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Discussion Paper

Corporate Social Responsibility as an enabler of Green Growth and Climate Action

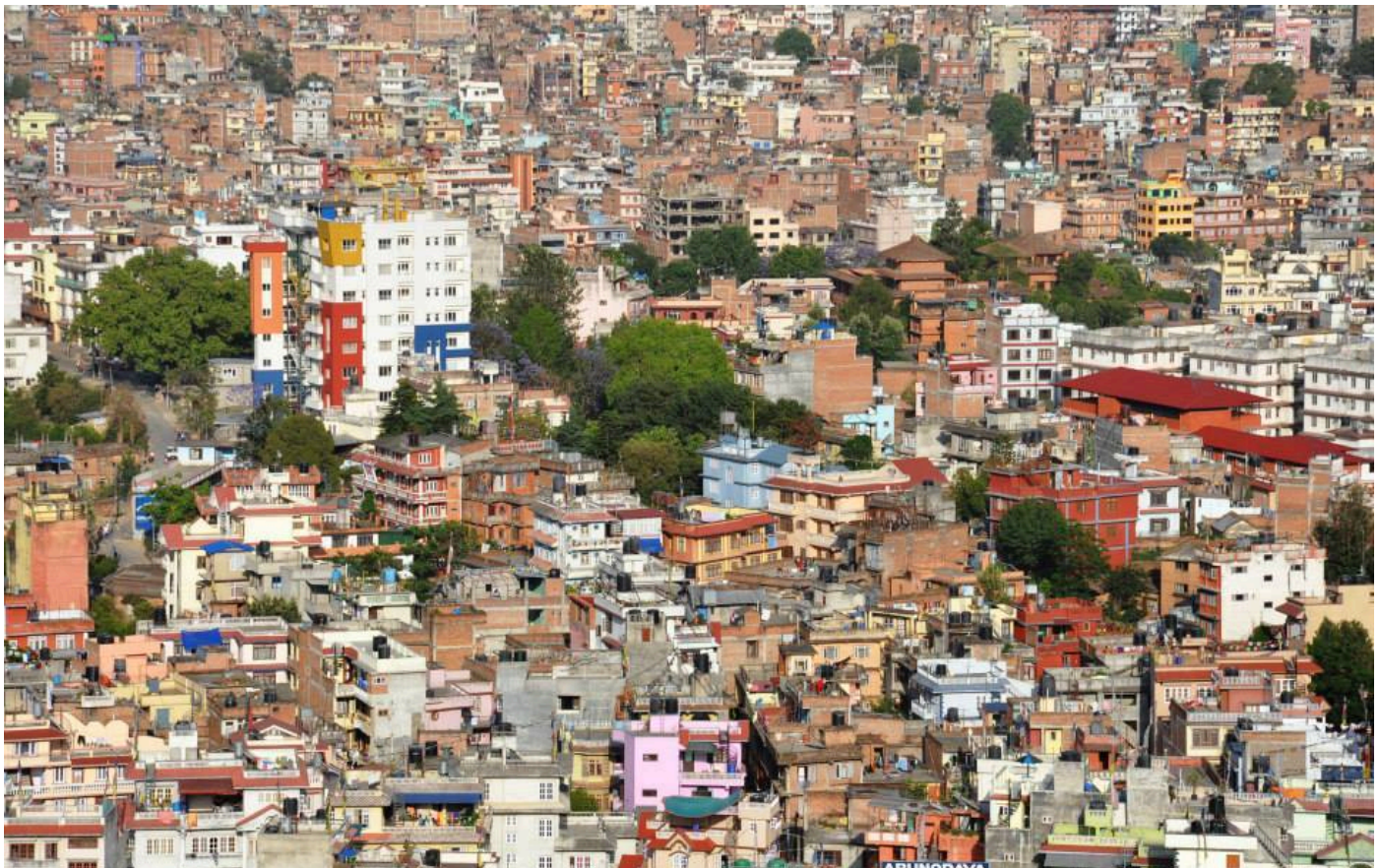
The paper looks at the role of UNDP and MDG Carbon in helping a host country to establish a CSR Agency, a CSR Strategy and a CSR Fund for sustainable development.

Disclaimer: The Discussion Paper is not the official opinion of the UNDP.

28 March 2014

United Nations Development Programme

ENVIRONMENT AND ENERGY



Introduction

Global warming is often told as a story of disaster. With investment required for 'green growth' in the water, agriculture, telecom, power, transport, buildings, industrial and forestry sectors under current OECD (Organization for Economic Co-operation and Development) growth projections predicted at approximately USD 5.7 trillion per year until 2020.¹ Affirmative climate action also provides an opportunity for sustainable and equitable growth of the planet and its people. The OECD numbers far out-strip the long term financial support commitment of 'USD 100 billion per year by 2020' by industrialized countries to support concrete mitigation and adaptation actions by developing countries in the form of the Green Climate Fund, plus a mix of public and private sources.

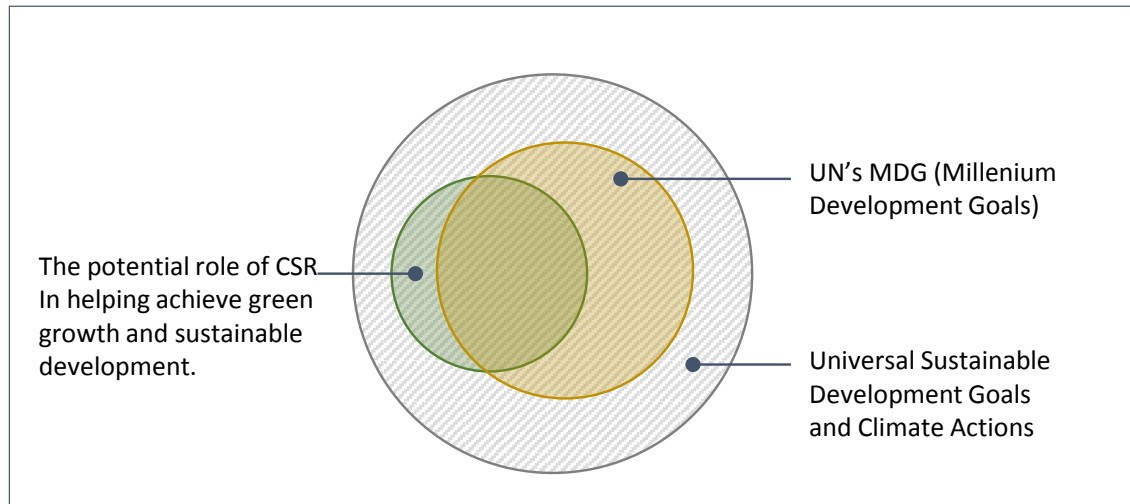


Fig 1: CSR contributes towards the overall sustainable development goals.

