

LOCALIZING CSR FOR DEVELOPMENT

COOPERATION:

A case study of the German Development

Cooperation in Lao PDR

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2011

ACKNOWLEDGEMENTS

I would like to express a special sincere gratitude to my supervisor Dr Ellisha Nasruddin for her support and guidance.

I am also committed to the GSB team, for their strong support.

I would also like to thank EDC, DED (GIZ), who have been deeply involved in my research, as well as all everyone during the interview sessions.

A personal thanks also goes to Dr Thomas Knrisch of KAS, who sparks my passion for CSR and my truly believe in a sustainable future!

Finally, I would like to thank my Dad and my Grandparent deeply, without you would not be where I am today!

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ABSTRAK

Tanpa mengira ia istilah `s hari ini mempunyai Tanggungjawab Sosial Korporat (CSR) sejarah yang panjang pada masa lalu. Kesusasteraan mencatat sudah bentuk pertama tingkah laku korporat yang bertanggungjawab pada akhir abad ke-18. Variasi yang berbeza etika korporat telah sentiasa menjadi sebahagian daripada sektor swasta dalam pergantungan kepada negara, mereka particularities budaya dan sosial. Sebagai contoh, budaya korporat yang bertanggungjawab melihat kembali pada tradisi yang panjang landskap korporat Jerman.

Rekod akademik pertama mengenai CSR yang digunakan di dalam istilah hari ini, telah dibuat dalam tahun-tahun ke-50 awal, sebagai akibat daripada Perang Dunia Kedua. Dalam CSR 70 / 80 adalah dalam masa kejayaannya dalam ekonomi saintifik. Dengan peristiwa-peristiwa politik, seperti persidangan Brundtland 1987 dan Sidang Kemuncak Bumi 1992 CSR berkaitan Kemapanan dan Pembangunan Mampan mula menjadi objek pada arena politik global juga.

Hari ini adalah politik dan saintifik diterima bahawa Pembangunan Mampan dan Kemapanan Ekonomi berada dalam saling bergantung antara satu sama lain, maka ia adalah sebahagian daripada Matlamat Pembangunan Milenium, Agenda 21 atau padat global, menamakan hanya beberapa aktiviti-aktiviti politik dalam 2 hingga 3 dekad.

Pada masa lalu baru-baru ini, CSR menjadi juga menekankan politik

pembangunan negara-negara perindustrian dan kini memberi tumpuan oleh kerjasama pembangunan antarabangsa.

Kajian ini mengambil masa pembangunan ini dan penyelidikan untuk menentukan nilai CSR sebagai Instrumen untuk kerjasama pembangunan. Oleh itu dalam kajian kes mendalam dijalankan ke atas Laos, yang disenaraikan oleh PBB sebagai salah satu daripada negara-negara termiskin di dunia dan kerjasama pembangunan Jerman. Kajian dalam kes mendalam menggabungkan dua kaji selidik penyelidikan kualitatif meliputi sektor awam dan swasta dan untuk membuktikan soalan penyelidikan.

ABSTRACT

Regardless it's today's term has Corporate Social Responsibility (CSR) a long history in the past. The literature recorded already first forms of responsible corporate behavior at the end of 18 century. Different variations of corporate ethics have been always a part of the private sector in dependence on their country, cultural and social particularities. For instance, responsible corporate culture looks back on a long tradition of the German corporate landscape.

First academic records regards CSR used in its today's term, were made in the years of the early 50th, as consequence of the Second World War. In the 70th / 80th CSR was in its heyday in the economics scientifically. With political events, like the Brundtland conference 1987 and the Earth Summit of 1992 CSR in its connection to Sustainability and Sustainable Development starts to become an object on the global political arena as well.

Today it is politically and scientifically accepted that Sustainable Development and Economic Sustainability are in interdependence to each other; therefore it is part of the Millennium Development Goals, Agenda 21 or the global compact, to name just a few political activities in the last 2 till 3 decades.

In the recent past CSR became also highlighted on development politics of industrial countries and is now focused by the international development cooperation.

This study takes up this development and researches to determine the value of CSR for the development cooperation. Therefore an in depth case study is carried out on Lao PDR, listed by the UN as one of the poorest countries in the world and the German development cooperation. The in depth case study combines two qualitative research survey to cover the private and public sector and to prove the research question.

