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# Corporate Social Responsibility in Latin America and the Caribbean

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**Inter-American Development Bank**

Washington, D.C.

**Sustainable Development Department  
Technical Papers Series**

**Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library**

Peinado-Vara, Estrella.

Corporate social responsibility in Latin America and the Caribbean / Estrella Peinado-Vara.

p.cm. (Sustainable Development Department Technical papers series ; PEF-102)  
Includes bibliographical references.

1. Social responsibility of business—Latin America. 2. Social responsibility of business—Caribbean Area. I. Inter-American Development Bank. Sustainable Development Dept. Private Enterprise and Financial Markets Sub-Dept. II. Title. III. Series.

658.408 P276—dc21

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The opinions expressed herein are those of the author and do not necessarily reflect the official position of the Inter-American Development Bank.

June 2004

This publication (Reference No. PEF-102) can be obtained from:

Private Enterprise and Financial Markets Subdepartment  
Stop W0504  
Inter-American Development Bank  
1300 New York Avenue, N.W.  
Washington, D.C. 20577

E-mail: [mmedina@iadb.org](mailto:mmedina@iadb.org)  
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# Introduction

When examining corporate social responsibility (CSR) in Latin America and the Caribbean we have to acknowledge that the 35 countries in this region are very diverse and their degree of socio-economic development varies enormously<sup>1</sup>. While available evidence on the progress in mainstreaming corporate social responsibility in the region is mixed, a general notion is that CSR is a growing movement, but still in its infancy. There is a need to improve the institutional capacity of governments and the investment climate, and also to adapt the CSR agenda to the specific characteristics of each country.

One powerful argument is that a corporate social and environmentally responsible behavior could be both a tool for

competitiveness and a tool for development (Vives and Peinado-Vara, 2004). Additionally, the impediments that the public sector faces in its efforts to fulfill social and environmental needs pushes the private sector to assume its social responsibility. Although it is clear that the private sector should not replace the State in the provision of basic goods, it can contribute to the improvement of society. This is especially applicable to Latin America and the Caribbean where about 128 million people, or a quarter of the population, live on less than two dollars a day and about 50 million are considered extremely poor, living on less than one dollar a day<sup>2</sup>.

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<sup>1</sup> To give an example the population of Brazil is close to 183 million while Saint Kitts and Nevis has eleven thousand. CIA The Worldfactbook <http://www.cia.gov/cia/publications/factbook/index.html> accessed on April 21.

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<sup>2</sup> 2004 World Development Indicators. World Bank.

## Philanthropy: The Needed Evolution Toward CSR

Corporate social responsibility is still strongly associated with philanthropy, which is usually the initial stage of all social responsible practices. There is a long tradition of corporate philanthropy in Latin America and the Caribbean, where the private sector has had an overly paternalistic view of its role in society. With the exceptions of Chile and Brazil, there are no tax incentives to corporate donations (DRCLAS, 2003). Therefore, philanthropy and the more evolved and participatory concepts of corporate citizenship and CSR seem to drive companies to take up CSR in the region (as argued by Hemingway and MacLagan, 2004).

Philanthropy is not related to the core business of profit making. While company donations play a role in Latin American societies, an evolution to-

ward increased private sector participation is needed. Foundations and nongovernmental organizations (NGOs) are encouraging corporations to participate more actively and to move beyond philanthropy toward corporate citizenship (Barrett, 2002) tailored to specific local characteristics. This is especially the case in conflict sensitive societies, such as Colombia, as unexpected problems are likely to arise when companies fund development projects without due consideration of needs, means and goals (Gaigals and Leonhardt, 2001). More generally, to avoid unforeseen mishaps and to enhance its effectiveness companies should develop strategies that contribute to the economic and social development of the community in partnership with local, regional and national actors (Rienstra, 2001).

## How Widespread is CSR in Latin America and the Caribbean?

There is mixed evidence on the extent of corporate social responsibility in Latin America and the Caribbean. Data from some sources would suggest the existence of a fairly active private and social sector and of significant potential for the development of a vibrant social and environmentally responsible private sector. However, a more detailed analysis of these and other sources leads to the conclusion that CSR activity is very unevenly distributed in the region.

Some preliminary results of an IDB study show that, while there is no resistance to the concept of corporate social responsibility, some skepticism still exists. The relation between CSR and competitiveness is not widely accepted; only some export-oriented sectors show some awareness of this link (IDB, 2004). CSR is in an introductory stage where philanthropy is the reference for many. Moreover as far as the implementation of codes of conduct and reporting initiatives are concerned, it is still limited (see Table 1)<sup>3</sup>.

