

Investing in Standards for Sustainable Development:

The Role of International Development Agencies in Supporting Collaborative Standards Initiatives



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The purpose of this paper is to initiate a conversation as to whether and how international development agencies might more systematically support Collaborative Standards Initiatives (CSIs) as part of a broader effort to foster sustainable and inclusive globalization. After a period of experimentation, more and more CSIs find themselves perched on the cusp of the mainstream. From international standards for anti-corruption, to extractive industries, sustainable forestry or fishing, the opportunities for CSIs to shape regulatory regimes, market systems, and the behavior of private sector and civil society organizations, continues to grow.

However, CSIs also face increasing opposition from voices on both left and right, questioning whether they represent technical barriers to trade, whether they advantage trans-national corporations to the expense of national medium-sized enterprises, and whether they harm country competitiveness. Skeptics increasingly question the ability of CSIs to accomplish their objectives.

To deliver on their potential, CSIs will need to enhance their design and performance, increase adoption rates, better coordinate and link to public governance regimes, enable 'ecosystems' that support the implementation of

the standards, and balance the interests of their stakeholders. CSIs are a critical building block of the emerging architecture of globalization, but support is needed to ensure that their governance is sound, and that their impacts on developing countries are positive.

International development agencies have been instrumental in supporting the start-up of select CSIs. The agencies include the World Bank Group, bilateral donor agencies such as the US Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the UK's Department for International Development (DFID) and the German and Swedish international cooperation agencies. Donors include private foundations and private sector institutions that finance the formation of CSIs. These roles, as partners, supporters and donors, have largely been ad hoc, focused on specific activities, and housed within silos. International development agencies hold the potential to perform a distinctive value-adding role in the continued evolution and impact of CSIs. This paper reviews some of the challenges CSIs currently face, their relationship to development objectives, and recommends potential actions that international development agencies can begin to take. ●

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Collaborative Standards Initiatives: Towards a Robust Platform for Sustainable Development

One of the most compelling institutional innovations of the last several decades, Collaborative Standards Initiatives (CSIs) are becoming an increasingly prominent tool of global governance. CSIs can be defined as cross-sector partnerships created with a rule-setting purpose, to design and steward standards for the regulation of market and non-market actors. CSIs are designed to address shortfalls in the provision of social and environmental safeguards, equity, and justice considered inadequately addressed by existing market systems and regulatory regimes – and to do so in a participatory, inclusive way, designed to build consensus. Both ‘what CSIs do’ and ‘how CSIs do it’ make them potentially valuable building blocks in the effort to make globalization inclusive and sustainable.

At the root of CSIs are several core design principles. First among them is the principle of inclusiveness that strives to ensure all affected parties can participate in shaping the rules that CSIs form. While many CSIs successfully engage representatives of the private, civil, and (where relevant) public sectors, many struggle to manage processes that include broad-based participation. This is particularly true for representatives of the global South and for lower income communities.

CSIs generally include the principle of voluntary consent by which ‘signatories’ agree to abide by the rules and standards established by CSIs. The principle of voluntary consent proves in practice to be a tricky concept: whether participants truly experience engagement in CSIs as ‘voluntary’ is questionable and context dependent. In some instances, participants perceive ‘voluntary’ CSIs as regulation by a different name. In other cases the principle of voluntary consent leads to loose and modest application, or even free riding, by targeted signatories.

Transparency and accountability represent other central principles of CSIs. These ensure that CSI decisions are subject to the light of day and that the governance system builds mechanisms to respond to challenges and disputes. However CSIs struggle to manage an extended accountability system that is responsive to stakeholder interests without creating excessive and stifling organizational burdens.

Finally, CSIs rest on a bedrock principle of partnership that enables representatives of multiple sectors and interested parties to collaboratively design and govern the initiative. While other principles exist, these represent particularly central features of CSIs.

Many CSIs take on either broad or specific development concerns, from health and labor practices, to human rights and a variety of others issues. However, despite their best efforts to balance the concerns of market, environmental, and social interests, CSIs are often perceived to unfairly

weigh one interest above others. For example, critics charge that certain environmental standards initiatives inadequately consider their impact on indigenous communities that depend on ecosystems for their livelihoods. Other critics see CSIs as a tool of the global North to suppress the development of the global South. For instance, Southern critics charge that Northern-based labor groups use CSIs to advantage members of the OECD workforce at the expense of their southern counterparts.

From the Forest Stewardship Council, to the Equator Principles for financial institutions, to the Extractive Industry Transparency Initiative, CSIs have created a new set of challenges as well as opportunities for pro-poor global development.

