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**Corporate Social Investment and the State of
Environmental Restitution in the Western Cape, South
Africa**

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A minor dissertation submitted in
partial fulfilment of the requirements
for the award of the degree of Master
of International Relations

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COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Abstract

This dissertation seeks to investigate why firms in the Western Cape province of South Africa do not pay sufficient attention to environmental concerns, when conducting corporate social investment (CSI) programmes.

As a result of this investigation, the research will also give attention to the relationships between firms, their CSI, the sustainable development agenda.

Corporate social investment has become ubiquitous around the world, as well as in South Africa. There are different names for the actual act of dedicating certain funds from company profits towards projects that fall outside the scope of general company operations, and this has spawned some confusion as to terminology and definitions. However, in general, in South Africa, corporate social investment refers specifically to the aforementioned projects, that are aimed at uplifting communities. There are a number of different routes that companies can take with CSI. The best loved is funds aimed at improving education by building schools, buying text books, sponsoring school children and the like. Most projects and programmes are aimed at some vision of socially uplifting communities, and this has been driven by the negative impact of the extractive industries on black South Africans' during apartheid.

The result has been an attempt by companies in South Africa, and particularly the extractive industries, to provide some form of restitution to the poorest communities. This has resulted in companies attempting to deliver development to the most vulnerable people in South Africa, thus supporting the government's previous sole ownership of the deliverance of development.

Companies and government have since the early 1990s attempted to deliver their development in a sustainable manner, under the banner of sustainable development, which theorises that unless development takes equal consideration of economics, society and the environment, those aspects that do not acquire enough consideration will ultimately impair real and lasting development. Thus the corporate social investment agenda has a role to play in the attempt to create sustainable development in South Africa. However, very little investment goes towards environmentally aimed projects, not even from the companies that degrade and pollute the most.

The research area, the Western Cape Province in South Africa, has two of the world's 34 biodiversity hotspots and due to overdevelopment, pollution and land degradation they are under threat. Some companies are beginning to understand that while their corporate social investment is welcome when it comes in the form of school books and infrastructure, it could ultimately lead to unequal development, and the lack of environmental care could damage the development agenda. However these companies are a lonely few in a sea of those who do not regard environmental CSI as important. This provides the limitations to the research. Only the Western Cape and fynbos will be covered.

Methodologically, the research will keep mainly to secondary sources. However, due to the nature of the research it is not necessary to include a theoretical framework as this would add nothing to the relevance of the conclusions. The research is about a

totally new phenomenon in the Western Cape where a small number of companies are choosing to include long term environmental concerns into their CSI projects, while the large majority of companies choose to ignore this.

The conclusions of the research are that for the most part, environmentally damaging companies believe that their profit margins will be negatively affected should they divert further funds to environmental protection, and therefore they lack balance between their environmental degradation and environmental protection.

However, the research also highlights companies that do take their CSI further and do maintain a kind of balance between their degradation and their protection, without negatively affecting their profit margins. In fact it is possible to increase the profit margin by staying ahead of environmental regulations and affecting consumer opinion for the benefit of the company.

University of Cape Town

Contents

| | |
|--|-----------|
| Chapter One | 1 |
| 1.1. Introduction | 1 |
| Chapter Two: Corporate social investment | 7 |
| 2.1. Overview of CSI..... | 7 |
| 2.2. CSI and Development..... | 17 |
| 2.3. CSI, responsibility and profits..... | 22 |
| 2.4. Failures of CSI | 26 |
| Chapter Three: CSI in South Africa | 31 |
| 3.1. Overview of CSI in South Africa..... | 31 |
| 3.2. Past and present CSI in South Africa..... | 37 |
| 3.3. The effectiveness of CSI in South Africa..... | 45 |
| Chapter Four: Sustainable Development | 48 |
| 4.1. Sustainable Development..... | 48 |
| 4.2. CSI and sustainable development..... | 52 |
| Chapter Five: Issues of Biodiversity in the Western Cape | 56 |
| 5.1. The Western Cape | 56 |
| Chapter Six: The Case Studies | 64 |
| 6.1. Breakdown of the selected companies' environmental degradation and CSI projects..... | 64 |
| Chapter Seven: Conclusion | 77 |
| 7.1. CSI as a whole..... | 77 |
| 7.2. CSI in South Africa | 78 |
| 7.3. The case studies..... | 81 |
| Appendix | 85 |
| Bibliography | 87 |

Abbreviations

| | |
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| UNEP | United Nations Environment Programme |
| CSI | Corporate Social Investment |
| CSR | Corporate Social Responsibility |
| UN | United Nations |
| US | United States |
| MNC | Multinational Corporation |
| CSO | Civil Society Organisation |
| BEE | Black Economic Empowerment |
| WBCSD | World Business Council on Sustainable Development |
| SRI | Social Responsibility Index |
| NEMA | National Environmental Management Act |
| IDC | Independent Development Corporation |
| GRI | Global Reporting Initiative |
| SHE | Safety, Health and the Environment |
| EIA | Environmental Impact Assessment |
| PBMR | Pebble Bed Modular Reactor |
| ISEP | Integrated Strategic Electricity Planning |
| NGO | Non-governmental organisation |
| OCGT | Open Cycle Gas Turbine |
| SMME | Small, micro and medium enterprises |

Chapter One

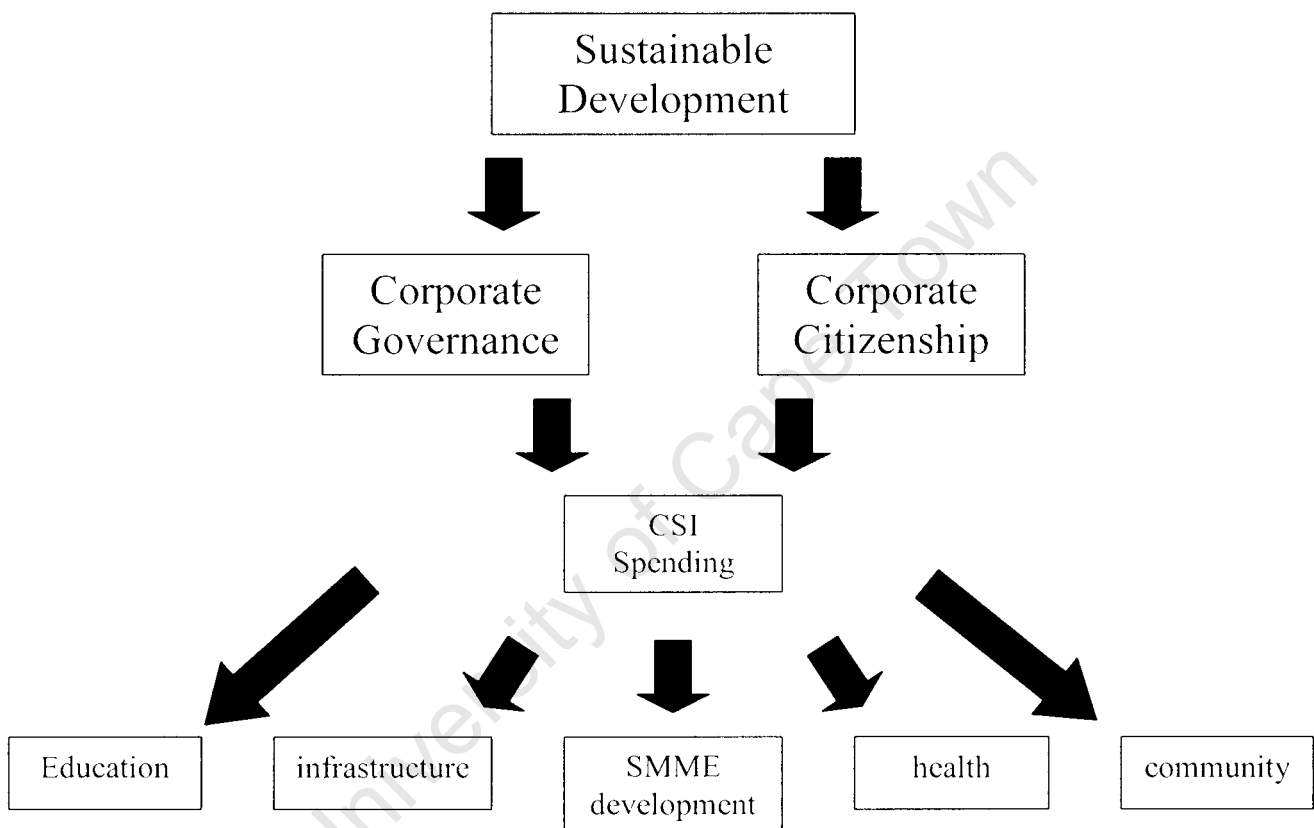
1.1. Introduction

Corporate social investment (CSI) intends to cover all aspects of social and infrastructural development from environmental protection to profit maximisation and the long term sustenance of the company. This last point will be achieved by creating a new image of social responsibility for the company through marketing the company's "good deeds", and creating strategies to attract those consumers who consider social investments when purchasing.

CSI's wide scope of definition has been created by the immensely varied concepts involved in 'who' and 'what' bring about development; from the international development organisations such as the United Nations and the Bretton Woods organisations, the state, the NGO, and now finally to the corporation, all have a role to play. The former two organisations are important in providing a an international framework for CSI while NGOs and the corporations drive the projects personally. How much of a role each should occupy and how dependent a state should be on development outside its own efforts are all in question. All the players outside the state were originally conceived as creating a safety net for possible government failures, but today they have become substitutes, and not always to the benefit of those who desperately require some development.

CSI fits into a pyramid of concepts, starting at the very top with sustainable development, which is the conception of the ultimate manner in which to develop a country where all aspects of the environmental, social and economic development are equally taken into account. Next in the pyramid is the concept of social responsibility. Social responsibility encompasses the idea that an aspect of sustainable development is that companies now have a responsibility to assist in development as well as taking the communities into account when considering their business actions: They must be socially responsible.

All CSI projects are considered under the mantle of sustainable development and implicit in this concept of development is that unless environmental behaviour is changed, humans will soon find shortages that cannot be amended, and this will negatively affect social and economic development. One of the central theses of this dissertation is that CSI cannot and should not be viewed without thought to environmental concerns, because sustainable development cannot be considered without thought to the environment.



In the 1970s the international community, driven for the most part by the United Nations (UN), began to suggest that some environmental regulations should be put in place. The initial round of regulation for this change fell to the top tier of political organisation, that is, international environmental agencies such as the United Nations Environment Programme (UNEP). This was due in large part to the lack of national desire for change. The second tier, the states, began to pass legislation in this regard later in the 1970s, which has increasingly forced companies to keep to certain levels of environmental damage. The third tier has become occupied by the companies themselves, and to date generally relates to “beyond compliance” behaviour, that is

behaviour that places a companies in-house regulations beyond that of the state they operate in and those that the international community suggest. This applies to lowering emissions beyond regulations or committing to social projects beyond the regulated or suggested levels and so on.

Thus the sustainable development agenda was born in which countries and companies were encouraged to remember that economic development should not occur at the expense of the environment.

There is multitude of ways in which to pursue development in any given area. When companies are involved in development this generally comes in the form of CSI. Thus, when considering what CSI projects to pursue, companies must ask themselves whether the intended projects will ultimately contribute to the sustainable development of the community, the area and the country. This is especially important in industries with high levels of pollution or environmental degradation, because if their CSI projects are aimed solely at education, or infrastructural development, without turning their efforts to beyond compliance environmental behaviour, they run the risk of further disempowering and degrading the communities that live within the damaged environments. Easy-to-spot culprits of environmental degradation are the extractive industries.

The mining industry is an example which has spawned a bevy of down-stream industries, that is, industries whose business depends on the products mined, such as beneficiation. These industries include metals processing companies such as smelters who contribute huge amounts of pollution to the ground, water table and air. These companies cannot be excluded from the study of an area's pollution and land degradation. Another culprit is electricity generation which uses enormous amounts of poor quality coal to power electricity generation. These are all serious environmental and developmental issues in South Africa.

Poor quality coal emits far higher amounts of carbon dioxide into the atmosphere than high quality coal. South Africa uses far too much energy, and produces too little. In order to combat energy shortages, more power stations are being built. However, instead of spending far greater amounts of money on technologies that are less

invasive to the environment, more coal-fired power stations are on the cards. South Africa uses home-mined coal because it is cheaper than importing, and the coal found in the country is of a particularly poor quality.

Even in the short term, this policy of providing the cheapest-possible electricity to the country will lead to long term environmental degradation and large amounts of carbon dioxide pollution in the atmosphere. This is a global issue, which will affect all countries in the world. South Africa is a signatory of the Kyoto Protocol, and will be required to affect stringent emissions regulations by 2012. However, until then, emissions are largely regulated by the industry (in an attempt to smooth the transition) and the regulations are far too low. As will be shown, carbon dioxide emissions will contribute to large scale extinctions if not countered in the medium term.

The mining industry in South Africa is enormous. Mining and beneficiation account for about half the country's annual exports. In addition, while CSI is a relatively new concept in South Africa compared to the United States and Europe, most of the large companies that operate in South Africa have extensive CSI budgets. However, as will be shown in this dissertation, an incredibly small percentage of those budgets are spent on beyond compliance behaviour in regards to the environment. In fact a relatively small amount of funds are spent on the environment from within or without the CSI budget. This is unacceptable in the long term especially in high polluters because it will negate the sustainable development element that CSI is so thoroughly a part of. However there are areas in which these companies can change their behaviour and their CSI focus to mediate at least some of their pollution and degradation. In addition, there are companies within the Western Cape that are demonstrating the possibilities of effective, environmentally-aimed CSI. The Cape Town branch of Caltex is one of them.

Ultimately all areas require environmental management in South Africa. South Africa has a diverse range of bio-systems, comprising of semi-arid deserts, riverine forests, highveld savannah, dry scrubland, the mountainous areas and the fine Cape Floral Kingdom which contains the world's only known fynbos in the Western Cape. The fynbos kingdom is rapidly becoming extinct, with some kinds of fynbos surviving in only ten percent of their previous range. This also applies to the animals that survive

on the fynbos. The Western Cape is experiencing enormous growth, and the subsequent urbanisation of the province has left the fynbos kingdom in tiny pockets in the outlying areas, which are now becoming fair game for developers. Because this kingdom is so small and delicate, pollution to the ground and air as well as general land degradation pose a danger to the continued existence of fynbos and the animals that live in the floral kingdom.

In addition to purely protecting the land for the sake of nature conservation, studies have proven that pollution of the land, air and water also poses a danger to the people that live in the area. Pollution has also been found to perpetuate the cycle of poverty by destroying the natural environment that people could at least partially live off, by forcing low income households into polluted, cheap areas, and by damaging the water supplies of poor people. South Africa has been called one of the most “environmentally degraded” countries in the world due to the legacy of unregulated industrial policies during apartheid.¹

In the rural areas this manifests as a lowered ability for poverty stricken people to live off the land due to degradation, and in the urban areas this is evidenced by a lack of sanitation, access to clean water and refuse removal, which leads to diseases such as cholera, diarrhoea and tuberculosis and generally a poor standard of living.² While the former is the result of poor industrial policies, the latter is the result of the government’s inability to provide adequate resources for poor people, due largely to the difficulties of creating economic growth in poverty stricken communities. This is an important reason for companies to address environmental issues in their CSI budgets. By contributing to the upkeep of a healthy environment, much can be done towards controlling these drivers of poverty and underdevelopment.

However, environmental spending in CSI is extremely low. There appears to be a worldwide “hear no evil, see no evil, speak no evil” approach to the environmental issue, which this dissertation will address. Governments and companies in particular appear to be holding back real decisions about how far the international, national,

¹D A McDonald, “Neither Above Nor from Below: Municipal Bureaucrats and Environmental Policy in Cape Town, South Africa” *Canadian Journal of African Studies*, Vol. 31, No.2, 1997, p316

² *Ibid.*, p317

local and individual spheres should go in environmental protection. Greater numbers of respected scientists have begun to warn that some serious looming environmental will have to be addressed using concerted efforts in order to ameliorate the damage. This will undoubtedly amount to lowered profits, higher taxes and the loss of consumers and voters. In developing countries this can lead to greater poverty. However, at the same time, developing states cannot be less competitive in industry than the developed states and enforcing heavy environmental regulations will make them even more so. A balance must be struck.

Environmental degradation is an enormous subject. For this reason, this dissertation will concentrate solely on land degradation in the Western Cape area, arising from activities that degrade the land, such as mining, and pollution from the air and the water, that contributes to a loss of biodiversity, and a lowering of living standards for the people living in the area. For the purposes of this dissertation, the question posed is whether or not companies negate their environmentally aimed CSI strategies by continuing to follow environmental policies that are insufficient to deal with the damage they carry out. In other words, this dissertation questions whether CSI funds aimed at environmental protection are doing enough in industries whose environmental footprints are large and destructive. In addition, this dissertation will consider the reasons for which companies that are responsible for high amounts of pollution and degradation do not contribute more to the environment through CSI. At the heart of the issue is whether in theory, and in practice, CSI is compatible with both social and environmental responsibility.

Chapter Two: Corporate social investment

2.1. Overview of CSI in South Africa

2.1.1. Defining and measuring CSI

CSI in South Africa became a formally instituted part of company behaviour, thanks to the 1994 King Report. It was based on the understanding that the company's role had grown and changed, and its behaviour to surrounding communities and the environment had to change too. Corporate social investment is referred to as corporate social responsibility (CSR) outside South Africa. The terms can be used interchangeably but as the concepts are bundled under the term 'corporate social investment' in South Africa, and this dissertation is primarily based on South African experiences, this dissertation will use 'CSI' in order to maintain clarity.

However, it must be said, there are differing views on whether the two terms can be interchanged at will. However in order to pursue those arguments it is necessary to outline what the concept of social responsibility encompasses. Different countries, organisations and industries define social responsibility differently. As a result the International Institute for Sustainable Development (IISD) defines social responsibility as an organisation's contribution to the three pillars of sustainable development. These are the economic, social and environmental pillars, which should also include once off altruism and long term efforts that address stakeholder needs, legal requirements and ethical and moral concerns.³

Explicit in the definition of social responsibility is the mandate that organisations and companies have a responsibility to the communities and societies in which they operate, to assist in protecting the physical, emotional and environmental needs of those societies. What the IISD has attempted, is to impart a level of standardisation to the concept and its practical use that provides a framework within which the various levels of responsibility are addressed. Those standards can be used within industries to judge how socially responsible companies are. Companies pursue social

³ International Institute of Sustainable Development "ISO Social Responsibility Standardization: An Outline of the Issues" www.iisd.org/pdf/2004/standards_iso_srs.pdf, 2004, p2

responsibility through programmes known in The United States (US) and some parts of Europe as corporate social responsibility and in South Africa as corporate social investment. CSR and CSI therefore, refer to companies' involvement in the pursuit of the three pillars of sustainable development.

The traditional view is that in South Africa, the term CSI came to be used as a result of the unwillingness of companies to blatantly state that they had a responsibility to redress the inequalities of the past, created at least in part by companies looking to their bottom lines before they would consider criticizing the apartheid government. If it was unprofitable, many companies remained silent. Although the political nature of South Africa has changed, many companies are still trying to avoid the correlation between their past behaviour and their current sponsorship of the democratic government. Thus the word 'responsibility' was changed to 'investment'. This is further discussed in Chapter Three, but in essence, the academic view is that generally companies prefer to use the term 'investment' in order to throw a more positive and non-judgmental light on their actions to uplift society and the environment. In this view, the projects and programmes undertaken by companies are the same, whether they are called CSI or CSR. The difference is that the background sentiment intends to avoid a reminder of past responsibilities.

