy and the expansion of its productive capacity. In most parts of the developing world, modernization projects have typically resulted in extreme unevenness, with a modern, technologically advanced core corporate economy co-existing with a vast non-corporate periphery. While East Asia remains an exception to this pattern of uneven development, modernization there did not come without significant political, environmental and human costs. The critique of this paradigm is well-known, and constitutes the basis of the human development paradigm.

As distinct from modernization, human development focuses on people rather than production. It is concerned primarily with the reduction of human deprivation, the creation of human capabilities and unleashing “processes that enlarge people’s choices” (UNDP, Human Development Reports, various years). It rejects the priorities of modernization and seeks to redefine development from a human-centered perspective.

First, Amartya Sen (1999) and others have conceptualized human development as the enhancement of capability and freedom (the “capability approach”). (Haq, 1997; Nussbaum, 2000) Situated within a liberal normative framework, its core ideas are: universalism; a liberal and pluralist notion of the state; the priority of individual freedoms; formal (as opposed to substantive) equality; emphasis on individual agency; and a vision of (regulated) capitalism as a context in which opportunity and freedom is generated and human agency thrives. It focuses on capabilities, i.e., what “people are actually able to do or be,” rather than on the amount of resources at their command. As Sen has argued, the most important guarantor of capability is freedom; thus freedom should be considered as both the ends and means of development. The task of social change thus consists primarily in eradicating all institutional constraints on freedom.

Corporate Social Responsibility has been adopted as an approach to international development. But who does it benefit, how and why? Official development agencies take a much more positive view of the development impacts of CSR. As the UK's Department for International Development (DFID) states, 'By following socially responsible practices, the growth generated by the private sector will be more inclusive, equitable and poverty reducing. The World Bank actively promotes CSR through its Corporate Social Responsibility Practice and its training arm the World Bank Institute, while the United Nations has also leaped on to the CSR bandwagon with the creation of the Global Compact in 2000.

However to establish a cause and impact relationship between CSR and poverty reduction the following issues need to be addressed. Does CSR have the potential to redefine the meaning of good business practice as meeting the needs of poor and marginalized groups? Or is there a danger that by basing development policies around a business case, the inequalities that haunt international development will widen rather than diminish particularly in developing countries?

The World Bank actively promotes CSR through its Corporate Social Responsibility Practice and its training arm the World Bank Institute, while the United Nations has also leaped on to the CSR bandwagon with the creation of the Global Compact in 2000. This paper describes the factors that have led to the recent emphasis on CSR by the official development agencies, and questions whether CSR can in fact play the significant role in poverty reduction in developing countries that its proponents claim for it.

Global deregulation and the rise of CSR the current wave of interest in CSR dates from the early 1990s. In many ways it is only the latest manifestation of a longstanding debate over the relationship between business and society. Since the rise of the corporation in its modern form in the late nineteenth century, this debate has ebbed and flowed, through periods when corporations extend their control and periods in which society attempts to regulate the growth of corporate power and corporations attempt to re-establish their legitimacy in the face of public criticism.

In the developing world, the late 1960s and 1970s saw increased efforts to regulate the activities of foreign investors. For the first time regulation of corporate activity became an international issue, with numerous attempts within the UN to establish codes of conduct for the activity of transnational companies (TNCs). These international codes were seen as supporting the efforts of developing-country governments to regulate TNCs at the national level. They emerged from a perception that the growth of giant international companies posed a threat to the sovereignty of small, poor states and represented an attempt to redress the balance between the growing power of TNCs and the vulnerable nation-state, particularly in the South. Corporations and northern governments resisted global attempts at mandatory regulation of TNC activities, proposing self-regulation as an alternative. The International Chamber of Commerce, representing major TNCs, launched its Guidelines for International Investment in 1972, and a number of large US companies also adopted codes of conduct, with a particular emphasis on curtailing questionable payments, during the 1970s.