The **opportunities** are well known, and include:

- The ability to reshape commercial markets to value environmental and social performance.
- The creation of non-statutory mechanisms to ensure the compliance of private, civil, and in some instances public institutions to sustainable environmental and social development practices.
- The ability to fill the gaps posed by public governance shortfalls on local, national and global levels.
- The potential to influence the continued development of effective, accountable, and legitimate public governance.
- The legitimacy presented by CSIs through the engagement of multi-sector representatives, and in particular the opportunity to give voice to stakeholders and communities.

The **challenges**, however, can pose barriers to pro-poor development. They include:

- The governance, accountability, and transparency of CSIs and the participation of developing countries in their decision-making procedures.
- The connection between CSIs and national governance, including the potential for CSIs to weaken national regulatory systems, and the opportunity and related challenges for states to align national regulation and statutes to support the effectiveness of CSIs.



- The free-rider problem and the evolution of the governance model for CSIs that avoids free-riding and can strengthen inclusion.
- The compliance and enforcement mechanisms of CSIs, as well as how roles, responsibilities, authorities and resources are distributed between global and national players for monitoring and sanction mechanisms.
- The technical barriers to trade that some CSIs may impose on poor countries, thereby hindering their competitiveness and increasing the dependency of small producers on foreign aid. The role of the WTO going forward in resolving these conflicts represents both risk and opportunity.
- The challenge of managing CSIs, as CSIs mature and the multi-stakeholder processes core to their governance design grow more complex and create inertia. In addition, as CSIs become more established, it often becomes more difficult to design sustainable business models and to limit dependence on donors.
- The lack of a “capital market” to support the investment in CSIs. In part this relates to the lack of performance indicators to assess the effectiveness, efficiency, impact, and legitimacy of CSIs. Investors/donors need criteria with which to select initiatives to fund, and identify ‘what drives success’ in order to help ensure funds are allocated and utilized to optimal effect.
- Last, but not least, many CSIs lack vision regarding how the CSI architecture should evolve. Many CSIs sit in a gray area between the goal to “work themselves out of a job” and to continue to enhance scale and scope by increasing institutional strength and permanence. Should CSIs propose to embed standards within international, national, and sub-national statutory frameworks? Should they effectively merge with, or give away intellectual property and networks to mainstream standard-setters? Should they seek to become established as a mainstream institution? Should CSIs within and across issue domains begin to collaborate on these questions? Or should they seek some hybrid of the above? Typically the answer is not clear; in the absence of an explicit strategy, inertial forces push them to keep expanding along their existing track. This can lead to mission creep and an unwieldy and expanding enterprise that becomes more difficult to govern, less accountable to its stakeholders, and more likely to compete or conflict with members of its own “eco-system.” ●

Illustration: The Forest Stewardship Council (FSC)

www.fsc.org

Today more than 200 forest certification mechanisms exist around the world; their standards vary in demands and technical criteria. Because of this competition, the World Bank Group (WBG) has avoided a direct endorsement of the FSC brand. In the FSC's inception, it played an informal role as a catalyst through the participation of individual staff experts in the technical design of the standards. Today, the WBG has become an architect of forest global governance. The forestry team at the Bank created a partnership with the World Wildlife Fund (WWF) – the champion behind the FSC - to develop an over-arching framework to assess the quality of any forest certification mechanism. The result of the work of this innovative WBG-NGO partnership was a “Forest Certification Assessment Guide (FCAG)”, which has influenced forest policies and the design of forest certification mechanisms around the world (assets.panda.org/downloads/fcagfinal.pdf).

The WBG has used these activities to inform and reinforce its own forest policies and safeguards, as well as its program on forest governance “Forest Law Enforcement and Governance (FLEG)” that brings together stakeholders around the world to improve good

governance in the management of forests (www.worldbank.org/fleg).

FSC works by allowing national certification mechanisms to emerge; local working groups develop indicators for the national standards with the objective of adapting the FSC's global principles and criteria to specific environments. FSC stage of growth has brought the need to improve its governance, as well as leverage the voices of local civil society and indigenous groups who do not have the resources and capacity to participate at global level, while the influence of certification bodies and their commercial clients has grown. FSC is also improving its operational model, where third-party certification agencies, which compete for clients in the market, in effect function as intermediaries between the FSC and forest managers and have direct economic relations with the latter.

In its architect role, the WBG and other international investors can continue to steward this process, strengthening the partnerships that can deliver on the next round of challenges for forest certification institutions to overcome governance and transparency weaknesses, bring adequate institutional checks and balances and effective business models, and address free-rider problems that arise in the model.