The non-traditional view is that CSR is the umbrella term for many company actions in South Africa and that the term is interchangeable with corporate citizenship. Being a good corporate citizen implies that firms behave in ways that are ethical and moral. The basis for this behaviour is that companies have begun to be considered (and to consider themselves) as citizens in their own right. Thus, they are required and expected to behave in a way that does not negatively impact the community and the world they operate in, as human citizens are. Programmes such as Black Economic Empowerment (BEE), performing beyond voluntary and legislated environmental regulations, good corporate governance and CSI are all subdivisions under the mantle of CSR in the non-traditional view.⁴

⁴ V Rockey (ed) The CSI Handbook (8th edition), Trialogue, Cape Town, 2005. p6

The concept of sustainable development connects CSR and CSI as the overarching design and structure within which companies understand their role in society. By behaving responsibly, they can mediate the negative effects their businesses might have on economics, society and the environment. This has come to be known as the “triple bottom line” which states that equal weighting of the firm’s costs and profits in economic, social and environmental terms should be considered. CSR advocates that if a company is to consider itself as a follower of sustainable development principles, it must equally weight the three pillars when considering and managing business operations.

However, there are practical difficulties with the non-traditional view that cannot be ignored. For one, it creates different domains for CSI and CSR, when in fact the former is actually a reinvention and improvement on the latter. As mentioned previously, CSR was the term used for social investment in the past – and at present is still used for that purpose in the US – and this changed partly as a result of the unwillingness to use the word ‘responsibility’, and partly because the parameters and scope had changed.

In addition, CSI is defined by the non-traditionalists as corporate funds money used purely for projects aimed at uplifting communities.⁵ This leaves no room for voluntary “beyond compliance” behaviour in environmental protection and restitution, such as the sponsorship of national parks, protected areas and species, or reducing wastes, emissions and pollution to levels lower than those stated by the regulations. Furthermore, the countries that use ‘CSR’ instead of ‘CSI’, define the former as South Africans define the latter. That is, company projects and programmes aimed at development, but driven by the corporate world. Thus they are in fact the same thing, but as this dissertation is based on South African experiences, “CSI” remains.

Since the 1994 King Code, social responsibility has also come to mean the same thing as corporate citizenship. There is a definite trend towards picking up flagging

⁵ *Ibid*, p6

campaigns by changing names. Corporate citizenship appears to be just such an attempt to reinvigorate the corporate responsibility agenda.

In addition, difficulties lie in the fact that definitions are modified, extended and sometimes improved to fit whatever situation is at hand. Thus, the idea of a firm's "responsibility" has come to be linked with the concept of a firm's "investment" because it is the firm's responsibility to invest in local communities for the benefits that accrue to both the company and the community. Furthermore, investment has come to mean involvement, because at the end of the day the business case for CSI envisages companies being more involved in their communities and the environment, and investing in them for the long term sustainability of the company.

It is the level of involvement in communities that make companies responsible or irresponsible, or to use the more current term, good or bad corporate citizens. The more involved the company is in working towards the long term benefit of the company, the better a corporate citizen it is. It does not follow that if a company is missing one that they are not a good corporate citizen. In addition, when distinguishing between good and bad corporate citizens, civil society organisations (CSOs), environmental organisations and the industries themselves will reward different companies according to their own rankings of the characteristics just listed.

Shell regularly come out on top of the "good corporate citizen" lists, and this produces wails of dismay from both the CSOs and the environmental groups, as Shell might have massively funded CSI projects aimed at uplifting communities, but their ordinary business operations cause far more harm than the good their CSI projects create. Even within a biased industry, the general defining line of a good corporate citizen should lie at the point where companies business actions do not create more harm to the communities and the environment than they are able to repair using CSI funds. Of course ranking harm would be a normative judgement, also differing from group to group. At the end of the day the terms and constraints within the concepts that have been discussed are extremely nebulous, and should not be treated as final statements.

Corporate governance is another concept that can be rather nebulous, and given enough time, the definitions here more than likely also change and evolve. Incorporating the concept of good or bad corporate governance into the sustainable development pyramid is an added difficulty that must be ironed out before a true understanding of this pyramid is available. The concept of good corporate governance envisages a three-way link where democracy, the business world and the stakeholders in society support and maintain each other.⁶ Thus, corporate governance fits beneath the overarching design of the pyramid, that is, sustainable development, and next to corporate citizenship.

The 2002 King Report outlines the eight primary characteristics of good corporate governance. They are: the discipline to adhere to internationally recognised standards of good corporate behaviour; transparency in company actions; behaving responsibly in economic fundamentals and all non-financial aspects that are relevant to the business; independence from undue influence such as dominance by a chief executive or primary shareholder; accountability for the actions taken in the course of business; responsibility for actions taken in the course of business and creating mechanisms to deal with mismanagement; fairness to all those with an interest in the company such as small shareholders and social responsibility to all the stakeholders by ensuring that all operations are undertaken ethically.⁷

Stakeholders have been defined by the King Report as being all those with a stake in the company. Shareowners, parties with a contract to the firm, parties who are related to the firm without contracts and the state can all be defined as stakeholders.⁸ This list thus includes not only the shareholders and employees, but the surrounding communities, NGOs that speak for them and the environment, customers and suppliers, and the government. Good corporate governance is a factor that contributes to good corporate citizenship, but a firm can have a great record of corporate governance without being a great corporate citizen.

⁶ A Kakabadse, N Korac-Kakabadse, "Corporate Governance in South Africa: Evaluation of the King II Report (Draft)" *Journal of Change Management*, Vol. 2, No. 4, 2002, p312

⁷ King Committee on Corporate Governance "Executive Summary of the King Report 2002" www.corporatecompliance.org/.../SouthAfrica/KingCommitteeCorporateGovernanceExecutiveSummary2002.pdf, p10-11

⁸ *Ibid.*, p7

To clarify, a company such as Shell can be considered to have a good record of corporate governance, while a company such as Enron cannot. This is because Shell practices a high level of corporate governance, by understanding and acceding to codes of behaviour such as board management, paying taxes and fighting corruption within the company. Enron on the other hand was found guilty of insider trading, was punished for it, and denounced as having bad corporate governance. It is easier to police corporate governance, especially in more developed countries, due to the legislated codes, higher levels of transparency and the ease of communications that globalisation has brought about.

However, Shell, as mentioned before, cannot be considered to be a good corporate citizen based on their actions within the communities in which they operate. These actions include forcibly moving people off land that they intend to mine, pollution of that land, placing the company operations above those of communities and generally behaving in a manner that is morally unethical to weaker members of society. Corporate citizenship has a normative moral and ethical basis, which is not legislated, where companies should be responsible for their actions. This includes but is not restricted to their CSI. Corporate governance has a legal basis within which companies are expected to be accountable for their actions. By this it becomes clear that while a company can situate themselves within the sustainable development agenda, they do not have to practice good corporate citizenship in order to practice good governance, however it is implicit in the moral and ethical codes that bind good corporate citizens that they also practice good corporate governance.

Thus, the way a company behaves is predicated by their commitment to legislated, regulated and expected norms, values and codes. They are legally bound to their code of corporate governance and many other environmental laws. In addition South Africa has draft legislation that will force companies to dedicate a portion of their pre-tax profits to CSI activities. Companies are regulated in much of their environmental behaviour by international standards and codes. They are expected to devote time and money to CSI in order to invest in the environment and the communities that are important to their business operations, firstly, because it has come to make good business sense, and secondly because as a good corporate citizen they are expected to go 'beyond compliance' and exhibit their acceptance of their responsibilities. CSI fits

below corporate governance and corporate citizenship in the pyramid and can be divided into environmental CSI; education CSI; social CSI; infrastructural CSI; small, micro and medium enterprises CSI and so on. If there is underdevelopment, there is very probably a company somewhere that dedicates CSI funds to the issue.

CSI can also be defined according to the level of analysis used. From the company's position CSI can be defined as the responsibility and consideration of social and environmental issues outside of the firm.⁹ From the managerial standpoint CSI is "...the managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organisations."¹⁰ The key concepts here are responsibility and the unsaid but implicit good health of the company. Another, broader definition of CSI is the "...consistent pattern... of private firms doing more than they are required to do under applicable laws and regulations governing the environment, worker safety and investments in the communities in which they operate."¹¹ The key concept in this definition is the "beyond compliance" aspect. Beyond compliance involves doing more than is required by governments and environmental agencies in reducing emissions, educating their employees and reducing the risks to their employees and those that live around the business operations.¹² Therefore, in order to be considered a practitioner of CSI, a company must go beyond the laws and regulations that the state sets or abides by.

From the standpoint of development organisations CSI is "...the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development."¹³ Here the focus is on the developmental aspects of CSI, especially referring to the families and local communities of employees. The benefits for business are casually mentioned in three words. Importantly, this definition brings in the concept of

⁹ J McGee "Commentary on 'Corporate Strategies and Environmental Regulations: An Organising Framework' by A. M. Rugman and A. Verbeke" *Strategic Management Journal*, Vol. 19, 1998, p378

¹⁰ *Ibid.*, p377

¹¹ P R Portney "Corporate Social Responsibility: An Economic and Public Policy Perspective" B L Hay, N Stavins, R HK Vietor (eds) *Environmental Protection and the Social Responsibility of Firms*, Resources for the Future, Washington DC, 2005, p108

¹² *Ibid.*, p108

¹³ M Blowfield, "Corporate Social Responsibility" Reinventing the Meaning of Development?" *International Affairs*, Vol. 81, No. 3, 2005, p515

sustainable economic development, which is not the same thing as sustainable development, as it means sustaining economic development, which often occurs at the expense of the environment and society. Unsurprisingly, this is the definition favoured by the World Bank.

CSI is widely spoken of but not well understood. This stems in part by the disparate definitions created to suit any corporate action. In addition to this, it is very difficult to measure CSI other than in monetary terms. Thus, it has become difficult to assess exactly what CSI has achieved. The best practices are different according to the industry that applies them, but the concepts of corporate caring, responsibility to workers and their families, and the desire to contribute to sustainable development are prevalent, which-ever annual company report is read. Analysts find this worrying because it is very difficult to analyse something that does not have a generally accepted definition. The international development community may have the same concerns, but they have attached themselves wholeheartedly to the underlying concepts of responsibility, care and sustainable development.¹⁴

2.1.2. Describing CSI

While the definitions of CSI are diverse and often confusing, this has not prevented businesses from engaging in (what is today known as) CSI for many decades. There is a belief that CSI derives from the separation of ownership and control of corporations - the consequence of the liberalising and globalising post World War II economy. Since then, and especially more recently, large proportions of shareholders were found buying into companies that were more socially responsible than others. Those who controlled the companies were forced to become more socially responsible so as not to be left out.

Increased social responsibility is said to have lead to increased productivity and increased profits.¹⁵ In the 1960s environmental protectionism was only beginning to gather momentum, which is reflected in CSI projects that focussed mainly on direct issues of poverty such as housing and education. However as governments (mainly

¹⁴ *Ibid*, p519

¹⁵ G D Keim. "Managerial Behaviour and the Social Responsibility Debate: Goals Versus Constraints" *Academy of Management Journal*, Vol. 21, No. 1, 1978, p58

those of the first world) and regulatory bodies began to penalise heavy polluters, avoiding such fines by cutting pollution levels lower than the regulations required, became another way of maximising profits and contributing to CSI.¹⁶

This is the self-regulating aspect of CSI. Companies use CSI in terms of worker rights and environmental protection regulate themselves before governments do. It is a way of pre-empting regulations – that might become far more stringent – and is pushed by CSOs and NGOs. There are positive effects such as the regulation of many previously unregulated spheres, and there are negative effects, for instance the lapse of government interest in areas that are not regulated. Either way, at the end of the day, there is still some thought given to the social, environmental and economic effects of the company's actions otherwise known as the triple bottom line: the equal weighting of profit, social and environmental factors in company accounts.¹⁷

Thus it must be said that CSI is not philanthropy. It is a calculated attempt to increase profits by improving employee conditions, to keep existing consumers and to reach new markets by behaving in a manner that the employees and consumers (new and old) respond favourably to. In 2004 a PricewaterhouseCoopers/*Economist* survey into risk management found that the risks posed to company reputations were regarded as the greatest threat to the company's market value.¹⁸ However, even though this survey is comparatively recent in the history of CSI, the risks to companies' reputations and market value have been understood for much longer. In addition, self regulation has left the companies largely in control of an extremely important arena. This has meant that businesses can largely control the areas in which they are willing to negotiate, and shut down the areas in which they are not willing to negotiate.¹⁹ Michael Blowfield has designated this power relationship as "...allowing the interests of company managers and investors to redefine what justice can and cannot mean."²⁰

¹⁶ *Ibid.*, p 61

¹⁷ A Mah, "Uneasy Partnership and Contradictions: Corporate Social and Environmental Responsibility" http://www.icun.org/themes/ceesp/Wkg_grp/Seaprise/Ref%208%20AliceMah.pdf, p1

¹⁸ PWC/*Economist* Survey
http://www.economist.com/printedition/displayStory.cfm?Story_ID=2347805 2004

¹⁹ M Blowfield. *Op Cit.* p521

²⁰ *Ibid.*, p521

destruction of ecosystems and the atmosphere. If there is internal control for these negative externalities, then the system is sound. CSI is meant to be that method of control.

2.2. CSI and Development

2.2.1. CSI as a driver of development

CSI is the intention to deliver development using the market. More than that, CSI is the business answer to underdevelopment, while at the same time an attempt to reinvent the now fairly sullied image of capitalism as a driver of development. Social problems are now being attacked using voluntary corporate funds.²⁴ The concept of the “triple bottom line” is used to define how companies can best ascertain and manage their impact on society, business and the environment. The triple bottom line evaluates economic, social and environmental sustainability.

Economic sustainability evaluates whether a company is able to continue business operations in the long term. While economic sustainability has often been confused as merely a measure of financial performance, it critically analyses the long term viability of companies.²⁵ Social sustainability refers to the fact that companies are often of high import in local communities, and are more readily available to the people than governments. In addition, companies now have responsibilities to governments, shareholders, stakeholders and staff while they go about their business operations within the structure of the society. This means that businesses must contribute to the social sustainability of the communities and environments in which they operate.²⁶

Environmental sustainability means that companies have to evaluate their positions within the environment, their impacts and roles in assisting in the protection or

²⁴ H Brice and T Wegner “A Quantitative Approach to Corporate Social Responsibility Programme Formulation” *Managerial and Decision Economics*, Vol. 10, 1989, p163

²⁵ African Peer Review Mechanism Joint Ad Hoc Committee “Report of the Joint Ad Hoc Committee on Economic Governance and Management: A Response to the African Peer Review Mechanism Questionnaire” (APRM-JAHC Corporate Governance- Final Report Annex.) www.iss.co.za/AfRegOrg/nepad/aprm/saparlrep/part3.pdf, p37

²⁶ Loc Cit.

rehabilitation of the environment, as well as the reporting and auditing of the companies' performance, production and supply chains.²⁷

Western companies operating in developing countries were for a long time viewed with a certain amount of suspicion and distrust.²⁸ While they provided jobs and sometimes even improved small areas of the economy, they tended to be viewed as problematic in that they often took advantage of poor labour policies and very quickly monopolised industries with their access to foreign funds. At the same time developing countries also viewed local business with a certain amount of suspicion as local successful entrepreneurs tended to be vocal in their demands of government, and some even vied for office. Successful businessmen tend to become very powerful, regardless of their access to public office. Business was understood as having the ability to generate positive results for the economy but was not considered to have any real role in development.²⁹

This changed in the 1980s, with the reinvention of economic liberalism into neoliberalism. The development organisations decided, rightly or wrongly, that development could not be driven by a closed economy but by foreign direct investment instead. By increasing exports, local corporations would be able to compete on an international trade and investment field that was in theory, fair to all players as the West was, (again, in theory) opening its markets. It is true that tariffs have dropped remarkably since the early 1980s, however other measures have been introduced to protect the developed world's products. At the same time, many tariffs have not been dropped and the developing world still faces an uphill battle to make their exports competitive.

This very short diversion into the history of the international economic system serves to show that corporations increased in power, dramatically, in the early 1980s. Companies were also named as the drivers of development due to the realisation that foreign aid had achieved very little in this regard. Companies also maintained their fast march across all areas of the globe, developed or not, in search of new and newly

²⁷ Loc Cit

²⁸ M Blowfield, Op Cit, p516

²⁹ Loc Cit

reachable markets. Unfortunately, and for many reasons, the poorest countries in Africa have not developed due to Coca Cola or McDonalds setting up shop on their home soil. The Asian Tigers have experienced massive growth, and some teething problems, but their improvement is still so far beyond that of Africa, that they are seen as wildly successful. This is due, in no small part, to their exports which fill new niches. Asia has not tried to compete with the West in terms of fruit and vegetables, but has succeeded through manufacturing industries (helped by disastrous labour policies), services, and generally by adding value to the goods that are exported.

International trade and investment are, today, crucial to development. Even though this has led development think-tanks to pursue trade and investment as opposed to foreign aid, in the poorest of countries, foreign aid still dominates and international trade and investment are illusive.³⁰ The business and development communities, in the face of the failure of trade and investment to rescue the poorest countries, have very recently turned their optimistic eyes towards CSI to provide some answers, which may lie in understanding the logic of such programmes.

In the 1970s new ideas suggested that in order to increase productivity and profits, the employees' needs had to be met in new ways. That is, the home situation of employees affected their productivity, and businesses began to assemble funds in order to manage such needs. These ranged from better housing and working conditions to further education. Some of the first examples of companies' reputations suffering due to the lack of provision of these necessities came from Multi-National Corporations (MNCs') operations in the developing world: Newmont Mining's awful working conditions in Namibia; Nestlé's baby formula that caused malnutrition in infants in Africa, and additionally the conditions facing black workers in South Africa during apartheid.³¹ Due to the increasing ease of travel and communications over large distances it became easier to expose unscrupulous corporate behaviour in distant locations. Companies found that they had to review their behaviour in order to maintain their customer base.³² Over time the focus was widened to include the environment that the employees lived in. This new drive to improve the local and

³⁰ *Ibid*, p517

³¹ A Mah, *Op Cit*, p6

³² J G Frynas "The False Developmental Promise of Corporate Social Responsibility: Evidence From Multinational Oil Companies" *International Affairs*, Vol. 81, No. 3, 2005, p583

larger environments was created alongside the new drive for environmental protection that came from international organisations such as the United Nations. CSI is in part, as mentioned, a product of the ease of communications and travel: globalisation.

2.2.2. Globalisation and CSI

CSI encompasses the norms and values of globalisation. The values accredited to knowledge are secularism, rationalism and scientific discovery. One facet of this is easily seen in most CSI projects and reports: the attempt to make everything quantitative, and the lack of qualitative and moralistic analysis of projects. CSI explicitly operates according to capitalist ideals that create commodities out of everything.³³ If this were not the case, CSI might not exist, or at least the amount of money donated would not be as much. This is purely because CSI designates the donation of money that could otherwise have been used for development of the company, as ultimately profitable. Ergo, helping the poor and the marginalised is a commodity that accrues wealth. If this were not so, then the donations would be pure philanthropy, and philanthropy is not as common, nor as highly endowed, as CSI.

Thus, companies have responded to the new challenges presented by globalisation, their own actions, and the internal and external pressures created by those actions as well as the increasingly interdependent world.³⁴ The core pressures can be briefly described as the need for a competitive advantage in an increasingly homogenous and competitive market; maintaining a stable working environment in order to keep employees working to their maximum potential; keeping external perceptions positive; and keeping their employees happy.³⁵ This is the 'business case' for CSI, that is, utilising social imperatives in order to achieve business objectives. However, the new charge towards greater corporate accountability was somewhat decelerated in the Thatcher-Regan era of neoliberal deregulations. Attempts to create a binding code of conduct for MNCs was squashed and never revived. To date, CSI has been largely voluntary and unregulated outside of the various industries.³⁶

2.2.3. When CSI inhibits development

³³ M Blowfield, *Op Cit*, p522

³⁴ J G Frynas, *Op Cit*, p583

³⁵ *Loc Cit*

³⁶ A Mah, *Op Cit*, p6

There has been a call for companies to consider more than just the environmental impact of their business operations. J G Frynas suggests that companies must also consider the economic impact of their operations, that is, whether their operations are impoverishing the local economy by contributing to the decline of sectors in the economy that either compete with those companies or are negatively affected by their operations in the area. Frynas goes as far as suggesting that if companies are required to produce environmental assessments of their operations then they should also be required to complete economic assessments of the impact their operations may have on local business.³⁷ However, the author does admit that current CSI approaches do not go this far.

