How Involved Should the World Bank Be in International Corporate Responsibility Programmes?
A Qualitative Exploration of Optimal Programme Provision

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Contents:

Abstract:
The growth of popularity of International Corporate Responsibility (ICR) has brought several international organisations into the ICR "industry" -- notably the World Bank. The World Bank sees its ICR activities as public goods which make up for under-provision by the market due to market externalities. Yet, ICR also benefits the Bank. The optimal level of World Bank involvement will depend on the degree to which it provides public goods and increases the quality of non-perfectly competitive markets where ICR activities may be under-provided. The optimal level of World Bank ICR project provision is discussed and policy issues are raised.

Keywords: International Corporate Responsibility, International Development, Multinational Enterprises, Globalisation.

* The author would like to thank the participants of the World Bank's e-conference on Public Policy and Corporate Social Responsibility whose deliberations inspired this paper. This paper has been significantly modified to incorporate the feedback of the participants of the *Second Conference on International Corporate Responsibility* held in Amsterdam on 18-20 June.

Introduction

International Corporate Responsibility (ICR) – or corporate social responsibility applied at the international level -- has been seen as important for international economic development. The value of ICR in international development has been discussed in the business literature (Bendell, 2000; Schwartz and Gibb, 1999; Hopkins, 1998) and the development literature (Fox *et al*. 2002).1 Inspired by the potential welfare gains of participating in ICR programmes, the World Bank (2002; 2003) has attempted to assess the degree to which it should be involved in the issue of international corporate social responsibility. The World Bank (2004a) has generally concluded that ICR activity can help reduce poverty while promoting private sector development in developing countries.

Yet, choices about the *level* of activity or *types* of ICR activities which the Bank should engage in must be made. The Bank – with limited resources – must explore the extent to which it adds value while not crowding out potentially more effective private organisations. It should help develop the market for ICR activities while not overly profiting from that development. The first section of this paper will look at the Bank's involvement in ICR and the reasons for that involvement. The second section will look at the optimisation problem the Bank should be trying to solve through a discussion of "ICR activity creation" and "ICR activity diversion." The Bank is trying to expand markets and provide public goods while avoiding crowding out private firms. The third section will look at the extent to which the Bank should be involved -- even if ICR activities were only private goods (and have no public goods attributes). This section will also explore the Bank's incentives to engage in ICR for self-interested reasons rather than public oriented ones. The fourth section tackles the Bank's potential level of involvement, while the final section concludes.

Before embarking on the main argument, several points should be noted. First, as previously noted, throughout this paper, I use "International Corporate Responsibility" to refer to Corporate Social Responsibility (CSR) practiced at the international level – and specifically to refer to concrete ICR projects. Second, I do not provide comprehensive literature surveys in order to keep focused on the paper's main argument. I recognise that ICR is a contested and multi-faceted topic and readers interested in ICR may consult Hooker and Madsen (2003).2 Third, this paper has been written for the non-economist interested in exploring some of the economic reasoning behind Bank involvement in ICR. Economists will be uncomfortable as I do not derive optimal levels with rigorously defined parameters.3 Non-economists will be uncomfortable with my treatment of ICR as a "product" like cars or widgets. I would urge both groups to come to this project with an open mind – taking what they find useful and leaving what they do not. Finally, there are a number of international organisations which work directly or indirectly with ICR – including the United Nations, the OECD and others. I chose the World Bank because it is

1 For an interesting historical perspective on international corporate responsibility (or the lack thereof), see Litvin (2003).
2 Michael (2003) also covers the pros and cons of engaging in corporate responsibility activities.
3 In my defense, the economics is so simple I would not see why an economist would need such definition which stems from the basic equation for profit.

more directly involved in project work, it is an institution I know something about, and the paper focuses on the decision problem rather than the institutions involved in ICR.

World Bank Work in ICR

The World Bank (2004b) asserts that the Bank's work in ICR was launched by World Bank President James Wolfensohn at the World Economic Forum in Davos, Switzerland, in January 2000.4 Despite a host of policy objectives outlined in various World Bank documents, the Bank appears to be aiming to provide ICR as a "public good" which is underprovided by private sector firms and many developing country governments.5 The Bank rarely uses the term "public good." Instead, the Bank (2004c) notes that these activities "strengthen national investment climates by enhancing sustainable development strategies, helping firms compete for [foreign direct investment] FDI inflows and helping position their exports globally." While the Bank does not specifically specify how ICR helps achieve these goals, the presence of Bank involvement clearly indicates that the Bank considers the public goods nature of ICR. In a policy document authored by Fox *et al.* (2002) for the World Bank, they note the role of ICR and some of the activities which they claim can be undertaken are listed in Figure 1.