- Meidinger, E (2006) ‘The Administrative Law of Global Private-Public Regulation: the Case of Forestry’ *The European Journal of International Law*. 17, 47-87.
- Counsell, S. and Loraas, K. (2002) ‘Trading in Credibility: the myth and reality of the Forest Stewardship Council’ Rainforest Foundation UK FSC Watch - <http://www.fsc-watch.org/>
- Meridian Institute. (2001) Comparative analysis of the FSC and SFI certification programs, <http://www.resourcesaver.org/file/toolmanager/O16F20919.pdf>
- Carlton, J (2000) ‘How Home Depot and Activists Joined to Cut Logging Abuse’, *Wall Street Journal* September 26th.

CSIs have moved from an initial start-up phase to what can be described in the parlance of venture capitalists as their ‘mezzanine stage.’ As such, CSI start-ups have designed and applied the technology of collaboratively designed standards regimes. They have innovated new collaborative governance systems to oversee and manage these standards systems. Some have achieved early success as measured by numbers of adherents and records of compliance.

However their broader impact on shaping market, social, and environmental systems remains unclear. Enthusiasm for CSIs continues to rest largely on their potential. As CSIs mature, they face increasing resistance. For example, at one end of the spectrum entrenched political and economic systems are beginning to more actively resist the rules and regimes established by CSIs. And, on the other hand, some political reformers view a focus on CSIs as displacing the important political task of working directly to strengthen regulatory systems. Yet others raise doubts that CSIs support pro-poor development. This argument often arises in the environmental standards arena where Northern interests are viewed as compromising the development opportunities of Southern countries.

Another challenge comes from the very success of CSIs. Some CSIs now face a mainstreaming moment. A consequence is that a variety of established standards institutions that have not engaged in social and environmental issues previously (be it accounting standards associations, national standards bodies, and more

experienced entities such as the International Standards Organization (ISO)) are considering adopting or designing their own standards regimes. While cause for celebration among some, it is uncertain what impact these new initiatives will have on the core principles that are driving CSIs.

Finally, in what is a particularly disconcerting development, increasing evidence suggests that many CSIs as institutions have not yet geared up adequately for the task ahead of them. One finds more and more examples of poor governance, inadequate accountability mechanisms, and poor management that threaten the legitimacy and impact of CSIs. Mis-aligned incentives among core stakeholders from the private, civil, and public sectors lie at the heart of these organizational deficiencies.

What characterizes these mis-aligned incentives?

Typically, the strongest incentives for private sector participants are to seek reputational benefits and protection that maintains the social license to operate. At the outset, participation in CSIs present low entry costs with high benefits. As the CSI matures, its efforts to monitor, enforce, and take punitive actions for non-compliance grow stronger. As this occurs, the costs imposed on participants from the private sector increase. Whether benefits increase or decline depends on both context and the manner in which an individual firm uses the CSI’s rules to drive strategy and innovation. It also depends on the ability of other firms to free-ride. Thus a safer strategy is for private sector actors to

Illustration: The Equator Principles

www.equator-principles.com

The Equator Principles (EP) were born out of the International Finance Corporation (IFC) of the World Bank Group’s social and environmental performance standards. They are a set of principles championed by a group of core banks - ABN Amro, Barclays, Citigroup and Deutsche Bank - who faced increasing pressure from civil society to improve the social and environmental aspects of their project finance. The Equator Principles apply to all new project financings globally with total project capital costs of US\$10 million or more and across all industry sectors.

The IFC does not play a formal role in the EP, but supports the outreach of the initiative and capacity building for how the Banks implement the principles. The EP do not have a formal governance mechanism, but are governed informally through a network of the core Banks, with specific working groups formed around particular issues, such as reporting and verification, or governance. Given the lack of clarity on

EP governance processes, the misperception is common that the IFC is the institution responsible for them.

A review of the principles in 2006 has suggested a number of next steps: increasing requirements vis-a-vis public consultations; including more labor issues; and adding a principle on annual public reporting on the state of their implementation by signatories. Enforcement and compliance remains a key issue. Adjustments underway are the formation of a formal governance mechanism, which would clarify publicly what is the role of the IFC.

The biggest challenge to EP comes from China and other emerging economies whose banks and financial institutions remain outside it’s standards, and can out-compete the Equator Banks – mainly in Africa and Asia, by having lower social and environmental requirements on the projects they finance. The two main internal challenges that EP faces (compliance and governance) will be further strained when trying to bring in new players who question the need for these standards in the first place.