It would appear that Frynas's argument suggests that the total impact of a company's operations should be assessed. However this makes it difficult to define boundaries. The question arises of where to stop. All successful companies have the negative impact of hoarding business that would otherwise have gone to other less successful companies. In the case of huge MNCs, the less successful companies are usually local, less wealthy companies that charge higher prices for the same product. MNCs thus tend to monopolise business to the detriment of local business. This is seen in the manufacturing industries all over the world that are desperately and unsuccessfully attempting to compete with Asia's large scale and cheap production. The more open economies become (and developing countries are forced, thanks in large part to structural adjustment policies and pressure from rich countries, to open their economies more each year) the more painful this situation becomes for local business.

Frynas appears to be asking that companies assess whether they contribute to this situation and then either regretfully announce their withdrawal from the area, or else contribute to local business development using CSI. However it is not in the nature of capitalist businesses to try and improve the competition and nor should it be. The competition should be competed against, or else quality will drop and prices will rise, negatively affecting the consumer and the cycle will begin again. Many analysts suggest that large MNCs are not investing in developing countries – to the detriment of these developing countries – and that capitalism is an unfair and impoverishing

³⁷ J G Frynas, *Op Cit.* p587

CSI projects can do is to manage some of the negative impacts, especially those that impact on the environment and the basic human rights of the people living within the economic and environmental impact zone of the company. This can be done in the form of building schools, clinics, houses, cleaning up waste and a myriad of other areas.

2.3. CSI, responsibility and profits

2.3.1. Environmental and social responsibility

At the heart of the issue is whether in theory and in practice CSI contributes to social and environmental responsibility. Mah finds that the profit motive of companies makes their CSI efforts ineffective in the long run.³⁸ In the author's opinion, if a company's first priority is for profit then all else will be sacrificed if and when the need arises. However, this leaves out the important relationship CSI can (some might say 'should') have with the rights discourse. That is, the roles companies have in protecting the rights of the poor and the marginalised. In the past been it has easier to concentrate on how to cut down on emissions or to improve the education of the workers and their families but now the concept of the firm's responsibility has been broadened, by some, to include the poorest and the most marginalised in society at large. Michael Blowfield states that CSI has at best only just begun to redefine business practice in terms of this group of people.³⁹ The firm has begun to be considered not just a possible driver of development but an organisation that should actually deliver it; something that the best development agencies in the world have not achieved in many countries.

Part of the issue taken with CSI is that the business case for CSI is not necessarily compatible with the development case.⁴⁰ The business case is to increase profits, which places the business's needs first. The development case is to put the needy first in the development process. Development, sustainable or not should not be run like a business, because the values and norms associated with development are not the same as those associated with the corporate world, especially in countries that do not share

³⁸ A Mah. *Op Cit.* p28

³⁹ M Blowfield. *Op Cit.* p518

⁴⁰ *Ibid.* p521

self-regulation has created industries that are more in control, and governments' that are less in control. This is a situation that is serious, as it can lead to standards that do not reach far enough to create real development benefits.

2.1.2. The forms of the discourse

Within the discourse of CSI there are two approaches that dominate analysis and action: The corporate approach and the social environmental approach. The corporate approach is lead by corporations, think tanks and international financial institutions and is primarily concerned with how to maximise profits and protect businesses.²¹ The second approach, the socio-environmental approach, is lead by liberal or social democratic organisations, institutions and individuals that are primarily concerned with the negative effects of the market on communities and the environment. This approach is driven by the theory that businesses have transcended their traditional role of mere economic institutions to that of organisations with a responsibility to the general populace to behave in a beneficial manner.²²

This is where the link between CSI and sustainable development becomes tricky. In theory both camps could be right in their assertions that (for the former) sustainable development is possible within the neoliberal economic framework because of CSI and (for the latter) sustainable development is not possible under the current neoliberal framework because of the implicitly unequal and destructive nature of profit maximisation. However in practice there is room to manoeuvre in both camps. What both groups agree on is that CSI can be useful and worthy. It is the long term feasibility of CSI and whether it does in fact deal with social and environmental problems created by capitalism that is in question.²³ What can be said is that CSI is being used as a legitimisation of capitalism. If there are ways to control the damage that capitalism does in the form of inequality, poverty and environmental damage, then the system is sound. CSI is meant to be that method of control.

²¹ A Mah. *Op Cit.* p21

²² J McGee *Op Cit.* p380

²³ A Mah *Op Cit.* p20

business, because the values and norms associated with development are not the same as those associated with the corporate world, especially in countries that do not share western customs.⁴¹ Even though CSI is a western capitalist creation, if used sensitively, CSI can be an important force in developing countries, without being destructive to the local culture, or the culture of development. For instance, if CSI projects are handled by trained development specialists, and not management or technical specialists, it is easier not to fall into the trap of withering disinterest, or an inadequate understanding of the problem. Development specialists are also committed to actual development, and are aware that their job requires them to deal with extreme poverty and need, something that management and technical specialists may not be prepared for.

2.3.2. The business case for CSI: Marketing, branding and development

Perhaps it is easier to understand what CSI is by looking not at what it has changed, but by viewing what it has not changed. CSI has not changed the fundamental way in which companies do business. Businesses must make a profit. In fact, they should make as big a profit as is legally possible. The markets are the best mechanism for deciding what level prices should be at, and it is the government's job to ensure that the market is unhindered. Private property is supreme and anything can be made into a commodity, even humans.⁴² These concepts have not changed therefore, one must ask what has changed. The change is that businesses must be ever craftier about keeping the customers they already have and hooking new ones.

Advertising is just not enough anymore. The youngest members of society were reached in commercials decades ago, and today it is commonplace and accepted (although morally dubious) that certain marketing is aimed at infants and toddlers. The new manner in which to market the company has emerged with the new drive from consumers for more socially and environmentally conscious products. Thus it can be said that CSI is a marketing and branding tool that has the added benefit of the ability to right some social and environmental wrongs while creating a new customer base and retaining the old one, all at the same time. Many companies get it right, and many companies get it wrong.

⁴¹ *Loc Cit*

⁴² *Ibid.*, p520

It is faintly ironic that the major champions of CSI have been the oil and gas industries around the world. In truth, they have to be: no other industries have been so highly publicised for the environmental damage they have caused.⁴³ Studies have found that companies in this industry engage more with their local communities than in the past, particularly as oil is now found in obscure areas that require the participation and cooperation of the local headmen, and thus the communities. An example that has led to this increased engagement is that of Shell in Nigeria and the trouble they experienced when they lost local support. It is estimated that the oil and gas industry has spent \$500 million on CSI since 2001.⁴⁴

However, it is just as important that the money be well spent as giving the money in the first place. Misspending as large an amount as \$500 million can lead to major catastrophes. If the projects are not properly managed then their failure could lead to large backwards steps in the development of the area and people involved. Such has been the case in Nigeria where projects ran as long as the company was involved in the area and stopped when the company left. This led to unrest among the local people, and a feeling of resentment towards the company and other companies involved. Thus it is important to assess what negative and positive contributions the company can make in regards to development. Ultimately it may be necessary to ascertain whether companies should be expected to deliver development, or whether they should play an assisting role behind NGOs, development organisations and governments.⁴⁵

Presently the expectation is that companies should deliver development, especially in developing countries, but whether they actually do is up for debate. Shell's operations in Nigeria are again a useful case study. An independent audit found that less than one third of all projects were successful as the primary motive for the projects was to buy off the local people with gifts such as clinics rather than the socially motivated desire to develop the area.⁴⁶ This behaviour was in turn motivated by what Frynas calls the "business case" for CSI, that is, Shell was trying to manage negative perceptions and

⁴³ J G Frynas. *Op Cit*, p581

⁴⁴ *Loc Cit*

⁴⁵ *Ibid.*, p582

⁴⁶ *Ibid.*, p587

improve the working environment in order to continue mining in Nigeria. Unrest was subsequently caused by Nigerians who felt (and continue to feel) that such mining did not benefit the local people.

2.3.3. The link between CSI, business and profit

The motive for traditional forms of business is to accrue some form of profit. One of the motives for CSI is to accrue some form of profit, whether it is in the form of more positive perceptions of the company or greater sales of its product. When CSI projects fail, then profits can be compromised. Higher profits could come from happier, healthier employees, the beneficence of government and the attraction of investors to firms that pursue CSI projects. Also, a 'beyond compliance' attitude could result in the company avoiding penalties and can help to keep their operations ahead of new, more stringent regulations.

In addition, there are other ways in which CSI projects can assist in profit making. MNCs often build the same kinds of plants in developing countries as they do in developed countries. In developing countries, regulations are often less stringent, which is why many companies choose to operate in those countries. However the building of the plants in accordance with higher regulations saves money because the company does not have to design an entirely new plant. Furthermore, this will count as "beyond compliance behaviour in the developing country by lowering the risk of injury to the environment, employees and those that live around the plant.

As Portney puts it "(t)he key here is that health and environmental protections can be offered for little additional costs."⁴⁷ In addition, the contributions to education are thought to provide long term benefits to the company by educating the children of the local community and employees, and thereby creating a new pool of skilled workers. This could, in turn, assist in uplifting the community. These two examples are relatively inexpensive to the firms, and the net benefits can create higher profits.⁴⁸ If the Shell debacle in Nigeria has taught companies anything, it is that public perception can be harmed to a greater degree by failed CSI projects than none at all. The ease of communications makes it so. Therefore the business case for CSI has had

⁴⁷ P R Portney, *Op Cit*, p120

⁴⁸ *Loc Cit*

to take failures into consideration and CSI has evolved to become more sophisticated in the attempt to deliver development.⁴⁹

Some companies have recognised the need for their projects to be truly sustainable. Even in the traditional definition of the word “sustainable” the emphasis is on the long term viability of whatever must be sustained. It may be advisable that projects be centred on smaller areas in need of development. That is, the building of clinics and schools should perhaps be left to the government, who might have to maintain the clinic or school after its completion anyway. Some successful CSI projects have focussed more on micro-credit lending than implementing projects themselves, working through development agencies or contributing to larger infrastructure programmes.⁵⁰ Thus, if the lending schemes work and create positive economic impacts, development is driven by the people for whom it is intended.

2.4. Failures of CSI

CSI projects fail for many reasons. The following are just a few examples of those failures that are applicable to South Africa as well as a number of other developing countries. Country specific issues – such as corruption and unrest – can make the projects difficult to complete.⁵¹ Corruption leads to the perversion of many projects and the intended benefits are lost to the population at large, as the profits end up with the corrupt and the fraudulent.

In addition large companies are usually the first to be attacked when the community experiences unrest. There is often a failure to involve the actual beneficiaries of the CSI projects and this can lead to inappropriate projects and the failure of many projects. The World Bank is explicit in its statement that development should come about at the hands of those in need of the development. Development cannot be achieved by foreign development agencies or the governing elite alone.⁵² CSI projects are usually conceived by employees of the companies involved, often in head offices, not on the ground where they are implemented. This results in a divide between the

⁴⁹ J G Frynas, *Op Cit*, p587

⁵⁰ *Ibid*, p588

⁵¹ *Ibid*, p589

⁵² *Loc Cit*, p 589

actual needs of the community and the needs of the CSI project and can often be attributed to the business case imperative, where business needs are paramount to development needs.

However, this situation can be ameliorated without damaging the business needs by careful planning and an in depth understanding of the needs of the local population. In addition, company representatives generally do not spend enough time in the locality. Most CSI projects are initiated in areas that the company representatives do not wish to spend much time in, that is, poverty stricken areas.⁵³ This must change and either the representatives must be chosen on the basis of their commitment, or else the company must be represented by a community member. The training of such community members to represent their communities in such a way will contribute to skills development.

There has also been a worldwide failure to consult at levels lower than community leaders: it is important to involve the most impoverished members of the community and those who will benefit the most from the project. However, without spending enough time in the locality, projects based on the spontaneous demands of the local people will also not be sustainable.⁵⁴ The mentality of dependency can be a by-product of the CSI programme if the local community is not properly involved in the project. That is, the very people that the projects intend to empower become hooked onto the idea that the infrastructure will be given as opposed to earned. The local people need to understand that the provision of these basic needs by a company is not a long term solution to underdevelopment, and that once the skills base has been improved upon in their area, then they will have to take over the provision of those needs themselves.⁵⁵ Once again, it cannot be stressed enough that the needs of the local people must be considered within the framework of a proper impact assessment of the economic needs, environmental needs and the underlying causes of both the former and the latter. Additionally, in dealing with the local elite, it is important that the company representatives are not given to corrupt behaviour.

⁵³ Ibid., p590

⁵⁴ Loc Cit

⁵⁵ Loc Cit

Another major failure of CSI is that companies that undertake these projects tend to have a lack of human resources. That is, they tend not to have sufficient staff with the expertise to cope with development projects. Most employees involved in CSI are hired on the basis of their use to the company in areas other than development and their expertise reflects this situation. Most development experts work at development agencies and many companies simply do not hire development experts.⁵⁶

Furthermore, it is unusual to find university courses that are centred on CSI in the developing world, and this has led to ad hoc on-site learning about CSI, without the benefits of institutional education.

This leads to an insufficient understanding of the factors involved in development and the possible negative outcomes of CSI. The situation is exacerbated when as mentioned before, those employees responsible for the projects do not spend enough time in the locality to truly understand the problems.⁵⁷ If, however, companies work through a development agency with expertise in the area, these shortcomings can be put right. Either the company can focus on a smaller project that they can exit from at the end of their business operations, such as micro credit schemes, or else they can segue into a project that is currently running and offer back up where necessary.

The suggestions, above, would also assist in dealing with another failure of CSI. Companies, especially those in the extractive industries, tend to leave the area when the product has been mined out or otherwise used up. They often leave without completing their CSI projects. In addition, top financial management are often rotated on a short term basis, meaning that new employees have to settle into the difficulties of the post on a regular basis, lessening the commitment of the employees which harms long-term development each time.⁵⁸ It is understandable that top level employees may not want to spend much time in countries where, again, particularly in the extractive industries, the living conditions may not be what they are used to.

Four years working at the local head office of a mining company may well make employees desperate to leave when the office is situated in, say, the Democratic

⁵⁶ Ibid, p591

⁵⁷ Loc Cit

⁵⁸ Loc Cit

Republic of Congo, or even the Northern Cape in South Africa, when they have come from the comfort of Johannesburg, New York or London. It is possible that some of the employees hired for these jobs should be hired more for their desire to fulfil the roles than their expertise. This may unfortunately leave an expertise gap. Once again, possible solutions are either to hire personnel with development experience to work in those roles or to work through a development agency with experience in the region. This lessens the responsibilities of employees whose job requirements are often more than just planning and executing CSI projects, and focuses the funds on the most pressing needs with the most workable solutions.

Another set of failures linked to the lack of human resources is that of the varied social values held by the employees of the companies involved. As mentioned before, many of the employees that work on CSI projects are hired for other roles too. Their expertise often lies in technical and managerial fields that do not give them the social values necessary to understand development. In some cases the CSI projects are of a technical nature, such as the reduction of emissions. Additionally in some cases the CSI projects are of a managerial nature, such as the training of undereducated staff.⁵⁹ However, in many cases the needs are far greater and the projects may attempt to fulfil those needs but fail because they are approached in a managerial or technical manner, nullifying the positive long term effects that are explicitly required for projects to be considered sustainable. To increase the efficacy of those projects that cannot be treated in a managerial or technical manner, companies need to spend far more time consulting on the nature of the problems; the deep underlying causes and the effects of those problems. In addition, it cannot be said enough, bringing in the expertise of development agencies can help achieve these goals. Consulting with government can also be useful.

The different social values of employees and those of the poor and the marginalised are linked to the explicitly capitalist – and globalisation-orientated – values of CSI. The poor and the marginalised have a greater chance of extracting the most value from CSI projects if they share these values, but if they do not, then the scope of CSI

⁵⁹ *Ibid.*, p592

projects are immediately limited.⁶⁰ The values of CSI must be softened to deal with the needs of the poor and the marginalised, prioritising the usefulness of CSI to companies less, and concentrating more on the use of CSI to the poor and marginalised. Some might say that in order to develop underdeveloped areas, then the people that live there must ultimately share the values and norms of capitalism and globalisation. This however would come over a period of time longer than the usual lifespan of CSI projects, and there are moral and ethical difficulties in forcing people to change their values in line with those of capitalism. The answer must be a more sensitive application of the projects and more sensitive dealings with the communities involved; once again the expertise of development agencies will help.

In the event that development agencies and governments are not consulted, then there is a good chance that the CSI projects will fall short of the larger development plans for the region. While there are a myriad of small projects that can be run independently, the projects that attempt to fulfil a larger role cannot be achieved without slotting into the development plans for the locality or region. In volatile areas, especially those with ethnic violence, taking too small a project can incite unrest between different ethnicities or villages⁶¹. In addition without ensuring that the decisions to initiate projects are taken at the highest levels of the company involved as well as the government and development agencies that work in the country, then projects can become fragmented.

It is understandable that because of the business case for CSI, the company may wish to focus on the issues and localities that affect them the most, all the while attempting to cut costs, but this may lead to a worsening of the local situation that the company is trying to repair.⁶² Quality consultations with governments and development agencies based on (at the very least) medium term goals are necessary to create workable CSI projects, and even for smaller projects such as micro credit schemes or basic worker education, asking for the advice of development agencies can help. CSI projects often focus on the group most affected by the company's actions in the area. This can result

⁶⁰ M Blowfield, *Op Cit*, p522

⁶¹ J G Frynas, *Op Cit*, p592

⁶² *Ibid*, p593

in environmental policies that do not take into account the wider effects of the environmental degradation.⁶³

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⁶³ Ibid, p596

Chapter Three: CSI in South Africa

3.1. Overview of CSI in South Africa

3.1.1. CSI expenditure in South Africa

CSI is defined by South African companies as projects which companies undertake in order to assist in socially and economically uplifting communities and development in general, which are external to company activities.⁶⁴ As mentioned in the previous chapter, this definition does not assign any responsibility to the company for its actions in the past. However it does clearly assign to companies, a development agenda within those communities that were affected by apartheid, that is, the poor and underdeveloped. Nevertheless, CSI in South Africa actually began as a reaction to criticism that profits were suffering because businesses were not giving enough consideration to the long term effects of their operations on their employees. Following international trends, these local social and environmental issues were tackled using CSI.⁶⁵ CSI came to greater prominence in South Africa with the second King Commission on Corporate Governance of 2002, also known as King II, which aimed to provide a concise code for responsible corporate governance.⁶⁶

In the mid 1990s, environmental protection was also taken up by the corporate community. Once again the extractive industries paved the way, due largely to the high visibility of their environmental degradation. The safety, health and environmental movement (SHE) of the mid 1990s was the first attempt to integrate social and environmental problems into business practices. This was primarily driven by government legislation and new voluntary international standards such as the ISO 4000 and subsequently the ISO 14001.⁶⁷ By 2003 the total expenditure on CSI in South Africa amounted to R2.35 billion, up by 6.8% in the previous year. A Trialogue survey estimates that the top 5 percent of the highest grossing companies are contributing to about 30 percent of the entire CSI expenditure, with the lower 75

⁶⁴ D Fig, "Manufacturing Amnesia: Corporate Social Responsibility in South Africa" International Affairs, Vol. 81, No.3 Op Cit, p601

⁶⁵ H Brice and T Wegner, Op Cit, p163

⁶⁶ R Hamman, "Corporate Social Responsibility and its Implications for Governance: The Case of Mining in South Africa" Oikos PhD Summer Academy, University of St Gallen, Switzerland, 2003, p11

⁶⁷ Ibid, p10

percent contributing less than a quarter.⁶⁸ Nonetheless, Paul Kapelus, the director of the African Institute for Corporate Citizenship feels that South Africa has one of the highest rates of CSI spending in the world.⁶⁹

The average CSI budget in the country's leading companies was R13 million, and the 2005 CSI expenditure can be broken down as follows. Education acquired the vast majority of the funds at 37 percent. Health came in second at 16 percent, third was social spending at 13 percent and fourth was job creation at 10 percent. From there followed the usual developmental projects and in order of declining budget proportion: training, arts and culture, sports development, the environment, safety and security and housing.⁷⁰

The environment acquired only 4 percent, which indicates that it is a low priority in CSI spending. Interestingly, in 1997 research conducted within the top 200 companies in South Africa found that most employees felt that environmental protection should receive strategic priority, and yet by 2005 this was not evidenced in the CSI spending.⁷¹ Clearly the trend has been that companies would prefer to spend money on the issues that they feel directly affect their operations and employees, and those that are more visible to the general public. This may prove to be extremely short sighted: in the future, many companies may find that unless they extend their CSI to affect the surrounding community which includes better environmental practices, then their efforts will fall far short of success. Furthermore, people are becoming increasingly vocal about the environmental degradation around them and CSOs have a long and fairly successful history of driving these issues.