Figure 1: Some Public Sector Activities in ICR

Defining minimum standards	Reforming political financing	Mandating corporate contributions
Tax incentives and penalties	Stock exchange regulations	Licensing requirements for stakeholder consultation
ensuring access to information	Guidelines for FDI	business advisory services
Working with international organisations to build capacity	loan guarantees	education and awareness raising
legislation promoting voluntary action	guidelines for public investment	pro-CSR public procurement
forum for debating public policy proposals	Endorsing metrics and indicators	
involving business representatives in public arenas	Tax incentives	
Multi-stakeholder code development		

Source: Adapted from Fox *et al.* (2002).

4 Despite the assertion, I was unable to find further information about the launch or the deliberations surrounding the launch.

5 Distilling the objectives of Bank work from documents has been difficult due to the highly ambiguous and jargon-laden language employed by Bank documents. World Bank (2004c) notes that "the objective of this program is to develop an integrated approach to action-learning and capacity-building for institutional change in the field of corporate social responsibility and sustainable competitiveness. At the country level, this integrated approach can be used in the design and implementation of appropriate policy measures and initiatives aimed at creating an environment supportive of sound corporate social responsibility practices...The approach also helps companies use the concept of corporate social responsibility as an important element for developing sustainable competitive advantages and to address the interests of key stakeholders, including the communities in which they operate, in a more systematic way." World Bank (2004b) helpfully notes "while CSR business drivers are market-based, there are clear opportunities for the public sector in our client countries to support and promote CSR. These efforts need to be rooted in an understanding of the market-based drivers and of businesses' CSR implementation challenges." The lack of concrete direction highlights the importance of this paper for Bank work.

While all of these activities are “public goods” provided by governments, the Bank sees itself as providing the public goods needed for governments to provide these public goods (!). The Bank does not directly engage in providing tax incentives for businesses in member countries. Instead the Bank advises governments about ways that tax incentives might be used. Such public goods are usually in the form of Bank projects and activities -- direct advice is given through its Private Sector Development Unit and training through its World Bank Institute.6

The World Bank Institute provides mostly information as its public good. The Institute claims to have delivered training on corporate responsibility to over 12,000 people – directly and through the Internet. Figure 2 represents a list of Institute activities. The activities convey the impression that the Institute appears to still be defining its role in corporate responsibility training. The wide range of topics and locations suggests the Bank has not decided on a clear strategy for such training. The July 2002 event looking at the role of the World Bank in CSR appears to have produced very little concrete information or tangible recommendations. The programme also focuses heavily on dialogue with students in US business schools who presumably are already receiving training in issues of corporate ethics and responsibility. The Internet training programme itself provides the rationale for corporate responsibility without going to great detail about the concrete activities which can be undertaken to promote corporate responsibility.

Unlike the World Bank Institute, the CSR Practice advises developing country governments “on public policy roles and instruments they can most usefully deploy to encourage corporate social responsibility...[through] building public sector understanding of CSR incentives and pressure points, and on improving strategic interactions” (World Bank, 2004b). While the Practice’s strategy and limits of activity appear poorly defined, the team does provide a country-specific diagnostic ‘tool’ for businesses and government officials. The team has also worked with the Bank’s Foreign Investment Advisory Service (FIAS) to advise on country-wide CSR frameworks in Angola for oil sector, El Salvador for General Education, Philippines for Mining and Vietnam for Athletic Footwear.

6 However, the mandate of both entities is vague. The CSR Practice educates through a number of toolkits and analytic reports while the World Bank Institute asserts that it works with governments to “design and implementation of appropriate policy measures and initiatives aimed at creating an environment supportive of sound corporate social responsibility practices” (World Bank, 2004c).

Figure 2: World Bank Institute Activities Oriented toward Corporate Responsibility