The economic crisis that affected the world since 2008 has seen several 'donor' countries re-look at traditional grants and Official Development Assistance in favor of "mixed finance" models that include loans, equity investments and participation of private sector actors. Finance, along with technology transfer, capacity building and appropriate policy are the key drivers for green growth and sustainable development. Given the broad similarities in the objectives of green growth, the UN's goals for sustainable development and climate action, and CSR, this note explores the role of CSR as a driver for green growth and climate action.

CSR has the potential to fill in one of the key gaps in the push for sustainable development – namely, finance. In return, governments and the private sector can greatly benefit from the experience of international development organizations such as the UNDP in aligning CSR efforts with global development goals, developing capacity, establishing systems for measuring, reporting and building transparency – resulting in a win-win situation.

Audience and Objectives of the Note:

This discussion paper is intended primarily for policy makers, regulators, and implementing agencies to relook at the private sector initiatives under CSR as a driver for green growth and climate action. As well to encourage the private sector and organizations interested in CSR to seek out international development agencies such as the UNDP, and act with national / regional governments to align their CSR efforts with broader sustainable development goals.

¹ ["The Green Investment Report"](#), World Economic Forum, 2013

Corporate Social Responsibility

An internet search on 'Industrial Revolution' throws up images of soot covered cities, child labour and strenuous working conditions. This story is often told hand in hand with the technological advances brought about with the introduction of steam powered machines and advantages of mass production; highlighting the concerns of stakeholders in the context of the earliest business corporations.



Fig 2: Charles Dickens' tale of Oliver Twist highlights several of the social plights during Industrial Revolution.

The term 'social audit' was first introduced in 1931 by Prof. Theodore Kreps at Stanford and backed by Austrian-American management guru Peter Drucker, who argued in his book 'The Future of Industrial Man' that companies should have a social dimension way back in 1942. The UN Declaration of Human Rights was adopted in Dec 1948 which was followed by a series of UN Conventions on 'Right to Organize Collective Bargaining' (1949), 'UN Equal Remuneration Convention' (1951), 'Abolition of Forced labour' (1957) and the 'UN Discrimination (Employment and Occupation) Convention' (1958). It was around this time, in 1953 that the term 'Corporate Social Responsibility' was first introduced by economist Howard R. Bowen in his book 'Social Responsibilities of the Businessman' who posed the question "what responsibilities to society can business people be reasonably expected to assume?"²

Today, globalization and easy access to information has increased brand and reputational risks to businesses, making CSR highly relevant in today's context. For companies which seek to establish themselves in a positive light, and share their values with a wider audience, CSR offers a good balance between a business's goals, objectives, and risk mitigation, and the needs of the society and environment in which it operates. Business leaders recognize that risk mitigation (translated into a stronger reputation and brand image) matter deeply in an increasing competitive world, and business schools who in the past viewed the role of business as "maximizing shareholder value" are shifting the focus away from shareholders to stakeholder. Thus, apart from providing an opportunity for equitable and sustainable development, CSR is recognized as an equally important means for risk mitigation.

² "[A Historic perspective of the CSR movement](#)", CSRQuest Sustainability Framework, 20th December 2004.

CSR vs CR

The European Commission defines CSR as a concept whereby “companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” Hence, CSR can be viewed as trying to help the society in a more dynamic way, with a focus on responsibilities that a business has towards the society in which it operates.

Corporate Responsibility (CR) is a term being increasingly used by companies globally, which relates to the operational responsibilities that a company defines and addresses for itself. These responsibilities commonly include Corporate Governance, Corporate Citizenship, and CSR. A primary focus on CR is commonly defined by a boundary drawn around operations and activities which are in the control of a company, and directly impact the company. CR’s focus may or may not hint at a businesses impact on the external environment and society, thus possibilities for bringing in any additional “good”, and neither doing any “bad”. However CR and CSR are both linked to the values that companies want to share and can be used for risk mitigation.

This paper is focused around the concept of CSR.

CSR and Sustainable Development

There is no singular definition for CSR although the concept is broadly understood. CSR looks beyond financial and regulatory commitments of organizations and corporations (the ‘C’ of CSR) and drives towards a more inclusive social, environmental and economic decisions (the expanded ‘S’ of CSR) with a focus on being ethical, transparent and responsible in its decision making (the ‘R’ of CSR). More importantly CSR is built around the premise of “doing good” for its stakeholders.

In order to make CSR accountable, the concept of Triple Bottom Line (TBL) sought to extend the traditional business accounting practice of assessing, reporting and verifying the ‘bottom line’ (i.e. Profits), to include the 3 pillars of TBL, namely ‘People’, ‘Planet’ and ‘Profit’.

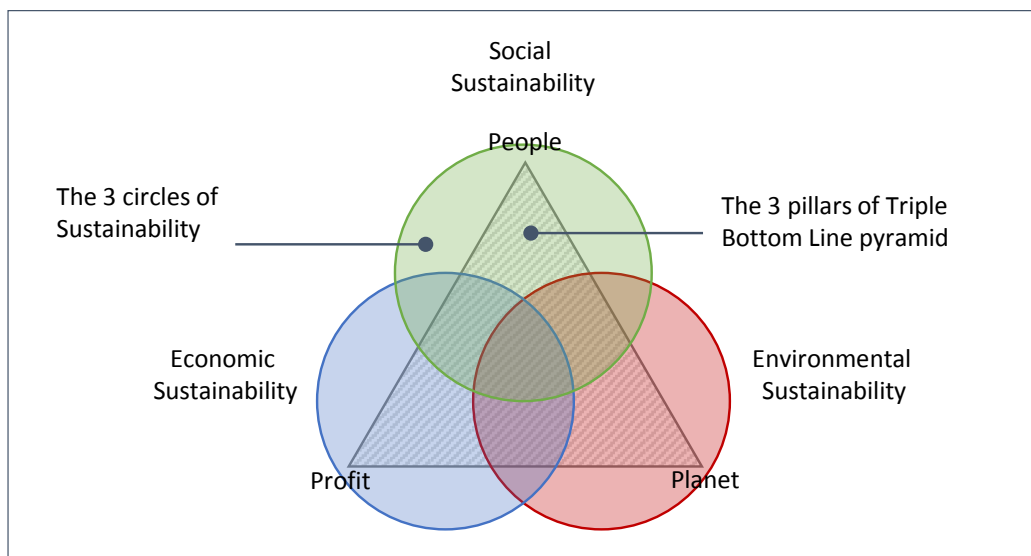


Fig 3: TBL and the Circles of Sustainability

The concept of 'sustainable development' too has been debated and defined in many ways – one of which is captured by the term 'green growth'. Broadly, sustainable development revolves around maintaining and improving the "quality of life" of present and future societies within the limitations offered by a finite planet. Popular definitions break the concept of sustainable development into 3 constituents – economic, social and environmental; which when equated with the concept of TBL as shown in Fig 3 above, effectively makes CSR a sub-set of sustainable development or green growth initiatives.