3.1.2. Reasons for CSI in South Africa

There are three main reasons for companies to involve themselves in CSI. The first is the King Commission, which makes certain requirements of companies so that they practice good governance. CSI is considered by King II to be an important aspect of practicing good corporate citizenship and corporate governance.

⁶⁸ D Fig, *Op Cit*, p604

⁶⁹ *Loc Cit*

⁷⁰ V Rockey, *Op Cit*, p101

⁷¹ W Visser, "Corporate Sustainability in South Africa"
http://www.waynevisser.com/cc_in_sa_short.htm 2004

The second is government legislation and accreditation. Without the ‘license to do business’ from the government, a company will never actually *do business*. Thus companies must align themselves with government legislation, as well as regulations, industry and market standards, public opinion and international opinion among many others.⁷² In particular, the company should outline its business plan and ensure that its relationship with all stakeholders is mutually beneficial.⁷³ This is important to CSI, because it mandates the company to positively impact all those that are identified as stakeholders. This gives the company a responsibility that it was not legally required to have in the past. Black economic empowerment (BEE) is another set of conditions that the government requires be met for companies to acquire a license to do business.

The government has instituted legislation to enforce BEE in order to deal with the legacy of unequal economic development under apartheid. The legislation covers employment ratios, public and private sector procurement and company ownership.⁷⁴ In each industry the government and the companies involved draw up and agree on a charter that sets various goals for employment ratios, procurement and ownership, as well as economic development. While the targets differ between industries and sectors, the results are monitored using scorecards for each company.⁷⁵

The third reason for organisations to participate in CSI is to sustain businesses in a world where companies have to constantly adapt and review their practices in order to survive. CSI is one of the newest methods with which a company can help to ensure its survival and proliferation. This may seem like a cold profit based analysis of a value laden issue, however, when it comes to doing business, the most important outcome is the survival of the business. Values regarding social, developmental and environmental issues can be enmeshed within the motive for profit, but without first ensuring the ability to do business, a company cannot attempt CSI. This is an obvious but important point.

⁷² King Committee on Corporate Governance, *Op Cit*, p7

⁷³ *Loc Cit*

⁷⁴ T Fox, H Ward, B Howard, “Public Sector Roles in Strengthening Corporate Social Responsibility” *World Bank Corporate Social Responsibility Practice*, http://www.worldbank.org/privatesector/csr/doc/CSR_interior.pdf 2002, p9

⁷⁵ D Fig, *Op Cit*, p608

In addition to the three core reasons there are a number of other incentives that pressure companies to involve themselves in CSI. One such incentive is demand from abroad. Globalisation has meant that South Africa must either conform to many international norms, or else watch the economy suffer. Moreover, a large number of South African firms are trying to position themselves in the top tiers of their sectors internationally, and they therefore voluntarily conform to international demands and standards. In effect, such companies place pressure on the government to do the same. The desire of firms and the government to adhere to internationally acceptable practices has lead companies to pursue more goals that are sincerely CSI-orientated, rather than the cosmetic form of CSI which is more interested in public image.⁷⁶

CSI has become embedded in the core activities of many of the largest companies in South Africa due to the pressures from international commercial and political actors. In this way, pressure often comes from the international sphere. Another pressure from abroad comes from the highly publicised activities of CSOs such as Greenpeace, who regularly uses interesting tactics to gain media attention.

Another incentive comes from civil society at home. However, in South Africa the traditional 'voices from below' - the trade unions - have lost much support and impetus after joining into a coalition with the ANC in 1994, due to enormous job losses and the co-optive nature of coalitions.⁷⁷ Other watchdog bodies such as NEDLAC have not lived up to their promise. It is not incidental that the most effective groups driving CSI are religion-based groups, especially the Anglican, Catholic and Muslim churches. This is because these organisations can garner support (monetary, physical and emotional) from overseas partners. Other campaigns have found a hostile environment and a lack of support from outside the campaign. However this is slowly changing with increasing levels of expertise from within the campaigns, and public interest law firms offering their services to the organisations.⁷⁸

Pressure can also come from peers. Companies provide incentives for other companies to involve themselves in CSI by setting standards that the other

⁷⁶ *Ibid.*, p611

⁷⁷ *Ibid.*, p612

⁷⁸ *Ibid.*, p614

organisations feel compelled to follow. Furthermore, firms attempting to globalise their operations or find new markets often discover that they must also develop CSI programmes in order to be competitive.⁷⁹ An example of this is the affiliations of many companies in South Africa to the World Business Council on Sustainable Development (WBCSD). Many of companies began this affiliation in the run-up to the World Conference on Sustainable Development in Johannesburg 2002. Since then the South African arm of the WBCSD has become a desk of the organisation called Business South Africa, which is a broader representative body, thereby incorporating the culture of CSI into a thoroughly South African context.⁸⁰

One of the results of peer pressure has been the move by the JSE Securities Exchange to take more account of companies' social and environmental performances, as well as the newly set up Social Responsibility Index (SRI), which was modelled on the FTSE4GOOD index on the London stock exchange. In order to qualify for the SRI or the FTSE4GOOD, a company must first comply with various regulations relating to CSI. However, it is as yet unclear whether the SRI will assist in inducing investments to move to the firms on the index. Notwithstanding, the FTSE4GOOD index has shown promise in this regard.⁸¹

3.1.3. Weaknesses of CSI

A weakness of CSI in South Africa is that the impetus for change has largely come from big companies with the most to lose, while the smaller companies have had no role in the implementation or the creation of the codes of conduct and the norms and values associated with CSI. This means that the norms and values will necessarily reflect those of the larger companies, creating a discourse that the smaller companies, NGO and CSOs have not had much influence in. This could result in the discourse becoming heavily weighted in favour of the needs of the large companies and not the needs for more equitable development. Large companies that pollute or degrade the environment heavily, may want to divert attention away from these activities, and therefore could focus their CSI on housing or education. Thus their needs could skew the discourse.

⁷⁹ Loc Cit

⁸⁰ Loc Cit

⁸¹ Ibid., p615

Partly, the problem lies in the manner in which South Africans purchase. In countries such as Japan, the citizens have for many decades become used to the idea of supporting local production over international products, even at higher costs to the consumers. In South Africa there is still an attitude that internationally produced products are of a higher quality, and yet lower price. The Proudly South African campaign was an attempt to change that attitude, and membership qualifications included maintaining standards in employment, product sourcing (from South Africa) and environmental protection. However, the average South African does not know about CSI projects, and does not make choices based on them. Furthermore, when faced with the multitudes of products available, for instance at the supermarket, the average South African – most of whom do not earn enough to have a weekly shopping trip to the supermarket – will buy products based on price, not the locality of their production. Another overwhelming problem with the campaign lies in the fact that companies have to pay to be members, which marginalises many small companies that cannot afford the membership fee. The campaign has been floundering for a number of years now.

Another weakness is that companies publish large annual reports detailing not only their accomplishments in profit making but also their commitment to CSI, usually under the banner of sustainable development or in a sustainability report. These sustainability reports detail their attempts for greater safety, environmental protection and social development. However, many company representatives have admitted that there is a discrepancy between what they actually achieve, and what the reports state that they intend to achieve. The lack of success is usually attributed to a deficiency in technical abilities or human resources, and there is on occasion, a paragraph or two dedicated to the attempts to rectify the situation.⁸² It must however be remembered that the CSI goals of companies often reflect the most difficult goals of national development: dealing with HIV/AIDS, a lack of housing, education and minimising the environmental effects of the business operations. A loss in company profits can mean a loss in taxes to the government. A method must thus be found that minimises losses on both fronts, and this often means that the environmental goals are sacrificed.

⁸² R Hamman, *Op Cit*, p11

Yet another weakness is the major concern that CSI is often seen as more propaganda than social conscience. Furthermore CSI efforts often fail to address the most pressing needs of the communities, that is, safe housing and sanitation, as many of the areas that need this the most are considered illegal settlements. Thus companies often avoid contributing money to these areas on the basis that they could be removed. In addition, CSI is often seen as avoiding the causes of the underdevelopment, treating the symptoms instead. Often it is the companies' operations in the area that cause the workers and their families to live in appalling conditions by monopolising businesses, creating pollution that negatively affects health in the area, and by creating informal settlements due to a lack of adequate housing.⁸³ This is primarily the result of CSI managers not having a major influence in company policy or core decision making.

3.2. Past and present CSI in South Africa

3.2.1. History of CSI in South Africa

CSI arose in the heavy polluters and degraders of the environment as a way of managing the past and present negative opinions that consumers had of them. Not surprisingly this drive came from companies in the extractive and heavy industries. In South Africa, the mining industry and the industries that manufacture the mined products account for half of the annual exports.⁸⁴ In addition, mining provides the basis for much of the manufacturing sector in the country, by way of providing the raw materials.⁸⁵ In 2000 manufacturing took over mining as the single industry with the highest foreign earnings for the first time in 100 years. However it was actually the metal processing that provided most of the growth in exports.⁸⁶ In addition, South Africa has the largest mining output of the Southern African Development Community (SADC) producing 71 percent of the total SADC output.⁸⁷ At present, South Africa is the largest or second largest producer of gold, diamonds, platinum,

⁸³ *Ibid.*, p16

⁸⁴ N Segal, S Malherbe, "A Perspective on the South African Mining Industry in the 21st Century" <http://www.bullion.org.za/Publications/segal.PDF>, 2000, p2

⁸⁵ J Niyonzima "Enhancing Business-Community Relations: South Africa National Research Report" http://www.new-academy.ac.uk/research/businesscommunity/unvpages/southafrica/southafrica_report.pdf 2003, p10

⁸⁶ N Segal, S Malherbe, *Op Cit*, p2

⁸⁷ A Granville, "Mining, Minerals and Sustainable Development-A Baseline Study" www.iied.org/mmsd/mmsd_pdfs/162_granville.pdf 2001, p9

chromium, manganese and vanadium and is highly ranked in the production of iron ore, silver, copper, uranium, asbestos and coal.⁸⁸

In 2000, about 412 000 people – around 2.7 percent of the economically active population – were employed in the mining industry, which is sizable considering that the country has a population around 44 million.⁸⁹ The five mineral clusters occur on the Witwatersrand, the Northern Province near Rustenburg, Mpumalanga, the Northern Cape and the focus of this dissertation, the Western Cape.⁹⁰ In addition, in the latter half of the 1990s several small oil fields were discovered off the West Coast and Mossel Bay.⁹¹ The extractive industries have for some time been involved in philanthropic and development projects, aimed for the most part at counteracting some of the worst effects of the apartheid government's policies. This is the result of an improved understanding of the role mining of gold and diamonds, in particular, played in propagating apartheid.⁹² Mining propagated the apartheid system because from the beginning of European settlement in South Africa it was necessary to have a cheap and compliant workforce performing the worst jobs in the industry. The money accrued from the export of the mined products contributed significantly to the development of European settlements in South Africa. In addition, as was the custom at the time of colonisation, the colonisers and owners of business went to extremes to maintain their profits and rule over the black majority.

In 1948, when the *Herenigde* (reunited) National Party took power from the United Party, the new government took potent measures to keep the black majority from gaining any power and disrupting this profitable situation.⁹³ The system of migrant labour and the Bantustans resulted in the separate development policies of the 1940s and this became entrenched during apartheid. The consequence of migrant labour was that the black male population had to travel and work in the "white" areas of the country, and when their work was finished, they had to return to the homelands which

⁸⁸ South Africa "Ferrous and non-ferrous metals" <http://www.country-data.com/cgi-bin/query/r-12150.html>

⁸⁹ A Granville. *Op Cit*, p20

⁹⁰ "South Africa: Extractive Industries" <http://reference.allrefer.com/country-guide-study/south-africa/south-africa85.html> 1996,

⁹¹ "South Africa: Energy Minerals and Petroleum" <http://www.country-data.com/cgi-bin/query/r-12150.html>

⁹² R Hamman. *Op Cit*, p9

⁹³ "South Africa: The 1948 Election" <http://countrystudies.us/south-africa/24.htm>

were extremely poor and largely overpopulated by people who had been forcibly moved to those areas. This increased the inequalities between whites and blacks, the effects of which are still highly visible today. South Africa has one of the most unequal distributions of wealth in the world with black people (the majority group in the country) making up the most destitute portions of the population.

During the 1970s, the international community began to take a strong stance against the apartheid system. In addition, in the mid 1990s as the National Party spectacularly lost power to the ANC, the extractive industries scrambled to create a new philanthropic image for themselves in order to keep their local and international customers. One of the largest and longest running projects has been the Anglo American Chairman`s Fund, started in the early 1970s.⁹⁴ This philanthropy can be seen in two lights. Firstly, it is quite probable that many projects were initiated to stave off large scale revolts and strikes, both of which would have been highly damaging to the government and to the extractive industries. By placating the black workforce and the international community, it may have been possible to maintain the apartheid system.⁹⁵ The Soweto Riots of 1976 put paid to any hopes that the government and companies could appease the workforce or the international community, as the brutality with which the government put down the riots was televised in most countries around the world. Secondly, it is also probable that at least some of the philanthropic projects were initiated in order to provide better conditions that the government was unwilling to impart in the 1970s, and unable to supply in the 1990s.

After 1994 the government legislated that all mining companies had to complete an Environmental Impact Assessment (EIA) before conducting operations and this often led to the companies meeting with community leaders in order to make the projects more efficient. South Africa`s response to the worldwide trend for EIAs has been to focus more on how to lessen the negative impacts of business operations rather than beginning with whether the operations should actually take place.⁹⁶ In addition, South Africa has also drawn upon the experience provided by EIAs to create the process of

⁹⁴ R Hamman, Op Cit, p10

⁹⁵ Loc Cit

⁹⁶ A Granville Op Cit, p55

Environment Impact Management (EIM) which tries to anticipate environmental degradation and take steps to minimise the effects, while systematically scrutinising the project through its life-cycle.⁹⁷ Regulations in the field of occupational health and safety followed the environmental legislation.⁹⁸ The National Environmental Management Act (NEMA) brought hope of new requirements for businesses to clean up after their own pollution, but the Act has, for many reasons, failed, mostly because the mechanisms were voluntary and the companies obviously felt that the opportunity costs from following NEMA would be too great.⁹⁹

In addition to mining, the manufacturing of metals and oil place a huge strain on the environment. In the Western Cape the effects of mining are not seen as well as the effects from the Caltex refinery. The manufacturing industry is much younger than the mining industry, but as mentioned before, the beneficiation from mining is growing at a huge pace in South Africa. These businesses are usually grouped in the industrial areas, which in the Western Cape are Milnerton and Epping Industria in Cape Town.

Health, safety and the environment became favoured CSI projects for companies in these industries, as the money was easy to track and the benefits were easier to see in the form of lowered numbers of accidents, ill health and deaths. With the ISO 14001 management standards, health, safety and the environment became entrenched in company policy and operations, as is evident in the annual reports of most large corporations. However social issues still remain external to operational management and the costs to society from business operations are generally not included in business strategies.¹⁰⁰ The government has allowed many archaic infrastructures to continue to exist for reasons of expediency and in order to save money. The result has lead to heavy polluting companies investing in South Africa, and there is a fear that heavier legislation against pollution would lead to disinvestment. The end result of this is aging infrastructure that will cost a great deal to replace, thereby perpetuating the desire to make them last as long as possible.¹⁰¹

⁹⁷ Loc Cit

⁹⁸ R Hamman, Op Cit, p17

⁹⁹ D Fig, Op Cit, p603

¹⁰⁰ R Hamman, Op Cit, p17

¹⁰¹ D Fig, Op Cit, p603

Research conducted by Antonites and De Villiers found that during the period 1996 to 2001 the general environmental reporting of impacts, risks and mission statements increased. They were however, initially perplexed by the corresponding decrease in the reporting of specific environmental information, primarily in the realms of environmental objectives and performance. The two authors concluded that while companies were responding to the trends of increased environmental reporting and as they became more accustomed to doing so, they began to edit information that might be of a sensitive nature.¹⁰² This is worrying, because the information that a company may not want to disclose, is generally the information that the all the stakeholders should know the most about. However, environmental reporting is still in its infancy, and improvements are being made through increasingly sophisticated standardisation.

Nonetheless, the age of corporate involvement in development, the environment and community improvement projects was well under way in South Africa by the coming of the democratically elected government in 1994. However it is interesting to note that the companies that provided the greatest donations were the largest companies that had moved their primary listings to overseas stock markets.¹⁰³ The London FTSE has, at present, the most stringent listing requirements. Thus much of our CSI discourse will, for the time being, remain internationally driven, and this could perhaps negatively affect the South African discourse by missing the needs that a home-grown debate would create.

3.2.2. Management of past and present needs

Historically, CSI projects aimed to deal with the most pressing needs of the workers in the extractive industries, particularly gold and platinum mining. This meant setting up better facilities around the hostels that the workers lived in for much of the year. This was done in the form of impromptu donations and charity work in those areas. However, after 1994, the focus shifted from trying to “do the right thing” to attempting to mitigate some of the worst effects of the apartheid regime, which had particularly manifested in the extractive industries. The conditions that most mine

¹⁰² E Antonites, C J De Villiers “Trends in South African Corporate Environmental Reporting: A Research Note” *Meditari Accountancy Research*, Vol. 11, 2003, p9

¹⁰³ R Hamman, *Op Cit*, p11

workers lived in at the time were abominable and the system of migrant, desperate, and extremely cheap labour meant that companies found that CSI projects improved their reputations in a new paradigm, which demanded some form of restitution for black workers.¹⁰⁴

Most of the hostels were concentrated around the mines and most suffered the worst effects of the pollution from the mining activities. Currently, a major problem involving the hostels is that informal settlements have sprung up around them, and these communities face health risks as a result of the pollution.¹⁰⁵ The migrant labour system also contributes in a large way to the spread of HIV/AIDS, and while HIV/AIDS is one of the foremost foci of CSI projects it has been impossible, to date, to slow down the spread of the disease, even with the abolition of many single sex hostels.¹⁰⁶ It appears that in South Africa, education about HIV/AIDS, is not working. Nonetheless, companies still focus much of their CSI efforts on the disease.