Date	Title	Description*
July 2004	Junior Enterprise in Brazil	World Bank visits several Brazilian universities and institutions to facilitate training sessions and discussions on corporate social responsibility and competitiveness
12-15 May 2004	Voluntary Codes of Conduct for Multinational Corporations Conference	Makes presentation at conference which brought together over 400 people globally from business and academia.
26–27 October 2003	Inter-American Conference on CSR	Presentation made on the positive effects on a company's reputation engendered by adopting CSR into core business strategy.
24–27 September 2003	Developing International Business Leaders for the New Millennium	Presentations made at an event bringing together businesspersons, government officials and academics from a number of countries.
24 September 2003	Redefining the Role of Business Leadership in Relation to Poverty and Development	Organised international video-conference exploring the role of future business leaders in promoting international development and reducing poverty. for people from eight countries across the Americas.
22 September 2003	Is There A Role For Business In Promoting Building Peace & Democracy?	Make presentation asserting that corporations can make positive contributions to society through their involvement in building peace and democracy.
26 June 2003	Corporate Social Responsibility: Best Practices in Kenya	500 Kenyans attend a workshop which highlights CSR values and principles in Kenyan society.
26 June 2003	Business in Society Workshop for Kenya	60 participants from the University of Nairobi, Kenyatta University and United States International University meet to discuss how to integrate CSR into the university curriculum.
26 June 2003	Corporate Governance in Southeast Europe	Participants from Bosnia and Serbia and Montenegro discuss training programmes.
18 June 2003	"Rebuilding Trust Through Corporate Responsibility" Conference	Moderated panel on ethical relations between business NGOs and government.
16 June 2003	Videoconference with International MBA Students, Boston College	Video-conference discussion between Bank staff and students from Boston College about how companies should interact with NGOs and governmental agencies to promote corporate responsibility.
11–13 June 2003	World Bank Staff Exchange Program	Bank staff set up a booth in headquarters to share CSR conference reports to other Bank staff.
9 June 2003	CSR Videoconference for Training of Trainers in Africa	Participants from Tanzania, Uganda, Ghana, and Ethiopia discuss by videoconference sustainable private sector development in Africa

25–27 May 2003	Philippines CSR Course	Approximately 1,000 Filipinos complete web-based CSR course
23 April 2003	Conversation on Resources, Conflict and Corporate Responsibility	Bank staff meet other multilateral institution, academia, nongovernmental organisation, and other staff to discuss multi-stakeholder dialogue on business practices in conflict situations and to explore approaches to risk mitigation in zones of conflict.
6 December 2002	CSR in Russia Conference: Corporate Responsibility and Sustainable Competitiveness in Russia	Video-conference between Philadelphia, Washington, and Russia. Participants discuss corporate responsibility in Russia.
24 July 2002	Video-conference on Corporate Social Responsibility and Business Ethics	Video-dialogue between World Bank headquarters and the University of Cape Town's Graduate School of Business.
23 April 2002	Recommendations from "Successful Public-Private Partnershships: Perspectives of the Private Sector"	Mainly young professionals and graduate students from Washington DC are equipped with (the Bank claims) "knowledge and tools to design, implement and manage successful public-private partnerships."
19 April 2002	Workshop on "CSR and the Role of the World Bank"	Unclear who was at this event or its purpose.
2 April 2002	Roundtable discussion on CSR E-conference	Student recommendations from the Wharton School of Business revolving around increased Bank activity aimed at encouraging corporations to comply with the UN's Global Compact.
19–21 November 2001	Corporate Governance and Social Responsibility	Presented framework for improving the competitiveness of localized industrial clusters and for implementing appropriate governance structures.
13–16 November 2001	Third APEC Future Leaders Forum: "Corporate Citizenship: Doing Well by Doing Good"	Delegates from Asia discuss business and sustainable development, corporate volunteerism, and shaping a culture for corporate citizenship.
14–15 November 2001	National Solidarity Conference	Approximately 50 sectors and professional groups discuss social responsibility.

Source: Adapted from WBI Program Events. Available at: http://www.worldbank.org/wbi/corpgov/csr/events.html
* Due to the highly ambiguous and jargon-laden descriptions offered by the Bank, I have tried to simply and clarify their descriptions. See the Source for the original descriptions.
Note: A June 2003 meeting on "Portfolio Preferences of Foreign Institutional Investors," a September 2003 meeting "Toward the Millennium Development Goals - Children's Perspectives" and a November 2003 EconCrime conference were omitted due to the seemingly tangential nature of the meeting for corporate responsibility.

How Much Bank Involvement: A Public Goods Perspective

International Corporate Responsibility is a rubrique under which thinking about the wider economic, political and social effects of corporate activity undertaken by firms working in more than one country are discussed. Given the international element of ICR, discussion tends to focus on multi-national enterprises or on national enterprises working abroad.7 Much of the academic discussion tends to focus on the implementation of specific projects aimed at the adoption of codes of conduct (Kolk *et al.*, 1999; Jenkins, 2001). Yet, a number of specific projects have also been elaborated to incorporate elements of corporate responsibility into the activities of these organisations. For example, GlaxoSmithKline established a Corporate Social Responsibility Committee to advise its Board on issues affecting corporate responsibility while ABB employees in Brazil work with slum children, the under-nourished, and AIDS victims.