The 1980s saw a significant shift away from state intervention in both developed and developing countries. The increased mobility of capital enabled TNCs to exploit regulatory differences between states by (re)locating (or threatening to relocate) their production facilities in countries with more favourable regimes, a phenomenon that has been referred to as ‘regulatory arbitrage’. These trends were reflected in developing country policies towards TNCs, which shifted dramatically from regulation of their activities to intense competition to attract foreign direct investment (FDI). By the 1990s the heyday of neo-liberal policies had passed in the North, and corporations started to attract criticism for their global environmental and labour practices. The growth of global ‘value chains’, in which northern buyers control a web of suppliers in the South, led to calls for them to take responsibility not only for aspects such as quality and delivery dates but also for working conditions and environmental impacts. At the same time the increased significance of brands and corporate reputation made leading companies particularly vulnerable to bad publicity. The developments in global communications which have enabled corporations to control production activities on an ever-widening scale have also facilitated the international transmission of information about working conditions in their overseas suppliers, contributing to increased public awareness and facilitating campaigning activities. Once more, companies responded to bad publicity surrounding their activities by espousing corporate social responsibility. Many firms sourcing consumer goods from developing countries adopted supplier codes of conduct following scandals about corporate practices.

The mid-1990s saw further revelations concerning the use of sweatshops and child labour by leading US brands such as Gap, Kathie Lee Gifford, Nike, Disney and others. Activists' campaigns on these issues, highlighting the practices of market leaders, led to the year 1995/6 being described as 'the Year of the Sweatshop' in the United States. Similarly, in the extractive industries Shell became a CSR leader following the controversies over Brent Spar and its operations in Nigeria.

The efforts at state regulation of TNCs in the 1970s and the international codes of conduct designed to support these efforts emanated for the most part from the South, and particularly from southern governments. However, in the 1990s most southern governments were still following neo-liberal policies, and so, in contrast to the 1970s, the 1990s saw CSR initiatives coming largely from the North. Here international trade unions, development NGOs, human rights organizations and environmental groups have all contributed to the demand for greater social responsibility.

The fact that CSR today has been largely driven by NGOs, trade unions, consumers and shareholders in the North has important implications for the issues which have taken centre stage. The concerns of such groups tend to be environmental impacts, working conditions and human rights. Companies are concerned largely with the potential damage to their reputations that may accrue as a result of media exposure of corporate malpractice. Together, these priorities lead to a tendency to see CSR in negative terms, in other words, with an emphasis on things that companies should not do, such as employing children or violating human rights, rather than on seeking positive development outcomes, such as helping to eradicate poverty.

The current CSR agenda is as significant for what it does not include as for what it does. Corporate practices such as transfer pricing, tax avoidance or the abuse of market power are not part of the CSR mainstream. Most significantly for the theme of this article, CSR has not explicitly dealt with the poverty impacts of business activities. For instance, despite the growth of ethical funds in recent years, no fund management company includes impact on poverty as a specific criterion in the assessment of company performance. Even the UN Global Compact does not explicitly refer to key development concerns such as poverty reduction or equity. This omission has led some commentators to call for a shift to a more development-oriented approach.

The development agencies and CSR

While initially CSR was a corporate initiative adopted by individual companies and their organizations, in the late 1990s it began to be taken up by international organizations such as the World Bank and the United Nations, and national development cooperation agencies such as DFID in the UK and the Canadian International Development Agency (CIDA). What was it that promoted this interest in CSR among many development agencies at this time?

The emergence of CSR as a development issue has to be seen in the context of the changing views of the development agencies on the main objectives of development and the best means of bringing it about. Over the past quartercentury the view of development as being primarily about economic growth has become less dominant, with a much greater emphasis on the social dimensions of development as exemplified by the creation of the Human Development Index by the United Nations Development Programme. This shift culminated in the adoption of the UN Millennium Development Goals (MDGs), focused on eradicating poverty and hunger, achieving universal primary education, promoting gender equality, reducing mortality and improving health, and ensuring environmental sustainability. Poverty was a key target for the MDGs, which aimed to reduce the proportion of the world's population living on less than US$1 a day by half between 1990 and 2015.

A second feature of the changing view of the development agencies in this period was the decline in confidence in the role of the state as an agent for development. This was most vividly illustrated in the emergence in the 1980s of the 'Washington Consensus', with its emphasis on liberalization, deregulation and a reduced role for the state in developing economies—and a correspondingly greater role for the private sector. This shift of emphasis was also reflected in the flows of capital to developing countries, where FDI is now running at three times the level of official development assistance (ODA).