A number of institutions, including UNDP, have described conceptual frameworks for green growth such as developing Low Emission Development Strategies (LEDS) and Nationally Appropriate Mitigation Actions (NAMAs). Thus, CSR can enable the private sector and businesses to participate, contribute and show their commitment towards green growth and sustainable development in such or similar frameworks.

The end Goals of CSR and Sustainable Development

Why does a company pursue CSR? The reasons typically extend beyond mere philanthropy and are set out to support a company's broader strategic objectives, in particular its impact on society and to minimize the negative influence of company activities on the environment while strengthening its image as a credible and reliable business partner. The broader goals of sustainable development are probably best quantified through UN's Millennium Development Goals (MDGs) and its proposed post 2015 avatar. In order for CSR to make a meaningful contribution, this paper argues for governments to seek out businesses and organizations, and identify opportunities for aligning their CSR practices with the MDGs. While this is not meant to force businesses into supporting CSR efforts that are not aligned to their strategic objectives, the MDGs are comprehensive in nature and can allow organizations to find the best fit.

UN's Millennium Development Goals and Post 2015 efforts

The MDGs are eight goals as highlighted in Fig 4 below, set by the UN in the year 2000 to be achieved by the year 2015. The goals seek to address issues around poverty, universal education, gender equality, child mortality rates, maternal health, HIV/AIDS and other diseases, environmental sustainability, and partnership for development. The indicators for the MDG targets are well defined³ and provide a set of standards that the international community can leverage on global and local levels.



Fig 4: The current set of eight Millennium Development Goals

³ ["Millennium Development Goals Indicators"](#), United Nations Statistics Division, Department of Economic and Social Affairs, United Nations, 2014

With less than a year left until 2015, the UN has set itself the task of building on the momentum generated by the MDGs and to continue with a post-2015 sustainable development agenda. This agenda is expected to be announced at a summit in September 2015 and adopted by the UN Member States. In order to reflect the aspirations of various sections of our society, the UN has initiated a “global conversation” through coordinated national, global and thematic consultations involving partnerships with multiple stakeholders, including local ministries, businesses and civil society groups. An online poll is available at <http://www.myworld2015.org> where people from around the world are encouraged to vote and support the development of post 2015 indicators. For additional information on the post 2015 agenda, contact the UNDP MDG Carbon team.

The CSR Stakeholders

The popular ‘Stakeholder Theory’ in management studies classifies stakeholders of an organization as either ‘internal’ (employees, management etc.) or ‘external’ (customers, suppliers, regulators etc.). While the “beneficiaries” in an organization undertaking CSR involve both these sets of stakeholders, in this paper we shall discuss 3 concept ideas of how the private sector, government and an international development organization namely UNDP (and MDG Carbon) can be engaged in promoting CSR in the context of national/sectoral sustainable development goals and climate actions.

The role of Private Sector in meeting the Challenge of Equity in Developing Countries

As climate negotiations in the post-Kyoto scenario continue, some ideas are beginning to emerge on the future of climate actions. Climate actions may no longer be defined to mean only emission reductions, but to encourage the development of a holistic green growth strategy that will require countries to voluntarily pledge and review a set emission reduction targets.

In undertaking a more holistic approach, there needs to be social, economic and environmental improvement. For example, undertaking energy efficiency in industry benefits economically while contributing to improved air and water quality. Initiatives such as NAMAs provide developing countries an opportunity to establish a sector specific national action plan and offer a number of building blocks including for example a climate fund / financing, window for technology transfer, capacity building, and support for measuring, reporting and verification – that eventually lead to low carbon sustainable development.

As with any new initiative, finance remains one of the most important building blocks for implementing a successful NAMA. In a UNDP supported [study](#) for the development of sustainable charcoal in Uganda, the implementation of a NAMA is expected to tackle several issues including energy security, deforestation, women’s empowerment, and healthcare in addition to emission reduction benefits. However, the estimated cost for converting 75% of charcoal usage to sustainable charcoal in the period 2014 – 2030 is estimated at USD 500 million.

The scale of funding required means that traditional grant-based models will no longer work alone. Countries will be required to seek out a combination of financing sources, be it through mitigation-based funding mechanisms, funding from the Green Climate Fund or other sources including debt. Financial institutions and debt providers will require developing countries to partake in the financial risks and contribute 15-30% of the required funds as an equity investment. Equity therefore becomes a key concern for national governments and within international negotiations. Part of this “equity solution” can be tackled through the involvement of private sector and CSR.

Leveraging Finance through CSR Related Equity

Individual companies who contribute to CSR do so in a magnitude which has limited impact on the broader environment, society and business sector. However, by pooling CSR monetary and non-monetary contributions of several companies, a higher magnitude of “equity” can be gained and this can then be used to leverage private sector and multilateral loans, which are needed to address much larger CSR efforts. For example, consider an average company that traditionally contributes US\$ 5,000 to run a rural micro-enterprise. Now consider the implications if we can pool the resources of 25 such companies to raise combined equity of US\$ 125,000. If this equity is leveraged against a 30:70 equity/debt split, then an additional fund of US\$ 290,000 loan or grant can be raised generating a total finance of US\$ 415,000. This money can be used for establishing a largescale rural employment program. Also see “Establishing a CSR Fund” found later in this discussion note.

The role of Government in promoting CSR

The Government of Mauritius, for example, has established a policy mandating registered companies to pay 2% of their book profit towards programmes that contribute to the social and environmental development of the country. Further, the government has a set of CSR guidelines for the type of programmes that qualify as a CSR activity, including socio-economic development, health, leisure and sports, environment, education and training, and calamities.

For a comprehensive overview of the Mauritian CSR framework, check [here](#).

Organizations pursuing CSR need to do so from a strategic perspective rather than as a question of compliance or random voluntary action. However, governments can regulate CSR practices by setting certain minimum standards, such as establishing a minimum age for employment, emission levels and creating a need for CSR reporting.