Many of the ICR initiatives are the result of "products" marketed by organisations which specialise in offering advice on ICR for an economic return. For example, the group Business for Social Responsibility (BSR) conducts an annual conference which for 2004 cost non-members registering a month away from the conference $1850. The BSR also has an Advisory Service which addresses Assessment and Policy Development, CSR Strategy and Structure, CSR Supply Chain Management, CSR Convening, and Transparency and Stakeholder Relations. Principal areas covered by BSR include Consumer Goods, Information & Communication Technologies, Extractive Industries, Pharmaceuticals and Biotechnology, Food and Agriculture, and Transportation.8 An EthicalCorp conference on "How to Make Corporate Responsibility Work in China" costs $1495.9 CSR Europe offers a 54 page book titled "CSR and the Role of Investor Relations: From Switchboard to Catalyst" for €60.10

These ICR products are examples of "private goods." Private goods are rival goods in that consumption by one person or group of people reduces the amount available for others. They are also excludable in that certain groups of people who do not pay for these goods can be excluded from consuming them. In contrast, "public goods" are goods which all can use – they are non-rival and non-excludable. Many ICR products are purposely put into the public domain as public goods. All the organisations mentioned previously – BSR, CSR Europe, and EthicalCorp – offer some publications and meetings for free. The World Bank offers most of its ICR activities for free.

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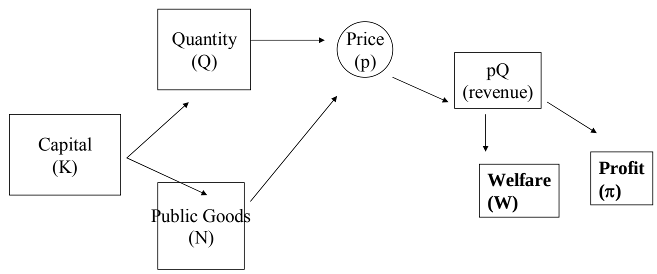
7 In the international business literature, multi-national enterprises (MNEs) differ from international enterprises in that they operate in a number of countries and lose their "home country" affiliation (Rugman and Hodgetts, 2000). As this paper focuses on an international organisation working on corporate responsibility in an international context, I will not address the role of MNEs specifically.
8 For more, see http://www.bsr.org/AdvisoryServices/index.cfm.
9 See http://www.ethicalcorp.com/usa2004/ for the conference announcement.
10 http://www.csreurope.org/publications/roleofinvestor_page23.aspx

The rationale for putting ICR products into the public domain and making them public goods is different for the Bank than for the other organisations.11 Organisations like Net Impact offer some free resources, but most of the resources require membership.12 The World Business Council for Sustainable Development offers some resources, such as book chapters, for free while charging for the rest.13 In the case of these organisations, public goods are distributed as a way of increasing demand for the private goods on sale.14 The World Bank, though, as a public organisation, aims to promote international development and increase overall welfare. Public ICR goods are provided in the hopes of increasing social rather than individual returns to the Bank.15

Despite the nature of the organisation, the basic economic logic of ICR projects remains the same -- their long-run, risk-adjusted return must exceed their long-run, risk-adjusted cost. Even for the World Bank, if it uses more resources on ICR projects than they contribute to long-run welfare, then the Bank is wasting resources. For the consulting companies which advise international companies, ICR projects (such as training, publications, and conferences) have a direct return in the price of the services. They also have costs in the form of marketing, staffing, accounting, managerial attention, and R&D. The problem firms engaged in ICR have is to use their pre-existing resources to either develop products which either earn an immediate return or to invest in activities which expand interest in corporate responsibility. Figure 3 shows the self-explanatory investment decision to be taken by the ICR firm.

11 In this case, public goods are being put into the public domain. Private goods may also be put into the public domain but, for reasons of simplicity, I will not discuss the public domain here.
12 For more information, see http://www.net-impact.org/. By quoting prices of ICR products, I am making a positive rather than normative evaluation of these activities.
13 For example, see Fussler *et al.* (2004) which offers some chapters on-line but not others.
14 Information is unusual product to sell as it is an "experience good" or a good which must be experienced in an attempt to assess the quality of the product being purchased. While I will not address the economics of information goods, for information goods, it is often wise to offer free samples (Sharpiro and Varian, 1998). Public goods might also be provided by private actors, see Ley (1993) for a diagrammatic representation.
15 For a discussion of the Bank and its work, see Gilbert et al. (1999).

