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THE MONROVIA PRINCIPLES

A Guideline for Corporate Social Responsibility in Africa

Strengthening Africa's economic performance

Contents

This document was prepared by the African delegation to the CSR Conference held in Monrovia, Liberia involving the Brenthurst Foundation, the Sullivan Foundation, and the Chinese Academy for Social Science, 24-25 February 2010. The African delegation comprised: Hon. Luis Dias Diogo, Mozambique; Hon. Dr Sydney Mufamadi, South Africa; Hon. Patrick Mazimhaka, Rwanda; Sheila Khama, Botswana; Dianna Games, South Africa; Robert Sithebe, Swaziland; Steve Caley, Rwanda; Thomas Nziratimana, DR Congo; Samuel Kame-Domguia, Cameroon/African Union, and Dr Greg Mills, South Africa. President Ellen Johnson Sirleaf (Liberia), former President John Kufuor (Ghana) and Minister of State Natty Davis (Liberia) also participated in the discussions.

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It is crucial for Africans to establish for themselves appropriate policies and procedures that will ensure our path to prosperity. Our continent cannot always afford to be reactive to the suggestions of others. Rather we should proactively determine how best to shape our own growth and development destiny. I was in this regard delighted to be involved in the production of the Monrovia Principles on Corporate Social Responsibility, which have identified best practice from a variety of global initiatives and experiences. These provide a clear guideline for business, governments and societies to operate in productive partnership. I strongly endorse these Principles.

—President Ellen Johnson Sirleaf (March 2010)

> *Companies' primary objective is to make profits ... but as they do, they must also direct a share of that profit and source of wealth into the communities in which they operate.*
>
> —President Ellen Johnson Sirleaf (24 February 2010)
>
> *Politics should be about developing the community or society in which we operate.*
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> —Former President John A Kufuor (24 February 2010)
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> *[Our aim] is, and will remain, to make profits for our shareholders, but to do so in a way as to make a real and lasting contribution to the communities in which we operate.*
>
> —Sir Ernest Oppenheimer (1954)
>
> *The partnership between De Beers and Botswana has been likened to a marriage. I sometimes wonder whether a better analogy might not be that of siamese twins.*
>
> —Former President FG Mogae (March 1997)

Conceptual Background

The concept of corporate social responsibility (CSR) is not a new one for Africa, as the above statements over a span of more than fifty years indicate. But it remains a controversial agenda. To some, CSR is a stalking horse for an anti-capitalist, anti-corporate agenda, which distracts business from its core task to make profit, and obliging it beyond paying taxes. Others view CSR as no more than window-dressing for outrageously exploitative business behaviour, especially in those developing countries which have threadbare regulatory institutions. Still others believe its main purpose is to provide a fig-leaf of respectability for investments in high-reward sectors in countries where human rights abuses are prevalent.

Fundamentally, however, CSR is about common sense. It is about how companies can behave ethically and manage themselves and their business processes to produce a positive impact in the societies in which they operate. In an era of ecological awareness, CSR is in the self-interest of businesses.[1] However, CSR is not only the concern of businesses. In addition to 'corporate CSR', there is a requirement of governments to demonstrate a wider commitment to the societies in which they operate.

CSR is an investment in stability and prosperity, it's not about pity

This is 'sovereign CSR', otherwise known as good governance. CSR initiatives can be further disaggregated into:

- Straightforward philanthropy: charity and no-strings donations
- Sustainable philanthropy: for example, donations used as seed money for business ventures
- Market common sense: investing in the local markets to improve stability and business conditions
- Risk management – local. Ensuring that investments made in the local environment improve the conditions of socio-economic and political stability
- Risk management – global. Local investments to ensure principally that investment in fragile and poor markets (normally for reasons of resource-extraction) do not taint the image and value of multinationals.

There is a range of global initiatives to promote better CSR: The US-derived 'Global Sullivan Principles', which outline a number of voluntary guidelines for companies to operate as 'responsible' members of society; the UN Global Compact; the Extractive Industries Transparency Initiative (EITI), aimed at increasing transparency of payments by companies to governments, as well as transparency of revenues generated by those host country governments; the non-governmental *Natural Resources Charter*, which argues for both ethics and better governance working in tandem; the Equator Principles; and the various corporate governance regimes and reports from King to Sarbanes-Oxley. These are highlighted below.