EU and US Non-financial Reporting

There is currently an EU directive (Code: 2013/0110-COD) in the EU parliament that will require large companies (where the average number of employees exceeds 500, and exceeds either a balance sheet total of EUR 20 million or a net turnover of EUR 40 million) to include a statement in their Annual Report including “material information” relating to at least environmental, social, and employee-related matters, respect of human rights, anti-corruption and bribery matters. Within these areas, the statement will include (i) a description of its policies, (ii) results and (iii) risk-related aspects. The directive is expected to help businesses recognize that their relationship with people and the environment is a central part of their activities; thereby ensure the sustainability of business. For updates on the current status of the directive, check [here](#).

In 2010, the US Securities & Exchange Commission (SEC) released a Guidance Regarding Disclosure Related to Climate Change that required publicly-traded companies to disclose climate-related business impacts and strategies for addressing those impacts thereby allowing companies to understand the material risks and opportunities for various sectors related to climate change. For current status check [here](#).

But the key role that governments can play is that of a facilitator to create an enabling environment; by creating policies and incentive structures to promote CSR; by providing technical assistance and capacity building, and by making information accessible to interested participants. Governments can do so by initiating multi-stakeholder meetings, developing CSR guidelines and making public studies that highlight the key social and environmental challenges facing the society. Lastly governments can raise public awareness of CSR through CSR awards and endorsing CSR related indicators, guidelines, systems and standards.

The role of UNDP and MDG Carbon in the context of CSR

Historically, CSR is voluntary in nature, and lines up with several sustainable development goals that can lead to climate action and green growth, and if applied correctly, can be aligned with an organization’s overall growth strategy. Given its experience in supporting Governments in implementing the MDGs and associated efforts (capacity building, technical assistance etc.), the UNDP is ideally placed to support national governments in developing a ‘CSR Roadmap’. The table 1 below highlights examples of how strategic CSR initiatives

if undertaken by the private sector and in line with the existing activities of UNDP can contribute towards the MDGs while supporting a country's ambitions for climate action and green growth.

UNDP and MDG Carbon

The UNDP is a solution-oriented, knowledge-based development organization, supporting countries to reach their own development objectives, including the MDGs. UNDP's leading role in development derives from its decades of universal presence in more than 170 countries and its coordinating role on behalf of the UN's development system. UNDP's neutral and long-term in-country presence is critical for building trust with and access to national partners. This is the platform from which UNDP helps build capacities for sustainable development and respond to emerging development needs.

UNDP supports the achievement of the MDGs by supporting Governments as they work towards the MDGs. UNDP administers the MDG Achievement Fund on behalf of the UN system. The Fund is an interagency initiative that supports national efforts to reduce poverty and inequality and achieve the MDGs. It is currently financing 128 joint UN-agency development programmes in 49 countries. It adopts a collaborative approach that brings together almost 3000 civil society partners, 20 UN agencies and the national and local authorities of 29 countries.

Established in 2007 by the UNDP, the objectives for establishing 'MDG Carbon' can be recognized from the name itself, but to act as UNDP's corporate framework for sustainable carbon finance. MDG Carbon is currently active in several developing countries assisting with the implementation of a host of low-carbon interventions, spanning multiple technologies, and leveraging significant sums in private-sector co-investments. Although the focus of MDG Carbon activities involve projects that reduce greenhouse gas emissions, these projects make a direct impact on the MDGs. For example, in the previous example involving sustainable charcoal in Uganda, several sustainability issues aligned to the current MDG goals can be tackled through a single framework initiative.

Table 1: CSR as a means to supplement corporate strategy and MDGs

<i>Industry Sector</i>	<i>A strategic CSR 'climate' project</i>	<i>Contribution towards MDG</i>
Agriculture and Food	A project that focuses on reducing methane emissions from agricultural or animal waste.	Reducing methane and potentially harnessing the bio-gas for energy generation will have a positive impact on Goal 7 – Environment Sustainability
Manufacturing	Establish a rural energy infrastructure in addition to a small-scale manufacturing center.	Generate employment therefore contribute towards Goal 1 – Eradicate poverty and hunger.
Energy and Utility	A supply chain for distribution of clean cookstoves and minimized use of traditional fuels	Reduce soot and other harmful particles released by traditional cookstoves leading to Goal 3 – Women empowerment and Goal 5 – Improved maternal health
Health and Pharma	A health clinic with renewable energy powered cooling machines for vaccines and medicines	Access to improved healthcare will directly benefit Goal 6 – Combat malaria, AIDS and other diseases, Goal 5 – Maternal Health and Goal 4 – Reduce child mortality
Telecommunication and IT	Renewable energy powered computer based education system for child and adult literacy	Improving access to education will lead towards Goal 2 – Achieve primary education

Risk Management through CSR

In 2004, a soft-drink bottling plant located in southern India was forced to shut down after the local population protested against a receding ground water table. The incident was widely reported in the national media and forced the regional government to pass legislations making the company liable for the related environmental damages of excessive water use. This highlights several types of risks (brand and reputational risks, financial risks, operational risks etc.) that climate change and depleting natural resources will bring to corporations globally.

The perception of environmental and climate change risks vary greatly between organizations and are often under-estimated compared to other 'classical risks' such as financial or strategic business risks. Hence, CSR which is occasionally perceived as mere philanthropy, is a valid 'mitigation tool' as part of an organization's risk management and broader strategic objectives. Here are a few examples:

- **Management risks:** While global corporations may have targets which are set centrally – a top-down approach, participating in local CSR activities will allow individual business units to understand the local social and environmental challenges better and execute strategy in accordance with local requirements.
- **Regulatory risks:** Organizations strive to run their business in compliance with current (and future) laws and regulations and in a transparent way. CSR can enable organizations to monitor the challenges in relevant legislations (e.g. local environmental laws, changes to the social sectors, political mood based on direct feedback from being connected to people on-ground) and take early action to improve efficiency and reduce operating costs where possible.
- **Physical risks:** This can involve investment decision and associated financial risks such as insurance coverage. Where possible CSR can enable organizations to reduce insurance premiums by undertaking actions to prepare for the impacts of climate change.
- **Social risks:** Companies are aware of the impact which CSR policy can have on investors, consumers, employees and other stakeholders, and therefore develop communication strategies on this in order to manage perceptions and expectations.

In the example of the soft-drink bottling plant above, it is more than likely that the lowering of the ground water table was not solely contributed to the bottling plant, but it did become the target of social and political actions. The soft-drink company could have mitigated the ultimate risk of being shut down through CSR efforts such as:

- **Monitoring** of internal and external groundwater levels.
- **Disclosing** (publically) actions taken to meet improving targets for water efficiency in production.
- **Educating** the local population on community wide household water management practices.
- **Introducing** sustainable technologies in the community for rainwater collection, storage, and low-cost purification.
- **Spearheading** community efforts to co-finance adaptation measures with funding from the community, government, and donor/multilateral institutions.