Pollution is one of the major factors affecting living and health conditions for people who work in and around the mining activities, whether they are involved in the actual mining or the refinement. In the lawsuit against Cape plc, a case was launched against the company by the people who lived within the areas affected by the mining of asbestos. The apartheid government allowed firms to commit major pollution and environmental degradation and then allowed or forced black communities to live within the affected areas. Many of the workers and those that lived near the asbestos mines contracted asbestos poisoning. The South African government absolved the company of any wrong doing, but the case was brought to the United Kingdom courts and the victims won.¹⁰⁷

Often, the most highly polluted areas correspond with high density populations, in order to keep the workforce nearby, and as a result of the low prices at which land can be bought in those areas, for example, the Vaal Triangle, South Durban, Epping Industria, Richards Bay and the Platinum Belt in the east of Pretoria.¹⁰⁸ The fact that

¹⁰⁴ *Ibid*, p15

¹⁰⁵ *Loc Cit*

¹⁰⁶ *Ibid* p18

¹⁰⁷ *D Fig, Op Cit*, p602

¹⁰⁸ *Loc Cit*

South Africa has both first and third world conditions within its boundaries does not absolve the state from its responsibilities. CSI is often focussed on trying to mediate the terrible conditions that people live in. However, this can be seen as an attempt to buy off the local communities and divert attention away from the conditions that the company creates, rather than purely addressing the needs of those communities.

BEE is also a favoured CSI initiative in the mining industry, as a means of addressing the past subjugation of black people. In 2002 a proposal was underway to negotiate the transfer of ownership of at least 51 percent of extractive industry company shares to historically disadvantaged people in the following ten years.¹⁰⁹ In 2002 these targets were leaked to the press before the companies were ready to disclose them to the general public which led to the JSE Securities Exchange dropping to its lowest level in eight months. This was said to be based on a lack of investor confidence in the targets set by the mining sector.¹¹⁰ However BEE or affirmative action makes investors weary at the best of times due to the dangers of hiring potentially unqualified people and creating a group with special entitlements to replace an outgoing group. At the end of 2002 the targets were amended and accepted, lowering the percentage of ownership to 26 percent within ten years.¹¹¹

However some authors assert that in general, the companies which have the best BEE records tend not to be big spenders on other CSI initiatives. There are varied reasons for this. Some suggest that the new black entrepreneurs only have a responsibility to improve capital accumulation and black ownership of companies. There are also suggestions that black owned companies believe that the white owned companies must atone for the past while they have no responsibility towards this.¹¹² However, it is very difficult to ascertain the feelings and emotions of company ownership. Neither of the above reasons would garner much international support, and both would be embarrassing to companies if they were aired. What can be said is that BEE counts as CSI in many sectors, and thus companies that have achieved their BEE and thus CSI requirements may not feel as though they have to contribute much more towards CSI.

¹⁰⁹ T Fox, H Ward, B Howard, *Op Cit*, p9

¹¹⁰ D Fig, *Op Cit*, p608

¹¹¹ *Loc Cit*

¹¹² *Ibid*, p615

Addressing the real needs of communities has created a new shift towards more focussed and deliberate CSI. Because of this, many major companies have established a formal budget for CSI, and a dedicated team of personnel to manage the projects. The focus has generally been on education, health, job creation and HIV/AIDS.¹¹³ HIV/AIDS now features in every annual report of the major companies in the extractive industries and beyond as the death rate of trained employees is rising, and the cost to the companies is growing.

However, it is not clear whether these projects are sustainable in the true sense of the word. The amounts of money involved in the projects can never be a reliable indicator of the success of the projects. It is almost impossible to predict with complete certainty that the projects will make a positive long term impact or whether due to unforeseen circumstances the projects will fail. It is possible to analyse trends from other countries and suggest the areas in which companies are succeeding in their CSI projects and areas where they might fail. However, as reporting about CSI is often patchy and misdirected in order to garner the greatest benefits to the company, it can be difficult to collate and analyse the true sustainability and efficacy of the CSI projects.¹¹⁴

One manner in which to achieve this is to ensure that CSI projects are integrated into core business planning and operations.¹¹⁵ This way, projects remain connected to the ideals and goals of the company, instead of becoming separate and purely philanthropic. It is important for companies to equate their CSI projects with improving the conditions in which the communities around them live. This targets the projects towards those that the company can benefit from, by employing happier and healthier personnel. Examples of integrated CSI projects are safety and health projects aimed at the employees and their communities, as well as the usual gamut of traditional development projects such as education and infrastructure building.

However, the attempt to restore the environment in which the mines operate should also be increasingly included in CSI agendas and budgets. In annual reports this is

¹¹³ R Hamman, *Op Cit*, p16

¹¹⁴ *Loc Cit*

¹¹⁵ *Ibid*, p23

usually placed under the heading of sustainable development, with health and safety, and includes actions such as the monitoring of the various pollutants, re-vegetation of damaged areas, cleaning up toxic waste, counteracting erosion, and ensuring that the underground water table is clean and safe.¹¹⁶

It is also important to maintain community and employee involvement in the projects. A sense of ownership is sometimes missing from purely externally driven development projects. The increasing use of contractors has proven to be problematic in that the contractors are not required to use local labour.¹¹⁷ They often use cheap labourers that are in South Africa illegally. In addition it is important (and the King Report insists on it) that outside contractors are chosen for their commitment to good governance, such as their commitment to upholding workers' rights, providing decent working and living conditions and practicing good environmental practices. Habitat for Humanity has proven time and again that involving the people who will inhabit the houses builds a sense of community as well as ownership. In short, the people who live in the houses feel that they have earned them. This is an important lesson, outside of house building, to avoid donor fatigue in the future.

3.3. The effectiveness of CSI in South Africa

First and most blatantly the government's and business's attempts to curb HIV/AIDS in the workplace has failed. The infection rate rises every year and South Africa has one of the highest infection rates in the world. Approximately one in every four South Africans has the virus.¹¹⁸ BEE has also not been as successful as hoped. The black upper class is still extremely small, and the same companies seem to win most of the tenders, leaving the majority unaccounted for. In addition, ownership of most companies is still in the hands of the white elite and the state often has to intervene to enforce BEE legislation.¹¹⁹ Furthermore, the voluntary environmental agreements have all but failed, and now the government must either opt for stronger legislation or

¹¹⁶ DRDGold "DRDGold Annual Report 2005", www.drdgold.com/ir/files/annual/ar_2005/default.htm
p24

¹¹⁷ R Hamman, *Op Cit*, p24

¹¹⁸ D Fig, *Op Cit*, p608

¹¹⁹ *Ibid*, p616

continue to ignore the situation, leaving South Africa as a target for outdated and dangerous environmental practices.¹²⁰

However, there are examples of CSI that have been effective. Infrastructure is built using corporate funds all over the country, and education has been furthered thanks to funds created by companies. Nedbank is an example of a company that furthers infrastructure and education CSI. Nedbank customers can choose for their cards to be linked to a number of different CSI fields, such as the two mentioned above, but also sport, the Nelson Mandela Children's Fund, and the World Wildlife Fund. However, the discourse is still in its infancy in South Africa, and the needs are huge and pressing. The muddled scope of CSI and the enormous deficiency on the part of the government tend to obscure what is actually being done and by whom.

In addition, one of the benefits that may accrue from CSI is an increased community awareness and activism. This is almost impossible to quantify, and thus difficult to attribute directly to CSI. What can be said, however, is that in interviews conducted by Ralph Hamman for his doctoral thesis, the interviewees (community members that worked for or lived near to mining activities), were adamant that they had become more aware of their rights and were better able to make use of their rights in negotiations with the companies regarding CSI projects and with government regarding the provision of services.¹²¹ CSI can therefore increase political awareness in people when the community members are involved in the process.

In addition, the Department of Minerals and Energy has created a scorecard which has improved CSI by taking social issues higher into the company management than ever before. A low ranking on the Scorecard might affect management's reputation, and the company's performance. Furthermore, in addition to the Scorecard, global reporting on CSI issues has dramatically improved with the improvement in global communications. There is now an international drive to increase transparency and disclosure in company reports. This has been partially driven by the growth in CSI and sustainability reporting both within South Africa and in the international arena. There will always be pressure to expand the social, environmental and governance

¹²⁰ Loc Cit

¹²¹ R Hamman, Op Cit, p20

related criteria that multilateral and national development banks impose. Some of these pressures will be successful and this means that companies will always be under pressure to improve their CSI in order to keep up and avoid penalties.

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Chapter Four: Sustainable Development

4.1. Sustainable Development

4.1.1. Overview of Sustainable development

Sustainable development is a set of concepts that while widely written about and debated, is not fully agreed upon by the myriad of those who use the term. The concept of sustainable development has been prevalent since the 1987 World Commission on Environment and Development (the Brundtland Report). In 1992 In Rio de Janeiro the United Nations held the Conference on Environment and Development, where the term was further developed (even though most of the Rio provisions failed to have any impact or real support). Two major principles emerged from the Conference, namely that humans are the central factor in sustainable development and as such were entitled to healthy and productive lives. Furthermore that while social and economic development was of prime interest in the developing world, they could not be considered in isolation from the environmental factors.¹²² Sustainable development was “strongly asserted” at the World Summit on Sustainable Development in Johannesburg in 2002.¹²³ However perhaps the best known example of an attempt to define where sustainable development should lead was the United Nations Millennium Goals. During the period 1992 to 2002 many conferences were held around the world that extended the concept of sustainable development into the fields of politics, economics, the environment and society. The problems that sustainable development intends to repair range from environmental degradation, poverty, inequality, lack of social services in the third world, including access to schools, medical care and basic amenities, combating HIV/AIDS and reducing child mortality.¹²⁴

During the same period a host of literature attempted to define sustainable development, with most fields tailoring the definition to their own needs and

¹²² A Clark, S Drimie, *Energy Sustainability for South Africa's Poor*, Human Sciences Research Council Press, Cape Town, 2002, p4

¹²³ United Nations Development Programme “South African Human Development Report” www.undp.org.za/NHDR2003.htm 2003, p2

¹²⁴ United Nations “5/22. United Nations Millennium Declaration”, <http://www.un.org/millennium/delcaration/ares552e.htm> 2000

concerns. Accordingly, environmentalists placed environmental protection as the main focus of sustainable development, while the anti-neoliberal economists identified rampant growth as the protagonist, and the political analysts defined the problem as a lack of real international, national and corporate support for the measures needed to deal with the aims of equitable development for the north and the south, while simultaneously curbing environmental damage. The concept now encompasses all these areas and can be defined in many ways and there is a lack of clarity as to what exactly sustainable development is, where it should go, and how exactly to achieve those aims.

Sustainability involves the environment, political institutions, economic institutions and civil society, all of which have a different understanding of sustainable development. However the greatest divide lies between the environmentalist definition and the economists' definition. For the former, environmental sustainability can be defined as "... (meeting) the needs of the present without compromising the ability of future generations to meet their own needs."¹²⁵ Thus as Roland Hunter writes, there is an explicit focus on the needs of people and the limits of the environment.¹²⁶ Furthermore, the time frame is extremely long-term, at least a generation.¹²⁷ For the latter, 'sustainable development' defined as when "economic development in a specified area... is sustainable if the total stock of resources – human capital, physical reproducible capital, environmental resources, exhaustible resources – does not decrease over time."¹²⁸ This is the more liberal of the economic versions of sustainable development, with the more conservative option allowing for a loss of resources, if the total resource base is not reduced. Thus if enough profits are made from increased deforestation, then the total resource base has not been decreased.¹²⁹ This version is also limited in its understanding of the total value accrued by environmental sustainability.

¹²⁵ World Commission on Environment and Development Our Common Future Oxford University Press, New York, 1987, p 43

¹²⁶ R Hunter, "Managing Sustainable Economic Development" B Munslow, P Fitzgerald, A McLennan (eds) Managing Sustainable Development in South Africa, Oxford University Press, Cape Town, 1995, p238

¹²⁷ Loc Cit.

¹²⁸ C C Neito, F Neotropica and P Durbin, "Sustainable Development and Philosophies of Technology" Journal of the Society for Philosophy and Technology Vol. 1, Nos 1 and 2, 1995

<http://scholar.lib.vt.edu/ejournals.htm>

¹²⁹ Loc Cit

The economic version is most favoured by companies involved in CSI due to their place in society as economic entities and due to the relative ease with which they can incorporate both sustainable development and CSI into their business operations. If companies were to start from the assumption that their operations were a major factor in the deterioration of the environment, as well as anti-development, as those against neo-liberalism and corporatism would have it, then the corporations would find it difficult to continue with their businesses. Fortunately the overriding opinion is that corporatism is not anti-development, rather that companies can act in irresponsible manners that can contribute to underdevelopment. This is where sustainable development and CSI meet. There is a definite belief within the companies of the world, as well as the international organisations that support them (the UN, IMF and World Bank to name a few), that companies that contribute to CSI are behaving in a socially and environmentally responsible manner. That is, they are contributing to sustainable development.

Sustainable development is a worthwhile goal. However it is also an incredibly difficult goal to achieve, there are too many losses at stake for the developed world to throw its weight behind the concept and the process fully. In addition, developing countries have tended to view environmental policies as just another form of protectionism when they are aimed at limiting industrialisation. At present two types of environmentalism have emerged. The North is advocating clean air, less pollution, less deforestation and greater tracts of land left pristine. The South however, is demanding development in its more traditional form, that is, economic.¹³⁰

David Whittaker suggests that perhaps a way to convince the developing world to commit themselves to environmental policies, thereby shifting to less material and energy intensive policies, is by taking the process slowly. However he admits that this would make the gap between the North and the South even greater as time elapsed.¹³¹ Also, environmental degradation will be more serious in the future, but perhaps this 'slow progress' is the path already chosen, as a revolution of the world economic system is not an option. This is an example of views that state an inherent

¹³⁰ R Sandbrook "UNGASS has run out of steam" *International Affairs*, Vol. 73, No. 4, 1994 p646

¹³¹ D J Whittaker *The UN in the Contemporary World*, Routledge, London 1997 p77

contradiction between the neoliberal economic system, where growth is primary, especially to those (the third world) that require urgent economic growth.

A major task for any government when designing policies for sustainable development is to choose a favourite: the environment or poverty. One requires a preference, as at the current level of development, the country does not have the funds to pursue both with equal fervour. Robert Goodland asserts the primacy of environmental concerns,¹³² while Redclift emphasises the pressing needs of the poor as primary.¹³³ The former opinion posits the health of the environment as an enabling factor of poverty reduction. The latter emphasizes poverty as a major factor preventing ecologically responsible states. It could be said with some assurance that the present government has placed a different, third choice, economic growth, as its preference. Thus state run sustainable development policies will be aimed at reducing poverty first and ecological damage second. This position can be supplemented by privately run projects aimed primarily at ecological sustainability, but any project that bumps heads with the government's projects will most probably come off second best.

4.1.2. Sustainable development in South Africa

In South Africa, as with many developing countries, the environmental themes of sustainable development tend to have a slightly hollow ring. From region to region the developmental and environmental problems will have different foci, and will be given different weighting, even though sustainable development is defined by the equal weighting of the three concepts of society, economics and the environment. With an estimated 46 percent of the population still considered to be living in poverty,¹³⁴ the goals for economic development and social justice are of higher importance than protecting the environment. Thus the traditional definition of sustainable development, in which the protection of the environment is on a par with the social and economic goals, has been amended, to place poverty alleviation at its

¹³² R Goodland "The Concept of Sustainable Development" *Annual Review of Ecology and Systematics*, Vol. 26, 1995, p2

¹³³ M R Redclift, "Reflections on the 'Sustainable Development' Debate" *International Journal of Sustainable Development and World Ecology*, Vol.1, No. 3, p21

¹³⁴ J Niyonzima "Op Cit, p10

core.¹³⁵ However it must be said that environmental degradation leads to poverty by reducing the proportion of arable land that the poor have access to, reducing the grazing land, biodiversity, and polluting the water supply, all of which, when healthy, can help to lessen the effects of poverty. In addition, poverty leads to environmental degradation.¹³⁶ This relationship is caused by governments that do not protect the lands on which poor people live, by the poverty stricken not having the tools and knowledge to care for their environment, and by a lack of funds from both parties.

At the 2002 World Summit on Sustainable Development it was acknowledged that access to energy was one of the key factors for sustainable development to occur.¹³⁷ However, the overuse of energy in South Africa is linked in large part to the cheap supply of electricity, while the poor continue to have extremely limited access to the commodity. The present slant of government action has been to provide electricity to poor areas, but in many cases the poor still cannot afford to use it.¹³⁸ In the meantime, South Africa, especially the Western Cape, is experiencing an energy shortfall due to the rapidly rising population numbers in the urban centres, and government is being pressed to increase Eskom's production capacity. This only contributes to the environmental damage that the use of poor quality coal burning creates, while not dealing with the problem at hand: South Africans that can afford electricity do not use it sustainably. The biggest user of energy in the Western Cape is the transport industry, using 54 percent of the total energy use in the province.¹³⁹ In addition, a recent study has found that it is diesel burning cars that contribute the main share of pollutants to the 'brown haze' problem that Cape Town experiences during winter.¹⁴⁰ Commerce and industry are the second biggest energy users, using 29 percent, with households coming third using 15 percent.¹⁴¹

4.2. CSI and sustainable development

¹³⁵ A Granville, *Op Cit*, p8

¹³⁶ *Loc Cit*

¹³⁷ A Clark, S Drimie *Op Cit*, p3

¹³⁸ *Loc Cit*

¹³⁹ P Kowalik, K Coetzee, "The Scope of the Energy Industry in the Western Cape" www.capegateway.gov.za/other/2005/11/final_first_paper_energy_printing.pdf, p18

¹⁴⁰ M C Wicking-Baird, M G De Villiers, R K Dutkiewicz, "Cape Town Brown Haze Study" www.eri.uct.ac.za/Brown%20Haze/Brown_Haze.pdf, 1997, p52

¹⁴¹ P Kowalik, K Coetzee, *Op Cit*, p18

Major international stock markets have recently postulated a positive correlation between companies with high environmental standards and the low volatility of their stock prices. The proposition is that environmentally conscious companies have less risk of incurring penalties for not abiding by regulations.¹⁴² Thus the lowered volatility could be attributed to a cycle of conservative investors buying safer stocks, which have lower return expectations, thereby decreasing the volatility of the stocks and giving them stability, which would then attract more risk-averse investors. In recent years investors have begun to understand the increasing interconnectedness of the concepts of sustainable development and CSI. The rewards for investors can be seen in the rise in the FTSE4Good Global Index, from 4500 to over 6500 since 2003.¹⁴³ However many companies still equate sustainable development with CSI instead of understanding that the latter is actually a method in which to facilitate the former.

CSI, when used efficiently, can be an important driver of broader attempts at sustainable development by providing funds for responsible development, by providing the impetus to invest in a country such as South Africa responsibly, and by involving companies at the ground roots level of underdevelopment. However sustainable development explicitly includes environmental protection and CSI does not. CSI can explicitly include development, without specifying environmental concerns. It really all depends on what the company in question is aiming to achieve, and if their agenda does not include environmental protection their CSI programmes will reflect this. This is the important disconnect between sustainable development and plain development driven by CSI, one that must be understood before any equation of the two concepts can take place.

However, even with this warning, the overseas markets have shown that when companies pursue "sustainable development" through CSI, their stocks perform consistently, which, with the added impetus provided by the 2002 King Report, led to the creation of the SRI.¹⁴⁴ However, many of the highest grossing companies that

¹⁴² L Steel, "Winslow Management Study shows Environmental Responsibility can be Profitable" <http://www.winslowgreen.com/pdfs/Winslow%20100%203-24-04%20release%20Final.pdf> 2004

¹⁴³ FTSE4Good, "FTSE4Good Index Series" http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp 2007

¹⁴⁴ JSE "JSE/SRI Index" <http://www.jse.co.za/sri/introduction.jsp> 2005

operate in South Africa are listed on overseas stock exchanges. Overseas stock markets have different goals and requirements for listings on their sustainability indices, and thus companies such as Anglo-Gold, De Beers and others will have to achieve different objectives, even though they operate in South Africa.