- Stichele, M. (2005) “Critical Issues in the Financial Industry” Center for Research on Multinational Corporations (SOMO) http://www.somo.nl/html/paginas/pdf/Finacial_sector_report_05_NL.pdf
- Missbach, A. “The Equator Principles; drawing the line for socially responsible banks? An interim Review from an NGO Perspective.” http://www.evb.ch/cm_data/public/Article_Development%20_5_.pdf
- Sevastopulo, D (2006) Equator principles: Radical plan is not without critics. (June 9), Financial Times.

slow the advance of CSIs while at the same time encouraging efforts to establish their standards as industry norms.

For civil society organizations, CSIs represent a tool to institutionalize policies and behaviors that support mission-related agendas. However, CSIs hold the potential to indirectly compete with civil society organizations – particularly those that utilize campaigning and activism against private sector entities. CSIs can shield private sector participants, which both compromises the influence of civil society organizations and constrains their fund-raising. Therefore, there is an incentive among mission-driven civil society organizations to push CSIs to move boldly and quickly to assert their control over private sector entities. Incremental progress may therefore become couched as failure, which creates incentives for civil society organizations to exit the initiative.

High-engagement champions of the CSI (notably those who work full time) become invested in the on-going survival and success of the institution. This leads to a host of common organizational challenges from mission-creep

to ‘chasing dollars’, to a predilection for balance and compromise among various stakeholder interests and resistance to standards convergence. The costs of exiting the initiative are typically the highest for these stakeholders.

For civil society participants, as the process deepens, the necessity of confronting difficult choices becomes sharper. Public criticism and premature exit can be a less costly option than remaining engaged.

It is critical to strengthen those actors in the CSI architecture that can develop a credible commitment to quality, for a CSI vision to succeed, but that have sufficient distance from the success or failure of individual initiatives. Such actors would occupy a position of legitimacy to undertake in-depth critical research and review, and invest the effort needed to help nudge CSIs to a more robust platform. Potentially, the international development agencies can help catalyze such roles. But before addressing the analysis and recommendations about these roles, it is useful to understand what real and perceived gaps CSIs are designed to fill. ●

Illustration: The Extractive Industry Transparency Initiative (EITI)

www.eitransparency.org

The EITI is a multi-stakeholder initiative that brings together public, private and non-governmental actors to improve the revenue transparency from extractive industries and their host governments.

International development agencies – particularly international financial institutions and bilateral donors -- have played a key role in the inception of the EITI, which was housed at the UK's Department for International Development (DFID). Informally, the role of international development agencies as early catalysts provided key inputs from individual staff experts, critical country data and their convening brands to bring stakeholders to the table. However, as the initiative gained momentum, the role of the international development agencies evolved from informal roles to more formalized engagements. In the case of the World Bank Group (WBG) its role has become one of a supporter for country implementation. Based on its core assets (its fiduciary capacity, country-operations structures, and reputation) today the WBG manages a multi-donor trust fund to support in-country activities that can strengthen the EITI's implementation.

In the case of the WBG, this new role as supporter has enabled

- Publish What you Pay (2006) ‘Eye on the EITI’ <http://www.eitransparency.org/UserFiles/File/eyeoneiti.pdf>
- Ganesan, A. “Is 2007 the End for Voluntary Standards?” Business for Social Responsibility. December 2006.
- EITI Presentation at the “World Bank – African Development Bank Meeting”, Anwar Ravat, World Bank, Tunis, February 2007.
- ‘Incentives for Stakeholders in EITI: Overview Paper’ Prepared for the International Advisory Group by the Secretariat. August 2005. http://www.eitransparency.org/UserFiles/iagincentivesoverviewpaper17_o8.pdf
- Ocheje, P. (2006) ‘The Extractive Industries Transparency Initiative: Voluntary Codes of Conduct, Poverty and Accountability in Africa.’ www.jsd-africa.com
- Eigen, P. “EITI: four years of success and moving forward.” Transparency International. July 20, 2006. http://www.transparency.org/publications/newsletter/2006/july_2006/spotlight

strong synergies between its headquarters and country teams.

Furthermore, it has streamlined EITI transparency provisions and principles into the World Bank's mining policies and provided a solid ground from which country teams discuss governance improvements in their engagement with respective governments (See: <http://www.ifc.org/ifcext/eir.nsf/> and www.worldbank.org/mining)

EITI's move to a more independent governance system, improving representation and country reporting of progress is seen as one to increase the legitimacy and traction. A new Board includes constituent groups from implementing countries, supporting countries, civil society, industry, and investment companies. The EITI's Secretariat, originally hosted by the UK's DFID, is now independently established in Oslo, Norway.