Evolving a Country-specific CSR Roadmap

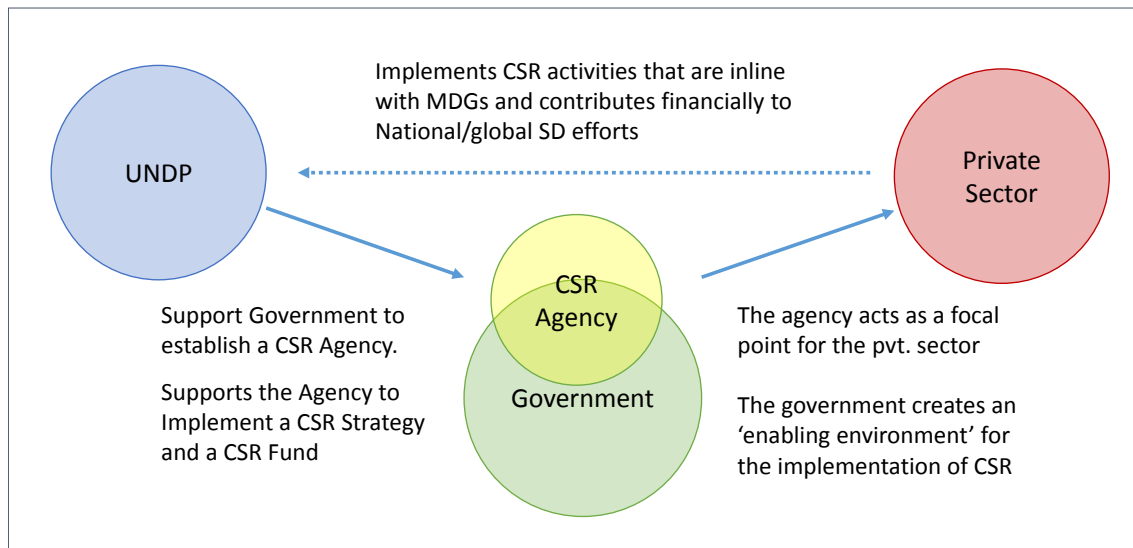


Fig 5: Creating a win-win situation

The contribution of the private sector in developing a country specific CSR Roadmap can be viewed as 3 'boxes'; one is to develop in-house strategies that do not focus only on economic growth but also on social and environmental issues, two is to develop and implement strategic CSR projects that under ideal circumstances are aligned to broader development goals of the region / country, and three is to bring finance into development work.

The role of government is to create an enabling environment and establish mechanisms that allow bringing in greater transparency and accountability into the system. This can be done by setting up a dedicated body and it is here that international organizations such as UNDP can play a key role in the form of supporting the development of a **CSR Agency, a CSR Strategy and a CSR Fund**.

Establishing a CSR Agency:

As the scope of CSR encompasses a wide array of development issues, sectors and skill sets required in dealing with the private sector, it is proposed that national governments set up a 'National CSR Agency' that can act as a "catalyst" to facilitate the CSR implementation process. The idea of an independent agency with varying degree of control by the government is not unique and several countries such as the Danish Business Authority in Denmark and the CSR Institute in Thailand have implemented the model successfully. Establishing a CSR agency has several advantages, principal among them is its dedicated focus area leading to a higher level of competency, making it attractive to the private sector.

Given its experience of working with multiple stakeholders and establishing 'Coordinating and Managing Entities' for climate projects, UNDP and MDG Carbon through its local offices can support the creation of such an agency that can work in the following areas:

- Development and planning of CSR standards, systems, guidelines and indicators;
- Training and certification of local experts and consultancies in developing and implementation of CSR Strategies;
- Training and certification of local auditors for undertaking independent verifications of CSR activities;
- Development and promotion of innovative financial schemes and mechanisms for implementing CSR pilot projects;
- Implementing mechanisms, measures and marketing to promote CSR among the private sector;

- Undertake research and strategic studies based on the request of the local industries and sectors;
- Knowledge management and dissemination of information;
- Support the set-up of a web-based information database;
- Establish and train a trainers program and “south-south” partnerships in various areas;
- Support the creation of a CSR award scheme and support raising the profile of CSR;
- Work with the government to create an appropriate ‘enabling environment’ to facilitate investments into a ‘CSR Fund’ or other sectoral improvement initiatives.

The CSR Agency will thus be able to provide a comprehensive set of services, becoming a “one-stop shop” as shown in Fig 6. The CSR Agency will establish existing or new standards and systems, provide advisory to the private sector for CSR strategy development and act as an intermediary with the government. As a government supported agency, it can secure the support of UNDP and other international organizations while still retaining a certain degree of flexibility and impartiality in its operation. The CSR Agency can also act as a focal point for a CSR Fund (see further details in section “Establishing a CSR Fund”).

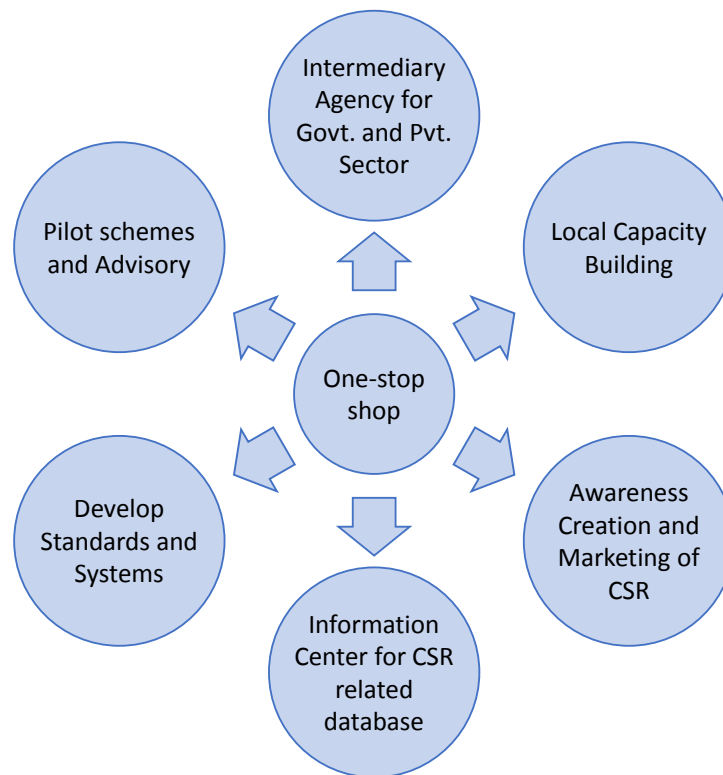


Fig 6: CSR Agency as a one-stop shop

Danish Business Authority and CSR

Government of Denmark has a comprehensive strategy for CSR with initiatives ranging from several CSR tools and multi-stakeholder dialogue to legal requirements on CSR reporting. The Danish Business Authority (DBA) helps Danish businesses recognize that they can increase their competitiveness and create value for their business through CSR activities. The DBA coordinates Government initiatives implementing their action plan for CSR, and also develops and communicates knowledge and tools for businesses and other parties with an interest in CSR. For more information on the Danish Government initiatives on CSR, read [here](#).