By the late 1990s, however, cracks were appearing in the Washington Consensus and there was a growing awareness that the market alone was not sufficient to bring about development. A major plank of the critique of free market policies was the significance of market failures in developing countries.

Market failures may prevent business operating in a socially responsible fashion. If firms are driven by short-term financial profitability, they may not make the long-term investments necessary to promote human development or benefit the poor. For example, training which would help develop employee capabilities might not be provided because the returns are not immediate.

There are grounds, therefore, for thinking that firms which are concerned only or primarily with the financial bottom line would not meet these social objectives. On the other hand, socially responsible business could be expected to seek to overcome these obstacles in order to ensure a wider spread of benefits. It is against this background that the development agencies have come to see CSR as a way of reconciling support for private enterprise and a marketbased system with their central aim of reducing global poverty. A pioneer in promoting CSR in a development context was DFID, which created a Socially Responsible Business Unit in 1997 following the publication of the first White Paper on International Development which committed the department to promoting ethical business and voluntary codes of conduct on core labour standards. The unit was involved in establishing the Ethical Trading Initiative in 1998 and creating a Resource Centre for the Social Dimensions of Business Practice in 1999. The second White Paper also saw an important role for CSR in poverty reduction, devoting a section of the chapter on ‘Harnessing Private Finance’ to the issue. The multilateral development agencies have also been active in promoting CSR in recent years. The World Bank took up the CSR banner in the late 1990s. A Corporate Social Responsibility Practice was set up within the Private Sector Development Vice Presidency. It is located within the Private Sector Advisory Service Department and advises developing-country governments on ways to deploy and encourage corporate social responsibility. The training arm of the Bank, the World Bank Institute, organizes periodic electronic conferences on CSR and has been involved in offering training courses in this area.

The Inter-American Development Bank has also engaged in the promotion of corporate responsibility, holding an annual conference on the subject. In 2000 the UN launched the Global Compact, which involves business, labour, NGOs and governments. Its original nine principles were derived from the Universal Declaration of Human Rights, the ILO’s Fundamental Principles on Rights at Work and the Rio Declaration on Environment and Development.

Critics have pointed to a tendency for the Global Compact Office e.g. is that of an international bank operating in East Africa which wanted to provide banking services tailored to poor customers who did not have access to affordable credit, current accounts and savings services. The project was vetoed by the head office in London on the grounds that it was risky and did not meet the 30% rate of return required by the bank on such risky investments the promotion of FDI in developing countries as an important objective and even to regard it as a manifestation of corporate responsibility. Other development agencies have also recently emphasized the role of CSR in promoting development. These include CIDA, the Swedish International Development Agency (SIDA), the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Dutch Ministry of Development Cooperation (MBZ). Are the expectations of these agencies regarding the contribution of CSR to development objectives, particularly the target of reducing global poverty, realistic?

Foreign direct investment and poverty

Although poverty reduction has not been an explicit element of CSR, this does not necessarily mean that the adoption of socially responsible business practices has no impact on poverty in developing countries. In order to address this question more directly, it is necessary first to consider the ways in which business and particularly FDI can contribute to poverty reduction. Given the increased significance of FDI as a source of capital for developing countries in recent years, and the emphasis of development agencies on poverty reduction as a prominent goal, it is surprising that research on the impact of FDI on poverty is so limited.

FDI and growth

The paucity of research on FDI and poverty in part reflects the fact that many consider the major potential contribution of FDI to poverty reduction to be through its impact on growth. There is an extensive literature on the impact of FDI on growth. While some authors find a positive relationship, others point to the fact that this depends critically on local capabilities to absorb FDI and on the local policy framework, suggesting the need for caution in drawing any direct causal relationship. Nevertheless, if FDI does lead to higher growth, and provided that this is not offset by increased income inequality, then increased FDI will lift some people out of poverty. However, this tells us very little about the actual mechanisms linking FDI to poverty reduction. A few recent studies have attempted to identify different ways in which FDI (or business more generally) can impact on poverty. Unfortunately, none has developed a systematic framework for analysing the poverty impacts of FDI. A useful systematic approach for addressing such mechanisms can be developed from the framework used by Alan Winters to analyse the impact of trade liberalization on poverty.He identifies three channels:

- the enterprise channel;
- the distribution channel;
- the government revenue channel.