EXECUTIVE SUMMARY

In today globalized world Corporate Social Responsibility is no longer categorized in business strategy only. It is taken over on the global political Agenda in order to address environmental issues, like the global warming; social issues, as poverty reduction to address the Millennium Development Goals and economic issues, like a sustainable supply chain and labour rights. As scientifically proven developing countries are most affected on the consequences of the globalization, therefore CSR also becomes an interest by the international development cooperation. At this objective this research project applies to; within the approach to analyze the value of CSR for the development cooperation. It is a case study on Lao PDR and the German development cooperation. To show the high complexity of the interconnection between CSR and the development cooperation various theories will be reflect, two interview sections were taken; one on the private sector and one on the public sector, as well as a 2007 conceptual framework – the *CSR Navigator*, which applies to be universal a tool in order to determine the maturity of CSR for every country - developed at the German development cooperation.

The research shows the enormous potential of CSR and its interface to the development cooperation. It shows it strengths and it burdens to prove, determine and analyze the value of CSR as an Instrument for the development cooperation. The objective of the research is to localize the concept of CSR in order to determine the

value of CSR for the development cooperation. The research takes over on the present discussion of CSR in the development cooperation for, so called, development partnerships in the economy in order to achieve greater sustainable development globally. The capacity of CSR used for the development cooperation applies to be measured on a qualitative basis in two steps: firstly by a Case Study on Lao PDR and the German development cooperation, whereby at the first time a CSR feasibility study in Laos was taken. It will show that a highly complexity in this interdisciplinary needs to be considered especially to make this interconnection reasonable for the international development industry in a decade of sustainable development. In a second step also within a qualitative research method is exactly this complexity of the interconnection with experts of the development cooperation discussed.

Chapter 1

INTRODUCTION

2.0 Background of Study

In Times of a growing globalization, where is understood that dangerous threats like the influence of the climate change, global financial crisis or terrorism terms as Sustainability and Sustainable Development became emphasized on many political Agendas around the globe. The climate of the world policy can be described as tense and turbulent. The 21 century within its unprecedented open territories, diverse infrastructural possibilities, international trade and a communication system (the internet), which overcomes the time and space arena can be seen as a flagship, within varieties global issue and opportunities, and which goes in unknown water into an even more unknown future. Our “flagship” goes into new zeitgeist, a new paradigm. Known territorial dimensions are no longer valid, area of responsibilities does not end anymore “behind the door”. The impact of climate change, for instance, proved that activities taken in industrial countries do have a significant affect in developing countries and vice-versa. For instance, stronger obligations in the environmental policy of an industrial country going nowhere if this regulation can be bypassed by companies, because of corruption or nepotism in a developing country. This is only one example but the actually global political situation is even more complex. Through the UN, EU and ASEAN, which are continuously growing there are various actors on the political arena, which even more multiple interests. To combine all this diverse

interests, requirements and approaches rules and regulations need to set out new, which can't be done by the political arena only. Therefore a debate came to the fore that the economy itself should take over a greater responsibility. Concepts like, Companies as part of the society have a responsibility to "give something back to the society" (Carroll, 1991) or Sustainability as long-term profit strategy, as part of the marketing strategy, risk management or stimulus for new technology, are just a few approaches of the Corporate Social Responsibility (CSR) debate.

For several years the Concept of CSR got a great interest in economy and politics. For various reasons companies are increasingly working on voluntary basis for environmental and social measures in their environment and contribute to the commitment for a sustainable business. The CSR movement also gets endorsed by policies in many ways, because CSR defuses conflicts between employers and employees and between economic development and environment protection, in the way as the CSR Concept contributes to a balance between social, ecological and economic spheres. International active companies perform their CSR activities at their locations in developing countries too. At that stage it becomes interesting for the developing cooperation as well. In developing countries are national social and environmental standards often low and the capacity of national institutions and legal regulations to enforce social and environmental standards are difficult to enforce as well, therefore can CSR give a significant positive signal by companies. In many cases, pursue private CSR activities the same objectives as on the development cooperation approach. Hereby questions arose, like how and in what areas the support of the CSR movement by the development cooperation can be useful.

1.1 Problem Statement

Ecological, social and economic grievance that avoid a dignified human life and sustainable development of the regions that are involved in value chains, are the core area of international development cooperation. This opens up interfaces between development cooperation institutions and companies who want to exercise their responsibility. The cooperation between institutions of development cooperation and businesses are diverse: from the provision of standards for the orientation to concrete partnership at project levels. CSR wins as a subject area in the development actors. In turn, more critical voices are loud especially Non-government Organization (NGO), who fears that while businesses benefit from cooperation, but the goals of sustainable development cannot be taken forward decisively. This controversial topic and the fact of very limited academic related point make this case study significant. This work takes in at the point of interference between CSR and the development cooperation and applies to clarify how this cooperation excludes positive for the sustainable development in developing countries.