Developing and Implementing a CSR Strategy

While there exists several recommendations and position papers for implementing a 'CSR Strategy', this discussion paper expands on the UN Global Compact Management Model to enable the CSR agency to facilitate the establish a CSR strategy for the private sector. This enabling takes form in six steps of forming a CSR strategy.

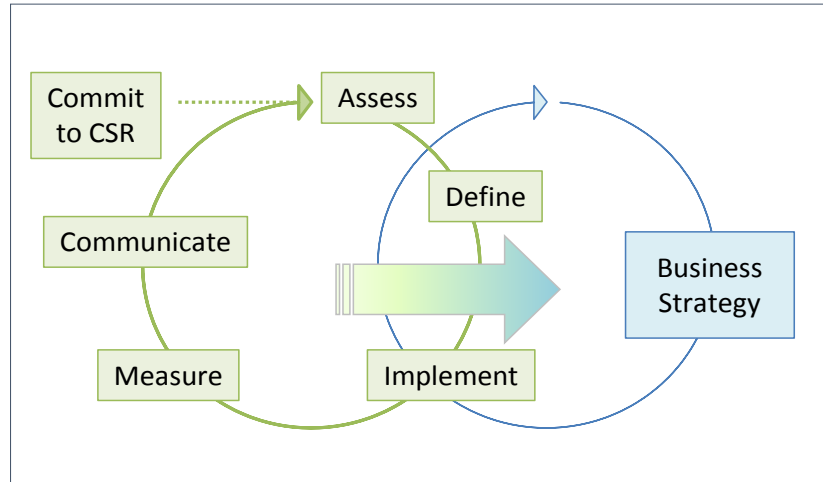


Fig 7: Helping organizations integrate CSR strategy with Business Strategy

- 1. Commitment:** The first step prior to the development of a CSR strategy typically involves a commitment by the senior leadership team of an organization to pursue CSR. This is an internal process and requires the organization to answer to itself the question – “What is our understanding of the term CSR and sustainability? As an organization are we willing to pursue a path that will allow us to sustain ourselves financially and reduce of cooperate risks while being a good social and environmental steward?”

Role of CSR Agency: This phase is the preparatory phase and will involve developing and implementing a communication plan for raising the awareness of CSR in the host country. This will require the preparation and circulation of information brochures, organizing sectoral and multi-stakeholder meetings and reaching out to the private sector through industry association and similar groups. A key outcome of this phase will involve achieving 'buy-in' of the senior management in organizations.

Role of UNDP in supporting the CSR Agency: In the initial phase of awareness building, partnering with UNDP can facilitate external professional knowledge, raise the profile of the CSR Agency thereby increasing potential buy-in.

- 2. Assessment:** The first task in developing a CSR Strategy involves undertaking a preliminary assessment and/or a risk analysis of the existing social, geographical, political, environmental sphere within which the organization operates. This can be undertaken based on existing studies, market information and other publicly available database.

Role of CSR Agency: Undertaking research and strategic studies, knowledge management and dissemination of information is one of the key activities of the Agency. The private sector needs to be made aware that the Agency can support the collection of information (e.g. sector specific development indicators, industry related policies etc). Additionally, organizations willing to fund further studies can do so by approaching the Agency.

Role of UNDP in supporting the CSR Agency: UNDP through its local offices and MDG Carbon regularly undertake studies on a wide variety of development and climate topics and can help the CSR Agency undertake tenders for consultancy work and access its international pool of consultants to support the development of studies and reports.

- 3. Define:** As noted previously, in defining a CSR Strategy, organizations need to align first with their business strategy and then identify if the CSR Strategy can support one or several of the existing MDGs (relating to indicators). It also requires identifying financial and other resources required in implementing the CSR strategy.

Role of CSR Agency: The process of identifying CSR indicators is a process that will involve close cooperation between various ministries and the UNDP. The Agency as an intermediary to interact with various governmental departments and the UNDP to define various CSR indicators and act as a single window of information for the private sector.

Role of UNDP in supporting the CSR Agency: As the key implementing agency for the UN's MDGs, the UNDP is an ideal partner to provide advisory in helping the Agency support the private sector to align their CSR strategy with the specific MDG targets. Similarly, UNDP and its MDG Carbon can provide guidance on the financial outlay for several types of development activities (e.g. the cost for distributing clean cookstoves) and business models (e.g. advisory on the type of network for ensuring smooth distribution and after sales of clean cookstoves). This in turn will allow organizations to better define the expected quantitative and qualitative outcomes from their CSR efforts.

- 4. Implement:** Once a road map is defined, an organization needs to educate and engage its stakeholders to implement the CSR strategy. This requires securing buy-in of its staff and shareholders, and building capacity.

Role of CSR Agency: Training and capacity building of local experts and companies is another task of the Agency. Creating a local pool of experts that can further support the private sector will not only help generate employment, but also make the dissemination of information easier through a larger group of stakeholders. Similarly, the Agency can undertake pilot schemes through innovative finance mechanisms.

Role of UNDP in supporting the CSR Agency: The UNDP and its MDG Carbon through its network of local offices and partners have considerable experience in training multiple stakeholders across a broad range of categories (government agencies, private sector participants, on-ground staff, end beneficiaries etc.) and are ideally placed to support the Agency, prepare training material and build capacity in undertaking development work. Their role will involve but not be limited to train the trainers.

- 5. Measure:** Measuring and reporting outcomes of the CSR efforts are one of the critical elements of ensuring success of the strategy and also the broader development goals.

Role of CSR Agency: As the Agency supports the identification of appropriate CSR standards (i.e. either adapt existing international standards or support the development of new ones), systems and guidelines for measuring and reporting, it is best placed to build transparency into the system. Similarly the training and certification of local auditors to undertake independent verifications will ensure a fair and balanced approach.