The enterprise channel

This can involve both a direct effect on those employed by the foreign firm and an indirect effect through creating demand for local suppliers. If the increased demand is for unskilled labour, then it is possible that the newly employed will be from among the poor. For example, in Bangladesh the growth of the export industry in ready-made garments has created employment opportunities for women workers, many of whom are migrants from poor rural areas. However, the overall impact on poverty of FDI is limited by the relatively small numbers directly involved. UNCTAD estimated total employment by TNC affiliates in developing countries to be 19 million in 1998. This is a small proportion of the 1,200 million poor people (defined as those living on less than US$1 a day) worldwide. Moreover, foreign investors often require more skilled workers, which means that the poor are not the main beneficiaries. There may be benefits where the foreign firm provides training to its workers, particularly if those workers acquire skills which can raise their earning potential, but training also tends to be concentrated on the higher echelons of the labour force, again bypassing the poor.

There is greater potential for FDI to benefit the poor indirectly by creating linkages with local firms, especially where suppliers are micro-enterprises or agricultural smallholders. The growth of export horticulture in some African countries has provided new market opportunities for smallholders. However, where foreign firms depend heavily on imported inputs, such as fabrics in the garment industry or parts and components in electronics assembly, as is usually the case in export processing zones (EPZs), these indirect impacts are limited.

The distribution channel

Whereas the first channel focuses on the poor as producers, the distribution channel involves the poor as consumers. It has been argued that ‘the major impact of poverty on business is the way that it limits the size of the market for goods and services’. It has also been suggested that this is a basis on which to develop a business case for firms’ engaging in the elimination of poverty analogous to that which has been used to persuade business to take environmental protection seriously. The Indian TNC Tata, which has a high CSR profile in India, argues that if markets are to grow, the poor must become consumers too. This approach has been popularized recently in the management literature by C. K. Prahalad's arguments concerning 'The fortune at the bottom of the pyramid'. He argues that, 'By stimulating commerce and development at the bottom of the economic pyramid, MNCs could radically improve the lives of billions of people and help bring into being a more stable, less dangerous world.' He emphasizes the immense untapped potential market represented by the world's poor, and illustrates his arguments with case-studies of successful attempts to develop this market. However, although he provides inspiring examples of success stories in India and other countries, several of the cases which he cites are of not-for-profit organizations and relatively few are foreign investors. He consistently overestimates the potential purchasing power of poor people, often by extending the definition of the poor to include those who are relatively well off by developing-country standards.

Prahalad and others are undoubtedly right in pointing out that if the poor could be integrated into the global economy as consumers, then they would represent an enormous potential market. However, it is a mistake to assume that because a reduction in poverty would help business by expanding the market, it is in the interest of individual firms to take steps to reduce poverty. One reason for this is 'coordination failure'. For firms to benefit from an expanded market, all firms need to contribute to a reduction in poverty; the actions of an individual firm will have a minimal impact on demand for its product.

The firms which are best placed to take advantage of these potential markets are those which produce fast-moving consumer goods such as beverages, cigarettes and soap. There are instances where such firms have sought to expand their markets by making goods more readily available to the poor, for example supplying products in small unit packages or providing consumer credit. Similarly, Standard Bank South Africa uses its ATM network to provide low-cost banking for the poor. Utilities are another area in which the poor are potential consumers. Aaron suggests that FDI in infrastructure such as water supply and sewerage services, which directly address basic human needs, and in the telecommunications and transport sectors can make a substantial contribution by improving access and reducing the cost of service provision. However, there are also concerns that private investors may engage in ‘market creaming’ to the detriment of service provision to the poor.

It should also be noted that the fact that some TNCs sell their products to the poor is no guarantee that they will contribute to either improving the welfare of the poor or reducing poverty. The problems associated with the promotion of breast milk substitutes in developing countries by Nestlé arose to a significant extent because the company did target low-income consumers who were then unable to buy sufficient quantities of infant formula or used polluted water to dilute it, leading to malnutrition and diarrhoea. The sale of skin lighteners in single-application packets which can be purchased individually by less well-off consumers in Bangladesh is unlikely to contribute to sustainable development. There may also be knock-on effects in other areas.