CSR were always discussed controversy and till today it does not exist a clear definition. So it became a very wide and surfaced definition which is able to say everything and nothing, which is one of the critical issues from its opponents. Another critical point is, companies use CSR as so called “alibi function”, what means by taking over voluntary based CSR initiatives they supposed to be socially responsible and hardly to criticize within that initiative because it is voluntary. Furthermore the NGOs complain the corporate landscape within this “self-taking action” tries to avoid

stronger environmental regulatory policies only. Despite it is used as a universal concept in terms of sustainable development by corporations, governments as well as recently with a growing interest in the international development cooperation. Behind this is the idea the key of a growing economy lies in the approach of sustainable development. This becomes a world widely relevance, because of globalization, climate change, resources finiteness and the imbalance of the “first and third world” (how it is called). Fact is, the complexity of today’s global political agenda cannot be managed on the political arena only. Territorial between countries disappear more and more, enormous conglomerate emerged politically as well as economically. Various new actors playing a new role and task areas need to define new. The request by NGOs and a strong customer initiative in developed countries growth that the private sector has to take seriously a greater part towards the struggle within climate change, poverty reduction or terrorism by applying social responsibility. In that context it came on the agenda for the development cooperation as well and needs now to proven how CSR can be used by the development cooperation in their interest and the interest of the partner country and how the development can ensure they won’t misused by global players for their company brand, because at the end of the day the company has their self-interest to make profit first. In this context erases naturally the question is it efficiently to use CSR, which is a wide, hardly definable, lightly unclear, voluntary and through this not sanction-able concept, in the development cooperation. How can CSR be localized for the development cooperation? What about specific issues which developing countries have to face, certain socio-economic problems, ethnic conflicts, political issues, certain religious and traditional aspects. CSR is undisputed a high potentially concept itself when it is implemented seriously by corporations, this is not

object at all in this research project. Object of this research is how it is a valuable Concept for the development cooperation.

1.3 Significance of Study

The growing interest on sustainability and sustainable development in interconnection to CSR on the global economy and world politics, as an approach to work together on various global issues make it's strongly necessary to question about the value of CSR for the development cooperation. CSR as a voluntary concept within is high ethical approach is this concept difficult to measure. There are multiple Stakeholders with even more multiple interests on the global political and economic agenda; that CSR does not get misused or misunderstood in its implementation needs to be proven. For CSR, as not clear defined concept but increasingly emphasized political instrument for global economy alliances, it is necessary to determine its strengths and weaknesses.

The G8 Summit 2007 and the UN Summit 2002 underlined the importance of CSR for the political arena, highlighting the effect CSR can have on development issues and indicating that cooperation is a key element by facing global challenges like equitability and sustainable growth. These are the external, developmental and trade-related aspects of CSR public policymaking. Recently it becomes also a more emphasized model for the German Development Cooperation. At that point the research of this Thesis assesses. The objective of the research is to localize the concept of CSR in order to determine the value of CSR for the development cooperation. The research takes over on the present discussion of CSR in the development cooperation for, so called, development partnerships in the economy in order to achieve greater

sustainable development globally. The capacity of CSR used for the development cooperation applies to be measured on a qualitative basis in two steps: firstly by a Case Study on Lao PDR and the German development cooperation, whereby at the first time a CSR feasibility study in Laos was taken. It will show that a highly complexity in this interdisciplinary needs to be considered especially to make this interconnection reasonable for the international development industry in a decade of sustainable development. In a second step also within a qualitative research method is exactly this complexity of the interconnection with experts of the development cooperation discussed.

The research refers to a country analysis, before the Concept of CSR will be reflected in its certain theoretical aspects, within chances and limits of the CSR concept used for the development cooperation illustrated. In the next step the Aid Industry in general within its goals and approach will be described. In the third step the German development cooperation, hereby especially the German development cooperation will be set out from its emerge until today and also specified in its agenda, its structure, instruments as well as it approach in Asia and CSR.

1.4 Research Objectives

The research objective of this research project is to localize CSR with regards to the German Development Cooperation in Laos. Aim of this research is to determine how valuable CSR is for the development cooperation. This can be done to an extent only, because of the character of the research as a case study and because of its complexity nature within this thematic. Even the most demanding of this research is to show various views and sides of the problematic, which needs to be considered in its present debate.

1.5 Research Questions

Within identification of that research objective and based on the case problematic the research questions apply to be determined. Objective of this case study is to elaborate following 5 research questions, in order integrating CSR as a useful tool in the development cooperation to achieve common goals of this economic partnership between the developed and developing country in that development cooperation and towards sustainable development. Research Questions:

1. How could CSR be localised for sustainable economic development?
2. What perspectives of Laos private sector should be considered for CSR development cooperation?
3. What are the key CSR-performance areas for German development cooperation in Laos?
4. What are practical instruments for German development cooperation in Laos?
5. Which implementing agencies should be engaged?