The extractive and beneficiation industries threaten the environment in almost every stage of the supply chain, from exploration, mining and transport of the product to its final refinement.¹⁴⁵ Exploration and mining can leave damage to biodiversity that is at best a long term problem to solve. It is quite easy to tell when one is flying over an area that is mined purely by the state of the vegetation, that is, there is not terribly much vegetation, and this also leaves space for more hardy invaders to move in. During the refinement process, unwanted waste is either drained into catchment dams and evaporated, or else pumped into the nearest large water source, preferably the sea. In the Western Cape, since most mining is concentrated near the sea, this is a real danger to the vulnerable ecosystems on the coast. Waste from the refining process can also be disposed of in solid form, and atmospheric emissions, for which the international environmental commissions have set various levels and standards.¹⁴⁶ These levels are voluntary, and refinement is often so far from the final product that many consumers will not think to buy according to good environmental practices.

Another anti-developmental effect of the extractive industries is the “resource curse”. Countries with high levels of natural resources tend to have political instability, economic underdevelopment and conflict. This statement is backed up by numerous studies and much of the African continent. Affected countries are-to list a few- Angola, the DRC, Nigeria and Sierra Leon. In the Middle East, which is rife with oil, most countries have not experienced long periods of stability, the case points being Iraq, Iran, the Palestinian Authority and Israel (although some might say that this conflict is not about oil). This situation is caused by the large inflows of foreign exchange for the valuable extracts such as diamonds, gold and oil, which largely end up in the hands of the government. This often results in groups violently vying for control of the government, and elite corruption, and a withdrawal of funds from

¹⁴⁵ J G Frynas, *Op Cit*, p594

¹⁴⁶ *Loc Cit*

manufacturing and agriculture.¹⁴⁷ There is little evidence of this situation in South Africa, as all the sectors of the economy have been given attention by the current and previous governments, largely because South Africa was forced by sanctions to be self supporting in many industries.

However, this does not mean that South Africa will not fall victim to a possible side effect of both CSI and the resource curse. CSI provides an “out” for the government. Development is possibly delivered by companies, and the government does not feel compelled to provide that service.¹⁴⁸ This can lead to a sense of laziness within government, that it can rely on companies to provide the service, and this will inevitably lead to bad governance. This is because the government must be functional and efficient in all its roles, especially that of the development of needy communities, as this is a major role of government: To provide as best a life for its citizens as is possible. If governments start to believe that development is not their responsibility, or that they can dodge that responsibility, than bad governance has already begun. If not applied within a larger development agenda, and through the appropriate channels and organisations, CSI can produce bad governance.

This is not to say that CSI will become burdened with the same shortcomings that government’s face in delivering development: long time lags, inefficiency, corruption the overwhelming bigger picture and a lack of funds. Companies can still assist in the deliverance of development in a manner that is timely and efficient due to their exclusion from the inefficiency of government procedures. It is far easier to complete smaller projects that relate directly to that bigger picture of development, through companies that mobilise funds far quicker than governments, and development organisations that do not have the long-winded, but necessary procedures that governments must follow. All that is required is a concise framework of the larger development agenda from government, perhaps in yearly reports to the development community, and little interference from the governments thereafter.

¹⁴⁷ *Ibid*, p595

¹⁴⁸ *Ibid*, p596

Chapter Five: Issues of Biodiversity in the Western Cape

5.1. The Western Cape

5.1.1. Overview of the Western Cape

The Western Cape is the third largest of the South African provinces, and it has the second fastest growing economy.¹⁴⁹ Demographically the Western Cape shows marked differences to the other eight provinces, with a high majority of Coloureds (53.9 percent), to Blacks (26.7 percent), Whites (18.4 percent) and Asians (1 percent).¹⁵⁰ The population in the Western Cape has grown from 4 million people in 1996 to 4.5 million people in 2001, when the national census was taken.¹⁵¹ Geographically, the Western Cape comprises of 129 386 square kilometres.

Poverty increased in the Western Cape in the period 1995-2002, and life expectancy dropped from 64 to 62.7 years in that period although this is still higher than the national average of 52.5 years.¹⁵² Approximately 240 000 of the estimated 800 000 households in the Cape Town City Municipal Area are considered to “be in need of housing”.¹⁵³ This means that the backlog for housing lies at around 250 000 houses and the backlog increases each year by about 1000 households. It is estimated that around 15 percent of the people in Cape Town alone live in informal housing, and the growing numbers of immigrants to the province often find themselves forced to live in shacks.¹⁵⁴ A major problem with the informal and low-cost housing in the Western Cape, and most visibly in Cape Town, is that during apartheid, black and coloured people were moved from urban areas where service delivery was good, to the Cape Flats and rural areas. In the instance of the Cape Flats, the area remains an intensely undesirable place to live, in terms of the environment.

¹⁴⁹ P Kowalik, K Coetzee, *Op Cit*, p16

¹⁵⁰ Human Sciences Research Council, “Western Cape Province African Peer Review Mechanism: Final Report”
http://www.hsrc.ac.za/research/output/outputDocuments/3873_Hadland_Africanpeerreviewmechanism.pdf, 2006, p14

¹⁵¹ *Ibid*, p15

¹⁵² *Ibid* p16

¹⁵³ *Loc Cit*

¹⁵⁴ *Loc Cit*

During the summer, the sand dunes blast the area with sand storms, and during the winter floods are inevitable.¹⁵⁵ In addition, the houses and shacks are built closely packed, and it is extremely difficult to manage crises such as fires which decimate large tracts of land each year, displacing thousands of people, and killing scores. Fire engines cannot navigate much of the informal housing, and fire stations are kilometres away, which means that more often than not, they cannot stop the fires until it is far too late. This is the legacy of poor urban development, aimed to prevent large portions of society from improving their living conditions. However with the end of apartheid, the situation has not improved. Urban management in these areas can only be coupled with good environmental management if the living conditions and economic improvement of the area is to be tackled.

In addition to the desperate situation of the poverty stricken people in the Western Cape, the crises facing South Africa's biodiversity must also be countered with responsible management. South Africa is the third most biologically diverse country in the world and the Western Cape holds two of the world's 34 global biodiversity hotspots. These are the Cape Floristic Region or fynbos kingdom and the Succulent Karoo kingdom.¹⁵⁶ In addition, the Western Province contains 15 of the 21 critically endangered vegetation types. Most of the vegetation types that are endangered come from the lowland and renosterveld fynbos as the protected areas in the Cape tend to predominate in the mountainous areas.

This indicates a lack of environmental protection in the lowland areas.¹⁵⁷ However it is the lowland areas that are populated by commercial and private land owners and there is a need to expand due to the influx of immigrants to the Western Cape, particularly Cape Town. In addition, alien species pose a serious threat to the individual species that are left in the province. Biodiversity is crucial because in many cases, the cures for illnesses have been found in the chemical compounds of plants. Biodiversity provides humans with a stock of natural capital which it would be foolish to waste. In addition, if the natural environment of a region is wiped out and replaced with alien

¹⁵⁵ D A McDonald, *Op Cit*, p319

¹⁵⁶ "The Western Cape Province Today"

http://www.capegateway.gov.za/Text/2005/12/4a_wc_pages_51-114_web.pdf 2005, p28

¹⁵⁷ *Ibid*, p31

species, then the future attempts to get sustainable development right could be at stake.¹⁵⁸

The western part of the province has been highlighted as an area more susceptible to climate change than the other parts of the country, due partly to the weak ozone layer above it and more seriously because South Africa contributes about 90 percent of the carbon dioxide emissions coming from Africa, and has recently been identified as the world's largest per capita emitter of carbon dioxide.¹⁵⁹ Carbon dioxide creates the "greenhouse effect" which essentially means that heat is trapped inside the atmosphere instead of radiating through it. This is in large part the result of South Africa's poor quality of coal, which is used to fuel power stations throughout the country. This will be further discussed in the Chapter five in the section dealing with Eskom. The predicted outcome of the climate change in the Western Cape is lower rainfall, yet heavier storms and flooding and higher frequencies of droughts.¹⁶⁰ This will lead to further desertification and most probably the loss of the succulent Karoo biome and much of the fynbos biome too.

The excessive flooding in on the Garden Route in the winter of 2006 may be a sign of future weather patterns. Around 75 percent of all South African fishing is done off the Western Cape coast, and most of the poaching operations are executed off the same coastline.¹⁶¹ Both the poaching and changes in sea temperatures have led to a drop in fish stocks, which has sent prices up, making fish very expensive in South Africa, where much of the people living on the coastline struggle to afford other types of meat. In addition, the Western Cape shares with the rest of South Africa the problem of soil erosion, which is rapidly degrading what little arable land that is available in the Western Cape.¹⁶²

¹⁵⁸ *Ibid.*, p38

¹⁵⁹ M Gosling, "Top Academic Slams SA Environmental Policies" *Cape Times*, 4 December 2006, http://www.iol.co.za/index.php?set_id=1&click_id=13&art_id=vn20061204042211461C109626

¹⁶⁰ Human Sciences Research Council *Op Cit*, p15

¹⁶¹ "Investing in the Western Cape"

http://www.southafrica.info/doing_business/investment/opportunities/wcape.htm

¹⁶² All Refer, "Environmental Protection" <http://reference.allrefer.com/country-guide-study/south-africa/south-africa97.html> 1996

The Western Cape shares many of the developmental and environmental needs of the other provinces, and there is increasing awareness that companies are impeded because of them. Issues such as crime, alcohol abuse, child abuse, ill health and a low standard of living in general, all affect the productivity of workers.¹⁶³ However, the conditions that mines create for their workers also create many of these issues. Informal settlements breed low living standards and a lack of education by not having the financial support of government. Low living standards also contribute to alcoholism and abuse in families. Furthermore, during apartheid, many families were moved from the 'white' areas of Cape Town into newly built towns such as Atlantis, just north of Milnerton, and these have become informal townships, with very little employment opportunities for the youth.

Drugs, gang violence and ill health are prevalent in areas such as these, and there is little opportunity to leave. Not only are the mines affected by this situation, they can often serve to propagate it. In addition, the West Coast has recently been found to have oil reserves, which will fuel oil mining off the coast. Cape Town Harbour serves as the nearest large port for the rigs and infrastructure that will be required.¹⁶⁴ The Western Cape is unique in terms of the rest of the county in that it has no coal resources and acquires its energy from the Keoberg Nuclear Power Station and other provinces, and has no functioning coal burning stations.¹⁶⁵

A difficulty involved in dealing with the environmental needs in particular because it requires cooperative action between the provinces, government and other national governments.¹⁶⁶ Pollution, in particular the kind that washes down rivers and from neighbouring coastlines, as well as acid rain and emissions are at the very least a regional problem, and in the case of emissions, they are a global problem. If one accepts the theory of global warming, which more and more scientists are, then fragile and localised ecosystems, such as the Cape Flora Region and the Succulent Karoo are in real danger of extinction. This, alongside the threat of de-vegetation that the

¹⁶³ R Hamman, *Op Cit*, p19

¹⁶⁴ One-The-Air "At the Coalface" 24 March 2006, <http://www.miningweekly.co.za/min/air/?show=83341>

¹⁶⁵ P Kowalik, K Coetzee, *Op Cit*, p19

¹⁶⁶ R Payne, "Deliberating Global Environmental Politics" *Journal of Peace Research*, Vol. 33, No. 2, 1996, p129

extractive industries pose to the fynbos, has lead many environmental groups to campaign vociferously to protect the fynbos kingdom. In order to receive this cooperation, the South African government must either enact more severe legislation, or else provide incentives for greater CSI aimed at protecting the fynbos, as well as cooperating with neighbouring countries (whose history of CSI is far shorter than South Africa`s) to reduce pollution and emissions.

5.1.2. Business and the protection of biodiversity

Most commercial activity negatively impacts the environment.¹⁶⁷ This is neither a new nor shocking statement however it is extremely important to remember. From the highly visible effects of logging, mining, trawling, smelting among many, to the less easily seen effects of truck emissions, and general waste produced by the great majority of businesses. At some point in the chain of production, some form of waste will be produced that negatively affects the environment. One effect of this is that biodiversity is negatively affected by the loss of environments.

The situation need not be dire, considering the economic weight of the companies behind the wastes and emissions, and considering that in order to have a licence to do business in South Africa, companies must perform some form of CSI. In addition, there is a rapidly developing international policy agenda that deals with the protection of biodiversity. These are: The conventions begun with the Convention on Biodiversity in 1992; the sustainable development agenda; the newly emerging theories on good corporate citizenship, corporate accountability; and the globalisation debate.¹⁶⁸ The business agenda is being driven by at least three drivers: Profits from the emerging biodiversity-linked product market; efficiency and cost benefits that might accrue from scientific research; CSI along with government regulations, subsidies and taxes.¹⁶⁹

All three business based drivers are linked, and they can serve to mutually reinforce one another. Cost saving leads to more profits which can be spent on research into new products which conserve biodiversity thereby staying ahead of regulations or

¹⁶⁷ H Ward, "Introduction and Overview" *International Affairs*, Vol. 76, No. 2, 2000, p213

¹⁶⁸ *Loc Cit*

¹⁶⁹ M C Rubino, "Biodiversity Finance" *International Affairs*, Vol. 76, No. 2, 2000, p226

qualifying for subsidies or tax rebates. These drivers, along with the international convention efforts to promote the sustenance of biodiversity have led many businesses to reassess their ideas on biodiversity.

The protection of biodiversity entails conservation efforts. Conservation is usually conceived of being about the protection of animals in reserves and generally outside of the traditional business environment. Game reserves have become increasingly popular and South Africa has some of the top rated reserves in the world. Public conservation funding is decreasing, therefore it has become necessary to involve the private sector in conservation efforts to bolster that which the government can contribute.¹⁷⁰ However, the conservation of biodiversity is far more complex than simply putting up fences and introducing wildlife, especially in regards to endemic habitats, such as the fynbos kingdom in the Western Cape.

The area in which the Fynbos used to thrive has now become reduced due to urbanisation, at present it is estimated that about 8500 species of fynbos still survive.¹⁷¹ The pockets are located in the Cape Point Nature Reserve, the Table Mountain Nature Reserve and Kirstenbosch Gardens. There also remains some unspoilt fynbos around the Helderberg, Simonsberg, Hottentots Holland, Du Toitskloof and Bainskloof mountains, as well as a relatively large patch stretching from the Blaauwberg area up to Bokbaai.¹⁷² 68 percent of the plants are totally endemic to this area, as are many of the animals that feed there.¹⁷³ Already the kingdom has lost many species to development. 90 percent of the Sand Plain Fynbos, 97 percent of the West Coast Renosterveld and 60 percent of the Strandveld is already lost.¹⁷⁴

The South African government is faced with a difficult decision. While it is important and necessary to conserve the fynbos kingdom, the government does not want to deter development and investment in the area. The Western Cape population grows significantly, every year, with large increases being seen in informal settlements and

¹⁷⁰ "The Western Cape Province Today" *Op Cit*, p33

¹⁷¹ Cape Town Metropolitan Council "Mapping of Proclaimed Nature Areas in the Cape Metropolitan Area: Methodology Report," www.capetown.gov.za/planning/spatialprojects/pdf/nature.pdf, 1998, p4

¹⁷² City of Cape Town, *Structure Plan for Mining Report Index* figure 5 www.capetown.gov.za/planning/spm/introduction/procedure_assess.asp

¹⁷³ Cape Town Metropolitan Council, *Op Cit*, p4

¹⁷⁴ *Ibid*, p5

housing developments along the coast. In addition, the South African government, as with many other governments, does not have the capital to protect the kingdom on its own. Corporate funds will be necessary, particularly those directed towards funding and encouraging biodiversity-linked businesses and biodiversity-linked scientific research.¹⁷⁵

As discussed before, this CSI could quite easily come from companies within the extractive and other heavy polluting industries in an effort to develop the means to protect the environment as far as is possible, while maintaining business operations. Through beyond compliance behaviour that is targeted at the area of highest damage that firms do to the environment, there is a possibility that issue such as land, air and water pollution could be better managed. The CSI would thus contribute in a large way to limiting the long term damage that the companies do, while at the same time contributing to branding and showing consumers that the companies do understand and take responsibility for the damage that they have done. This would also go a fair way towards improving self regulation, as the research could be incorporated into business operations, keeping the companies beyond compliance.

Michael Rubino identifies three potentially useful routes for businesses to take in order to connect with biodiversity. Firstly, companies can ensure that they use their resources in a sustainable manner. These companies are usually involved in extraction and use of resources, be it fishing, mining logging and so forth, however pharmaceutical and ecotourism companies also feature in this bracket. Secondly, companies can ensure that they have completed their environmental impact research, and thereafter use the best possible practices to limit the damage they do. Logging, mining and trawling all feature heavily in this bracket, but other heavy industries can also benefit from ensuring that they connect environmental impact assessments with real attempts to limit and ameliorate damage. Thirdly, companies can ensure that they have completed social impact research.¹⁷⁶ The impact to the surrounding communities is as important as the impact to the surrounding environment because damage to the environment will often lead to damaged communities, and while the animals and

¹⁷⁵ M C Rubino, *Op Cit*, p224

¹⁷⁶ M C Rubino, *Op Cit*, p225

plants will die or leave the areas, human beings have a propensity to survive even the most appalling circumstances. They tend to become forgotten communities.

Mining and quarrying actually declined in terms of their contribution to the provincial economy.¹⁷⁷ However as much of the mining and quarrying is based in the lowland areas, this still constitutes a major threat to the lowland biodiversity. In addition, as most of the mining and quarrying in the Cape Town Metropolitan Area is small-scale clay and minerals opencast mining, the companies do not have enough of a public profile or big enough budget to contribute meaningfully to CSI. Therefore it is difficult to say that although the Cape Town area has less mining that the damage is not extensive or serious. Quarrying leaves enormous holes in the environment that take many years to fill. In most cases when the quarry has been mined out, the company will just pack up their equipment and leave.

In 2004, 458 mining licenses were in operation in the Western Cape with the large majority for construction commodities, such as building sand, clay and gravel. There were also licenses produced for industrial materials such as dolomite, kaolin, limestone, salt and gypsum. In addition, a small amount of licences were for diamond and rare earth mining. Most of the diamonds are found in marine mines.¹⁷⁸ A report by the Provincial Spatial Development Framework concluded that some of the major problems with mining in the Western Cape, was that rehabilitation and environmental management systems were not always enacted properly, also mining inevitably leads to a loss in soil quality which meant that the soil could no longer be use for agriculture, and that the natural vegetation would find it difficult to reseed itself.¹⁷⁹

¹⁷⁷ "The Western Cape Province Today" *Op Cit*, p43

¹⁷⁸ *Loc Cit*

¹⁷⁹ *Ibid*, p48

Chapter Six: The Case Studies

6.1. Breakdown of the selected companies' environmental degradation and CSI projects

6.1.1. Saldanha Steel

The Saldanha area suffers from extreme poverty. In the last decade the major source of food and income, fishing, has declined, resulting in job losses and a lack of food.¹⁸⁰ In 1994 Saldanha Steel announced their plans to build a new steel plant in the Yzervarkensrug area adjacent to Saldanha Bay, in the northern part of the Western Province. Objections were raised by the Parks Board and a number of environmental groups as the Saldanha Bay Lagoon comprises of an extremely sensitive wetland that has many endemic species. After a year of wrangling between the Cape Town Provincial Legislature, the Parks Board and the Independent Development Corporation (IDC), the proposed site was move two kilometres inland, in order to diminish the pollution to the Saldanha Lagoon. Iscor joined the project in 1995, and construction commenced in early 1996.¹⁸¹ Over R9 billion has been committed to SSP since then.¹⁸²

The Saldanha Port has had to be enlarged to deal with the increased traffic, and another result of the Saldanha plant is that further industrialisation is on the cards for the area, provoking more protests from the environmentalists.¹⁸³ Saldanha Steel maintains that it contributes to the economic development of the Saldanha area and lives up to its responsibilities to its employees and those that live in the area by creating employment, and contributing to CSI. From the first, the shareholders, and stakeholders were involved in the project, however the planning and construction phase were tainted by claims of nepotism and corruption.¹⁸⁴

¹⁸⁰ "Community participation in the Saldanha Steel Project: A case study" <http://www.up.ac.za/academic/soba/SAAPAM/administratio%20publica/vol8no2/daniel/content/part2.htm>

¹⁸¹ Loc Cit

¹⁸² "Investing in the Western Cape" Op Cit,

¹⁸³ L Linsell, L McDaid, "The Saldanha Bay Conflict: Of Pelicans and people, Steel and Survival" "The Saldanha Bay Conflict: Of Pelicans and people, Steel and Survival" Track Two, Vol. 5, No. 2, 1996 <http://www.ccr.uct.ac.za/archive/two/4/p7.html>

¹⁸⁴ "Investing in the Western Cape" Op Cit

Since the construction of Saldanha Steel, Iscor was bought by Mittal Steel. Mittal Steel maintains in its annual reports that it is committed to environmental best practices in Saldanha (as well as its other plants). There is a difficulty in assessing Mittal's commitment because of the short time which they have had to mitigate the disastrous effects that Iscor had on the environment at all its plants. One example at the Saldanha Plant has been the 30 percent reduction of daily water use when the plant installed a closed-loop cooling system.¹⁸⁵ Nonetheless there is a definite trend which upholds the Antonites and DeVilliers assertion that while companies are reporting more on the environment, the quality of the reporting has decreased. The Mittal Steel Sustainability Report shows a distressing lack of real information on their environmental performance and the Report is 17 pages long compared to the rest of the annual report which is 147 pages long.