Challenges ahead point to improving country implementation as well as bringing key outsiders to the table (e.g. China's energy companies). The international development agencies, in a supporter role, can do much to strengthen the EITI model, especially on country implementation, with a more focused outreach into BRIC countries, strengthen incentives for companies to comply and leading recipient governments to streamline EITI principles.

The Rise of the Collaborative Standards Initiatives (CSI)

Globalization has made it difficult to regulate transnational economic actors. The rule of law and controls within national boundaries, stewarded by governments, as we have traditionally known it, has been outpaced by globalization. The literature on public regulation records an observable shift of the role of the State from a ‘command and control’ model to a ‘decentralized’ one, led by overlapping networks (Black 2002) and ‘networked governance’ (Slaughter 2004).

The new forms of governance emerging are dynamic, bringing together different players from the public and private sectors and civil society, where governments no longer play the leading part, but are players sitting at the table, if at all (UNEP 2000).

The evidence suggests a widespread emergence of ‘multi-stakeholder forms of regulation’ that can co-exist with traditional forms of public authority (Hauffer 2003; Nadvi and Wältring, 2001). It also points to new roles for the private sector to champion, participate or join CSIs to safeguard their reputation, take advantage of market niches as consumers demand social and environmental protection in goods and services, or to preempt stricter state regulation (O’Rourke 2003).

CSIs are emerging in many industries: mining, chemicals, forestry, oil and gas, finance, textiles, agriculture, or commercial fishing; and for particular issues such as labor, trade, environment, biodiversity, governance and anti-corruption. Without exception, all CSIs face challenges regarding their governance and effectiveness, in the face of growing competition from outside (e.g. China); tensions by free-riders from within; and fragile business models that threaten their sustainability. There is today a general recognition that CSIs need to improve their governance processes (ISEAL 2006; Detomasi 2007; UNRISD 2006).

CSIs vary according to their purpose. Ligteringen and Zadek (2005) have reviewed the universe of CSIs in the area of corporate governance, and distinguish between three types of initiatives, according to their regulatory focus:

- First, those that develop **principle-based frameworks** to provide guidance on ‘what should be done’ (e.g. the International Labor Organization’s (ILO) Tripartite Declaration of Principles concerning multinational enterprises and social policy; the UN Global Compact Principles, the OECD Guidelines for Multinational Enterprises).
- Second, those that target the development of **process guidelines** to provide guidance on ‘how to measure and communicate’ sustainability issues and governance processes (e.g. the AA1000 Assurance Standard Series, the Global Reporting Initiative (GRI)).

- Third, those that produce **management systems** that provide guidance on ‘how to integrate’ the issues into management systems (e.g. ISO 14001, SA8000, Sigma Guidelines).

In practice, some CSIs exhibit qualities of more than one type. For example, the Social Accountability Standard SA8000, which is used to monitor labor conditions, is based on ILO Conventions, it provides a tool for companies

Box 1: Definitions

Collaborative Governance concerns the structures, processes, rules and traditions through which decision-making power is exercised in collaborative initiatives. Evidence suggests that effective collaborative initiatives are those that successfully embed mutual accountability in their decision-making.

Collaborative Standards Initiatives (CSIs) are cross-sector partnerships that are created with a ‘rule-setting’ purpose, to design and steward standards for the regulation of market and non-market actors.

Source: www.accountability21.net

to measure and communicate their work on human rights, and uses a management system framework as a baseline tool to mobilize the process.

Overall, CSIs have an impact on three levels: on **regulation**, by improving the ‘rules of the game’ in regulatory environments where statutory rules or enforcement are underdeveloped; on **responsibility**, by encouraging private sector players (and their markets) to become more sensitive to ethical, environmental and social issues; and on **governance**, by the effect that ‘credible

Box 2: Examples of Collaborative Standards Initiatives (CSI)

> Ethical Trading Initiative (multi-sector)	www.ethicaltrade.org
> Equator Principles (Financial services)	www.equator-principles.com
> Extractive Industries Transparency Initiative	www.eitransparency.org
> Fair Labor Association (Textiles)	www.fairlabor.org
> Forest Stewardship Council	www.fsc.org
> Voluntary Principles on Security and Human Rights	www.voluntaryprinciples.org
> Global Reporting Initiative (all sectors)	www.globalreporting.org
> Commodity Roundtables (Agriculture)	www.bacp.net
> Kimberley Process (conflict diamonds)	www.kimberleyprocess.com
> Medicines Transparency Alliance	www.dfidhealthrc.org/meta
> Construction Sector Transparency Initiative	www.dfid.gov.uk
> Marine Stewardship Council (Fisheries)	www.msc.org
> PACI (Anti-corruption)	www.weforum.org/en/initiatives/paci/index.htm
> MFA Forum (Textiles)	www.mfa-forum.net
> Responsible Care Initiative (Chemicals)	www.responsiblecare.org
> Social Accountability International (multi-sector)	www.sa-intl.org

standards' have on governments and country governance. For example, the government of Bolivia has used the Forest Stewardship Council (FSC) as a vehicle for governmental enforcement of national forestry law.