Figure 3: Investment Public and Private ICR Goods



Organisations such as CSR Europe or BSR want primarily to maximise profit for themselves and their members. Contributions to public goods will be made to expand demand for private ICR projects. As with regular goods, increased demand (generally) raises both quantity demanded and thus price. Such investment in public goods affects the return to private goods investments through price and quantity effects.16 However, investments in public goods (N) are less efficient at producing returns than normal projects (Q). They might raise the price slightly and the quantity demand, but have little other effect.17 Indeed, investments in N would be expected to suffer from the under-production as other public goods. 18 Under-production would be expected as the cost of N is borne directly by a few but the benefits accrue to all. As incentives abound to free-ride, few organisations would have an incentive to provide these goods. Given these problems, there is an argument for a public organisation like the World Bank to provide these public goods.

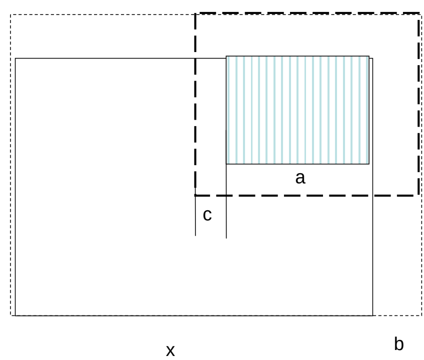
For a public organisation like the World Bank, the "price" may not be directly paid by the consumers of the ICR activity. Instead, returns may come through increased budgetary allocations to the Bank by member governments who want to see increased levels of ICR activity given free-rider problems affecting private sector provision. Member governments would represent the interests of their electorates – including their national firms – in the Bank. Thus, the Bank has the objective (in theory) of maximising the welfare impact of its activities to obtain the highest "price" (or returns).

Figure 4 shows the effects of investing in public and private ICR goods for both private firms and the Bank.19 In the Figure, the total initial size of the ICR market can be

16 Economists may find it useful to think analytically about such investment as a stock of advertising whose cost per unit should yield an equivalent return per unit minus any returns obtained from having a better society (Schmalensee, 1972).
17 These organisations might be altruistic and interested in maximising social welfare or may have a wider and longer profit function. Based on my experience, I am skeptical about these organisations being strongly altruistic and refer readers to Simon (1993) for the academic discussion.
18 For more on public goods, see Hardin (1982).
19 See Coates (1996) for another exposition.

represented as x^2 (squared).20 Of the total market, the World Bank has a certain proportion which can be labelled as a^2 – for a total proportion of a^2/x^2. Once the Bank makes an investment in ICR activities, a part of those activities will displace activities which might have been undertaken by a private company and another part will be a public good which no private firm would want to invest in. The expansion of the total market can be represented by b. Such a "market creation effect" increases the market to a total size of $(x + b)^2$. The effect of the Bank's relative share of the market is ambiguous. If the Bank's share grows less than proportionately, then it has facilitated the activity of other ICR organisations. If the Bank's share grows an additional amount c, which represents a more than proportional growth, then it crowds out other players.

Figure 4: Market Expansion and Market Diversion



There are a number of reasons why Bank provision of private goods might expand more than proportionally. First, such expansion may be accidental. For ICR public good provision in the form of conferences, advice, or publications will always have some degree of rival and excludability. Over the programme life-cycle which consists of a number if ICR projects, some may have more private goods attributes at some points in time while others have more public goods attributes at other points in time. Second, the Bank may be more efficient at providing certain types of ICR activities – either due to competencies gained in other parts of its corporate governance work or through its high-level connections with government officials. Private good provision may have a lower cost than a private company or may be specifically requested during other work. Third, Bank staff may be self-serving and have career objectives which promote programme expansion. The Bank, seeking to maximise its returns, would target activities with the

20 To increase the rigor of the figure, the horizontal axis can be thought of as areas of ICR work and the vertical as "varieties" of activities undertaken. For simplicity, we will assume that the programmes have the same number of varieties as types and label that "x." The figure is illustrative rather than an attempt to quantify the ICR market.

highest *political returns*, which would then translate into financial returns.21 Bank staff directly interested in reputation may use "means testing" or "market demand testing" as rationale for conducting self-financing programmes in which participants pay the full cost of the activity.

How Much World Bank Involvement: Private Goods Perspective

Private provision of ICR projects by the Bank may or may not be optimal, but will almost certainly be undertaken. The decision to engage in the provision of private versus public goods will depend on the returns to the Bank. The return to ICR activities (R) is shown by equation (1) as the political return (r) per activity times the amount of activity undertaken (Q_B) minus the costs of those activities (c).22

$$R = (r-c)Q_B \qquad (1)$$

Using this simple equation, the optimal provision maximises the Bank's political retuns subject to costs. To find the returns on welfare (W), an "adjusting term" can be added such that s_B representing social returns or returns to the wider community for the Bank and s_o for other organisations – leading to equation (2). Evaluating the effects of Bank work vis-a-vis other organisations, s_o are the social returns to non-Bank work, r_o are the private returns to non-Bank work, and Q_o represents the quantity of non-Bank work.