The section that concentrates on the environment makes up about 6 pages of the 17 and contains information about reducing green house gasses, utilising natural resources and recycling efficiently, the environmental management and rehabilitation of the plant sites, and the general sustainability indicators that refer to the amount of water used and Mittal Steel's environmental management systems.¹⁸⁶ Mittal Steel states that the Saldanha plant is currently operating a zero effluent discharge, which is the total recycling of process water.¹⁸⁷ Other projects that are specific to the business operations are the plans to use much of Mittal's by-products in road construction and brick making, in addition with the Collect-a-Can initiative, established in 1993, which employs over 37 000 people and has paid approximately R300 million to the collectors over the lifespan of the project.¹⁸⁸

Mittal Steel uses the GRI indicators to measure its environmental management, and unsurprisingly, all the operations comply with national regulations.¹⁸⁹ The Saldanha

¹⁸⁵ D De Jongh, K Pienaar, "Introduction to Corporate Citizenship and Defending the Business Case" <http://www.jse.co.za/sri/presentations/SRI%20Index.topicalseminars04.CCC%20presentation.ppt>, 8 September 2004

¹⁸⁶ Mittal Steel "Annual Report 2005" <http://www.mittalsteel.com/NR/rdonlyres/1AFC05CB-9257-4F1C-B7F9-F6570AD2D8C3/0/2005LOWRESAnnualReport.pdf>, pp50-55

¹⁸⁷ *Ibid.*, p50

¹⁸⁸ *Ibid.*, p51

¹⁸⁹ *Ibid.*, p52

plant initiated various improvement projects during 2005, these include: The stockhouse extension project which was aimed at reducing the amount of dust levels; increasing the capacity of the brine evaporation ponds to maintain their zero effluent discharge status; and reducing the dust levels emitted from their Conarc building. In addition Mittal plans to reduce carbon dioxide, improve energy consumption, material efficiency and water consumption in 2006.¹⁹⁰The Mittal Steel 2005 Annual Report announces that Mittal has spent around R196 million over the past twelve years on social development in South Africa.¹⁹¹

They do not, however, include their environmental spending in this, as they appear to consider social spending to fit into the concept of CSR (not CSI, the term is never mentioned in the annual report), and they collate environmental projects within a separate Safety, Health and Environment (SHE) section of the Sustainability Report. The Report contains no breakdown of CSR spending, nor any indication of how much was spent on environmental protection, which is surprising considering how much damage steel plants do to the environment. As Mittal Steel has shown itself to be willing to comply with all regulations, this omission must be attributed to a lack of regulation from the government, as well as a lack of effective action from CSOs and interested parties. Also surprising is that Saldanha Steel makes has no projects involving the Saldanha Lagoon. What with the furore surrounding the Lagoon in the first place, Saldanha Steel would do well to show their commitment to the protection of the wetland by donating funds, equipment or expertise.

6.1.2. The Caltex oil refinery

First, it must be noted for consistency that South Africa has yet to replace the old Caltex name with the new international designation, Chevron. Thus this dissertation will refer to the company as “Caltex”, as this research only concentrates on the South Africa branch. The Caltex oil refinery is situated in Table View just north of Cape Town City and has been identified as a pollution hotspot. The groundWork Air Quality Report of 2003 found elevated levels of toxins in the immediate vicinity,

¹⁹⁰ Loc Cit

¹⁹¹ *Ibid*, p18

many of which cause cancer in animals and humans.¹⁹² In addition it is suspected that the refinery is the cause for the high levels of mercury found in people in the area.¹⁹³ In Durban, the Petronas owned petro-chemicals plant has lead the community taking action in the form of documenting incidents such as excessive flaring, cancers and general pollution. As yet this kind of community involving and uprising has not occurred in Cape Town.

The refinery contributes to pollution in a number of ways. Air pollution is a major factor and one study found elevated numbers of child asthmatics in the Milnerton area although Milnerton has other air polluters such as an aluminium smelter, so the damage does not belong to Caltex alone. The research went on to conclude that refinery emissions were as great a factor in determining whether a child would become asthmatic as gender, genetics and having an adult smoker in the house.¹⁹⁴ While the refinery is operating within legal pollution limits, Caltex subsequently accepted that their refinery may cause asthma in children, and turned to the World Health Organisation (WHO) for guidance on acceptable emission levels. However, some feel the WHO levels are also insufficient.¹⁹⁵

One of the major stated aims of the Caltex CSI programme is to make a positive impact on regional environmental concerns. One project is aimed at water conservation in the Western Cape as a response to the drought that has recently affected the area and the insistence of climate change experts that the Western Cape will continue to experience low rain falls. Caltex states that their approach is based on the need for a “holistic strategy that impacts all areas of society.”¹⁹⁶ In essence what the Caltex group mean by “holistic strategy” is that the problem of water conservation relies on people and companies learning to waste less water, not just the application of water restrictions by government. This learning should hopefully lead to a culture

¹⁹² D Hallows, M Butler “Forging the Future: Industrial Strategy and the making of Environmental Injustice in South Africa” *The groundWork Report 2003*,

<http://www.groundwork.org.za/Publications/groundworkreport2003.pdf>, p11

¹⁹³ *Ibid*, p12

¹⁹⁴ T Kahn, “Caltex Oil Refinery Operating within Legal Pollution Limits, Says Council” *Business Day*, 30 December 2003, <http://www.businessday.co.za/Articles/TarkArticle.aspx?ID=929820>,

¹⁹⁵ *Loc Cit*

¹⁹⁶ “Recycling for the Future” A Freemantle (ed) *The Sustainable Business Handbook 3rd Edition*, Trialogue, Cape Town, 2006, p148

change in people and companies where the conservation of water becomes unconscious.

The refinery is Cape Town's largest industrial operation, which uses 6 million litres of water every day in order to operate. Caltex calculated this to be the average daily consumption of 38 000 Capetonians. In order to mediate some of the damage that this was causing, Caltex and its technology partner, Improchem, built a water recycling plant in early 2006, which now provides Caltex with an alternative source of water and lessens the fresh, government-supplied water that the plant expends.¹⁹⁷ Caltex has agreed to finance the running costs as well as the capital repayments on the original outlay of R30 million. In addition to this, Caltex began to look around for other sources of waste water to use in the refinery. The refinery is built in close proximity to the Potsdam Wastewater Works, which pumps a large amount of wastewater into the Atlantic Ocean through the Milnerton Lagoon. The Lagoon itself has the potential to be an important Wetland in the Cape Town Area, but the effluent that passes through it has damaged the ecosystem.

In 2004 wastewater experts admitted that the lagoon had become a health hazard and many species were either facing extinction or had already disappeared.¹⁹⁸ Caltex also held discussions with government, environmental agencies and local communities in order to come up with a solution. Potsdam agreed to pump almost 8 million litres of wastewater to the recycling plant every day, and the water that emerges is near-drinking quality, which minimises the amount of sewerage that passes through the lagoon. This eliminates almost half the average daily capacity from the Waterworks, and the reduced amount of water has permitted the Cape Town City government to build a new holding pond, allowing the water to pass directly to the sea.¹⁹⁹ While the perfect solution for the lagoon would be to have no sewerage pumped through it, the lessened amounts are of consequence, especially if other companies follow Caltex's example. In addition, the lessened the amounts of effluent pumped into the sea is of benefit to the marine environment off the coast of Milnerton.

¹⁹⁷ Loc Cit

¹⁹⁸ Ibid, p149

¹⁹⁹ Loc Cit

Caltex's CSI is unusual because there is a distinct focus on environmental protection and improvement. Caltex was not required to expend its capital on reducing pollution. This is an example of beyond compliance behaviour, targeted at the problem caused by the company. What Caltex has achieved with the Cape Town operations is to use some of the CSI budget to counteract the negative environmental effects that the refinery has on the area, while lessening the firm's own reliance on expensive clean water. In addition, Caltex found a way to include another water polluter, the Potsdam Wastewater Works, the government, environmental agencies and the local community into the project. Thus one of the basic tenets of CSI, that all the stakeholders be present and involved in the projects, was satisfied. Caltex is now considering options to recycle and use its own effluent in the future.²⁰⁰

In other areas of the Caltex CSI budget the focus reads like most of the other large companies in South Africa. Caltex pledges to have integrity for all their stakeholders while maintaining respect for cultures, the environment and society. Their CSI budget covers issues such as health, education, arts, culture, community upliftment, as well as the aforementioned environmental aspects.²⁰¹ Caltex gives priority to projects that are initiated by their own employees or the communities in which they live, but for those that are not, they insist upon there being a link to Caltex.²⁰² Caltex does not consider bursaries or funding for individuals, once off events or the sponsoring of political, sectarian or religious events in order to remain unbiased in their dealings with all their stakeholders.²⁰³

Contrary to the experience of many other companies, Caltex does not operate through any third party agencies or foundations and their CSI department is built into the company. The reason the company gives is that they prefer to remain integral to the programmes that they sponsor, for the long term.²⁰⁴ However, another reason may be the experiences that companies had in the past, where CSI projects were initiated and then ignored once completed. This created negative impacts on company reputations. In addition, third parties may have different agendas or may work differently. In this

²⁰⁰ *Ibid* p148

²⁰¹ "Community Partnerships" <http://www.caltex.com/sa/en/community.asp>, 2006, p1

²⁰² *Loc Cit*, p1

²⁰³ *Ibid*, p2

²⁰⁴ *Loc Cit*

manner, Caltex ensures that all their projects are run the way Caltex wishes and they retain full control.

6.1.3. Eskom

Eskom began operations in 1922 in terms of the Electricity Act, as a result of the extremely high demand for electricity from local municipalities. Communities began to grow very quickly due to gold and diamond mining in South Africa, and in the 1920s it became clear that the private electricity suppliers could not keep up with the demand.²⁰⁵ The government initiated Eskom in order to better regulate the provision of electricity. In addition to this over the years it has become clear that even under the free market system, some products required government intervention and control in order to manage negative externalities created by natural monopolies such as the provision of electricity.²⁰⁶ Eskom generates the majority of its power from coal burning (92 percent), while the last 8 percent is made up of nuclear power in the Western Cape through the Koeberg Power Plant. Eskom is the only supplier of electricity to South Africa, and as such as contributed in a major way to the development of industry.

Firstly, as Eskom uses large quantities of coal to produce electricity, the low grade coal mining industry in South Africa has been given a large boost. However, some experts believe that the coal reserves within South Africa will run out by the middle of the 21st Century, meaning that South Africa will either have to import coal, or build more nuclear facilities.²⁰⁷ In addition to this, Eskom has in the past made deals with mining companies to provide electricity to their operations at lower than normal rates.²⁰⁸ As a result, Eskom has contributed to the rise of industrialisation in South Africa. The fact that South African electricity prices are much lower than the rest of the world has also added to economic development.²⁰⁹ However, while the corporations receive very low rates on electricity, low income households do not.²¹⁰ In

²⁰⁵ D Hallowes, M Butler, *Op Cit*, p6

²⁰⁶ P R Portney, *Op Cit*, p110

²⁰⁷ All Refer, "Electrical Power" <http://reference.allrefer.com/country-guide-study/south-africa/south-africa91.html>, 1996

²⁰⁸ D Hallowes, M Butler, *Op Cit*, p7

²⁰⁹ A Clark and S Drimie, *Op Cit*, p10

²¹⁰ D Hallowes, M Butler, *Op Cit*, p7

fact in Cape Town, households consume only 15 percent of the electricity used in the city, with industry using about 42 percent.²¹¹

The low price of electricity for high quantity consumers in South Africa has led to a number of negative impacts on the country. Firstly, the export market is partially and subtly subsidised by low electricity costs. Any change in this situation would lead to protest from the export market, and in any case the South African economy is pushed towards creating ever greater quantities of exports, making exporters and their desires important to Trevor Manuel. This leads to the second impact. There is very little impetus from government or the business world to move to a more sustainable manner of creating electricity. The arguments put forward by CSOs, NGOs and the like fall largely on deaf ears. However the situation is set to change. The large minerals processing plants that have sprung up in the major centres, have largely sucked up Eskom's excess capacity. The result was seen all too powerfully in the Cape Town black outs in early 2006, when the entire city went without power on a number of occasions because one of the Koeberg towers broke down. The loss of power to an entire city is extremely serious for business and for households.

There is an urgent need to create more power stations. This can be done in a few ways. Either more coke burners can be commissioned, although they probably will not be done in time, or more nuclear power plants can be built or the government can explore alternative methods of creating power such as hydro-electricity and wind power. The latter options are still in their infancy in South Africa and would not be of much help in the immediate future. The long term view is that in order to increase capacity, Eskom will inevitably increase its prices. Thirdly, because Eskom relies so heavily on coal burning in order to create electricity, South Africa is the highest carbon gasses emitter in the world.²¹² South Africa has also been identified as one of the global warming zones, even as many leaders in the international community protest the existence of global warming.

²¹¹ Department of Minerals and Energy "Energy Outlook for South Africa 2002"
http://www.dme.gov.za/pdfs/energy/planning/energy_outlook_may02.pdf, 2 May 2002, iv

²¹² D Hallows, M Butler, *Op Cit*, p8

Eskom's pollution does not end there. Below ground coal burning releases methane, above ground chemicals are leached into rivers that contaminate the local drinking water. In addition, the ash created in the burning process has an extremely high pollutant content.²¹³ In Koeberg the situation is different, and it is very difficult to tell what effect the power plant is having on the local vegetation and animals as Eskom has severely limited access to the area as a result of sabotage in the 1970s. Another reason for this is that even from the road, which is a few kilometres from the actual plant it is easy to tell that not much is able to grow in the soil, which means that not many animals will be able to survive in the area.

In order to deal with the growing demand and concurrent lack of capacity seen in the Western Cape, in 2005 Eskom proposed a new Open Cycle Gas Turbine (OCGT) Power Station, to be built near Atlantis, or Mossel Bay, the former to the north and the latter to the south of the Cape Town Metropolitan Area. While Eskom asserts that the power station can use either natural gas or liquid distillate fuel, such as kerosene, it is highly probable that in light of the failed attempts to get the Kudu Gas field projects off the ground, the power station will rely primarily on liquid distillate fuels, which emit much higher levels of carbon monoxide.²¹⁴ In addition to the power plant, Eskom has proposed a new substation and four new transmission lines, linking the new plant to Keoberg.²¹⁵

In keeping with the requirements of the EIA, Eskom has identified a number of environmental impacts which have to be assessed by environmental specialists, in the EIA process.²¹⁶ The studies include geology, geohydrology and hydrology; ecology, flora, terrestrial fauna and avifauna; soils and agricultural potential; heritage resources and palaeontology; air quality and noise; social environment and land use; tourism potential; visual aspects and aesthetics; and traffic.²¹⁷

²¹³ *Ibid.*, p9

²¹⁴ Environmental Impact Assessment Process "Proposed Open Cycle Gas Turbine (OCGT) Plan and Associated Transmission Lines and Substation at Atlantis, Western Cape Province Briefing Paper" <http://www.eskom.co.za/content/AtlantisBriefingPaper.pdf#search=%22%22koeberg%22%20%22eia%22%22> 2005, p1

²¹⁵ *Loc Cit*

²¹⁶ *Ibid.*, p4

²¹⁷ *Loc Cit*

In addition, in 2000, Eskom began the EIA process to test a newer form of nuclear power technology called a pebble-bed modular reactor (PBMR). By 2003 the EIA had been approved and plant was ready to be tested. The PBMR uses small ceramic fuel pellets (pebbles) rather than the traditional fuel rods. The pebbles allow the reactor to operate at higher temperatures which increases the amount of energy that can be converted, into electricity, while at the same time burning less fuel.²¹⁸ Eskom announced that if the PBMR was a success, it would build up to ten more units around South Africa, and subsequently, many more around the world. However the environmental advocacy group, Earthlife Africa challenged the legitimacy of the EIA approval, and were backed up by the Cape Town City government, as well as various civic and environmental groups.²¹⁹

One of the problems identified by NGOs was that Eskom's Integrated Strategic Electricity Planning (ISEP) process, in which Eskom assesses the different energy options open to them in South Africa, was not open for public appraisal, and thus could not be evaluated by the very people that Eskom provides electricity to.²²⁰ In addition, some NGOs have asserted that the ISEP process does not critically assess nuclear energy, which is somewhat surprising, considering that the process was not open to the public. Despite this, there have been other issues with the EIA process. During the public participation phase, Eskom did not outline the risks of nuclear technology, nor did they identify any risks that might be a part of the PBMR programme. Another complaint was raised that Eskom did not identify any alternatives to the PBMD programme, which in terms of NEMA, Section 24.7 is necessary in any EIA.²²¹ In addition, the cost for the Koeberg demonstration plant have risen to an estimated R10 billion. The cost will most probably be borne by the public through taxation and increased energy costs.²²²

²¹⁸ Energy Information Administration "Nuclear Power in South Africa"
http://www.eia.doe.gov/emeu/cabs/safr_nuke.html, 2003

²¹⁹ Loc Cit

²²⁰ Environmental Justice Networking Forum "Background to Eskom's PMBR Programme"
http://www.ejnf.org.za/new_page_3.htm#CONCERNS%20REGARDING%20ESKOM's%20PMBR%20PROGRAMME 2001

²²¹ Loc Cit

²²² Earthlife "Monday 15th September 2003" <http://www.earthlife-ct.org.za/media.cfm?ID=16>

In 2005 the construction of the PBMR was halted when the Cape Town High Court overturned the earlier ruling that upheld the EIA approval. Some of the suggestions made by the court were that the EIA process was too cumbersome, and that it also required some fine tuning to make future EIAs more effective. The decision has placed the PBMR project in danger as the delays mean higher costs, leaving many investors wondering if they should still be a part of the project.²²³ The ruling was seen as a victory to the environmental groups that are still attempting to halt construction.

Many civic and environmental groups have serious doubts about nuclear technology. In the first place, the disposal of the spent radioactive fuel rods remains a contentious issue, because the rods first have to spend at least forty years in a cooling pond before they can be considered for disposal. Thereafter the rods and other radioactive waste are taken to Vaalputs in the Namaqualand where they are stored in special containment vessels. It would take about 240 000 years for the radioactivity to diminish to safe levels.²²⁴ That is how long it would take on the surface too, therefore, nuclear accidents are extremely serious in the long term, killing those in the close vicinity immediately and causing cancer in nearby inhabitants for many years after.