British American Tobacco’s sale of incense sticks in India displaced many women home workers who had previously made them by hand, thus reducing income opportunities for the poor. The significance of ‘coordination failures’ as an obstacle to development dates back to some of the earliest analyses of development problems, such as Rosenstein-Rodan’s ‘Big Push’ theory. See K. Murphy, A. Shleifer and R. Vishny, ‘Industrialization and the Big Push’, Journal of Political Economy 97: 5, 1989, pp. 1003–26.

The government revenue channel

The final channel identified by Winters involves revenues accruing to developing country governments. Foreign investors, particularly in the extractive industries, contribute to government tax revenues, which may in turn be used for antipoverty measures. The efficacy of this channel depends on the extent to which the state is able to levy taxes on foreign capital and the uses which are made of any tax revenues. A number of factors limit the revenue gains from FDI. Competition to attract FDI means that governments frequently offer tax holidays to investors, so that the tax revenue generated by the investment is negligible. This is especially true in EPZs, where taxes and regulations are minimized. TNCs are also well placed to minimize their global tax burden. They pass a large part of their profits through tax havens, and are able to use various forms of transfer pricing in order to reduce the profits which they declare in high-tax jurisdictions.

The largest companies devote considerable resources to ensuring that they pay as little tax as possible. Although companies are careful to distinguish between tax avoidance (regarded as legitimate) and tax evasion (which is illegal), the boundaries between them are often blurred. Illegal activities also extend to bribery and corruption, which divert resources from the state's coffers into private pockets.

This review of the channels through which FDI could contribute to poverty reduction suggests that in the normal course of events the impact is likely to be limited and in some cases may even be negative. The relationship between FDI and growth is ambiguous and likely to depend on local circumstances. The direct and indirect effects on employment are limited and only rarely extend to include the poor. Despite the claims concerning the poor as a potential market, in practice they do not constitute an important market for the majority of TNCs; and where they do, they do not necessarily benefit. Finally, globalization has made it increasingly difficult for governments to secure tax revenues from internationally mobile capital.

CSR and poverty impacts

If, as argued in the previous section, TNCs do not necessarily contribute significantly to poverty reduction in the South and may even have negative impacts, does the adoption of CSR by such companies offer a way of achieving a more positive outcome?

CSR and growth

A central plank of the 'business case' for CSR is that the pursuit of short-term profit to the exclusion of other goals will have adverse effects in the long term. 'Socially irresponsible businesses will find their benefits diminished by growing economic and social insecurity, shrinking markets and the depletion of available raw materials. The case that CSR will lead to stronger long-term growth is by no means proven, however, and critics of CSR argue that it is a distraction from the role of business, undermines the market economy and reduces welfare.

Given the lack of consensus on the impacts of CSR on growth in general, it is more useful to consider the specific ways in which the actual practice of CSR can affect poverty through the channels identified in the previous section.

CSR and the enterprise channel

One of the main ways in which business can help reduce poverty is through job creation. Will CSR contribute to the creation of more employment for poor people or help reduce poverty in other ways, such as raising wages or providing greater stability of income? At first sight it would seem that some of the labour issues on the CSR agenda could indeed contribute to poverty reduction. The requirement to pay the legal minimum wage or a ‘living wage’ could be seen as a way of ensuring that companies do not pay wages which are below the poverty line. Equal pay for women can also be seen in this light where many poor households have female heads.

As pointed out above, the positive impact of TNCs on poverty in the South is severely limited by the relatively small numbers that they employ, and nothing within the current CSR agenda encourages them to create more employment than is economically justified. Indeed, it is even possible that the requirements imposed by firms regarding the treatment of labour tend to make more labour-intensive production less competitive. This occurred in the football-stitching industry in Pakistan, where unit costs for low-grade balls rose by 6–12 per cent as a result of monitoring, leading to increased competition from more mechanized production in China. Nor is there anything within CSR which requires firms to target the poor in terms of employment generation. The location decisions of foreign investors, which can have an important impact on poverty, are driven by economic considerations and are not currently challenged by the CSR agenda. Indeed, some aspects of CSR lead firms to avoid employing the poor, as when Nike refused to employ homeworkers because of public concern about exploitative conditions.