1.6 Organization of the Thesis

The thesis is structured as follows:

Chapter 2

So called Literature Review, is based on a secondary literature. It introduces the thematic of the research and applies to adopt into the case study through a deeply reflection on the present debate in the development cooperation.

Chapter 3

The research methodology explains detailed, what a case study requires and how the thesis applies to it; what type of methods are used and what type of analysis this case study is based on.

Chapter 4

Chapter 4 introduces the relation between Laos and Germany within the German Development Cooperation. As well as the study findings of the CSR survey, taken in cooperation of the Enterprise & Development Consultants Co., Ltd (EDC) and the German development service (DED) in combination with the second interview session with expert of the Development Cooperation.

Chapter 5

Chapter 5 is based on a conclusion this chapter gives recommendation and further research suggestions.

Chapter 2

LITERATURE REVIEW

The literature review maintains to cover secondary literature to introduce Lao PDR within on a country analysis and the subareas which are important for the case study. In detail these are the concept of CSR within its literary background on history and approach, the Aid industry in general, the German development cooperation in detail and its interconnection to CSR and Laos.

2.0 Country Analysis

Laos – Lao PDR

In an international context the country is called usually Laos, but the official country name is Lao PDR, what means Lao People's Democratic Republic.

Table 2.1 Lao PDR overview

Geography	Area:	Cities:	Terrain:	Climate:
	236,800 sq. km. (91,430 sq. mi.)	<u>Capital :</u> Vientiane (2009 pop. est. 799,000).	Rugged mountains, plateaus, alluvial plains.	Tropical Monsoon
		<u>Other principal towns:</u> Savannakhet, Luang Prabang, Pakse, Thakhek.		<u>Rainy season:</u> May - November <u>Dry season:</u> November - April
People	Nationality:	Languages:	Population:	Annual population growth rate:
	Lao (Noun and adj.; sing. and pl.)	Lao (official), English, French, and various ethnic languages.	6.5 million (2011 est., CIA World Factbook)	2.3% (2009 est.; World Factbook)

Ethnic groups:	66.2% - Tai-Kadai language family; - 6 ethnic groups	22.8% - Austro-Asiatic language family (Mon-Khmer and Viet-Muong); -30 ethnic groups	7.4% - Hmong-Yao - 2 ethnic groups	2.7% - Tibeto-Burman - 8 ethnic groups
				0.9% - other ethnic groups (including Vietnamese and Chinese)
Religions:	65% Buddhism	1.3% Christianity	33.7% others (principally animism, Baha'i, and Islam)	

2.0.1 People

The U.S Department of State covers the population of Laos was estimated at 6.5 million in early 2011, dispersed unevenly across the country. Most people live in valleys of the Mekong River and its tributaries. Vientiane prefecture, the capital and largest city, had about 799,000 residents in 2009. The country's population density was 27/sq. km. About half the country's people are ethnic Lao, the principal lowland inhabitants as well as the politically and culturally dominant group. The Lao are descended from the Tai people who began migrating southward from China in the first millennium A.D. Mountain tribes of Hmong-Yao, and Tibeto-Burman (Kor and Phounoy) as well as Tai ethno-linguistic heritage are found in northern Laos. Until recently, they were known as Lao Sung or highland Lao. In the central and southern mountains, Austro Asiatic (Mon-Khmer and Viet-Muong) tribes, formerly known as Lao Theung or mid-slope Lao, predominate. Some Vietnamese and Chinese minorities remain, particularly in the towns, but many left in two waves--after partial independence in the late 1940s and again after 1975.

The predominant religion is Theravada Buddhism. Animism is common among the mountain tribes. Buddhism and spirit worship coexist easily. There also are small numbers of Christians and Muslims. The official and dominant language is Lao, a tonal language of the Tai linguistic group. Minorities speak an assortment of Mon-Khmer, Hmong-Yao, and Tibeto-Burman languages. French, once common in government and commerce, has declined in usage, while knowledge of English (as the official language of (ASEAN) the Association of Southeast Asian Nations) has increased in recent years (U.S. Department of State, 2011).