Measuring the overall size of the CSR movement by the number of companies that have joined the United Nations Global Compact (UNGC), CSR would appear to be popular among companies, business associations and some NGOs in the region. As of April 15, 2004, 186 Latin American companies (out of a total of 1450) had signed the nine principles covering labor and environmental standards, and human rights<sup>4</sup>. However, a more detailed analysis of these figures shows that the distribution among countries in the region is rather concentrated and not very meaningful, with 40 members in Panama, 86 in Brazil, three in Mexico and only one organization (a civil society organization) in Argentina<sup>5</sup>. These results do not seem to be consistent with the size of these countries' economies and the vibrancy of their business sectors. They are even less consistent if we consider that the figure for Argentina went from 1 organization to 222 companies that joined the UNGC during the official launching of the initiative on April 23, 2004.

Table 1: The Adoption of Codes of Conduct in Latin America (as of March 2004)

| Code/Country | Brazil | Argentina | Costa Rica | Chile | Total Latin America |
|--------------|--------|-----------|------------|-------|---------------------|
| SA8000       | 39     | 2         | 1          | 0     | 42                  |
| AA1000       | 0      | 0         | 0          | 0     | 0                   |
| GRI          | 5      | 1         | 3          | 2     | 11                  |

Source: IDB, 2004

<sup>3</sup> For information on SA8000 visit [www.sa8000.org/SA8000/SA8000.htm](http://www.sa8000.org/SA8000/SA8000.htm) on AA1000 visit [www.accountability.org.uk](http://www.accountability.org.uk) and on GRI (Global Reporting Initiative) visit <http://www.globalreporting.org/>

<sup>4</sup> For more information and a complete list of participants visit <http://www.unglobalcompact.org/>

<sup>5</sup> As of April 14, 2004.



Another study that classifies the countries of the Americas into four levels (three levels for Latin America and the Caribbean) of CSR activity, based on an analysis of the number of hits that the search engine Altavista returned when using the term CSR (or its Spanish equivalent), produces different results in terms of the distribution of CSR activity in the region<sup>6</sup>. According to this classification, the most advanced countries (Argentina, Chile and Mexico) are “catching-up” with the rest of the developed world, where there is significant private sector activity and public awareness<sup>7</sup>. The rest of South America belongs to a “walking” second group (Bolivia, Colombia, Paraguay, Peru and Venezuela) where there is a considerable drop with respect to the previous group and the involvement of both the private and public sectors is low, with increasing activity of multilateral development institutions. The third group is “stalled” and comprises some countries in Central America and the Caribbean (Cuba, Dominican Republic, Jamaica, Trinidad, Costa Rica and Nicaragua)<sup>8</sup>. The stalled group registered overall very low levels of CSR response based on the internet search. The study reaches mixed general conclusions on corporate social responsibility in Latin America and the Caribbean, as it identifies weak activity in the private sector and low government involvement, but widespread media coverage and some academic interest in introducing CSR into the curriculum. In addition, the study finds that in Latin America and the Caribbean CSR seems to be

heavily influenced by international NGOs, guidelines from multinational headquarters, and multilateral institutions (Haslam, 2004), suggesting a lack of local ownership of CSR initiatives. Needless to say, this type of methodology is biased toward countries with heavy use of the internet.

Based on the literature about the business case for corporate social responsibility, certain studies would suggest that the region is not that far behind. An example is the regional composition of the cases in emerging markets presented in *Developing Value: The Case for Sustainable Business* (SustainAbility, International Finance Corporation (IFC) and Ethos Institute, 2002). This study provides 61 documented Latin American cases with some or strong evidence of the business case<sup>9</sup>. The total number of cases examined in seven regions is 167, and comparing the number of cases to that of other regions gives the impression that CSR is doing well in Latin America and the Caribbean<sup>10</sup>. However, the methodology has some flaws. For example, possible negative impacts of certain practices are not reflected and information about the implementation of CSR practices and their results is not sufficiently detailed. Again, the sample is heavily biased towards IFC projects (Zammit, 2003)<sup>11</sup>.

<sup>6</sup> The ‘running’ group includes the United States and Canada and is the most advanced in CSR awareness.

<sup>7</sup> Brazil and Uruguay would probably be included in this group but were not examined.

<sup>8</sup> It does not include El Salvador and Panama.

<sup>9</sup> IFC, SustainAbility and Ethos Institute. [www.sustainability.com](http://www.sustainability.com) accessed April 13, 2004.

<sup>10</sup> The number of business cases for the rest of the regions are as follow: Central and Eastern Europe, 24; East Asia and the Pacific, 23; Middle East and North Africa, three; South Asia, 22; Southern Europe and Central Asia, seven and Sub-Saharan Africa, 27.

<sup>11</sup> However, *Developing Value* has its role in the promotion of the business case of social and environmental responsibility in emerging markets.

A number of studies at the country level provide a bleaker picture. Despite the fact that Brazil probably has the most vibrant civil sector organizations and that many companies are involved in the CSR movement, it is not a large number relative to the size of the Brazilian economy<sup>12</sup>. In addition, recently increased flexibility in labor markets resulted in socially irresponsible corporate practices, including a decline in labor standards due to subcontracting, high unemployment, and a deterioration in labor rights. Some research on the operations of a pulp and paper company in Brazil showed not only a lack of CSR practices, but also instances of social and environmental irresponsibility (Carrere, 2002).