Role of UNDP in supporting the CSR Agency: Establishing systems for 'Measuring, Reporting and Verification' (MRV) is widely discussed within the field of climate change and in recent times there has been a call for taking a standardized approach to not only measure emission reduction from climate actions but also sustainable development co-benefits. MDG Carbon can extend its current efforts with MRV to the Agency and various types of CSR projects, and the private sector can benefit from such a standardized approach.

6. **Communicate:** Communication in the context of CSR is about celebrating achievements and acknowledging shortcomings. A well-defined communication model needs to target a range of stakeholders (e.g. investors may be focused on costs, regulators may be interested in policies, while the local community may be concerned about specific welfare programs).

Role of CSR Agency: In its role as an intermediary between the government and the private sector, the Agency can facilitate the communication into the two areas. The first will involve raising public awareness of the collective CSR efforts by informing the private sector and the general population, organizing CSR awards to celebrate success and identifying opportunities for further collaboration. The second will involve the government and the Agency to collect and measure data against a set of development indicators which can be further used for information dissemination and awareness creation.

Role of UNDP in supporting the CSR Agency: UN and its organizations have excellent communication abilities as can be viewed from their respective websites, newsletters, and their ability to organize regional conferences and multi-stakeholder meetings. Partnering with UNDP will support and raise the profile of events and help in awareness creation.

Establishing a CSR Fund

India CSR Clause

A recent 'CSR Clause' from the newly revised Companies Bill, 2013 by the Government of India has caught attention of the world's development organizations, and obliges large companies to allocate 2% of their average net profit (post tax) towards CSR. This is expected to make available USD 2 – 3 billion⁴ annually in India for social development. If appropriately harnessed, this can be a significant source of finance for green growth and climate action.

⁴: "[The 2% CSR Clause](#)", Kordant Philanthropy Advisors, 2013

The India CSR Clause has received both positive and negative feedback from various stakeholders. While the expected financial contribution can play a significant role as part of the "equity solution" for development and climate change, commentators have highlighted concerns regarding transparency and political influence dictating where the money is spent. One potential solution is to set up a CSR Fund, with the CSR Agency acting as a secretariat and governed by an independent Board of Trustees, therefore it would be placed under the indirect purview of the government, the private sector and an international agency such as the UNDP.

Such a CSR Fund can expect a high degree of transparency and accountability towards its contributors, the general public and other stakeholders, allowing for the institutionalization of additional risk management processes while taking into account the sustainable development goals and principals of the CSR Fund. Unlike for-profit funds, a CSR Fund by its nature will be not-for-profit where the returns will be in the form of positive social and environment impacts.

The CSR Fund can be established utilizing one of several different types of grant mechanisms and/or financial instruments. The fundamentals of these types of structures are not new to the public and private sector, but several establishment and operational requirements of a CSR Fund are unique.

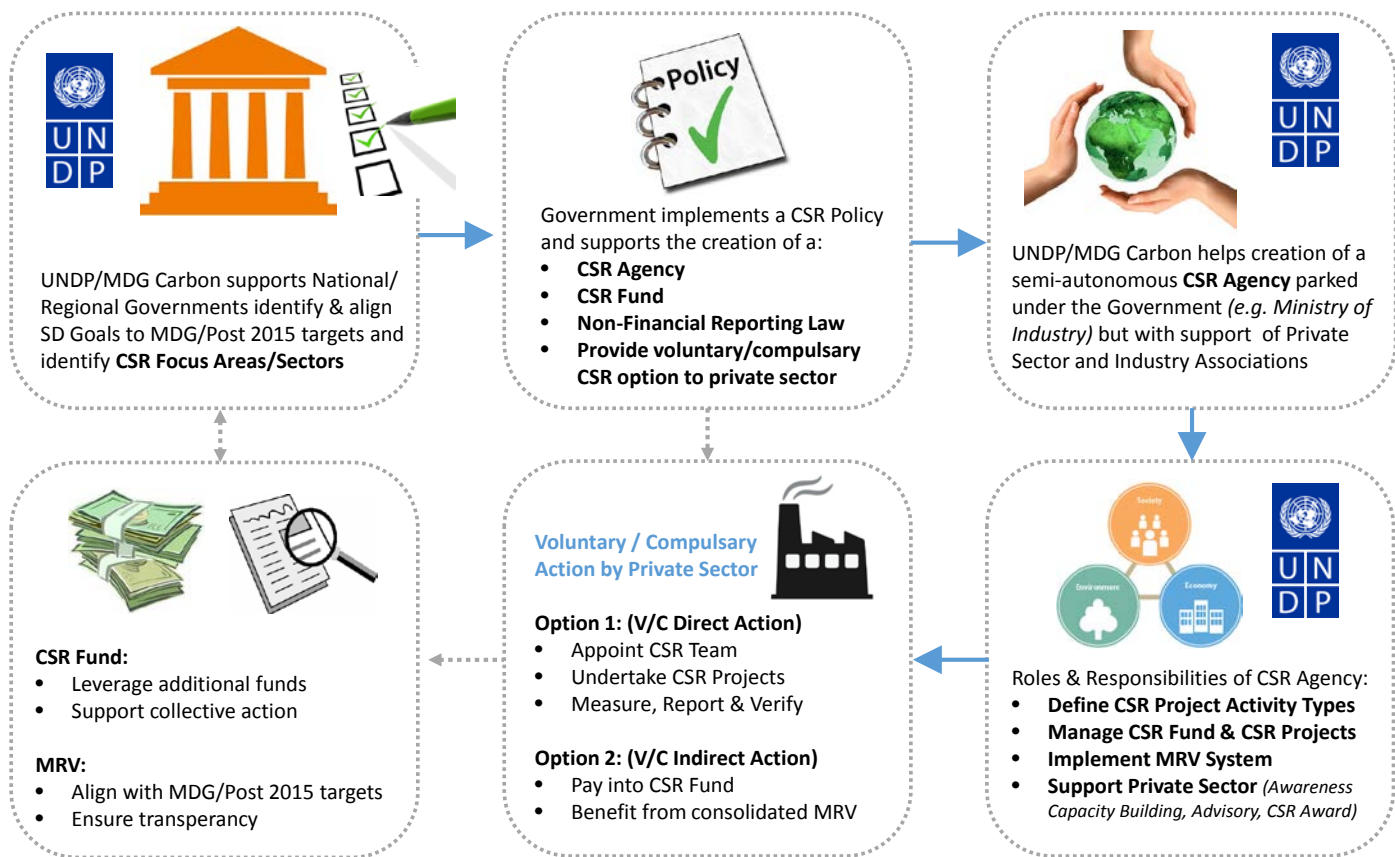


Fig 8: An example of interactions between the CSR 'building blocks'