2.0.2 Government

Lao PDR is a communist state; with only one legal political party is the Lao People's Revolutionary Party (LPRP). The head of state is President Choummaly Sayasone. The head of government is Prime Minister Thongsing Thammavong. Government policies are determined by the party through the all-powerful 11-member Politburo and the 61-member Central Committee. Laos adopted its Constitution in 1991, amending it most recently in 2003. The National Assembly, which has added seats at every election, approves all new laws, although the executive branch retains the authority to issue binding decrees. The most recent elections took place in April 2011, when the National Assembly was expanded to 132 members. Laos has enacted a number of new laws in recent years, but the country is still governed largely through the issuance of decrees (UNDP, 2010).

2.0.3 Economic Sector

Table 2.2 Economic Sector

Economy	
GDP (2010 est.):	\$ 6.9 billion
Per capita income (2010 est.):	\$ 986
GDP growth rate (2010 est.):	8.5%
Natural resources:	Hydroelectric power, timber, and minerals
Agriculture (29% of GDP, 2011 est.):	Primary products: glutinous rice, coffee, corn, sugarcane, vegetables, tobacco, ginger, water buffalo, pigs, cattle, poultry, sweet potatoes, cotton, tea, and peanuts.
Industry (26.5% of GDP, 2011 est.):	Primary types: copper, tin, gold, and gypsum mining; timber, electric power, agricultural processing, construction, garments, cement, tourism
Industrial growth rate (2009 est.):	4.8%
Services (2011 est.):	44.5% of GDP
Exports (2010 est.)--\$1.950 billion:	Trade gold and copper, electricity, wood and wood products, garments, coffee and other agricultural products, rattan, and tin. Major markets--Thailand, Vietnam, China, Switzerland, United Kingdom, and Germany.
Imports (2010 est.)--\$2.258 billion:	Major imports--fuel, food, consumer, goods, machinery and equipment, vehicles and spare parts. Major suppliers--Thailand, Vietnam, China, South Korea, and Belgium.

According to the World Bank, Laos remains the poorest and least developed country in East Asia and one of the ten poorest countries in the world, with a per capita income of around US\$320. Infant mortality remains high, and in remoter regions inadequate diet, poor sanitation and limited healthcare still give rise to debilitating and fatal diseases.

Laos is landlocked country with an inadequate infrastructure and a largely unskilled work force. The country's per capita income in 2010 was \$986 (est.). Agriculture, mostly subsistence rice farming, dominates the economy, employing an estimated 75% of the population and producing 29% of GDP. Domestic savings are low, forcing Laos

to rely heavily on foreign assistance and concessional loans as investment sources for economic development. In 2010, donor-funded programs accounted for approximately 8.5% of GDP and 90% of the government's capital budget. In 2010, the country's foreign debt was estimated at \$5.8 billion (UNDP, 2010).

The economy of Laos is essentially a free market system with active central planning by the government. Laos has negligible industrial capacity, a primitive and underproductive system of agriculture, and increasingly relies on its rich natural resources to earn much needed-foreign reserves. In particular, the hydropower, mining, precious metals, and timber sectors have attracted major investment from Thailand, Vietnam, and in the last decade, China. China is now the largest source of foreign direct investment (FDI) in Laos. The government relies heavily on foreign assistance for public investment, and despite escalating revenues from the natural resources sector, shows no signs of significantly reversing this trend. The seventh 5-year plan (NSDP 2011-15) calls for a budget of U.S. \$5 billion for public investment, U.S. \$3.8 billion (76%) of which would come from foreign assistance. Tourism remains a bright spot of the Lao economy, offering real future potential, solid growth, and substantial job creation. International indices rate Laos poorly on transparency and ease of doing business. Endemic corruption and poorly developed commercial law continue to hamper economic development. Laos has begun the World Trade Organization accession process, with the intention of joining that organization as soon as possible (U.S. Department of State, 2011).

2.0.4 International and Regional Economic Integration

The economic integration of Laos with its regional and international counterparts has been attempted through the implementation of a policy of open foreign economic cooperation, on the basis of independence and mutual benefit. As a result, there has been expansion in cooperation in the fields of economy and commerce. International trade negotiations at the bilateral, regional, sub-regional and global levels have increased and strengthened. International integration includes multi-party trade cooperation, ASEAN and Regional Economic Cooperation, Trade Negotiation within ASEAN and related countries, and Asia-Pacific Trade Agreement (U.S. Department of State, 2011).