In addition, the PBMR forces South Africa into a long term nuclear process, as the developed world begins to turn to other, cleaner, safer methods of providing energy to their citizens.²²⁵ It is Eskom's job, as the sole provider of electricity to the country, to investigate other methods of providing energy. Wind power, while initially very expensive has very low operating and maintenance costs, and there is plenty of open land in South Africa to accommodate wind farms. Eskom has devoted some research into wind power, and at present the company has a pilot wind farm in Darling, however until the project has demonstrated its use and feasibility no other wind farms will be seriously considered.

²²³ Business Day "State Environment Planning Knocked by Koeberg Ruling"
<http://www.eprop.co.za/news/article.aspx?idArticle=5076> 27 January, 2005

²²⁴ J Acton "Overview of Nuclear Technology"
http://www.ejnf.org.za/new_page_3.htm#CONCERNS%20REGARDING%20ESKOM'S%20PMBR%20PROGRAMME 2001

²²⁵ Environmental Justice Networking Forum, *Op Cit*

Eskom has had a CSI division since 1989, when the company started focussing on grants to “historically disadvantaged communities in South Africa”.²²⁶ Eskom began their CSI programme when it became fashionable in South Africa for companies to display their commitment to the inevitable change in government. The “previously disadvantaged communities” comment is sadly amusing, as the communities they are referring to were disadvantaged at that time. Being a parastatal, it is also somewhat ironic that Eskom attempted to show support for the disadvantaged communities that the Eskom-owning National Party government were so keen to suppress. However, Eskom managed to avoid actual contact with these communities by distributing their money through NGOs.²²⁷ The CSI funds were aimed at education, particularly maths and science, the establishment of resource centres, very small scale manufacturing and food gardens aimed at poverty alleviation.²²⁸

In 1999 Eskom initiated the Eskom Development Foundation in order to manage all the social investment initiatives under one roof. The Development Foundation considers grant requests from “historically disadvantaged communities” and when the company finds projects that they feel fit the profile they are looking for, they provide funds for set projects.²²⁹ The projects focus on the usual list of small and medium enterprise (SME) assistance, skills development, job creation and investing in women.²³⁰ Most recently, in September 2006 Eskom hosted a small, micro and medium sized enterprises expo, aimed at encouraging these businesses. The criterion for participation was that all entrants had to be previously disadvantaged.²³¹

Of course, it is somewhat redundant to say that a company is aiming its CSI at the previously disadvantaged. The aim of CSI has always been to provide money for issues of underdevelopment that, for whatever reasons, a company felt they should be involved in. What Eskom is not doing, however, is providing any funds to repair the enormous amount of damage, and potential future damage that they are doing to the

²²⁶ Eskom “CSI Overview” http://www.eskom.co.za/esdef/csi_overview.htm

²²⁷ *Loc Cit*

²²⁸ *Loc Cit*

²²⁹ *Loc Cit*

²³⁰ D De Jongh, K Pienaar, *Op Cit*

²³¹ Eskom “Small business development expo 2006”
<http://www.eskomsmmeexpo.co.za/downloads/rate.pdf>

environment. Their damage affects the air quality of the entire country, as well as pumping effluents back into the land and the water supply.

In addition to this, in 2005, the African Institute for Corporate Citizenship hosted a panel of experts in the fields of sustainable development and social responsibility. They criticized Eskom's 2005 Annual Report for not reporting more thoroughly on alternative energy and for ignoring issues surrounding land rehabilitation and global climate change, in which the company plays a significant role. The issue of mercury emissions from Eskom's plants was completely ignored in 2005 Report, and worse than this, the panellists found that the report showed no evidence of actual small, micro or medium enterprise development, which is a startling omission in an annual report.²³² Furthermore, and finally the panellists found that under the CSI section in the report, no mention was made of environmental education for communities, nor any evidence that Eskom had any idea what their operations were doing to endangered species around their plants.²³³

This is the prime example of a company that directs attention as far away from the destructive nature of its business operations as it can. CSI is aimed at the previously disadvantaged, which the parastatal had a role in maintaining. Some level of political responsibility must remain with the parastatals, and they should bear some of the costs. However, Eskom continues to mine the lowest quality, cheapest coal it can, while providing, at least for 2006 and 2007, a substandard quality service. This is one of the most obvious cases of a company whose business operations do more harm to the country than its CSI programmes can mend.

²³² African Institute of Corporate Citizenship "Commentary on the 2005 Eskom Annual Report" <http://www.eskom.co.za/about/Annual%20Report%202005/index.html> 2005

²³³ Loc Cit

Chapter Seven: Conclusion

7.1. CSI as a whole

The definition of CSI varies from country to country, as well as from analyst to analyst. However, what has not changed is the growing understanding of how important CSI is to company reputations, and the ability of damaged reputations to hinder profits. Due to the ease with which people are now able to disseminate and acquire information, negative sentiments about company behaviour can affect customers or prospective customers across the world, in a very short space of time. The parameters that CSI is defined as encompassing have changed since the term first came into use in the 1970s, and there has been a suggestion that the new version should be considered as a total overhaul of the terms, concepts and responsibilities within CSI. This has led to some confusion about how far CSI should go, and where exactly the company can say “we’ve done our bit.” There is a question of whether that “bit” is just the provision of funds for development, or whether the funds should be managed by the company, and also whether the concept of development should include the integration of environmental concerns within the CSI definition.

This dissertation argues that environmental concerns are intrinsically part of development, as bad environmental practices impede development by constantly placing vulnerable people in environmentally degraded areas, both rural and urban, as well as fostering the feeling that being environmentally conscious is the preserve of the rich. In order to assist in rectifying this situation, the definition of CSI should focus on the entirety of the goal, that is, using set company funds to manage the negative developmental impacts on communities that are both legacies of the past, and the creation of neoliberalism today. As considered in the preceding chapters, developing countries, particularly in Africa, face not only the negative developmental impacts of colonialism and the consequent mismanagement of their governments thereafter, but also the difficulties of the ‘trickle down’ neoliberal system, where prosperity only reaches the poor once it has passed through the rich economically active portion of society first. Opinions vary, but it would not be a highly conservative statement to say that in many instances, this has not been the case.

Therefore, CSI is the tool used by companies to achieve a balance between those negative impacts created by history and their own activities and the attempts to develop communities and societies. However, since the 1980s there has been a consistent and successful move to include environmental development (conservation, preservation and reparation) into the traditional view of what development actually entails. This is known as sustainable development. Without a view towards protecting the environmental spaces that humans live in, or near, actual development is not possible, because the poor will always be vulnerable to degraded land, which negatively affects biodiversity, and the loss of biodiversity negatively affects all communities, whether rich or poor by reducing the amount of natural capital available to them.

Thus, if CSI is a tool for development, it must also be a tool for sustainable development, and that intrinsically entails an environmental slant. Companies should, and some even do, include environmental projects within their CSI budgets. However, as stated before, within South Africa, the proportions of company funds allocated towards environmental development are extremely low. A mere 4 percent, which is fairly serious considering that the large majority of companies affect the environment negatively, be it from their primary business functions, such as heavy industry, or just from carbon dioxide emissions due to the transport of their product. As stated before, South Africa is the world's highest carbon dioxide emitter per capita. Companies tend to ignore this based on the arguments that global warming is just a farce, however the evidence produced in recent times shows how serious the rise in global temperatures is, not only for biodiversity, but for humans too.

7.2. CSI in South Africa

Within South Africa, the majority of environmentally-concerned CSI projects emanate from the heavy polluters. However, these are usually only measures aimed at keeping the companies in line with regulations, which the industries usually set themselves, due to the serious lack of government legislated regulations. These industries use most of their CSI funds for community development, without

considering the negative impact that environmental degradation has on the development of those communities.

Within the extractive industries in South Africa, there is an understanding of the role that many companies played in the maintenance of unequal economic distribution, and the purposeful attempts to keep black, Indian and coloured people subordinate to whites. Mining, particularly that of gold and diamonds was the key to white South Africa's economic growth during the first half of the 20th Century, and it funded the industrialisation of the country during the latter half. Economic growth occurred at the expense of the black, Indian and coloured citizens of the country, by using migrant, "foreign" labourers, who had few rights in terms of South African working conditions. Thus, the extractive industries have a history of perpetuating the apartheid system, as well as creating substandard living conditions for the workers in the hostel areas. Many of these have since become permanent informal settlements, with high levels of unemployment, poor infrastructure and environmental degradation.

These industries have attempted to ameliorate the damage to their reputations by embarking on programmes to uplift the communities that they helped to disempower. At the same time, many companies have begun to understand that if they do not, at the very least, appear to recognize their social responsibility to the citizens of the country (that is, the realisation that they have a responsibility beyond that of profit making) their reputations will also falter. Since most of the South African companies involved in the extractive industries have an overseas client base, they face a large threat if it becomes known that they have a poor concept of their social responsibility.

In addition to this, the other high polluting companies in South Africa have come on board, with attempts to uplift the poverty stricken in South Africa, by creating CSI projects that improve education, infrastructure and small business creation. These are laudable projects and although it is difficult to envisage whether they are truly sustainable, that is workable in the very long term, many have produced positive results. It is the projects that empower the people, by giving them skills that have the best chance of success. The case studies in this dissertation all place CSI funds into projects with these goals. However, it is only Caltex that has really shown a

commitment to alleviating the environmental degradation that their business operations have created.

This is especially important as the Caltex refinery operates within an important wetland, and within the Cape Floral Kingdom in Cape Town, in the Western Cape. As the Western Cape contains two biodiversity hotspots (the Cape Floristic Kingdom and the Succulent Karoo) , with extremely high numbers of endemic plants and animals, and in Cape Town, high population density, it should be expected that heavy polluters are more environmentally conscious. This has not been the case. Caltex has set an extremely good example with their conservation of the land surrounding their refinery, and the wetland adjacent to it, however other companies such as Eskom, and Saldanha Steel have not followed.

Even though the environmentally destructive nature of their operations has a negative effect on the communities that live nearby, and South Africa as a whole, they continue to concentrate on more visible and less home-made issues such as poverty, under-education and infrastructure. These projects are easier to manage and far easier to consider on a short-to-medium term basis. Also, at the end of the day, it is far easier for companies to say that they have helped to rectify a few of the inequalities of the past, then to say they have rectified the damage they themselves have caused recently.

Project development based on poverty alleviation is easier and more cost effective than developing new means to protect the environment from business operations. The latter requires new technologies and huge capital outlays, while the former projects can be pieced together in a boardroom (although they should not be). In addition, the normative implications of 'helping the poor' have a far better ring to them than the declaration that a company understands just how environmentally damaging their operations are, and promise to fix the problems. This primarily because companies do not necessarily cause poverty. However, CSI should be targeted at the areas in which the company can have or already does have the greatest impact. In heavy polluters that is the environment.

The problem is that improvements in the environmental performance of a company are usually extremely costly as new technologies have to be researched and designed,

while pollution is usually difficult and time consuming to clean up. This is why most companies keep their environmental performance close to or on compliance levels. Generally it would be considered a subtle breach of investors trust if management were to sacrifice large percentages of profits in the name of environmental protection. CSI budgets usually do not cover the needs for environmental protection.

Furthermore, environmental protection is difficult to track, although relatively easy to quantify. However the problem with quantification is that the numbers for pollution, extinction, and general degradation are so appalling that most companies are loath to release them. It is unheard of for companies to release data on how much their activities account for. In addition, while most companies are more than willing to release the numbers for their own emission levels, especially when submitting GRI reports, the numbers can never mean particularly much to stakeholders as they are not submitted in the total context. That is, the national and international levels of pollution, extinction, desertification, and the host of other problems that substandard environmental policies are creating.

7.3. The case studies

The case studies uphold the last paragraph. Saldanha Steel, under Mittal Steel has not shown any desire to protect the vital wetland just two kilometres away from the factory. Instead, Saldanha Steel concentrates on other development projects, such as the Collect-A-Can initiative. In addition to this, Saldanha Steel highlights that their activities in the area create jobs, where previously there were none. While this is true, the impact to the environment will only serve to impoverish people further, by degrading the land (and sea) upon which they depend for survival. Wetlands contain some of the highest amounts of biodiversity, of all the different biomes, and the loss of biodiversity in the lagoon may ultimately lead to the degradation of the entire Saldanha area.

Saldanha Steel should be far more involved in the process of conservation and protection of this valuable area, firstly because their workers live around it, and pollution of the area will negatively affect the workers, thereby negatively affecting

profits. Secondly because they have a social responsibility to uphold the three pillars of sustainable development: economics, society and the environment.

Eskom, on the other hand, does not cause much pollution from the Koeberg plant, other than the radioactive waste that is stored outside the Western Cape. However, it is easily seen from outside the borders of the Koeberg plant, that there is serious damage done to the plants in the area. The cause of this is uncertain. This has led to the loss of land for the highly endangered lowland fynbos species, and it is clear that the land around Koeberg is unsuitable for growing anything. This means that the very low amounts of animal species will survive there.

On the other hand, Eskom's insistence on using only the poorest quality coal has led to South Africa quickly reaching crisis point in regards to CO₂ emissions. The effects of global warming are omnipresent in the Western Cape, and the predictions are that this part of South Africa will suffer the most. While Eskom's activities within the Western Cape do not contribute directly to the increased carbon dioxide load in the atmosphere, the effects are, for the time being, most serious in the province, particularly the Western seaboard, which comprises of both the Cape Floral Kingdom, and the Succulent Karoo. Both are in serious danger of extinction.

The options for Eskom are limited. Either the company can start importing better quality coal, and export that which the country mines leading to a budget deficit and negatively affecting the country (not that many countries in the world would accept such poor quality coal), or Eskom can start building more nuclear power stations. It must be said that Koeberg produces a very small amount of the total South African energy output, and many such stations would have to be built, at great expense. Both options increase the price of electricity to South Africans, who are used to extremely low electricity prices. This would lead to opposition by the public, and industry.

There is a long term semi-solution. Eskom should, in partnership with high-technology industries, begin looking for energy solutions outside of nuclear physics or coal. Wind farms, such as the Darling Wind Farm are a good idea for small communities who require smaller amounts of electricity. The initial outlay is high, but after this the price of electricity drops sharply. Wave generators are also a good idea

in theory, but much research must still be done. South Africa and Particularly the Western Cape, has extremely strong waves, which could be put to good use.

There are options that Eskom should be putting their CSI money into, but for the most part they are sticking with the tried and tested ideas, such as job creation, and education. These are laudable, however, it should be up to the companies with minimal environmental destruction to concentrate on these areas. Companies such as Microsoft, Pick n Pay and Massmart are all good candidates. They have huge CSI budgets, and compared to Eskom, mining and other heavy industries, their impact on the environment is negligible. Eskom has a social responsibility to lessen the negative impacts of its business operations on society. This is classic social responsibility and CSI theory. The bulk of their impact is environmental.

Then there is the example that Caltex has set. Caltex recognized that the Milnerton Lagoon had become dangerously polluted. This affected the residents in the area and the biodiversity within the lagoon. Caltex provided a massive financial outlay to build a water-waste recycling plant in order to minimise that amount of effluent that was pumped into the sea, and rerouted the effluent pipes to 500 metres out into the sea, thereby missing the lagoon entirely. Since then, the lagoon has begun to recover, and pollution levels within it are far lower, approaching safe levels.

This is not to say that Caltex is entirely blame-free in regards to pollution. The refinery is responsible for large amounts of emissions in the area, and the air quality within Milnerton is poor. This has been shown to lead to increased asthma cases, particularly in small children. Caltex keeps its emissions to the regulated levels, but once again the levels are mostly industry-set, and these fall short of what is actually required.

However, the precedent has been set. Caltex has based its CSI on those negative impacts that it is directly accountable for. That is, the environmental problems created through their business operations. They do spend CSI money on other developmental problems, but they have come to realise that they should do more in the environmental sphere. This is a model that other heavy polluters would do well to follow.

To conclude this dissertation, it may well be that CSI is far easier to manage when based on development issues other than the environment. Companies may not want to highlight the pollution, or degradation that their activities cause, by creating CSI projects based around this. Companies may not want to bring attention to environmental issues, because once the public becomes vocal enough about protecting the environment and punishing those companies that degrade it, then the government will have to institute serious and tough regulations. Caltex has shown what cooperation with other companies can achieve in terms of environmental protection, and the example is one that should be followed all over the Western Cape, as well as the entirety of South Africa.

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Appendix

Some national and international regulatory codes, and incentives

Although there are no legally binding codes for MNCs there are a myriad of international standards which are voluntary. **The UN Global Compact and the ISO 14000 and ISO 14001 standards** have been in practice for many years. The Global Compact was established in 1999 by the United Nations and includes nine principles of core values ranging from human rights and labour to the environment.²³⁴ Eskom and Sasol have both joined the initiative.²³⁵ The ISO 14000 and the ISO 14001 standards originate from the International Standards Association and encompass a wide range of environmental policies based on three key principles which are: The prevention of pollution, compliance with the relevant international law on environmental protection and continual improvement of the company's environmental performance.²³⁶ Both these regulations are voluntary and rely on the companies to be transparent and accountable in their operations.²³⁷ A large problem when applying these regulations has been the lack of a concrete definition of CSI. This has given considerable space for companies to move around the regulations. In addition

AccountAbility has created the **A1000 environmental reporting standard** that is designed to assess companies to environmental and social reporting. Environmental and social reporting has become increasingly important in business operations and have been instituted to assess the costs of the environment and society to and of companies.²³⁸ The three main reasons for environmental and social reporting are the identification of a company's commitment to social responsibility, the improvement of a company's image and the observance of regulations.²³⁹

The DME scorecard is a permitting requirement for mining activities in South Africa. The scorecard is a "broad based socio-economic empowerment charter for the South African mining industry". The scorecard deals with: Human resource development; employment equity; migrant labour; community and rural development;

²³⁴ A Mah, *Op Cit*, p7

²³⁵ D Fig, *Op Cit*, p611

²³⁶ Aveng "Aveng Environmental Impact" www.aveng.co.za/environmental.asp 2005, p1

²³⁷ A Mah, *Op Cit*, p7

²³⁸ E Antonites, C J De Villiers, *Op Cit*, p2

²³⁹ *Ibid*, p3

housing and living conditions; procurement; ownership and joint ventures; beneficiation and reporting.²⁴⁰ This creates pressures on management to comply with the measures in order to rank higher on the scorecard.²⁴¹ A low ranking could mean lowered profits.

International incentives to create working CSI projects have been around for a couple of years, but the most significant to date is the **Global Reporting Initiative (GRI)**. The GRI was formed in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environmental Programme (UNEP). In 2002 the GRI became a permanent structure housed in Amsterdam. The GRI is a guideline for company behaviour that reports on social issues in particular. The aim is to create reporting standards that the entire world can use.²⁴² Just the reporting itself has allowed companies to better manage social issues through the development of key performance indicators (KPI) which have necessitated better development, measurement and reporting of the indicators.²⁴³ The GRI has been acknowledged as the “de facto global standard in sustainability reporting”. Companies from over 60 countries use the GRI standards in their sustainability reports.²⁴⁴

The King Commission led to a code for corporate governance. The first King Report of 1994 was initiated by the Institute of Directors (WHO ARE?), which led to the South African government amending legislation to reflect the suggested code recommendations. The 1994 report was succeeded by the King II Report in 2002 which identified corporate social investment as one of the seven characteristics of good corporate governance, while simultaneously recommending wide-ranging improvements to the current legislation.²⁴⁵

²⁴⁰ R Hamman, *Op Cit*, p30

²⁴¹ *Loc Cit*

²⁴² The Global Reporting Initiative <http://www.globalreporting.org/Home>

²⁴³ R Hamman, *Op Cit*, p20

²⁴⁴ Wikipedia, “Global Reporting Initiative”, http://en.wikipedia.org/wiki/Global_Reporting_Initiative 1 February, 2007

²⁴⁵ T Fox, H Ward, B Howard, *Op Cit*, p10

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