In the example shown in Fig 8 above, the UNDP/MDG Carbon helps national / regional governments identify and define the priority CSR sectors based on the country specific MDG / post 2015 targets. Once the focus areas are defined, the government can facilitate the development of a roadmap by establishing a CSR Agency, a CSR Fund and a CSR policy that makes it compulsory for the private sector to identify and report non-financial risks and actions for mitigation. The CSR Agency can benefit from the relevant expertise of UNDP/MDG Carbon to define the CSR Project Activity Types and pipeline. For example, if the broad CSR Focus Area is ensuring environmental sustainability, then the CSR Agency with support from UNDP/MDG Carbon can work with the private sector for risk mitigation – such as soft-drink bottling plant in the previously stated example. The private sector can be supported to invest directly in strategic CSR projects such as providing clean drinking water to the local rural community. However, this also calls for the private sector to appoint an in-house CSR team which adds to its operating expenses. Appropriate legislations can require corporations to either directly (voluntarily or otherwise) participate in CSR projects. This is Option 1 as indicated in fig 8.

In establishing the CSR Fund however, the government provides business an Option 2 to indirectly participate in CSR projects. Here the government can require companies to contribute or facilitating voluntarily contribution to the CSR Fund, and offering companies a say on the specific CSR Project Activity Types that will benefit for contributions. The CSR Fund also provides a learning platform for business to understand the risk mitigation benefits of pursuing CSR. This maybe an ideal scenario for countries where awareness levels of CSR are low, where CSR is seen only as philanthropy, or where enterprises wish for a low cost alternative of CSR and MRV management (outsourced to the CSR Agency / Fund who has economies of scale). In such cases the CSR projects in the Fund are managed by the CSR Agency including MRV with public reporting allowing companies to report their contributions and outcomes in their own annual reports.

The establishment and operation of the CSR Fund needs to be built on the following aspects:

- An impartial governance structure, with the CSR Agency acting as a secretariat, should be established so that no one party has overriding influence on the operation and investments of the CSR Fund. An effective Board of Trustees should be self-policing, and be composed of persons representing independent stakeholders and who can professionally contribute to the viability of the CSR Fund.
- The articles of incorporation governing the CSR Fund should incorporate accountability by mandating a regular Independent Evaluation of management performance, operations of the fund, and fund investments.
- Operating Costs of the CSR Fund will be higher than those of traditional investment funds, and the sustainability of CSR Fund costs of operation should be addressed from the start based on the expected lifetime of the CSR Fund.
- Special attention and efforts should be placed on the development and implementation of transparent procedures and criteria for the selection process of investments. These should follow the sustainable development goals of the CSR Fund but also take into account contributor and stakeholder needs.
- A regular internal monitoring, reporting, and evaluation (MRV) procedures to address each investment should be implemented taking into account sustainable development goals, and may include financial auditing of the use of funds in the investments.

Types of CSR Funds:

Grant Co-financing Facilities (GCFs) and Revolving Loan Funds (RLFs) are the two types of mechanisms and instruments deemed most appropriate for the unique nature of establishment and operation of CSR Funds. GCFs and RLFs allow a CSR Fund to target additional grants and loans to specific areas of interest, and the flexibility to change the areas of interest over time. Typical GCFs give grants for co-financing of projects of between 30% to 80 %, and are commonly structured based on an open call / tender for proposals. Some proactive GCFs actually source or create projects to invest in, or join other GCFs and loan programs in multilateral activities.

RLFs are commonly structured to either provide no- or low- interest loans to projects, or to operate as a loan credit facility. The difference is in how the reserve funds are utilized, either distributed directly as principal to the loans, or deposited in commercial banks which allow selected loans to use the reserve funds as collateral / credit. It is common for GCFs and RLFs to specifically target areas of interest which have trouble gaining private sector finance or represent high risk or no-return investments.

Revolving Loan Fund: Toronto's Sustainable Energy Funds

In 2008 the city of Toronto established two Sustainable Energy Funds (Energy Conservation Fund and Green Energy Fund) to tackle: (1) Improve GHG mitigation through reduced energy consumption and renewable energy use, and (2) Increase access to capital and lower borrowing costs for city stakeholders. Managed under the Better Buildings Partnership the funds provided no-interest loans to selected projects in the public and private sector, with payment periods of no more than 10 years after projects achieve returns on investments. By the end of 2013 the combined results of the Better Buildings Partnership (including all programs) had reduced emissions by 560,000 tCO₂, saved 2,967 GWh of energy, and reached a cumulative savings of 297 million Canadian Dollar.

Co-Financing Grant Facilities: Nordic Climate Facility

The Nordic Climate Facility (NCF) was established in 2009, and co-finances projects that have a potential to combat climate change and reduce poverty in low-income countries. NCF is based on calls / tender for innovative proposals comprising specific themes related to mitigation of and/or adaptation to climate change. Selected proposals are based on partnerships with a knowledge & technology transfer model, and receive grant co-financing amounting to between EUR 250,000 and 500,000 (per project). As of 2013, there have been 3 open calls for which a total amount of EUR 18 Mio has been awarded, and one call is in process.

Additional Information

UNDP: <http://www.undp.org/content/undp/en/home.html>

MDG Carbon: http://www.undp.org/content/undp/en/home/ourwork/environmentandenergy/projects_and_initiatives/mdg-carbon/

UN Global Compact: <http://www.unglobalcompact.org/>

UN Human Rights Council: <http://www.ohchr.org/EN/HRBodies/HRC/Pages/HRCIndex.aspx>

International Labour Organization: <http://www.ilo.org/global/lang--en/index.htm>

Global Environment Facility: <http://www.thegef.org/gef/>

UNDP-GEF: <http://web.undp.org/gef/aboutus.shtml>

Climate Finance: <http://climatefinanceoptions.org/cfo/index.php>

CSR Europe: <http://www.csreurope.org/>

European Policy on CSR: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm

India CSR Policy: <http://164.100.47.134/intranet/CorporateSocialResponsibility.pdf>

Assorted CSR related websites: <http://www.fastcompany.com/1338993/51-great-sites-corporate-social-responsibility-and-sustainability>

The Discussion Paper is made possible due the generous contribution provided by AusAID.

Cover Photo: Arindam Basu

Acknowledgements: Arindam Basu, Douglas Marett, Grue + Hornstrup A/S; Denmark

Reviewers: Miguel Alejandro Rescalvo – DNV-GL, Vladislav Arnaoudov, Mitsubishi UFJ Morgan Stanley, Courtney Blodgett, Independent Consultant, Alexandra Soezer, UNDP, Robert Kelly, UNDP.

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