2.0.5 Social Sector

Poverty Reduction entails rural development, for which village and village development groups are established. Six prioritized focal points in Xiengkhuang and Vientiane provinces have been defined. Capacity building about Village Development Plans has been carried out with 2,586 provincial staff members, and Village Development Plans have been drawn up for 92 village groups in 61 poor districts. An amount of 41.7 billion Kip from domestic funds has been set aside to establish the Village Development Fund. In 2007 and 2008, the Agricultural Promotion Bank had extended loans to farmers amounting to 1,248 billion Kip for cultivation, livestock-raising and small business development. Nayobai (Policy) Bank has given loans to 24,762 households amounting to 1.8 billion Kip. According to the Consumer and Household Expenditure Surveys, the proportion of people below the poverty line decreased from 33.5% in fiscal year (FY) 2002-2003 to 27.6% in FY 2007-2008; and

from about 26.6% FY 2008-2009 to about 25.6% in FY 2009-2010 (estimate). On average, the poverty rate has decreased by about 3.8% per year (7 NSEDP, 2010).

2.0.6 Education

The educational network has been improved, with schools being set up in remote areas and poor districts. Sub-standard teachers are getting trained. The numbers of childcare centers and kindergartens have increased to 1,129 and the numbers of elementary schools have gone up to 8,830. The enrolment rate of primary school has increased from 84.2% in 2005 to 89.2% in 2008, and 91.2% in 2009 (7 NSEDP, 2010).

2.0.7 Health

People have been increasingly receiving basic health care services. The average life expectancy is 63 years (for women it is about 64 years and men, about 62 years). There are four central hospitals, 12 provincial hospitals, four regional hospitals, 127 district hospitals, 793 health centres, and 6,736 hospital beds in the country. In the past five years, the country has successfully overcome the bird flu epidemic twice (7 NSEDP, 2010).

Skills-development among workers has been continuously implemented, and 642,884 new jobs have been created. This exceeds the Sixth Five-Year Plan target by 18.2%. The proportion of workers engaged in the agriculture and forestry sector gradually decreased from 78.5% of the workforce in 2005 to 75.1% in 2010. Correspondingly, the proportion of workers in industry and construction sectors increased from 4.8% to 5.5%, while the same in the services sector has increased from 16.7% to 19.5%, between 2005 and 2010 (estimates). The shift of workers from

agricultural sector to non-agricultural sectors stands at 0.7% annually. Senior revolutionary officers have been carefully looked after and provided special care. The total number of senior revolutionary officers is 9,039 which accounts for about 10.64% of the total officers. An estimated 2,217,187 people have benefited from the removal of unexploded ordnance from various locations. Construction of a memorial for revolutionaries and anonymous soldiers has been completed (7 NSEDP, 2010).

2.1 The CSR Concept

2.1.1 CSR Definition - What is Corporate Social Responsibility?

For the concept of corporate social responsibility (CSR), there is no uniform definition. Especially in the Anglo-American language, but increasingly also in German literature, are used in the discussion of the role and responsibilities of business in society often related terms such as corporate responsibility or corporate citizenship (Dubielzig & Schaltegger, 2005).

The European Commission characterized in its Green Book the term as follows,

"Concept whereby companies as a basis to integrate to integrate social and environmental concerns in their business operations and in their interaction with their stakeholders." (COM, 2001, 366 final, p. 29).

The definition of the European Commission called social and environmental concerns over two key issues for CSR. If we extend this even to the economic concerns, gives the three dimensions of sustainability.

According Meffert`s & Münsermann`s definition (2005), “CSR refers to an integrated business plan”, that involves all “social, environmental and economic contributions of a company; voluntary assumption of social responsibility that goes beyond regulatory compliance" (p.20).

As a consensus what CSR applies to be, it can be summarized as done by OWW Consulting Sdn Bhd, “*Responsible business achieves success by going beyond what is required by law to make a positive and sustainable impact on society and the environment through their management, operations and products and through their engagement with stakeholders including employees, customers, investors, communities and suppliers.*” (Second International CSR Conference, 2009 KL).

2.2 History Background of CSR

2.2.1 The Begin

The structure of the industrialized economies fundamentally changed at the end of the 19th century. Larger enterprises representing significant concentration of power began to emerge, while smaller companies became less important. It was the visibility, power and reach of these new companies in that society that initially placed CSR on the public agenda. Some philanthropic entrepreneurs behind the new companies responded positively and began to improve the situation of their employees by building

accommodation and enhancing working conditions. The classical laissez-faire economic model remained dominant until the 1930s, then it was replaced by a new system where the state assumed a more active and critical role in the economy. This prompted companies to improve working and living conditions for employees, for example, or facilitate social progress. (Loew, Ankele, Braun & Clausen 2004).

The term CSR became popular in the 70s, after many multinational corporations (then called, MNCs) were organized. The term “shareholders” (MNC owners) was expanded to stakeholders” to include those that the MNC activities have an impact (Freeman, 1984). Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from them from their main economic roles. Others argue that CSR is merely an attempt to pre-empt the role of governments as MNC regulators.