Chile is also seen as harboring a relatively active CSR movement. The regional umbrella organization Empresa enjoys significant success in promoting CSR. However, foreign mining companies manage to avoid paying taxes and royalties and have not long ago been involved in intra-corporate flows leading to perverse impacts on development (Utting, 2003).

Another contradictory example is that of Mexico, where environmental certification and the implementation of environmentally efficient processes are increasing to some extent due to the pressure resulting from the North American Free Trade Agreement (NAFTA) and Mexico's membership in the Organization for Economic Cooperation and Development (OECD). However, many companies are relocating their plants from

urban areas to fragile areas where environmental regulation is almost nonexistent. With the exception of individual firms that comply with national and international environmental and social standards, the norm is that companies are interested in cheap labor and a soft normative framework (Barkin, 2003). The same trend is observed in Costa Rica and El Salvador where only a few companies are environmentally and socially responsible. Costa Rica is known for initiatives associated with good environmental management and ecotourism, but only approximately one third of the large companies in the country have a formal environmental policy and the CSR activities of some transnational corporations are largely exaggerated (Pratt and Fintel, 2002). All in all, there is limited evidence of actual cases of CSR activity in Latin America and the Caribbean<sup>13</sup>.

A more general analysis of structural factors affecting the development of corporate social responsibility produces again a mixed picture. The National Corporate Responsibility Index (NCRI), prepared by AccountAbility and The Copenhagen Center is based on the measurement of aspects such as the business climate, public policies, the participation of the civil sector, the labor market, environmental management and the taxation system. According to AccountAbility, this index could measure the potential for the development of a vibrant social and environmentally responsible private sector. The results show that some Central American countries, such as Panama and Costa Rica, are at the top of the list, ranking higher

<sup>12</sup> For example Ethos Institute exists since 1998, as of April, 20, 2004 Ethos had 801 members and according to the Brazilian Institute of Geography and Statistics (IBGE) Brazil had more than 4 million companies.

<sup>13</sup> To see a summary list of the CSR Activities of Top Latin American Companies see [http://www.focal.ca/images/pdf/csr\\_04.pdf](http://www.focal.ca/images/pdf/csr_04.pdf)

than many European countries. Brazil is ranked in the middle, while Bolivia, one of the poorer countries in the region, is only slightly behind some Eastern European countries<sup>14</sup>. On the other hand, some other studies find that the same issues that slow the overall social and economic development and affect the creation of a strong private and public sector are hindering the development of CSR. These factors include the lack of institutional capacity in many governments (Pratt and Fintel, 2002), weaker corporate governance (Chong et al., 2003), and a less favorable business climate and a smaller business scale than in other regions.

Despite the contradictory data on the actual incidence of CSR thus far in Latin America and the Caribbean, there is certainly a surge in interest on the topic reflected in the rise of national organizations promoting corporate social responsibility, the increasing role of the hemispheric organization Empresa, and the engagement of business associations such as the American Chambers of Commerce (AmCham) in many coun-

tries. The media is covering CSR more extensively, as the number of events also increases region-wide, such as the series of Inter-American Conferences on CSR (Hodges, 2002), originating in a mandate of the Summit of Presidents of the Western Hemisphere in Quebec in 2001. Adequate activities to promote and support the implementation of CSR are needed to take advantage of this growing interest. In this sense, multilateral development institutions have an important role to play as highlighted in this issue of *Development* (Vives, 2004). The adoption of CSR by Latin American companies to contribute to socioeconomic development requires making general progress on all the fronts highlighted above, as well as adapting the corporate social responsibility agenda to the specific needs of the region. For CSR to be effective as a tool for development, it must be adapted to the social and economic features of each particular country. This will require the adoption of a more democratic and participatory view of the respective roles of the government, the private sector, and civil society at large.

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<sup>14</sup> For a summary of the results see [http://www.accountability.org.uk/uploadstore/cms/docs/Exec\\_Summary.pdf](http://www.accountability.org.uk/uploadstore/cms/docs/Exec_Summary.pdf)

## Conclusion

The available information about the implementation of CSR in Latin America is contradictory and most of the evidence is circumstantial. CSR activity still looks relatively weak and unevenly distributed, with very few companies adopting a formal corporate social responsibility agenda that ensures healthy working conditions and livable communities.

CSR can be considered as a growing movement, still in its infancy, and still

reflected in many cases as corporate philanthropy. Although there are some interesting signs of increasing CSR interest, there is still much to do in promoting real implementation and in disseminating the social and economic benefits of CSR practices. Responsible companies can make a significant, if not critical difference in the social and economic development of the region.

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