$$W = s_B(r_BQ_B) + s_o(r_oQ_o) - (c_BQ_B + c_oQ_o) \qquad (2)$$

From the simple equation (2), a number of implications can be derived as shown in Figure 5. The figure assesses the cases when private returns to the Bank are greater and less than the returns to other organisations, when Bank costs are higher and lower than other organisation costs, when the social benefits of both Bank and non-Bank work are greater and less than zero, and where the private returns are greater than, less than and equal to the social returns for the Bank. For each of these cases, the positive implication (what the Bank has the incentive to do) is discussed as is the normative implication (what the Bank should do to maximise welfare). For example, if the returns to the Bank are higher than the returns to private organisations, the Bank will certainly compete on ICR projects. However, the effect for society is ambiguous and depends on whether the social returns are positive or not.

Having determined the conditions under which the Bank will compete in the private provision of ICR products, the question remains whether such provision is optimal. Figure 6 summarises a number of interesting cases. First, if $r_B + r_o = s_B + s_o$, or

21 The reader may consider increased returns to the organisation as weak incentives. As ICR project budgets expand, salaries and non-salary benefits increase through the increased potential for promotion and increased budgets for hiring extra staff.

22 Costs may be decomposed in political risk (σ), direct budgetary costs (c) and the opportunity cost (o) of using resources for activities which could increase the Bank's political returns elsewhere. I ignore any complicated discussion of costs for simplicity of exposition – though the political risks of projects are ever-present. An example of "political risk" is the OECD's support of the Multi-lateral Agreement on Investment (MAI).

the social returns equal the private returns, then ICR programmes are optimally provided by the Bank and others. The Bank "internalises" -- or receives the full social return -- of its work. Second, if $r_B > s_B$, then programmes are overprovided. There are other institutions competing for these economic (and political) returns and there may be over-provision. The private returns exceed the social returns and there is excess competition – especially if each organisations esteems it can successfully compete against the others. Finally, if $r_B < s_B$, then programmes are underprovided because of the free-riding problems referred to previously.

Figure 5: Should the Bank Engage in Private ICR Goods Provision?

Implications	**Condition 1**		**Condition 2**	
	$\mathbf{r_B > r_o}$		$\mathbf{r_B < r_o}$	
Positive implication		Bank will compete		Bank won't compete
Normative implication		Ambiguous whether should		Clearly shouldn't compete
	$\mathbf{c_B < c_o}$		$\mathbf{c_B > c_o}$	
Positive implication		Bank may compete depending on returns		Bank may compete depending on returns
Normative implication		Should compete		Should not compete
	$\mathbf{s_B > 0}$		$\mathbf{s_B < 0}$	
Positive implication		Ambiguous, depends on returns		Ambiguous, depends on returns
Normative implication		Bank should compete		Bank should not compete
	$\mathbf{s_o > 0}$		$\mathbf{s_o < 0}$	
Positive implication		Ambiguous		Ambiguous
Normative implication		Should reduce crowding out		Should try to crowd out private activity
	$\mathbf{s_B > s_o}$		$\mathbf{s_B < s_o}$	
Positive implication		Ambiguous, depends on returns		Ambiguous, depends on returns
Normative implication		Should reduce crowding out		Should reduce crowding out
	$\mathbf{r_B > s_B}$		$\mathbf{r_B < s_B}$	
Positive implication		Will engage in activity		Will not compete
Normative implication		If Sb >0, should compete		Should compete if Sb>0.
	$\mathbf{r_B = s_B}$			
Positive implication		Will engage in ICR		
Normative implication		Should engage in ICR		

Note: the comparison of r_B with r_o is not done as the Bank does not (or is not supposed to) compete directly with private firms for financial returns.

However, other reasons may exist – besides the free-riding problem or the problem of externalities – which may cause the under-provision of ICR goods. A simple argument would note that, as with other firms, market power derived from a lack for competition can lead to a case where imperfect competitors increase the price of services well beyond their costs.