Over the years the CSR image changed. It is now seen to aid an organization's mission and guide it to what the company stands for and will uphold to its consumers. The ethics of development business is used as an applied ethics that examines ethical principles and moral or ethical problems that can arise in business environments. ISO 26000 is the recognized international standard for CSR (currently a Draft International Standard). Public sector organizations (the United Nations for example) adhere to the TBL. It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities. Today, CSR practitioners integrate social and environmental concerns in their business operations and in their interaction with their stakeholders voluntarily.

The science employed since the 1950s, first in the U.S., with the subject. One of the first publications on the subject was "Social Responsibilities of the Businessman" by Howard R. Bowen (1953). He was of the view of the fact that there had to be based corporate social responsibility to the social expectations and values. Since the company would take social rights in practice, they had to take on appropriate responsibilities. From the 1970s came the added aspect of the company as an actor. It was now of the opinion that companies react not only on expectations of society, but their involvement should also actively participate. Since the 1980s, joined the CSR 'movement "in response to the prevailing thought-out shareholder value even more. Parallel has developed since the 1980s, the concept of environmental protection, the forerunner of the idea of sustainable development. Since the 1990s merge both ideas – CSR and environmental protection / sustainability - into a single unit (Loew, Ankele, Braun & Clausen 2004).

2.2.2 CSR in the EU

The UK was for a long time the only European country to use the CSR approach. The European Union (EU) started looking for its own CSR concept via the strategies adopted in Lisbon in 2000. The strategy called for the EU, "to become the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010 (EU COM 2001C:2). This was followed by the EU's strategy for sustainability that pinned CSR as an important contribution by businesses to

sustainable economy. This is EU's political drive to promote CSR (EU COM 2001C:2).

In 2001, the EU published the *Green paper* as its CSR framework. Five years later, Malaysia developed its own version (called the *Silver Book*) which leaned towards the Swedish' CSR concept (called, *White paper*). All these frameworks belong to a catalogue of international standardizations initiative. Since 2004, CSR became a subject of an international standardization process (ISO 2004) by the ISO. The United Nations Global Compact's strategic policy initiative is committed to aligning business operations and strategies with the ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. There are other international standards which belong to the international labor right and the millennium development goals (MFGs).

2.2.3 CSR in Asia

The CSR Asia reported that many businesses in Asia practices CSR (CSR Asia, 2010). However, it is differently practiced in Asia vis-à-vis with their Western counterparts. This is due to differing challenges and priorities of the Asian stakeholders. Since 2000s, CSR dialogues and conversations in Asia have been increasing. It is practiced in China, Malaysia, Australia, Vietnam, Singapore, Japan and South Korea with different CSR drivers including: government and stock exchanges which are putting in place requirements for voluntary initiatives and standards for CSR. Leadership is another driver as well. Interest of the government, NGOs, Stock exchanges, environmental initiatives, tax exemptions for companies engaging CSR programs, are some examples. Nevertheless, we still cannot say that this is a positive development.

There are still confusion between CSR and philanthropy. In many countries the understanding of CSR is still poor and accusations of it being a social tax for businesses still prevails. While there is a general understanding that CSR should be recognized in Asia, many companies prefer their own versions. Current international standards must be adapted to local conditions. Malaysia is one Asian country that has taken CSR seriously. Sustainable Development is part of Malaysia's Vision 2020 and Malaysia New Economy Plan Model (NEP)^{1,2} It has developed a Framework Agenda that was composed by Bursa Malaysia for public listed companies (PLCs) in 2006. Bursa Malaysia is an exchange holding company under Section 15 of the Capital Markets and Services Act of 2007. The Agenda is set of guidelines for PLCs who want to use CSR initiatives in their businesses. The internal and external dimension of CSR in the Bursa Malaysia Agenda consists of four areas: Environment, Community, Workplace and Marketplace. Not all criteria apply to all companies. Companies chose their CSR initiative based on their business nature and stakeholder needs. To implement a comprehensive CSR Strategy, a company should have a CSR department. The CSR Strategy will integrate the four areas in their approach. Despite this, the Bursa realizes that CSR is a fluid concept. Application starts with the changing values, then it is supported by a process that grows on a day to day basis. The Bursa Malaysia Framework combined with Malaysia Silver Book, which is the guideline on CSR was developed according to the European Green Book.

¹ Vision 2020 applies to reflect the vision of a fully developed and industrialized Malaysia by the year 2020, in all dimensions: economically, politically, spiritually, psychologically and culturally. It is essentially a long-term vision containing broad policy directions encompassing various aspects. The New Economic Policy (NEP) is basically a long-term plan which will be implemented in conjunction with the 10th Malaysian Plan as a guideline for Vision 2020.