Examples of **convergence of standards** are becoming more visible. The UN Global Compact Principles are, for example, based on UN Declarations and encourage signatories to report using the GRI. Similarly, the Equator Principles stem from the International Finance Corporation's (IFC) environmental and social performance standards. Various labor certification schemes – the Fair Labor Association (FLA), Social Accountability International (SAI), and the Worldwide Responsible Apparel Production (WRAP) are aligned with ILO core standards. In the case of forest certification, the World Bank partnered with the World Wildlife Fund (WWF) and developed a Forest Certification Assessment Guide (FCAG) that is moving forest certification systems towards convergence.

A notable example in this area is the work on 'meta-standards' by the International Social and Environmental Accreditation and Labeling (ISEAL). ISEAL has developed a 'Code of Good Practice for Setting Social and Environmental Standards'. The Code is an example of the common frameworks and platforms for convergence being built for CSIs (ISEAL 2006).

The validity of the critique that CSIs can create trade barriers that discriminate against developing countries is uncertain. But recent innovations point to cases where developing regions are managing to use CSIs to their competitive advantage. Re-aligning incentives for account-

ability along global supply chains can generate new opportunities. The argument, in brief, is that:

- Development outcomes cannot be effectively delivered by one type of player (business, government, civil society) acting alone in a complex and globalized world.
- Creating synergies between these players that go to the heart of their respective competencies and interests (e.g. not just public aid) require that they understand their on-going inter-dependence.
- Making something out of this inter-dependence requires a collaborative approach where each understands and accepts their role in supporting the interests of the others, as well as their own interests.
- Active collaboration therefore requires agreement on the nature of this mutual accountability, or an 'Accountability Compact'.

The compacts that govern these multi-stakeholder initiatives evolve over the life cycle of a set of activities, rather than being set as a fixed system. Crucially, in CSI cases that seem most productive, the parties came together to define the problem, preferred outcomes, key activities, success parameters and targets, resource requirements, and a governance and accountability system that would support each of the previous elements. ●



The Role of International Development Agencies in Sustainable Development of CSIs

International development agencies have been extensively involved with CSIs, from the World Bank Group, the UK's Department for International Development, the German and Swedish international cooperation agencies, to a range of private foundations. A variety of staff, offices, and country programs have worked to help design, support, or work with these initiatives. These experiences have occurred largely in an ad hoc manner. There is no common strategy on the best approach that international development agencies can take to these initiatives – certainly not one that systematically responds to the enormous and growing diversity among CSIs. This is creating both challenges, and potential opportunities for international development agencies, including:

- Growing instances of contradictory policies and decisions within agencies related to CSIs, for example instances where decisions taken to support CSIs are not aligned with the behavior and tactics of another area of the investor institution.
- Growing risk that CSIs compete with pro-poor development policies, programs, and strategies. For instance, CSIs have the potential to set rules which constrain entry of small firms, working against pro-poor development strategies.
- Risks that international development agencies may become caught in the middle, as nations begin to resist 'northern' CSIs deemed to create technical barriers and other anti-competitive outcomes vs. broad coalitions of interests that expect international development agencies to support CSIs.
- The possibility of developing countries viewing support for CSIs as a return to the 1980s policies of conditionality.
- The opportunity for the international development agencies to serve as a broker to help CSIs support strengthened public governance and rule of law in developing countries.
- The opportunity for the international development agencies to help developing countries leverage CSIs to support sustainable and inclusive development.
- The opportunity for the international development agencies to help strengthen and facilitate models of collaborative governance among the sectors. ●

Case study: The World Bank Group and CSIs

In preparing this paper, we examined the role of the World Bank Group (WBG) in the development of CSIs in three areas: project finance (through the IFC and the Equator Principles), anti-corruption in extractive industries (through the EITI), and forestry (through FSC). Common patterns emerge in the way the WBG has engaged with these CSIs. First, individual WBG staff performed a key role in the inception phase of all CSIs analyzed. Typically, WBG's early stage engagement has been informal and focused on technical expertise, networks and convening authority aimed at catalyzing the process. As CSIs mature, the WBG

role evolves — from catalyst to a supporter role in the EITI, and from catalyst to architect of the global rules to design CSIs with the case of forestry.