Contemporary Initiatives

The 'Global Sullivan Principles',[2] which have their origins in the anti-apartheid struggle, outline a number of voluntary guidelines for companies to operate as 'responsible' members of society, including: support for universal human rights, promotion of equal opportunity, respect for employees' rights of association, provision of reasonable compensation to employees, provision of a safe and healthy workplace, promotion of fair business practices including on corruption, and working with governments to promote the quality of life of local communities.

Whereas the Sullivan code works ostensibly on voluntary, transparent reporting, the UN Global Compact takes this a step further. Stating ten principles[3] in the areas of human rights, labour standards, the environment and anti-corruption, the UN Compact (also known as the 'Compact' or 'UNGC') has become the world's largest corporate citizenship initiative.

Azerbaijan and Liberia were the first countries recognised as EITI Compliant in 2009

Officially launched in July 2000, it is supported by six UN agencies (UNHCR, UNEP, ILO, UNDP, UNIDO, UNODC[4]), and a Global Compact Office. But it is not a regulatory instrument; rather a forum for discussion and a network for communication including governments, companies, labour organisations, and civil society. Perhaps precisely because it lacks teeth, the UN Global Compact has grown into the world's largest corporate citizenship and sustainability initiative, with more than 6,700 participants, including over 5,200 businesses in 130 countries. The second Global Compact Leaders Summit of 5-6 July 2007 adopted the *Geneva Declaration* on corporate responsibility. Some civil society organisations believe that without any effective monitoring and enforcement provisions, the Global Compact fails to hold corporations accountable. It has been accused of being an instrument for so-called 'bluewashing' – an excuse and argument to oppose any binding international regulation on corporate accountability, and as an entree to increased corporate influence on policy debates and development strategies.[5]

The Extractive Industries Transparency Initiative (EITI), announced by Prime Minister Tony Blair at the World Summit for Sustainable Development in South Africa in September 2002, is another effort to increase transparency over payments by companies to governments, as well as transparency over revenues by those host country governments. As of February 2010, the EITI had been implemented in thirty-two resource rich countries around the world, and twelve countries had produced EITI reports.

With a secretariat based in Oslo since March 2007, the EITI has promoted a set of reporting guidelines, a statement of principles, and six criteria which represent the global minimum standard for EITI implementation. In May 2005 an International Advisory Group (IAG) was established, members of which include the governments of Azerbaijan, France, Nigeria, Norway, Peru and the US; Anglo-American, BP, Chevron, Petrobras, Global Witness and the Revenue Watch Institute. Thirty countries are members, while Azerbaijan and, notably, Liberia were the first countries recognised as EITI Compliant in 2009. For example, the Liberia Extractive Industries Transparency Initiative has recently completed its 2nd EITI Report covering payments made to the Government of Liberia by seventy-one mining, oil, agriculture, and forestry companies during 2008/2009, which was released on 18 February 2010.

The non-governmental *Natural Resources Charter* driven by the Centre for the Study of African Economies at Oxford University takes the ethics of

It is time for Africa to offer up its own set of principles

government requirement a step further. The NRC, which was launched in May 2009, argues that without an ethical approach it is not possible to develop, but even with an ethical approach you need to get wider governance matters right. The Charter comprises twelve precepts (or principles) 'that encapsulate the choices and suggested strategies that governments might pursue to increase the prospects of sustained economic development from natural resource exploitation.'[6] The principal NRC mechanism to do so is to improve transparency. Through its website and networks of economists, political scientists and journalists, the NRC aims to improve the way in which revenue is spent. One of the things the NRC has pushed is the use of auctions rather than negotiated deals to sell mineral rights. Unsurprisingly, perhaps, there has been some resistance from companies on this, as negotiation is seemingly more profitable to them.

A financial industry benchmark for determining, assessing and managing social and environmental risk in project financing, the *Equator Principles*, have their origins in discussions commencing in London in 2002 between financial institutions aimed at developing a common and coherent set of environmental and social policies and guidelines that could be applied globally and across all industry sectors. Working with the World Bank Group's International Finance Corporation (IFC), the commercial banking institutions decided jointly to try and develop a banking industry framework for addressing environmental and social risks in project financing. This led to the drafting of the first set of Equator Principles by these banks which were launched in Washington DC in June 2003. These Principles were ultimately adopted by over forty financial institutions during a three-year implementation period. A subsequent updating process took place in 2006 leading to a newly revised set of Equator Principles released in July 2006, which by 2010 have been adopted by sixty-seven banks.[7]