Indirect negative impacts may also ensue from the efforts of firms to monitor the social impact of their activities. Since it is easier for firms to monitor a small number of large suppliers than a myriad of small ones, there is a tendency to concentrate suppliers. However, small and/or informal enterprises are more likely to employ large numbers of poor people, and agricultural smallholders are more likely to be poor than large commercial growers, so such a trend can have a negative effect on the poor. Again, the football-stitching industry in Pakistan provides an example: in Sialkot, the shift to concentrate production in factories, in response to concerns about child labour, led to many women homeworkers losing out. Similarly, concerns have been expressed that the demand for codes of conduct in the South African wine industry will tend to widen inequality in agriculture and further concentrate power in the hands of wealthy white farmers. In contrast, one recent development which does represent a potentially positive impact of CSR on poverty is the decision of some TNCs to provide anti-retroviral drugs to workers who are HIV positive. Given that workers suffering from HIV/AIDS who do not receive treatment are likely to be unable to continue working and have a low life expectancy, such a policy can make a significant contribution to preventing their households from falling into poverty.

This is particularly so where the benefits are extended to family members and to workers after they leave employment. Nevertheless, it is important not to exaggerate the significance of this development since, as a recent survey of corporate responses to HIV/AIDS in the workplace shows, there is a 'lack of wholesale and comprehensive engagement by even the largest companies on this matter, and even in the most affected areas, such as South Africa'.

CSR and the distribution channel

The impact of CSR on poverty through the distribution channel is likely to be rather limited. This channel operates through the price and availability of goods consumed by the poor; but generally, the goods produced by firms practicing CSR are not sold to the poor. Since a major source of pressure for CSR comes from markets in the North, the focus is often on firms which produce for export. This is reflected in the sectoral distribution of voluntary codes of conduct dealing with labour rights, which tend to be concentrated in sectors such as garments, footwear, sports goods and toys, whose products are exported under well-known brand names. Other industries that lead the way in terms of the environmental aspects of CSR, such as forestry, mining and the oil industry, also produce for export.

Even where TNCs do produce for the domestic market, their products are often sold to high-income consumers and therefore have little impact on the poor. Examples include durable consumer items such as cars and white goods. There are, it is true, some sectors that produce consumer goods which are sold to poor people, such as soft drinks (Coca-Cola, Pepsi) and foodstuffs (Unilever, Nestlé). However, while it is clear that these products do have an impact on the poor, it is less obvious that CSR policies adopted by such firms have any positive effect on poverty reduction.

As was mentioned above, one area in which FDI has a significant potential impact on the poor is in investment in infrastructure. These projects often involve public–private partnerships, or are subject to government regulation. In these cases the impact on the poor is likely to depend primarily on the role played by the state, rather than any specific exercise of CSR. Another sector that potentially has a major impact on the poor is the pharmaceutical industry. At present the high cost of drugs puts them out of reach for most poor households, as is vividly illustrated in the recent debate on antiretroviral drugs for treating HIV/AIDS. Recent reductions in the prices charged by pharmaceutical TNCs in developing countries could be regarded as an example of pro-poor corporate responsibility. In practice, however, this development has been driven not by CSR but by the growth of competition from generic products, increased funds made available by donors, and the companies' loss of public support in the face of pressure from NGOs.

This example does illustrate how a pro-poor CSR strategy might be conceived. It would involve a deliberate effort to make a company's products available to the poor (either households or countries) at a discount ('socially responsible pricing'). CSR as currently practised, however, has a minimal impact on the poor through the distribution channel.

The focus on labour and environmental issues, and the predominance of firms in export sectors, means that CSR pays little attention to the marketing and pricing strategies of TNCs.

CSR and government revenue

As indicated above, foreign investors can contribute to government revenues through taxation, generating funds that might then be used for poverty reduction purposes. In practice this contribution is reduced by tax holidays offered by host governments and tax avoidance strategies used by TNCs. The payment of taxes could be seen as a fundamental aspect of corporate citizenship. As Christensen and Murphy note, 'It is … curious … that the debate about Corporate Social Responsibility (CSR), which has touched on virtually every other area of corporate engagement with broader society has scarcely begun to question companies in the area where their corporate citizenship is most tangible and most important—the payment of tax.' The lack of attention to these issues, compared to environmental impacts and labour rights, is highlighted by an OECD survey of 246 codes of corporate conduct.