Table 1 suggests a framework for thinking about the strategic positioning, core institutional assets, and specific risks and opportunities for international development agencies at different stages in the development of CSI initiatives. Developed further, this framework has the potential to help agencies clarify what approach to take vis-à-vis particular CSIs. ●



Table 1: International Development Agency roles, *Catalyst, Supporter, Architect*

Case	CSI market focus	Agency Role	Relationship to CSI	Resources	Opportunities & Risks
Project Finance	Policy Standard	<i>Catalyst</i>	Informal <ul style="list-style-type: none"> Through staff innovators or technical work. 	<ul style="list-style-type: none"> Convening authority; Technical expertise. 	<ul style="list-style-type: none"> Mobilize commitments of new constituency (e.g. banks); 'Lack of teeth' on enforcement; Competition from outsiders (e.g. China); Lack of adequate governance.
Extractive Industry	Policy Standard	<i>Supporter</i>	Formal <ul style="list-style-type: none"> Contractual with countries (downstream) or bilateral agencies (upstream); Role in CSI governance. 	<ul style="list-style-type: none"> Fiduciary capacity; In-Country Operational capacity; Resources; Technical expertise. 	<ul style="list-style-type: none"> Strengthen the traction of country strategies and institutional-building processes; Highly political; Uneven implementation; Competition from outsiders.
Forestry	Product Certification	<i>Architect</i>	Formal <ul style="list-style-type: none"> Partnership with specialized institutions (WWF). 	<ul style="list-style-type: none"> Legitimacy as broker; Resources; Technical expertise. 	<ul style="list-style-type: none"> Harness private sector incentives to improve country governance; Synergies to improve other WBG programs; Be seen to 'pick winners'.

Ways Forward For International Development Agencies in Supporting CSIs

There exist a wide variety of potential entry points through which international development agencies can improve their efforts to help the development and pro-poor impact of CSIs. The opportunities include:

- **Support the engagement of developing country institutions (including public, private, and civil society bodies) in the design and governance of CSIs:**

Developing country voices need to be at the table as early as possible and then throughout the life of a CSI so that its rules do not unfairly disadvantage developing country competitiveness; unintentionally harm the lives and livelihoods of citizens; place obligations on developing country institutions that lack the capacity to implement; or suffer in quality from a lack of developing country perspectives. International development agencies can play a number of roles, from providing basic levels of assistance to enable developing country representatives to travel and participate in CSI governance forums; to setting common standards that CSIs follow to include

developing country voices in governance and accountability mechanisms. Common standards can benefit from referencing and building on available initiatives, as was the case of the Forest Certification Assessment Guide (FCAG) reference to the work of ISEAL and ISO on global standards. An especially large and vital challenge to the future of CSIs will be to engage emerging foreign investors based in emerging economies in CSI processes.

- **Help CSIs to support pro-growth trade rules and country competitiveness:** As CSIs mature, ministries, industry associations, and international institutions are questioning whether CSIs represent technical barriers to trade, whether they advantage transnational corporations to the expense of SMEs, and whether they harm country competitiveness. Growing experience suggests that strategically designed and innovative CSIs can support growth strategies in developing countries. International development agencies possess capabilities to help ensure CSIs to

support country competitiveness. And it could perform a useful policy advocacy role to enable mainstream institutions to understand the consistency of CSIs with global trade rules.

- **Enhance the effectiveness of the country-level interface between CSIs and national statutory**

regulation: CSIs have the potential to be a powerful tool to increase rule of law and good forms of public governance and accountability. Developing countries have at times resisted CSI rules. Some find that CSIs impose a new form of ‘conditionality’ that limits state sovereignty. Others fear that CSIs threaten systems of patronage and concentration of power. And most commonly, national, state and local governments worry that they lack the capacity to implement and enforce regulatory statutes consistent with CSI rules. Often, proposed CSI rules are consistent with existing laws within a given country. However, the parties driving CSIs are rarely experts on how to create statutory systems, or design the transit of voluntary standards to mandatory models. For most CSIs, the strategy of influencing country statutes is vital to strengthen public governance, establish consistent rules of the game, and prevent free-riding. International development agencies have the capability to support country-level endorsement of standards, the formulation of consistent statutes, and to provide capacity building to enable implementation and enforcement.