Finally, there is overlap between corporate social responsibility and corporate governance – since being a good corporate citizen involves both. The latter area is well-covered by a variety of initiatives, which put the protection of the interests of shareholders to the forefront as being essential for the health of the global economy. The Organisation for Economic Co-operation and Development (OECD) released its principles in 1999, which were revised in 2004. At national level the Cadbury, Greenbury, Turnbull, Hempel and Higgs reports in the United Kingdom, the Bosch Commission in Australia and the Blue Ribbon Commissions in the US, further developed this field. In 2002, the US government adopted the Sarbanes-Oxley Act (SOX) providing a statutory basis for corporate governance. This regime is based on rules-based 'comply or else' involving

Adherence to six core principles will assist in Africa's inclusive, sustainable development

legal sanctions for non-compliance. (The cost of compliance with SOX by American companies is estimated at $264 billion in the first six years of its inception.)[8] In South Africa the King Commission on Corporate Governance under the chairpersonship of Professor Mervyn King, completed the King I Report of 1994 and the King II Report of 2002. The 1994 Report drew attention to the importance of stakeholders in corporate governance and in 2002 was one of the first codes to raise the issue of sustainability reporting of non-financial issues. The King III Report was released in 2009, focusing on the building of a 'comply or explain' ethical culture within the corporate world beyond just the ticking off of duties and processes.[9]

Challenges of Implementation

The operational problems with corporate CSR can be distilled down to six inter-related factors: their voluntary unenforceable nature; the preference of some companies (and people) to make money in whatever way they can, and at whatever cost; the challenge of reporting and adherence especially among smaller companies and countries; the Euro/US-centric origin of many of these initiatives; the focus on ethics rather than entrepreneurship and wider governance concerns; the variety of initiatives which challenge the reporting obligations, especially for those smaller, weak states where this is most necessary; and the challenge of sustainability to CSR initiatives beyond the immediate philanthropy and presence of business.

These difficulties are especially important to Africa for a number of reasons relating to the weakness of the governance environment overall, notably as pertains to bureaucratic accounting standards, alongside widespread poverty and thus the 'receptiveness' of the population to short-term expediency over long-term development strategy, coupled with the prevalence of commodities across the continent, which have been notably bad corrupters of government and policy.

Instead of waiting for others to take the lead, and then resisting these efforts as undue interference, and mindful of the potential for the exploitation of African people and resources by unscrupulous external (and local) actors, it is time for Africa to offer up its own set of principles.

These principles have emerged from the realisation that:

- If Africa is to lead and take ownership of the CSR and wider development debate and not be a passive, if occasionally complaining, recipient of external thinking, it needs to be proactive

Government policy should facilitate private sector investment

and display forward-thinking leadership. It needs to take this further than others have already done

- CSR is not about pity but an investment in stability and prosperity
- The success of CSR relates less to funding than the ability of governments and business to engage productively in partnership and to strike a workable development bargain, and on the efficacy of national self-regulation
- People are critical in making CSR work effectively
- It is impossible to differentiate CSR from development policy and to separate development policy from an overall competitiveness strategy
- If CSR is a 'licence to operate', this licence imposes obligations on both government and business
- There is a need therefore for a holistic approach to governance, integrating corporate and sovereign CSR.

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Recognising from the outset the need to keep CSR strategies focused, specific and prioritised, and realising the importance of a holistic approach to development policy and governance initiatives, adherence to six core principles will assist in Africa's inclusive, sustainable development:

A Growth Partnership

CSR needs fundamentally to be conceived as a growth partnership between business, government and civil society. With growth as a priority, resources can be mobilised, policies written, and novel solutions brought to bear to assist with implementation. Often a governing coalition is held together by other things, but not by a growth agenda. Only where a country has a sufficiently strong domestic coalition for growth is it likely that growth-oriented public policy will be pursued with vigour and determination.

Encouraging Entrepreneurship

Regulating entrepreneurial activity in Africa is pointless without such activity. Yet a key problem with Africa's development is that there is too little business, and arguably too much aid relative to the size of business. Key thus to wider conditions is the need to respect private property, and provide the legal frameworks for effective redress along with sound macro-economic fundamentals. Expanding business and the tax base is in the self-interest of government and society.