A more complicated argument refers to the potential lack of co-ordination between organisations. In this simple model, each actor must decide how much ICR activity to provide. The World Bank can become fully committed to ICR and assume most of the ICR work by engaging in consulting and ICR-related conditionality. Other organisations can become heavily involved through extensive donations of staff time and financial contributions to ICR programmes. Realistically though, each actor knows it can not cover the entire range of ICR activities and so must "share" ICR activity. The Bank must decide *at the same time* as other ICR organisations the level of ICR activity it will provide. Other organisations must also decide at the same time their level of ICR project provision. If each organisation worries that it may over-provide activities (and thus receive no returns on excess projects), then they may under-provide projects.23

As figure 6 shows, the level of ICR provision depends on the level of information ICR project providers have about each other's activities. When each actor pursues its ICR activity without centralised co-ordination, one would expect *over-provision* of ICR activity. Excess competition occurs as each organisation tries to capture its share of the overall market given an accurate assessment of the other organisations. If there is not enough information, even though each actor tries to cover a certain proportion of ICR activity, overall there is *under-provision* of ICR activities due to their strategic interaction. Each actor over-estimates the amount of ICR activity to be provided by other actors and so under-provides its own share of ICR activity due to lack of public-private partnership. If the World Bank exercises a leadership role, then such over and under-provision may not occur and optimal provision is attained.

Figure 6: Level of World Bank ICR Project Provision

Provision Level	**Social and Private Returns**	**Information Level**
Socially Optimal	Simple political returns maximisation (r=s)	Bank exercises leadership (optimal information)
Over-provision	Competition for political rents (r<s)	Too much information
Under-provision	Competition with imperfect information (r>s)	Too little information

23 In an earlier version of this paper, I argued for under-provision using the logic of the Cournot model. However, the discussion of imperfectly competitive pricing was complex for non-economists and therefore I have omitted this discussion.

The Best Level of World Bank Involvement in ICR

Having derived the optimal *level* of activities, the Bank must still choose the *types* of activities to undertake. The World Bank's possible involvement in ICR activities can be portrayed along a continuum of commitment from lowest to highest as shown in Figure 7.24 The lowest level of commitment is information dissemination while the highest comprises including ICR provisions in loan conditionality. Integrating the previous discussion, the table also assesses whether returns are mostly public or private and the probably cost to the Bank. Given the returns and costs, the table assesses the probability of Bank involvement in that level of ICR good provision.

Figure 7: Levels of Bank Involvement in CSR

World Bank Commitment (from lowest to highest)	Private Returns	Public Returns	Mostly public or private?	Cost to Bank	Probable commitment
Information Dissemination	Promotes visibility	Makes up for under-provided information "knowledge goods"	Public	Low	High
Advocacy	Promotes adoption of wider WB agenda	Solves collective action problems	Public	Low	High
Monitoring	Increases WB influence in member private sectors	Monitoring is public good and so under-provided	Neutral	Medium	Medium
Consulting	Increases Bank revenue	Increases provision of ICR products	Private	High	Medium
Debt and Equity Participation	Increases Bank revenue and diversifies portfolio	Deepens markets and sets their "strategic direction"	Private	High	Low
Conditionality	Improves probability of conditionality's success	Provided public sectors with incentives	Private	Medium	Medium

Source: Adapted from discussions held during the World Bank's e-conference on Public Policy and Corporate Social Responsibility (World Bank, 2003).

24 The reader may ask why the World Bank should be assuming the role of promoting ICR and how it relates to its charter. Given that the Bank is already engaged in this work, I will not address this issue.

The lowest level of World Bank involvement in ICR would be to provide information about ICR. Much of such information would probably be a public good given the sparse incentives for other firms to conduct unbiased research on the economic impacts of ICR programmes. The Bank currently provides such public goods in the form of information on investment, economic statistics, and studies in a wide range of development issues. A number of other information providers – such as Eldis, Business for Social Responsibility, CSR Wire and others – exist and thus Bank activity in this area could be seen as "crowding out" these businesses and NGOs.25 However, these information dissemination programmes appear to be complementary to private organisations' commercial interests and the World Bank provides a medium to disseminate some of this information.

The second level of commitment would consist of Bank advocacy of ICR programmes to both firms and governments. The Bank would actively generate its own data and conduct research illustrating the potential benefits and harms of increased expenditure on "corporate responsibility." The Bank already acts as an advocate claiming in its publications and public speeches that ICR promotes international development. However, there is a potential interaction with the Bank portfolio which may affect the quality of advice. If the Bank suggests activities which are best for the country, it may decrease returns on its investments. Such advice might also contradict advice on reducing large firm expenditure on social goods which distort price signals and resource allocation.26 Moreover, given the wide-spread popularity of CSR, the Bank does not appear to be providing a good the private sector can not produce itself.