² <http://mgv.mim.edu.my/MMR/9209/920903.Htm>

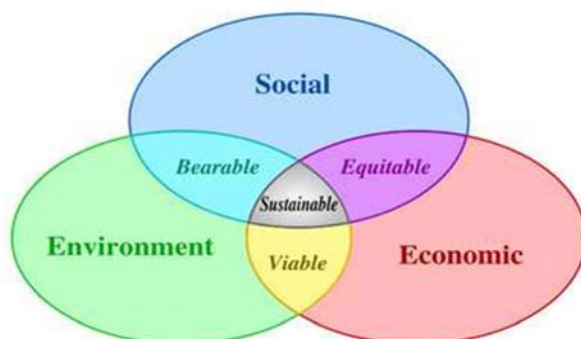
2.3 CSR Dimension

2.3.1 The triple bottom line

The European Green Book, the three-pillar model defined as a "concept, which assumes that the overall performance of a company should be judged by the extent to which it contributes to economic prosperity, environmental quality and social capital."(EU COM, 2001).

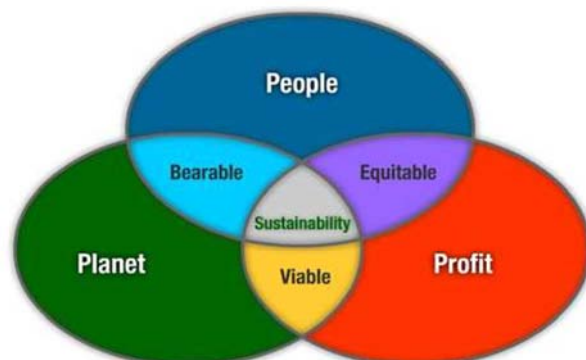
Even, when the overall objectives of sustainable development are taken into account these three dimensions of economic, environmental and social issues. The economic dimension aims for long-term returns from the available resources, generally, the environmental dimension to the careful use of these resources and the natural and the social dimension to the distributive justice, an inter-generational justice (Herchen, 2007).

Figure1: Scheme of sustainable development, at the confluence of three preoccupations.



Developpement_durable.jpg.

Figure2: The Triple Bottom Line of CSR



sustainability.umd.edu

2.3.2 Internal vs. eternal Dimension

CSR can be also categorized in its internal and external dimensions: Inside a company, socially responsible practices include employees and other initiatives such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate with the management of natural resources as factors of production. Integrating CSR opens a transformative change process and reconciles social development with improved competitiveness.

CSR spreads beyond the doors of the company into the local community and widens the concept of stakeholding in addition to employees and shareholders (e.g., business partners, suppliers, customers, public authorities, NGOs representing local communities and the environment). Rapid globalization has placed the CSR into the global agenda on governance.

2.3.3 The benefit of CSR

The benefit out of CSR for a Company starts with greater competitiveness. Being socially responsible goes beyond fulfilling legal expectations and compliance. It means investing 'more' in human capital, the environment and the relations with stakeholders. Current experiences with investment in environmentally responsible technologies and business practice suggest that going beyond legal compliance can enhance companies' competitiveness. Going beyond basic legal obligations in training, working conditions, management-employee relations, among others can also have direct impacts on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness.

Both MNEs and SMEs can use CSR. CSR is not a substitute for regulation or legislations on social rights or environmental standards. In countries where such regulations do not exist, efforts should focus on putting the proper regulatory or legislative framework in place. This will level the playing field based on socially responsible practices. Even if CSR is mainly promoted by larger or MNCs, it is relevant for all sizes (SMEs to multinational enterprises (MNEs) of companies in various sectors of economic activities. Considering the SMEs' significant roles in employment generation, poverty alleviation, and equal income distribution, they offer the greatest potentials for CSR applications. While a few SMEs have already taken up socially responsible initiatives via greater community involvement, further awareness-raising and support to disseminate good practices would help. SMEs can use worker cooperatives, worker participation schemes, cooperatives, mutual and associative enterprises, integration of stakeholders' interests among many others.

Better Performance. Companies with good social and environmental records show that CSR activities can result in better performance and can generate more profits and growth. For some, CSR is a new activity and longer term evaluation remains to be done. The economic impact of CSR can either be: direct and indirect. Positive direct results may, for example, derive from a better working environment, which leads to a more committed and productive workforce or from efficient use of natural resources. Indirect effects can result from the growing attention of consumers and investors, which can expand market opportunities. Inversely, there can sometimes be a negative impact on a company's reputation due to an image of improper business practices which eventually affect company's brand and reputation.