Whereas 148 codes covered labour standards and 145 dealt with environmental issues, only one mentioned taxation. An issue with a bearing on government revenues and expenditure that gets somewhat more attention on the CSR agenda is that of bribery and corruption.

In June 2004 the fight against corruption was added as the tenth principle of the UN Global Compact. Although this was an important element in the wave of codes produced during the 1970s, more recently it has received less attention than the environment and labour rights. Less than a quarter (23 per cent) of the codes covered in the OECD survey addressed bribery and corruption. One aspect of CSR which can be helpful in this context is the emphasis on disclosure and transparency. A background paper to the DFID White Paper on globalization identified better reporting and information disclosure as an important way of improving the development impact of TNCs. The British government launched the Extractive Industries Transparency Initiative (EITI) at the World Summit on Sustainable Development in Johannesburg in 2002.

This brings together business, governments, international agencies and NGOs to promote transparency in payments made by extractive TNCs to governments and government-linked entities.

The main way in which CSR as presently conceived might contribute to government revenue is through discouraging the bribery of public officials by companies. However, this does not touch the ability of companies to shift profits and avoid taxation through ‘legitimate’ means such as transfer pricing and the use of tax havens. This is another area on which the current CSR agenda is silent, and the dominant view is that companies are perfectly entitled to minimize their tax burden by any legal means.

Although greater transparency and less corruption could increase government revenue, the crucial question in terms of pro-poor growth is what happens to government expenditure. Thus the connection between CSR and poverty through this channel is rather tenuous.

Conclusion

There are a number of reasons for doubting the claim that adopting CSR will make growth more inclusive and more equitable, and thereby reduce poverty. As at present constituted, CSR initiatives do not include poverty reduction as a major objective, focusing rather on environmental issues and labour and human rights. These are undoubtedly important issues, and this article should not be read as a criticism of this orientation. However, given the lack of an explicit focus on poverty reduction, the first question that needs to be addressed is whether or not CSR as it is currently practised helps indirectly reduce poverty.

The evidence presented here suggests that CSR is unlikely to have a significant impact on poverty in the South, except in a limited number of rather specific cases. A key factor constraining the impact it is likely to have on the production side is the relatively small number of people employed in developing countries by the leading TNCs that have adopted CSR. Similarly, on the consumption side, most of these companies do not produce goods for the poor. This is not to deny that TNCs may well contribute to poverty reduction through social projects of a charitable nature, but this should not be confused with the adoption of CSR, which involves the integration of environmental and social considerations into core business strategies.

The second question to consider is whether the CSR agenda can be extended to incorporate poverty reduction as a key element, along with labour rights and environmental protection. Some of the characteristics of CSR highlighted in the editorial introduction to this special issue of International Affairs suggest that there are inherent features which limit its ability to address poverty. The first is the way in which CSR prioritizes the ‘business case’ which, as pointed out above, is particularly difficult to make in relation to poverty reduction. While there is some (debated) evidence that high environmental and labour standards are associated with better financial performance, there is no reason to suppose that a similar relation will exist between company actions to reduce poverty and profitability.

A second limitation lies in the origins of the current CSR movement as a response to criticism of the environmental and social impacts of TNCs. This has led to a definition of CSR largely in negative terms—firms should not harm the environment, not employ child labour, not discriminate in employment, not be complicit in human rights abuses—or at best permissive terms: they should allow freedom of association and collective bargaining. Tackling global poverty would require a much more positive commitment, for example to discriminate in favour of the poor in employment, or to provide goods to the poor at discounted prices.

Finally, the centrality of stakeholders within CSR also limits its usefulness in approaching poverty. Almost by definition, the poor are those who do not have a stake. When a TNC invests in a country’s capital city, the poor in remote rural regions will not be considered stakeholders; moreover, the decision of many investors to concentrate in the capital both reproduces their poverty and excludes them from being stakeholders.

In conclusion, then, CSR as currently practised is unlikely to play a significant role in reducing poverty in developing countries, despite the enthusiasm of many development agencies. It is also doubtful whether reform of CSR can make it more amenable to achieving this objective.

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