CSR, corporate and sovereign, obliges both companies and governments

Ensuring Stability and Inclusive Ownership

The 'rules of the CSR road' need to be clear beforehand to investors, and maintained. They should not be another indistinct, indirect and subjective form of taxation levied on investors; predictability is imperative for investors. But not only should the aim be to create the conditions in which business can prosper, but also to ensure *inclusive* growth which seeks to reduce inequality, create jobs and thereby create the conditions not only for prosperity, but also for socio-political stability. CSR, corporate and sovereign, obliges both companies and governments. If the goal of this engagement includes increasing the local stake in ownership in a sustainable fashion, then the mechanisms to achieve this 'bargain' beyond just self-interest could include:

- A benchmarked commitment by government to investment in technical and business schools; a commitment by business to train through apprenticeships
- A benchmarked commitment by business and government alike to local procurement and local ownership quotas
- A commitment by both companies and government to transparent business practices: the use of auctions, not negotiated contracts, is commended
- A commitment by government to expedite work permits and visas where no local skills exist; and by business to local employment wherever possible.

Government as a Good Citizen

Government policy should facilitate private sector investment. It needs to respond to and make timely investments in infrastructure, health-care and education, without which the requirement on businesses to move up the value-chain from the export of primary commodities is unlikely and unrealistic. If regulations are to be meaningful and investors be expected to take a wider and longer view of their engagement, government needs to back up the private sector, notably by ensuring regulatory mechanisms are properly resourced, for example, in the judiciary.

Business as a Good Citizen

Good, ethical practices must extend first and foremost to employees. Beyond that, business should aim to achieve a benchmark of at least 0.7 per cent of profit on CSR – paralleling the donor Official Development Assistance target.

Good, ethical practices must extend first and foremost to employees

Differentiate and Support

Any practical CSR strategy must recognise the different size, reach and regulatory abilities of businesses, and the differences between sectors. CSR commitments have to take this into consideration. Smaller countries and companies should be able to receive technical assistance from a central authority such as the Commission of the Africa Union for their negotiation teams.

*

Overall, an effective CSR strategy promotes the strengthening of domestic law and good tax policy with regard to business, rather than invents parallel mechanisms that further undermine African institutions. These are the tools that other countries have used to ensure corporations behave and contribute publicly, and no international mechanism can substitute for that. The purpose of CSR in Africa cannot be to strengthen NGOs and inter-governmental organisations, but rather to grow African economies.

Notes

1 For coverage of various CSR definitions, see *http://www.mallenbaker.net/csr/definition.php*.

2 At *http://www.globalsullivanprinciples.org/principles.htm*.

3 The ten UNGC principles are: Human Rights: Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses. Labour Standards: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation. Environment: Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies. Anti-Corruption: Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

4 United Nations High Commissioner for Human Rights; the United Nations Environment Programme; the International Labour Organization; the United Nations Development Programme; the United Nations Industrial Development Organization; and the United Nations Office on Drugs and Crime.

5 At *http://www.unglobalcompact.org/*.

6 At *http://www.naturalresourcecharter.org/index.php/en/the-precepts*. These twelve precepts are: The development of natural resources should be designed to secure *maximum benefit* the for citizens of the host country; Extractive resources are public assets and decisions around their exploitation should be transparent and subject to informed public oversight; Competition is a critical mechanism to secure value and integrity; Fiscal terms must be robust to *changing circumstances* and ensure the country gets the full value from its resources; National resource companies should be competitive and commercial operations. They should avoid conducting regulatory functions or other activities; Resource projects may have serious environmental and social effects which must be accounted for and mitigated at all stages of the project cycle; Resource revenues should be used primarily to promote *sustained economic growth* through enabling and maintaining high levels of domestic investment; Effective utilisation of resource revenues requires that domestic expenditure be built up gradually to take account of revenue volatility; Government should use resource wealth as an opportunity to secure effective public expenditure and to increase the efficiency of public spending; Government policy should *facilitate private sector investments* in response to new opportunities and structural changes associated with resource wealth; The home governments of extractive companies and international capital centres should require and enforce best practice; a*ll extraction companies* should follow best practice in contracting, operations and payments.

7 At *http://www.equator-principles.com/*.

8 Put differently, the total cost to the American economy to comply with SOX has been more than the total write-off of Enron, World Com and Tyco combined. And the total value of fraud reported annually in the USA exceeds the GDP of virtually the entire African continent.

9 See 'Corporate Governance and the New King Report', *Southern Business School*, 15 April 2009, at *http://www.sbsonline.info/essays-and-other-opinion-pieces/corporate-governance-and-the-new-king-iii-report-2/*.