A third level of Bank commitment to corporate responsibility consists of active monitoring of ICR activities conducted by firms and governments. Either the Bank would collect systematic and impartial data in the form of ratings, or would monitor on an *ad hoc* basis instances in which egregious violations of corporate responsibility occur. The public goods rationale for monitoring would be higher than simple advocacy given the increased expense and co-ordination problems inherent in monitoring.27 Moreover, the Bank has diplomatic and economic clout which could lower the cost of monitoring potentially below the costs of private firms such as Moody's.28 Such monitoring would also be a valuable asset which private sector firms would potentially pay for. Such a practice, however, would represent a shift in Bank policy away from working with governments and more toward working with the private sector – a practice which has questionable status in its Articles of Agreement. Monitoring would give the Bank a great deal of political clout and visibility – just as the Transparency International Index has given that organisation a great deal of political capital.

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25 For interesting data on the effect of public spending on voluntering, see Day and Devlin (1996) which find that such spending influences the degree of altruistic volunteering activity.
26 A core element of Bank advice is the reduction of public expenditure which distorts the functioning of the price system. Motivated by "neo-liberal" economic theory, a free and functioning price system guarantees the optimal allocation of economic resources. See Stiglitz (1998) for an overview and critique.
27 Monitoring costs may significantly affect investment. For a rather complex treatment and empirical results, see Aizenman and Spiegel (2002).
28 One examples of such an index includes the Business in the Community Index (http://www.bitc.org.uk/docs/CR_Index_Execsummary.pdf)

The Bank could offer consulting services to firms in developing countries as a fourth and greater level of commitment to corporate responsibility. The Bank could send experts to help firms and governments design and implement corporate responsibility programmes—possibly using the diagnostic instrument it has already developed. The Bank would have enormous private incentives to engage in such work as the return could be quite lucrative if the Bank could charge for such advice. Bank consulting would also greatly expand the overall market of ICR as the Bank engages consultants and forms co-operative agreements with other ICR providers. However, such consulting would probably call into question the mandate of the Bank as the Bank would become just another consulting firm. Moreover, the Bank – as a public institution – must represent the interests of the government rather than any firm or its own profit maximisation. Thus, if Bank advice could be politically influenced, its advice could decrease welfare and possibly long-term corporate responsibility. Such political influence would not be mitigated by profit motive as the Bank would not see financial returns directly tied to the quality of its advice irregardless of whether it charged market prices for its advice or not.

Taking equity or debt positions in the companies it advises would help increase the incentive to give high quality advice. Such positions, especially if profitable, could help generate the funds which would increases the Bank's gross return on outstanding loans (which was about 5% in 2003).29 Bank leadership in taking positions and promoting ICR would be influential enough to shape national regulatory and business practices in many member countries – thereby offering a useful public service. However, such a proposal would encourage business as well as government to become financially committed to the World Bank – expanding the already large influence of the Bank in many countries. If such investment is politicised, the encouragement of soft budget constraints in borrowing enterprises may work against lending packages which advocate the removal of market distortions.

Tie-in with lending conditionality represents the highest form of World Bank commitment to corporate responsibility. Along with the other macroeconomic, firm-level and public sector reform conditions, the Bank could request specific regulations to be passed promoting worker, environmental or consumer welfare. Conditionality would increase the likelihood of ICR programmes being implemented and would offer a fertile ground of experimental results upon which to evaluate the effectiveness of ICR activities. Corporate responsibility conditionality, if designed correctly, could also bolster macroeconomic and public sector conditions. Such a commitment, however, would give the Bank almost complete economic and political power in developing countries and potentially destabilise pre-existing power relations.30 Conditionality encouraging firms to make public investments could also distort prices and other signals.

In practice, the Bank will probably choose a mix of the about activities. The Bank will expand its information dissemination as part of its new mandate to become a "knowledge bank" (Wolfensohn, 1996). It will continue its almost completely uncritical

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29 Source: http://treasury.worldbank.org/web/PDF/2003_Info_Statement.PDF

30 For more on the effects of Bank conditionality on borrower's internal political arrangements, see Bienen and Gersovitz (1985).

advocacy of ICR projects despite the potentially welfare increasing value of offering more objective advice. The Bank will also probably expand its consulting services in co-operation with external partners. The Bank will probably continue to operate in the short-term under a vague ICR strategy so as to maintain its flexibility to maximise its political returns given the still nascent ICR market.

Conclusions

The World should engage in ICR programmes both as a public actor and as a private participant. Public involvement increases the size and return to ICR projects. Private involvement provided competition needed to encourage private actors to increase the scale of their operations. However, unlike a private market organisation, the Bank will need to worry about over-extending its mandate. Given its size, it could crowd out rather than encourage private participation in ICR.

The Bank can avoid crowding out other actors' ICR by offering a clearer strategy about when it will participate in ICR projects. These projects should be more focused on concrete results rather than dialogues with US students. These projects should also seek to increase the returns of ICR projects to companies rather than to the consulting companies which sell this advice.

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