- **Support capacity development of CSI initiatives:** The development process of CSIs comes in stages. The initial success begins by creating a legitimate, multi-stakeholder system that reaches agreement on a set of rules that possess sufficient reach to influence parties and change their behavior. The next stage of progress has to do with technical design. Rules are refined based on agreed criteria and expertise. However the third stage – implementation – remains under-developed for most CSIs. The CSI ‘industry’ is

still trying to sort out what it means to implement and enforce a set of ‘voluntary’ standards through somewhat soft mechanisms such as reporting, peer pressure, and incipient certification and/or labeling mechanisms. Those that adopt CSI standards struggle to implement rules in ways that do not impose costs and disadvantage to their institutions vis-à-vis free riders. Moreover, the long-term financial viability of most CSIs is a critical issue, especially due to their dependency on donor money. International development agencies can help CSIs work through the complex challenges of implementation and enforcement – and can also help design innovative financing solutions.

- **Develop a performance framework for CSIs:** The timeframes in which CSIs can develop traction among stakeholders can be lengthy. Little is known about the timeframe on which CSIs can be expected to succeed or the indicators that can determine ‘what success looks like’. A basic performance framework that looks at basic issues such as design, strategy, governance, monitoring and evaluation, and enforcement systems, would enable CSI initiators to better design their initiatives from the start. This would contribute to greater selectivity and strategic investment from donors, looking beyond short-term timeframes, make better decisions on which CSIs to invest in and for how long. The process of developing such a performance framework must engage with the community of actors doing work on this area already, bringing in new actors and building greater pressure and incentives for performance.

We believe that, over the medium-term, progress on the above agenda could be an important addition to the quest for sustainable and inclusive globalization. But the knowledge platform remains limited. So, even as experimentation and implementation proceeds at a rapid rate, with increased involvement of development agencies, it is important also to invest in learning. ●



Over the next years, improving knowledge and practice in CSIs will be important. A learning agenda should provide the basis to inform and improve the policies of international development agencies. Research should not be developed in a vacuum but collaboratively with CSIs themselves and key players in the global standards community that have been outlined throughout this document. Here's what's needed:

1. A conceptual framework for thinking about individual CSI initiatives, how they evolve over time and how they overcome critical challenges to their performance and sustainability, such as governance, inclusion of stakeholders, influence of statutory regulation and take-up in different developing country contexts. CSIs vary considerably. Some may be designed to be 3-4 year initiatives while others are permanent. Some may seek to influence national governments to adopt a CSI's rules. They differ in their mix of stakeholder interests. Without a clear typology it will be difficult to support the various solutions put forward across the enormously diverse set of CSIs.

2. An assessment of the different ways in which CSIs affect development outcomes, including how different initiatives deal with country implementation and free-rider problems. Particular areas for using a CSI-lens could include governance and anti-corruption, trade, enterprise development, and the environment, plus other arenas of market regulation. The opportunities are substantial to leverage existing work on each of the above areas – and also to identify research topics that can be carried out in cooperation with developing country stakeholders, such as innovative ways of leveraging CSIs opportunities for country-competitiveness.

3. Clarification of strategic options for how the CSI architecture as a whole might evolve. As noted earlier, one of the major threats to the success of CSIs is the lack of vision of success (and a related plan to get there) as to how CSIs might fit most effectively into the broader global architecture of standards and regulation. It is not the place of international development agencies to prescribe a vision for CSIs, either individually or collectively. However, it is clear that international development agencies can perform an important role in supporting CSIs in the effort to clarify how their rules and related processes will mainstream and endure. Should CSIs encourage mainstream standard-setting institutions to formally adopt the rules and processes that CSIs define – or should a hybrid model be developed? If CSIs give away their intellectual property and networks, what governance and accountability systems will guarantee that mainstream institutions effectively implement, continuously improve, and invest in innovation and learning? With what collective role for CSIs? International development agencies can support strategic learning by using their convening role to bring together CSIs, other standards-setters, leading intermediaries, investors, and other stakeholders to explore together how CSI mainstreaming might move forward.

CSIs have now reached an inflection point. Their role as non-statutory rule-setting bodies for development cannot be ignored. Their potential to help fill the governance gap in global development agendas remains. However, the moment of CSIs as simply an intriguing experiment has passed. CSIs have succeeded in moving to the cusp of the mainstream. The moves and counter-moves they and their stakeholders make will determine whether CSIs generate more benefits or risks to global development systems. International development agencies can perform a valuable role in helping to shape this outcome. ●

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